London Business School

Eric Nicoli

Chairman, EMI Group

EMI

RIAA Ex. O-116-DP

"The Long And Winding Road"

EMI and the music business

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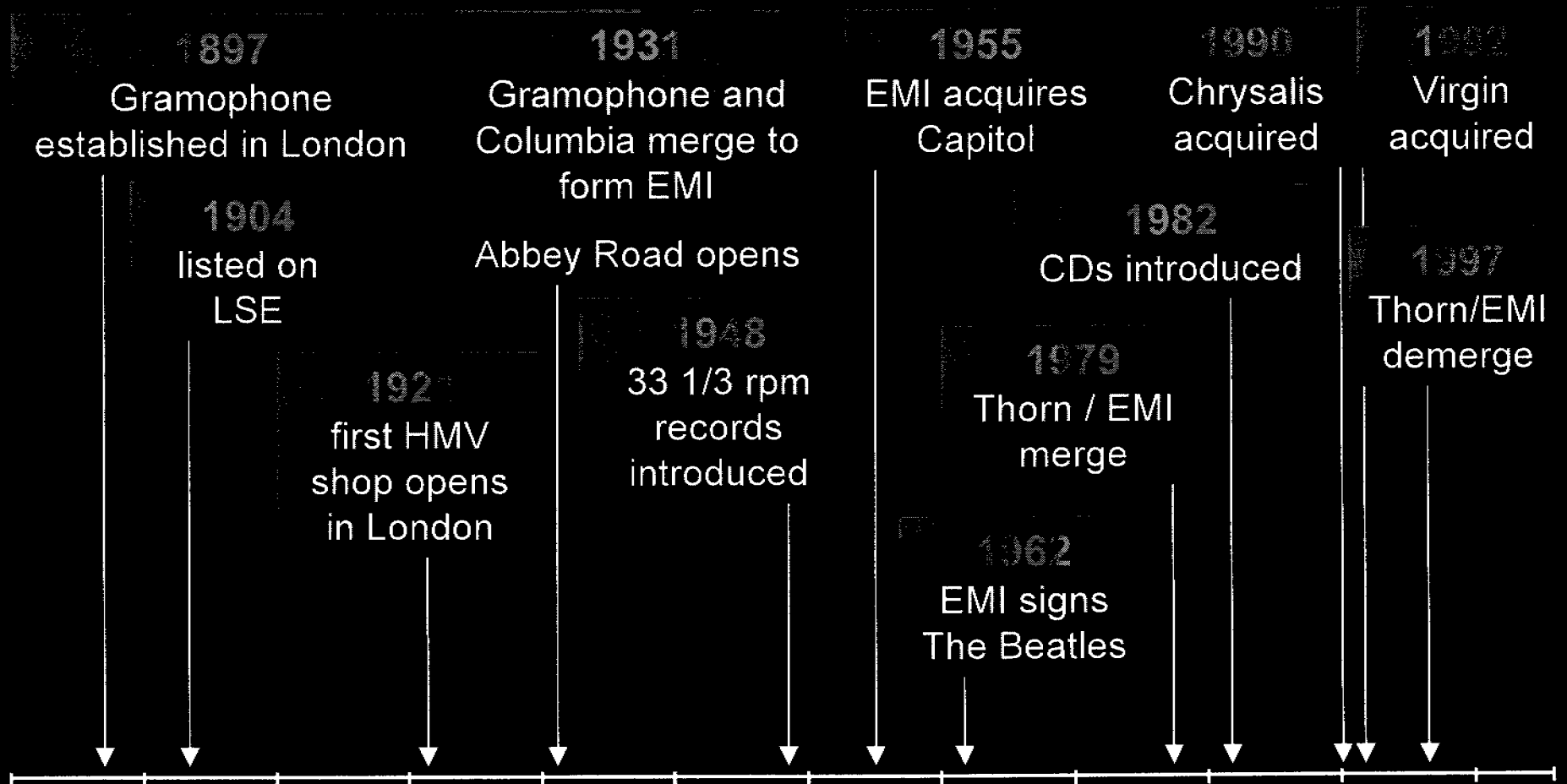
EMI – the first 100 years



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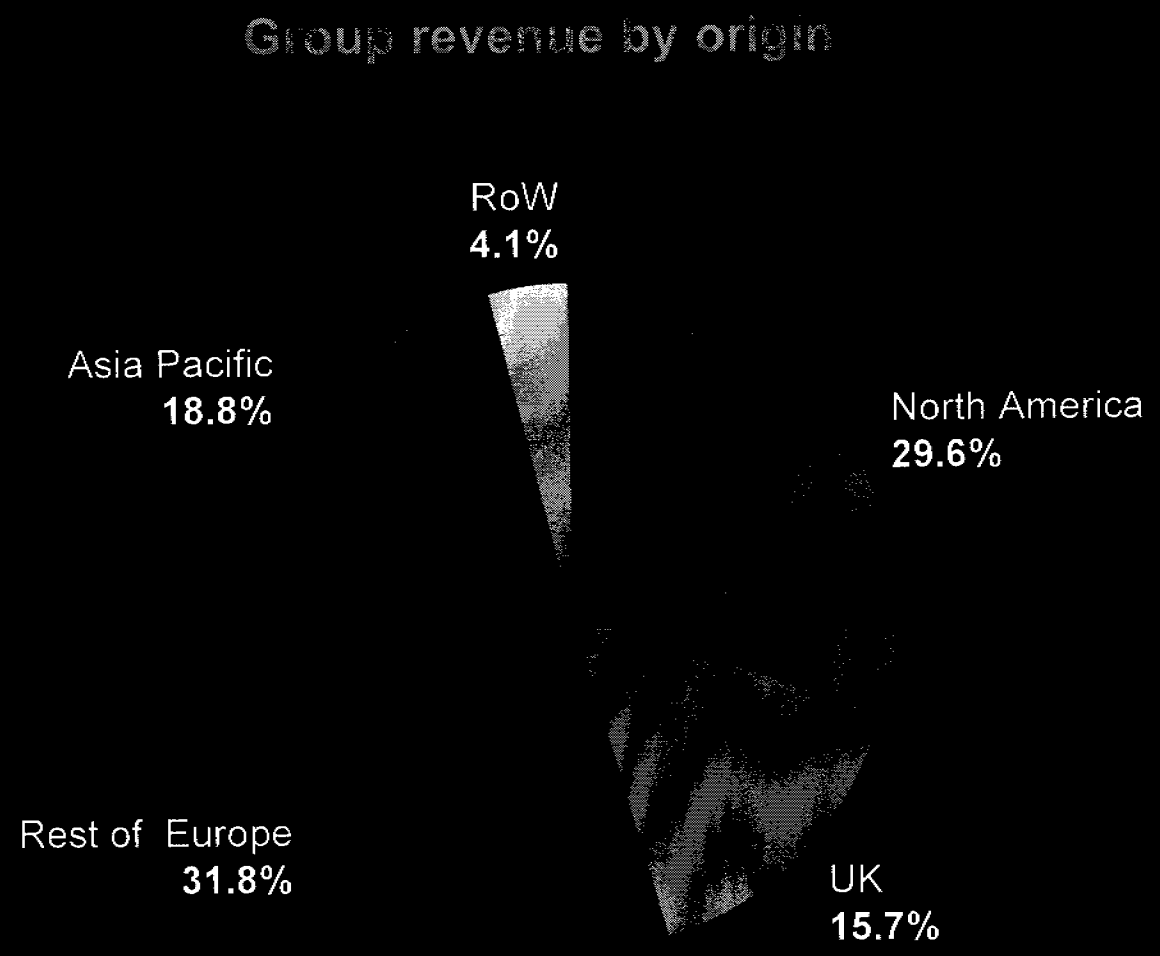
EMI today

- Public company
- Market capitalisation £2 billion
- No.1 music publishing company
- No.3 recorded music company
- Operations in 48 countries on six continents
- 6,700 employees worldwide

Geography



Source: EMI Group

EMI

The EMI Group
– a worldwide leader in music

EMI Music

An outstanding roster of recorded music stars and a rich catalogue of recordings

An exceptional catalogue of songs and a roster of elite songwriters

Summary financials

	EMI Music	EMI Music Publishing	EMI Group
Revenue			
£m	1,600	401	2,001
$m	2,944	738	3,682
EBITA			
£m	125	100	225
$m	230	184	414
Margin	*7.8%*	*24.9%*	*11.2%*

Source : EMI Group, IFRS adjusted FY 04/05

EMI Music Publishing

An impressive catalogue

Ain't No Mountain High Enough · Angels · Bohemian Rhapsody · Can't Take My Eyes Off You · Dancing In The Moonlight · Daydream Believer · Every Breath You Take · Fields of Gold · Get Down On It · Have Yourself A Merry Little Christmas · How Sweet It Is "To Be Loved By You" · Hungry Like The Wolf · I Heard It Through The Grapevine · I'm Not In Love · Lady Marmalade · Let's Get It On · Mamma Mia · Mony Mony · New York New York · Sexual Healing · Shout · Singin' In The Rain · Strangers In The Night · That's The Way (I Like It) · This Old Heart Of Mine · The James Bond Theme · The Loco-Motion · Walking On Sunshine · We Gotta Get Out Of This Place · We Will Rock You · What's Going On · Wild Thing · You've Got A Friend · You've Lost That Lovin' Feeling'

