

DEAD OR ALIVE? JAPAN'S STREAMING FUTURE

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Moderator and Simultaneous interpreter

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JT: Thank you Mr. Kuwahata and we appreciate introduction.

We would like to go & start the panel discussion so if I could ask panel members to come on stage.

I would like to thank everybody for attending this very interesting panel titled "Dead or Alive? Japan's Streaming Future".

I just want to introduce the panel quickly first

and we have a very distinguished group from the publishing side, the production artist management side, and also from the label side as well. To my left is Charles Mikami who is



Executive Vice President of Sony Music Publishing (Japan) Inc. Next to Mikami-san is Koji Seo who is the Manager of the International Copyright with Avex Music Publishing Inc. And finally we have Nobuyuki Soma. Soma-san is the Executive Director at AMUSE INC. which is the one of the largest artist management production companies in Japan. And I'm your



moderator, slash translator, simultaneous on occasion, Jonny Thompson, General Manager for Nichion International Thank you.

So before we begin, before we get into the details, I just would like to give you a quick

overview, just a few facts and figures of what's happening in terms of Digital streaming in Japan.

If we could go to the presentation slides.

Here are some numbers for you. As Kuwahata-san was saying earlier with the IFPI global Market review report, Japan is the No.2 music market in the world and is also the No.3 market in the world in terms of digital sales. This is in a country which has no major subscription service at the moment. There is no Spotify. There are no other major services in action in Japan at the moment. But it is still the No.3 market in the world. And those are the values even though it's the No.3, it's about \$458 million for 2014, I believe. And the distribution between physical and digital, as you can see it's still very high in Japan in terms of CD sales. It's almost 80%, nearly 80% Physical, 17% Digital. And this is for recorded music obviously, this is on the master side and publishing is an entirely different matter. We obviously make a little less money than labels do. So it's a little bit different.

COPYRIGHT INCOME 2014

- Digital is only **7.9%** of Copyright Income

Mechanical	11.7%
Videograms	17.3%
Broadcast	27.1%
Performance	17.9%
Digital Karaoke	6.0%

And there is a copyright income, as you can see, in terms of the share on the master side close to 20% of label income comes from Digital. But for copyright income, Digital makes up only 7.9% of copyright income in Japan. The list of the categories as you can see, you might be surprised to note and this will probably indicate that is still strong physical market if you look at mechanicals which are obviously CD sales, right below that is videograms and videograms

JAPAN IS NUMBER THREE IN THE WORLD IN DIGITAL SALES FOR RECORDED MUSIC

US\$458M

78% PHYSICAL

17% DIGITAL

consist of DVDs and Blu-rays and all those round pieces of plastic that still actually sell in Japan. And then there is broadcast and Performance and Karaoke. A word about Digital Karaoke, in many reports you can see from around the world, sometimes Digital Karaoke is lumped in together with Digital as interactive sales and that is not correct. Digital Karaoke is a separate category, it is Karaoke when you go and sing Karaoke in Japan, the Karaoke shops now are all digital mostly and it's all collected automatically, so it has nothing to do with what we would considered to be regular digital services.

Finally some trends in 2014, without any streaming service activity digital music sales still increased by 5% over prior year, Single track downloads increased by 19% which means there is still a very strong download based market. And within that, it's interesting to note that there were 41 singles which sold over 1 million downloads. There were also 3 singles that sold over 2 million and there was one single

JAPAN DIGITAL TRENDS 2014

- Digital Music Sales increased by **5%**
- Single Track Downloads increased by **19%**
(41 Million-Selling Single Downloads)
- Subscription Services increased by **157%**
(Total Value of Subscription US\$82.5M)

that had over 3 million downloads in Japan. Now at the same time subscription service increased by 150% but if you look and if you recall that the total value for copyright income is about \$458 million and \$82 million is from subscription services that would lead one to believe that there might be some viable services in Japan. But what that number is in many cases in Japan, when you purchase your smartphone, there are many services that are automatically included which average maybe about \$3 per month. And most of those services if you tend to forget to cancel them, they renew automatically. And lots of growth that is included in that figure is automatic renewals for services that are pre-installed into your phone. So it's not necessarily an indication that subscription services are the be all end all in terms of future growth in Japan.

