Written Testimony of David J. Del Beccaro
President and CEO of Music Choice
U.S. Senate Committee on the Judiciary Hearing on
"Protecting and Promoting Music Creation for the 21st Century
May 15, 2018

Chairman Grassley, Ranking Member Feinstein, and other distinguished Members of the Committee – Thank you for inviting Music Choice to participate in today's hearing and for your leadership on these challenging and important issues.

My name is David Del Beccaro, and I am the Founder, President, and CEO of Music Choice. Music Choice is the world's first and oldest digital music service. I started the business in 1987, when I was working at General Instrument. Music Choice's original and core business line provides 50 – 75 curated channels of digital radio to consumers as part of their basic residential cable or satellite television package. An example of a Music Choice on-screen display for one of our music channels is attached as Appendix 1. Although we are a small company compared to some of the newcomers, we have more impact and reach than most. Our music channels are received by almost 70 million subscriber households throughout the United States, by consumers who listen over 20 hours per week on average. A map, showing Music Choice subscriber household numbers by state, is attached as Appendix 2.

There is little question that parts of the music licensing system are broken and should be fixed. But changes should be made carefully, and the version of the Music Modernization Act ("MMA") recently passed by the House of Representatives had several

unrelated provisions grafted onto it at the very last minute, and at least one of those was added without the input of any of the three companies that would be harmed by it. Music Choice is one of those companies. The provision is Section 103(a) & (g) of the House bill, which would strip the Section 801(b) royalty rate standard from the surviving "pre-existing" digital music services that were grandfathered under that rate standard when Congress created the so-called "willing buyer / willing seller" standard for webcasters and other later market entrants. Unfortunately, the Senate has now introduced a new version of the MMA bill, mirroring the latest House version.

Section 103(a) & (g) should be stripped out of the Senate bill for several reasons:

- Section 801(b) provides a better and more flexible standard to set balanced and fair rates in a music licensing market that has never been free or competitive.

- Contrary to record company rhetoric, the Section 801(b) standard is not a "discount" or "subsidy" standard. The standard has generated large rate increases when warranted by the evidence submitted to the Judges, and has not caused any of the problems inherent in the flawed, "willing buyer / willing seller" standard.

- There is no inherent benefit to having only one, uniform rate-setting standard, especially because the pre-existing services grandfathered under Section 801(b) do not substitute for the few (if any) webcasting services subject to "willing buyer / willing seller." Even if they did, Section 801(b) would allow that factor to be taken into account in setting the rate. In any event this legislation would not

actually create a uniform rate standard. Congress has repeatedly determined that requiring radio to pay royalties to the record companies would cause tremendous upheaval in the radio industry. This very legislation continues to implement that judgment and therefore excludes the biggest segment of the ecosystem, radio, from this supposedly "uniform" treatment. Music Choice substitutes heavily for terrestrial radio, and one-to-many broadcasting (whether by terrestrial stations or Music Choice) is inherently different from one-to-one internet streaming. A one-size-fits-all solution is inappropriate.

- None of the major parties who participated in the MMA negotiation process are subject to the "willing buyer/willing seller" standard because they negotiate licenses directly with the recording companies. Most companies subjected to this standard have either gone out of business or are hanging on for life because they have never experienced a single profitable year in their entire history in this business. The "willing buyer/willing seller" standard is therefore not a standard at all.

- Section 103(a) & (g) would put Music Choice out of business, and no other company would be able to take its place in the challenging cable radio market. This would harm consumers in almost 70 million homes across the country, but would also harm recording artists and the record companies. To the extent those consumers shifted their in-home listening to any other music source, research indicates it will be shifted to terrestrial radio, which pays the record companies and artists nothing.

Although Section 103 has become Music Choice's primary concern because it poses an existential threat to the company, Music Choice also believes that certain elements of the core MMA should be improved. In particular, the shifting of the costs of the licensing collective onto the licensees is unprecedented in any existing music licensing market. This, and certain other provisions, will make it difficult for Music Choice or other smaller or independent music companies to enter the on-demand streaming market. This, in turn, will stifle competition and leave a small number of large technology companies, willing to treat music as a loss leader, as the only long-term market participants. These problems could easily be avoided by structuring the Section 115 blanket license the same way that the Section 114 license has been working, without problem, for twenty years.

<u>The Senate Should Remove Section 103(a) & (g) From the MMA</u>

My primary purpose today is to address a small part of the omnibus version of the MMA, which I understand was considered but intentionally omitted from the original Senate version. That provision is totally unrelated to the original purpose of the MMA or any of the other provisions of the omnibus bill. Nor is it in any way consensus legislation or the result of negotiated trade-offs by stakeholders, as the original MMA was described. Section 103(a) & (g) only impacts the three surviving companies that launched the pioneer digital music services, by changing the legal standard under which our sound recording royalty rates are set. I am here today because if enacted, the House's change would put Music Choice out of business. But it would also be bad policy, bad for the almost 70 million consumer households that have made Music Choice the soundtrack to their lives, and in

the long run bad for recording artists. It is important that the Senate remove this provision from the MMA.

There are several compelling reasons why the Senate should stick to its original version of the MMA and remove Section 103(a) & (g):

- The Section 801(b) rate standard, upon which Music Choice has relied for almost 25 years, is a superior and more workable standard. The only difference between that standard and the so-called "willing buyer / willing seller" standard is that the Section 801(b) standard is more flexible. It allows the Judges to consider a broader range of evidence to set fair and balanced rates. This flexibility can result in massive rate increases when warranted by the evidence. In the past few months, two different rate decisions using Section 801(b) have been issued. In one, Sirius XM's rate increased by 40%. In the other, streaming services' mechanical rates increased by at least 44%. These are not discounts or subsidies. They are only called that as a rhetorical move by music companies that have never seen a rate they thought was high enough.

