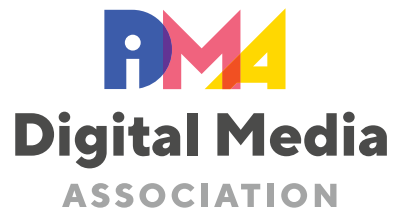


DiMA -Digital Media Association
Annual Music Report
A MIDIA Research Report
March 2018

A woman with long brown hair is smiling and looking upwards and to the right. She is wearing a pink knit beanie, yellow sunglasses, and a yellow knit sweater. She is holding a smartphone in her left hand and a pair of large, blue and pink headphones in her right hand. The background is a solid blue color.

STREAMING FORWARD

**MORE CHOICES
BETTER VALUE**



DIGITAL MEDIA ASSOCIATION (DiMA) MEMBERS



About DiMA

DiMA promotes innovative digital content distribution technologies that unite consumers, creators and copyright owners through legitimate online services that deliver more choices, greater access and better value.

For more information visit our website: www.dima.org, or follow us on Twitter: @digitalmediausa. For media inquiries, please email: jeff@themanitou.co

About MIDiA Research

MIDiA Research is a unique analysis and data service focused on the intersection of technology and content.

MIDiA Research leverages multi-country consumer data, **market** forecasts and other proprietary data tools to provide unrivaled insight into the rapidly changing global digital content markets. Our coverage includes music, online video, mobile content and paid content strategy.

For more details visit our website: www.midiaresearch.com
Or email us at info@midiaresearch.com

KEY TAKEAWAYS

STREAMING HAS SAVED THE MUSIC INDUSTRY

STREAMING FORWARD

**Record Label
Income Up 16%**

**Music Publisher
Revenue Up 8%**

SUBSCRIPTION REVENUE GREW

63%
IN 2017

POWER OF THE PLAYLIST

54%

OF CONSUMERS SAY PLAYLISTS
ARE REPLACING ALBUMS
IN THEIR LISTENING HABITS

Digital music providers use a combination of human curators and machine learning to create compelling and personally relevant listening experiences.

This is empowering both consumers and artists to engage with the music they love in new, more functionally friendly ways

DIGITAL DRIVES DISCOVERY

Digital is growing the popularity of more diverse genres and artists, uplifting new voices in the music industry:



Photo from
Getty Images

Cardi B's rapid rise to number one with "Bodak Yellow"

Chance the Rapper became the first 'streaming-only' artist to capture the Grammy for both Best Rap Album and Best New Artist

The "Despacito" music video reached one billion views in just 97 days

Six of the Top 10 music videos on YouTube were Spanish-language



**Piracy is down
more than 50%
since 2013**

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LETTER FROM CHRIS HARRISON, CEO, DIMA



@CEO_DiMA

The music industry is streaming forward. In 2017, we saw an astounding 63 percent increase in subscription streaming revenue.¹ Both subscription and advertising-supported music services saw significant increases in revenue earned and royalties generated. Thanks to streaming, the industry is poised for sustained growth in the future.

DiMA members continued to deliver better value to consumers, increased opportunities for creators, and generated more royalties for copyright owners. DiMA members are reshaping the digital marketplace for music. Today, the average consumer is a “music millionaire,”² with access to a virtually unlimited catalog of music across a multitude of devices. This is enabling creators to engage directly with millions of fans and delivering billions of dollars in royalties to fuel to next wave of creativity.

Last year was also exciting for me personally, as well as for DiMA and its members. In April, I was thrilled to join DiMA as its Chief Executive Officer. Almost immediately after joining DiMA, we began negotiations with the National Music Publishers Association (NMPA) regarding

reforming Section 115 of the Copyright Act. Led by Rep. Doug Collins (R-GA) and Rep. Hakeem Jeffries (D-NY) in the U.S. House of Representatives, and Sen. Orrin Hatch (R-UT), Sen. Sheldon Whitehouse (D-RI), Sen. Lamar Alexander (R-TN), and Sen. Chris Coons (D-DE) in the U.S. Senate, DiMA, NMPA, and a wide range of music industry stakeholders worked for many months on fixing a music licensing mess in the United States. All that hard work paid off with the introduction in the House and Senate of the Music Modernization Act. The Music Modernization Act will make licensing music more efficient and transparent for digital music providers, music publishers and songwriters and marks the best opportunity in a generation to fix a music mess and create meaningful copyright reform.

This inaugural Streaming Forward report highlights how innovative technology has revived the music industry. The findings in the report demonstrate how forward-looking public policies can unlock the power of innovation to improve the lives of consumers, creators and copyright owners.

The arguments of the past are over. It is time to unite and embrace the promise of the streaming future.

LETTER FROM MARK MULLIGAN, MD, MIDIA RESEARCH



MIDIa is proud to partner with DiMA on its inaugural Streaming Forward Report. Digital distribution, and streaming in particular, has been transforming music business in recent years. Although digital business models had already transformed content marketplaces prior to the rise of streaming, it is the rise of streaming services that really flicked the switch on this radical transformation. The year 2017 saw digital content revenues and audiences accelerate across the board with DiMA members at the forefront of this wave of growth in the U.S.

In this report MIDiA has compiled statistics across all the key digital music sectors, including recorded music and music publishing. We present the size of both audiences and revenue for paid and advertising-supported models, as well as

brand new consumer data profiling digital audiences and their behaviors.

The picture that emerges throughout this report is one of digital media consumption moving from super-serving, tech-savvy early adopters towards mainstream, mass market audiences. Streaming services have transformed the music industry from a decade and a half story of decline into a sector where dynamic growth has finally returned.

We hope you find this DiMA Streaming Forward Report as interesting as we found the research we conducted when compiling it and that it provides you with a clear sense of the vibrant foundations that have been laid for what promises to be another stellar year for digital media in 2018.



DIGITAL MUSIC IS STREAMING FORWARD

Digital music streaming has literally saved the U.S. recorded music industry. After two decades of declining revenue, 2017 was the third consecutive year of revenue growth, driven by an upsurge in digital music consumption. U.S. digital revenue grew 15 percent in 2017 to \$6.5 billion from \$5.65 billion³. This growth was powered by a 63 percent increase in subscription streaming revenue to \$4 billion from 2016's total of \$2.5 billion⁴. Growing revenues means more money in the pockets of artists and an economic engine to fuel the next round of creativity.

The U.S. is now the most important streaming market globally, accounting for nearly 40 percent of total global recorded music revenue⁵.

The U.S. market is also the most diverse in the world, with a large number of digital music streaming services competing for consumers based on price, features, and functionality. U.S. consumers enjoy the music they love through a wide variety of advertising-supported and subscription music services.

This report shows that policies that promote innovation are working. If we stay on this track, it's predicted the number of paid music subscribers will reach 90.1 million by 2025, nearly doubling from today's 49.1 million subscribers⁶.



SECTION

FOR CONSUMERS. MORE CHOICES, BETTER VALUE.

Streaming services are providing consumers with more music choices than ever before, with on-demand digital music libraries representing a virtually unlimited catalog. But choice extends beyond just the number of tracks available. Price differentiation among different streaming services means consumers can choose the option that works best for their budget—from free-to-the-listener, advertising-supported services to monthly subscription, on-demand services at a variety of price-points and feature sets.

Digital music providers are driving innovation around the consumer listening experience across computers, tablets, phones and smart devices. With millions of music options instantaneously available at a consumer's fingertips, streaming services are increasingly using human curation, artificial intelligence and machine learning to empower consumers to customize their listening experience to their own tastes. Voice-activated smart speakers are enabling new and compelling ways for consumers to choose and interact with music.