So those are the numbers and highlights, now I would like to kind get into what's actually happening in the Japanese market and I'd like to start with Charles to my left here, Charles, If you could give us update on what's going on in Japan in terms of streaming services and what's happening, that would be great.

CT: As Johnny was telling you guys, there wasn't any big major streaming digital service up to last week but currently they are. They are streaming services on demand also like a radio type. But the one that I want to mention is called "AWA" which has started last week and there's another one coming up which will start next week called "LINE MUSIC". Those two's are going to be big game changer I think. And also within this year, we are expecting to see more of the international major streaming services coming in and I'm sure Apple & Google, one of those might start. And I just want to mention that I'm an already user of "AWA" and it's very fun to use. The gadget for music lovers.



You make playlist and it has window of 8 songs. You like a making own cassette tape now

back in the days. And also LINE MUSIC, I think it's going to be huge. Because LINE is the largest social network site in Japan and it's already part of people's lives so people use that for communication and sharing photos, sharing messages, stamps, and stickers. And now they about to share the music so I think it's going to be a big one.

JT: Charles, Both AWA and LINE MUSIC are those local Japanese services only?

CT: Do you mean the big ones?

JT: AWA and LINE. The ones that you just stated. They are only for the Japanese market. Is that correct?

CT: Yes, Exactly.

JT: Ok. That's interesting. I think AWA started May 28th and LINE starts on June 12th. And those of the first two kind are significant services that will start Avex, Sony and UNIVERSAL recently as well have all come on board with those services. So I would like to ask Seo-san from a music publishing stand point. Do you think that there will be some benefits domestic & international repertoire in Japan with these streaming services?

KS: One of the things to please keep in mind is that I in terms of domestic & international, the market splits between the two is that domestic is now 87% of the market and international is only 13%.

There's lots of reasons for this and I think we can all agree with what I said that there is a



tremendous amount of interest in International music in Japan. I think the problem is the way that the music is communicated and how it's made available to the fans and Japanese market. It's probably very limited and what to do about those limitations is one of the issues that is key to revitalizing the growth of International in Japan.

The AWA service has just recently launched and things that I mentioned is that one of the unique features of the AWA platform which is something that Charles mentioned as well which is the ability to create a playlist. And what makes a playlist interesting for Japan is that you can freely combine

International repertoire together with local Japanese domestic repertoire and create a playlist which will probably quite possibly International music more exposure, and a great opportunity to be heard and also maybe create more opportunities. At the same time I noticed that AWA now has a total of 450 thousands subscribers in 4 days, which I think is a good sign as well for that service also.

KS: I feel that it's a really good opportunity for services such as AWA to provide exposure for both Domestic & International catalogues. Obviously this is a platform now where you can have both sides of music that will be available and create new opportunities for that music. UNIVERSAL is onboard and Sony is onboard, Avex is onboard.

Avex is actually an investor in AWA as well so that they have a vested interest to make sure that the services is successful also. But the key there is obviously to create new opportunities for music and new opportunities to create an audience, and hopefully a younger audience as well to listen to both International & Domestic music.

JT: With that I would like to ask Soma-san. I have to ask Soma-san in Japanese so please bear with me.

NS: The question Jonny asked me comes from a much different perspective, which is the artist management production perspective and how streaming services might help benefit local Japanese artists and domestic artists.

