# Hipgnosis Music Assets 2022-1 L.P.

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**Table of Contents**

# Executive Summary

This pre-sale report summarizes Kroll Bond Rating Agency's (KBRA) analysis of Hipgnosis Music Assets 2022-1 L.P (MUSIC 2022-1) a music royalty ABS transaction. This report is based on information as of July 26, 2022. The ratings shown below are preliminary and subsequent information may result in the assignment of ratings that differ from preliminary ratings. The ratings do not address payment of subordinated additional interest payable after the anticipated repayment date. This report does not constitute a recommendation to buy, hold, or sell securities.

| Hipgnosis Music Assets 2022-1 L.P. | | | | | | |
|---|---|---|---|---|---|---|
| **Class** | **Rated Principal Balance ($000's)** | **Interest Rate** | **Advance Rate** | **Anticipated Repayment Date** | **Final Maturity Date** | **KBRA Preliminary Rating** |
| A | 221,650 | TBD | 65.0% | May-27 | May-62 | A- (sf) |
| Total | 221,650 | | | | | |

MUSIC 2022-1 represents Hipgnosis Songs Assets (Delaware) L.P.'s (Hipgnosis or the Company) first music royalty securitization. MUSIC 2022-1 will be collateralized by royalties from a music catalog (the Catalog) of premium content from over 950 songs across five sub-catalogs from top artists and songwriters, including Justin Timberlake, Nelly Furtado, and Leonord Cohen. Royalty payments include publishing rights and sound recording rights. An independent third-party valuation firm (Valuation Agent) valued the Catalog at $341.0 million using a discounted cash flow method based on cash flow forecasts and a discount rate of 7.0%. This valuation does not give any credit to revenue generated by name, image, and likeness (NIL) rights. The catalog is administered by multiple administrators including Sony Music Group and Universal Music Publishing Group.

Proceeds from the Transaction will be used to fund the reserve accounts, pay certain transaction expenses, make distributions to the Issuer's equity investors, repay existing indebtedness, and for other general corporate purposes. The Notes pay interest on a semi-annual basis and are not scheduled to pay down principal prior to the anticipated repayment date (ARD) in May 2027. Prior to the ARD, the only required principal payments are to maintain compliance with the borrowing base requirement which is a function of the note advance rate and the collateral value derived from the present value of the Valuation Agent's annually updated valuation.

| Transaction Parties | |
|---|---|
| Issuer | Hipgnosis Music Assets 2022-1 L.P. |
| Manager | Hipgnosis Song Management Ltd. |
| Back-Up Manager | FTI Consulting, Inc. |
| Trustee | Citibank, N.A. |
| Capital Agent | Hipgnosis Songs Capital Agent (Delaware) L.P. |
| Corporate Services Provider | Citadel SPV LLC |

## Key Credit Considerations

| | |
|---|---|
| **Large Catalog with Globally Recognized Songs and Artists**<br>The Catalog includes more than 950 musical compositions, master recordings, and related assets. Some of the high-profile artists/songwriters in the Catalog include Justin Timberlake, Nelly Furtado, Nile Rodgers, Leonord Cohen, and Kenny Chesney. The Catalog's income includes publishing royalties and sound recording royalties. An independent third party valued the portfolio at $341.0 million prior to closing using a discounted cash flow method based on cash flow forecasts and a discount rate of 7.0% and will revalue the portfolio each year. | + |
| **Administrator Concentration**<br>Administrators manage the rights of recording artists, record labels, or other sound recording owners in the marketplace by registering and licensing sound recordings with the proper entities, such as Collective Management Organizations (CMOs). The administrator collects royalties and licensing fees on behalf of the copyright holder, and in return, take a commission fee for their services. The administrator is responsible for collecting and remitting all collections to the | +/- |

| | |
|---|---|
| collection account. If an administrator were to become subject to bankruptcy proceedings, the transaction may experience delays in payments. The Issuer may appoint a replacement administrator if one of the administrators materially breaches its obligations. This may cause delays in cashflows and may increase expenses if the replacement third-party administrator charges a higher rate than the original administrator.<br><br>The transaction benefits from diversification across several large, industry leading administrators. There will be a number of administrators for the Catalog, including Sony Music Publishing, Universal Music Publishing Group, and Warner Music Group. In the future, the catalog may have other administrators if the existing administrators are replaced, or new assets are added.<br><br>KBRA notes that the transaction has a six-month reserve account to cover shortfalls in collections. In addition, the fees being paid to the administrators in the transaction are in line with rates that third party administrators are expected to charge. A breakdown of administrator concentration can be found in the Collateral Analysis section. | |
| **Experienced Manager**<br>The Manager for this transaction is Hipgnosis Song Management Limited, a music investment company that was founded in mid-2018 by Merck Mercuriadis, a former manager for many high-profile artists and current manager for Nile Rodgers. Hipgnosis focuses on acquiring high profile music catalogs from artists across the world. Hipgnosis's management team has over 300 years of combined experience.<br><br>KBRA has met with several members of Hipgnosis's management team. While the management team is experienced in the music industry, Hipgnosis Song Management Limited has limited operating experience. | **+/-** |
| **Backup Manager**<br>The Management Agreement contains manager termination events, including breaches of representations and warranties, breaches of covenants and bankruptcy events. If the Manager is terminated, FTI will step into the role of managing the portfolio of assets. FTI is experienced in the industry and has served in the role in other ABS securitizations in the asset class. Although FTI has been assigned as backup manager, there is no obligation to supervise, monitor or administer the performance of the Manager. On each determination date, the Backup Manager will receive the estimated payment schedule which the Manager calculates the projected principal and interest payments for the Notes. FTI will not receive any additional detail and will operate essentially as a "cold" backup. As a mitigant, the nature of the business of the Manager is not complicated, the Administrators handle the exploitation of the assets, and the securitization is not dependent on additional assets being generated. | **+** |
| **Independent Analysis of Catalog Value**<br>KBRA received a valuation of the portfolio prepared by a third-party Valuation Agent. The agent valued the Catalog at $341.0 million using a discounted cash flow method based on cash flow forecasts and a discount rate of 7.0%. As part of the valuation, the agent developed long-term projections for the portfolio over the projection period of approximately 40 years, beginning on the payment date in 2022 through the Rated Final Maturity Date. The Valuation Agent estimated the cash flows beyond the projection period based upon assumptions regarding the projected financial performance of the portfolio utilizing terminal growth and decay rates for the Catalog. The initial Valuation Agent or one of the other designated valuation agents will provide an annual valuation for the life of the transaction. The catalog valuation report is the basis for the collateral value used in the determination of the Borrowing Base, credit enhancement requirements and other structural features. | **+** |
| **Transaction Structure**<br>The transaction benefits from credit enhancement levels that are sufficient to withstand KBRA's rating stresses. Initial credit enhancement is comprised of overcollateralization, an interest reserve account, liquidity reserve account and excess cash flow, as follows:<br><br>▪ **Overcollateralization:** Initially the Class A Notes will have 35% overcollateralization of the present value of the forecast valuation.<br>▪ **Interest Reserve Account:** Interest reserve account initially funded and sized to cover six months of interest. | **+** |

