



A YEAR OF PROGRESS

In this month's newsletter, 7digital reflects on the key highlights from the Annual Report 2021 and hears from Tamir Koch, 7digital's Chairman, as he looks at the company's progress and explains why he's confident about what lies ahead.

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ANNUAL REPORT 2021: A YEAR OF PROGRESS



Paul Langworthy
CEO

“7digital sits perfectly within this dynamic market – positioned to enable new formats quickly, efficiently and at scale.”

Welcome to June’s Investor Newsletter. At the end of the month, we issued our annual report for 2021, which highlighted the substantial growth in our contracted order book and expansion in our pipeline over the same time of the previous year. What is really important to recognise is that the deals we signed in 2021 translate to substantial revenue growth in 2022, due to the timing of when the monthly fees kick in. Contracted revenue for licensing in 2022 is already 21% higher than what we achieved in 2021.

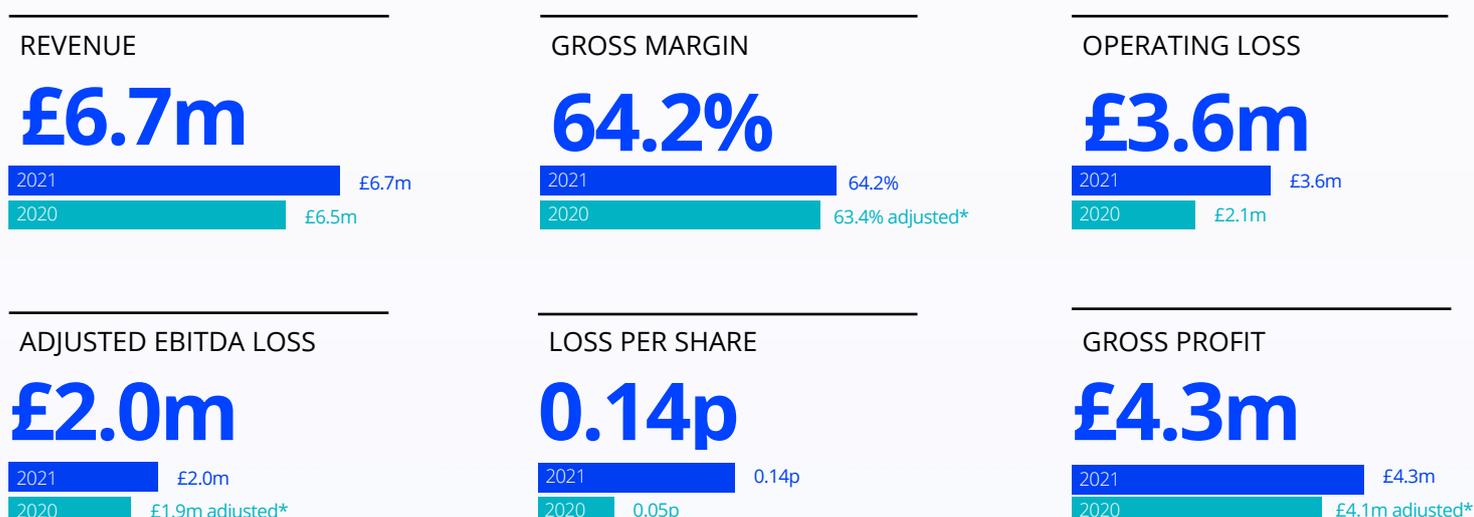
In 2021, we added 11 new customers to our music-as-a-service platform, more than twice the number for 2020, and there were 13 contract extensions vs four in 2020. Many of these are multi-year agreements, providing greater visibility over revenue.

7digital is building a recurring revenue base with each new licensing customer meaning increased roll-over fees. We are also increasingly adding a usage element to our licensing contracts, so our fees grow as our customers do. As the leading platform in quality and performance at scale, we can capitalise on the opportunity to monetise that value as high-growth enterprise customers leverage our platform services for their global services.