- In contrast, the "willing buyer / willing seller" standard has been a disaster. Although it is billed as providing "market rates," the very notion of "market rates" in the music licensing market is meaningless because there has never been an unregulated, competitive licensing market. The DMCA standard narrows the Judges' focus, unhelpfully, on the terms "willing buyer," "willing seller," and "market rates" to set rates for markets that have never been

unregulated by using benchmarks from markets devoid of free-market competition.

- The blanket licensing arrangements necessary for the industry to work are already a step removed from a free market because they bundle together hundreds of thousands of copyrights into one license, and eliminate any possibility of competition between copyright owners because each record company's catalog is complementary to, and not substitutional for, every other company's catalog. This complementary oligopoly allows the record companies to extract absurdly high royalty rates in this unregulated part of the market, which has led to a state of affairs where in twenty years there has not been a single streaming service that has ever had a single profitable year, even though certain management teams and early investors (and now record companies and music publishers) have made short-term money in the stock market from doing IPOs. This is not a functioning, competitive free market. The use of benchmarks taken from this non-competitive market to satisfy the "willing buyer / willing seller" standard has resulted in rates so unreasonably high that most webcasters have gone out of business, and Congress twice, in 2002 and 2009, has had to step in and undo rates set using this standard. This has never been necessary for Section 801(b) rates. In fact, not a single webcasting service operating under a "willing buyer / willing seller" rate has been profitable in a single year – encompassing thousands of companies over decades of operations. Clearly this is not a free market rate.

- There is no inherent benefit to a uniform rate standard merely for the sake of uniformity, especially given that market research shows Music Choice does not substitute for the webcasters that are, in theory, subject to the "willing buyer / willing seller" standard. In reality, none of the streaming services that negotiated the MMA are actually subject to the "willing buyer / willing seller" standard. Even the non-interactive parts of their services are covered by direct licenses with the record companies so they do not use the statutory license at all. There are almost no commercially significant services left actually paying under the "willing buyer / willing seller" standard. Given the superiority of the more flexible and balanced Section 801(b) standard, which has allowed for significant rate increases in recent proceedings, if uniformity is deemed necessary all license rates should be set using Section 801(b).

- But in any event, the House provision does not actually create a uniform standard because Music Choice's only real music competitor, terrestrial radio, is not subject to that (or any) rate standard. From the time of the very creation of the sound recording copyright, Congress has recognized that subjecting terrestrial radio to a sound recording royalty would unfairly destabilize that industry and has repeatedly exempted radio from being treated similarly to all later types of music services. This very legislation continues that differential treatment. Music Choice's one-to-many broadcast service is identical to that of terrestrial radio, and such broadcast services are fundamentally different from

one-to-one streaming services. A one-size-fits-all approach is not appropriate, nor is it even possible while terrestrial radio is exempt.

- Section 103 would put Music Choice out of business. The Judges will undoubtedly interpret the change in rate standard as an instruction to raise our rates. But the cable radio industry is a mature market, with extremely low margins, and we have no ability to pass rate increases on to the cable companies. In those negotiations, we compete with other television networks, like ESPN and Comedy Central, not music streaming services. All cable networks have come under increasing rate pressure due to unique market conditions, such as cord cutters and skinny packages, leading to decreasing fees. Music Choice's entire net income for 2017 was $1.5 million. Any significant rate increase will force us to discontinue the business. But there is no other company who could enter the market and make money at the same rates that put us out of business. The result will be almost 70 million households losing access to cable radio, a service that they use intensely.

- The record companies, on the other hand, have turned a corner and have experienced two consecutive years of double-digit revenue growth in the United States. The RIAA's 2017 and 2016 Revenue Statistics are attached as Appendix 3.

- Music Choice's internal market research shows that its service does not substitute for other digital services like Pandora or Spotify, which provide

fundamentally different user experiences. But Music Choice does substitute heavily for terrestrial radio, in part because Music Choice is far more similar to radio than it is to streaming services. If Music Choice is gone, our subscribers' listening will either disappear or transfer over to terrestrial radio, which pays the record companies and artists nothing. 7.5% of something is better than 100% of nothing.

- Artists will also lose an irreplaceable promotional platform. Music Choice has the same reach as terrestrial radio but provides a greater promotional impact than either radio or streaming services. This is why artists come to Music Choice's studio and do promotions with Music Choice in ways that they do not with Pandora or Spotify.

- The House provision is fundamentally unfair to Music Choice, which launched its business at a time when there was no performance right for sound recordings, and we had every reason to expect that we would be treated the same as our primary competitor, terrestrial radio. When that changed in 1995, we had an agreement with the recording industry that we would support the creation of the digital performance right (even though radio would be exempt) in return for the compulsory license with rates set using the flexible Section 801(b) standard. Then in 1998 we again agreed to the changes in the DMCA in exchange for grandfathering the few pre-existing services under the Section 801(b) standard, in recognition of our reliance on the original deal from 1995.

The MMA, As Currently Drafted, Should Be Improved to
Avoid the Stifling of Competition in the On-Demand Streaming Market

Historically, Music Choice has not operated an on-demand music service. We have recently considered entering that market, however, as consumers increasingly want both types of services bundled together. Music Choice certainly agrees that the Section 115 mechanical license was never meant to work for the licensing of on-demand streaming services, which must provide access to millions of songs. It is important that Congress fix Section 115, and we agree that changing it from a single-song license to a blanket license is the best way to do so. Such a change benefits everyone: music publishers, songwriters, and streaming services.

As one of the only long-term survivors in the digital music service market, Music Choice has a unique and informed perspective on music copyright and licensing issues. We are concerned that the parties who negotiated this legislation on behalf of a handful of the large, current market leaders agreed to certain features of the legislation that are likely to entrench those companies and stifle competition from smaller, independent companies. The most troublesome feature of the legislation in this regard is the shifting of the cost of the licensing collective onto the licensees as an extra fee on top of the royalty fee, and at the same time prohibiting the Judges from considering those costs in setting the royalty rates. This feature is extraordinary. There is no other blanket license anywhere in the history of music licensing that shifts administrative costs onto licensees this way and is totally inconsistent with marketplace outcomes. In every other instance I have encountered, administration costs are considered overhead of the copyright owner or

collective, and those costs are factored into the royalty rate itself. Shifting costs traditionally treated as copyright owner overhead onto the licensees, especially while prohibiting the Judges from considering those administration fees while setting the mechanical license royalty rates, has the effect of turning the "willing buyer / willing seller" standard into an inherently above-market rate.

