Q3 2022 Results

Thursday, 3rd November 2022

Introduction

Denis Ladegaillerie

Founder & CEO, Believe

Thank you very much, and hello, everyone. Welcome to this quarterly call. I will be presenting today with Xavier Dumont, Believe Chief Financial and Strategy Officer. If we can move to slide four.

A Strong Q3 2022 Driven by Believe's Appeal to Artists and Labels

So Q3 was the fifth consecutive quarter of strong growth, improved profitability and free cash flow for Believe as a public company. I could almost add, this was the 62nd quarter of consecutive double-digit growth since the creation of the company. Revenue was up for the quarter, 37.6%, leading us to revise guidance on growth, profitability, and free cash flow.

Believe Continued to Gain Market Share While Overdelivering on Financial Objectives

If you want to move to slide five. In the past quarter, Believe grew structurally faster than the market. Why do I use the term structurally? One, because our digital expertise in the past quarter has allowed us to constantly grow our portfolio of local artists and labels at all stages faster than the market. I will touch on this soon. That means that we are identifying the right artists and labels, but we are also deploying a high level of service to grow them faster than the market.

Two, because our artists and label acquisition engine, which is relying on our business model, designed to offer products and services to artists and labels at all stages of their career, is running full steam and is strongly attractive to artists and labels with solutions that are best adapted to them, whether they are a DIY artist, a mid-level artist or a top-level artist. And we have attracted more or less in each segment this quarter than ever before.

Three, because we operate in a very large number of countries and in a great diversity of genres of music and market segments. Web market digitalisation and transformation that is constantly creating new market opportunities for us and we will touch that as well.

Finally, in Q3 2022, our strong growth has further contributed to increased profitability and cash flow, as Xavier will touch on. And we have also continued to roll out our CSR strategy, which you know is at the very core of our model.

Strong Performances from the Existing Roster Reflecting Believe's Expertise in Maximising Audiences and Monetisation in the Digital Ecosystem

I want to move to slide six. First, the very strong performance from the existing portfolio of artists and labels, thanks to our digital expertise. We have grown our existing portfolio – that is the portfolio of artists and labels that were signed before this quarter already existing, some time for several years, sometimes for a few months – at a rate of 15% above market growth. So allowing all of our existing artists and labels through a combination of team expertise, technology to grow their streams and their audiences faster than the market.

Secondly, we have grown faster because we are continuing to constantly develop top artists across all markets around the world. You have a few examples here focused on some of the more major markets with artists like number one Billboard chartered artists, Ultimo in Italy or Matt Sassari in the UK signed to Cr2, one of our labels in electronic music. I will touch on what we are doing in this area a little bit further down the road. So strong performance in developing our existing portfolio.

Strong Level of Signings as Believe Attracts More and More Digital Local Artists and Labels in a Greater Variety of Music Genres

On the next slide, that strong performance has been completed by a continued strong growth performance in signing and developing artists, once again in all genres of music and attracting artists in a variety of genre music market segments and at different levels. A few examples to that that I do think illustrate quite well how this plays out:

1. Joao Gomez. Joao Gomez is a Piseiro Brazilian artist who has now surpassed a billion stream. This is an artist that was identified very early as a promising artist by our teams in Brazil. So it tells about our ability to identify artist early, who is now a very top artist and someone who started creating music as a typical music creator during the pandemic 1.5 years ago and who is now a top local artist and that we have nurtured to the top.
2. Second example about our ability to compete successfully in a very major market and at the very top of the market was T-Low. T-Low is a German hip-hop artist who was the hottest newcomer in Germany last year with the number one single and that was signed in competition to all traditional labels by Groove Attack, our local hip-hop entity.
3. Third example, Paula Koops, is a Spanish pop artist, typical of independent artists working independently with a management company, not signed to artist services. She is very independent. She is signed to our label and artist solutions, and very typical of what we see from many artists in the markets.
4. And two more. Lily Moore, UK pop previously signed to a major record label. Why did she sign to us? Seeking more control over a creative process and a more digitally minded approach to marketing into our music.
5. And finally, LA SAD, which is an Italian punk rock band, that previously uploaded their music on TuneCore that has been signed by our local team.

