ada
asylum
ATLANTIC
BIG BEAT
elektra music group
FUELED BY RAMEN
nonesuch
TRADE MARK
Parlophone
ROADRUNNER RECORDS
REPRISE RECORDS
RHINO
SIRE
SPINNIN' RECORDS
WARNER RECORDS
wea
WARNER MUSIC ENTERTAINMENT

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended September 30, 2020

OR

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to
Commission File Number 001-32502

Warner Music Group Corp.
(Exact name of registrant as specified in its charter)

Delaware	**13-4271875**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1633 Broadway
New York, NY 10019
(Address of principal executive offices)

(212) 275-2000
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Class A Common Stock, $0.001 par value per share	WMG	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulations S-T (§232.405 of this chapter) during the preceding 12 months (or for shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☐
Emerging growth company	☐		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes ☐ No ☒

As of March 31, 2020, the last business day of the registrant's most recently completed second fiscal quarter, there was no established public market for the registrant's common stock and, therefore, the registrant cannot calculate the aggregate market value of its common stock held by non-affiliates as of such date. The aggregate market value of the registrant's common stock held by non-affiliates of the registrant on September 25, 2020 (based on the closing sale price of $27.01 on that date), was approximately $2.4 billion. Shares of the registrant's common stock held by each executive officer and director and by each person who may be deemed to be an affiliate of the registrant have been excluded from this computation. This calculation does not reflect a determination that certain persons are affiliates of the registrant for any other purpose.

As of November 19, 2020, there were 88,580,914 shares of Class A Common Stock and 421,450,000 shares of Class B Common Stock of the registrant outstanding. The registrant has filed all Exchange Act reports for the preceding 12 months.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2020 Annual Meeting of Stockholders are incorporated herein by reference in Part III of this Annual Report on Form 10-K to the extent stated herein. Such proxy statement will be filed with the Securities and Exchange Commission within 120 days of the registrant's fiscal year ended September 25, 2020.

WARNER MUSIC GROUP CORP.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K (this "Annual Report") includes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Some of the forward-looking statements can be identified by the use of forward-looking terms such as "believes," "expects," "may," "will," "shall," "should," "would," "could," "seeks," "aims," "projects," "is optimistic," "intends," "plans," "estimates," "anticipates" or other comparable terms or the negative thereof. Forward-looking statements include, without limitation, all matters that are not historical facts. They appear in a number of places throughout this Annual Report and include, without limitation, our ability to compete in the highly competitive markets in which we operate, statements regarding our ability to develop talent and attract future talent, our ability to reduce future capital expenditures, our ability to monetize our music, including through new distribution channels and formats to capitalize on the growth areas of the music entertainment industry, our ability to effectively deploy our capital, the development of digital music and the effect of digital distribution channels on our business, including whether we will be able to achieve higher margins from digital sales, the success of strategic actions we are taking to accelerate our transformation as we redefine our role in the music entertainment industry, the effectiveness of our ongoing efforts to reduce overhead expenditures and manage our variable and fixed cost structure and our ability to generate expected cost savings from such efforts, our success in limiting piracy, the growth of the music entertainment industry and the effect of our and the industry's efforts to combat piracy on the industry, our intention to pay dividends or repurchase or retire our outstanding debt or notes in open market purchases, privately or otherwise, the impact on us of potential strategic transactions, our ability to fund our future capital needs and the effect of litigation on us.

Forward-looking statements are subject to known and unknown risks and uncertainties, many of which may be beyond our control. We caution you that forward-looking statements are not guarantees of future performance or outcomes and that actual performance and outcomes, including, without limitation, our actual results of operations, financial condition and liquidity, and the development of the market in which we operate, may differ materially from those made in or suggested by the forward-looking statements contained in this Annual Report. In addition, even if our results of operations, financial condition and cash flows, and the development of the market in which we operate, are consistent with the forward-looking statements contained in this Annual Report, those results or developments may not be indicative of results or developments in subsequent periods. New factors emerge from time to time that may cause our business not to develop as we expect, and it is not possible for us to predict all of them. Factors that could cause actual results and outcomes to differ from those reflected in forward-looking statements include, without limitation:

- risks related to the effects of natural or man-made disasters, including pandemics such as COVID-19;
- our ability to identify, sign and retain recording artists and songwriters and the existence or absence of superstar releases;
- our inability to compete successfully in the highly competitive markets in which we operate;
- the ability to further develop a successful business model applicable to a digital environment and to enter into artist services and expanded-rights deals with recording artists in order to broaden our revenue streams in growing segments of the music entertainment business;
- the popular demand for particular recording artists and/or songwriters and music and the timely delivery to us of music by major recording artists and/or songwriters;
- the diversity and quality of our recording artists, songwriters and releases;
- slower growth in streaming adoption and revenue;
- our dependence on a limited number of digital music services for the online distribution and marketing of our music and their ability to significantly influence the pricing structure for online music stores;
- trends, developments or other events in some foreign countries in which we operate;
- risks associated with our non-U.S. operations, including limited legal protections of our intellectual property rights and restrictions on the repatriation of capital;
- unfavorable currency exchange rate fluctuations;
- the impact of heightened and intensive competition in the recorded music and music publishing industries and our inability to execute our business strategy;
- significant fluctuations in our operations, cash flows and the trading price of our common stock from period to period;
- our failure to attract and retain our executive officers and other key personnel;

- a significant portion of our revenues are subject to rate regulation either by government entities or by local third-party collecting societies throughout the world and rates on other income streams may be set by governmental proceedings, which may limit our profitability;
- risks associated with obtaining, maintaining, protecting and enforcing our intellectual property rights;
- our involvement in intellectual property litigation;
- threats to our business associated with digital piracy, including organized industrial piracy;
- an impairment in the carrying value of goodwill or other intangible and long-lived assets;
- our failure to have full control and ability to direct the operations we conduct through joint ventures;
- the impact of, and risks inherent in, acquisitions or other business combinations;
- risks inherent to our outsourcing certain finance and accounting functions;
- the fact that we have engaged in substantial restructuring activities in the past, and may need to implement further restructurings in the future and our restructuring efforts may not be successful or generate expected cost savings;
- our ability to maintain the security of information relating to our customers, employees and vendors and our music;
- risks related to evolving laws and regulations concerning data privacy which might result in increased regulation and different industry standards;
- legislation limiting the terms by which an individual can be bound under a “personal services” contract;
- a potential loss of catalog if it is determined that recording artists have a right to recapture U.S. rights in their recordings under the U.S. Copyright Act;
- potential employment and withholding liabilities if our recording artists and songwriters are characterized as employees;
- any delays and difficulties in satisfying obligations incident to being a public company;
- the impact of our substantial leverage on our ability to raise additional capital to fund our operations, on our ability to react to changes in the economy or our industry and on our ability to meet our obligations under our indebtedness;
- the ability to generate sufficient cash to service all of our indebtedness, and the risk that we may be forced to take other actions to satisfy our obligations under our indebtedness, which may not be successful;
- the fact that our debt agreements contain restrictions that limit our flexibility in operating our business;
- the significant amount of cash required to service our indebtedness and the ability to generate cash or refinance indebtedness as it becomes due depends on many factors, some of which are beyond our control;
- our indebtedness levels, and the fact that we may be able to incur substantially more indebtedness, which may increase the risks created by our substantial indebtedness;
- risks of downgrade, suspension or withdrawal of the rating assigned by a rating agency to us could impact our cost of capital;
- the dual class structure of our common stock and Access’s existing ownership of our Class B common stock have the effect of concentrating control over our management and affairs and over matters requiring stockholder approval with Access; and
- risks related to other factors discussed under Item 1A. Risk Factors herein.

This Annual Report should be read completely and with the understanding that actual future results may be materially different from expectations. All forward-looking statements made in this Annual Report are qualified by these cautionary statements. Any forward-looking statement speaks only as of the date on which it is made, and we do not undertake any obligation, other than as may be required by law, to update or revise any forward-looking or cautionary statements to reflect changes in assumptions, the occurrence of events, unanticipated or otherwise, and changes in future operating results over time or otherwise. Comparisons of results for current and any prior periods are not intended to express any future trends or indications of future performance, unless expressed as such, and should only be viewed as historical data.

Other risks, uncertainties and factors, including those discussed in Item 1A. Risk Factors herein, could cause our actual results to differ materially from those projected in any forward-looking statements we make. The factors described in Item 1A should be read carefully. Risk Factors herein to better understand the risks and uncertainties inherent in our business and underlying any forward-looking statements.

Summary Risk Factors

Our business is subject to a number of risks, including risks that may prevent us from achieving our business objectives or may adversely affect our business, financial condition, results of operations, cash flows and prospects. These risks are discussed more fully in Item 1A. Risk Factors herein. These risks include, but are not limited to, the following:

- our results of operations, cash flows and financial condition are expected to be adversely impacted by the coronavirus pandemic;
- our ability to identify, sign and retain recording artists and songwriters and the existence or absence of superstar releases;
- the ability to further develop a successful business model applicable to a digital environment and to enter into artist services and expanded-rights deals with recording artists in order to broaden our revenue streams in growing segments of the music entertainment business;
- our revenues are subject to rate regulation, or set, by governmental entities or local third-party collecting societies which may limit profitability;
- the popular demand for particular recording artists or songwriters and music and the timely delivery to us of music by major recording artists or songwriters;
- the diversity and quality of our recording artists, songwriters and releases;
- slower growth in streaming adoption and revenue;
- our dependence on a limited number of digital music services for the online distribution and marketing of our music and their ability to significantly influence the pricing structure for online music stores;
- risks associated with our non-U.S. operations, including limited legal protections of our intellectual property rights and restrictions on the repatriation of capital;
- the impact of heightened and intensive competition in the recorded music and music publishing industries and our inability to execute our business strategy;
- ability to obtain, maintain, protect and enforce our intellectual property rights;
- threats to our business associated with digital piracy, including organized industrial piracy, and cyber security;
- a potential loss of catalog if it is determined that recording artists have a right to recapture U.S. rights in their recordings under the U.S. Copyright Act;
- our substantial leverage; and
- holders of our Class A Common Stock have limited or no ability to influence corporate matters due to the dual class structure of our common stock and the existing ownership of Class B Common Stock by Access, which has the effect of concentrating voting control with Access for the foreseeable future.

PART I

ITEM 1. BUSINESS

Introduction

Warner Music Group Corp. (the "Company") was formed on November 21, 2003. We are the direct parent of WMG Holdings Corp. ("Holdings"), which is the direct parent of WMG Acquisition Corp. ("Acquisition Corp."). Acquisition Corp. is one of the world's major music entertainment companies.

The Company and Holdings are holding companies that conduct substantially all of their business operations through their subsidiaries. The terms "we," "us," "our," "ours" and the "Company" refer collectively to Warner Music Group Corp. and its consolidated subsidiaries, unless the context refers only to Warner Music Group Corp. as a corporate entity.