Shifting the collective costs onto the licensees will also remove any market incentive for the major publishers controlling the collective to run it efficiently. Under the traditional model, SoundExchange has been run relatively efficiently and has pressure to do so because any dollar wasted is a dollar that does not go to the record companies and artists that control its board. This new type of collective will be free of any incentive for fiscal discipline and costs will explode. The need to apportion those costs among the various licensees adds another unnecessary layer of cost and inefficiency because it requires expensive proceedings before the Copyright Royalty Board to determine that apportionment. Music Choice has participated in several proceedings before the Board, and they cost millions of dollars in legal fees. Even if the bill were changed to add some kind of administrative oversight over the collective by the Copyright Office, in our experience that would be ineffective. Such oversight would add yet another costly and time consuming layer of administrative proceedings, which would only be resolved years after the damage had already been done. Moreover, it is unclear what qualifications Copyright Office employees have to judge the reasonableness of the collective's expenses.

The overall result of this complicated system of cost shifting is to massively increase the net licensing costs for on-demand services far beyond any reasonable level. In the

entire twenty-year history of streaming services, there has not been a single one that has had a single profitable year under the existing rates. Under the flexible Section 801(b) standard, the mechanical license rates paid by those services just increased by 44%, driving them even further away from any path to profitability. As I noted above with respect to Section 114, changing the Section 115 rate standard to "willing buyer / willing seller" will cause more unreasonable rate increases. Adding the net impact of the cost shifting provisions of the MMA onto that royalty burden will ensure that no new company will be able to enter the market and in the long run the only remaining services will be run by one or two giant technology companies that are willing to endure massive losses in order to obtain some benefit in their non-music business lines. Such a result is bad policy and bad for consumers.

Music Choice believes that these anti-competitive features of the MMA, which could easily be avoided by setting the Section 115 collective up exactly the same way SoundExchange has been functioning for twenty years, will prevent it and others from entering the on-demand streaming market and is bad policy. At the very least, the provision prohibiting the Judges from considering the administration fee when setting the mechanical license rate should be deleted. The Judges should be free to consider any evidence they deem relevant to setting rates, and this prohibition is inconsistent with the MMA's elimination of Section 114(i), which currently prohibits the ASCAP and BMI consent decree rate court Judges from considering certain evidence while setting performance license rates. But, most important, Section 103(a) & (g) of the House bill would put Music Choice out of business entirely and must be removed from the MMA.

Thank you for your attention to these matters, and I look forward to your questions.

Appendix 1

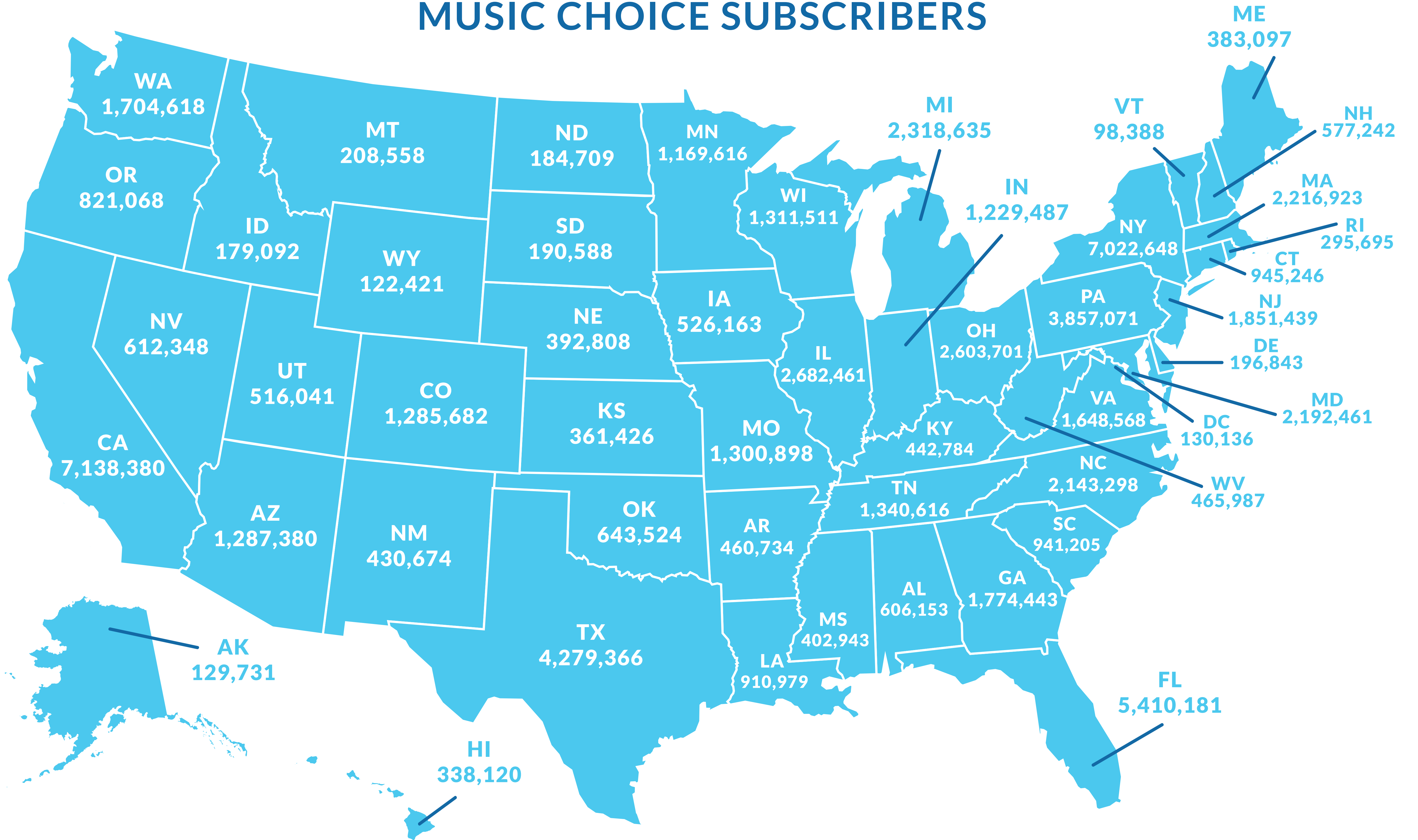
DID YOU KNOW?