Kanye West

Current song writing talents

Eminem

Natasha Bedingfield

Usher

Alan Jackson

James Blunt

Scissor Sisters

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EMI Music: recorded music

An exciting roster of current recording artists

A rich back catalogue of recordings

Shirley Bassey Beach Boys Beastie Boys The Beatles Blondie Marc Bolan David Bowie Kate Bush Maria Callas Enrico Caruso Joe Cocker Nat King Cole Deep Purple Fats Domino Jacqueline du Pre Duran Duran Edward Elgar Gracie Fields George Formby Hollies Iron Maiden Nigel Kennedy Lenny Kravitz Peggy Lee John Lennon Vera Lynn Paul McCartney Dean Martin Massive Attack Johnny Mercer Steve Miller N*E*R*D Mike Oldfield Edith Piaf Pink Floyd Andre Previn Queen Simon Rattle Cliff Richard Rolling Stones Simple Minds Spandau Ballet Spice Girls Stranglers Frank Sinatra Tina Turner UB40 Fats Waller

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Major EMI labels

Parlophone

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CLASSICS

EMI's top selling albums worldwide 2005

	Artist	Title
1	Coldplay	X & Y
2	Robbie Williams	Intensive Care
3	Gorillaz	Demon Days
4	The Rolling Stones	A Bigger Bang
5	Various	Now That's What I Call Music! Vol 19/20
6	Keith Urban	Be Here
7	Various	Now That's What I Call Music! 62
8	KT Tunstall	Eye To The Telescope
9	KOЯN	See You On The Other Side
10	RBD	Rebelde

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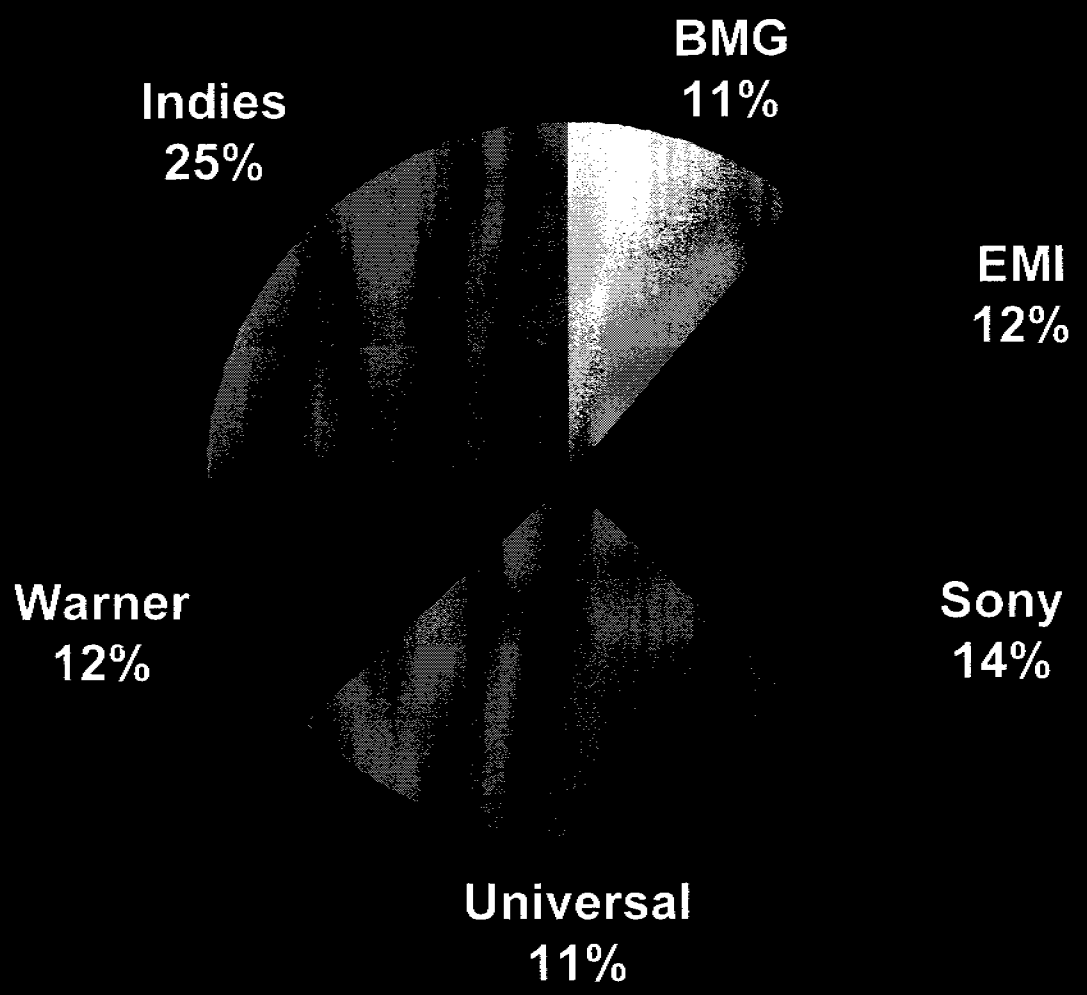
World recorded music market share



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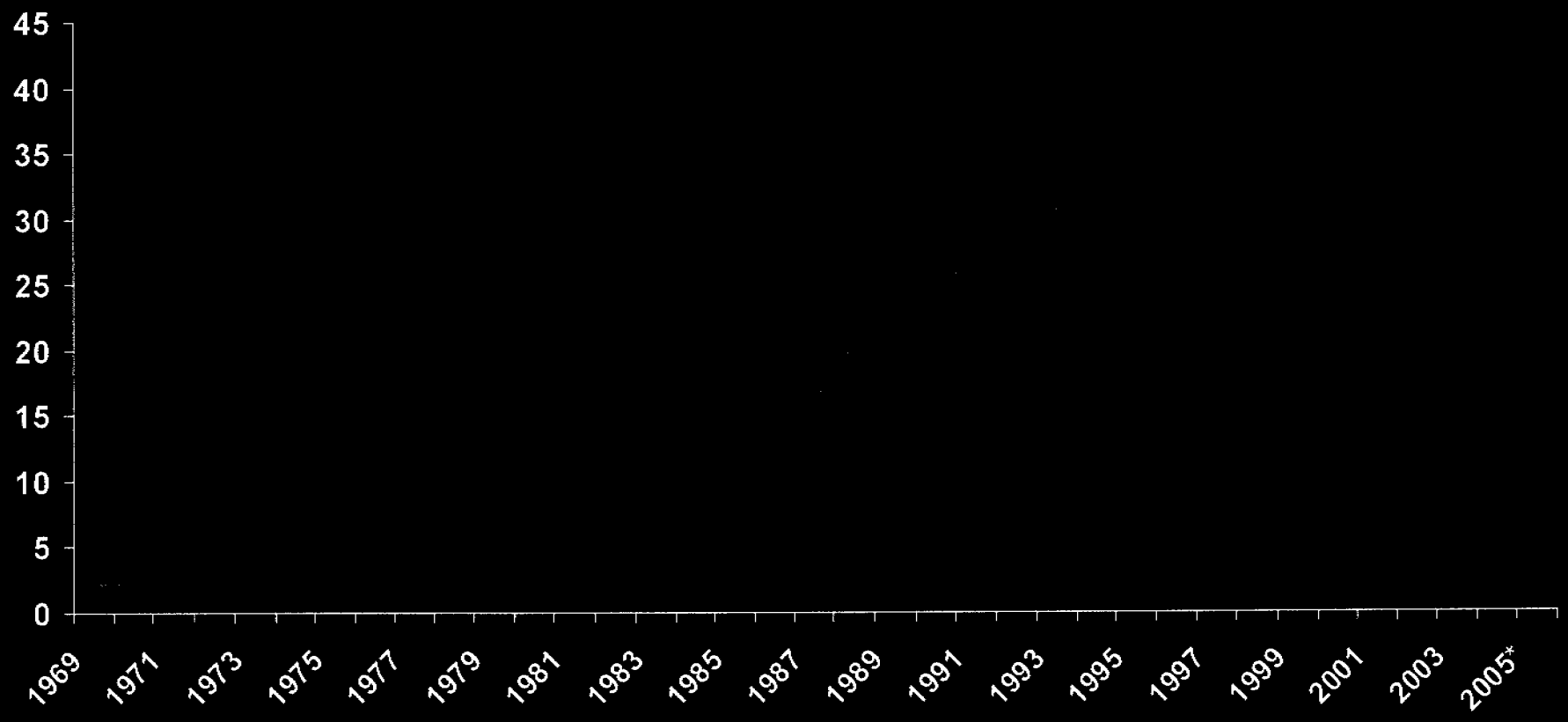
Global recorded music sales 1969-2005

USD billions



Source: Enders Analysis

2004 & 2005 figures are estimates

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What do you do when your market takes a dive?