Acquisition of Warner Music Group by Access Industries

Pursuant to the Agreement and Plan of Merger, dated as of May 6, 2011 (the "Merger Agreement"), by and among the Company, AI Entertainment Holdings LLC (formerly Airplanes Music LLC), a Delaware limited liability company ("Parent") and an affiliate of Access Industries, Inc., and Airplanes Merger Sub, Inc., a Delaware corporation and a wholly owned subsidiary of Parent ("Merger Sub"), on July 20, 2011 (the "Merger Closing Date"), Merger Sub merged with and into the Company with the Company surviving as a wholly owned subsidiary of Parent (the "Merger"). In connection with the Merger, the Company delisted its common stock from the New York Stock Exchange (the "NYSE").

The Company continued to voluntarily file with the U.S. Securities and Exchange Commission (the "SEC") current and periodic reports that would be required to be filed with the SEC pursuant to Section 15(d) of the Exchange Act as provided for in certain covenants contained in the instruments covering its outstanding indebtedness.

Initial Public Offering

On June 5, 2020, the Company completed an initial public offering ("IPO") of 77,000,000 shares of Class A common stock of the Company, par value $0.001 per share ("Class A Common Stock") at a public offering price of $25 per share. The Company listed these shares on the NASDAQ stock market under the ticker symbol "WMG." The offering consisted entirely of secondary shares sold by Access Industries, LLC (collectively with its affiliates, "Access") and certain related selling stockholders. On July 7, 2020, the Company completed the sale of an additional 11,550,000 shares of Class A Common Stock from the selling stockholders to the underwriters of the Company's IPO pursuant to the exercise by the underwriters of their option to purchase additional shares of Class A Common Stock. The Company did not receive any of the proceeds of the IPO or exercise of the underwriters' option.

Following the completion of the IPO and the exercise in full of the underwriters' option to purchase additional shares, Access and its affiliates held an aggregate of 421,450,000 shares of Class B common stock of the Company, par value $0.001 per share ("Class B Common Stock"), representing approximately 99% of the total combined voting power of the Company's outstanding common stock and approximately 83% of the economic interest. As a result, the Company is a "controlled company" within the meaning of the corporate governance standards of NASDAQ. See Item 1A. Risk Factors — Risks Related to Our Controlling Stockholder.

Our Company

We are one of the world's leading music entertainment companies. Our renowned family of iconic record labels, including Atlantic Records, Warner Records, Elektra Records and Parlophone Records, is home to many of the world's most popular and influential recording artists. In addition, Warner Chappell Music, our global music publishing business, boasts an extraordinary catalog that includes timeless standards and contemporary hits, representing works by over 80,000 songwriters and composers, with a global collection of more than one million musical compositions. Our entrepreneurial spirit and passion for music has driven our recording artist and songwriter focused innovation for decades.

Our Recorded Music business, home to superstar recording artists such as Ed Sheeran, Bruno Mars and Cardi B, generated $3.810 billion of revenue in fiscal 2020, representing 85% of total revenues. Our Music Publishing business, which includes esteemed songwriters such as Twenty One Pilots, Lizzo and Katy Perry, generated $657 million of revenue in fiscal 2020, representing 15% of total revenues. We benefit from the scale of our global platform and our local focus.

Today, global music entertainment companies such as ours are more important and relevant than ever. The traditional barriers to widespread distribution of music have been erased. The tools to make and distribute music are at every musician's fingertips, and today's technology makes it possible for music to travel around the world in an instant. This has resulted in music being ubiquitous and accessible at all times. Against this industry backdrop, the volume of music being released on digital platforms is making it harder for recording artists and songwriters to get noticed. We cut through the noise by identifying, signing, developing and marketing extraordinary talent. Our global artists and repertoire ("A&R") experience and marketing strategies are critical ingredients for recording artists or songwriters who want to build long-term global careers. We believe that the music, not the technology, delights fans and drives the business forward.

Our commercial innovation is crucial to maintaining our momentum. We have championed new business models and empowered established players, while protecting and enhancing the value of music. We were the first major music entertainment company to strike landmark deals with important companies such as Apple, YouTube and Tencent Music Entertainment Group, as well as with pure-play music technology companies such as MixCloud, SoundCloud and Audiomack. We adapted to streaming faster than other major music entertainment companies and, in 2016, were the first such company to report that streaming was the largest source of our recorded music revenue. Looking into the future, we believe the universe of opportunities will continue to expand, including through the proliferation of new devices such as smart speakers and the monetization of music on social media and other platforms. We believe advancements in technology will continue to drive consumer engagement and shape a growing and vibrant music entertainment ecosystem.

Our History

The Company today consists of individual companies that are among the most respected and iconic in the music industry, with a history that dates back to the establishment of Chappell & Co. in 1811 and Parlophone in 1896.

The Company began to take shape in 1967 when Warner-Seven Arts, the parent company of Warner Records (formerly known as Warner Bros. Records) acquired Atlantic Records, which discovered artists such as Led Zeppelin and Aretha Franklin. In 1969, Kinney National Company acquired Warner-Seven Arts, and in 1970, Kinney Services (which was later spun off into Warner Communications) acquired Elektra Records, which was renowned for artists such as The Doors and Judy Collins. In order to harness their collective strength and capabilities, in 1971, Warner Bros., Elektra and Atlantic Records formed a groundbreaking U.S. distribution network commonly known as WEA Corp., or simply WEA, which now stretches across the world.

Throughout this time, the Company's music publishing division, Warner Bros. Music, built a strong presence. In 1987, the purchase of Chappell & Co. created Warner Chappell Music, one of the industry's major music publishing forces with a storied history that today connects Ludwig van Beethoven, George Gershwin, Madonna and Lizzo.

The parent company that had grown to become Time Warner completed the sale of the Company to a consortium of private equity investors in 2004, in the process creating the world's largest independent music company. The Company was taken public the following year, and in 2011, Access acquired the Company.

Since acquiring the Company, Access has focused on revenue growth and increasing operating margins and cash flow combined with financial discipline. Looking past more than a decade of music entertainment industry transitions, Access and the Company foresaw the opportunities that streaming presented for music. Over the last eight years, Access has consistently backed the Company's bold expansion strategies through organic A&R as well as acquisitions. These strategies include investing more heavily in recording artists and songwriters, growing the Company's global reach, augmenting its streaming expertise, overhauling its systems and technological infrastructure, and diversifying into other music-based revenue streams.

The purchase of Parlophone Label Group ("PLG") in 2013 strengthened the Company's presence in core European territories, with recording artists as diverse as Coldplay, David Bowie, David Guetta and Tinie Tempah. That acquisition was followed by other investments that further strengthened the Company's footprint in established and emerging markets. Other milestones include the Company's acquisitions of direct-to-audience businesses such as entertainment specialty e-tailer EMP (as defined later in this Annual Report), live music application Songkick and youth culture platform UPROXX.

Industry Overview

The music entertainment industry is large, global and vibrant. The recorded music and music publishing industries are growing, driven by consumer and demographic trends in the digital consumption of music.

Consumer Trends and Demographics

Consumers today engage with music in more ways than ever. According to the International Federation of the Phonographic Industry ("IFPI"), global consumers spent 18 hours listening to music each week in 2019. Demographic trends and smartphone penetration have been key factors in driving growth in consumer engagement. Younger consumers typically are early adopters of new technologies, including music-enabled devices. According to Nielsen, in 2019, 58% of teens in the United States between the ages of

13 and 17 and 45% of millennials in the United States between the ages of 18 and 34 used their smartphones to listen to music on a weekly basis, as compared to a 40% average for all U.S. consumers. Furthermore, in 2019, U.S. teens and millennials listened to an average of 32.6 and 29.7 hours of music each week, respectively, above the 26.9 hours for all U.S. consumers.

Members of older demographic groups are also increasing their music engagement. According to an IFPI survey of 19 leading geographic markets in 2019, 54% of 35- to 64-year-olds used a streaming service to listen to music in the past month, representing an increase from 46% in 2018, which was the highest rate of growth for use of streaming services across all age groups.

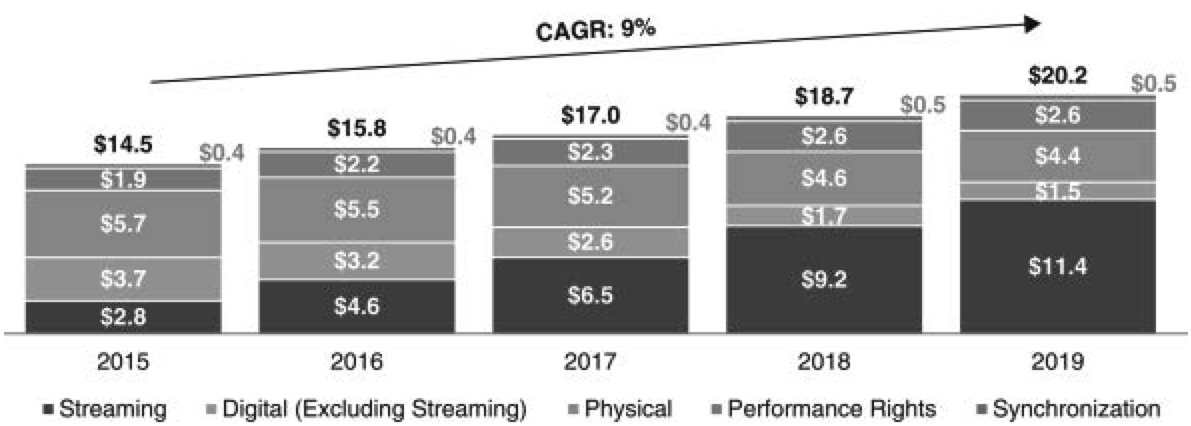
Music permeates our culture across age groups, as evidenced by the footprint that music has across social media. According to the Recording Industry Association of America ("RIAA"), as of September 2019, 7 out of the top 10 most followed accounts on Twitter belong to musicians, and according to YouTube, the majority of videos that have achieved more than one billion lifetime views as well as the top 10 most watched videos of all time, belong to musicians.

Recorded Music

The recorded music industry generated $20.2 billion in global revenue in 2019 and has consistently grown since 2015, according to IFPI. IFPI measures the recorded music industry based on four revenue categories: digital (including streaming), physical, synchronization and performance rights. Digital is the largest, generating $12.9 billion of revenue in 2019, representing 64% of global recorded music revenue. Within digital, streaming generated approximately 88% of revenue, or $11.4 billion, with the remainder of digital revenue coming from other formats such as downloads. Overall, digital grew by 18% in 2019, with streaming increasing by 24%.

Physical represented approximately 22% of global recorded music revenue in 2019, with growth in formats such as vinyl partially offsetting declines in CD sales. Performance rights revenue represents the use of recorded music by broadcasters and public venues, and represented approximately 13% of global recorded music revenue in 2019. Synchronization revenue is generated from the use of recorded music in advertising, film, video games and television content, and represented 2% of global recorded music revenue in 2019. According to IFPI, global recorded music revenue has grown at a 9% CAGR since 2015.

