



NEWS RELEASE

Warner Music Group Corp. Reports Results for Fiscal Second Quarter Ended March 31, 2020

2020-05-07

- Digital revenue grew 5.7% or 7.4% in constant currency
- Total revenue was down 1.7% compared to the prior year-quarter or flat in constant currency
- Net loss was \$74 million versus net income of \$67 million in the prior-year quarter
- OIBDA was \$12 million versus \$191 million in the prior-year quarter

Warner Music Group Corp. today announced its second-quarter financial results for the period ended March 31, 2020.

“We had a tough comparison with an especially strong Q2 in 2019, so I’m pleased that we’ve matched our excellent performance in the prior-year quarter, due in large part to an 11% increase in Recorded Music streaming revenue and a 17% increase in Music Publishing digital revenue. That’s a tremendous achievement, especially coming on the heels of Q1, when we achieved the highest quarterly revenue in our sixteen-year history as a standalone company,” said Steve Cooper, Warner Music Group’s CEO. “In these unprecedented times, we’re determined to protect the livelihoods of our artists, our songwriters and our people. We’re confident that our distinctive combination of creative innovation and financial discipline will help us weather this storm and emerge stronger, better and more agile than ever.”

“For the rest of the fiscal year, we’re focused on delivering robust results and managing our costs carefully,” added Eric Levin, Warner Music Group’s Executive Vice President and CFO. “Our cash position is robust, and our goal now

is to come out the other side of the COVID-19 pandemic stronger than ever.”

Revenue was down 1.7% (or flat in constant currency). Growth in Recorded Music digital revenue and Music Publishing digital, synchronization and mechanical revenue was more than offset by a decline in Recorded Music physical and artist services and expanded-rights revenue and in Music Publishing performance revenue. Recorded Music licensing revenue was flat. The revenue decline was primarily due to a lighter release schedule, some COVID-related business disruption and foreign exchange rates in the current quarter and one-time impact of a digital streaming license in the prior-year quarter. Digital revenue grew 5.7% (or 7.4% in constant currency), and represented 65.3% of total revenue, compared to 60.6% in the prior-year quarter.

Operating loss was \$49 million compared to operating income of \$122 million in the prior-year quarter. OIBDA was \$12 million, down 93.7% from \$191 million in the prior-year quarter and OIBDA margin decreased 16.4 percentage points to 1.1% from 17.5% in the prior-year quarter. The decrease in operating income, OIBDA and OIBDA margin was primarily the result of higher variable compensation expense of \$164 million related to the Company's long-term incentive plan, as well as the margin impact of COVID-related business disruption and one-time non-cash charges of \$13 million, partially offset by revenue mix. Adjusted OIBDA decreased 78.4% to \$43 million and Adjusted OIBDA margin decreased 14.3 percentage points to 4.0% from 18.3% due to higher variable compensation expense and the margin impact of COVID-related business disruption, partially offset by revenue mix.

Net loss was \$74 million compared to net income of \$67 million in the prior-year quarter and Adjusted net loss was \$43 million compared to Adjusted net income of \$75 million in the prior-year quarter. The decrease was due to the operating loss in the quarter, losses on investments compared to a gain in the prior-year quarter and lower other income associated with the gain on the Company's Euro-denominated debt and intercompany loans due to foreign exchange rates, partially offset by a tax benefit in the quarter due to lower pre-tax income.

Adjusted operating income, Adjusted OIBDA and Adjusted net income exclude costs related to the Company's proposed initial public offering, certain one-time non-cash charges resulting from COVID-related business disruption and restructuring and other related costs in the current quarter and certain costs related to the Company's Los Angeles office consolidation and restructuring and other related costs in the prior-year quarter. See below for calculations and reconciliations of OIBDA, Adjusted operating income, Adjusted OIBDA and Adjusted net income.

As of March 31, 2020, the Company reported a cash balance of \$484 million, total debt of \$2.983 billion and net debt (defined as total long-term debt, net of deferred financing costs, minus cash and equivalents) of \$2.499 billion. In March 2020, the Company declared a regular cash dividend of \$37.5 million which was paid to stockholders on

April 17, 2020.