- Understand the root causes of decline
- Address the issues in your existing business
- Find new sources of income
- Redefine the business

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Root causes of market decline

- General economic conditions
- Growth in competing entertainment products
- Piracy
  - Physical piracy
  - Online piracy
- Quality of music

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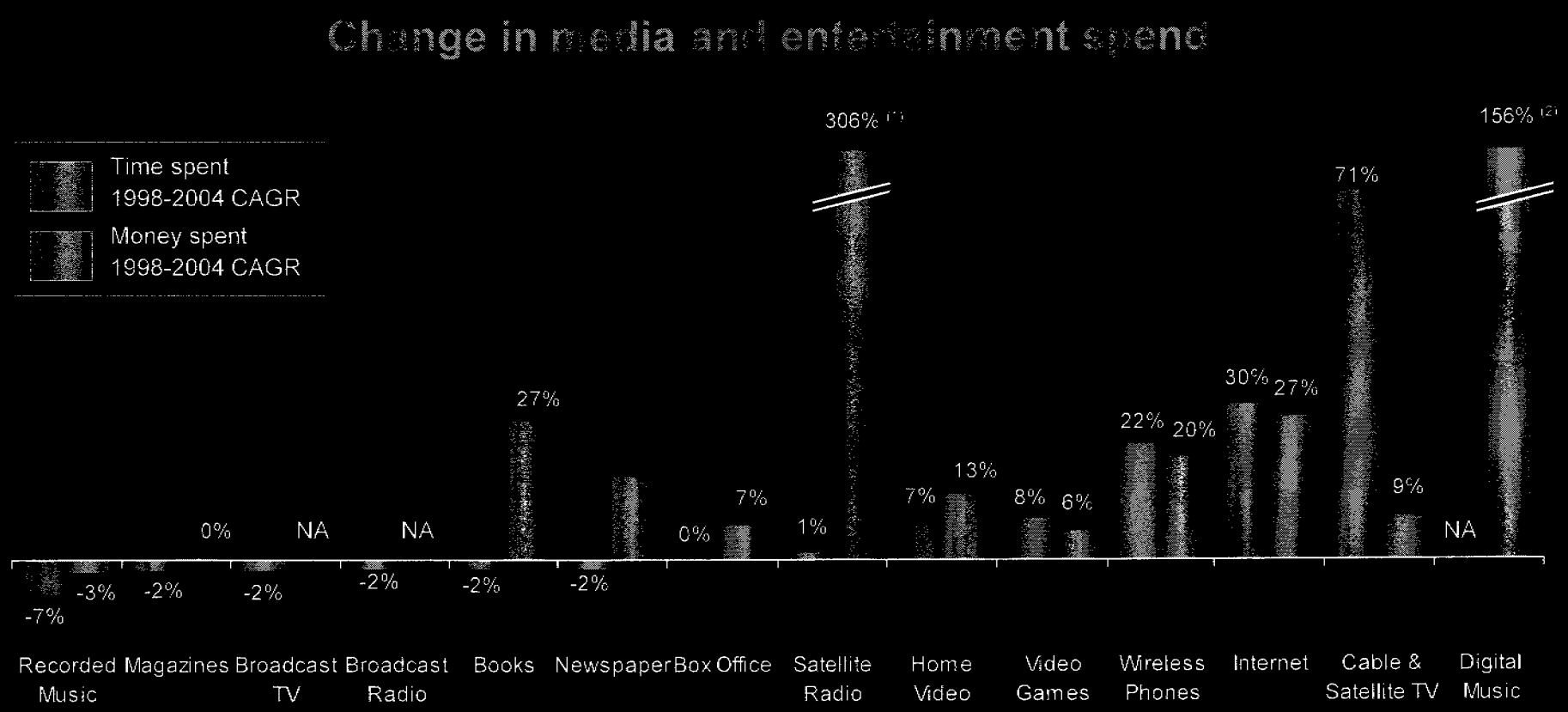
Consumer spending is shifting away from traditional formats



(1) CAGR for 2002-2004 only
(2) 2001-2004 only
Note: All per capita data based on total U.S. population of 296MM
Source: Veronis Suhler, Forrester, Arbitron, Booz Allen analysis

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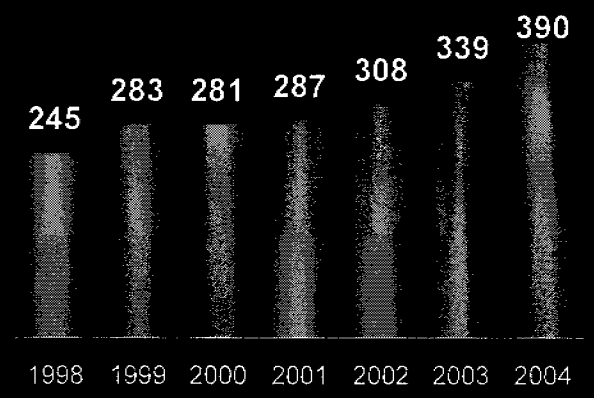
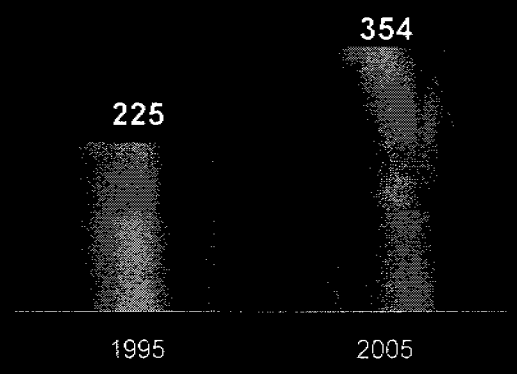
The amount of media content competing for consumers' attention has increased significantly

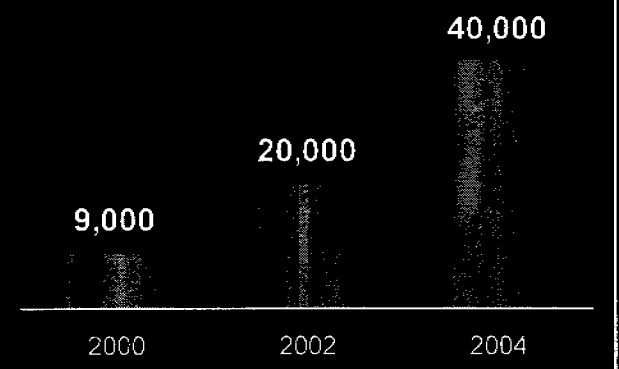
Nationally available US cable programming channels (1998-2004)



Number of UK radio stations (1995-2005)



Number of available US DVD titles (all formats: 2000-2004)



Sources: NCTA, DVD Entertainment Group, Media UK

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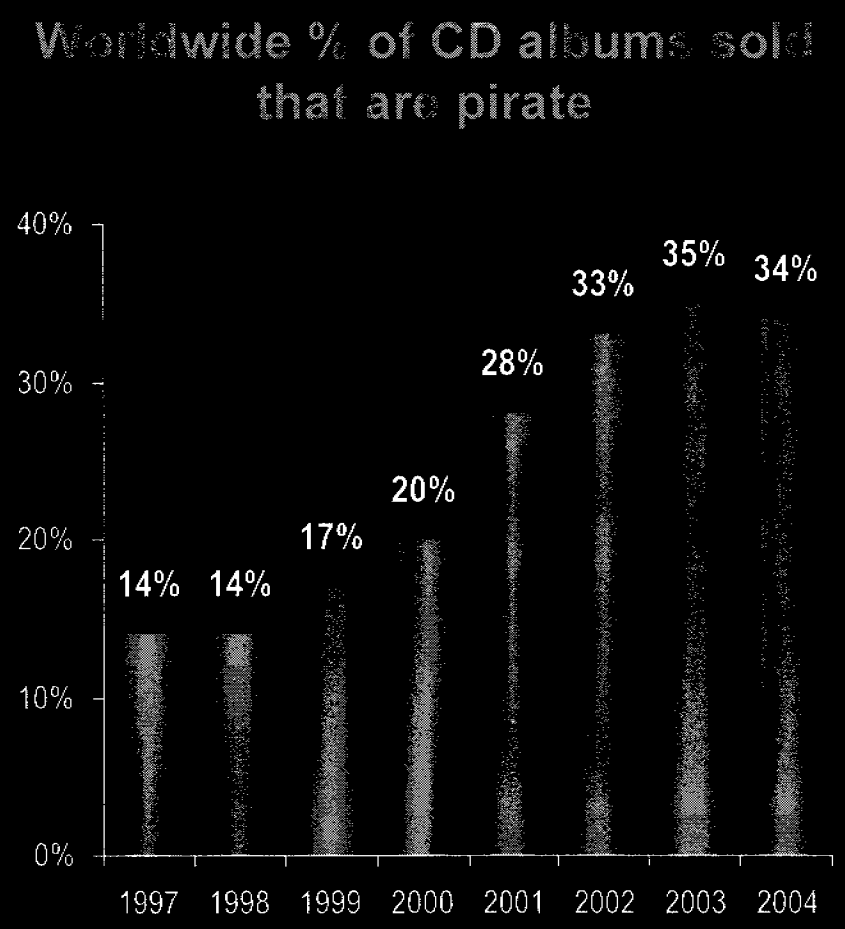
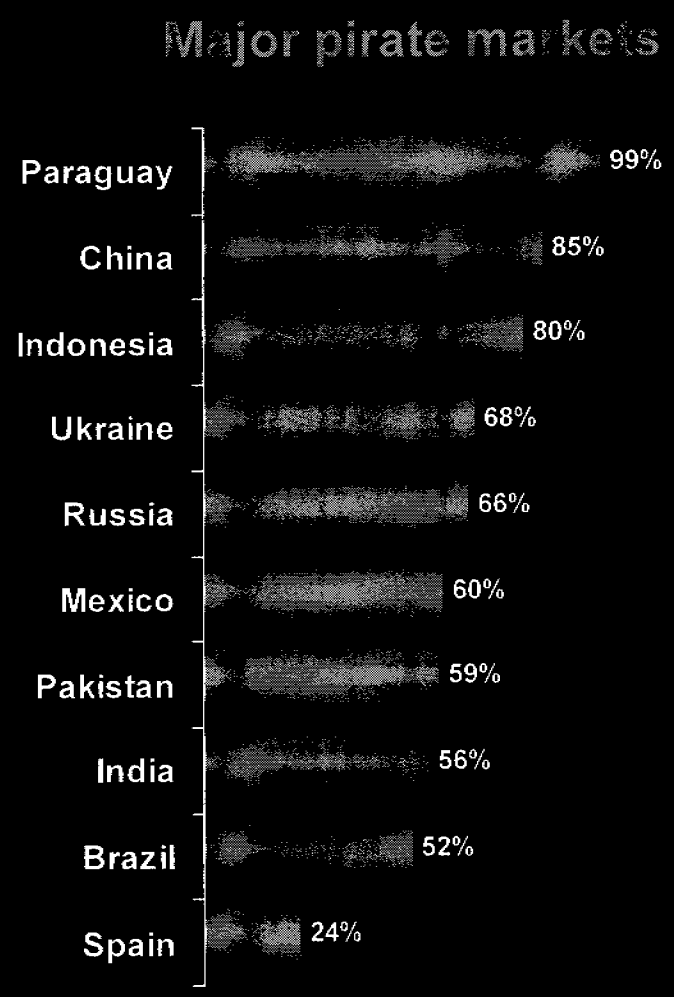
Physical piracy: pervasive





