Former Apple Music global creative director **Larry Jackson** launched **Gamma**, a one-stop-shop media company.

Warner Music Group CFO **Eric Levin** announced he will retire at the end of 2023.

Matsuura photographed Feb. 20 at Citrin Cooperman in New York.

From The Desk Of...
Nari Matsuura

PARTNER/CO-LEADER, MUSIC ECONOMICS AND VALUATION SERVICES PRACTICE, CITRIN COOPERMAN

BY ELIZABETH DILTS MARSHALL PHOTOGRAPHED BY REBECCA SMEYNE

WHEN IT comes to the red-hot market for music rights, the only people who may be more important than the buyers and sellers are number crunchers like Nari Matsuura.

The Ottawa, Ontario, native is the partner of Barry Massarsky and founder of the valuation division of their music economics and valuation services practice at Citrin Cooperman, one of just a handful of firms that calculate the future growth rates and discounts essential to determining a music catalog's market value.

From 2021 to 2022, Matsuura estimates she oversaw 750 catalog valuations totaling $15.5 billion for such clients as Hipgnosis Songs Fund, Primary Wave and Reservoir Media.

But as billions have flooded the music intellectual property market, the practice of valuing catalogs has encountered unexpected controversy, with Massarsky and Matsuura's team occasionally in the middle. Banks put considerable weight on catalog valuations when determining how much to lend to a buyer, and some question whether Citrin Cooperman's discount rate — which has not budged since spring 2022 — ignores macroeconomic pressures, such as the rising cost to borrow, that could affect valuations. Lower valuations could lead banks to decrease the amounts they lend overall, which could have a cooling effect on the market. "The reason we did not increase our discount rate along with the rising interest rate environment is because we had originally started at a higher discount rate so that we could accommodate for that rise," Matsuura says. "We knew that this low interest rate environment was not sustainable in the long term."

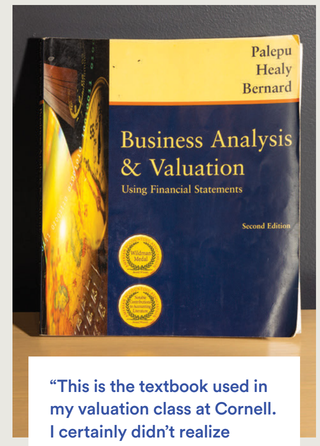
Matsuura says she's confident that she and her team are "doing a credible and responsible job." Her solemn, studious demeanor suggests that she is unruffled by the pressures of her work — perhaps the byproduct of her past as a concert pianist. Matsuura attended The Juilliard School in Manhattan from the age of 15 and spent her 20s performing concerts and solo chamber music across North America and Asia before pivoting to the financial side of the industry she loved. "There was something about quantifying the abstract — the future — that appealed to me," she says.

After graduating from Cornell University's SC Johnson College of Business in 2001, fellow Cornell alumnus Massarsky recruited Matsuura to join what was then the one-man firm of Massarsky Consulting. The two sold the firm to Citrin Cooperman in 2022 and are now growing its team of analysts to accommodate the increasing demand for their services.

Eliah Seton was named CEO of **SoundCloud**.

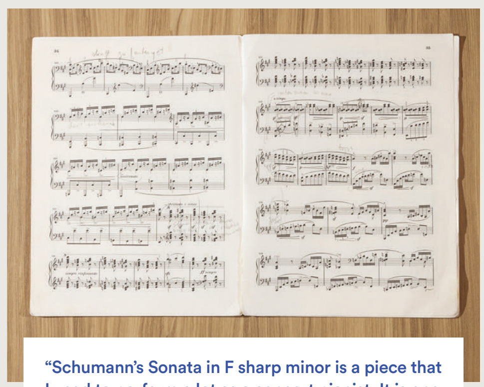
SiriusXM laid off 475 employees, or 8% of its workforce, as it looked to reduce expenses and invest in new technology.

"My daughter likes to do origami, and these really brighten up the office," Matsuura says.



"This is the textbook used in my valuation class at Cornell. I certainly didn't realize then how important what I learned would be."

A copy of King Crimson's 1997 *Epitaph* album "signed by the original members of the band. It contains live performances of the 1969 progressive rock album *In the Court of the Crimson King*, which is one of my favorites."



"Schumann's Sonata in F sharp minor is a piece that I used to perform a lot as a concert pianist. It is one of my favorite pieces in the piano repertoire."

"There were many early signals that valuation would become an important expertise in this industry," Matsuura says. "Clients were already asking us to do valuations of smaller assets such as music libraries. We did not know at the time that the investment market would become so big."