So we see basically the drive that you see in the growth, in the third quarter really comes from that attractivity in all segments of the market from all the way from entry level all the way to the top. I should add that at entry level, we are continuing to see a very strong success of social platforms for TuneCore as well as increased growth driven by the new pricing model that we deployed earlier in the year, and once again allowing us to complete our pipeline of artist.

Believe Reinforced Its Capabilities in the Fast-Growing Southeast Asia Market, Increasing Its Appeal to ALL Local Artists through Automated and Premium

Aside from the diversity of artist, if you want to move on to the next slide, we have been continuing to strengthen our capabilities in all countries and especially in Asia, which is expected to become the largest music market in the world.

And just a focus here on what we are doing in Southeast Asia, very typical, where we are strengthening our entire capability from building localising TuneCore with local payment solutions, local offering to strengthen our artist base at very early level. Strengthening our label and artist solutions offering in the middle and building artist services in print at the top, with Byond as an example in Thailand, which, in the past year, has become the fastest growing and the most successful hip-hop label in the country.

We have Saran as an example. Saran is the top local artist in that territory. Globally, something relying, especially into territories that are very digital audiences, on our ability to break and develop artists at the very top. And, finally, we complete with growing faster, our strategic partnership with Viva in the territory, where our expertise has allowed them to accelerate the growth of the business.

Launch of a New Initiative to Offer Electronic and Dance Artists and Labels, a New Approach to Maximise Global and Local Digital Monetisation

Last example, if you want to move to the last slide about the opportunities and the new capabilities that we are developing in a specific genre of music in dance and electronic music. Dance and electronic music is typically a genre of music where labels used to license tracks on a territory-by-territory basis, mostly to major record labels.

We saw an opportunity to completely change the model in that market segment, where we have successfully demonstrated in the past year the ability to break artist on a global basis with a centralised approach. And we have developed a capability that is really relying on digital marketing and centralised global promotion on playlists on Spotify and other services to build an offering dedicated to artists and labels in that market segment.

That offering has been extremely attractive and has allowed us to acquire a significant number of labels in that genre music, in the UK especially. And we recently, as an example, also signed Big Top Amsterdam, which is one of the major players in that genre of music. So opportunities capacity across the board geographically as well as in market segments that we are exploiting.

Developing a Music Industry Diverse and Inclusive for All Stakeholders – "It is with our artists and collaborators that we are Shaping Music for Good"

Last element in our strategy on the next slide, in the past quarter, is we have continued to deploy our CSR strategy. As you know, for Believe, the CSR strategy is really ingrained. It is at the core of our model. It has been thought around talent, how do we develop our artists and labels and how do we develop our own talent.

Two initiatives that we have driven in the past quarter. One, it was extremely important for us post-IPO to associate all of our employees to value creation. And we successfully launched an employee shareholding plan that was offered to a meaningful percentage of our employees on a global basis, and where we reach a 40% subscription rate on that group.

The second thing that we continue to focus on is creating a more gender representative and inclusive music industry. As you know, we are the only company in our space to actually have parity at both Board level as well as Comex level. And we have continued to drive initiatives in this area with deployment of gender-parity measurement internally in France and more globally, and as well as continuing our initiatives with Reeperbahn in Germany and Keychange to support the same change at the artist and in our ecosystem.

So globally, in a nutshell, in the past quarter, we have continued to do, very successfully, what we announced we would be doing at the IPO.

And I will pass on now to Xavier to illustrate with the numbers. Xavier?

Financial Review

Xavier Dumont

CFO, Believe

Q3 '22 Organic Growth Up +37.6%, a Trajectory in Line with Previous Quarters' Performances

Thanks, Denis. Hello, everybody. So let us review some of our financial performance for the quarter. So let us move to slide 11.

So as Denis presented, we had another solid performance in revenue this quarter with market share gains in all key countries and key DSPs. Our organic growth is at 37.6% for the quarter, very much in line with H1 performance that was at 36.6%.

The growth, as usual, is driven by the digital revenue, which grew 39.6%. And as you can see on the right-hand side of the page, it is very close to the Q2 performance that was at 40.1%. The digital revenue represents 94% of our revenue in the quarter, slightly increasing versus year-to-date. As you remember, non-digital sales include notably physical, that we are curbing specifically in Germany, merchandising and life.