Cash provided by operating activities was \$86 million compared to \$7 million in the prior-year quarter. The change was largely a result of the timing of receivables due to improved collection terms as well as cash management efforts. Free Cash Flow, defined below, was \$67 million compared to a negative \$48 million in the prior-year quarter. Capital expenditures were \$13 million, down from \$33 million in the prior-year quarter due to timing of spend on the Company's Los Angeles office consolidation.

Adjusted EBITDA for the twelve months ended March 31, 2020 was \$755 million compared to \$1,097 million for the comparable prior-year period. The decrease was largely a result of the impact of a net gain of \$389 million, pre-tax, from the sale of the Company's Spotify shares in the prior-year period. Excluding the impact of the Spotify share sale gain, Adjusted EBITDA would have increased \$47 million to \$755 million due to increases in underlying operating performance, largely driven by the growth in streaming.

Recorded Music revenue was down 2.8% (or 1.5% in constant currency). The revenue decline was primarily due to a lighter release schedule, some COVID-related business disruption and foreign exchange rates in the current quarter and the one-time impact of a digital streaming license in the prior-year quarter. Growth in digital revenue was more than offset by declines in physical and artist services and expanded-rights revenue. Licensing revenue was flat. Digital revenue growth reflects the continuing shift to streaming and was impacted by a one-time digital streaming license in the prior year-quarter. The decline in artist services and expanded-rights revenue was due to the timing of tour schedules compared to the prior-year quarter, tour postponements and lower merchandise revenue resulting from COVID. The decline in physical revenue reflects industry trends and a lighter release schedule as well as lower physical sales due to the impact of COVID. Major sellers included Roddy Ricch, Tones And I, Lizzo and Ed Sheeran.

Recorded Music operating income was \$36 million, down 73.1% from \$134 million in the prior-year quarter and operating margin was down 10.4 percentage points to 4.0% versus 14.4% in the prior-year quarter. OIBDA decreased 57.8% to \$76 million from \$180 million in the prior-year quarter and OIBDA margin decreased 10.9 percentage points to 8.4%. Adjusted OIBDA was \$89 million versus \$185 million in the prior-year quarter with Adjusted OIBDA margin down 10.0 percentage points to 9.8%. The decrease in operating income, OIBDA, Adjusted OIBDA and Adjusted OIBDA margin was also driven by higher variable compensation expense of \$99 million and COVID-related business disruption, partially offset by revenue mix.

Music Publishing revenue grew 5.1% (or 7.8% in constant currency). Growth in digital, synchronization and mechanical revenue was partially offset by a decline in performance revenue. Digital revenue growth reflects the continuing shift to streaming. Synchronization revenue growth relates to greater revenue from licensing and TV commercials. The increase in mechanical revenue is due to timing of distributions. The decrease in performance

revenue was primarily driven by lower activity due to timing of distributions and COVID-related business disruption.

Music Publishing operating income was \$30 million compared to \$27 million in the prior-year quarter largely driven by higher revenue and lower amortization expense. Operating margin grew 1.0 percentage points to 18.1%. Music Publishing OIBDA increased by \$1 million or 2.1% to \$48 million, and OIBDA margin declined 0.8 percentage points to 28.9% from 29.7%. Adjusted OIBDA increased by \$2 million and Adjusted OIBDA margin declined 0.2 percentage points to 29.5% due to the timing of A&R spend, partially offset by revenue mix.

Financial details for the quarter can be found in the Company's current Form 10-Q for the period ended March 31, 2020, filed today with the Securities and Exchange Commission.

This morning, management will be hosting a conference call to discuss the results at 8:30 A.M. EST. The call will be webcast on www.wmg.com.

About Warner Music Group

With a legacy extending back over 200 years, Warner Music Group today is home to an unparalleled family of creative artists, songwriters, and companies that are moving culture across the globe. At the core of WMG's Recorded Music division are four of the most iconic companies in history: Atlantic, Elektra, Parlophone, and Warner Records. They are joined by renowned labels such as Asylum, Big Beat, Canvasback, East West, Erato, FFRR, Fueled by Ramen, Nonesuch, Reprise, Rhino, Roadrunner, Sire, Spinnin', Warner Classics, and Warner Music Nashville. Warner Chappell Music – which traces its origins back to the founding of Chappell & Company in 1811 – is one of the world's leading music publishers, with a catalog of more than one million copyrights spanning every musical genre, from the standards of the Great American Songbook to the biggest hits of the 21st century.