Global Recorded Music Industry Revenues 2015 to 2019 ($ in billions)



We believe the following secular trends will continue to drive growth in the recorded music industry:

Streaming Still in Early Stages of Global Adoption and Penetration

According to IFPI, global paid music streaming subscribers totaled 341 million at the end of 2019. While this represents an increase of 34% from 255 million in 2018, it still represents less than 11% of the 3.2 billion smartphone users globally, according to Statista. It also represents a small fraction of the user bases for large, globally scaled digital services such as Facebook, which reported 2.7 billion monthly users across its services as of September 2020, and YouTube, which reported over two billion unique monthly users as of May 2019. On-demand streaming (both audio and video) reached 1.15 trillion streams in the United States in 2019, according to Nielsen, and this growth is expected to continue. According to Nielsen, as of July 2020, 51% of adults in the U.S. (calculated across four demographic cohorts—Generation Z, Millennials, Generation X and Baby Boomers) reported that they are spending more time with music during the COVID-19 pandemic. Further, according to Nielsen, 56% of adults in the U.S. who added an entertainment subscription during the COVID-19 pandemic added a music streaming subscription, and 87% of those who added a music subscription intend to keep the music subscription after the pandemic passes.

The potential of global paid streaming subscriber growth is demonstrated by the penetration rates in early adopter markets. Approximately 43% of the population in Sweden, where Spotify was founded, was estimated to be paid music subscribers in 2020, according to Goldman Sachs. This compares to approximately 27% and 18% for established markets such as the United States and Germany, respectively. Moreover, paid digital music subscribers in Japan, the world's second-largest recorded music market in 2019 according to IFPI, still only represented approximately 8% of the population, according to Goldman Sachs. There also remains substantial opportunity in emerging markets, such as Brazil and India, where smartphone penetration is low compared to developed markets. For example, according to Statista, smartphone penetration for Brazil and India as of September 2019 was 46% and 25%, respectively, compared to 79% in the United States.

China, in particular, represents a substantial growth market for the recorded music industry. Digital music monetization models, including paid streaming and virtual gifting (which refers to the purchase of a digital, non-durable, non-physical item (e.g., an emoji) that is delivered to another person often during a live karaoke performance), created the foundation for the recorded music industry to overcome piracy and generate revenue in China. According to Goldman Sachs, paid streaming models are at an early stage in China, with an estimated 4% paid streaming penetration rate in 2020. Despite its substantial population, China was the world's seventh-largest music market in 2019, having only broken into the top 10 in 2017.

Opportunities for Improved Streaming Pricing

In addition to paid subscriber growth, we believe that, over time, streaming revenues will increase due to pricing increases as the broader market further develops. Streaming services are already at the early stages of experimenting with price increases. For example, in 2018, Spotify increased monthly prices for its service in Norway. In addition, in 2019, Amazon launched Amazon Music HD, a high-quality audio streaming offering that is available to customers at a premium price in the United States. We believe the value proposition that streaming provides to consumers supports premium product initiatives.

Technology Enables Innovation and Presents Additional Opportunities

Technological innovation has helped facilitate the penetration of music listening across locations, including homes, offices and cars, as well as across devices, including smartphones, tablets, wearables, digital dashboards, gaming consoles and smart speakers. These technologies represent advancements that are deepening listener engagement and driving further growth in music consumption.

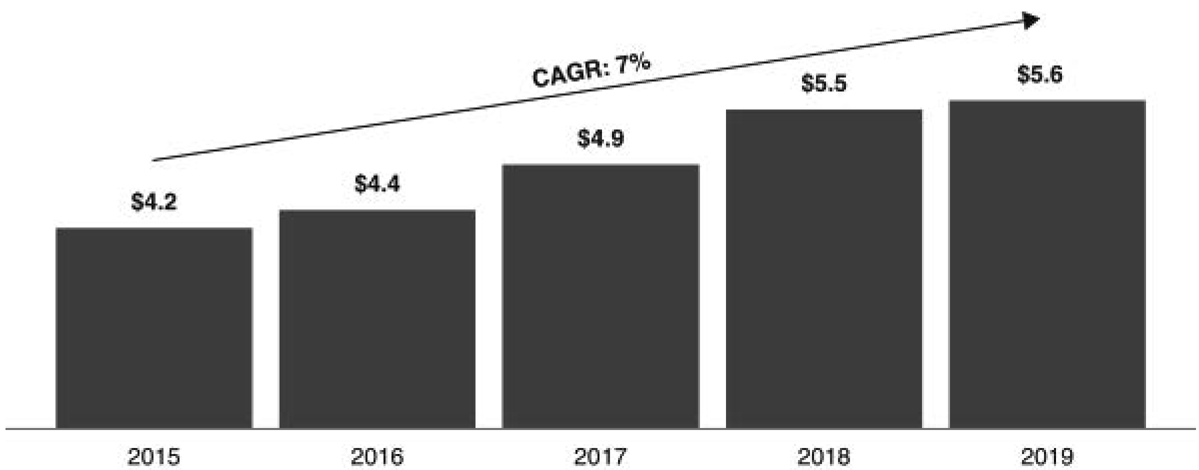
Device Innovation. According to Nielsen, as of July 2020, U.S. consumers listened to music across an average of 3.7 devices per month. We believe that the use of multiple devices is expanding listening hours by bringing music into more moments of consumers' lives, and the different uses these devices enable are also broadening the base of music to which consumers are exposed. The music that consumers listen to during a commute may be different than the music they listen to while they exercise, and different still than the music they play through a smart speaker while cooking a meal. Smart speakers enable consumers to access music more readily by using their voices. According to PwC, smart speaker ownership is expected to increase at a 38% CAGR from 2018 through 2023, to 440 million devices globally in 2023. The adoption of smart speakers in the United States has been strong, and according to Nielsen, 27% of music listeners today use a smart speaker to listen to music in a given month. In addition, according to Nielsen, 39% of Generation Z and 38% of millennials own a smart speaker. Smart speakers are fueling further growth in streaming, by converting more casual listeners into paid subscribers, drawn in by music as a critical application for these devices. According to Nielsen, 61% of U.S. consumers who use a smart speaker weekly to listen to music currently pay for a subscription as well.

Format and Monetization Model Innovation. Short-form music and music-based video content has grown rapidly, driven by the growth of global social video applications such as TikTok, which features 15-second videos often set to music. TikTok has reportedly been downloaded more than two billion times since its launch in 2017 and has a global monthly active user base of nearly 700 million as of August 2020. Such applications have the potential for mass adoption, illustrating the opportunity for additional platforms of scale to be created to the benefit of the music entertainment industry. These platforms enable incremental consumption of music appealing to varied, and often younger, audiences. From a recording artist's perspective, these platforms have the potential to rewrite the path to stardom. For example, our recording artist, Fitz & the Tantrums, an American band, rose to international fame in 2018 as their song "HandClap" went viral in Asia on TikTok. Fitz & the Tantrums quickly topped the international music charts in South Korea and surpassed one billion streams in China. Short-form music and music-based video content have also become increasingly popular on social media platforms such as Facebook and Instagram, further illustrating the growing number of potential pathways through which recording artists may gain consumer exposure.

Music Publishing

According to Music & Copyright, the music publishing industry generated $5.6 billion in global revenue in 2019, representing an approximate 2% increase from $5.5 billion in 2018 (following an increase in global music publishing revenues of 11% from 2017 to 2018). Music publishing involves the acquisition of rights to, and the licensing of, musical compositions (as opposed to sound recordings) from songwriters, composers or other rightsholders. Music publishing revenues are derived from four main royalty sources: mechanical, performance, synchronization and digital. In 2019, digital, which accounted for approximately 42% of global revenue, represented the largest and fastest-growing component of industry revenues, while performance, which accounted for approximately 30%, represented the second-largest component of industry revenues. Synchronization accounted for approximately 19% of global revenue in 2019. Mechanical revenues from traditional physical music formats (e.g., CDs, DVDs, downloads), which accounted for approximately 8% of global revenue in 2019, have continued to fall while digital revenues have grown to offset this decline.

Global Music Publishing Industry Revenues 2015 to 2019 ($ in billions)



Positive Regulatory Trends

The music industry has benefited from positive regulatory developments in recent years, which are expected to lead to increased revenues for the music entertainment industry in the coming years.

Music Modernization Act ("MMA"). In 2018, the enactment of the MMA in the United States resulted in major reforms to music licensing. The MMA improves the way digital music services obtain mechanical licenses for musical compositions, requires the payment of royalties to recording artists for pre-1972 sound recordings streamed on digital radio services such as SiriusXM and Pandora, and provides for direct payments of royalties owed to producers, mixers and engineers when their original works are streamed on non-interactive webcasting services.

C*opyright Royalty Board ("CRB").* In 2018, the CRB issued its determination of royalty rates and terms, significantly increasing the mechanical royalty rates paid for musical compositions in the United States from 2018 through 2022. In August 2020, following an appeal of that decision by some digital music services, the decision was vacated in part and the case was remanded to the CRB for further proceedings. In 2018, the CRB issued its determination of royalty rates and terms, significantly increasing the royalty rates paid for sound recordings in the United States by SiriusXM from 2018 through 2022, and the MMA extended that increase through 2027.

European Union Copyright Directive. In 2019, the European Union ("E.U.") passed legislation which will rein in safe harbors from liability for copyright infringement and rebalance the online marketplace to ensure that rightsholders and recording artists are remunerated fairly when their music is shared online by user-uploaded content services such as YouTube.

Our Competitive Strengths

Well-Positioned to Benefit from Growth in the Global Music Market Driven by Streaming. The music entertainment industry has undergone a transformation in the consumption and monetization of content towards streaming over the last five years. According to the IFPI, from 2015 through 2019, global recorded music revenue grew at a CAGR of 9%, with streaming revenue growing at a CAGR of 42% and increasing as a percentage of global recorded music revenue from 19% to 56% over the same period. By comparison, from fiscal year 2015 to fiscal year 2019, our recorded music streaming revenue grew at a CAGR of 37% and increased as a percentage of our total recorded music revenues from 24% to 55%. We believe our innovation-focused operating strategy with an emphasis on genres that over-index on streaming platforms (e.g., hip-hop and pop) has consistently allowed our digital revenue growth to outpace the market, highlighted by our becoming the first major music entertainment company to report that our streaming revenue was the largest source of recorded music revenue in 2016.

The growth of streaming services has not only improved the discoverability and personalization of music, but has also increased consumer willingness to pay for seamless convenience and access. We believe consumer adoption of paid streaming services still has significant potential for growth. For example, according to Goldman Sachs, in 2019, approximately 43% of the population in Sweden, an early adopter market, was paid music subscribers. This illustrates the opportunity to drive long-term growth by increasing penetration of paid subscriptions throughout the world, including important markets such as the United States, Japan, Germany, the United Kingdom and France, where paid subscriber levels are lower. Our catalog and roster of recording artists and songwriters, including our strengths in hip-hop and pop music, position us to benefit as streaming continues to grow. We also believe our diversified catalog of evergreen music amassed over many decades will prove advantageous as demographics evolve from younger early adopters to a wider demographic mix and as digital music services target broader audiences.