This report's findings show how the ease-of-use and better value offered by streaming led to an explosion in music listening in 2017.

PRICE CHOICES

Because of the tremendous value streaming music delivers to consumers, streaming has become the long-term future of music consumption. DiMA's members provide consumers the opportunity to enjoy music at a wide range of prices to fit anyone's budget. Consumers can listen to music on advertising-supported (free-to-the-listener) services. They can enjoy limited libraries, features and functionality on mid-tier plans priced between \$3.99 to \$4.99 per month. Or they can have true on-demand access across multiple devices for around \$10 per month.



UNLIMITED CATALOG

Consumers are consuming more digital music than ever before, increasing total music streaming dramatically in 2017. This is not only the result of the virtually unlimited catalogs of music found on digital streaming services, but also significant investments by digital music providers into personalizing music experiences that resonate with listeners. Consumers used to have to pay \$20 for 10 songs on a CD. Now, they can pay \$10 a month for access to every song – anytime, anywhere. Whether it’s on their smart phones, computers, smart speakers, or in the car, 2017 saw consumers streaming at record-breaking numbers.

On December 15, 2017, there were **1,383,099,642** on-demand streams—or more than 4 on-demand streams for every man, woman and child in the U.S.

Total music streaming is up: on-demand audio streaming grew by 50.3 percent to 377 billion streams. There were, on average, 1,057,218,000 on-demand music streams every day⁷.



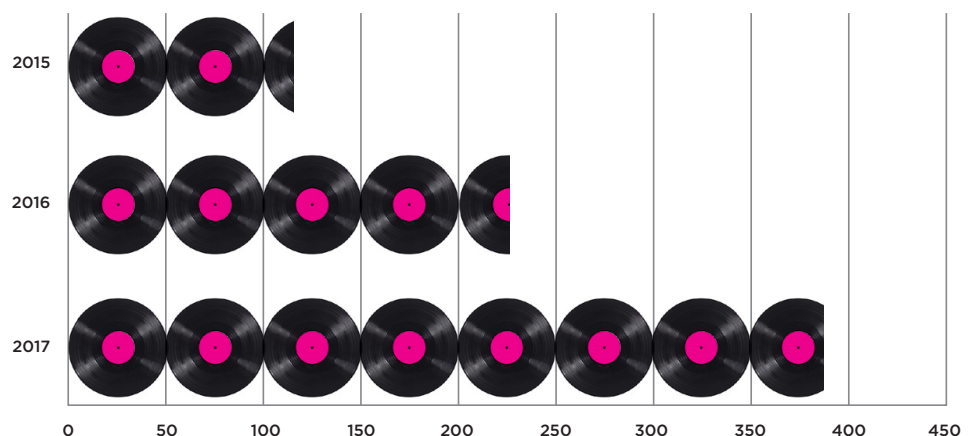
This is fueled by an increase in both advertising-supported streams, which grew 27.3 percent, and subscription-based streaming, which grew an impressive 57.5 percent⁸.

On December 15, 2017, there were 1,383,099,642 on-demand streams—or more than 4 on-demand streams for every man, woman and child in the U.S.⁹

The growth in audience has translated into more songs being streamed more often. Not only do the big hits keep getting bigger, but there are more of them than ever before. As more consumers use digital music services, the number of songs streamed more than 100 million times grew rapidly in 2017¹⁰.

Digital Hit Songs

(Number of Songs Streamed More Than 100 Million Times Each Year)



POWER OF THE PLAYLIST

Playlists are the new, better album:

54%
of music consumers report that playlists are replacing albums for them¹¹

50%
of all listening on Spotify is to playlist¹²

The aggregate time people spend watching videos on YouTube's home page has grown to be
20 times
larger than what it was three years ago¹³.

With the advent of the digital music revolution, consumption patterns shifted from albums to playlists.

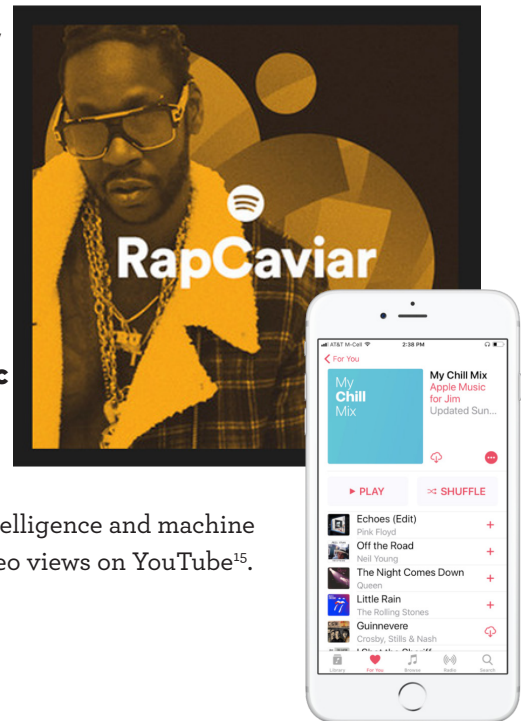
Digital music providers use human curation, artificial intelligence and machine learning to organize their massive libraries of available music in intuitive and compelling ways, giving consumers the ability to quickly and easily find music they already love and discover new music that personally resonates.

Playlists are replacing the album as the way in which audiences seek out pre-packaged selections of music. Nearly 60 percent of consumers create their own playlist, with almost a third of consumers sharing their playlists with others¹⁴.

Spotify's playlist Rap Caviar has nearly 9 million followers and is now credited with launching countless careers (see discussion of Cardi B on page 20).

Apple's Chill playlist, launched in 2017, uses editorial curation and algorithmic learning to generate playlists for de-stressing, which is the type of music most requested of voice-assistant technologies such as Amazon's Alexa.

Videos recommended by Google's artificial intelligence and machine learning generate more than 70 percent of video views on YouTube¹⁵.

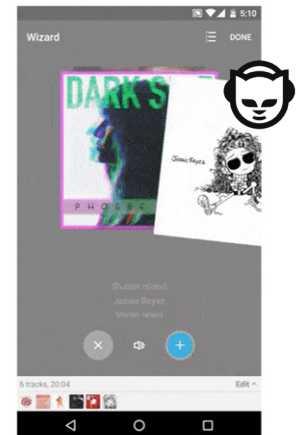


Harnessing the power of machine learning, DiMA-members create millions of personalized playlists, unique to each user. For example, Spotify's Discover Weekly playlist presents 30 new songs to a user every week based off analyses of their current library and what new music that individual consumer may enjoy.

*Discover Weekly:
30 new songs
each week,
just for you.*



Napster launched its Interactive Playlist Maker featuring custom playlist recommendations with a simple GIF-based UX and Tinder-like swiping functionality to add (swipe right) or reject (swipe left) recommended songs.



VOICE IS THE FUTURE: OPENING THE DOOR TO GREATER ACCESS

Just like mobile devices expanded music content consumption, in 2017 voice-activated smart speakers opened up an entirely new medium for consumers to listen to and discover music. This has led to another enormous increase in music listening. Thirty-nine million Americans, or 16 percent of adults, own a smart speaker¹⁶. Of those who own a smart speaker, 71 percent say they are listening to more audio content as a result¹⁷. Smart speakers offer flexibility, allowing consumers to synchronize music across multiple smart speakers in their home. On average, music listeners use more than 3 devices a week to listen to music¹⁸.

Voice Assistants are helping to unlock new functionality for consumers seeking to personalize their music experience. Consumers can use voice commands to direct Amazon's

Echo, Apple's HomePod, and Google's Home speakers to play a specific song, playlist, artist, or genre as your alarm to wake you up in the morning. Amazon's Alexa voice-activated assistant recognizes more than 500 music-related activities to generate personalized playlists, such as "pop music for cooking," "classical music for sleeping," or "rock music for a dinner party."