- **Liquidity Reserve Account:** Liquidity reserve account initially funded and sized to cover projected initial collections. The projected initial collections amount is day one debt service coverage net of last twelve-month Net Publishing Share (NPS) and fees/expenses.
- **Excess Cash Flow:** The 7.00% discount rate applied to the transaction valuation by the third-party Valuation Agent is higher than the sum of interest rate and fees on the debt. The difference between the two will create excess cash flow.
- **DSCR Triggers:** The DSCR is calculated as the net cash flow over the preceding two semi-annual collection periods to the aggregate amount of interest payable on the Class A Notes. The table below summarizes the Cash Trap, Rapid Amortization, and Event of Default triggers based on the DSCR.

| DSCR Triggers | | | | |
|---|---|---|---|---|
| 50% Cash Trap | 100% Cash Trap | Liquidity Reserve Release Threshold | Rapid Amortization | EOD |
| <1.40x but ≥ 1.30x | <1.30x | >1.50x | < 1.15x | <1.05x |

- **LTV Cash Sweep Trigger:** Prior to the ARD, principal payments are required to be made from available funds to maintain compliance with the applicable LTV Ratio which is a function of the notes' advance rates and the collateral value derived from the present value of the Valuation Agent's annually updated valuation. In the event that the trigger is breached, principal payments will be made on the Class A Notes until the Notes are in compliance with the 65% LTV Ratio.

**Proliferation of Streaming**

The affordability, unlimited consumption and ubiquitous distribution of streaming through both ad-supported and subscription services has presented consumers with a compelling value relative to historical models that distributed music on physical media. Streaming is a growing market that still has low penetration rates. Streaming is the main driver of industry growth, as it enables more people to listen to more music.

Consumption is increasing at a subscriber level and the entire music industry is growing as the number of users increase as well as the frequency at which they stream. A growth in streaming higher than initially projected in the valuation assumptions could lead to an increase in cash flows into the transaction. Such increase was not considered in our analysis.

+

**Intellectual Property Transferred to the Issuer**

The Collateral consists of sound recordings and musical compositions and the entities that own the applicable copyrights in the sound recordings and compositions will be transferred to the Issuer. The rights of the Issuer group in the intellectual property should therefore not be affected by a bankruptcy of the sellers.

Certain works in the Catalog may be subject to reversion under statute prior to the legal final payment date. Under the U.S. Copyright Act, an artist or songwriter can typically recapture ownership of the copyright in their works 35 years after the date of the grant (if the grant was made after 1978). Hipgnosis acquired the catalogs recently from the artists and the catalogs may only become subject to statutory reversion in or after 2056. Further, although an artist's reversion rights under the U.S. Copyright Act cannot be contractually waived, the acquisition agreements contain provisions to disincentivize the artists from exercising their reversion rights.

+/-

**Litigation Risk & Regulatory Environment**

The Catalog is not currently subject to material copyright infringement claims or other material litigation. Any future infringement claims could result in reduced cashflows for the transaction and increased expenses.