Established Presence in Growing International Markets, Including China. We believe we will benefit from the growth in international markets due to our local A&R focus, as well as our local and global marketing and distribution infrastructure that includes a network of subsidiaries, affiliates, and non-affiliated licensees and sub-publishers in more than 70 countries. We are developing local talent to achieve regional, national and international success. We have expanded our global footprint over time by acquiring independent recorded music and music publishing businesses, catalogs and recording artist and songwriter rosters in China, Indonesia, Poland, Russia and South Africa, among other markets. In addition, we have increased organic investment in heavily populated emerging markets by, for example, launching Warner Music Middle East, our recorded music affiliate covering 17 markets across the Middle East and North Africa with a total population of 380 million people. We have also strengthened our Warner Music Asia executive team with new appointments and promotions. According to IFPI in 2019, recorded music industry revenues in Asia and Australasia grew 3% and 7%, respectively, year-over-year. Over the same period and on a constant-currency basis, we grew revenues in Asia and Australasia by 26%, again outpacing the industry.

With every region around the world at different stages in transitioning to digital formats, we believe establishing creative hubs by opening new regional offices and partnering with local players will achieve our objective of building local expertise while delivering maximum global impact for our recording artists and songwriters. For example, we recently invested in one of Nigeria's leading music entertainment companies, Chocolate City, and music from this influential independent company's recording artists and songwriters will join our repertoire and receive the support of our wide-ranging global expertise, including distribution and artist services.

Differentiated Platform of Scale with Top Industry Position. With over $4 billion in annual revenues, over half of which are generated outside of the United States, we believe our platform is differentiated by the scale, reach and broad appeal of our music. Our collection of owned and controlled recordings and musical compositions, spanning a large variety of genres and geographies over many decades, cannot be replicated. As one of three major music entertainment companies, our industry position remains strong and poised for continued growth. As reported in Music & Copyright, our global recorded music market share has increased approximately 6% from 2011 to 2019, growing from 15.1% to 16.0%. In addition, according to Nielsen, Atlantic Records was the No. 1 record label on the Billboard 200 in the United States in 2017, 2018 and 2019.

Star-Making, Culture-Defining Core Capabilities. For decades, our A&R strategy of identifying and nurturing recording artists and songwriters with the talents to be successful has yielded an extensive catalog of iconic music across a wide breadth of musical genres and marquee brands all over the world. Our marketing and promotion departments provide a comprehensive suite of solutions that are specifically tailored to each of our recording artists and carefully coordinated to create the greatest sales momentum for new and catalog releases alike. The development of our vibrant roster of recording artists has been informed by our significant experience in being able to adapt to changes in consumer trends and sentiment over time. Our creative instincts yield custom strategies for each and every one of our recording artists, including, for example:

- Cardi B, whose first Atlantic Records single "Bodak Yellow" was a break-out hit that has been certified nine times Platinum in the United States by the RIAA;
- Twenty One Pilots, whose rise to stardom accelerated with the release of their second Fueled by Ramen studio album, *Blurryface*; and
- Portugal. The Man, which celebrated its first entry on the *Billboard* Hot 100 chart after the release of their eighth studio album, *Woodstock*, featuring the track "Feel It Still."

In addition, Warner Chappell Music boasts a diversified catalog of timeless classics together with an ever-growing group of contemporary songwriters who are actively contributing to today's top hits. We believe our longstanding reputation and relationships in the creative community, as well as our historical success in talent development and management, will continue to attract new recording artists and songwriters with staying power and market potential through the strength and scale of our proprietary capabilities.

Strong Financial Profile with Robust Growth, Operating Leverage and Free Cash Flow Generation. For fiscal year 2018 through fiscal year 2020, we have grown as-reported revenues at a CAGR of 6%, and on a constant-currency basis, at a CAGR of 7%, driven by secular tailwinds, organic reinvestment in A&R and strategic acquisitions, partially offset by the impact of the business disruption resulting from the COVID-19 pandemic in fiscal 2020. For our fiscal year 2020, our business generated net loss and Adjusted EBITDA of $470 million and $837 million, respectively, implying an Adjusted EBITDA margin of approximately 19%. We believe our financial profile provides a strong foundation for our continued growth.

Experienced Leadership Team and Committed Strategic Investor. Our management team has successfully designed and implemented our business strategy, delivering strong financial results, releasing an increasing flow of new music and establishing a dynamic culture of innovation. At the same time, our management team has driven an increase in operating margins and cash flow through an improved revenue mix to higher-margin digital platforms and overhead cost management, while maintaining financial flexibility to both organically invest in the business and pursue strategic acquisitions to diversify our revenue mix. Our Recorded Music and Music Publishing businesses are led by entrepreneurial and creative individuals with extensive experience in discovering and developing recording artists and songwriters and managing their creative output on a global scale. In addition, we have benefited, and expect to continue to benefit, from our acquisition by Access in July 2011, which has provided us with strategic direction, M&A and capital markets expertise and planning support to help us take full advantage of the ongoing transition in the music entertainment industry.

Expertise in Strategic Acquisitions and Investments That Extend Our Capabilities. Since 2011 when Access became our controlling shareholder, we have completed more than 15 strategic acquisitions. The acquisition of PLG in 2013 significantly strengthened our worldwide roster, global footprint and executive talent, particularly in Europe. In addition, we have made several smaller strategic acquisitions aimed at expanding our artist services capabilities in our Recorded Music business, including EMP, one of Europe's leading specialty music and entertainment merchandise e-tailers; Sodatone, a premier A&R insight tool; UPROXX, the youth culture and video production powerhouse; Spinnin' Records, one of the world's leading independent electronic music companies; and Songkick's concert discovery application. These transactions showcase the growing breadth of our platform across the music entertainment ecosystem and have increased our direct access to fans of our recording artists and songwriters. In addition to our commercial arrangements with digital music services, we opportunistically invest in some of those services as well as other companies in our industry, including minority equity stakes in Deezer, a French digital music service in which Access owns a controlling equity interest, and Tencent Music Entertainment Group, the leading online music entertainment platform in China. Acquiring and investing in businesses that are highly complementary to our existing portfolio further enables us to potentially derive incremental and new revenue streams from different business models in new markets.

Our Growth Strategies

Attract, Develop and Retain Established and Emerging Recording Artists and Songwriters. A critical component of our global strategy is to produce an increasing flow of new music by finding, developing and retaining recording artists and songwriters who achieve long-term success. Since 2011, our annual new releases have grown significantly and our catalog of musical compositions has increased to more than one million. We expect to enhance the value of our assets by continuing to attract and develop new recording artists and songwriters with staying power and market potential. Our A&R teams seek to sign talented recording artists and songwriters who will generate meaningful revenues and increase the enduring value of our catalog. We have also made meaningful investments in technology to further expand our A&R capabilities in a rapidly changing music environment. In 2018, we acquired Sodatone, an advanced A&R tool that uses streaming, social and touring data to help track early predictors of success. When combined with the strength of our current ability to identify creative talent, we expect this to further enhance our ability to scout and sign breakthrough recording artists and songwriters. In addition, we anticipate that investment in or commercial relationships with technology companies will enable us to tailor our marketing efforts for established recording artists and songwriters by gaining valuable insight into consumer reactions to new releases. We regularly evaluate our recording artist and songwriter rosters to ensure that we remain focused on developing the most promising and profitable talent and are committed to maintaining financial discipline in the negotiation of our agreements with recording artists and songwriters.

Focus on Growth Markets to Position Us to Realize Upside from Incremental Penetration of Streaming. While the rapid growth of streaming has already transformed the music entertainment industry, streaming is still in relatively early stages, as significant opportunity remains in both developed markets and markets largely untapped by the adoption of paid streaming subscriptions. Some of our largest markets, such as the United States, Germany, United Kingdom and France, still lag Nordic countries in penetration of paid subscriptions and have room for future growth. In these markets, we will continue to increase our output of new releases and use data to more effectively target our marketing efforts. Less mature markets, such as China and Brazil, have large populations with relatively high smartphone penetration, and we are well placed to benefit from streaming tailwinds over the next several years with our local presence and extensive catalog.

Expand Global Presence with Investment in Local Music in Nascent Markets. We recognize that music is inherently local in nature, shaped by people and culture. In 2019, at least 80% of the 50 top-selling singles in Brazil, Mexico and Argentina, and at least 90% of the 50 top-selling singles in Japan and South Korea, were performed by or featured local artists. In addition, at least 50% of the 50 top-selling singles in Sweden, Italy and the Netherlands were performed by or featured local artists, each of which reflects over 20% growth since 2016. One of our vital business functions is to help our recording artists and songwriters solve the complexities associated with a fragmented, global market of mixed musical tastes. We have found that investment in local music provides the best opportunity to understand these nuances, and we have made it a strategic priority to seek out investment opportunities in emerging markets. For example, we opened an office in the Middle East and North Africa region to prepare for the forecasted rise in smartphone penetration and projected uptake in digital music. These investments are made with the purpose of increasing our understanding of local market dynamics and popularizing our current roster of recording artists and songwriters around the world.

Embrace Commercial Innovation with New Digital Distributors and Partners. We believe the growth of digital formats will continue to create new and powerful ways to distribute and monetize our music. We were the first major music company to strike landmark deals with important companies such as Apple, YouTube, Peloton and Tencent Music Entertainment Group, as well as with pure-play music technology companies such as MixCloud, SoundCloud and Audiomack. We believe that the continued development of new digital channels for the consumption of music and increasing access to digital music services present significant promise and opportunity for the music entertainment industry. We are also focused on investing in emerging music technologies, demonstrated by our launch of WMG Boost, a seed-stage investment fund for start-ups in the music entertainment industry and through partnerships with entrepreneurial incubators such as TechStars. We intend to continue to extend our technological reach by executing deals with new partners and developing optimal business models that will enable us to monetize our music across various platforms, services and devices. We also intend to continue to support and invest in emerging technologies, including artificial intelligence, artificial reality, virtual reality, high-resolution audio, mobile messaging and other technologies to continue to build new revenue streams and position ourselves for long-term growth.

Pursue Acquisitions to Enhance Asset Portfolio and Long-Term Growth. We have successfully completed a number of strategic acquisitions, particularly in our Recorded Music business. Strengthening and expanding our global footprint provides us with insights on markets in which we can immediately capitalize on favorable industry trends, as evidenced by our acquisition of PLG in 2013. We also build upon our core competencies with additive and ancillary capabilities. For example, our acquisition of UPROXX, one of the most influential media brands for youth culture, not only provides a platform for short-form music and music-based video content production to market and promote our recording artists, but also includes sales capabilities to monetize advertising inventory on digital audio and video platforms. We plan to continue selectively pursuing acquisition opportunities while maintaining financial discipline to further improve our growth trajectory and drive operating efficiencies with increased free cash flow generation. With respect to our Music Publishing business, we have the opportunity to generate significant value by acquiring other music publishers and extracting cost savings (as acquired catalogs can be administered with little incremental cost), as well as by increasing revenues through more aggressive monetization efforts. We will also continue to evaluate opportunities to add to our catalog or acquire or make investments in companies engaged in businesses that we believe will help to advance our strategies.