Voice Assistants are also accelerating digital music adoption in the car. In the age of connected cars, consumers can use Apple CarPlay or Google's Android Auto to customize their drive-time music experience like never before.



STREAMING V. TRADITIONAL

Streaming is satisfying consumer demands in ways traditional media doesn't.

The streaming revolution has brought greater diversity to the music consumers are listening to. If you look at what songs dominated streaming services in 2017, versus those that were the most popular on terrestrial radio, the difference is stark. This shows that when given the opportunity and flexibility of a digital music provider, consumers feel empowered to customize the experience to better match their musical tastes.

Top 10 songs streamed from YouTube vs. top 10 songs on terrestrial radio (Nielsen 2017)

6 of the
top 10 YouTube
music videos
were Spanish-
Language



YOUTUBE:

- 1. Luis Fonsi** -
"Despacito (ft. Daddy Yankee)"
- 2. Ed Sheeran** -
"Shape Of You"
- 3. J Balvin & Willy William** -
"Mi Gente"
- 4. Maluma** -
"Felices los 4"
- 5. Bruno Mars** -
"That's What I Like"
- 6. Chris Jeday** -
"Ahora Dice (ft. J. Balvin, Ozuna, Arcángel)"
- 7. Nicky Jam** -
"El Amante"
- 8. Jason Derulo** -
"Swalla (ft. Nicki Minaj & Ty Dolla \$ign)"
- 9. DJ Khaled** -
"I'm The One (ft. Justin Bieber, Quavo, Chance the Rapper, Lil Wayne)"
- 10. Enrique Iglesias** -
"Subeme La Radio
(ft. Descemer Bueno, Zion & Lennox)"

TERRESTRIAL RADIO:

- 1. Ed Sheeran**
"Shape of You"
- 2. Bruno Mars**
"That's What I like"
- 3. Chainsmokers & Coldplay**
"Something Just Like This"
- 4. Zedd ft. Alessia Cara**
"Stay"
- 5. Alessia Cara**
"Scars to Your Beautiful"
- 6. Luis Fonsi**
"Despacito"
- 7. Shawn Mendes**
"There's Nothing Holdin' Me Back"
- 8. James Arthur**
"Say You Won't Let Go"
- 9. Imagine Dragons**
"Believer"
- 10. Maroon 5 ft. Kendrick Lamar**
"Don't Wanna Know"

Digital streaming services provide a platform for traditionally underrepresented voices. For example, six of the top ten music videos on YouTube were Spanish-language. The reggaeton and Latin pop hit "Despacito" was the 5th most-streamed song in the U.S. on Spotify, along with the 4th most-thumbed-up song on Pandora. It was the second most-streamed song on Amazon, Apple Music and Napster¹⁹.

**TOP 10
SONGS PER
STREAMING
PROVIDER**

AMAZON



- 1 "Believer" - Imagine Dragons
- 2 "Despacito (Remix)" - Luis Fonsi & Daddy Yankee feat. Justin Bieber
- 3 "Perfect" - Ed Sheeran
- 4 "Sorry Not Sorry" - Demi Lovato
- 5 "Something Just Like This" - The Chainsmokers & Coldplay
- 6 "Thunder" - Imagine Dragons
- 7 "Body Like A Back Road" - Sam Hunt
- 8 "Rockstar" - Post Malone feat. 21 Savage
- 9 "Praying" - Kesha
- 10 "1-800-273-8255" - Logic feat. Alessia Cara & Khalid

APPLE MUSIC



- 1 "Shape of You" - Ed Sheeran
- 2 "Despacito (Remix)" - Luis Fonsi & Daddy Yankee feat. Justin Bieber
- 3 "That's What I Like" - Bruno Mars
- 4 "HUMBLE." - Kendrick Lamar
- 5 "Body Like a Back Road" - Sam Hunt
- 6 "Bad and Boujee" - Migos feat. Lil Uzi Vert
- 7 "24k Magic" - Bruno Mars
- 8 "I'm the One" - DJ Khaled feat. Justin Bieber, Quavo, Chance the Rapper & Lil Wayne
- 9 "Congratulations" - Post Malone feat. Quavo
- 10 "Black Beatles" - Rae Sremmurd feat. Gucci Mane

NAPSTER



- 1 "Shape of You" - Ed Sheeran
- 2 "Despacito" - Luis Fonsi & Daddy Yankee
- 3 "There's Nothing Holdin' Me Back" - Shawn Mendes
- 4 "Attention" - Charlie Puth
- 5 "Galway Girl" - Ed Sheeran
- 6 "Castle on the Hill" - Ed Sheeran
- 7 "Feels" - Calvin Harris
- 8 "Jonas Blue" - Mama feat. William Singe
- 9 "That's What I like" - Bruno Mars
- 10 "Perfect" - Ed Sheeran

PANDORA



- 1 "Shape of You" - Ed Sheeran
- 2 "That's What I like" - Bruno Mars
- 3 "HUMBLE." - Kendrick Lamar
- 4 "Despacito (Remix)" - Luis Fonsi & Daddy Yankee feat. Justin Bieber
- 5 "Mask Off" - Future
- 6 "Body Like a Back Road" - Sam Hunt
- 7 "Bodak Yellow" - Cardi B
- 8 "iSpy" - Kyle feat. Lil Yachty
- 9 "Slippery" - Migos ft. Lucci Mane
- 10 "XO Tour Llif3" - Lil Uzi Vert

SPOTIFY



- 1 "HUMBLE." - Kendrick Lamar
- 2 "XO Tour Llif3" - Lil Uzi Vert
- 3 "Shape of You" - Ed Sheeran
- 4 "Congratulations" - Post Malone feat. Quavo
- 5 "Despacito (Remix)" - Luis Fonsi & Daddy Yankee feat. Justin Bieber
- 6 "Mask Off" - Future
- 7 "iSpy" - Kyle feat. Lil Yachty
- 8 "Location" - Khalid
- 9 "That's What I Like" - Bruno Mars
- 10 "Unforgettable" - French Montana feat. Swae Lee

SECTION

2

FOR CREATORS. BIGGER AUDIENCES AND GREATER TRANSPARENCY.

DIRECT-TO-FAN ACCESS AND TRANSPARENCY TOOLS GIVE ARTISTS MORE CREATIVE CONTROL

Streaming is empowering artists like never before. Digital services are actively working to increase transparency for artists, including by developing and improving digital portals where creators can track how their fans engage with their music. They're implementing more tools for artists to connect directly with their fans – whether it's integrating ticket sales directly into streaming services or creating messaging systems for artists to communicate with their fans.