The first thing I would like to point out, which maybe all of you are already aware of, is the fact that contrary to what happens in other countries in the case of most of the artists in Japan the management company or what we called production office actually owns the master rights to the artist masters and it also controls most of the publishing to those artist as well. So in a situation where most cases where you will be able to go to the label to license directly the masters. In Japan the label is limited and what rights they are able to license and ultimately you will have to go streaming services out ultimately have to go to management companies and production companies to trying to get their approval in terms of licensing their artist to the services. At the same time, in terms of benefit for the artist I do think that it's a positive thing however obviously in a market which has very rich CD sales where 80% of market is still physical, and as we all



know where the value of physical CD sales is significantly greater than what we can get from streaming service, there is obviously a lot of debate within artist management companies themselves about what the value of what you are giving up in return for what you getting, and whether it makes sense to put aside a physical product market and move immediately transition over to streaming. My view is it probably won't happen. Most likely what will happen in terms of artist management companies is that maybe 6 months or maybe a year from now, seeing how these services perform and then at that point perhaps start introducing some catalogue and some older songs onto the services. Streaming is an entry point as a way out of Japan, but at the risk of a kind of wholesale abandonment of a very physical market is a very difficult decision for management companies at this point.

NS: Something that I think is also very relevant and very important is, as an artist management company, my responsibility is to increase the value of my artists, and increasing the value of artists obviously involves many things in terms of management companies they derive either in come or not only from CD sales which are very important but also obviously from merchandising, from concert tours, and so on. And how you increase add value becomes really critical and in Japan a much of that value, one of the barometer evaluating artist become CD sales. And chart activity for CD sales. How many numbers units you have been sold, what ranking you are, where you are. That is a valuable barometer for clients & other people you trying work with to increase the value of artist. In the streaming environment, that is necessary the case. It's very difficult I know they are talking about the transparency before artist management prospective and how transparent information can be what does really mean if you have X number of streams. And how that affects the evaluation of the artists also another area from artist management prospective that I feels they have to concerns about. I do love streaming services.

JT: Are you already become a subscriber with AWA?

NS: I'm already a subscriber with AWA as well.

JT: Actually, One of the things that Soma-san mentioned which is the different set up in Japan in terms of artist management companies controlling rights, master rights and publishing rights. I think that it's going to be very interesting so that I am going to ask Charlie that in terms of some of the streaming services which have launched, whether it be AWA or LINE MUSIC, could you maybe talk about some of the licensing issues which might been related to the launch of those services?

CT: Well... I think everybody now has heard, Soma-san was saying & Johnny was saying, maybe outside of Japan, in most of your countries, subscribing service companies can go to few major labels also to a big label to get the rights of using their rights of masters but the situation is so much different in Japan. You got to go to each and every labels of course but to other management companies also maybe publishers who owns masters so that is big difference I guess.

JT: I guess that means we need to have lots of negotiations directly with each repertoire owner as opposed to just 1 single entity you can negotiate with, so that makes it very, very complicated and very, very difficult. Of course how certain management companies are going to value their artist against other management companies will also be an issue as well.

I want to ask Seo-san. Do you see the streaming business as something that might replace CD sales in Japan? It's 80% or higher right now, so could we see a 50:50 split sometime in future?

KS: Actually before I came here for this panel, I had a discussion with some members from Avex and part of AWA team. I actually asked them about a question how they see the future of streaming service in terms of replacing CD sales. Basically In Japan, there is a large group of individuals who are willing to spend \$30 for an album and \$15 to \$10 more for single. And that group is not a group of individuals or consumers who are going to be interested in piracy and illegal downloads anything like that. They are a very loyal CD buying public and very loyal CD buying audience. And my discussion with Avex team from AWA seems to indicate that they don't feel like that they are going to be taking away from that audience. That audience who is going to purchase CD's, they continue to purchase CD's. So this isn't a replacement factor, this is actually it will be more of extension or another marketing outlet for music rather than something it is going to be replaced.

KS: One of the things that I was talking about is what AWA is aiming for. It is not targeting heavy CD consumers. That person is going to buy the single and that person is going to pay \$30 for an album and that person is going to pay \$60 to \$70 DVD. Instead, what they are aiming for is more of the light users. Somebody who maybe for that particular consumer \$30 is a lot of money, or \$15 is a lot of money. Somebody who is interested in music but maybe doesn't want to spend that much on CDs. Maybe wants to have access to music for a more reasonable fee. So that's the range group they are targeting.