Recorded Music (85%, 86% and 84% of consolidated revenues, before intersegment eliminations, for each of the fiscal years ended September 30, 2020, September 30, 2019 and September 30, 2018, respectively)

Our Recorded Music business primarily consists of the discovery and development of recording artists and the related marketing, promotion, distribution, sale and licensing of music created by such recording artists. We play an integral role in virtually all aspects of the recorded music value chain from discovering and developing talent to producing, distributing and selling music to marketing and promoting recording artists and their music.

In the United States, our Recorded Music business is conducted principally through our major record labels—Atlantic Records and Warner Records. In October 2018, we launched Elektra Music Group in the United States as a standalone label group, which comprises the Elektra, Fueled by Ramen and Roadrunner labels. Our Recorded Music business also includes Rhino Entertainment, a division that specializes in marketing our recorded music catalog through compilations, reissuances of previously released music and video titles and releasing previously unreleased material from our vault. We also conduct our Recorded Music business through a collection of additional record labels including Asylum, Big Beat, Canvasback, East West, Erato, FFRR, Nonesuch, Parlophone, Reprise, Sire, Spinnin' Records, Warner Classics and Warner Music Nashville.

Outside the United States, our Recorded Music business is conducted through various subsidiaries, affiliates and non-affiliated licensees. Internationally, we engage in the same activities as in the United States: discovering and signing artists and distributing, selling, marketing and promoting their music. In most cases, we also market, promote, distribute and sell the music of those recording artists for whom our domestic record labels have international rights. In certain smaller markets, we license the right to distribute and sell our music to non-affiliated third-party record labels.

Our Recorded Music business' distribution operations include WEA Corp., which markets, distributes and sells music and video products to retailers and wholesale distributors; Alternative Distribution Alliance ("ADA"), which markets, distributes and sells the products of independent labels to retail and wholesale distributors; and various distribution centers and ventures operated internationally.

In addition to our music being sold in physical retail outlets, our music is also sold in physical form to online physical retailers, such as amazon.com, barnesandnoble.com and bestbuy.com, and distributed in digital form to an expanded universe of digital partners, including streaming services such as those of Amazon, Apple, Deezer, SoundCloud, Spotify, Tencent Music Entertainment Group and YouTube, radio services such as iHeart Radio and SiriusXM and download services.

We have diversified our revenues beyond our traditional businesses by entering into expanded-rights deals with recording artists in order to partner with such artists in other aspects of their careers. Under these agreements, we provide services to and participate in recording artists' activities outside the traditional recorded music business such as touring, merchandising and sponsorships. We have built and acquired artist services capabilities and platforms for marketing and distributing this broader set of music-related rights and participating more widely in the monetization of the artist brands we help create. We believe that entering into expanded-rights deals and enhancing our artist services capabilities in areas such as merchandising, VIP ticketing, fan clubs, concert promotion and management has permitted us to diversify revenue streams and capitalize on other revenue opportunities. This provides for improved long-term relationships with our recording artists and allows us to more effectively connect recording artists and fans.

A&R

We have a decades-long history of identifying and contracting with recording artists who become commercially successful. Our ability to select recording artists who are likely to be successful is a key element of our Recorded Music business' strategy and spans all music genres and all major geographies and includes recording artists who achieve national, regional and international success. We believe that this success is directly attributable to our experienced global team of A&R executives, to the longstanding reputation and relationships that we have developed in the artistic community and to our effective management of this vital business function.

In the United States, our major record labels identify potentially successful recording artists, sign them to recording contracts, collaborate with them to develop recordings of their work and market and sell or license these finished recordings to legitimate digital channels and retail stores. Increasingly, we are also expanding our participation in image and brand rights associated with artists, including merchandising and sponsorships. Our labels scout and sign talent across all major music genres, including pop, rock, jazz, classical, country, R&B, hip-hop, rap, reggae, Latin, alternative, folk, blues, gospel and other Christian music. Internationally, we market and sell U.S. and local repertoire through our network of subsidiaries, affiliates and non-affiliated licensees. With a roster of local recording artists performing in various local languages throughout the world, we have an ongoing commitment to developing local talent aimed at achieving national, regional or international success.

Many of our recording artists continue to appeal to audiences long after we cease to release their new music. We have an efficient process for sustaining sales across our catalog releases. Relative to our new releases, we spend lesser amounts on marketing for our catalog.

We maximize the value of our catalog of recorded music through our Rhino Entertainment business unit and through activities of each of our record labels. We use our catalog as a source of material for re-releases, compilations, box sets and special package releases, which provide consumers with incremental exposure to familiar music and recording artists. Rhino Entertainment also releases new music from legacy recording artists and markets and promotes the name and likeness of certain artist estates and brands.

Recording Artists' Contracts

Our recording artists' contracts define the commercial relationship between our recording artists and our record labels. We negotiate recording contracts with recording artists that define our rights to use the recording artists' music. In accordance with the terms of the contract, the recording artists receive royalties based on sales and other uses of such recording artists' music. We customarily provide up-front payments to recording artists called advances, which are recoupable by us from future royalties otherwise payable to such recording artists. We also typically pay costs associated with the recording and production of music, which in certain countries are treated as advances recoupable by us from future royalties. Our typical contract for a new recording artist covers a sufficient number of master recordings to constitute a single initial extended-play record (known as an EP) or an album and provides us with a series of options to acquire subsequent albums from the artist. Royalty rates and advances are often increased for subsequent albums for which we have exercised our options. Many of our contracts contain a commitment from the record label to fund video production costs, at least a portion of which in certain countries is treated as advances recoupable by us from future royalties.

Our recording contracts with established artists generally provide for greater advances and higher royalty rates. Typically, such contracts entitle us to fewer albums, and, of those, fewer are optional albums. In contrast to new artists' contracts, which customarily give us ownership in the artist's work for the full term of copyright, some established artists' contracts provide us with an exclusive license for some fixed period of time. It is not unusual for us to renegotiate contract terms with a successful artist during the term of their existing contracts, sometimes in return for an increase in the number of albums that the artist is required to deliver.

With certain territorial or other exceptions, our recording contracts typically grant us ownership for the duration of copyright. See "—Intellectual Property—Copyrights." United States copyright law permits authors or their estates to terminate an assignment or license of copyright (for the United States only) after a set period of time in certain circumstances. See "Risk Factors—We face a potential loss of catalog to the extent that our recording artists have a right to recapture rights in their recordings under the U.S. Copyright Act."

We are also continuing to transition to other forms of business models with recording artists to adapt to changing industry conditions. Many of the recording contracts we currently enter into are expanded-rights deals, in which we share in the touring, merchandising, sponsorship, fan club or other ancillary music revenues associated with those artists.

Marketing and Promotion

Our approach to marketing and promoting our recording artists and their music is comprehensive. Our goal is to maximize the likelihood of success for new releases as well as to stimulate the success of catalog releases. We seek to increase the value of music and help our recording artists connect with their fans.

The marketing and promotion of recorded music is carefully coordinated to create the greatest sales momentum, while maintaining financial discipline. We have significant experience in our marketing and promotion departments, which we believe allows us to achieve an optimal balance between our marketing expenditure and the eventual sales of our artists' recordings. We use a budget-based approach to plan marketing and promotions, and we monitor all expenditures related to each release to ensure compliance with the agreed-upon budget. These planning processes are regularly evaluated based on updated sales reports, streaming service data and radio airplay data, so that a promotion plan can be quickly adjusted if necessary.

Manufacturing, Packaging and Physical Distribution

We have arrangements with various suppliers and distributors as part of our manufacturing, packaging and physical distribution services throughout the world. We believe that our manufacturing, packaging and physical distribution arrangements are sufficient to meet our business needs.

Sales and Digital Distribution

We generate revenues from the new releases of current artists and our catalog of recordings. In addition, we actively repackage music from our catalog to form new compilations. Our revenues are generated in digital formats including streaming and downloads, CD format, as well as through historical formats, such as vinyl albums.

In connection with the digital distribution of our music, we currently partner with a broad range of digital music services, such as Amazon, Apple, Deezer, KKBox, Spotify, Telefonica, Tencent Music Entertainment Group, YouTube and Google, and are actively seeking to develop and grow our digital business. We also sell traditional physical formats through both the online distribution arms of traditional retailers such as fye.com and walmart.com and traditional online physical retailers such as amazon.com, bestbuy.com and barnesandnoble.com. Streaming services stream our music on an ad-supported or paid subscription basis. In addition, downloading services download our music on a per-album or per-track basis. In digital formats, per-unit costs related directly to physical products such as manufacturing, distribution, inventory and return costs do not apply. While there are some digital-specific variable costs and infrastructure investments needed to produce, market and license digital products, it is reasonable to expect that we will generally derive a higher contribution margin from streaming and downloads than from physical sales. We sell our physical recorded music products through a variety of different retail and wholesale outlets including music specialty stores, general entertainment specialty stores, supermarkets, mass merchants and discounters, independent retailers and other traditional retailers. Although some of our retailers are specialized, many of our customers offer a substantial range of products other than music.

Most of our physical sales represent purchases by a wholesale or retail distributor. Our sale and return policies are in accordance with wholesaler and retailer requirements, applicable laws and regulations, territory and customer-specific negotiations and industry practice. We attempt to minimize the return of unsold product by working with retailers to manage inventory and SKU counts as well as by monitoring shipments and sell-through data.

We enter into license agreements with digital music services to make our music available for access in digital formats (e.g., streaming and downloads). We then provide digital assets for our music to these services in an accessible form. Our license agreements with these services establish our fees for the distribution of our music, which vary based on the service. We typically receive accounting from these services on a monthly basis, detailing the distribution activity, with payments rendered on a monthly basis. Our license agreements with digital music services generally last one to three years. In fiscal year 2020, Recorded Music revenue earned under license agreements with our top two digital music accounts, Apple and Spotify, accounted for approximately 34% of our total revenues.

Since the emergence of digital formats, our business has become less seasonal in nature and driven more by the timing of our releases.

Music Publishing (15%, 14% and 16% of consolidated revenues, before intersegment eliminations, for each of the fiscal years ended September 30, 2020, September 30, 2019 and September 30, 2018, respectively)

While Recorded Music is focused on marketing, promoting, distributing and licensing a particular recording of a musical composition, Music Publishing is an intellectual property business focused on generating revenue from uses of the musical composition itself. In return for promoting, placing, marketing and administering the creative output of a songwriter, or engaging in those activities for other rightsholders, our Music Publishing business garners a share of the revenues generated from use of the musical compositions.

The operations of our Music Publishing business are conducted principally through Warner Chappell Music, our global music publishing company headquartered in Los Angeles, and through various subsidiaries, affiliates, and non-affiliated licensees and sub-publishers. We own or control rights to more than one million musical compositions, including numerous pop hits, American standards, folk songs and motion picture and theatrical compositions. Assembled over decades, our award-winning catalog includes over 80,000 songwriters and composers and a diverse range of genres including pop, rock, jazz, classical, country, R&B, hip-hop, rap, reggae, Latin, folk, blues, symphonic, soul, Broadway, techno, alternative and gospel. Warner Chappell Music also administers the music and soundtracks of several third-party television and film producers and studios. We have an extensive production music catalog collectively branded as Warner Chappell Production Music.