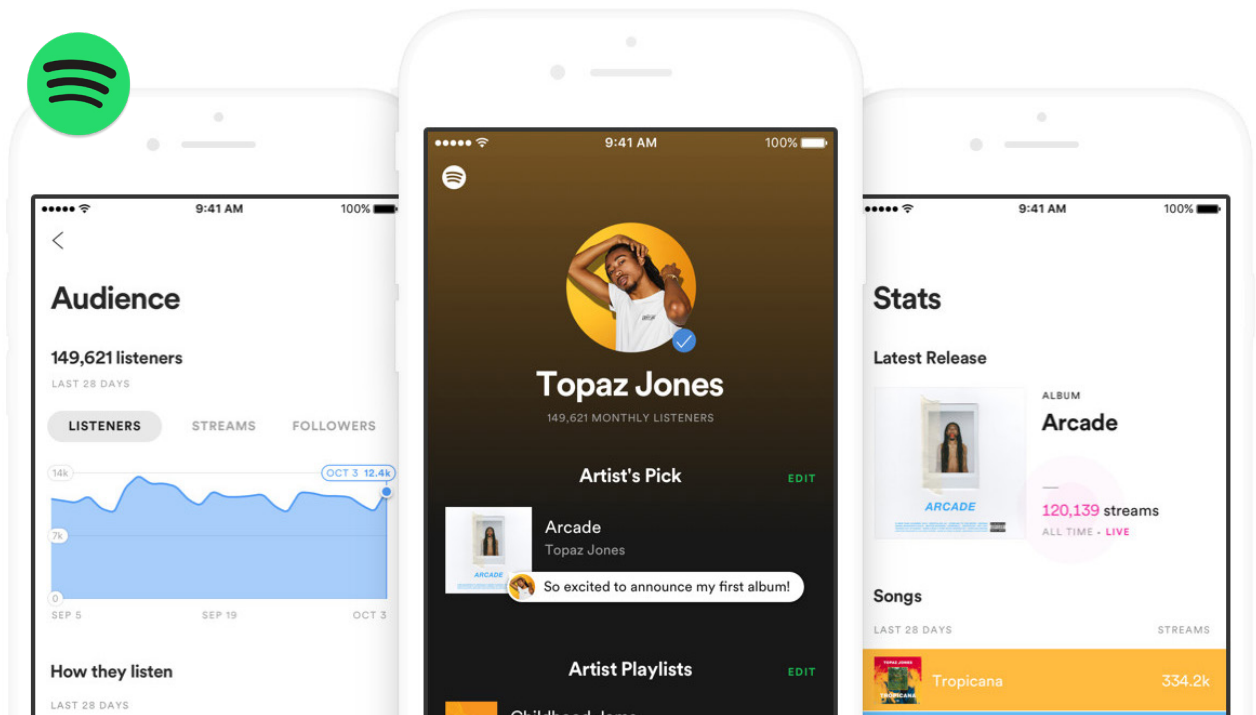
With the old gatekeepers of the past being outpaced by the control and flexibility offered by streaming services, artists are free to explore their artistic boundaries, leading to new, unique and compelling music. The streaming services of DiMA's members give artists more choices and greater freedom to reach an audience and break onto the music scene without having to go through traditional channels.

ARTIST PORTALS

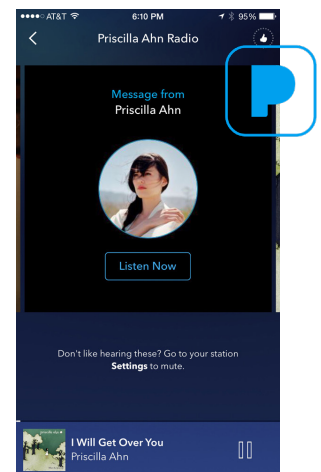
Historically, it was virtually impossible for creators to gather meaningful information about their audience or potential audience. Information sources were fragmented, measurements were inconsistent, and—even assuming you could find the sources of information—extremely time consuming to collect, organize and analyze.

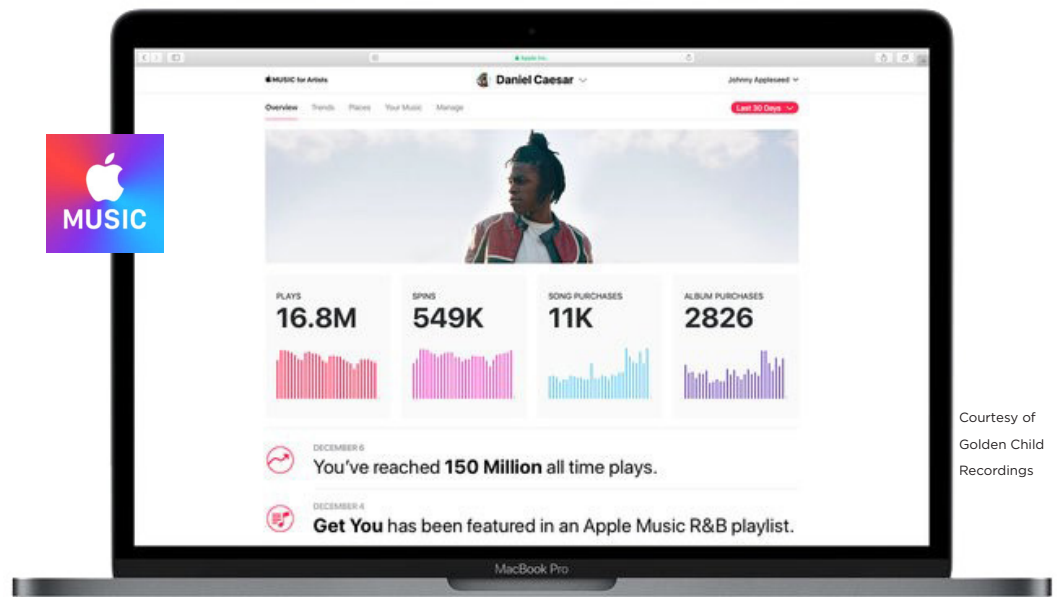
DiMA's members continue to invest in resources that enable artists to find, grow, and engage meaningfully with their audience. Streaming services provide musicians actionable intelligence about their audience and millions of potential fans. Artists can use this information to better understand and interact with their audience in ways that were unimaginable just a few years ago:

Spotify released a mobile-version of its Spotify for Artists platform, including real-time data on new releases delivered straight to the artist's mobile phone.



Pandora's Artist Audio Messages, which are essentially direct messages to fans, are created via Pandora's Artist Marketing Platform. This feature has been used by more than 11,000 artists who have produced 14,000 Artist Audio Messages. These messages have been heard by Pandora listeners one billion times²⁰.





Courtesy of
Golden Child
Recordings

Apple Music launched Apple Music for Artists, a dashboard designed to provide artists with hundreds of data points giving deep analytical insight into their fans' listening and buying habits.

YouTube updated its Analytics reports to give creators a better sense of the fluctuations and patterns of subscribers on their channels.

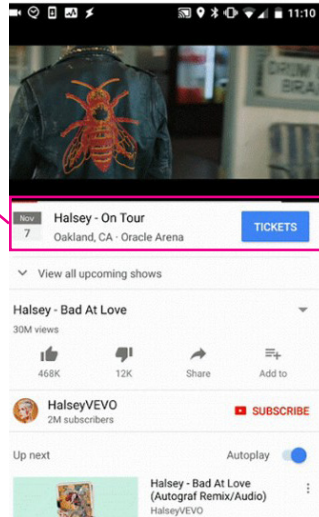
All of this direct-to-fan access has upended the outdated gatekeeper system that prevented artists from forging their own path. Today, DiMA's members empower superstar artists to talk directly to their audiences and DIY creators to reach and develop an audience on their own terms.

LIVE EVENTS INTEGRATION

One of the ways artists use the data provided by DiMA's members is to plan tours and leverage digital music providers to sell tickets to their shows directly through music streaming apps:



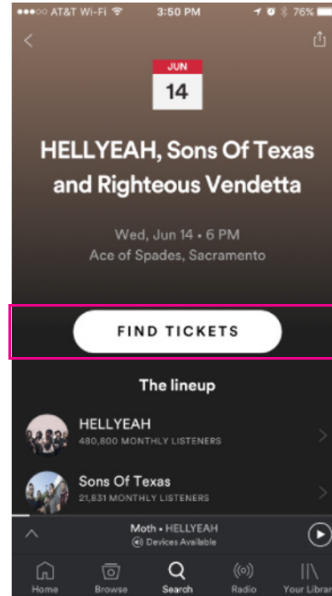
YouTube integrated ticket sales into official music video pages.