Luke studied business management during his time at Georgia Southern University.

TODAY'S COUNTRY

Luke Bryan
"Light It Up"
What Makes You Country (2017)

Appendix 2


MUSIC CHOICE SUBSCRIBERS
WA 1,704,618
OR 821,068
CA 7,138,380
ID 179,092
NV 612,348
MT 208,558
WY 122,421
UT 516,041
AZ 1,287,380
CO 1,285,682
NM 430,674
ND 184,709
SD 190,588
NE 392,808
KS 361,426
OK 643,524
TX 4,279,366
MN 1,169,616
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GA 1,774,443
FL 5,410,181
SC 941,205
NC 2,143,298
VA 1,648,568
WV 465,987
PA 3,857,071
NY 7,022,648
ME 383,097
VT 98,388
NH 577,242
MA 2,216,923
RI 295,695
CT 945,246
NJ 1,851,439
DE 196,843
MD 2,192,461
DC 130,136
AK 129,731
HI 338,120

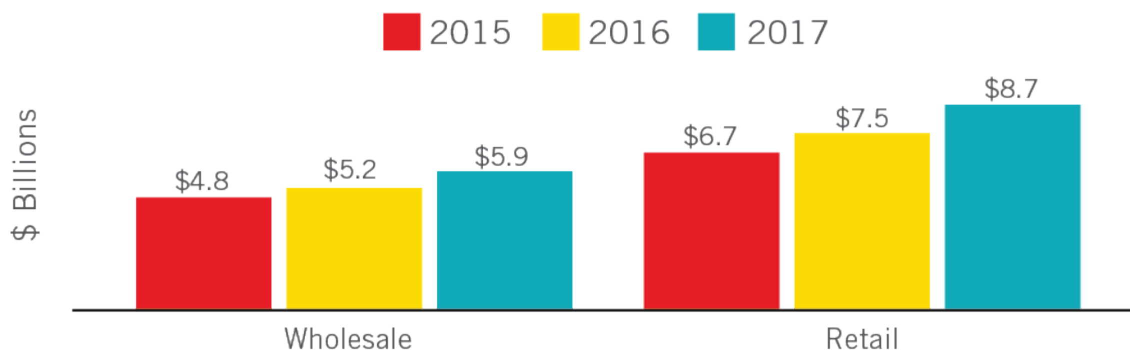
Appendix 3

News and Notes on 2017 RIAA Revenue Statistics

Joshua P. Friedlander | Senior Vice President, Strategic Data Analysis, RIAA

In 2017 revenues from recorded music in the United States increased 16.5% at estimated retail value to $8.7 billion, continuing the growth from the previous year. At wholesale, revenues grew 12.6% to $5.9 billion. Similar to 2016, these increases came primarily from growth in paid music subscriptions to services like Spotify, Amazon, Tidal, AppleMusic, Pandora and others, which grew by more than 50%. This is the first time since 1999 that U.S. music revenues grew materially for two years in a row. At $8.7 billion, the industry has taken a decade to return to the same overall revenue level as 2008, and is still 40% below peak levels as the growth from streaming has been offset by continued declines in revenues from both physical and digital unit based sales.

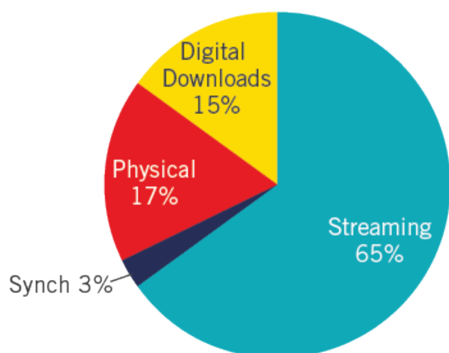
Figure 1



STREAMING

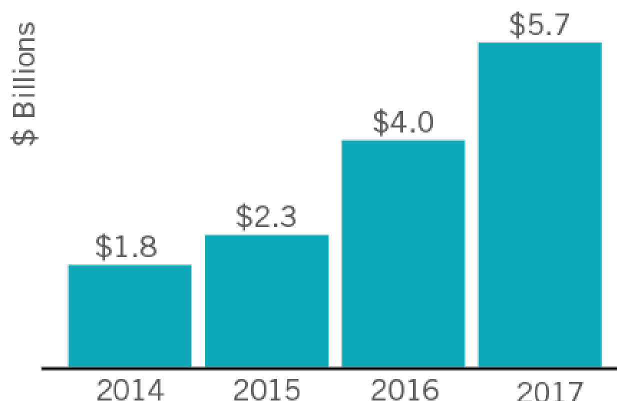
Streaming music platforms accounted for almost 2/3rd of total U.S. music industry revenues in 2017, and contributed nearly all of the growth. The streaming category includes revenues from premium subscription services, streaming radio services including those revenues distributed by SoundExchange (like Pandora, SiriusXM, and other Internet radio), and ad-supported on-demand streaming services (such as YouTube, Vevo, and ad-supported Spotify).