In 2018, the Copyright Royalty Board (CRB) had increased mechanical streaming royalty rates that digital service providers (DSP) are required to pay songwriters and other copyright owners for the 2018-2022 period. The CRB's rate-setting process was subsequently challenged by the streaming services, and it was uncertain whether the rate increases would change. However, in July 2022, the CRB re-affirmed the rate increases, which should benefit the transaction. The CRB

+

| | |
|---|---|
| has commenced the rate-setting process for the 2023-2037 period and the outcome of these proceedings is currently uncertain. | |
| **Potential Impact of Foreign Currency Fluctuation**<br>Approximately 12% of the Catalog payments were in foreign denominations as of March 31, 2022. The non-US currencies are largely derived from Canada and the UK, which offer relative stability vis a vis the U.S. dollar. However, this still poses risk as certain collateral cashflows are non-US currencies and the notes are denominated in U.S dollars. | - |
| **Recycled Entities**<br>The asset owning entities in the transaction are recycled entities which were formed as special purpose entities by Hipgnosis for the purpose of acquiring the catalogs, except one asset owning entity, which represents approximately 10% of the collateral, was formed as an operating company by an artist and acquired by Hipgnosis. This company was not initially created for use in a securitization but was converted into a special purpose entity by amending its organizational documents in a manner consistent with a typical asset backed securitization. The transaction could be impacted by any existing liabilities that the recycled entities are subject to, including any indemnities under any prior financings and other transactions. KBRA notes that customary lien searches were conducted, and certifications will be provided with respect to any ongoing liabilities. | - |
| **Sellers Representations and Warranties**<br>The asset-owning entities previously entered into acquisition agreements with certain artists and their successors. At closing, the shares in the asset-owning entities will be contributed to the Issuer by Hipgnosis. Hipgnosis will not make representations with respect to the underlying catalogs in the contribution agreements, but the transaction would benefit from asset-level representations and indemnities under the artist acquisition agreements. If there is a breach of a representation, the Issuer may only be able to recover losses from the sellers under the acquisition agreements, which are generally individual artists. | -/+ |

| Currency | Catalog Payments $Mn LTM Q1 2022 | Percent of Total NPS/NLS |
|---|---|---|
| USD | 11,736 | 88% |
| USD/GBP Mixed | 63 | 0% |
| GBP | 299 | 2% |
| CAD | 1,279 | 10% |
| Total | 13,377 | 100% |

# KBRA Process

KBRA analyzed the transaction using the Global General Rating Methodology for Asset-Backed Securities, as well as its Global Structured Finance Counterparty Methodology and ESG Global Rating Methodology. In applying the methodologies, KBRA analyzed the Catalog's historical data, and third-party reports. The capital structure was tested by applying stressed assumptions in KBRA's cash flow analysis of the transaction.

# Manager Overview

The information in this section is based on materials provided by the Issuer and/or public sources.

Hipgnosis Song Management Limited is a private limited liability company that was founded in mid-2018 by Merck Mercuriadis, a former music manager for many high-profile artists. Hipgnosis focuses on acquiring high profile music catalogs by artists across the world. As of July 2022, Hipgnosis had over $3 billion AUM, with over 150 catalogs that consisted of over 66,000 songs. Many of the songs managed by Hipgnosis have held top ten positions in global charts and/or have won Grammys. Hipgnosis's management team has over 300 years of combined experience.

# Manager's Management Team

KBRA met with key members of management. Hipgnosis's management team brings decades of experience in the music publishing industry. Below are selected management biographies.

**Merck Mercuriadis, Founder and Chief Executive Officer**

Mr. Mercuriadis brings over 40 years of experience in the music industry. Alongside running Hipgnosis Song Management, he is also the current manager of Nile Rodgers, an iconic artist and publisher. Prior to founding Hipgnosis

Song Management, Mr. Mercuriadis was the manager of many famous artists including Sir Elton John, Beyonce, and Guns N' Roses.

**Markku Lonnqvist, Chief Investment Officer**
Mr. Lonnqvist oversees the investment activity of Hipgnosis Song Management, mainly focusing on the analysis and execution of potential catalog acquisitions. Prior to joining Hipgnosis earlier this year, Mr. Lonnqvist spent almost two decades in the private equity space, where he managed investments across several funds in Europe and North America. Mr. Lonnqvist received his master's in economics from the University of Helsinki.

**Amy Thomson, Chief Catalogue Officer**
Ms. Thomson manages Hipgnosis's song publishing activity for income generating purposes. She brings over 20 years of experience in the music industry and prior to joining Hipgnosis a few years ago, she managed the careers of high-profile artists/groups such as Swedish House Mafia, DJ Snake, and Seal. Over the course of her management career, her work generated over eight billion streams.

# Collateral Analysis

The Catalog consists of over 950 compositions, with many top songs by Net Publisher Share ("NPS") or Net Label Share ("NLS") receiving multiple accolades. The Catalog is diversified among many different artists. The Catalog is also diversified across format and income types, which mitigates concentration risk within the pool. It is also well-seasoned and spans several different genres. Approximately 12% of the Catalog's payments by NPS/NLS as of March 31, 2022, were made in foreign denominations. The Catalog stratifications can be seen in the adjacent tables. It should be noted that historical information may portray pro-forma numbers which reflect consideration of administration rate uplifts, historical activity prior to ownership, or other normalizing adjustments.

The Catalog is administrated by 10 different administrators, including Sony Music Publishing, Universal Music Publishing Group, and Warner Music Group. Administrators manage the rights of recording artists, record labels, or other sound recording owners in the marketplace by registering and licensing sound recordings with the proper entities, such as Collective Management Organizations (CMOs). The administrator helps to make sure the content generates royalties and are collected properly. The administrators traditionally do not retain any ownership of the sound recordings they administer. Instead, the administrator collects royalties and licensing fees on behalf of the copyright holder, and in return, take a commission fee for their services.