Music Publishing Royalties

Warner Chappell Music, as a copyright owner and administrator of musical compositions, is entitled to receive royalties for the use of musical compositions. We continually add new musical compositions to our catalog and seek to acquire rights in musical compositions that will generate substantial revenue over the long term.

Music publishers generally receive royalties pursuant to public performance, digital, mechanical, synchronization and other licenses. In the United States, music publishers collect and administer mechanical royalties, and statutory rates are established pursuant to the U.S. Copyright Act of 1976, as amended, for the royalty rates applicable to musical compositions for sale and licensing of recordings embodying those musical compositions. In the United States, public performance income is administered and collected by music publishers and their performing rights organizations and in most countries outside the United States, collection, administration and allocation of both mechanical and performance income are undertaken and regulated by governmental or quasi-governmental authorities. Throughout the world, each synchronization license is generally subject to negotiation with a prospective licensee and, by contract, music publishers pay a contractually required percentage of synchronization income to the songwriters or their heirs and to any co-publishers.

Warner Chappell Music acquires copyrights or portions of copyrights and administration rights from songwriters or other third-party holders of rights in musical compositions. Typically, in either case, the grantor of rights retains a right to receive a percentage of revenues collected by Warner Chappell Music. As an owner and administrator of musical compositions, we promote the use of those musical compositions by others. For example, we encourage recording artists to record and include our musical compositions on their recordings, offer opportunities to include our musical compositions in filmed entertainment, advertisements and digital media and advocate for the use of our musical compositions in live stage productions. Examples of music uses that generate music publishing revenues include:

Performance: performance of the song to the general public

- Broadcast of musical compositions on television, radio and cable
- Live performance at a concert or other venue (e.g., arena concerts, nightclubs)
- Broadcast of musical compositions at sporting events, restaurants or bars
- Performance of musical compositions in staged theatrical productions

Digital: licensing of recorded music in various digital formats and digital performance of musical compositions to the general public

- Streaming and download services

Mechanical: sale of recorded music in various physical formats

- Vinyl, CDs and DVDs

Synchronization: use of the musical composition in combination with visual images

- Films or television programs
- Television commercials
- Video games
- Merchandising, toys or novelty items

Other:

- Licensing of copyrights for use in printed sheet music

In the United States, mechanical royalties are collected directly by music publishers, from recorded music companies or via The Harry Fox Agency, a non-exclusive licensing agent affiliated with the Society of European Stage Authors and Composers ("SESAC"), while outside the United States, mechanical royalties are collected directly by music publishers or from collecting societies. Once mechanical royalties reach the publisher, percentages of those royalties are paid or credited to the writer or other rightsholder of the copyright in accordance with the underlying rights agreement. Mechanical royalties are paid at a rate of 9.1 cents per song per unit in the United States for physical formats (e.g., CDs and vinyl albums) and permanent digital downloads (recordings in excess of five minutes attract a higher rate). There are also rates set for interactive streaming and non-permanent downloads based on a formula that takes into account revenues paid by consumers or advertisers with certain minimum royalties that may apply depending on the type of service. "Controlled composition" provisions contained in some recording contracts may apply to the rates mentioned above pursuant to which artist/songwriters license their rights to their record companies for as little as 75% of the statutory rates. The current U.S. statutory mechanical rates will remain in effect through December 31, 2022. In most other territories, mechanical royalties are based on a percentage of wholesale prices for physical formats and based on a percentage of consumer prices for digital formats. In international markets, these rates are determined by multi-year collective bargaining agreements and rate tribunals.

Throughout the world, performance royalties are collected by publishers directly or on behalf of music publishers and songwriters by performance rights organizations and collecting societies. Key performing rights organizations and collecting societies include: The American Society of Composers, Authors and Publishers ("ASCAP"), SESAC and Broadcast Music, Inc. ("BMI") in the United States; Mechanical-Copyright Protection Society and The Performing Right Society in the United Kingdom; The German Copyright Society in Germany and the Japanese Society for Rights of Authors, Composers and Publishers in Japan. The societies pay a percentage (which is set in each country) of the performance royalties to the copyright owner(s) or administrators (i.e., the publisher(s)), and a percentage directly to the songwriter(s), of the composition. Thus, the publisher generally retains the performance royalties it receives other than any amounts attributable to co-publishers.

Composers' and Lyricists' Contracts

Warner Chappell Music derives its rights through contracts with composers, lyricists (songwriters) or their heirs and with third-party music publishers. In some instances, those contracts grant either 100% or some lesser percentage of copyright ownership in musical compositions and/or administration rights. In other instances, those contracts only convey to Warner Chappell Music rights to administer musical compositions for a period of time without conveying a copyright ownership interest. Our contracts grant us exclusive use rights in the territories concerned excepting any pre-existing arrangements. Many of our contracts grant us rights on a global basis. Warner Chappell Music customarily possesses administration rights for every musical composition created by the writer or composer during the exclusive acquisition term of the contract.

While the duration of the administration rights under contracts may vary, some of our contracts grant us ownership and/or administration rights for the duration of copyright. See "—Intellectual Property—Copyrights." U.S. copyright law permits authors or their estates to terminate an assignment or license of copyright (for the United States only) after a set period of time. See "Risk Factors—We face a potential loss of catalog to the extent that our recording artists have a right to recapture rights in their recordings under the U.S. Copyright Act."

Our Recording Artist and Songwriter Value Proposition

Our success is a function of attracting exceptional talent and helping them build long and lucrative careers. In an environment where music entertainment companies often fiercely compete to sign recording artists and songwriters, our ability to differentiate our core capabilities is crucial. We are constantly strengthening our skill sets, as well as evolving and expanding the comprehensive suite of services we provide. Our goal is not to be the biggest music entertainment company, but the best.

In the digital world, consumers have more than 50 million tracks at their fingertips, growing at a rate of approximately 40,000 songs per day. The sheer volume of music being released on digital music services is making it harder for recording artists and songwriters to stand out and get noticed. At the same time, music that is fresh and original is currently what resonates most strongly on digital music services. We believe our Recorded Music and Music Publishing businesses remain not just relevant, but essential to the booming music entertainment economy. Our proven ability to cut through the noise is more necessary and valuable than ever.

Below is an overview of the many creative and commercial services we provide our recording artists and songwriters. Our interests are aligned with theirs. By creating value for our recording artists and songwriters, we create value for ourselves. That philosophy is behind our current momentum, and we believe it will continue to propel our business into the future.

Welcoming Talent

We offer recording artists and songwriters numerous pathways into our ecosystem. Whether it is an up-and-coming songwriter making music in his or her bedroom, a breakout superstar recording artist selling out stadiums or an icon looking to curate a legacy, we offer the necessary support and resources.

We are not just searching for immediate hits. We scout and sign talent with the market potential for longevity and lasting impact. As a result, we are investing in more new music every year without losing our commitment to each recording artist and songwriter. It is that focus, patience and passion that has built and sustained the reputation that perpetuates our cycle of success.

Creative Partnership

Our A&R executives both champion and challenge the talent they sign, empowering them to realize their visions and evolve over time. Our longstanding relationships within the creative community also provide our recording artists and songwriters with a wide network of collaborators, which is a vital part of helping them to realize their best work. We provide the investment that gives our recording artists and songwriters the requisite time and space to experiment and flourish. This includes access to a multitude of songwriters' rooms and recording studios around the globe with more to come.

Marketing and Promotional Firepower

We are experts in the art of amplification, with proven specialties in every aspect of marketing and promotion. From every meaningful digital music service and social media network to radio, press, film, television and retail, we are plugged into the most influential people and platforms for music entertainment. At the same time, by combining our collective experience with billions of transactions each and every week, we gather the insights needed to make meaningful commercial decisions grounded in data-based discipline. Most importantly, we quickly adapt to changes in how music is consumed to maximize the opportunities for our recording artists and songwriters. For example, we quickly honed our expertise in securing placement on playlists and other valuable positioning on digital music services.

Global Reach and Local Expertise

As of September 30, 2020, we employed approximately 5,500 persons around the world. This means we can build local fan bases for international recording artists and songwriters, as well as supply the network to deliver worldwide fame. Our local strength fuels our global impact and vice versa. We employ a global priority system to provide as many recording artists as possible a genuine shot at success. Our approach combines a deep understanding of local cultures, with a close-knit, nimble team that is in constant communication around the world.

A Broad Universe of Opportunity

Albums, singles, videos and songs are still the primary drivers for our business. But as the demand for music has grown, music has been woven into the fabric of our daily lives in new and increasingly sophisticated ways. It is our job to help our recording artists and songwriters capitalize on this expanding universe.

In our Recorded Music business, beyond digital and physical revenue streams, we provide a wide array of artist services, including merchandise, e-commerce, VIP ticketing and fan clubs. In our Music Publishing business, we take an active role in expanding the consumption of music, through performance, digital, mechanical, synchronization and, the original music publishing revenue stream, sheet music. Last year, we launched a creative services team that is tasked with finding innovative ways to revitalize catalogs and create new possibilities for our songwriters.

In 2017, we launched a film and television unit and subsequently acquired additional video production capabilities in order to offer greater storytelling possibilities for our recording artists and songwriters.

The centralization of our technology capabilities and data insights has resulted in increased transparency of our royalty reporting to our recording artists and songwriters. We defend and protect our recording artists' and songwriters' creative output by remaining vigilant in the collection of different types of royalties around the world and defending against illegitimate and illegal uses of our owned and controlled copyrights.

Representative Sample of Recording Artists and Songwriters

Our Recorded Music business includes music from:

- Global superstars such as Ed Sheeran, Bruno Mars, Michael Bublé, Cardi B, Kelly Clarkson, Coldplay, David Guetta, Dua Lipa, Kenny Chesney, Neil Young, Prince, Pink Floyd, David Bowie, Phil Collins, Fleetwood Mac, Tom Petty and The Smiths.
- Next-generation talent including A Boogie wit da Hoodie, Roddy Ricch, YoungBoy Never Broke Again, Tones and I, Charli XCX, Lizzo and Bebe Rexha.
- International stars such as Anitta, Aya Nakamura, TWICE, Christopher, Pablo Alborán, Udo Lindenberg and Laura Pausini.

Our Music Publishing business includes musical compositions by:

- Superstars such as Stormzy, Twenty One Pilots, Green Day, Katy Perry, George Michael, Chris Stapleton, Dan + Shay, Tayla Parx, Damon Albarn, Dave Mustaine and Kacey Musgraves.
- International talent such as Jonathan Lee, Tia Ray, Manuel Medrano, Melendi, Bausa, Shy'm, Tove Lo and Jack & Coke.
- Songwriting icons like Brody Brown, Liz Rose, Justin Tranter, busbee, The-Dream, Dr. Dre, Stephen Sondheim, George & Ira Gershwin and Gamble & Huff.