Strong Growth in Premium Solutions and Automated Solutions in Q3 2022, Reflecting the Appeal of Our Offering for Each Tier of the Market

So now let us have a look at our growth by segment, moving to page 12. So we have strong growth in all segments, Premium and Automated, which is a tribute to the appeal of our model.

The Automated Solutions segment, that is targeting music creators, has an organic growth at constant exchange rate of 36.1% versus last year in Q3; and almost 47% at current exchange rate. As Denis said, we see a strong performance of the social platforms revenue share offering that we launched last year in Q4 2021, while the unlimited new pricing offer that we launched in June this year is ramping up. That leads to a year-to-date organic growth for Automated of 30.8%.

Premium solutions that are targeting labels and emerging to top artist show an organic growth of 37.5% in Q3 versus last year. You may have noticed that the organic growth rate is above total growth rate in the quarter and let me just explain to you why. We have a negative currency rate impact in total revenue that is mostly related to the depreciation of the Turkish lira. And on the other side, we have a positive perimeter effect from the acquisitions we made in Q4 2021 and a positive hyper-inflation effect.

Just to be clear, as other actors in the music industry like Spotify mentioned in the recent release, a positive currency impact in their revenue, it is very likely that embedded in the revenue we received from the digital partners like Spotify, Apple or YouTube, there are some positive currency impact. But given our geographical footprint, it is probably much less than what has been disclosed by other actors.

Growth in All Geographies in Q3 2022 Reflecting a Successful and Efficient Organic and External Investment Strategy

On that topic, let's review what our geographical performance was, for the quarter, and move to page 13.

As we said before, we gained market shares in all geographies. The geographical footprint and growth portion of the Group illustrate our model quite perfectly.

First, we are focusing on digital music, well positioned in the countries where digital penetration is lower, and thus, future growth is going to be higher. This is illustrated by the strong growth in APAC and Africa, as illustrated by Denis a few minutes ago on Southeast Asia. And the growth in that region was 61.1% in Q3.

Second, in all countries, including developed ones, our addressable markets are enlarging as more and more traditional genres of music become digital, leading to more opportunities. This is demonstrated by the growth in France with 41.2% in the quarter; and more generally, the growth in Europe, excluding France and Germany, at 29.8%. Even in Germany, when we are reducing voluntarily our exposure to physical heavy contracts, we are gaining significant market share in the digital market during the quarter.

Third, we serve all digital artists, from music creators to the top artists, in a profitable way, as shown in the Americas region, which show a growth of 35.1% during the quarter.

In conclusion, as Denis mentioned, our digital focus that is based on a mix of technology solutions and music, allow for better quality of service, higher appeal to artists and labels and steady operating leverage.

FY 2022 Guidance Revised Upwards – Organic Growth Superior to +30%, Continued Focus on Investment, Increased Profitability Improvement and Solid Positive Free Cash Flow

With these solid results, let us have a look of our revised guidance for our outlook for financial year 2022 and move to page 15 directly.

On the back of the high organic growth, we are now expecting an organic revenue growth in excess of 30%, reflecting resilient paid streaming and stabilisation of ad-funded growth as it has been the case since the month of June 2022.

We are anticipating a higher EBITDA margin of around 4.5% as organic growth is strong and central platform costs will be decreasing as a percentage of revenue. As we are demonstrating quarter after quarter how powerful our model is to drive growth, gain market share and increase profitability, we will maintain our focus on investments in local sales teams and on essential platform tech and solutions, while managing actively our investment cycle to further improve profitability.

The Group operating leverage will continue to come mostly from the central platform costs as it has been the case since 2020. We expect a solid positive free cash flow generation in financial year 2022 with a positive working capital for the full year, a lower CAPEX in percentage of revenue versus last year and an uplift of around €20 million related to a manual instalment of a digital partner that we renewed in Q3 2022.

On Track to Deliver on Mid-Term Objectives – Further Building Scale in Premium and Automated Solutions to Reach 15% Adjusted EBITDA Margin after Hyper Growth Phase

Let us move to Page 16 on our mid-term objectives that we are concerning because we think that we are very well on track to deliver those objectives.

So we are confirming an organic revenue growth of 22-25% for the period 2021-2025. We confirm an adjusted EBITDA margin from 5% to 7% by 2025. The operating leverage will be based mostly on a better amortisation of the central platform costs. And as you can see, we should be close to the lower bracket targets in 2022, thanks to higher revenue and controlled platform investments.