Figure 2



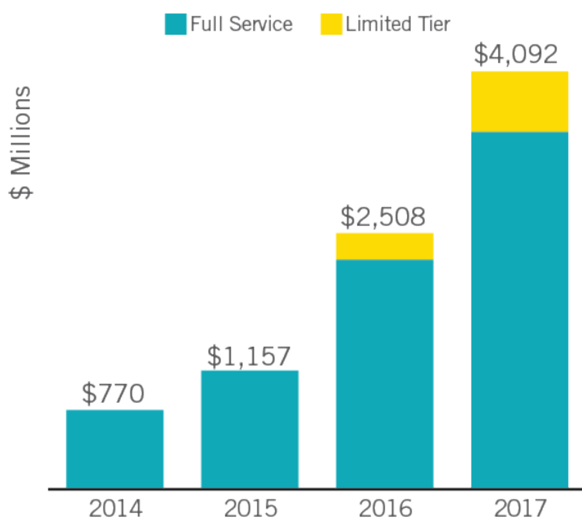
Total revenues from streaming platforms were up 43% to $5.7 billion, and in 2017 made up 65% of total industry revenues.

Figure 3



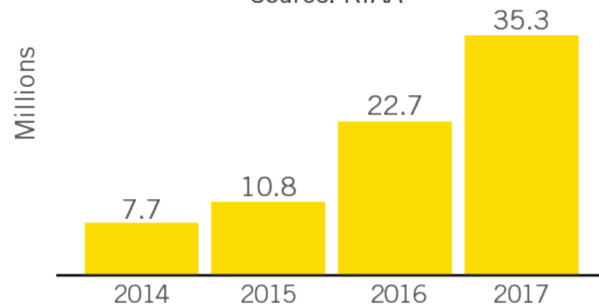
Paid subscriptions were the biggest growth driver for the music industry in 2017. Year-over-year revenue growth of 63% brought total subscription revenues to more than $4 billion for the first time, making it by far the biggest format of recorded music in the United States, comprising 47% of the total market. Starting in 2016, RIAA began differentiating between full-service paid subscriptions and some "limited tier" services. This new category includes paid subscriptions for services limited by factors such as mobile access, catalog availability, on-demand limitations, or device restrictions. Services like Amazon Prime, Pandora Plus, and other subscriptions are included in this category. In 2017, this group represented 14% of the subscription market by value, up from 11% in 2016.

Figure 4



Subscription growth was driven by continued rapid user adoption, as the number of paid subscriptions to full on-demand services grew 56% to average 35.3 million for the year, compared with 22.7 million in 2016. New services like Pandora Premium, iHeartRadio All Access, and the first full year of Amazon Unlimited added to a growing group of offerings along with established services like Apple Music, Spotify, Tidal, and others. Note the number of subscriptions does not include limited tier services.

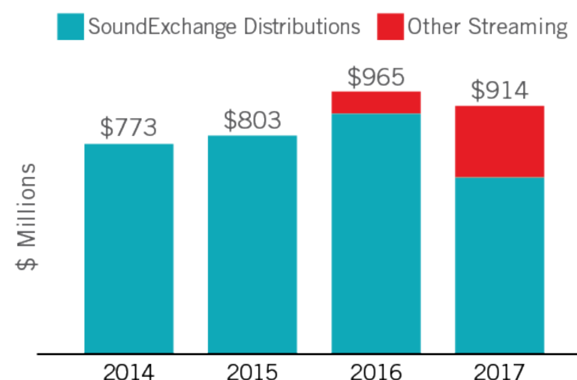
Figure 5



Revenues from on-demand streaming services supported by advertising grew 35% to $659 million in 2017. Reports from industry tracking services like the Nielsen Company and Border City Media estimate these services streamed more than 300 billion songs to fans in the United States in 2017, but that figure is understated due to unreported streams on YouTube, the most widely used music service.

Total revenues from digital and customized radio services were $914 million, down 5% versus the prior year. This category includes SoundExchange distributions for revenues from services like SiriusXM and internet radio stations, as well as payments directly paid by services, included in this report as "other ad-supported streaming." These revenues accounted for 29% of the digital and customized radio services category in 2017, up from 8% in 2016.

Figure 6

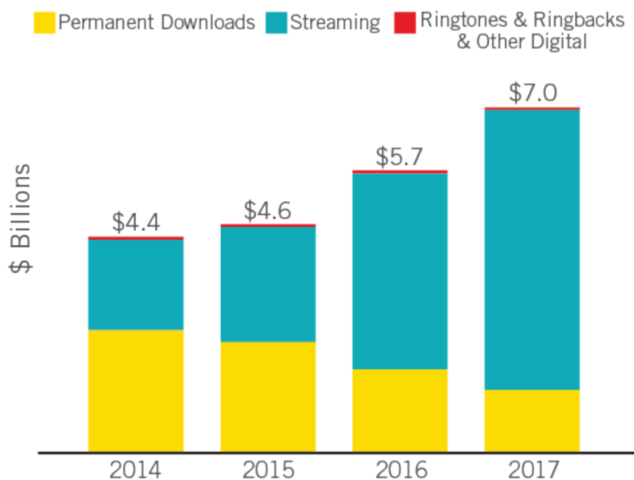


DIGITAL DOWNLOADS

Revenues from digital downloads fell 25%, to $1.3 billion in 2017. For the first time since 2011, revenues from physical products exceeded those from digital downloads. Revenues from sales of track downloads were down 25%, and digital album revenue decreased 24% versus 2016.

The total value of digitally distributed formats in 2017 was $7.0 billion, up 22% from the prior year, and contributed 82% of total industry value (note this calculation excludes Synchronization revenues).

Figure 7



PHYSICAL PRODUCTS

Shipments of physical products decreased just 4% to $1.5 billion in 2017, a lower rate of decline than in recent years. In the first half of the year, the rate of return of physical goods declined, leading to better results. In the second half, those rates returned to more typical levels. Vinyl continues to be a bright spot among physical formats, with revenues up 10% to $395 million. Shipments of CDs continued to decline, falling 6% in 2017 to $1.1 billion. Revenues from shipments of physical products made up 17% of the industry total in 2017.

Please read the commentary of Cary Sherman, our Chairman and CEO, here: https://medium.com/@RIAA

Note: Historical data updated for 2014 - 2016, including updated revenue accounting standards starting in 2016. Formats with no retail value equivalent included at wholesale value.