Competition

In our Recorded Music and Music Publishing businesses, we compete based on marketing (including both how we allocate our marketing resources as well as how much we spend on a dollar basis) and on recording artist and songwriter signings. We believe we currently compete favorably in these areas.

Our Recorded Music business is also dependent on technological development, including access to, selection and viability of new technologies, and is subject to potential pressure from competitors as a result of their technological developments. Additionally, we compete, to a lesser extent, for disposable consumer income with alternative forms of entertainment, content and leisure activities, such as cable and satellite television, motion pictures and video games in physical and digital formats.

The recorded music industry is highly competitive based on consumer preferences and is rapidly changing. At its core, the recorded music business relies on artistic talent. As such, competitive strength is predicated upon the ability to continually develop and market new recording artists whose work gains commercial acceptance. According to Music & Copyright, in 2019, the three largest recorded music companies were Universal Music Group, Sony Music Entertainment and us, which collectively accounted for approximately 68% of global recorded music revenues. There are many mid-sized and smaller players in the industry that accounted for the remaining approximately 32%, including independent recorded music companies. Universal Music Group was the market leader with an approximately 32% global market share in 2019 after absorbing the bulk of the recorded music assets of the former EMI in late 2012, followed by Sony Music Entertainment with an approximately 21% share. We held an approximately 16% share of global recorded music revenues in 2019.

The music publishing industry is also highly competitive. The three largest music publishing companies collectively accounted for approximately 58% of the global market in 2019 according to Music & Copyright. According to Music & Copyright, Sony/ATV was the market leader in music publishing in 2019 with an approximately 25% share (reflecting its ownership of the EMI music publishing assets). Universal Music Publishing was the second-largest music publisher with an approximately 21% share, followed by us at approximately 12%. There are many mid-sized and smaller players in the industry that account for the remaining approximately 42%, including many individual songwriters who publish their own works.

Intellectual Property

Copyrights

Our business, like that of other companies involved in the music entertainment industry, rests on our ability to maintain rights in sound recordings and musical compositions through copyright protection. In the United States, copyright protection for works created as “works made for hire” (e.g., works of employees or certain specially commissioned works) on or after January 1, 1978 generally lasts for 95 years from first publication or 120 years from creation, whichever expires first. The period of copyright protection for works created on or after January 1, 1978 that are not “works made for hire” lasts for the life of the author plus 70 years. Works created and published or registered in the United States prior to January 1, 1978 generally enjoy copyright protection for 95 years, subject to compliance with certain statutory provisions including notice and renewal. Additionally, the MMA extended federal copyright protection in the U.S. to sound recordings created prior to February 15, 1972. The duration of copyright protection for such sound recordings varies based on the year of publication, with all such sound recordings receiving copyright protection for at least 95 years, and sound recordings published between January 1, 1957 and February 15, 1972 receiving copyright protection until February 15, 2067. The term of copyright in the E.U. for musical compositions in all member states lasts for the life of the author plus 70 years.

In the E.U., the term of copyright for sound recordings lasts for 70 years from the date of release in respect of sound recordings that were still in copyright on November 1, 2013 and for 50 years from date of release in respect of sound recordings the copyright in which had expired by that date. The E.U. also harmonized the copyright term for joint musical works. In the case of a musical composition with words that is protected by copyright on or after November 1, 2013, E.U. member states are required to calculate the life of the author plus 70 years term from the date of death of the last surviving author of the lyrics and the composer of the musical composition, provided that both contributions were specifically created for the musical composition.

We are largely dependent on legislation in each territory in which we operate to protect our rights against unauthorized reproduction, distribution, public performance or rental. In all territories where we operate, our intellectual property receives some degree of copyright protection, although the extent of effective protection varies widely. In a number of developing countries, the protection of copyright remains inadequate.

Technological changes have focused attention on the need for new legislation that will adequately protect the rights of producers. We actively lobby in favor of industry efforts to increase copyright protection and support the efforts of organizations such as RIAA, IFPI, National Music Publishers’ Association, International Confederation of Music Publishers and the World Intellectual Property Organization.

Trademarks

We consider our trademarks to be valuable assets to our business. Although we cannot assure you that our trademark applications, even for major trademarks, will register, we endeavor to register our major trademarks in every country where we believe the protection of these trademarks is important for our business. Our major trademarks include Asylum, Atlantic, East West, Elektra, EMP, Erato, Nonesuch, Parlophone, Reprise, Rhino, Roadrunner, Sire, Songkick, SPINNIN’ RECORDS, Warner Chappell and WEA, and their respective logos. We also use certain trademarks pursuant to a royalty-free license agreement. The duration of the license relating to the WARNER, WARNER MUSIC and WARNER RECORDS word marks and “W” logo is perpetual, but may be terminated under certain limited circumstances, including our material breach of the license agreement and certain events of insolvency. We actively monitor and protect against activities that might infringe, dilute or otherwise harm our trademarks. However, the actions we take to protect our trademarks may not be adequate to prevent third parties from infringing, diluting, or otherwise harming our trademarks, and the laws of foreign countries may not protect our trademark rights to the same extent as do the laws of the United States.

Joint Ventures

We have entered into joint venture arrangements pursuant to which we or our various subsidiary companies distribute, market, promote, license and sell (in most cases, domestically and internationally) recordings and other rights owned by the joint ventures. An example of this arrangement is Frank Sinatra Enterprises, a joint venture established to administer licenses for use of Frank Sinatra's name and likeness and manage all aspects of his music, film and stage content.

Employees

As of September 30, 2020, we employed approximately 5,500 persons worldwide, including temporary and part-time employees as well as employees that were added through acquisitions. As of such date, none of our employees in the United States were subject to a collective bargaining agreement, although certain employees in our non-domestic companies were covered by national labor agreements. We believe that our relationship with our employees is good.

Corporate Information

Warner Music Group Corp. is a Delaware corporation. Our principal executive offices are located at 1633 Broadway, New York, New York 10019, and our telephone number is (212) 275-2000. Our website is www.wmg.com. Information on, or accessible through, our website or any other website is not incorporated by reference herein. All website addresses in this Annual Report are intended to be inactive textual references only.

Available Information

Our Annual Reports on Form 10-K, our Quarterly Reports on Form 10-Q and our Current Reports on Form 8-K and any amendments to those forms are available free of charge through our website (investors.wmg.com) as soon as reasonably practicable after they are filed with or furnished to the SEC. The SEC maintains an Internet site that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at www.sec.gov. None of the information contained on, or that may be accessed through our websites or any other website identified herein is part of, or incorporated into, this filing. All website addresses in this Annual Report are intended to be inactive textual references only.

ITEM 1A. RISK FACTORS

In addition to the other information contained in this Annual Report, certain risk factors should be considered carefully in evaluating our business. The risks and uncertainties described below may not be the only ones facing us. Additional risks and uncertainties that we do not currently know about or that we currently believe are immaterial may also adversely impact our business operations. If any of the following risks actually occur, our business, financial condition or results of operations would likely suffer. This Annual Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act, and Section 21E of the Exchange Act. Actual results and the timing of events could differ materially from those projected in forward-looking statements due to a number of factors, including those set forth below and elsewhere in this Annual Report. See "Special Note Regarding Forward-Looking Statements" following this Item 1A. Risk Factors.

Risks Related to Our Operations

Our results of operations, cash flows and financial condition are expected to continue to be adversely impacted by the coronavirus pandemic.

In January 2020, a new strain of coronavirus, COVID-19, was identified in Wuhan, China. On March 11, 2020, the World Health Organization declared a pandemic. The pandemic has had and will have an adverse effect on our results of operations, cash flows and financial condition.

While physical revenue streams—physical revenue in our Recorded Music business and mechanical revenue in our Music Publishing business—have declined significantly over the last decade, the virus outbreak has resulted in declines in our physical revenue streams related to disruptions in manufacturing and physical supply chains, the mandated closure of physical retailers, the requirement that people stay in their homes and our decisions to delay the release of new recordings from artists with a more physical consumer base.

Stay at home orders, limited indoor and outdoor gatherings and other restrictions have negatively affected our business in other ways. It has ended live concert tours, adversely impacting our concert promotion business and our sale of tour merchandise. It has made it more difficult for artists to engage in marketing efforts around the release of their new recordings which, in some cases, has led to our decisions to delay the release of those recordings. It has delayed the release of new recordings by impeding the types of collaboration among artists, songwriters, producers, musicians, engineers and studios which are necessary for the delivery of those recordings. The cessation or significant delay in the production of motion pictures and television programs has negatively affected licensing revenue in our Recorded Music business and synchronization revenue in our Music Publishing business.

It has been widely reported that advertisers have reduced their advertising spend as a result of the COVID-19 pandemic. We expect this will result in a corresponding decline in licensing revenue and, to a lesser extent, ad-supported digital revenue in our Recorded Music business and synchronization, performance and ad-supported digital revenue in our Music Publishing business.

The severity and the duration of the pandemic is difficult to predict but it is expected that the pandemic will materially and adversely affect the global economy, creating risk around the timing and collectability of our accounts receivable and leading to a decline in consumer discretionary spending which, in turn, could have a negative impact on our results of operations, cash flows and financial condition. To the extent the COVID-19 pandemic adversely affects our business, results of operations, cash flows or financial condition, it may also have the effect of heightening other risks described in this section.

Given the uncertainty around the extent and timing of the potential future spread or mitigation of the virus and around the imposition or relaxation of protective measures, we cannot at this time reasonably estimate the impact to our future results of operations, cash flows and financial condition.

We may be unable to compete successfully in the highly competitive markets in which we operate, and we may suffer reduced profits as a result.

The industries in which we operate are highly competitive, have experienced ongoing consolidation among major music entertainment companies and are driven by consumer preferences that are rapidly changing. Additionally, they require substantial human and capital resources. We compete with other recorded music companies and music publishing companies to identify and sign new recording artists and songwriters with the potential to achieve long-term success and to enter into and renew agreements with established recording artists and songwriters. In addition, our competitors may from time to time increase the amounts they spend to discover, or to market and promote, recording artists and songwriters or reduce the prices of their music in an effort to expand market share. We may lose business if we are unable to sign successful recording artists or songwriters or to match the prices of the music offered by our competitors. Our Recorded Music business competes not only with other recorded music companies, but also with recording artists who may choose to distribute their own works (which has become more practicable as music is distributed online rather than physically) and companies in other industries (such as Spotify) that may choose to sign direct deals with recording artists or recorded music companies. Our Music Publishing business competes not only with other music publishing companies, but also with songwriters who publish their own works and companies in other industries that may choose to sign direct deals with songwriters or music publishing companies. Our Recorded Music business is to a large extent dependent on technological developments, including access to and selection and viability of new technologies, and is subject to potential pressure from competitors as a result of their technological developments. For example, our Recorded Music business may be further adversely affected by technological developments that facilitate the piracy of music, such as Internet peer-to-peer file sharing, by an inability to enforce our intellectual property rights in digital environments and by a failure to further develop successful business models applicable to a digital environment. The Recorded Music business also faces competition from other forms of entertainment and leisure activities, such as cable and satellite television, motion pictures and video games in physical and digital formats.