The portfolio of assets includes the right, title and interest in (i) certain sound recordings and related rights, and (ii) publishing rights.

| Songs | Catalog Payments $Mn LTM Q1 2022 | Percent of Total NPS/NLS |
|---|---|---|
| Songs 1-5 | 3,707 | 28% |
| Songs 6-10 | 1,425 | 11% |
| Songs 11-25 | 2,128 | 16% |
| Others | 6,117 | 46% |
| Total | 13,377 | 100% |

| Artists | Catalog Payments $Mn LTM Q1 2022 | Percent of Total NPS/NLS |
|---|---|---|
| Artists 1-5 | 8,140 | 61% |
| Artists 6-10 | 2,244 | 17% |
| Other | 2,992 | 22% |
| Total | 13,377 | 100% |

| Vintage | Catalog Payments $Mn LTM Q1 2022 | Percent of Total NPS/NLS |
|---|---|---|
| Released 0 - 5 Years Ago | 1,065 | 8% |
| Released 5 - 10 Years Ago | 2,068 | 15% |
| Released 10 - 20 Years Ago | 4,500 | 34% |
| Released 20 - 30 Years Ago | 1,116 | 8% |
| Released 30+ Years Ago | 4,628 | 35% |
| Total | 13,377 | 100% |

| Administrator | Catalog Payments $Mn LTM Q1 2022 | Percent of Total NPS/NLS |
|---|---|---|
| Sony Music Publishing | 3,339 | 26% |
| Universal Music Publishing Grc | 2,174 | 16% |
| Universal Music Group | 1,435 | 11% |
| SOCAN | 1,279 | 10% |
| Other | 5,150 | 37% |
| Total | 13,377 | 100% |

| Royalty Type | Catalog Payments $Mn LTM Q1 2022 | Percent of Total NPS/NLS |
|---|---|---|
| Composition Rights | 8,744 | 65% |
| Sound Recording Rights | 4,633 | 35% |
| Total | 13,377 | 100% |

### Song Covers & Diversity

The top song in the Catalog is Hallelujah, which represents 12.8% of the Catalog LTM Q1 2022 NPS. However, Hallelujah has many different covers, so while the composition itself may represent over 10% of the Catalog LTM Q1 2022 NPS, the largest rendition of the song only represents 3.9% of lifetime global Spotify streams. A breakdown of Hallelujah by artist based on lifetime global Spotify streams can be seen to the right. The same concept can be applied to other composition rights in the Catalog, where total revenue can come from different renditions.

| Hallelujah Breakdown | |
|---|---|
| **Artist** | **Percent of Lifetime Global Spotify Streams** |
| Pentatonix | 3.93% |
| Jeff Buckley | 3.61% |
| Rufus Wainwright | 1.63% |
| Leonard Cohen | 1.28% |
| Tori Kelly | 1.17% |
| Theory Of A Deadman | 0.48% |
| Il Divo | 0.32% |
| K.D. Lang | 0.19% |
| Brian Crain | 0.11% |
| Brett Young | 0.06% |
| Total | 12.78% |

# Royalty Channels

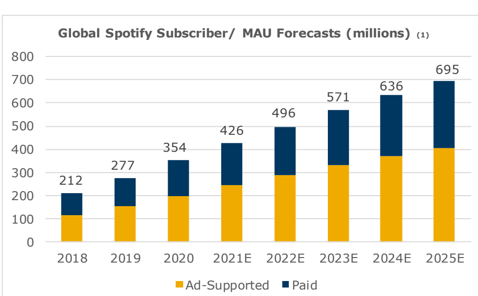
There are various royalty channels that create distinct sources of income. Due to size and diversity of the Catalog, all of the royalty channels are utilized or expected to be utilized. The major royalty channels include the following:

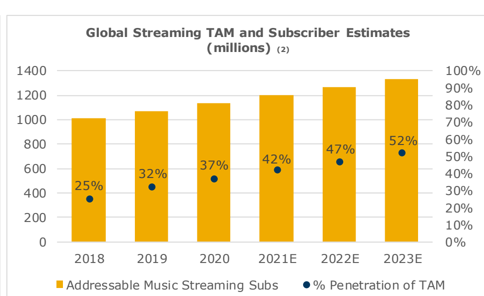
| Royalty Income Source | Medium | Description | Examples of Select Payors |
|---|---|---|---|
| Mechanical | Physical | Sales of physical units such as CDs and vinyls | Amazon, BestBuy |
| | Digital Download | Digital sale of music on platforms | iTunes, Amazon Music |
| | Interactive Streaming | Licensing of music for exhibition via on-demand streaming platforms | Spotify, YouTube Music |
| Performance | Non-Internet Streaming | Licensing of music for exhibition via online radio | Pandora |
| | AM/FM | Licensing of music for exhibition via terrestrial radio | iHeart Radio |
| | Satellite Radio | Licensing of music for exhibition via satellite radio | SiriusXM |
| | Public Performance | Licensing of music for performance in a public setting | Macy's, Peloton |
| Synchronization | Ads | Licensing of music to include in advertisements | OmnicomGroup |
| | Film, TV, etc. | Licensing of music to include in other entertainment | Netflix, Disney, Hulu |

### Growth in the Music Industry

The Recorded Music business is experiencing strong industry tailwinds that benefit sound recording rights holders. Some of the growth drivers are the technological innovation such as smart phones and smart speakers, allowing for greater access and distribution to music streaming services. Favorable statutory royalty rates is another driver of future growth in the global music market.

With the proliferation of new markets and the growth of streaming adoption, the size of the market is growing, and the streaming percentage of the market is growing as well. The affordability, unlimited consumption and ubiquitous distribution of streaming through both free (ad-supported) and subscription services has presented consumers an offering with a more compelling value proposition than anything that has existed historically. In addition, there are new licensing opportunities created more often. Some of the recent examples are from the adoption of emerging consumption formats such as short-form video and e-fitness (i.e. Snapchat, Tik-Tok, and Peloton). The below graphs depict forecasted streaming growth for the next few years.