Light user is the right word and light users like to listen to music.

At the same time, AWA is not in the business to dominate the Japan streaming market. They feel it's very important that this kind of service opens the window for other streaming services whether that would be LINE MUSIC, or Spotify or Google, YouTube or other services to be able to come in to the Japanese market as well. How they will play out, nobody knows, but certainly this is not a means for one company to try and dominate an entire industry.

Again, AWA's unique approach is to reach a target audience that may be interested in both Domestic and International music and make it easier for that audience to be able to access the music.

JT: I am going to ask Soma-san now that Seo-san has mentioned Spotify as well as other services. Since AWA and LINE MUSIC are both very local domestic services, and Spotify has yet to launch in Japan, and we don't know yet when they are going to launch in Japan. Although they promised every 6 months they are going to launch. But I was just curious from an artist management perspective, if you think Japanese artists would be looking to kind of reach out to the rest of the world and maybe create opportunities in music for themselves and in the rest of the world. That's very difficult to do if you only have a local service so I was going to ask if that might have any effect on any of his thinking in terms of what streaming services might become available in Japan.

NS: AMUSE INC. manages two artists, one is "ONE OK ROCK" and the other is "Perfume" and those of both artist you might already be familiar with.

Both of those artists have been licensed on Spotify worldwide to make themselves available streaming as well. So in terms of artist management, in terms of musician position, they are already taking actions in certain areas to make sure that artist get exposure. And I pointed out that it having international base streaming services such as Spotify coming into Japan will obviously be another benefit to Japanese artist in terms of international exposure but important element for that is what the strategy is again for creating the value for artist. Simply putting the artist on platform alone is not what artist management company in Japan is looking at. It's more extra value you can bring to the artist and what kind of strategy & what kind of tactics how you going to develop. All of those issues have to be taken in account and not just single issue being able to have worldwide exposure but obviously how it's going to benefit the artist locally in Japan as well. I mentioned that he would like to see that those artists have more and more opportunity to reach an international audience but obviously the strategy and the follow through have to be carefully thought out.

JT: Well this is interesting, because I've run out of questions.

I thought that this was going to take a little longer so I think it might be good to open the floor up to questions anybody might have. I know you are going to ask something because you look like you wanted to ask something from the beginning.

Female: First of all, It's little sad you go online like we have done it in Europe in many many years and lot of people have got bankrupt because of online services. Right now, we are fighting against Spotify which you allowing in. So what kind of strategy do you think about to avoid same situation as in Europe?

NS: In answer to your question, what I was saying earlier is that basically the strategy is getting back to what artist management companies are doing in Japan and all around the



world. It's monetizing different areas, obviously merchandising, concert touring, and whatever else. I am saying that streaming is just one another area for increasing income. It's not something that is going to replace the value of CDs and the purchase of CDs which continues to be strong in Japan but it is something that can also add extra value and not

something it is going to replace the existing value. You may disagree , but that's the answer I can give you. It's a very different market and how the market reacts and how the fan base reacts. This was in the market and you have a lots of piracy either so they are different issues here at work but I think he would agree that the strategy has to be well thought out. Which is why this isn't a wholesale, open-door and everybody coming tomorrow and they want to be the management companies want to be very careful and licensing. And we will be able to control the licensing and even though they know that they are not going to make lot of revenue or money from those services, to find a way to incorporate them into the other areas of income that they are generating.

Male: That is very interesting how different the Japanese market is and also it must be a pretty big change coming up now with the most develop market that mobile consumption is actually the prime driver of any consumption pattern. And you wouldn't sell any CDs to sort of capture that part of the question. I will actually also disagree with speaker here because if you see the earlier launched market in Spotify, they have about 50 to 60 % of user basis

actually monetizing with the subscribers so we see that actually the business is growing back to the levels it was in the 80's till the 99. How it look like that you will lose physical sale and then you will hopefully sort of convert that to a mobile consumption pattern at different price point. How do you think about that?