YOUTUBE

I've never seen a healthier live side...the success of streaming is causing people to go (to concerts.)"
– Irving Azoff²¹

By making it easier for artists to attract their fans to live events, streaming services are helping put more money in the pockets of artists. Streaming has led to a resurgence in live concert attendance. With the better value offered by streaming services, consumers are more willing than ever to spend big on live shows.



SPOTIFY



Spotify integrated Eventbrite to promote artists' shows.

STREAMING SUCCESS STORY

Playlisting and Cardi B's Social Reach Helped "Bodak Yellow" Bypass Radio Gatekeepers



Source: Getty Images

The music industry has clearly reached a tipping point if two of the top songs in music's largest market have landed there with minimal influence from radio play.

"Bodak Yellow" by Bronx-native Cardi B was undoubtedly the breakout hit of the summer in 2017. How "Bodak Yellow" came to reach cultural ubiquity represents a turning point in music promotion and a glimpse into how future hits will be generated.

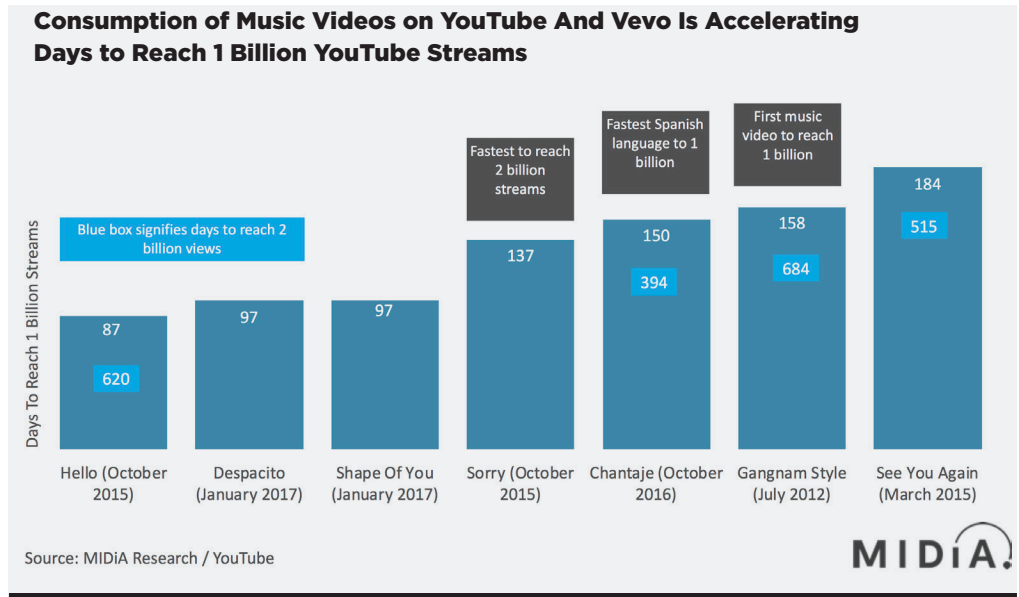
Apple Music Head of Artist Curation, Carl Chery, added "Bodak Yellow" on the popular 'Breaking Hip-Hop' playlist on June 16, 2017, the day the song was released. A week later, "Bodak Yellow" was added to 'The A-List: Hip-Hop', the most popular Apple Music playlist. By August, "Bodak Yellow" was the number one song on Apple Music.²²

"Bodak Yellow" followed a similar trajectory on Spotify. First, it was added to the 'Get Burnt' playlist shortly after release, then added to 'Rap Caviar', Spotify's most popular rap playlist. Based on its success on digital streaming services, "Bodak Yellow" reached number one on the U.S. Billboard Hot 100 chart, making Cardi B just the fifth female rapper to ever lead the chart, and the second-ever to do so as a solo artist²³.

Since the ascent of "Bodak Yellow" to number one, "Rockstar" by Post Malone took a similar route to the top of the charts via playlist placements. "Rockstar" broke Apple Music's single week streaming records with 25 million streams and reached number one in the U.S. in 43 days²⁴, again receiving minimal initial play from mainstream radio. Having observed this trend, radio stations have subsequently played catch-up to the playlists.

The music industry has clearly reached a tipping point if two of the top songs in music's largest market have landed there with minimal influence from radio play. We may look back on late 2017 as the moment streaming and social media truly began to leave traditional radio behind as the rulers in music discovery. Streaming is democratizing access to success and diminishing the roles of the traditional gatekeepers in the music industry.

VIDEO ROCK STAR



In January 2016 Luis Fonsi’s “Despacito” became the second fastest music video in YouTube history to hit one billion views, taking just 97 days to do so. At the end of 2017 it had 4.5 billion views²⁵. In January, “Despacito” was part of a succession of new music video consumption records that YouTube and Vevo set. YouTube music video views were on the rise throughout 2017, and dramatically so, driven both by more users (YouTube announced 1.5 billion signed in active users) and deeper engagement.



Source: Getty Images

SECTION

3

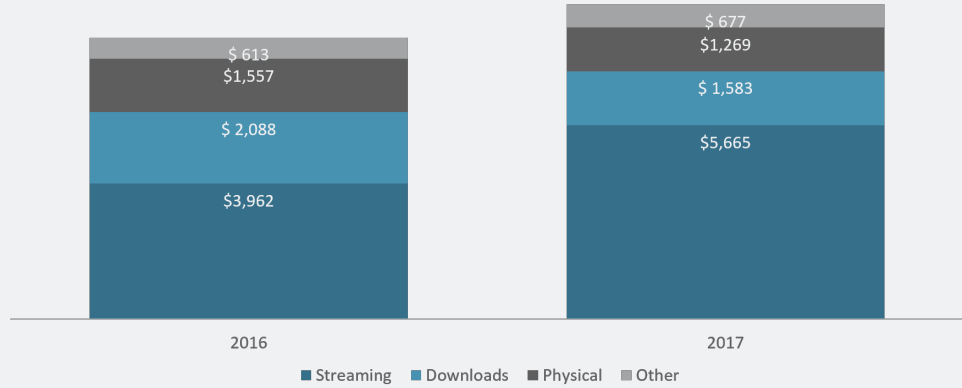
***FOR COPYRIGHT OWNERS.
MORE ROYALTY REVENUE.***

A THRIVING MUSIC INDUSTRY WITH A BRIGHT STREAMING FUTURE

Listeners and creators are not the only winners in our streaming-forward world. The royalty revenues of copyright owners continue to grow year-over-year. Record label revenues are growing at rates roughly seven times²⁶ that of the overall economy's growth, while music publishers' revenues are three times²⁷ more than the overall average. All signs indicate that the future is promising, as streaming will continue to grow well into the next decade.

STREAMING TOPS THE CHARTS IN THE U.S.

Streaming Crossed Over to Become The Core Revenue Stream For the U.S. Recorded Music Market in 2017



Source: MIDiA Research

MIDiA.