(1) Morgan Stanley equity research (April 2021)
(2) Evercore ISI music streaming research (2020)

## Catalog Valuation

The third-party Valuation Agent has valued the Catalog at $341.0 million. The Valuation Agent's industry experience and expertise provides an understanding of the values, risks, and financing possibilities connected with the media and entertainment industry. The Valuation Agent maintains regular contact with key industry participants, including media companies and strategic and financial investors, and have detailed current knowledge of how buyers and sellers view assets and businesses within the industry.

The agent used the Income Approach and assumed a discounted net present value of projected long-term free cash flow of 7.00% given the specialized nature of the assets. This approach is the prevailing industry convention for valuing comparable assets. The agent developed long term projections for the Catalog over a projection period of approximately 40 years, and then estimated the cash flows beyond the projection period based upon certain assumptions regarding projected financial performance utilizing terminal growth and decay rates.

### Growth Assumptions

The agent has applied various long-term growth and decay rates to each asset within the overall Catalog, reflecting their views of the industry and the performance of each individual songwriter. The average growth rate over the 40 years of the transaction was determined to be approximately 1.75%.

## Transaction Comparison

The table below compares certain characteristics of the collateral pool and structure of this transaction to recent music royalty transactions rated by KBRA.

| | Hipgnosis Music Assets | KKR | Crescendo |
|---|---|---|---|
| **Collateral** | | | |
| Songwriter/Artists/Sub-Catalogs | 155 | 44 | 52 |
| # Songs | 980 | ~62,000 | 52,729 |
| Portfolio value (million) | $341.00 | $1,127.00 | $467.40 |
| Top 10 Song % | 39.48% | 10.69% | 15.90% |
| Top 10 Catalog % | 100.00% | 58.77% | 63.90% |
| | | | |
| **Debt** | | | |
| Class - A | $221,650,000 | $732,500,000 | $303,800,000 |
| | | | |
| **LTV** | | | |
| Class - A | 65% | 65% | 65% |
| | | | |
| **Rating** | | | |
| Class - A | A- (sf) | A (sf) | A (sf) |
| | | | |
| **ARD** | | | |
| Class - A | 5 years | 5 years | 5 years |
| | | | |
| **Interest Reserve Account** | 6 months | 12 months | 6 months |
| | | | |
| **DSCR Triggers** | | | |
| Liquidity Reserve Release | 1.50x | NA | NA |
| 50% Cash Trap | 1.40x | 1.30x | 1.40x |
| 100% Cash Trap | 1.30x | 1.20x | 1.30x |
| Rapid AM event | 1.15x | 1.15x | 1.15x |
| Event of Default/Full Turbo Trigger | 1.05x | 1.05x | 1.05x |

# Rating Analysis & Cash Flow Modeling

KBRA performed cash flow analysis to test the transaction structure and to examine stresses related to different growth/decline scenarios. KBRA collectively reviewed these quantitative and qualitative factors and their associated impact in its determination of ratings for the notes.

KBRA's base case cash flow scenario leverages the data from the third-party valuation report. The valuation report projections considered sound recording level, Catalog level, revenue stream cash flow projections, industry data, historical financial performance, administration agreements, as well as third party research. Cash flows were held constant, with zero growth, after year 30 in all scenarios. Under the base case scenario, the rated Notes are paid in full in approximately 21 years.

To stress the cash flows, several different scenarios were run to test the strength of the structure.

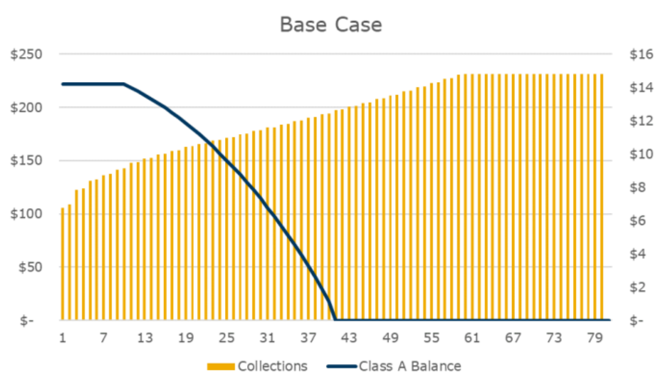
<u>Scenario 1 (Uniform Haircut)</u>: This scenario assumes the valuations may be overstated owing to potential variability surrounding assumptions regarding artist and industry growth, discount rate, and other factors. In this scenario, the maximum haircut to the base case cashflow is applied where timely interest and the full repayment of principal is paid to the Notes. The breakeven haircut for MUSIC 2022-1 is 37.77%.

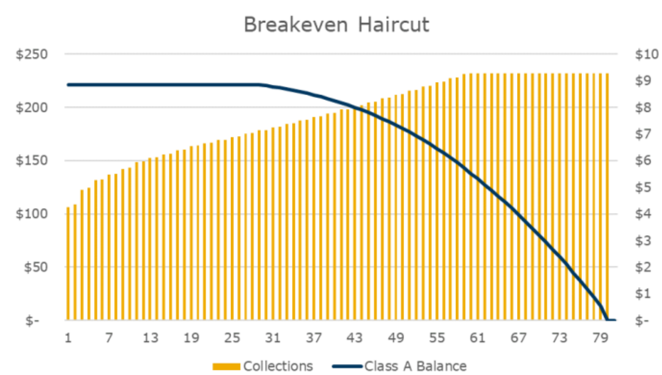
<u>Scenario 2 (Breakeven Decay Rate)</u>: This scenario assumes that the Catalog cashflows decrease by a fixed rate over time after the first year of collections. In this scenario, the cash flows can decay by 1.16% per annum over the life of the transaction and the notes would still receive timely payment of interest and the full repayment of principal.