KS: If you take the example of AWA, as we said earlier, AWA is the service that is being funded and entirely supported by Avex Record label.

Obviously, Avex as a label investing its own streaming service and they have a vested interest to make the service successful but also have an interest to make sure that the service does not cannibalize the CD sales which obviously are greater than the streaming service. So it's getting back to what I said earlier which is one side is for an existing area which is a CD side and this is a new platform area to generate additional sales not cannibalize sales but to reach a different audience. Maybe at a certain point of time, the streaming audience will overtake the CD audience but to be honest we don't know. It's one strategic approach in Japan and involves lots of thinking. Obviously Avex doesn't want to lose money on CD sales and doesn't want to lose money on AWA that is a platform idea they came up with. What is most valuable is generating income in the in Japanese market with subscription services being one of those areas.

KS: Another key point for these services, whether it be AWA or LINE MUSIC is the differentiation from other services, such as localizing and making the services specific to the needs and wants of consumers in the Japanese market.

And it's very very focused on that I have seen some of the applications that both LINE MUSIC have and AWA have and they are very unique for Japan. Those applications probably wouldn't necessarily be applicable in another territories, utilized in another territories. And that's also another one of the unique things always about the Japanese market it tends to find its own way to meet the demands of its audience.

We may end up where you have stated, but my feeling is concept of localization and developing something that works particularly in this market is something that would be a launch point for those services.

I will also add that for AWA and also for LINE MUSIC, for these local services, there are no freemium platforms. They are all paid subscription from the beginning. They are no free services to start with. There is no giving away of any music, any of these services. You have to pay in the beginning. They are different platforms but there is no freemium to start with at all.

KS: As a music publisher, my interest obviously is also making sure of my responsibility to the songwriters I represent so that I am making sure we are generating adequate income from these services and definite revenue from those services as well. I want the services to be successful but I also obviously want to be able to have a rate structure in place that makes it worthwhile for the writers we represent as well.

Male2: OK. Looking at how social media is increase and coming integrated with streaming services here in West. I would like to ask one question to Seo-san which is that I am very interested in AWA and it is kind of promoting with 8 songs enclose playlist format which ranges selected for social media. And kind of quite well organized in Japanese society. So obviously AWA is supported by Avex Music Publishing Inc. How does it to compete against LINE MUSIC which is supported by one of the biggest social media platform in Japan when it's launches services which is so reliant on social media.

JT: I am interested to hear the answer to that.

NS: Actually, I'd like to hear the answer to that question as well.

KS: I haven't seen the LINE MUSIC service yet either so until June 12th, when it does launch, I can't answer that question.

JT: I am not going to answer on behalf of Seo-san or anybody, but I do think that in having seen the presentations for both the AWA service and LINE MUSIC, I think they are very different. I don't necessarily think that they are competing against each other. I think they are very very different services. And I had long discussion with Seo-san before this meeting about the AWA service, and the playlist factor which Seo-san mentioned is a very key factor for AWA service. It's very unique and it's getting lots of exposure and lot of attention. That is not the primary function of the LINE MUSIC service. They are not looking at a playlist factor. Actually their platform itself is very very simple. They are trying to reach a different level of audience and even through some of the pricing structure issues they are having they are trying to do that as well. So I don't necessarily think that it's a case of one against the other. I think that they might be trying to serve different needs. And ultimately one maybe more successful than the other but there might be room again with the localizing issue, of being able to have different services which provide different functions and meet different consumer needs at the same time.

KS: One thing I also mentioned earlier is that obviously AWA is not looking to dominate the streaming industry in Japan. They welcome having more streaming services come in to Japan, but one interesting point is that the Avex Group is also a 20% owner of LINE MUSIC as well. So they have invested also in LINE MUSIC, and they have AWA as well so obviously they are looking to create different platforms for different needs and I think to be able to support those services equally.

JT: So we have come to the end of session actually. It's red clock countdown time. If you have any other questions, you can ask me on the way out. I would like to thank the panelists again and thank you everybody for your kind attention.