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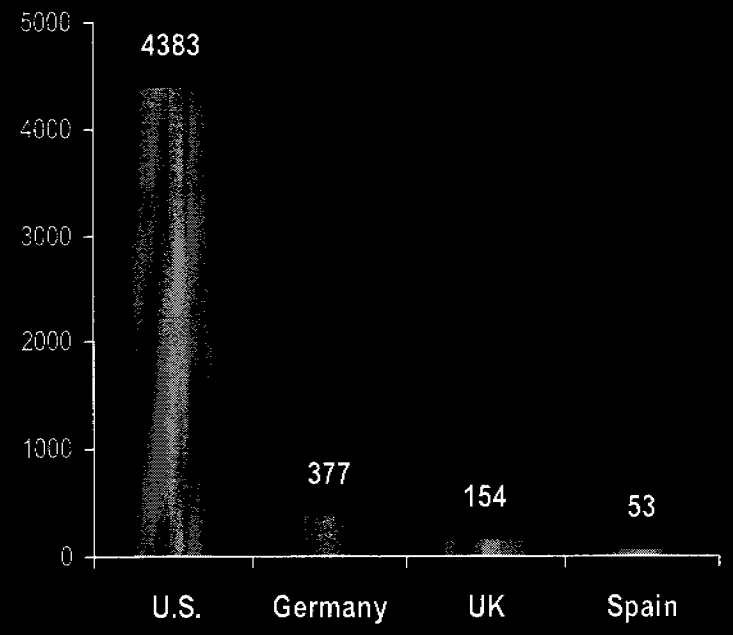
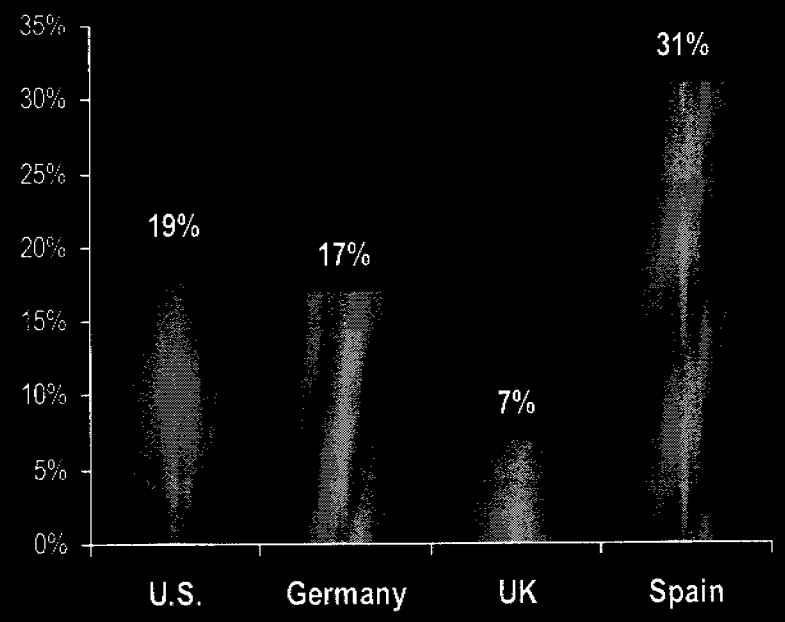
Digital piracy: in 2003, 80 million people were downloading music files from P2P networks





Source: IT Innovations & Concepts, Aug 2004

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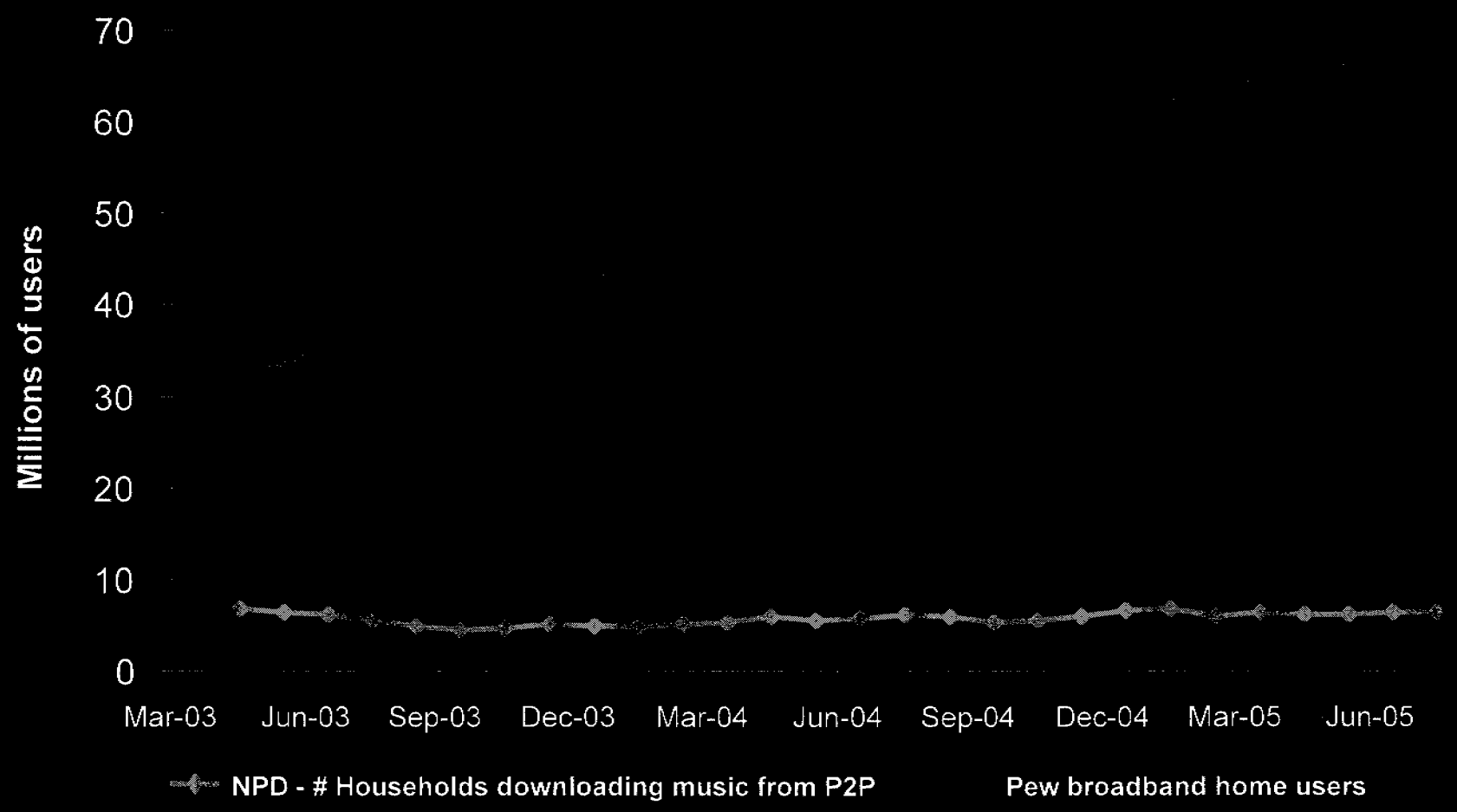
Number of illegal P2P users contained despite high broadband growth in US