Our Annual Report reflects a sea-change in music consumption accelerated by the pandemic but here to stay. Recent industry reports, including Goldman Sachs’ annual [Music in the Air forecast](#) - see Industry Insight - reveal a resilient industry being transformed by emerging new digital platforms and formats. These are re-defining how consumers engage with music and present new sources of growth. 7digital sits perfectly within this dynamic market – positioned to enable new formats quickly, efficiently and at scale.

All of this means we have positioned the company well for consistent year-on-year growth as a profitable company.

2021 Financial Highlights



*2020 adjusted for a £500k content accrual release – see note 1 to the full year 2021 financial statements

2021 Operational Highlights

- ▶ Secured 11 new licensing customers and 13 contract expansions or extensions
- ▶ Signed a multi-year renewal with a global technology company across multiple territories - a major validation for the scale and reach of 7digital's platform
- ▶ Strategic expansion continued in key growth markets of fitness and wellness, social media and artist monetisation and begun fruitful discussions with gaming companies
 - ▶ Multi-year contracts with fitness companies Barry's, Volava, Stryde and others
 - ▶ Signed contract with Kuaishou, a leading content community and social platform based in China
 - ▶ eMusic Live, one of the most advanced live streaming technology platforms worldwide and in close partnership with the Group, has partnered with further artists, agencies and venues to provide new monetisation opportunities for the music industry
 - ▶ Platform has now hosted 159 performances in total, including livestream and hybrid events from major artists
 - ▶ Became the first and only music livestream platform to offer artist non-fungible tokens (NFTs) alongside ticketed events running on the platform
 - ▶ Partnerships established, post year end, with AEG Presents, the world's largest live entertainment company, and iHeartMedia, the largest audio company in the US

HARNESSING THE POWER OF MUSIC HAS A BRIGHT FUTURE

Tamir Koch, 7digital's Chairman, looks at the company's progress – and explains why he's confident about what lies ahead.

Those who follow 7digital will know we just published our Annual Report 2021. You can find it on our website. The momentum built in 2021 has materialised in 2022 to produce some highly positive outcomes for our future.

It's exciting to witness significant areas of progress in the company and there are multiple highlights from our Annual Report that are worth showcasing. Here, we pull out a few key statistics that reflect why we have such a positive outlook for the near and long term.

Closing deals depends on clients completing their own licensing agreements with labels and, as we

said in September, some took longer than hoped. We have now closed these deals, with the revenue now received in 2022 rather than 2021. This contributes to the growth expected for our music-as-a-service platform offering for the full year, with contracted licensing revenue already 21% higher than the licensing revenue achieved for 2021. With more contracts still to come, many expected in the near-term, some of significant value, these deals will continue to ensure growth for 2023.

“While still only halfway into the year, the company has grown significantly. We have a strong revenue run rate and May was a landmark month, when 7digital became EBITDA positive.”

7digital platform is the backbone to the music industry's growth

| 900K

Labels and publishers

| 40 +

Clients in streaming, fitness, social, gaming

| 200M +

Daily active music fans supported

| 82

Active territories worldwide

It is less than three years since the current Board and management came into 7digital. In that time, we have cut admin costs by almost £20 million and broadened the client base to reduce any significant client retention risk. We have reduced our annual operating loss by more than £8 million – from £12.1 million in 2018 to £3.6 million in 2021. It is also important to note that on an underlying basis, to exclude certain exceptional and adjusting items, our operating loss was actually reduced in 2021 compared with 2020.

In addition, we changed our revenue model, moving away from the provision of customised services and bespoke solutions. Our productised music-as-a-service platform is quicker, leaner and scalable, allowing our customers to use what they need to create successful music services. This business is not just more profitable, it provides repeatable, long-term business that can be easily expanded into new markets. Our licensing solutions generate high gross margins, typically 90%, because we only provide licensing services. Customers pay their music royalties directly to the rightsholders and not through our platform, so we are not liable for those fees, which would also significantly reduce margins. A usage element increasingly added

to licensing contracts also means revenues grow as our clients grow.