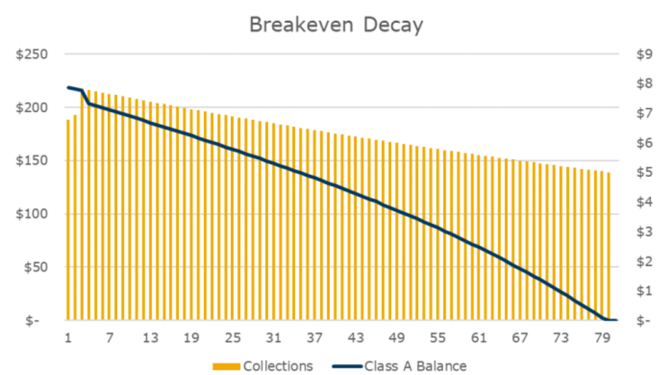
In both scenarios, the borrowing base trigger is tripped due to the reduced catalog value in each period as a result of the reduced cashflows. In both scenarios, the securities received timely interest payments. Under the stress scenarios the Notes were shown to have sufficient credit enhancement to support the assigned ratings.

| Breakevens | |
|---|---|
| Haircut | 37.77% |
| Decay Rate | 1.16% |

**Note Paydown by Scenario**



## Rating Sensitivity and Surveillance

The table below illustrates the potential for downgrade of each rated class based on the percentage change in the transaction's DSCR. 'Stable' means a downgrade is unlikely. 'Moderate' means a potential downgrade of up to one rating category is possible. 'Severe' indicates a multi-category downgrade is possible.

It should be noted that many factors, including economic stress, market conditions and servicing operations can impact the performance of the transaction and influence rating decisions, both positively and negatively.

| Class and Rating Sensitivity | |
|---|---|
| % Change DSCR | Class A Notes |
| 0% | Stable |
| -5% | Stable |
| -10% | Stable |
| -15% | Stable |
| -20% | Moderate |
| -25% | Moderate |
| -30% | Moderate |
| -35% | Severe |
| -40% | Severe |

## ESG Considerations

### Environmental Factors

Although the amount of plastic used to make physical media has plummeted in the past few decades, the energy it takes to stream and download digital music has risen sharply. There is also substantial additional energy use when you factor in data storage, device usage and battery charging. Although there may not currently be any direct environmental liabilities associated with the assets, it is unclear what regulatory changes and future liabilities may arise in coming decades.

### Social Factors

**Reputational and Industry Specific Risks**

Social media and mobile communications can be used to spread negative publicity rapidly to large numbers of people. This could impact the Company's ability to respond timely and effectively to negative publicity, which could damage the perception or reputation of the Company or industry. A consideration in KBRA's credit analysis is an evaluation of current complaints, litigation or regulatory inquiries, if any, against the Company. Artists operating in the music industry are susceptible to shifts in public perception, legislation, and can also be adversely affected by reputation-damaging events. Depending on the type of litigation, or controversies surrounding an artist, or other risks that may change consumer preference or perception of an artist, KBRA may apply additional stress scenarios when modeling cash flows.

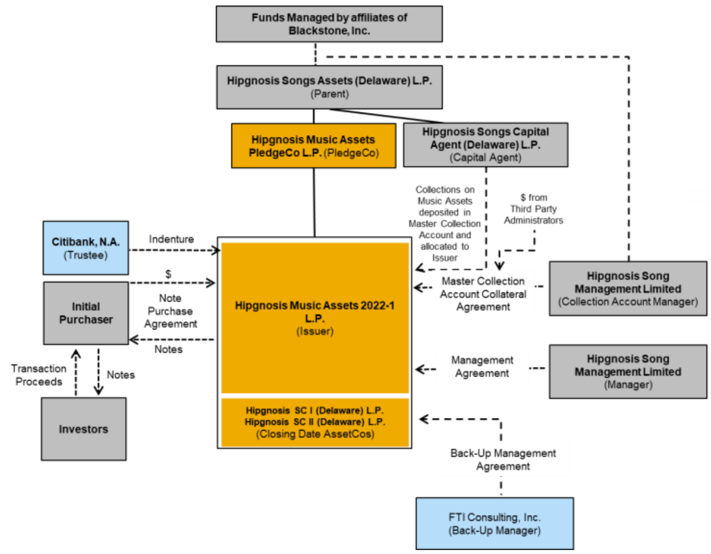
### Governance Factors

**Transaction Structure**

Transaction structure is an important governance factor in structured finance transactions as many structural aspects such as adherence to representations and warranties, indemnification obligations in place, reporting of collateral performance, and segregation and application of cashflows, require parties to act in good faith and certify the accuracy of such information. Failure to do so could impact actual performance and KBRA ratings. KBRA considers the transaction mechanics and structural features such as, but not limited to: cash management arrangements; contractual counterparty relationships; operational complexity of business; back-up manager arrangements; reserve requirements for upfront and ongoing obligations; waterfall provisions; and underlying collateral for the debt; as applicable, in our ratings analysis. Please refer to the Transaction Structure section for additional information regarding the structure.