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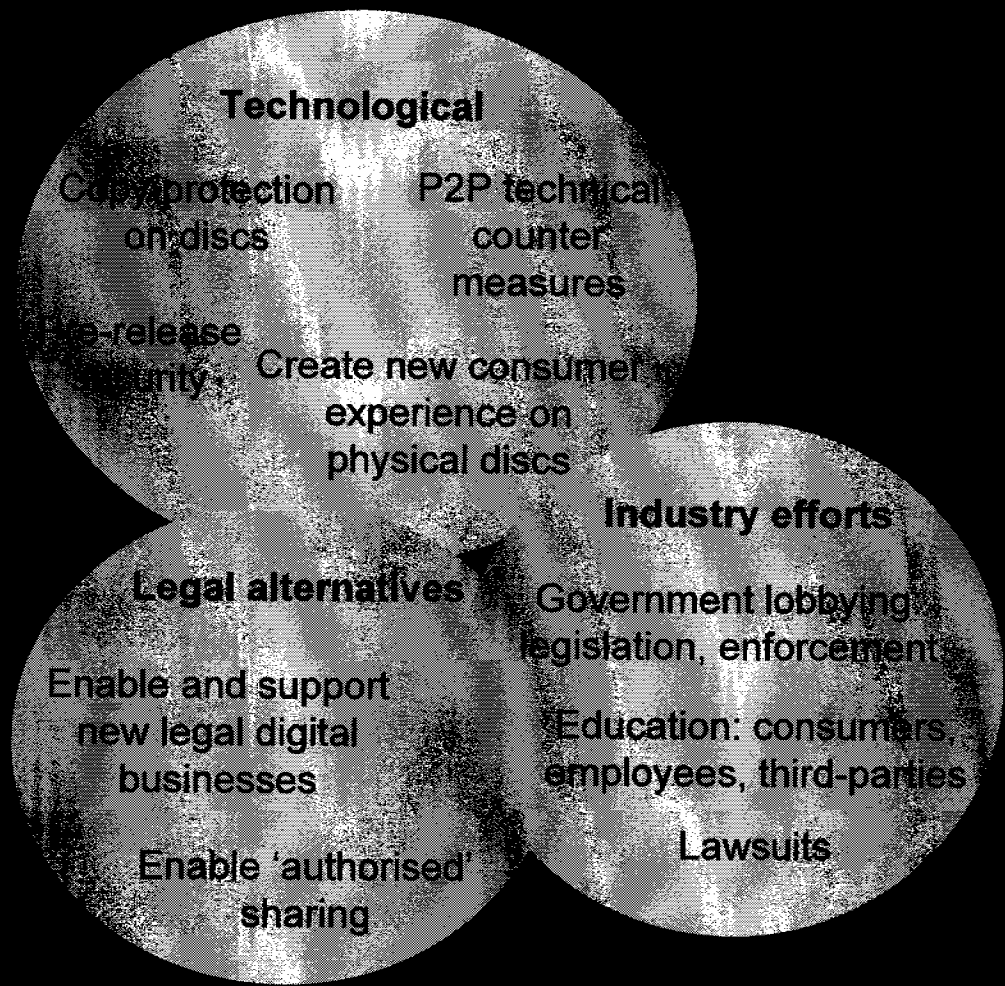
Progress in fight against piracy



- June 2005: Unanimous Supreme Court ruling in favour of the industry against Grokster
- September 2005: Australian Federal Court ruling in favour of industry against Kazaa
- Over 14,000 lawsuits filed against illegal file sharers to date

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EMI Music transformation

- October 2001 – new management team
- Implemented cost reduction and restructuring programmes
  - Europe: combined Virgin and Capitol back offices, rationalised country and label structures
  - US: centralised management and marketing and created shared services for back office, restructured Virgin
  - Outsourced manufacturing: Europe, North America, Japan
  - Centralised international marketing and priority systems

EMI Music transformation (contd)

- Added or enhanced new business functions
  - created anti piracy/content protection team
  - established government affairs team in US, EU and UK
  - strengthened strategy team and consumer research capability
  - initiated comprehensive technology change programme
  - expanded management training and people development

EMI Music transformation (contd)

- Through this re-sizing and re-shaping of the business, we
  - reduced fixed costs by c.£150m
  - reduced staff by c.35%
  - cut artist roster by c.35%
- Drove culture shift
  - balance of business discipline and creative initiative
  - innovation
  - sharp consumer focus

EMI: embracing digital music opportunity

We want to enable consumers to find and consume…

any music …

… in any form …

… at any time …

… in any place…

It is all about taking our music to the consumer

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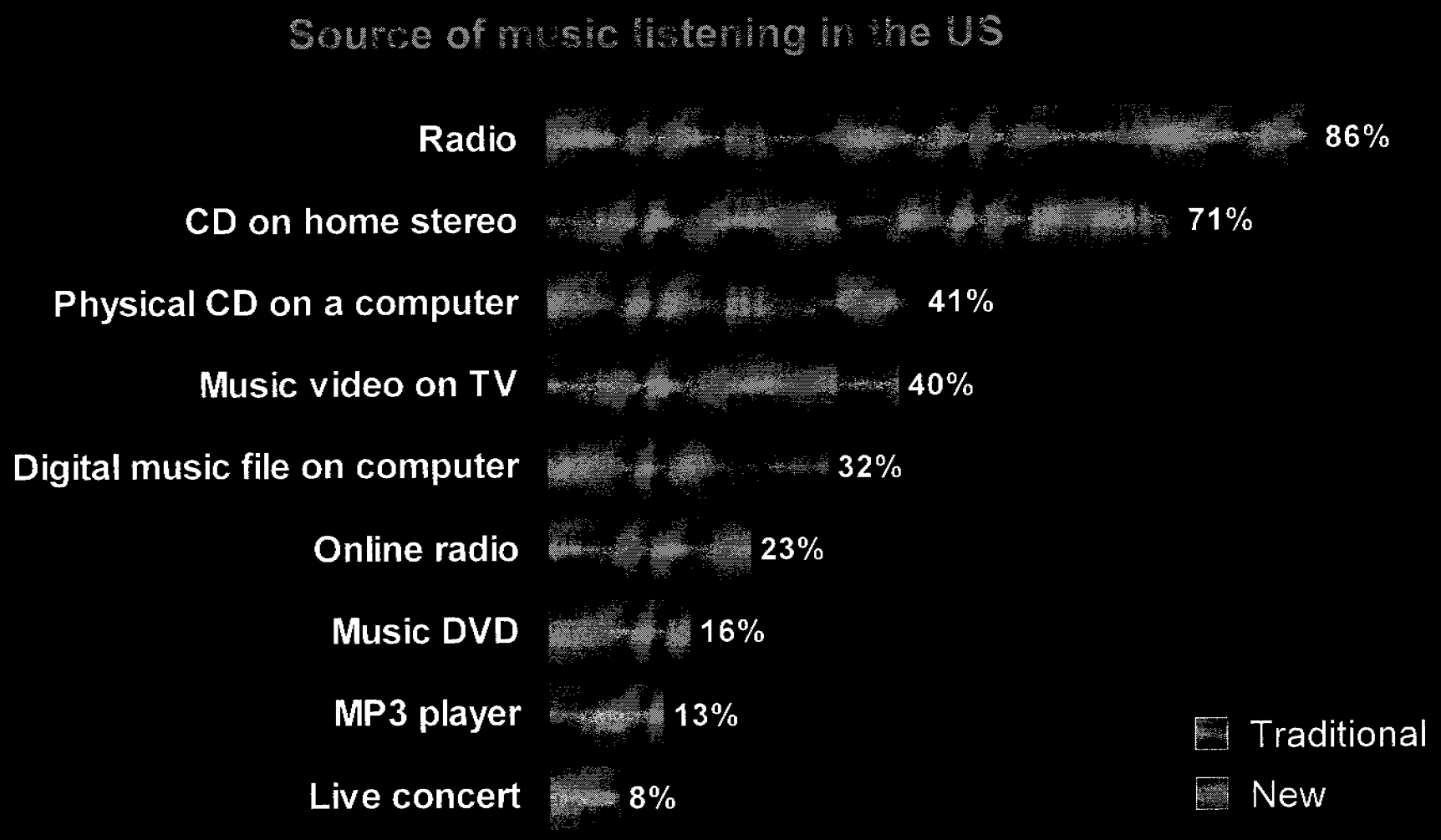
Consumers have been embracing new ways to listen to music



Source: NPD Music Lab, Online survey, February 2005, Ages 13+ n=4,700 Results projected to total U.S. population

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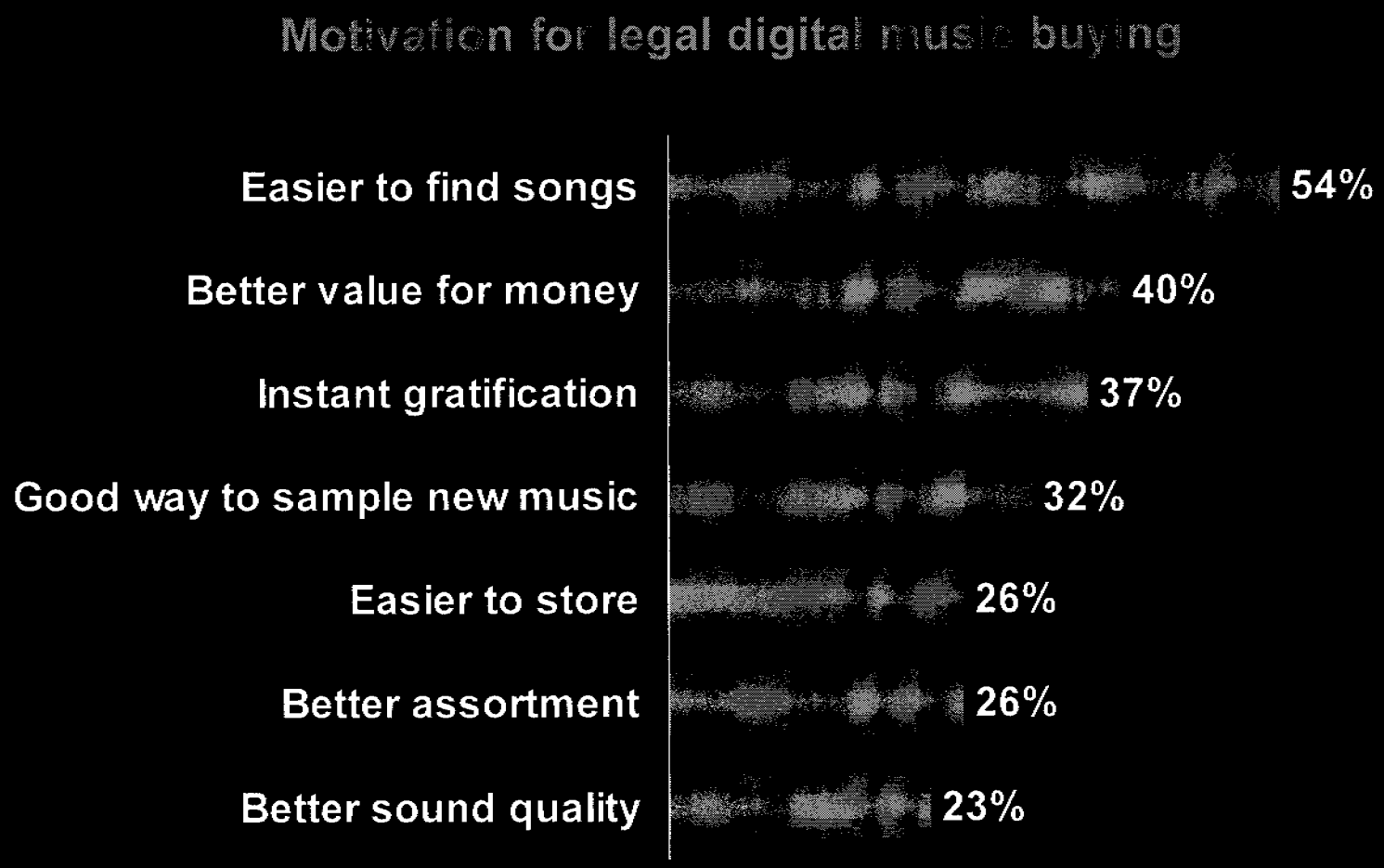
Consumers and legitimate music purchasing