For news media inquiries, please contact:
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Liz Kennedy
202-775-0101

2017 Year End Industry Revenue Statistics

202-775-0101

United States Unit Shipments and Estimated Retail Dollar Value (In Millions, net after returns)

DIGITAL SUBSCRIPTION & STREAMING

		2016	2017	% CHANGE 2016-2017
(Units Shipped) (Dollar Value)	**Paid Subscription**[1]	22.7 $2,244.2	35.3 $3,500.5	55.5% 56.0%
	Limited Tier Paid Subscription[2]	$263.4	$591.6	124.6%
	On-Demand Streaming (Ad-Supported)[3]	$489.4	$658.6	34.6%
	SoundExchange Distributions[4]	$883.9	$652.0	-26.2%
	Other Ad-Supported Streaming[5]	$81.3	$261.8	222.2%
	Total Streaming Revenues	**$3,962.1**	**$5,664.5**	**43.0%**

DIGITAL PERMANENT DOWNLOAD

		2016	2017	% CHANGE 2016-2017
(Units Shipped) (Dollar Value)	**Download Single**	743.0 $872.9	553.5 $650.8	-25.5% -25.4%
	Download Album	85.1 $818.8	66.4 $623.7	-22.0% -23.8%
	Ringtones & Ringbacks	22.6 $51.1	14.3 $34.2	-37.0% -33.0%
	Other Digital[6]	3.9 $24.2	2.7 $22.0	-30.1% -9.0%
	Total Digital Download Revenues	**$1,767.0**	**$1,330.7**	**-24.7%**

TOTAL DIGITAL VALUE

	2016	2017	% CHANGE 2016-2017
TOTAL DIGITAL VALUE	$5,729.0	$6,995.3	22.1%
Synchronization Royalties[7]	$204.4	$232.1	13.5%

PHYSICAL

		2016	2017	% CHANGE 2016-2017
(Units Shipped) (Dollar Value)	**CD**	97.6 $1,130.8	87.6 $1,057.3	-10.3% -6.5%
	LP/EP	14.8 $355.4	15.6 $388.5	5.3% 9.3%
	Music Video	2.5 $56.9	1.9 $38.6	-24.8% -32.2%
	Other Physical[8]	0.7 $9.2	0.6 $11.0	-4.9% 19.7%
	Total Physical Units **Total Physical Value**	**115.5** **$1,552.3**	**105.6** **$1,495.5**	**-8.6%** **-3.7%**

TOTAL DIGITAL AND PHYSICAL

	2016	2017	% CHANGE 2016-2017
Total Units[9] **Total Value**	**970.1** **$7,485.7**	**742.5** **$8,722.8**	**-23.5%** **16.5%**
% of Shipments[10] Physical Digital	**2016** 21% 79%	**2017** 18% 82%	

Note: Historical data updated for 2016
Retail Value is the value of shipments at recommended or estimated list price
Formats with no retail value equivalent included at wholesale value

Note: Historical data updated for 2016, including updated revenue accounting standards

[1] Streaming, tethered, and other paid subscription services not operating under statutory licenses. Subscription volume is average number of subscriptions, excludes limited tier
[2] Paid streaming services with interactivity limitations by availability, device restriction, catalog limitations, on demand access, or other factors
[3] Ad-supported audio and music video services not operating under statutory licenses
[4] Estimated payments to performers and copyright holders for digital and customized radio services under statutory licenses
[5] Revenues from services paid directly that are not distributed by SoundExchange and not included in other streaming categories
[6] Includes Kiosks, music video downloads, and starting in 2016 other digital music licensing
[7] Includes fees and royalties from synchronization of sound recordings with other media
[8] Includes CD Singles, Cassettes, Vinyl Singles, DVD Audio, SACD
[9] Units total includes both albums and singles, and does not include subscriptions or royalties
[10] Synchronization Royalties excluded from calculation

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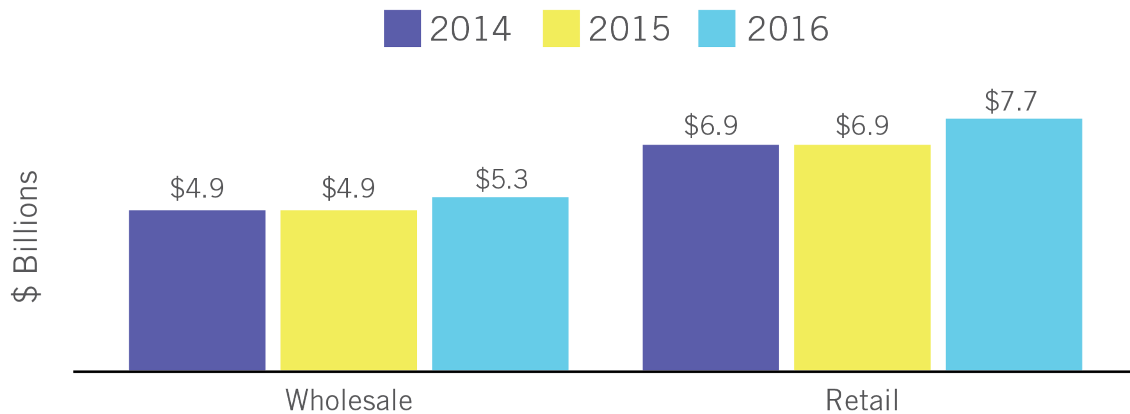
News and Notes on 2016 RIAA Shipment and Revenue Statistics

Joshua P. Friedlander | Senior Vice President, Strategic Data Analysis, RIAA

Estimated retail revenues from recorded music in the United States grew 11.4% in 2016 to $7.7 billion. The primary driver of that growth was a doubling of paid streaming music subscriptions which helped the American music business experience its biggest gain since 1998. At wholesale values, the industry was up 9.3% to $5.3 billion. Although our 2016 revenue report catalogues substantial overall improvement for the industry, revenues are still only about half what they were in 1999, and revenues from more traditional unit-based sales (physical products and digital downloads) continued to decline significantly.