We confirm our long-term EBITDA margin target for the Group of 15% after hyper-growth phase and that we are considering that being unchanged versus what we previously communicated.

So now I will let Denis to conclude the presentation.

Closing Remarks

Denis Ladegaillerie

Founder & CEO, Believe

Believe on the Right Track to Build the Best Music Company for Digital Artists

Thanks very much, Xavier. If you can move to slide 17, please. So as a conclusion of what we expect in Q4, we expect strong revenue growth to continue. The growth engine that we built to be able to serve and attract artists at all stages is working better and better every day. As the market is more and more digital, we have more opportunities in more and more market segments, and that is constantly enlarging our addressable market. And the investments we have made both in teams and in technologies are allowing us to differentiate by offering a higher level of service. And we feel very confident in our ability to continue growing our existing and our new artists and labels at a rate faster than the market, thanks to these teams and these technology innovations.

So overall, we expect, as Xavier was saying, as a result, higher growth, higher margin as we are continuing to be better at automising our operations and sustainable positive free cash flow for the entire year. In other words, we expect the dynamics that we have experienced so far to continue playing in Q4.

Thank you very much. I think we can open now for questions.

Q&A

Tom Singlehurst (Citi): Thanks Denis and Xavier. I really appreciate the opportunity to ask some questions. The first question is about cyclicality, you talk about a tougher trend in advertising. Not materially worse than what you have seen over the summer, but can you maybe just talk about that a bit more and expectations rolling into the fourth quarter?

And then on paid-for streaming, I was wondering whether you think we should be worried about the outlook there? I am particularly interested in whether you think Apple putting up prices is a sign of strength or a sign that volume growth is slowing. So would love some perspectives on that with a view to getting a sense of how the economic environment will impact revenue.

And then actually, maybe one final question for Xavier. You mentioned FX within the organic number. Now I think I understand it, but it would be great if you could just explain again how FX is captured in the numbers. And I presume the impact is positive, but if you could break that out a little bit, that would be very useful. Thank you.

Xavier Dumont: Thanks, Tom. I will take the first and the third, and I will let Denis talk about the Apple part. So cyclicality on the ad-supported monetisation, what we said is that remember that back in June, we saw a decrease in growth in ad-supported monetisation in the month of June, and our assumptions was that, during Q3, that growth would be stable. And that is what happened. We are assuming also that the growth in ad-supported monetisation will be stable in Q4 as it has been in Q3, so since June.

Denis Ladegaillerie: Yes. Thanks, Xavier. Tom, thanks for the question. On the outlook for paid streaming, at this stage, we feel very good. I think what we hear from the market – and whether it is from Apple or Spotify or YouTube or others – is that generally, all at this stage, all paid streaming services are telling us that they feel very good about paid subscriber growth for Q4 of this year. I do think that, like us, their customer acquisition engine is getting better and better every day. And they have all exceeded their expectations, and we have not heard any single partner tell us otherwise.

Therefore, to your questions, I do think that the move from Apple is not a way of trying to compensate for the weakness on the subscriber side; certainly, not what we see. And I think as Daniel Ek was saying as well there, he feels confident in 2023 in his ability to increase pricing and not increased churn.

So, I would say, overall, so far, on paid subscription, we are not getting any signal from any partner, at that point, that points towards a slowdown in growth, at least in the foreseeable future.

Xavier Dumont: And to your third question about FX. What I said is that the FX impact on Believe numbers are negative in a sense, so that explains why the organic growth at constant exchange rate is slightly above the total growth. And the negative exchange rate impact comes from the depreciation of the Turkish lira.

What I also mentioned is that because we saw that in the communication made by other music actors, they said that contrary to Believe, they had a positive exchange rate impact, that it is very likely that we have also an exchange rate impact. But it is very likely that its impact is much, much less significant than for the other actors. Because of geographical footprint, we are less exposed, for example, on US currency.

And so that is why I said that our impact that – of course, we cannot measure because the FX is embedded in the invoices we received from the various Digital Service Providers, is probably very limited for Believe.

Tom Singlehurst: Very clear and congrats on the quarter.