Source: NPD

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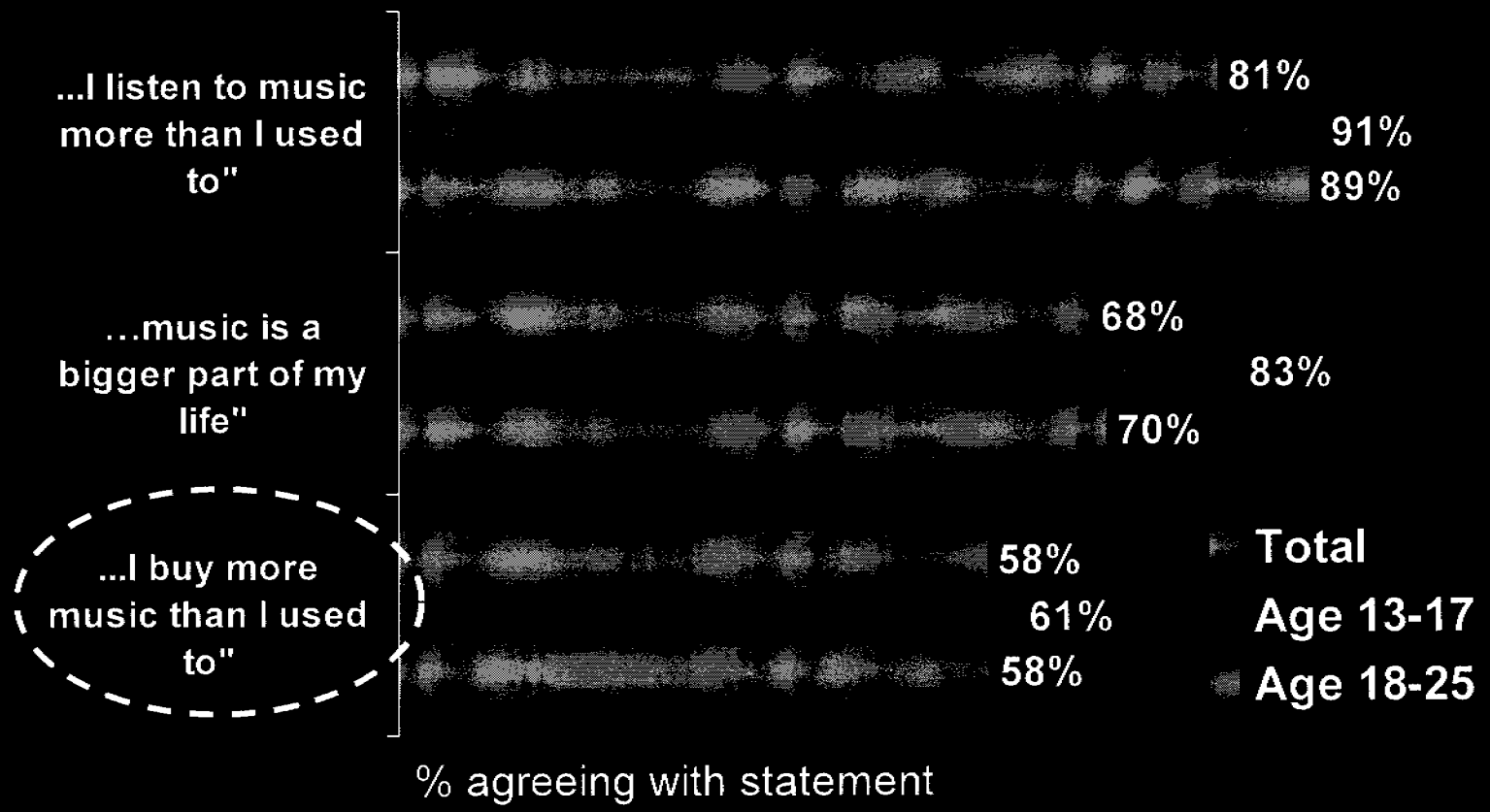
Digital buyers spend more

"Now that I own an iPod...



Source: NPD MusicLab December 2005, EMI analysis Base: Own an iPod

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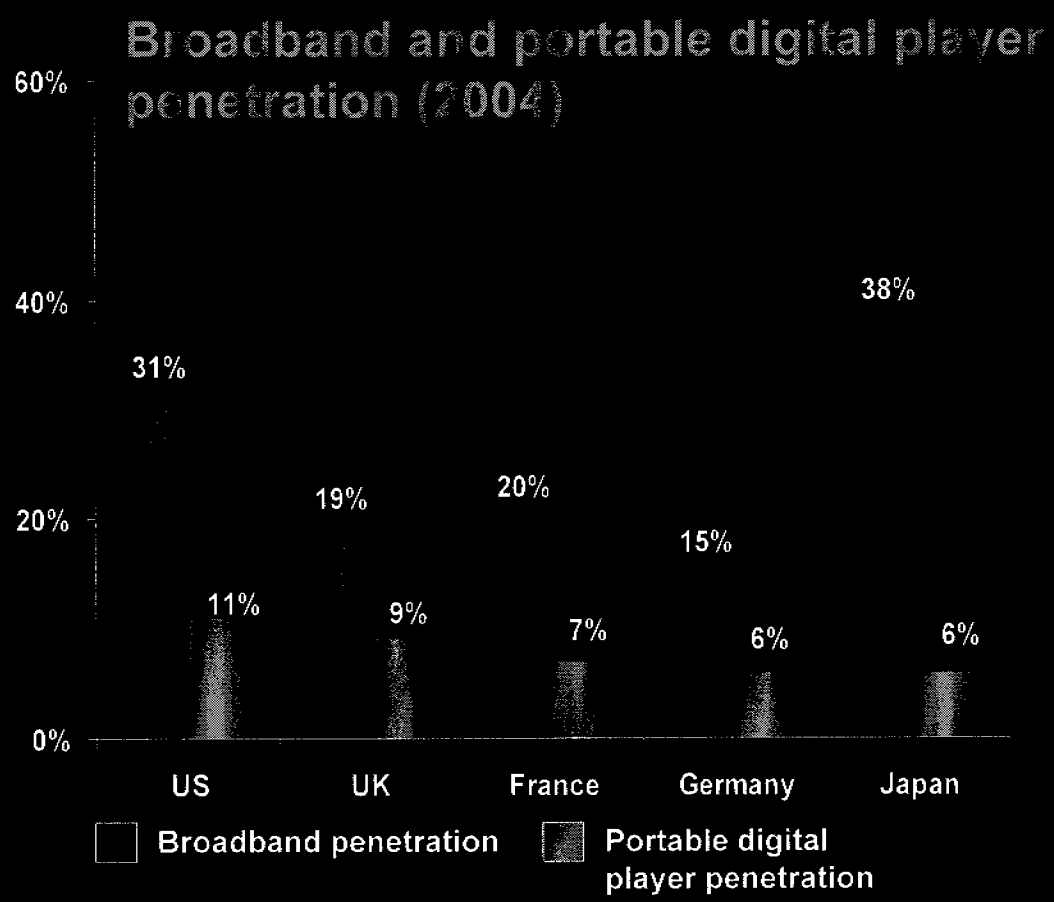
EMI is working with all major players in the digital space

Growth of broadband & MP3 player penetration will facilitate wider uptake of digital services



- External predictions show broadband penetration doubling in these countries over the next 4 years[1]
- Researchers forecast that the US market for portable MP3 players will treble between 2004 and 2008[2]
- As the technology develops and becomes more widespread, digital music demand should continue to benefit

Source: Understanding & Solutions, 2004. MP3 penetration % population. Broadband % homes
Notes: [1]Carat 2005 [2]Jupiter 2004