Figure 1

U.S. Music Industry Revenues
Source: RIAA

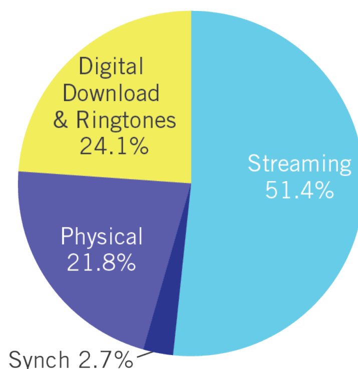


STREAMING

In 2016, for the first time ever, streaming music platforms generated the majority of the U.S. music industry's revenues. The streaming category includes revenues from subscription services (such as paid versions of Spotify, TIDAL, and Apple Music, among others), streaming radio services including those revenues distributed by SoundExchange (like Pandora, SiriusXM, and other Internet radio), and ad-supported on-demand streaming services (such as YouTube, Vevo, and ad-supported Spotify).

Figure 2

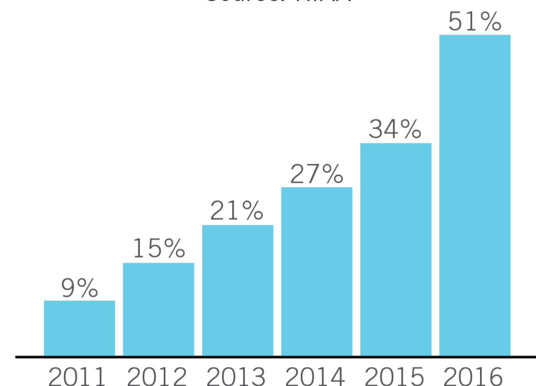
U.S. Revenues 2016
Source: RIAA



Total revenues from streaming platforms were up 68% to $3.9 billion. Streaming grew from just 9% of the market in 2011 to 51% of total industry revenues in 2016.

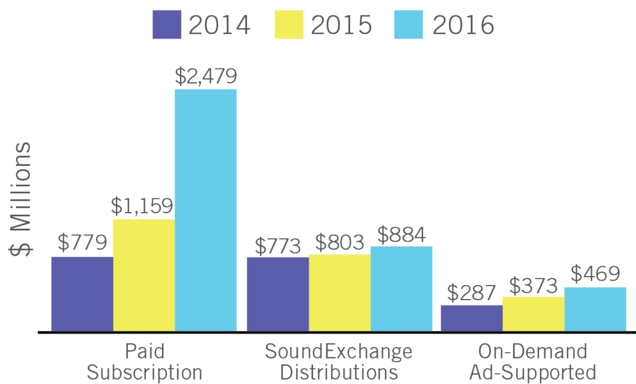
Figure 3

Proportion of Total U.S. Music Revenues From Streaming
Source: RIAA



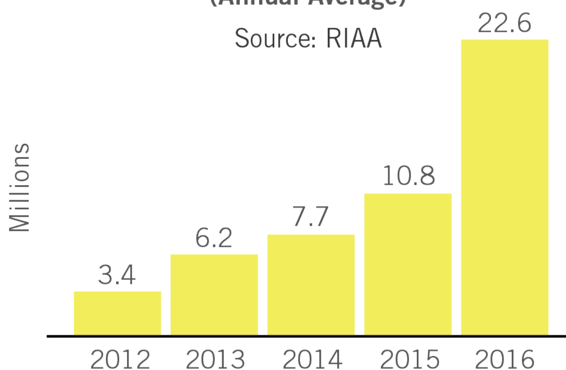
Revenues grew across all the categories of streaming (paid subscriptions, SoundExchange distributions, and on-demand ad-supported streams).

Figure 4



On both a dollar and percentage basis, no format category grew as much as paid subscriptions. In 2016, revenues from paid subscription services in the United States more than doubled, up 114% to $2.5 billion. Paid subscriptions alone accounted for about 1/3 of total U.S. recorded music industry revenue in 2016. Growth was driven by very strong new user adoption, as the number of paid subscriptions to full on-demand services grew 109% to average 22.6 million for the year, compared with 10.8 million in 2015. Adoption was driven by growth from both new and existing services, as it was the first full year of results for Apple Music, and other leading services like Spotify Premium grew as well.

Figure 5



As the subscription market has evolved with a greater variety of service offerings and features, we are now differentiating revenues between full-service paid subscriptions and some "limited tier" services. This new category includes paid subscriptions for services limited by factors such as mobile access, catalog availability, on-demand limitations, or device restrictions. Services like Amazon Prime, Pandora Plus, and other subscriptions are included in this category. In 2016, of the $2.5 billion subscription total, $220 million falls into this category. The number of subscriptions does not include these types of services.

Revenues from on-demand streaming services supported by advertising grew 26% to $469 million in 2016. Reports from industry tracking services like the Nielsen Company and Border City Media estimate these services streamed more than 200 billion songs to fans in the United States in 2016.

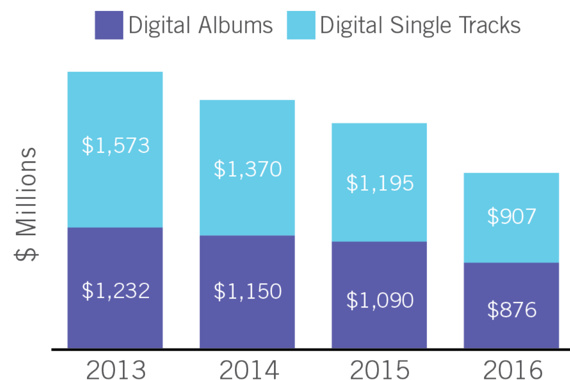
SoundExchange distributions totaled $884 million in 2016, up 10% year-over-year.

For the first time, we are also reporting an "other ad-supported streaming" category that reflects revenues from direct payments from ad-supported digital streaming services that are not distributed by SoundExchange and not included in the on-demand category. This category contributed $101 million in 2016.