This puts us in a strong position going forward. With 7digital being the number one music-as-a-service platform used by the biggest brands in social media and home fitness, we're making fast inroads into the gaming sector, an industry of huge potential and interest to our supplier side – both from labels and publishers. We recognised early changes in the music industry. This was why we established eMusic Live in partnership with eMusic. Our eMusic Live platform means we are servicing artists directly with livestreaming, uniquely creating experiences that match the live event closely, including high levels of customisation and merchandise on a global scale – and there's more to come.

For all the reasons above, I am happy to provide necessary working capital to the company and, along with my fellow director David Lazarus, support future financial backing, should it be required.

As we continue to deliver on our strategy, we are very confident in the future of 7digital and the opportunities that lie ahead to harness the power of music.



Tamir Koch
Chairman

7digital WINS NEW SOCIAL MEDIA CONTRACT AS 'DEAL MOMENTUM' CONTINUES

The company has announced a new contract with Lomotif, a rising force in social video-sharing apps.

Singapore-based Lomotif is one of the top global social video-sharing apps. Under the two-year contract, 7digital's music-as-a-service platform will provide the music used in the app worldwide.

As a leader in end-to-end music solutions, 7digital has supported some of the biggest social media companies in the industry through tremendous growth.

CEO Paul Langworthy said he was delighted to welcome another rising social media platform to the roster, adding:

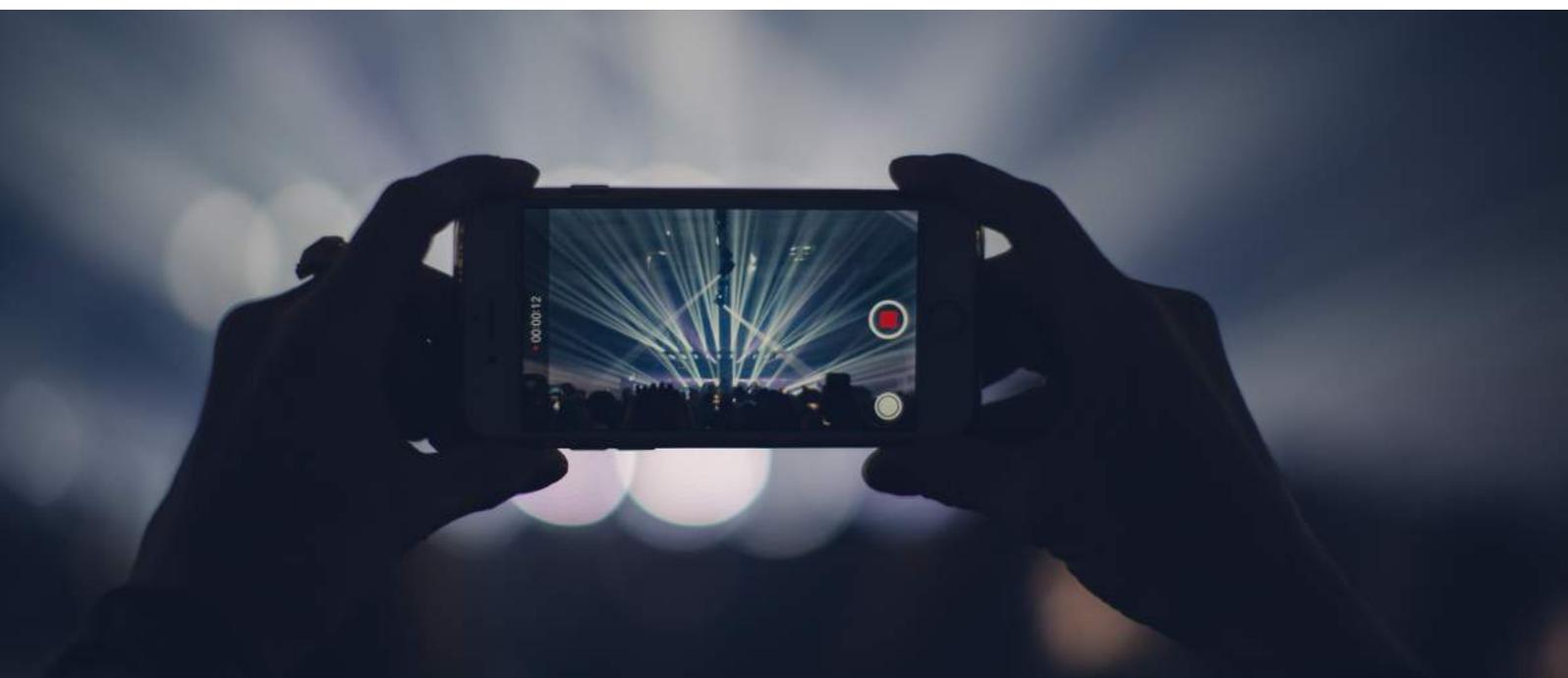
"This contract also reflects the increasing transitioning of our pricing model to align revenue with usage that expands as the customer grows.