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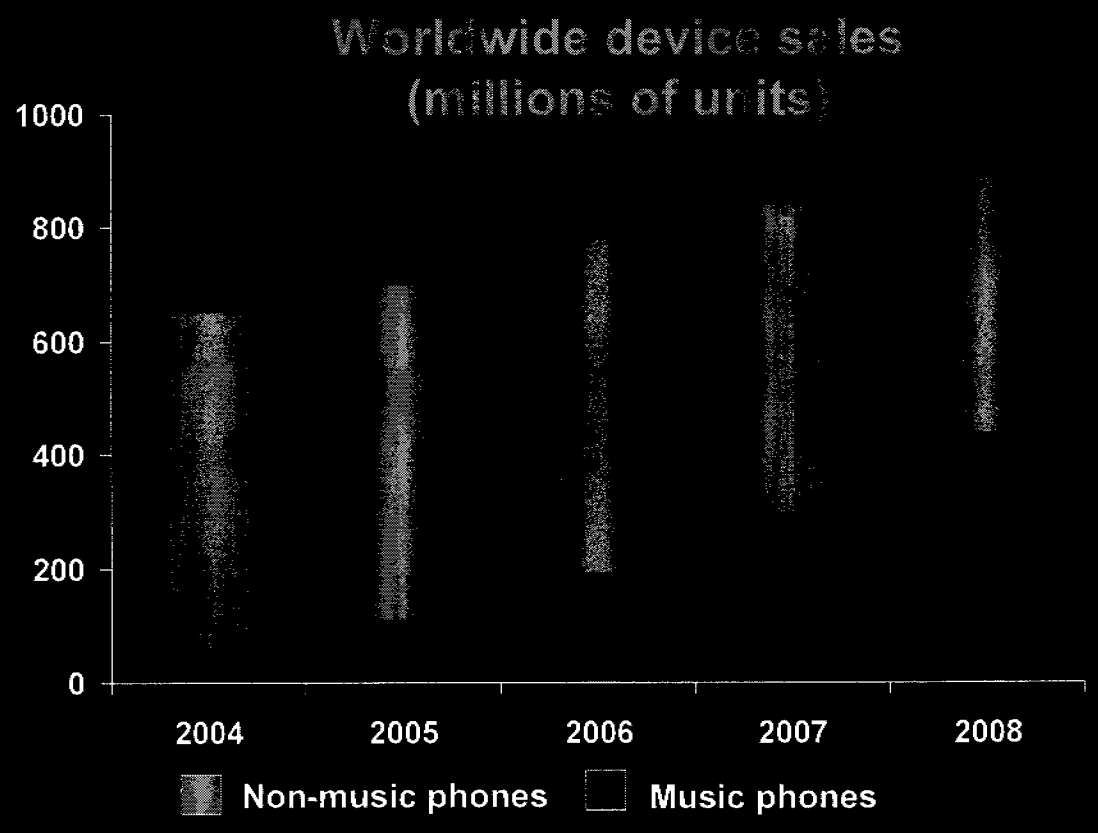
The development of mobile phone technology provides significant new opportunities for music consumption



- Today, less than 10% of mobile phones are capable of playing music
- Forecast that 50% of mobile phones will be music phones in 2008
- The roll-out of 3G and wireless broadband technology will drive consumer uptake
- All major handset manufacturers and mobile service providers investing in mobile music opportunity

Source: Strategy Analytics

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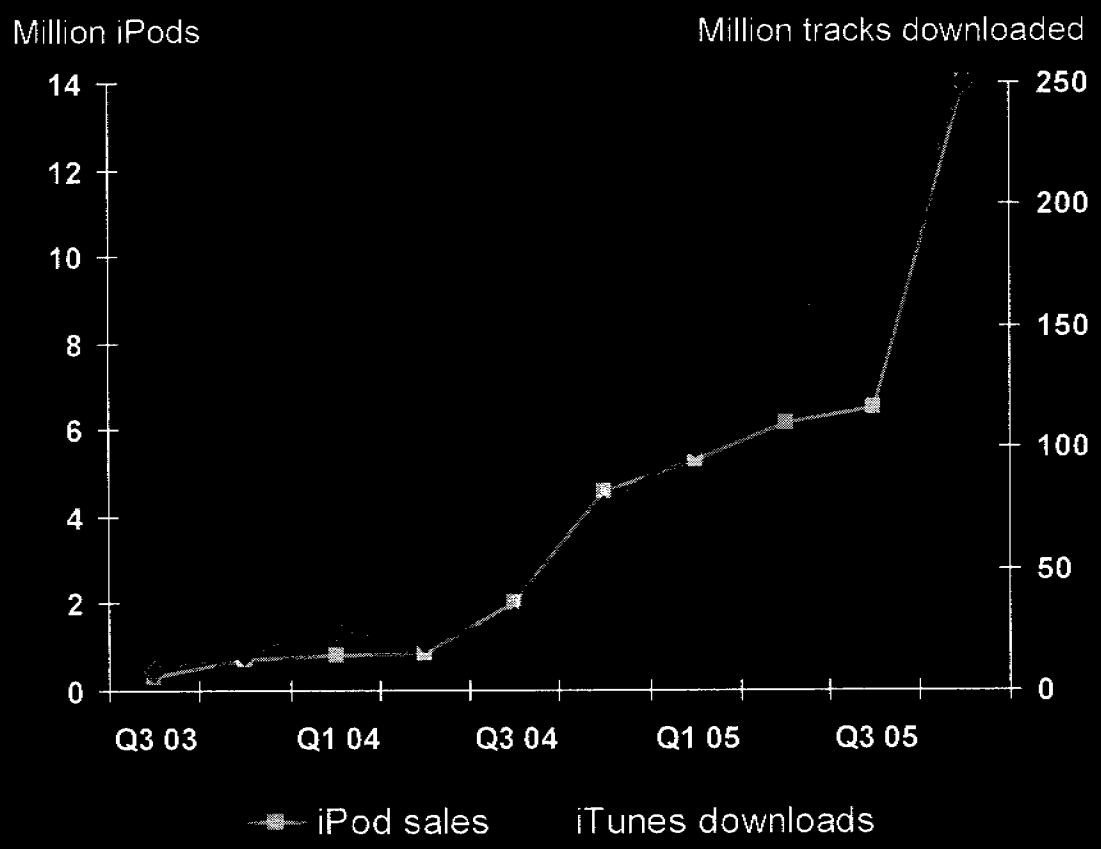
Accelerating device sales – accelerating digital track sales

iPod sales and iTunes tracks downloaded



- 14 million iPods were sold in Q4 05 – three times the number sold in the same period a year earlier
- Downloads on iTunes have been gathering pace – it will not be long before downloads reach 1 billion
- 42 million iPods shipped to date
- Over 12 million iTunes videos downloaded to date

Source : Apple, EMI estimates

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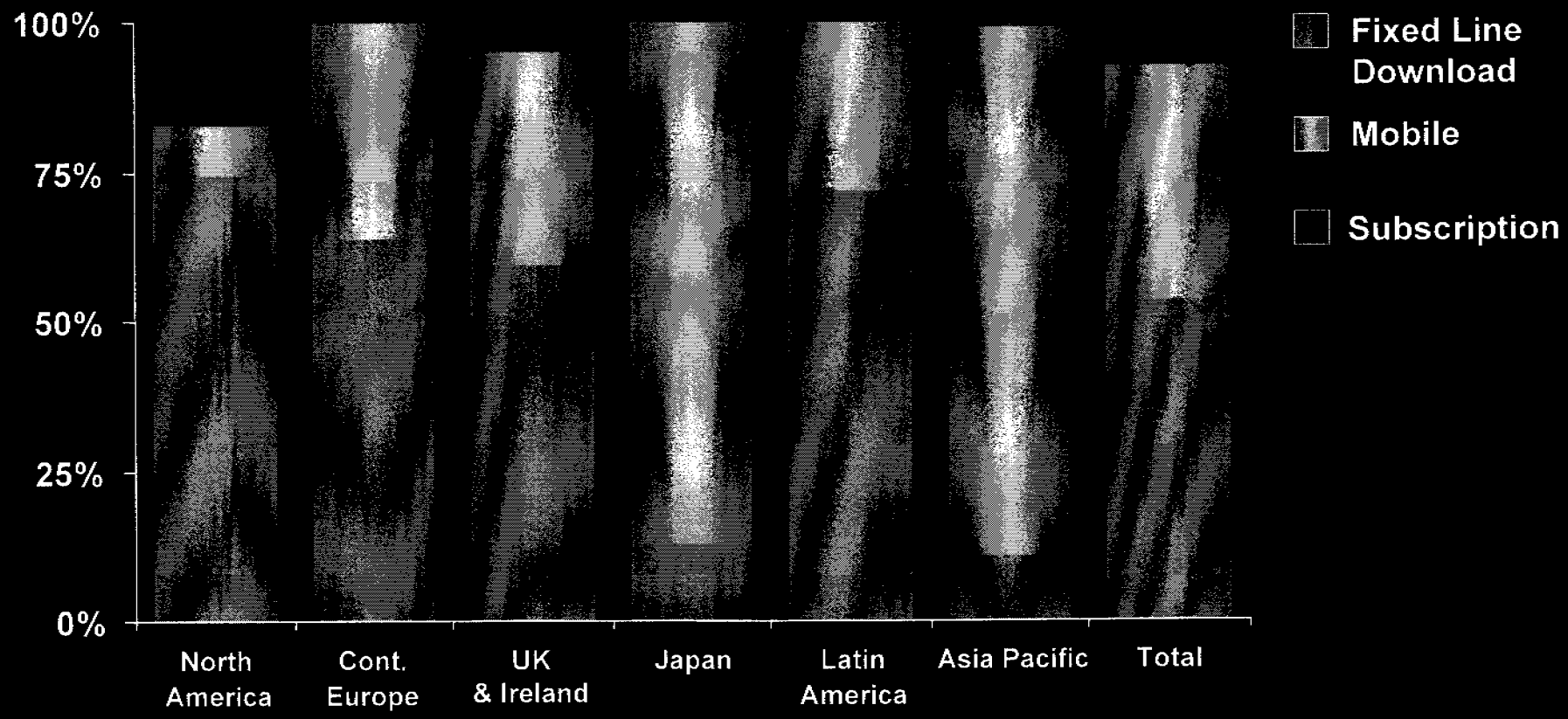
Digital development varies by region

EMI Music's digital revenues by type and region (H1 05/06)



Source: EMI Group

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From where to here ...