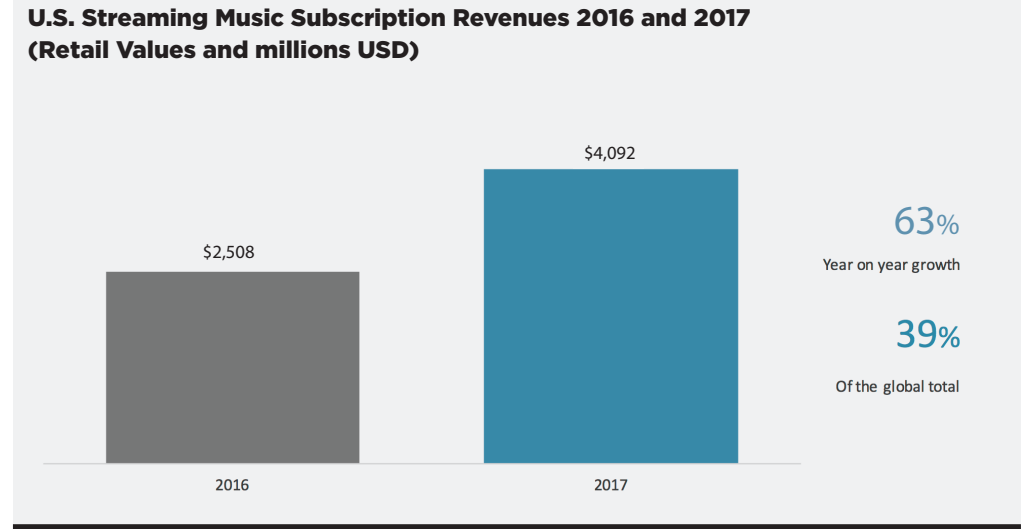
Streaming is now the beating heart of the U.S. recorded music market. In 2017 streaming revenues – subscriptions and advertising-supported audio and video– accounted for 58 percent of all U.S. recorded music revenues²⁸. For the first time, streaming became the largest single recorded music format. The rate of decline for physical music sales has slowed in the past year, meaning that streaming’s growth is now able to have an even more direct and positive impact on overall music sales.

If you consider all digital revenue – from both streaming and downloads – the story is even more exciting. Total digital revenues account for nearly 80 percent of the recorded music market in the U.S., of which 95 percent is from DiMA’s members²⁹.

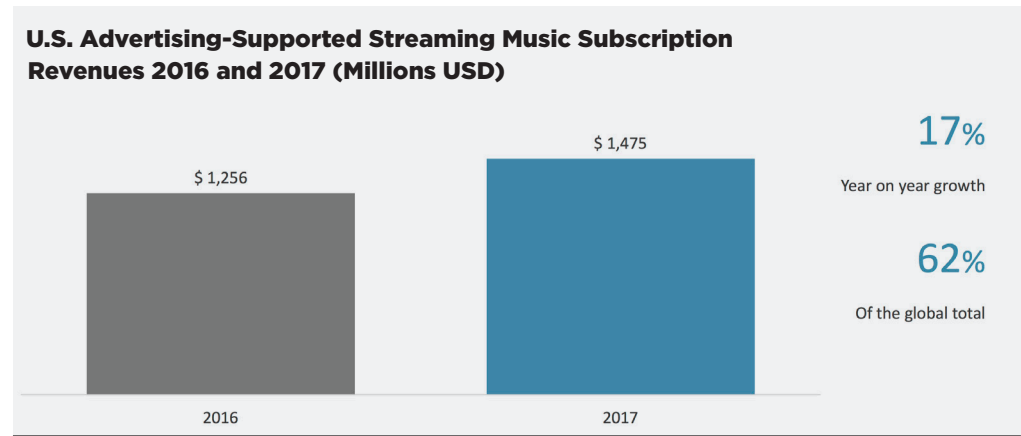
INCREASE IN STREAMING REVENUE



Record labels receive billions of dollars in revenues from streaming services every year.



The year 2017 was another stellar one for streaming subscriptions in the U.S., with revenue growing by 63 percent, increasing from \$2.5 billion to \$4 billion³⁰. Crucially, 2017 was the year in which subscription revenues overtook downloads to become the number one recorded music revenue source³¹. The U.S. is now by far the world's leading streaming market, with its subscription market representing nearly 40 percent of the global total in 2017³².



If the first phase of streaming's evolution was about becoming the future of retail, the next phase will be becoming the future of radio. The U.S. is the world's largest radio market. It should come as no surprise that the U.S. is home to the largest advertising-supported streaming radio service. Overall advertising-supported streaming audio revenue grew by 17 percent in 2017 to reach \$1.5 billion, up from \$1.3 billion in 2016³³.

Given the size of the U.S. terrestrial radio market, a huge opportunity lies in converting the vast base of advertising-supported broadcast radio listeners into advertising-supported (or subscription) streaming listeners.

The opportunity is there for the taking. Traditional radio audiences are in decline: active listeners to radio in the U.S. fell from 70 percent in Q4 2016 to 65 percent in Q3 2017³⁴. That trend will continue throughout 2018, with advertising-supported streaming winning over the majority of terrestrial radio's lost listeners. Advertising-supported streaming music listener penetration stands at 38 percent in the US, just 27 percent behind radio, a platform that is more than a hundred years old³⁵.

The demographic profile of broadcast radio listeners is almost a mirror opposite of advertising-supported streamers: terrestrial radio listener penetration peaks among 45 to 54 year-olds, while advertising-supported streaming penetration peaks among 16 to 19 year-olds³⁶.

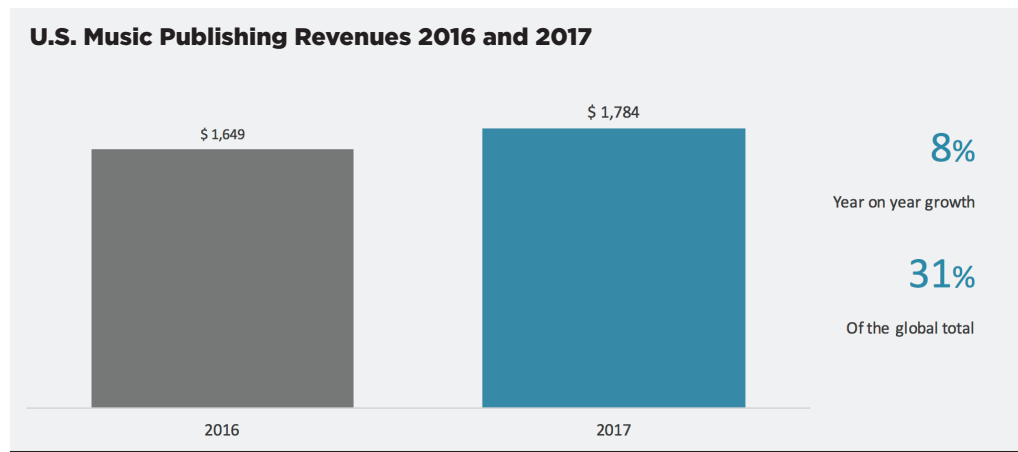
MUSIC PUBLISHING REVENUE CONTINUES TO GROW



Music publishing continues its long-term trend of revenue growth.

The music publishing industry continues its long-term trend of revenue growth, especially when compared to the recorded music side of the music business. Music publishing revenues grew by 8 percent in 2017 to reach \$1.8 billion, up from \$1.7 billion in 2016³⁷.

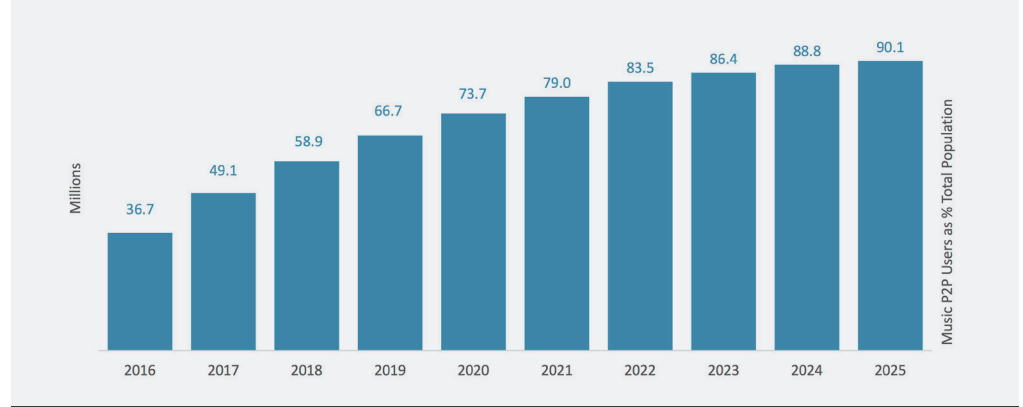
Even though digital streaming revenue is still a smaller percentage of publishers' revenue, streaming has been a key driver of the growth in publisher revenue.