"We are at an exciting inflection point where our deal momentum is providing significant improvement in revenues and each new contract adds to our growing base of recurring licence fees, with contracted licensing revenue already surpassing 2021 levels by 21%."



"This contract reflects the increasing transitioning of our pricing model to align revenue with usage that expands as the customer grows."

Paul Langworthy,
CEO of 7digital





Lomotif is a short video-sharing networking platform that offers easy and intuitive creation, with editing and curation tools to inspire creativity and collaboration.

The app is differentiated from competitors in the short-form video market by its patented technology and easy to use creator tools. Lomotif's significant presence spans Asia to Latin America, and West Africa to the US.

The initial contract will cover licensed major label content in the app's current territories and will accommodate expansion in content from newly licensed labels as well as usage. Lomotif will stream licensed music and clips directly to end users from 7digital's platform, which will automatically filter for label clearances. Lomotif will also use 7digital's full-service back-end label and publisher reporting solutions.

“We’re thrilled to support Lomotif as they build one of the largest short-form video platforms in the world,”

Paul Langworthy

A HOME FOR EVERYDAY CREATORS

Lomotif is a leading global video-sharing social networking platform busy democratising video creation. A home for everyday creators since 2014, it is one of the fastest-growing video sharing social networking platforms, with a grassroots social community of dedicated users across four continents. Lomotif counts the likes of LiveXLive

and Snapchat as official partners. Lomotif is majority-owned by ZW Media Partners, LLC - a joint venture of ZASH Global Media and Entertainment Corporation - and Vinco Ventures, Inc (NASDAQ: BBIG). Download the Lomotif app from Apple and Google stores or visit www.lomotif.com.

'NEW ERA OF GROWTH' FOR MUSIC

Streaming is set to propel global music revenue to record highs, according to a state-of-the-industry report by Goldman Sachs.

The US investment bank's annual Music in the Air report anticipated a 'new era of growth' for the music industry with total revenue more than doubling to \$131 billion by 2030. A 12% rise in music streaming was expected to play a big part in this, driven by 'volume, price and emerging platforms'.