# Transaction Structure

Please note that the following is intended to be a concise summary of the transaction structure. It does not contain all the information that may be relevant to understanding the transaction's mechanics, which are available in the transaction documents.

<table>
<tr><th colspan="2">Legal Structure</th></tr>
<tr><td>Transaction Structure</td><td>


</td></tr>
<tr><td>Interest Reserve Account</td><td>The Issuer will be required to maintain an amount on deposit in the Interest Reserve Account equal to six months interest on the outstanding principal balance of the Notes. The Interest Reserve Account will be replenished in accordance with the priority of payments.</td></tr>
<tr><td>Liquidity Reserve Account</td><td>There will be a Liquidity Reserve Account funded at closing with an amount equal to the projected initial collections amount. The projected initial collections amount is day one debt service coverage net of last twelve-month Net Publishing Share (NPS) and fees/expenses.</td></tr>
<tr><td>Cash Trap Events /Reserve Account</td><td>If a Cash Trap Event occurs and for so long as such Cash Trap Event continues to exist, an amount equal to the product of (i) the Cash Trapping Percentage and (ii) the remaining amount of Available Funds will be deposited in the Cash Trap Reserve Account in accordance with the priority of payments.<br><br>The table below outlines the cash trap percentage thresholds.
<table>
<tr><th>Cash Trap Condition</th><th>Cash Trap Percentage</th></tr>
<tr><td>I/O DSCR is <1.40x but ≥1.30x</td><td>50%</td></tr>
<tr><td>I/O DSCR is <1.30x</td><td>100%</td></tr>
</table>
A Cash Trap Event will continue until the DSCR as of the last day of the Related Collection Period has exceeded the applicable threshold in a Semi-Annual collection period. If a Cash Trap Condition ceases to exist and if no Event of Default or Rapid Amortization Event has occurred and is continuing, any funds then on deposit in the Cash Trap Reserve Account will be transferred to the Collection Account to be applied as Available Funds.</td></tr>
<tr><td>Manager Termination Events</td><td>(i) any failure by the Manager to deliver to the Master Collection Account or the Collection Account any required payments for five Business Days;<br>(ii) failure to deliver the Manager's Certificate when required within five Business Days of the due date;<br>(iii) failure to comply in any material respect with any other covenant in the transaction documents for sixty days;<br>(iv) any representation, warranty or statement of the Manager proves to be incorrect in any material respect and is not cured within sixty days;<br>(v) certain voluntary or involuntary insolvency events with respect to the Manager;</td></tr>
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| | (vi) | one or more enforceable judgments in excess of $20,000,000 shall be entered against the Manager (to the extent not covered by insurance) and shall not be discharged for 60 days; or |
| | (vii) | any material provision of the Management Agreement shall cease to create an enforceable obligation against the Manager. |
| Rapid Amortization Events | (i) | an Event of Default has occurred; |
| | (ii) | delivery of a notice of resignation or termination of the Manager under the Management Agreement; |
| | (iii) | the Series 2022-1 Notes have not been repaid or refinanced in full on or prior to the Series 2022-1 Anticipated Repayment Date; |
| | (iv) | the I/O DSCR is less than 1.15x with respect to any Payment Date on or after the DSCR Test Start Date; |
| Priority of Payments | (i) | first, (A) to the Manager, Third Party Payments (B) to replenish the Third Party and Deferred Payments Reserve Account; |
| | (ii) | second, solely with respect to any funds consisting of Indemnification Amounts and Asset Disposition Proceeds: (A) solely in the case of Asset Disposition Proceeds in excess of any Disposition Proceeds Required Amount and any related Disposition Prepayment Make-Whole and any Indemnification Amounts, to reimburse the Manager for any Manager Advances (and accrued interest thereon), and then (B) to the Series 2021-1 Notes Principal Payment Account in the amount necessary to prepay the Outstanding Principal Amount of the Series 2021-1 Notes until repaid in full; in the case of any Asset Disposition Proceeds, in an amount equal to any Disposition Prepayment Amount together with any related Disposition Prepayment Make-Whole; |
| | (iii) | third, to reimburse the Manager for any unreimbursed Manager Advances (and interest thereon); |
| | (iv) | fourth, to pay Successor Manager Transition Expenses, if any; |
| | (v) | (v) fifth, on a pro rata basis based on amounts owed: (A) to deposit to the Senior Expense Account, an amount equal to any previously accrued and unpaid Senior Expenses together with any Senior Expenses that are expected to be payable prior to the immediately following Semi-Annual Payment Date, in an aggregate amount not to exceed the Capped Senior Expenses Amount (but, following the occurrence of an Event of Default, only to the extent applicable) with respect to the calendar year in which such Semi-Annual Payment Date occurs after giving effect to all deposits previously made to the Senior Expense Account in such calendar year, to be distributed on a pro rata basis (but subject to the first proviso set forth in the definition of "Capped Senior Expenses Amount") based on the amount of each type of Senior Expense payable on such Semi-Annual Payment Date pursuant to this clause (v)(A); and (B) if the Additional Duty Assumption Date has occurred, to the Back-Up Manager for payment of any accrued and unpaid Supplemental Back-Up Management Fees; |
| | (vi) | sixth, pro rata, (A) to pay to the Manager the Management Fee, and (B) to pay to the Corporate Services Provider the Corporate Services Fee; |
| | (vii) | seventh, the Series 2022-1 accrued semi-annual interest amount for such Payment Date; |
| | (viii) | eighth, to replenish the Interest Reserve Account; |
| | (ix) | ninth, so long as no Rapid Amortization Event or Event of Default has occurred and is continuing, if an LTV Cash Sweep Event has occurred and is continuing, to pay the LTV Test Required Amount to the Series 2022-1 Notes Principal Payment Account for payment to the Holders of the Series 2022-1 Notes; |
| | (x) | tenth, so long as no Rapid Amortization Event has occurred and is continuing, if a Cash Trap Event has occurred and is continuing, (A) unless clause (B) applies, to the Cash Trap Reserve Account, the applicable Cash Trap Percentage of the remaining amounts, or (B) if a Cash Trap Event is continuing on the then current Semi-Annual Payment Date and existed on the two (2) immediately preceding Semi-Annual Payment Dates, all remaining amounts to repay the outstanding principal balance of the Series 2021-1 Notes; |
| | (xi) | eleventh, if a Rapid Amortization Event has occurred and is continuing, all remaining amounts to repay the outstanding principal balance of the Series 2022-1 Notes; |
| | (xii) | twelfth, unpaid Senior Expenses in excess of the Capped Senior Expenses Amount (including any Senior Expenses in excess of the Capped Corporate Services Expense |