"Safe Harbor" Statement under Private Securities Litigation Reform Act of 1995

This communication includes forward-looking statements that reflect the current views of Warner Music Group about future events and financial performance. Words such as "estimates," "expects," "anticipates," "projects," "plans," "intends," "believes," "forecasts" and variations of such words or similar expressions that predict or indicate future events or trends, or that do not relate to historical matters, identify forward-looking statements. All forward-looking statements are made as of today, and we disclaim any duty to update such statements. Our expectations, beliefs and projections are expressed in good faith and we believe there is a reasonable basis for them. However, we cannot assure you that management's expectations, beliefs and projections will result or be achieved. Investors should not rely on forward-looking statements because they are subject to a variety of risks, uncertainties, and other factors that could cause actual results to differ materially from our expectations. Please refer to our Form 10-K, Form 10-Qs and our other filings with the U.S. Securities and Exchange Commission concerning factors that could

cause actual results to differ materially from those described in our forward-looking statements.

We maintain an Internet site at www.wmg.com. We use our website as a channel of distribution for material company information. Financial and other material information regarding Warner Music Group is routinely posted on and accessible at <https://investors.wmg.com>. In addition, you may automatically receive email alerts and other information about Warner Music Group by enrolling your email address through the “email alerts” section at <https://investors.wmg.com>. Our website and the information posted on it or connected to it shall not be deemed to be incorporated by reference into this communication.

Basis of Presentation

The Company maintains a 52-53 week fiscal year ending on the last Friday in each reporting period. As such, all references to March 31, 2020 and March 31, 2019 relate to the periods ended March 27, 2020 and March 29, 2019, respectively. For convenience purposes, the Company continues to date its financial statements as of March 31.

Supplemental Disclosures Regarding Non-GAAP Financial Measures

We evaluate our operating performance based on several factors, including the following non-GAAP financial measures:

OIBDA

OIBDA reflects our operating income before non-cash depreciation of tangible assets and non-cash amortization of intangible assets. We consider OIBDA to be an important indicator of the operational strengths and performance of our businesses, and believe the presentation of OIBDA helps improve the ability to understand our operating performance and evaluate our performance in comparison to comparable periods. However, a limitation of the use of OIBDA as a performance measure is that it does not reflect the periodic costs of certain capitalized tangible and intangible assets used in generating revenue in our businesses. Accordingly, OIBDA should be considered in addition to, not as a substitute for, operating income (loss), net income (loss) and other measures of financial performance reported in accordance with U.S. GAAP. In addition, OIBDA, as we calculate it, may not be comparable to similarly titled measures employed by other companies.

Adjusted Operating Income (Loss), Adjusted OIBDA and Adjusted Net Income (Loss)

Adjusted operating income (loss), Adjusted OIBDA and Adjusted net income (loss) is operating income (loss), OIBDA and net income (loss), respectively, adjusted to exclude the impact of certain items that affect comparability. Factors affecting period-to-period comparability of the unadjusted measures in the quarter included the items

listed in Figure 7 below. We use Adjusted operating income (loss), Adjusted OIBDA and Adjusted net income (loss) to evaluate our actual operating performance. We believe that the adjusted results provide relevant and useful information for investors because they clarify our actual operating performance, make it easier to compare our results with those of other companies in our industry and allow investors to review performance in the same way as our management. Since these are not measures of performance calculated in accordance with U.S. GAAP, they should not be considered in isolation of, or as a substitute for, operating income (loss), OIBDA and net income (loss) attributable to Warner Music Group Corp. as indicators of operating performance, and they may not be comparable to similarly titled measures employed by other companies.

Constant Currency

Because exchange rates are an important factor in understanding period-to-period comparisons, we believe the presentation of revenue on a constant-currency basis in addition to reported revenue helps improve the ability to understand our operating results and evaluate our performance in comparison to prior periods. Constant-currency information compares results between periods as if exchange rates had remained constant period over period. We use results on a constant-currency basis as one measure to evaluate our performance. We calculate constant-currency results by applying current-year foreign currency exchange rates to prior-year results. However, a limitation of the use of the constant-currency results as a performance measure is that it does not reflect the impact of exchange rates on our revenue. These results should be considered in addition to, not as a substitute for, results reported in accordance with U.S. GAAP. Results on a constant-currency basis, as we present them, may not be comparable to similarly titled measures used by other companies and are not a measure of performance presented in accordance with U.S. GAAP.