Nicolas Cote-Colisson (HSBC): Maybe a follow-up on Apple Music and not generally on Digital Service Providers pricing going up. Because one of the justifications by Apple is that licensing cost is going up. What does it mean for Believe in terms of a gross margin or retention of any price rise?

And if I may, I have a second question around your investment in the central platform because it seems to carry a good return, so I can see why you are keen to carry on investing there. But I would suspect a large part of investment is with the labour costs, and most of the staff must be in Europe and essentially in France. My question is, how do you see the inflation, whether on wages or salaries, playing out for your profitability?

Denis Ladegaillerie: Shall I take the first question and you take the second one? So first question was on…?

Xavier Dumont: The price impact and gross margin.

Denis Ladegaillerie: Apple and gross margin, yes. Good question. I read that sentence around licensing costs, and I did not quite understand it. As you know, all of our deals with Digital Service Providers, whether it is Apple or others, provide that we participate. We essentially receive a percentage of the revenues that they generate. Once these revenues are increased as they increase paid subscription, our revenues will be increased proportionately to the price increase. That is what our agreements with the main DSPs provide.

So, no, to my knowledge, it is the same for other players. So, do not quite understand where that comment is coming from.

Xavier Dumont: And on inflation, yes, you are right that most of the inflation in our model comes from the wages. That is really where inflation might be. As you know, we are also operating in a sector with very high competition around some profiles, specifically on IT and music experts. As we have been operating for years in that very competitive environment, we do think that, yes, there is going to be some inflation, but not very, very significantly so. So we do not expect it to have a significant impact on our profitability, given the growth rate of revenue versus the inflation rates that we have in the various geographies we are in, and specifically in France.

Denis Ladegaillerie: Yes. And I would add on top of that, Nicolas, that we are looking at a number of opportunities of cost reduction, in some areas, cost efficiencies as well.

Nicolas Cote-Colisson: Very good, thank you.

Christophe Cherblanc (Société Générale): First one was on the growth. I understand your top client is YouTube so that is 30% plus of revenues. When I am looking at the YouTube numbers in Q3, they were what you must have seen. Unless your YouTube related revenues have grown much more than the whole of YouTube, it seems that the non-YouTube revenue must have grown almost 50%. So, is the maths correct? And can you confirm there is a huge gap between the YouTube revenues and the rest?

The second question was on the 30% plus. Should we understand, it could be mid-30s? Because when I am looking at basically the very strong numbers you have put at the nine-month stage, it seems very hard for me to get much below 35%.

And the third one is on the €20 million cash inflow that Xavier was mentioning. Does it mean that it is €20 million inflow that was not recognised or was not cashed in last year? Is it a one-off or is it something which is happening with one partner only every few years? So can you clarify the €20 million number, please?

Xavier Dumont: Thank you, Christophe. On your question on YouTube, which is ad-supported, the YouTube is both ad-supported and subscription business. So, you have the two businesses within YouTube. On the ad-supported business, generally speaking, what we said in H1, and we confirmed during Q3, that the growth has been lower since June, but we confirmed last time, it was double-digit growth. And we also saw that the subscription-based revenue has been growing steadily, both from the fact that the DSPs, YouTube and Spotify has been doing a great job at transforming ad-supported subscription to fully-fledged subscription. So that is a positive driver.

And second, the fact that the subscription business for the DSPs has been very resilient during the past quarter, as it has been before. And you can add on that, of course, the fact that we are gaining market share, which makes us grow much faster than the various sectors.

Regarding the percentage of growth, I will reiterate that we said in excess of 30%, so I confirm it is in excess of 30%.

And on the third part, this €20 million that we received is related to the renewal of a contract with a digital partner. That digital partner used to pay on a quarterly basis. After negotiation that ended in Q3, we agreed with that partner for an annual instalment. That is why it is a change in our working capital because we received one year of this revenue. It is a two-year contract and so we are going to have another instalment next year, same period.

Christophe Cherblanc: But in 2021, last year, you had the same €20 million spread over four quarters, right? So, it is not making any difference?

Xavier Dumont: No, it was not the same amount because, as you know, we are growing. As you know, we are improving conditions, and so it was not as high as that.

Christophe Cherblanc: Okay. Thank you. Can I squeeze the very last one on Russia? The impact of Russia is lesser than what we might have feared at the beginning of the year. What is your visibility for 2023, is the pipeline of Russian or Ukrainian artists drying up? Could we see another small decrease next year in 2023 versus 2022?