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| | Amount and the Capped Litigation Expense Amount) after giving effect to step (v) above;<br>(xiii) thirteenth, any Semi-Annual Post-ARD Additional Interest for such Payment Date;<br>(xiv) fourteenth, any unpaid Make-Whole Prepayment Premium;<br>(xv) fifteenth, to allocate to the applicable Principal Payment Account the Series 2022-1 Notes Optional Prepayment Amount, if any, as specified in writing by the Issuer;<br>(xvi) sixteenth, to pay the remaining funds at the written direction of the Issuer. |
| Events of Default | (i) The Issuer defaults in payment of interest on any Semi-Annual Payment Date;<br>(ii) The Issuer defaults in the payment of principal on the Legal Final Maturity Date or fails to make principal payments from available funds in accordance with the priority of payments;<br>(iii) Any Securitization Entity breaches its representations, warranties or covenants or otherwise defaults in the performance or compliance with any term contained in the Transaction Documents, subject to applicable grace periods;<br>(iv) Certain bankruptcy or insolvency events of the Issuer or any other Securitization Entity;<br>(v) I/O DSCR is less than 1.05x on any Semi-Annual Payment Date on or after the DSCR Test Start Date;<br>(vi) The Issuer or any other Securitization Entity is subject to registration as an "investment company" under the 1940 Act;<br>(vii) Unenforceability of any of the Transaction Documents;<br>(viii) A failure of the Trustee to have a valid and perfected lien and security interest on any Collateral with a book value in excess of five percent of the Collateral Value<br>(ix) One or more judgments in excess of $500,000 in the aggregate is rendered against any Securitization Entity and such judgments continue unsatisfied and unstayed for a period of thirty (30) days (in each case, to the extent not covered by independent third party insurance);<br>(x) Other than in the case of a Permitted Asset Disposition, (i) any failure of PledgeCo and the Issuer General Partner to own, directly or indirectly, one hundred percent (100%) of the outstanding limited partnership and general partnership interests, respectively, in the Issuer and (ii) any failure of the Issuer and the applicable general partner of each AssetCo to own, directly or indirectly, one hundred percent (100%) of the outstanding limited partnership and general partnership interests, respectively, in each Assetco;<br>(xi) The occurrence of one or more specified ERISA events that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect on any Securitization Entity;<br>(xii) The Management Agreement is terminated for any reason (provided that, to the extent a termination occurs as a result of a breach, default or other action of the Manager, such event will not constitute an Event of Default so long as such Manager is replaced within one hundred and eighty (180) days);<br>(xiii) The Corporate Services Provider is terminated or resigns, and a replacement is not designated by the Issuer within one hundred eighty (180) days;<br>(xiv) Failure by the Securitization Entities to have, by no later than ninety (90) days following the Closing Date, a U.S. federally registered copyright (or application therefore on file with the U.S. Copyright Office) with respect to (i) Musical Compositions and Sound Recordings in each case, in which a Securitization Entity owns the Copyright, that, in the aggregate, account for at least [eighty percent (80%)] of Net Publisher Share/Net Label Share and (ii) each Musical Compositions and Sound Recordings, in each case, in which a Securitization Entity owns the Copyright that, individually, constitutes greater than one percent (1%) of Net Publisher Share/Net Label Share;<br>(xv) The filing of certain tax liens;<br>(xvi) The Trustee or the Back-Up Manager is terminated or resigns, and a replacement trustee or back-up manager is not designated by the Issuer within one hundred and eighty (180) days; or<br>(xvii) Any Securitization Entity becomes treated as an association or a publicly-traded partnership taxable as a corporation for U.S. federal income tax purposes. |

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| Transaction Amendment Process | The transaction's indenture may be amended without the consent of noteholders if such amendment does not adversely affect in any material respect the interests of any noteholder. Other amendments require the consent of the holders of at least a majority in aggregate principal amount of the notes. Certain amendments (such as an increase, reduction, acceleration or delay in distributions to be made to noteholders) require that the holders of all notes affected by the amendment provide their consent. |
| Representations & Warranties | For more detailed information regarding the representations, warranties and enforcement mechanisms available under the transaction documents, please see KBRA's Hipgnosis Music Assets 2022-1 L.P. Representations and Warranties Disclosure, which is available here. |