- Over five years of significant industry challenges
  - technology fuelling explosion in piracy
  - rise in competing products
  - declining shelf space at retail
  - new business models slow to emerge
- We saw the threats – and the opportunities – and took action
  - radical restructuring of our global operations
  - increased investment in IT/systems, strategy, consumer research and anti piracy efforts
  - continued to focus on the music
  - embracing digital music – new products, new partners, new models

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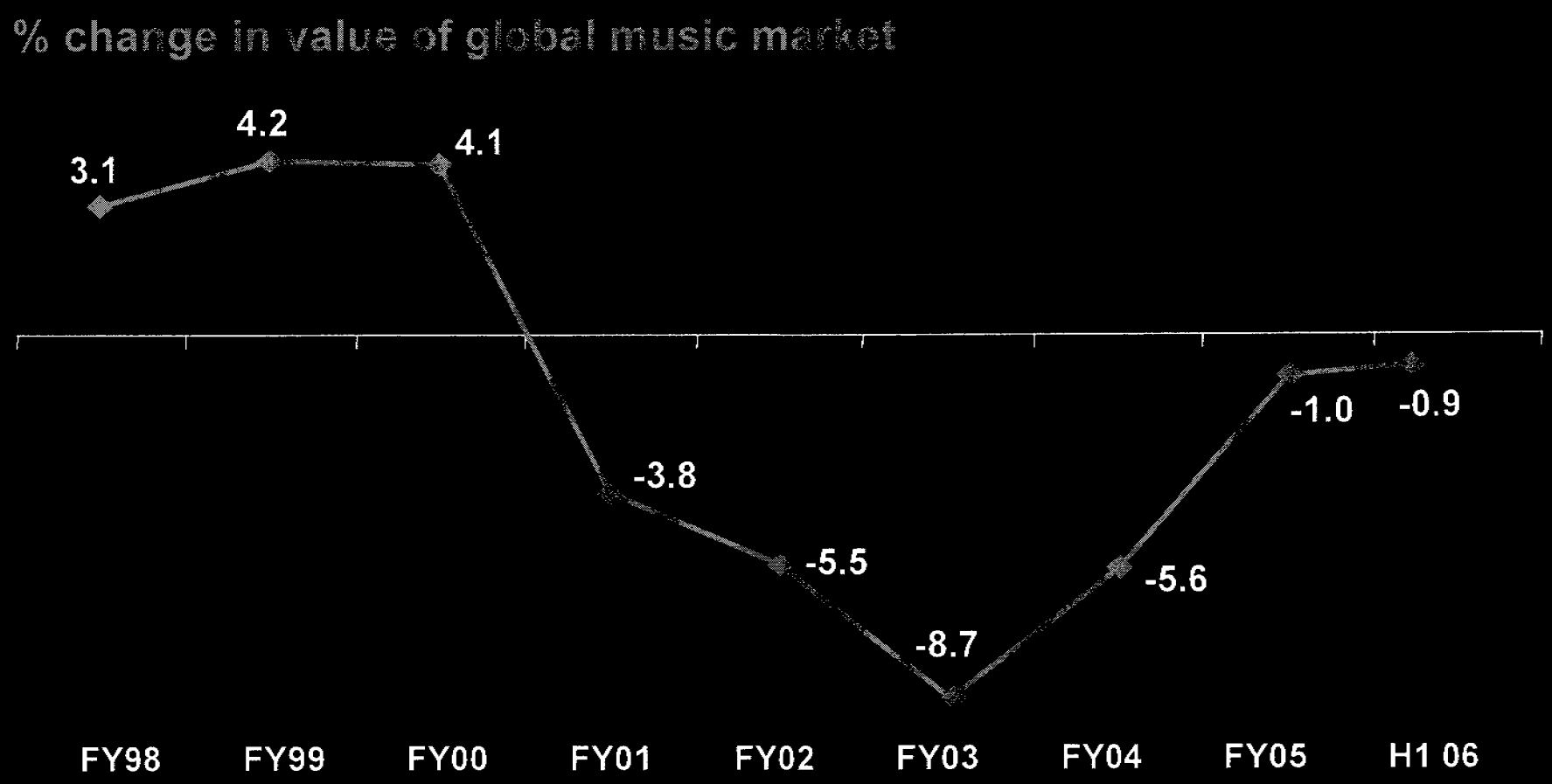
... and moving forward

- Industry prospects improving
  - piracy growth being contained
  - continued increase in new digital products and services
  - growth in broadband and mobile phone capabilities will spur consumer uptake of digital music and lead to even greater product expansion

Digital sales drive further market trend improvement



Source: Based on EMI Group estimates
Note: FY04 and H1 05 include digital sales

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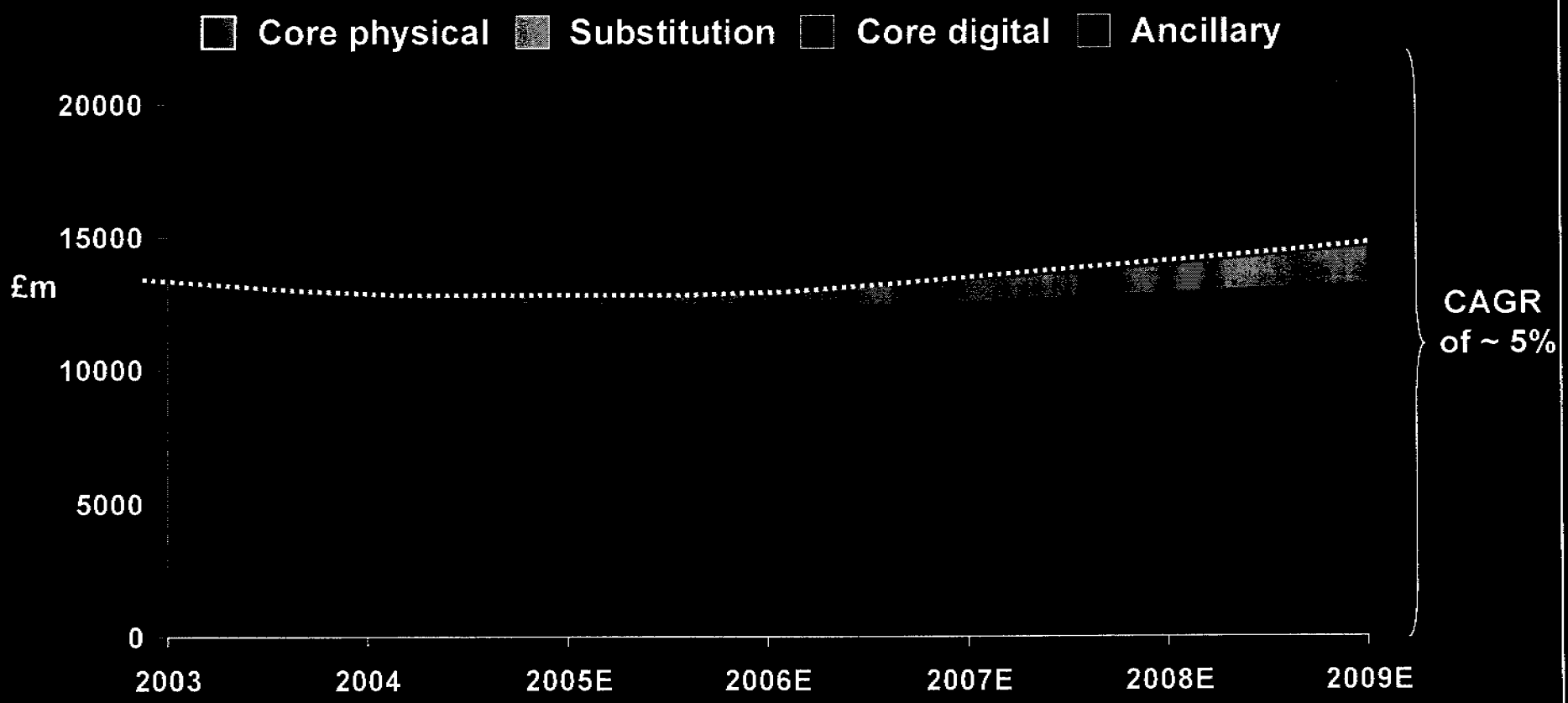
The future potential from digital is significant

- Digital sales are an appreciable contributor to revenues already
- Significant advances in broadband, music phone and portable MP3 penetration are still to come
- Digital could represent up to 25% of the global music industry by 2010
- Driving 5% CAGR in industry sales by 2010

Potential growth of the global wholesale recorded music market



Digital could represent approximately 25% of music industry in 5 years

LECG / EMI: Planning scenario – Digital Day, 1 July 2004
Not a forecast

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