Why is independence so important to your job?
Our job is to provide the market value of a catalog or portfolio of catalogs, and being independent is critical to achieving that. Capital is raised based on the values of these assets, and there needs to be confidence that the valuation was arrived at independently in order to do so. A few of the ways in which we achieve that independence are one, being consistent in our methodology across all of the funds, including the application of growth rates, and two, solving for the market value, not for an individual fund's purchasing ability based on their hurdle rate [the individual investor's rate of return].

What factors do you consider when valuing a catalog?
Our job is to determine the market value of a given music catalog using different inputs that go into a valuation model. One of them is the discount rate, but the majority of inputs that go into developing the model are actually growth rates. How the music industry is performing across different income streams — and it's performing very strongly — is another consideration.

What role does the discount rate play in the process?
From a discounted cash-flow perspective, future cash flows are discounted to the present value. The present value represents the value of the catalog. The discount rate represents the return on your investment, essentially.

How do you calculate the discount rate?
The essential method is the weighted average cost of capital, [about] which we've refined our thinking over time. We factor in an equity-risk premium, a beta [the measure of an asset's volatility in relation to the overall stock market] of 0.65%. So, what would the risk-free rate — which is probably best represented by the 10-year U.S. Treasury bond — need to be to potentially raise or change the discount rate of 8.5%? Our view based on the numbers is that there is still margin before a change can be considered.

How much margin?
I've described some of the inputs, but they aren't fixed in stone. That's one reason why it's difficult to say, "This is the number." There are two schools of thought on when to change the discount rate. The first is if the risk-free rate is high enough to suggest that that margin has been eroded. The other school of thought is that you should change the discount rate not based on small fluctuations in the risk-free rate or fluctuations in where it will peak, but rather based on where it will eventually land in the long term. We're talking about a long-lived asset.

When you say "long term," what kind of time period do you have in mind?
We do a 15-year projection, but the actual asset is 95 years after the death of the composer. Thinking about where this rate is going to land in the long term makes more sense [for calculating] the discount rate. The question is how and when to make that determination — that crystal ball. We are attentive to the risk-free rate and to the possibility of changing that rate. But it would be hard to be beholden to an exact number.

What debt-to-equity profiles do you consider in your calculations?
Our mandate is really to solve for the market and, to the best of our ability, come up with the market value of an asset. We can't take into account the capital structure or debt-to-equity profile of any given acquirer because that would just be solving for their purchase price, and that wouldn't necessarily represent market value. So we use a 50-50 ratio to represent an overall industry capital structure ratio in our valuations. And we use that repeatedly.

What are you seeing in terms of multiples? From *Billboard*'s estimates, it appears that superstar catalogs these days get around 20 times-plus multiples, while most others fall below that.
Multiples are tricky, and should not be used to price a catalog. There are always unique aspects to each catalog that can't be captured in a multiple. Standards catalogs — older catalogs — are getting on average 20-plus multiples because they have stood the test of time.

Have you observed bias in the music asset investment marketplace in the form of preference for certain genres? If so, what effect has that had on sales or asset valuations?
I don't know that I have observed bias. What I can definitely say is that all of the funds have excellent investment teams that conduct thorough due diligence and carefully develop their own models. What I can also observe is that transactions are taking place across a wider range of genres compared [with], say, five years ago. Investors are open to investing in many different types of music. Although this may be a result of more competitors in the market, which has led to exploring more thoroughly all the different types of music that can be potentially acquired.

How much does success on TikTok affect a catalog's value? How do you forecast royalties from that kind of source?
TikTok can impact the value of a catalog in different ways. It may raise the overall value on a long-term basis — for example, the effect of [viral videos featuring] "Dreams" on Fleetwood Mac's catalog — or it may have a more temporary effect. The way we forecast royalties from TikTok is by using comps — that is, TikTok spikes from similar titles and artists — and we'll also consider whether there may be momentum following the spike that could generate additional value to the song or even catalog.

If Spotify raises its subscription price later this year in the current inflationary market, how would that affect the economics for digital service providers and rights holders?
Music is a relatively price-inelastic product whose business model essentially reversed itself, from a CD model of $18 for 18 tracks, or $1 per track, to the streaming model — which, at $10 per month for unlimited listening of an unlimited number of tracks, is effectively a marginal cost of zero for each additional track. This is so reasonable that consumers are less price sensitive to it than other goods, and an increase in the subscription price should for the most part lead directly to additional revenue for the DSPs and rights holders.