Denis Ladegaillerie: We have a little visibility on Russia and Ukraine. The situation can evolve every day. We keep operating in the country with the same principles, which is security of our teams and no extra investment. Because Russia and Ukraine are growing at a lesser rate than the rest of the Group, the weight of Russia and Ukraine in the Group revenue is decreasing. Now we are at 7% versus 9% last year, and we do expect that this weight is going to decrease further. But we talk again when we will talk about 2023, mid-March, when we will have a better visibility.

Christophe Cherblanc: Okay, thank you.

Richard Eary (UBS): Good evening, everyone and congratulations on the results. Can I just ask a number of questions? First of all, I just want to clarify that the numbers in terms of the organic numbers are clean, and there are no one-off payments in there that we have seen in both UMG and Sony's results that cause growth rates to accelerate in the third quarter?

The second question is, can you just remind us between the mix between what is paid and what is ad-supported in the streaming numbers within Premium Solutions?

Third question is, can you talk about TikTok? I think you talked about this on the previous calls and just wanted to try and get an update in terms of your discussions with them and potential monetisation opportunities.

And then just lastly, going back to the Digital Service Providers price increases and particularly Apple. In their statement, they said higher licensing costs. Can you just confirm whether you have increased your wholesale prices to Apple, and is that an industry thing? And whether you are looking to increase your wholesale prices to other DSPs? Or will that be just dependent on whether Digital Service Providers increases their own actual retail prices?

Denis Ladegaillerie: You will take the two first, and I will take the two last.

Xavier Dumont: Okay. So, on the organic growth, I confirm it is clean as per your expression. The only thing that is in the organic growth is that, as we communicated, there is a roughly 2% impact on the contracts that are linked to M&A and at the same level as we forecasted. But this is as clean as it can be, nothing specific there.

On paid and ad-supported, I have the question each time and each time I have the same answer, is that we do not communicate on the weight between ad-supported and subscription-based in our revenue. But we also said that we over-indexed versus the rest of the industry as we are, as you know, very strong in emerging markets where ad-supported monetisation has a higher weight than in major markets.

Denis Ladegaillerie: Thanks, Xavier. Thanks for your question, Richard. On TikTok, what we expect is very similar to the deal that we just renewed. We are currently in our renegotiation cycle with them. And given our significant increase of market share and globally, our very significant market share on TikTok, we do expect a significant increase in our pay-out coming from TikTok for 2023. And typically, these are a-couple-of-year deals.

And on the Digital Service Providers pricing, really, whether it is Apple or Spotify, all of our deals with DSPs are on a rev share basis. When Apple decides to increase pricing by €1, we capture the same percentage of that euro increase in the revenue. We do expect that, starting in November, our pay-outs from Apple are going to increase pro rata of the price increase that they have done.

Richard Eary: No, that is clear. If we go into next year, if we have obviously Digital Service Providers price increases – whether everyone follows Apple or not, we will wait and see. And we have better monetisation in terms of renegotiating deals with TikTok, but presumably with Meta, Snap, etc., as you go through those renewal cycles. Then even if ad-funded numbers are softer, streaming numbers should be pretty good in next year. Is that a fair statement?

Xavier Dumont: Yes, I think that is a fair statement. Obviously, we are going to pay a lot of attention around how ad-supported monetisation is going to evolve in the next two, three months. What is the impact of the macroeconomic outlook generally. But I would say, at that stage, all the elements that we have from the Digital Service Providers is that they expect tech subscription and paid subscription growth to be maintained at a very healthy level. Yes, you are absolutely right, there is a second effect that is going to be price increases.

So, we feel pretty good on that side of the equation. Increased revenues are on some of the fixed fee deals and then lower revenues on the ad-supported, be it from YouTube or Spotify. How that globally plays out, we do not know exactly. But I would say right now, given the balance of revenues between the various buckets, we feel pretty good about what 2023 should look like in terms of growth, at least in terms of market growth.

Richard Eary: That is helpful. Can I just be cheeky and ask one follow-up? Just on M&A, going back obviously to the time of the IPO, a lot of focus was around M&A, and we have not really seen a huge amount of that since the IPO, obviously, with a couple of deals this year like Play Two and Jo & Co. Where are we at on that roadmap? Because I think originally, you identified quite a number of different targets at the IPO and, let us say, a vast number of those have not necessarily materialised yet.