\$131 billion

Forecast total music industry revenue in 2030

A HEALTHY INDUSTRY

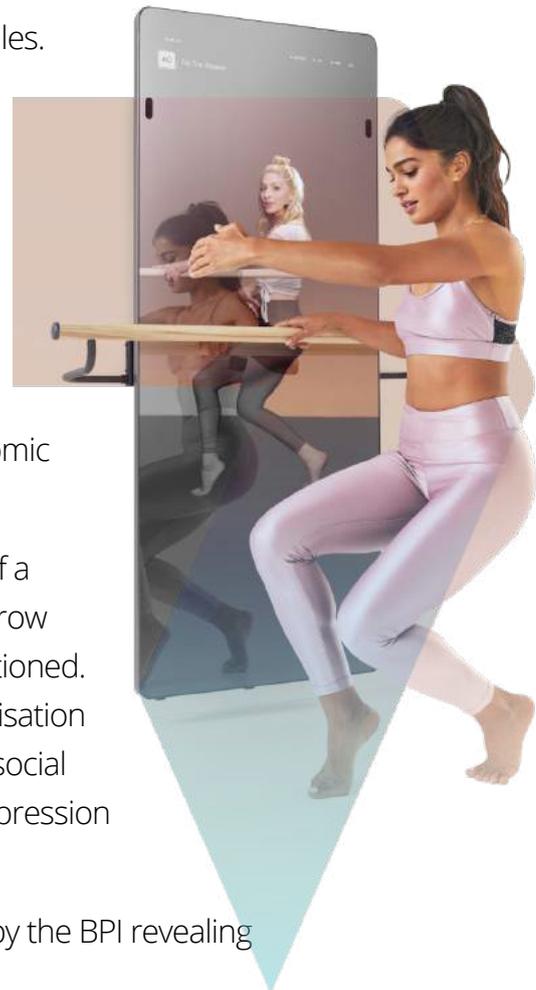
The music industry rebounded strongly in 2021, the report said, up 34% on the report's year-on-year estimates due to a return of live music, accelerated adoption of streaming and increased physical sales.

After nearly two decades of disruption, the music industry was 'undergoing a massive revival, with artists, labels and publishers cashing in on the growing popularity of streaming platforms... and consumers signing up for subscriptions like never before'.

Despite 'the impact of a weaker macro' and economic effects of the war in Ukraine, the report's author analyst Lisa Yang said the industry would 'prove resilient in an economic downturn'.

7digital welcomes the findings. "The picture they present is of a thriving, robust and innovative music industry, expected to grow massively in emerging industries where we are strongly positioned. In H1, we've seen over 40% growth in our fitness content utilisation year-on-year, and we currently serve over 200M daily active social media users who depend on those platforms for creative expression and discovery," said CEO Paul Langworthy.

Goldman Sachs' findings come shortly after a recent report by the BPI revealing the UK streaming market grew 5.7% in 2021.



STREAMING PLATFORMS

Music in the Air forecast streaming would propel global music revenues to record highs by 2030.

A large part of the predictions was based on emerging platforms including video games, TikTok and podcasts. They accounted for 30% of the industry's ad-supported revenues last year, forecast to rise to 40% by 2030.

Here, 7digital's highly scalable platform makes the company ideally placed to capitalise on the rise in streaming platforms and alternative avenues of consumption, in key areas like social media, fitness, music streaming and gaming.

Publishing was also expected to grow higher than previously expected to \$11.6 billion 'due to higher streaming, physical and performance revenues'. This

MUSIC CATALOGUES

The report said 76% of streaming users considered access to millions of tracks to be 'very important' or 'fairly important' and cautioned against the risk of piracy - one of the reports few negatives.

However, "7digital has a global library of over 90 million tracks and we have invested in real-time management that handles the complexity of the music supply chain. In this way our platform is well-placed to meet the compliance demands required by our customers and our suppliers with near-perfect reliability," said Paul Langworthy.

MILLENNIALS AND GEN Z-ERS

Millennials and Generation Z-ers also play a part in the anticipated surge, said the report. They currently spend more of their annual budget on music than any other age group. On average the 18-34 age group spends \$163, compared to \$152 for all age groups and \$80 for 13-17s.

7digital understands the power of social media. With long-standing relationships with customers in the

is good news for music rights holders and artist monetisation, one of 7digital's key strategies.

Annual trade revenues to rights holders such as labels and artists would reach \$53.2 billion by 2030, said the report.

In addition, the proportion of people streaming music on their smartphones was set to rise from 18% in 2018 to 37% in 2030 in developed countries, from 3% to 10% in developing countries. This would also ensure streaming platforms continued to expand their reach.



social media sector, such as Triller Inc. and Lomotif, 7digital is helping to shape how fans discover, share and create music by powering rights-cleared music on social media platforms. Indeed, our signing of a contract with Kuaishou reinforced our position as one of the largest providers of licensed music to global social media giants and tech-driven consumer brands.