STREAMING THE FUTURE



Streaming Music Subscribers 2016 - 2025, U.S. Only



The total number of music subscribers in 2025 (90.1 million) will be close to double the size of the 2017 subscriber base.

The number of paid music subscribers in the U.S. grew by 12.4 million in 2017 to reach 49.1 million, up from 36.7 million the year before³⁸. The U.S. music subscriber marketplace is maturing, and the rate of growth may slow down, but the subscription market still has strong growth left in it. The projected total number of music subscribers in 2025 (90.1 million) will be close to double the size of the 2017 subscriber base³⁹. There are still many opportunities for streaming services to expand their subscription base. The next phase of streaming's growth in the U.S. will be centered around converting more mainstream, often older users whose established legacy behaviors take longer to change than they did for younger music fans.

COMPETITIVE AND ROBUST MARKET

The U.S. is the largest music market and consumers enjoy access to a large and diverse set of subscription services, including fellow DiMA-members Amazon, Apple, Google/YouTube, Napster, Pandora, and Spotify, as well as Tidal, Deezer and others.



THE NEXT FRONTIER

Streaming is the most important transition the recorded music business has been through, bringing a better value to consumers – who enjoy greater access and more choices, as well as to creators – who have more ways to earn money as they connect directly with their audiences in new, engaging ways. It has also brought a better value to copyright owners – who saw a music industry in decline revived by the streaming revolution, which is bringing them billions in royalties each year.

The next big frontier for streaming services will be to push beyond the earlier adopting beachhead of tech-savvy, music aficionados, into more mainstream segments of the population. The home and car are both big opportunities for streaming. DiMA's members have created the technology to leverage both of these opportunities. Whether it's smart speaker technology or in-car infotainment, DiMA's members are providing both the mechanisms and experiences that are fueling the growth in digital music consumption.

SECTION

4

DIGITAL MEDIA POLICIES. UNLOCKING THE FUTURE.

With all the innovation, growth and exciting developments in digital media entertainment, DiMA's role in advocating for policies and regulations that support new business models is more important than ever.

In many ways, the growth of digital music services in the United States has occurred in spite of the many onerous and archaic rules that govern music licensing. Reducing licensing friction by modernizing laws and regulations can unlock the full potential of innovation and experimentation, leading to a new generation of digital music services that deliver ever-more engaging and exciting experiences for consumers, greater opportunities for creators, and more royalties for copyright owners to continue to fuel the creative community.

COPYRIGHT POLICY

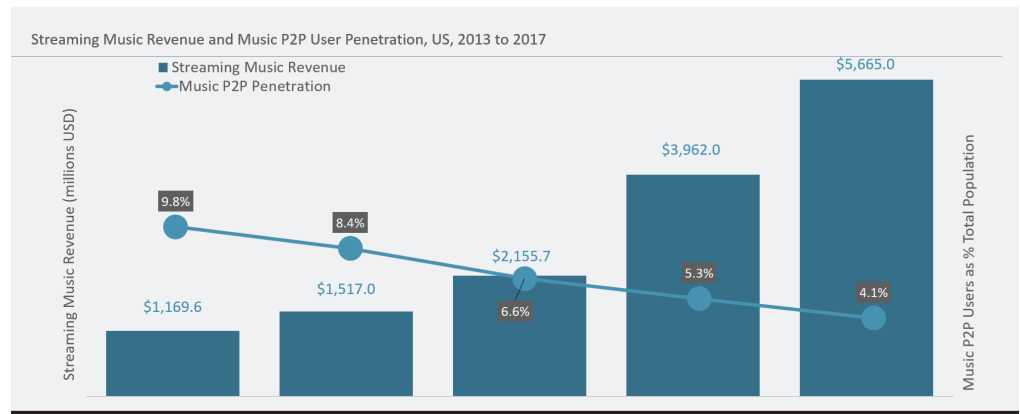
Balanced Copyright Policies Encourage Innovation and Legal Access to Works

Because of the investments by DiMA's members in creating licensed digital music services, consumers are able to legally access creative works with more ease than ever before. Whether through advertising-supported personalized radio, simple and intuitive user interfaces, robust and exciting voice-controlled experiences, or AI-enhanced, human curated programming, DiMA's members are driving consumers' legal access to creative works.

DiMA believes the best approach to continuing to drive consumers to legal access is through licensing reform that makes it easier for legitimate services to give consumers legal ways to experience the music they love – anytime, anywhere. Copyright needs to appropriately balance incentives to creators and distributors, enabling greater consumer access and enjoyment. When copyright creates uncertainty and risk, digital music providers curtail investments, limit catalog, and reduce functionality, each of which hinders the consumer experience.



**Piracy is down
more than 50%
since 2013**



We have a thriving streaming market that is built upon providing audiences with frictionless access to all the world's music while compensating creators and rights holders.

It is little wonder then that streaming's gain has been piracy's loss. Back in 2013, shortly after Spotify's launch in the US, music P2P penetration stood at 9.8 percent. At the end of 2017 streaming music revenues were four times larger than in 2013, while P2P penetration was less than half of its 2013 rate⁴⁰. Quite simply, streaming is taking away most of the incentive for piracy, pushing piracy to the margins.

Balanced Copyright Policies Encourage Creativity

Balanced copyright policies are necessary to ensure that digital music services can provide individuals with tools to create and share their ingenuity. The internet has flourished in part because internet services permit users to post and share information without fear that those services will be held liable for third-party content. The threat of liability can transform ISPs and websites into gatekeepers and enforcement agents, incentivizing them to block user-generated content, even if legal – making the web less free, innovative, and collaborative. Consequently, DiMA supports the federal policy codified in Section 230 of the Communications Decency Act and Section 512 of the Copyright Act, which explicitly protects against liability for content posted by third-party users.

Efficient Music Licensing Fosters Innovation

To launch and operate a compelling digital music service, digital music providers must obtain licenses from tens of thousands of music copyright owners. Friction in the licensing process creates significant barriers to entry and inhibits innovation. Lack of competition among copyright owners in licensing digital music services artificially raises prices for consumers, which reduces music consumption. DiMA supports policies that encourage efficient licensing, reduce marketplace friction, and encourage consumer adoption.

TECHNOLOGY AND INNOVATION

DiMA works to foster an environment conducive to technological innovation. New ideas and discovery drive economic growth in the United States. DiMA's members are constantly innovating new technologies to bring a better value to consumers, creators and copyright owners alike. As we continue to drive streaming into the future, DiMA believes it is imperative to promote policies that will open the door to “the next big thing”, instead of erecting barriers to innovative new ideas.

Taxation

Recently, many states and municipalities have explored the idea of implementing a digital streaming tax on many popular online services and apps. Such a policy would unfairly punish consumers who seek compelling, convenient and legal digital entertainment choices. It also has the potential to discourage new companies with cutting-edge technology from setting up shop in cities and states that enact these tax policies. This will deprive communities of the jobs of the future and economic infusion that comes from new businesses.