Free Cash Flow

Free Cash Flow reflects our cash flow provided by operating activities less capital expenditures and cash paid or received for investments. We use Free Cash Flow, among other measures, to evaluate our operating performance. Management believes Free Cash Flow provides investors with an important perspective on the cash available to fund our debt service requirements, ongoing working capital requirements, capital expenditure requirements, strategic acquisitions and investments, and any dividends, prepayments of debt or repurchases or retirement of our outstanding debt or notes in open market purchases, privately negotiated purchases or otherwise. As a result, Free Cash Flow is a significant measure of our ability to generate long-term value. It is useful for investors to know whether this ability is being enhanced or degraded as a result of our operating performance. We believe the presentation of Free Cash Flow is relevant and useful for investors because it allows investors to view performance in a manner similar to the method management uses.

Because Free Cash Flow is not a measure of performance calculated in accordance with U.S. GAAP, Free Cash Flow

should not be considered in isolation of, or as a substitute for, net income (loss) as an indicator of operating performance or cash flow provided by operating activities as a measure of liquidity. Free Cash Flow, as we calculate it, may not be comparable to similarly titled measures employed by other companies. In addition, Free Cash Flow does not necessarily represent funds available for discretionary use and is not necessarily a measure of our ability to fund our cash needs. Because Free Cash Flow deducts capital expenditures and cash paid or received for investments from “net cash provided by operating activities” (the most directly comparable U.S. GAAP financial measure), users of this information should consider the types of events and transactions that are not reflected. We provide below a reconciliation of Free Cash Flow to the most directly comparable amount reported under U.S. GAAP, which is “net cash provided by operating activities.”

Adjusted EBITDA

Adjusted EBITDA is equivalent to “EBITDA” as defined in our Revolving Credit Facility and substantially similar to “Consolidated EBITDA” as defined under our indentures and “EBITDA” as defined under our Senior Term Loan Facility, respectively. Adjusted EBITDA differs from the term “EBITDA” as it is commonly used. The definition of Adjusted EBITDA, in addition to adjusting net income to exclude interest expense, income taxes, and depreciation and amortization, also adjusts net income by excluding items or expenses such as, among other items, (1) the amount of any restructuring charges or reserves; (2) any non-cash charges (including any impairment charges); (3) any net loss resulting from hedging currency exchange risks; (4) the amount of management, monitoring, consulting and advisory fees paid to Access under the Management Agreement or otherwise; (5) business optimization expenses (including consolidation initiatives, severance costs and other costs relating to initiatives aimed at profitability improvement); (6) transaction expenses; (7) equity-based compensation expense; and (8) certain extraordinary, unusual or non-recurring items. The definition of EBITDA under the Revolving Credit Facility also includes adjustments for the pro forma impact of certain projected cost savings, operating expense reductions and synergies and any quality of earnings analysis prepared by independent certified public accountants in connection with an acquisition, merger, consolidation or other investment.

Adjusted EBITDA is a key measure used by our management to understand and evaluate our operating performance, generate future operating plans and make strategic decisions regarding the allocation of capital. Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under U.S. GAAP. Some of those limitations include: (1) it does not reflect the periodic costs of certain capitalized tangible and intangible assets used in generating revenue for our business; (2) it does not reflect the significant interest expense or cash requirements necessary to service interest or principal payments on our indebtedness; and (3) it does not reflect every cash expenditure, future requirements for capital expenditures or contractual commitments. In particular, this measure adds back certain non-cash, extraordinary, unusual or non-recurring charges that are deducted in calculating net income; however, these are expenses that

may recur, vary greatly and are difficult to predict. In addition, Adjusted EBITDA is not the same as net income or cash flow provided by operating activities as those terms are defined by U.S. GAAP and does not necessarily indicate whether cash flows will be sufficient to fund cash needs. Accordingly, Adjusted EBITDA should be considered in addition to, not as a substitute for, net income (loss) and other measures of financial performance reported in accordance with U.S. GAAP.