DIGITAL DOWNLOADS

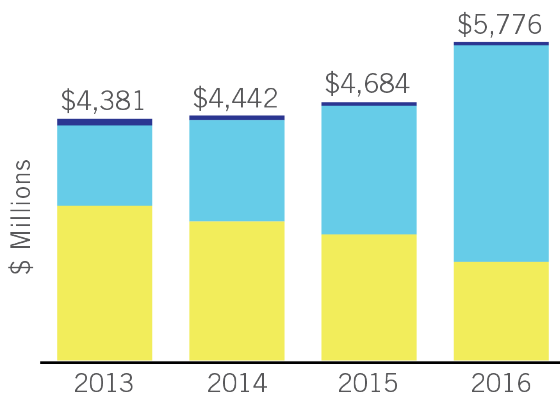
In 2016, revenues from sales of digital tracks and albums declined faster than in any previous year. Overall digital download revenues were $1.8 billion, down 22% versus 2015. Individual track sales revenue was down 24%, and digital album revenue was down 20% compared with the previous year. Revenues from sales of digital albums were 49% of the download total, their highest share ever.

Figure 6



The total value of digitally distributed formats in 2016 was $5.8 billion, up 23% from the prior year, and contributed 78% of total industry value (note this calculation excludes Synchronization revenues).

Figure 7



PHYSICAL PRODUCTS

The total value of shipments of physical products decreased 16% to $1.7 billion. The share of the market from physical music products fell to just 22%, down from 29% in 2015. Physical products had been more than half the market (by value) as recently as 2010. Revenues from CD shipments were down 21% at estimated retail value, and made up 70% of the physical market in 2016. Shipments of vinyl albums were up 4% to $430 million, and comprised 26% of total physical shipments at retail value – their highest share since 1985.

OVERALL

Driven primarily by growth in paid subscriptions, these results build on the 2016 midyear data. The industry showed another increase, albeit from levels that remain well below their peak in the late 1990's. The growth of streaming music and prevalence of digital platforms show that music consumption is higher than ever – which is great for fans. But challenges remain significant as physical shipments and digital downloads, two of the industry's three major revenue sources, continued to decline in 2016. RIAA CEO Cary Sherman offers more commentary on the state of the business here.

Note – Data for previous years has been updated.

The timing of revenue recognition for "Other Ad-Supported Streaming" category resulted in a one-time increase for 2016 revenue totals.

RIAA presents the most up-to-date information available in its industry revenue reports and online statistics database: https://www.riaa.com/u-s-sales-database

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2016 Year-End Industry Shipment and Revenue Statistics

202-775-0101

For a list of authorized services see **www.whymusicmatters.com**

United States Unit Shipments and Estimated Retail Dollar Value (In Millions, net after returns)

DIGITAL SUBSCRIPTION & STREAMING		2015	2016	% CHANGE 2015-2016
(Units Shipped) (Dollar Value)	**SoundExchange Distributions**[1]	$802.6	$883.9	10.1%
	Paid Subscription[2]	10.8 $1,158.9	22.6 $2,258.3	108.7% 94.9%
	Limited Tier Paid Subscription[3]	-	$220.3	-
	On-Demand Streaming (Ad-Supported)[4]	$372.7	$469.0	25.8%
	Other Ad-Supported Streaming[5]	-	$101.2	-
	Total Streaming Revenues	**$2,334.1**	**$3,932.7**	**68.5%**
DIGITAL PERMANENT DOWNLOAD				
(Units Shipped) (Dollar Value)	**Download Single**	994.5 $1,195.1	751.2 $906.8	-24.5% -24.1%
	Download Album	109.3 $1,090.0	86.0 $875.8	-21.3% -19.6%
	Ringtones & Ringbacks	21.9 $54.6	16.1 $40.1	-26.5% -26.5%
	Other Digital[6]	$10.1	$20.5	103.1%
	Total Digital Download Revenues	**$2,349.8**	**$1,843.2**	**-21.6%**
TOTAL DIGITAL VALUE		$4,683.9	$5,775.9	23.3%
	Synchronization Royalties[7]	$202.9	$204.3	0.7%
PHYSICAL				
(Units Shipped) (Dollar Value)	**CD**	119.9 $1,482.5	99.4 $1,172.5	-17.1% -20.9%
	LP/EP	16.9 $414.5	17.2 $429.7	1.8% 3.7%
	Music Video	3.2 $71.2	2.5 $58.4	-21.6% -18.0%
	Other Physical[8]	1.2 $13.8	0.7 $9.7	-39.2% -29.5%
	Total Physical Units **Total Physical Value**	**141.1** **$1,982.0**	**119.8** **$1,670.3**	**-15.1%** **-15.7%**
TOTAL DIGITAL AND PHYSICAL				
	Total Units[9] **Total Value**	**1,272.3** **$6,868.8**	**977.2** **$7,650.5**	**-23.2%** **11.4%**
	% of Shipments[10] Physical Digital	**2015** 30% 70%	**2016** 22% 78%	

Retail Value is the value of shipments at recommended or estimated list price
Formats with no retail value equivalent included at wholesale value

Note: Historical data updated for 2015

[1] Estimated payments in dollars to performers and copyright holders for digital radio services under statutory licenses
[2] Streaming, tethered, and other paid subscription services not operating under statutory licenses
Subscription volume is annual average number of subscriptions, excludes limited tier
[3] Paid streaming services with interactivity limitations by availability, device restriction, catalog limitations, on demand access, or other factors
[4] Ad-supported audio and music video services not operating under statutory licenses
[5] Revenues from services paid directly that are not distributed by SoundExchange and not included in other streaming categories
[6] Includes Kiosks, music video downloads, and starting in 2016 other digital music licensing
[7] Includes fees and royalties from synchronization of sound recordings with other media
[8] Includes CD Singles, Cassettes, Vinyl Singles, DVD Audio, SACD
[9] Units total includes both albums and singles, and does not include subscriptions or royalties
[10] Synchronization Royalties excluded from calculation

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RIAA REPRESENTING MUSIC