Privacy

DiMA's members are committed to protecting consumers' online data by providing them with entertaining, legitimate online services. The internet is one of the biggest drivers of America's economy, with much of that growth coming from advertising-supported online services. Heavy-handed regulations that do not contribute to a user's online experience will put a cap on the internet's rapid growth and ultimately harm the consumer experience. It will reduce the availability of free to low-cost online services that allow lower income Americans to enjoy the music and content they love. DiMA seeks to promote privacy policies that create a digital streaming environment with a multitude of choices that work for any budget.

COMPETITION AND ANTITRUST

DiMA believes in a robust and competitive digital media industry. We encourage policies that mitigate the potential market power that comes from the concentration of copyright ownership as well as bring more transparency to that process. All of this is in an effort to discourage monopoly pricing power that reduces output and stifles economic growth.

Net Neutrality

Since its inception, the internet has been governed by principles of openness and non-discrimination. Net neutrality is the legal principle that underpins the free and open internet as we know it today. Simply put, it means that broadband gatekeepers – Verizon, Comcast, AT&T, and other internet service providers (ISPs) – should treat all internet traffic equally and not discriminate between different types of data. That’s how the internet was intended to operate: users can go to any website and access any type of content, whenever they want.

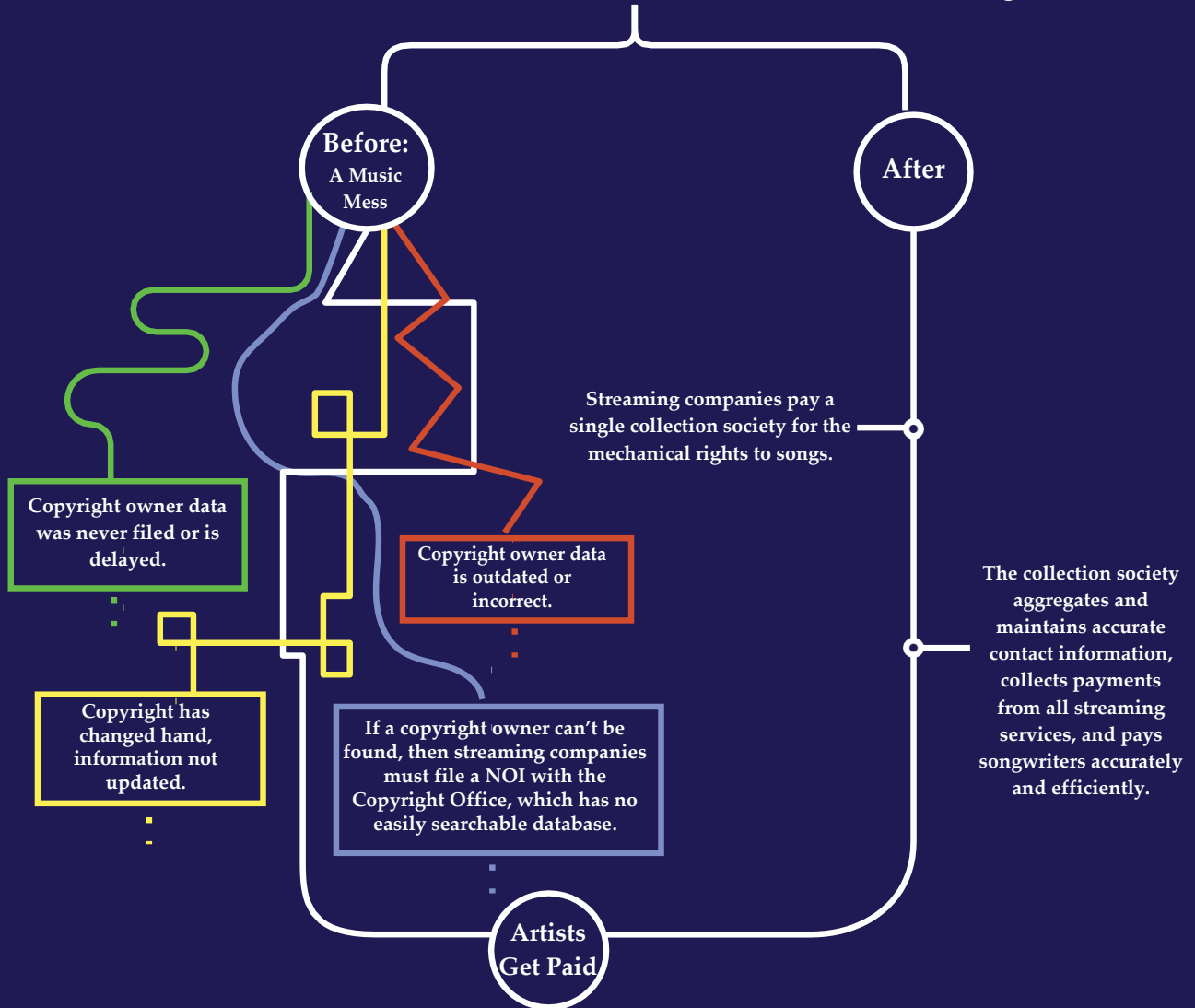
Net Neutrality has been critical to the success of streaming services. Ensuring that ISPs cannot block, throttle, or charge streaming services more for a fast lane has allowed them to grow and innovate. Ensuring that ISPs cannot throttle interconnection points is also critical for streaming services.

Music Modernization Act: Fixing the Music Mess

Century-old rules are slowing royalty payments to music publishers and songwriters.

Streaming services have literally saved the music industry, delivering better experiences to consumers at a better value, and growing revenue for creators. In the face of this technological growth, the copyright rules that ensure music is licensed and the songwriters who create those songs get paid haven't kept up. In fact, the current framework for how music is licensed and songwriters get paid is outdated, inefficient and convoluted – a veritable music mess.

Interactive Music Services Provide Listeners Access to Millions of Songs



A Modern Solution

The Music Modernization Act will reform Section 115 to ensure songwriters get paid quickly and accurately, while digital music providers continue to invest in compelling listening experiences for consumers. The MMA brings greater transparency and creates a blanket license, which is critical to a modern licensing system. It's time our copyright laws embrace the streaming future and move away from the music mess of the past.

LEGISLATIVE ROUND-UP

In addition to the Music Modernization Act, several other music-related bills were introduced in 2017:

- On July 20, the House introduced H.R. 3350, the Transparency in Music Licensing and Ownership Act, which would create a database of music copyright ownership information.
- On July 19, the House introduced H.R. 3301, the Compensating Legacy Artists for their Songs, Service, and Important Contributions to Society Act or “CLASSICS Act” that would fix an anomaly in how sound recordings made before 1972 are treated in the U.S.
- On April 5, the House introduced H.R. 1914, the Performance Royalty Owners of Music Opportunity to Earn Act of 2017 or “PROMOTE Act of 2017” which would allow record labels to prevent terrestrial broadcasters from playing sound recordings without a license.
- On March 30, the House introduced H.R. 1836, the Fair Pay, Fair Play Act, which would require terrestrial radio broadcasters to pay record labels for the use of sound recordings.
- On March 23, the House introduced H.R. 1695, the Register of Copyrights Selection and Accountability Act, which would change the manner in which the Register of Copyright is selected. A companion bill, S. 1010, was introduced in the Senate on May 2.
- On February 6, the House introduced H.R. 890, the Copyright Office for the Digital Economy Act, which, like the Register of Copyrights Selection and Accountability Act, seeks to modernize the Copyright Office.
- On February 6, the House introduced H.R. 881, the Allocation for Music Producers Act or “AMP Act” that would empower SoundExchange to pay music producers directly.

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