Denis Ladegaillerie: A good question of where we are at, and I will let Xavier complete, is, basically, we executed on the deals that we had identified at IPO. And then, with the global economic uncertainty, what we have done is we have been very selective in our current discussions. And the good news is that we have been preserving our full firepower. We are getting now at the stage where there is a number of really interesting conversations that we are starting to add. In terms of timing, we do not expect these operations to come in 2022, but we are going to be much more active in 2023 than in 2022.

Richard Eary: Thank you very much indeed.

Xavier Dumont: And just to remind you that we still spent €60 million last year on M&A, buying some targets in France, India, Philippines, so we have been busy. And as Denis explained, we voluntarily chose to pause those M&A opportunities at the beginning of the year, seeing what the economic situation was. When the financial performance and the outlook is much clearer, then we are going to resume do the M&A operations.

James Tate (Goldman Sachs): Thank you for taking my questions. I have got two. So, you guys were the first to call out the potential to see price increases this year. And clearly, you are correct, given the recent increases by Apple Music. And just from here, do you think others will follow? And if so, what do you see as the timeline looking for the rest of the year, next six months?

And then secondly, on your guidance for positive and solid free cash flow this year, do you expect that to remain positive from 2023 onwards? Could you walk us through some of the moving parts there, please?

Denis Ladegaillerie: Thank you, James. On price increases, I think Daniel Ek was pretty clear around the topic in his last quarterly communication. This is something that they were looking at very closely and explaining that he felt pretty good about driving price increases in 2023 with limited churn, given where they are as a business. I would say, yes, we do think that those price increases are going to come relatively rapidly; whether it is between now and the end of the year or whether it is early 2023, but we would expect them to come quite rapidly.

Xavier, do you want to pick up the second question?

Xavier Dumont: Yes. You know that the working cap variance stems from mainly two main drivers. The first one is the advances that we pay to artists and labels. And the second one is the positive trade payables that we have. Except for advances, we have a model where we pay artists and labels only when we are paid from the Digital Service Providers.

And so basically, we had H1 last year, 2021, that was a bit specific because we had payments to some labels that were bigger than what we did historically because they choose to conclude deals for higher durations. But I would say the situation has normalised. H1 this year was much more standard. H2 this year, we assume that it is going to be roughly the same, and we benefit from our growth. We are entering 2023 quite confident in our cash flow generation for next year. Talk again in March.

Emilie Megel: We do have questions from Jérôme Bodin from ODDO. The first question is on Meta. Could you make a comment on recent changes of Meta regarding rewarding UGC? What could be the impact for you?

Second question, I think we will probably skip as it is again on the Apple price increases and if you expect some changes from peers, and the P&L bottom impact. So, you have already answered.

And the third question is on M&A. As you said, you have been a bit quieter since March. What are the current market conditions regarding smaller targets? Do valuations go down since a few weeks?

Denis Ladegaillerie: I will take the first one, and you will take the second one, Xavier, on the Meta.

Denis Ladegaillerie: On the first one on UGC, Meta, we have had a deal in place with Meta regarding UGC synchronisation for UGC for some time. Our market share of sync on UGC on Meta has increased past couple of years, and therefore we renewed our deals with similar conditions.

And then the second thing that we are currently engaged with Meta right now is they are beta testing synchronising music for small and medium businesses. And that is one area where we have been one of the few beta testers around the world with them around this offering.

So, we do expect that opportunity to enlarge, and we are seeing other players, like TikTok, explore that opportunities in similar ways as well. So more largely than UGC, we expect the market for sync to enlarge a little bit as more of the usage of music is being used to increase engagement for small and medium businesses online digitally.

Xavier Dumont: And on M&A, as you know, what we are doing in M&A is bolt-on acquisitions. We are buying for growth because we want to partner with companies, we invest in. It is mostly non-competitive environment. And hence, the fact that we have not seen any real changes in market conditions since the beginning of the year. And so no changes there in the potential acquisition price that we may have.

Denis Ladegaillerie: Perfect. I think we can close the call. Thank you very much for attending the session, and we wish you all a good afternoon and a good evening. Thank you very much.

[END OF TRANSCRIPT]