Our prospects and financial results may be adversely affected if we fail to identify, sign and retain recording artists and songwriters and by the existence or absence of superstar releases.

We are dependent on identifying, signing and retaining recording artists with long-term potential, whose debut music is well received on release, whose subsequent music is anticipated by consumers and whose music will continue to generate sales as part of our catalog for years to come. The competition among record companies for such talent is intense. Competition among record companies to sell and otherwise market and promote music is also intense. We are also dependent on signing and retaining songwriters who will write the hit songs of today and the classics of tomorrow. Our competitive position is dependent on our continuing ability to attract and develop recording artists and songwriters whose work can achieve a high degree of public acceptance and who can timely deliver their music to us. Our financial results may be adversely affected if we are unable to identify, sign and retain such recording artists and songwriters under terms that are economically attractive to us. Our financial results may also be affected by the existence or absence of superstar recording artist releases during a particular period. Some music entertainment industry observers believe that the number of superstar recording acts with long-term appeal, both in terms of catalog sales and future releases, has declined in recent years. Additionally, our financial results are generally affected by the appeal of our recorded music and music publishing catalogs to consumers.

Our business operations in some foreign countries subject us to trends, developments or other events which may affect us adversely.

We are a global company with strong local presences, which have become increasingly important as the popularity of music originating from a country’s own language and culture has increased in recent years. Our mix of national and international recording artists and songwriters is designed to provide a significant degree of diversification. However, our music does not necessarily enjoy universal appeal and if it does not continue to appeal in various countries, our results of operations could be adversely impacted. As a result, our results can be affected not only by general industry trends, but also by trends, developments or other events in individual countries, including:

- limited legal protection and enforcement of intellectual property rights;
- restrictions on the repatriation of capital;
- fluctuations in interest and foreign exchange rates;
- differences and unexpected changes in regulatory environment, including environmental, health and safety, local planning, zoning and labor laws, rules and regulations;
- varying tax regimes which could adversely affect our results of operations or cash flows, including regulations relating to transfer pricing and withholding taxes on remittances and other payments by subsidiaries and joint ventures;
- exposure to different legal standards and enforcement mechanisms and the associated cost of compliance;
- difficulties in attracting and retaining qualified management and employees or rationalizing our workforce;
- tariffs, duties, export controls and other trade barriers;
- global economic and retail environment;
- longer accounts receivable settlement cycles and difficulties in collecting accounts receivable;
- recessionary trends, inflation and instability of the financial markets;
- higher interest rates; and
- political instability.

We may not be able to insure or hedge against these risks, and we may not be able to ensure compliance with all of the applicable regulations without incurring additional costs, or at all. For example, our results of operations could be impacted by fluctuations of the U.S. dollar against most currencies. See "—Unfavorable currency exchange rate fluctuations could adversely affect our results of operations." Furthermore, financing may not be available in countries with less than investment-grade sovereign credit ratings. As a result, it may be difficult to create or maintain profitable operations in various countries.

In addition, our results can be affected by trends, developments and other events in individual countries. There can be no assurance that in the future country-specific trends, developments or other events will not have a significant adverse effect on our business, results of operations or financial condition. Unfavorable conditions can depress revenues in any given market and prompt promotional or other actions that adversely affect our margins.

Unfavorable currency exchange rate fluctuations could adversely affect our results of operations.

As we continue to expand our international operations, we become increasingly exposed to the effects of fluctuations in currency exchange rates. The reporting currency for our financial statements is the U.S. dollar. We have substantial assets, liabilities, revenues and costs denominated in currencies other than U.S. dollars. To prepare our consolidated financial statements, we must translate those assets, liabilities, revenues and expenses into U.S. dollars at then-applicable exchange rates. Consequently, increases and decreases in the value of the U.S. dollar versus other currencies will affect the amount of these items in our consolidated financial statements, even if their value has not changed in their original currency. These translations could result in significant changes to our results of operations from period to period. Prior to intersegment eliminations, 57% of our revenues related to operations in foreign territories for the fiscal year ended September 30, 2020. From time to time, we enter into foreign exchange contracts to hedge the risk of unfavorable foreign currency exchange rate movements. During the current fiscal year, we have hedged a portion of our material foreign currency exposures related to royalty payments remitted between our foreign affiliates and our U.S. affiliates. However, these hedging strategies should not be expected to fully eliminate the foreign exchange rate risk to which we are exposed.

Our business may be adversely affected by competitive market conditions, and we may not be able to execute our business strategy.

We expect to increase revenues and cash flow through a business strategy which requires us, among other things, to continue to maximize the value of our music, to significantly reduce costs to maximize flexibility and adjust to new realities of the market, to continue to act to contain digital piracy and to diversify our revenue streams into growing segments of the music entertainment business by continuing to capitalize on digital distribution and emerging technologies, entering into expanded-rights deals with recording artists and by operating our artist services businesses.

Each of these initiatives requires sustained management focus, organization and coordination over significant periods of time. Each of these initiatives also requires success in building relationships with third parties and in anticipating and keeping up with technological developments and consumer preferences and may involve the implementation of new business models or distribution platforms. The results of our strategy and the success of our implementation of this strategy will not be known for some time in the future. If we are unable to implement our strategy successfully or properly react to changes in market conditions, our financial condition, results of operations and cash flows could be adversely affected.

Our ability to operate effectively could be impaired if we fail to attract and retain our executive officers.

We compete with other music entertainment companies and other companies for top talent, including executive officers. Our success depends, in part, upon the continuing contributions of our executive officers, however, there is no guarantee that they will not leave. Only some of our executive officers have employment agreements. In fiscal year 2020, we did not have an employment agreement with our CEO. Our CEO and certain of our executive officers and members of management are participants in the Plan. The loss of the services of any of our executive officers or key members of management or the failure to attract and retain other executive officers could have a material adverse effect on our business or our business prospects.

A significant portion of our revenues are subject to rate regulation either by government entities or by local third-party collecting societies throughout the world and rates on other income streams may be set by governmental proceedings, which may limit our profitability.

Mechanical royalties and performance royalties are two of the main sources of income to our Music Publishing business and mechanical royalties are a significant expense to our Recorded Music business. In the United States, mechanical royalty rates are set every five years pursuant to an administrative process under the U.S. Copyright Act, unless rates are determined through industry negotiations, and performance royalty rates are determined by negotiations with performing rights societies, the largest of which, ASCAP and BMI, are subject to a consent decree rate-setting process if negotiations are unsuccessful. In June 2019, the Antitrust Division of the Department of Justice opened a review of its consent decrees with ASCAP and BMI to determine whether the decrees should be maintained in their current form, modified or terminated. Outside the United States, mechanical and performance royalty rates are typically negotiated on an industry-wide basis. In most territories outside the United States, mechanical royalties are based on a percentage of wholesale prices for physical product and based on a percentage of consumer prices for digital formats. The mechanical and performance royalty rates set pursuant to such processes may adversely affect us by limiting our ability to increase the profitability of our Music Publishing business. If the mechanical and performance royalty rates are set too high it may also adversely affect us by limiting our ability to increase the profitability of our Recorded Music business. In addition, rates our Recorded Music business receives in the United States for webcasting and satellite radio are set every five years by an administrative process under the U.S. Copyright Act unless rates are determined through industry negotiations. It is important as revenues continue to shift from physical to diversified distribution channels that we receive fair value for all of the uses of our intellectual property as our business model now depends upon multiple revenue streams from multiple sources. The rates set for recorded music and music publishing income sources through collecting societies or legally prescribed rate-setting processes could have a material adverse impact on our business prospects.

An impairment in the carrying value of goodwill or other intangible and long-lived assets could negatively affect our operating results and equity.

As of September 30, 2020, we had $1.831 billion of goodwill and $154 million of indefinite-lived intangible assets. Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 350, *Intangibles—Goodwill and Other* ("ASC 350") requires that we test these assets for impairment annually (or more frequently should indications of impairment arise) by first assessing qualitative factors and then by quantitatively estimating the fair value of each of our reporting units (calculated using a discounted cash flow method) and comparing that value to the reporting units' carrying value, if necessary. If the carrying value exceeds the fair value, there is a potential impairment and additional testing must be performed. In performing our annual tests and determining whether indications of impairment exist, we consider numerous factors including actual and projected operating results of each reporting unit, external market factors such as market prices for similar assets and trends in the music entertainment industry. We performed an annual assessment, at July 1, 2020, of the recoverability of our goodwill and indefinite-lived intangibles as of September 30, 2020, noting no instances of impairment. However, future events may occur that could adversely affect the estimated fair value of our reporting units. Such events may include, but are not limited to, strategic decisions made in response to changes in economic and competitive conditions and the impact of the economic environment on our operating results. Failure to achieve sufficient levels of cash flow at our reporting units could also result in impairment charges on goodwill and indefinite-lived intangible assets. If the value of the acquired goodwill or acquired indefinite-lived intangible assets is impaired, our operating results and shareholders' equity could be adversely affected.

We also had $1.653 billion of definite-lived intangible assets as of September 30, 2020. FASB ASC Topic 360-10-35 ("ASC 360-10-35") requires companies to review these assets for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. No such events or circumstances were identified during the fiscal year ended September 30, 2020. If similar events occur as enumerated above such that we believe indicators of impairment are present, we would test for recoverability by comparing the carrying value of the asset to the net undiscounted cash flows expected to be generated from the asset. If those net undiscounted cash flows do not exceed the carrying amount, we would perform the next step, which is to determine the fair value of the asset, which could result in an impairment charge. Any impairment charge recorded could negatively affect our operating results and shareholders' equity.

We may not have full control and ability to direct the operations we conduct through joint ventures.

We currently have interests in a number of joint ventures and may in the future enter into further joint ventures as a means of conducting our business. In addition, we structure certain of our relationships with recording artists and songwriters as joint ventures. We may not be able to fully control the operations and the assets of our joint ventures, and we may not be able to make major decisions or may not be able to take timely actions with respect to our joint ventures unless our joint venture partners agree.

If we acquire, combine with or invest in other businesses, we will face risks inherent in such transactions.

We have in the past considered and will continue, from time to time, to consider, opportunistic strategic or transformative transactions, which could involve acquisitions, combinations or dispositions of businesses or assets, or strategic alliances or joint ventures with companies engaged in music entertainment, entertainment or other businesses. Any such combination could be material, be difficult to implement, disrupt our business or change our business profile, focus or strategy significantly.

Any future transaction could involve numerous risks, including:

- potential disruption of our ongoing business and distraction of management;
- potential loss of recording artists or songwriters from our rosters;
- difficulty integrating the acquired businesses or segregating assets to be disposed of;

- exposure to unknown and/or contingent or other liabilities, including litigation arising in connection with the acquisition, disposition and/or against any businesses we may acquire;
- reputational or other damages to our business as a result of a failure to consummate such a transaction for, among other reasons, failure to gain antitrust approval; and
- changing our business profile in ways that could have unintended consequences.

If we enter into significant transactions in the future, related accounting charges may affect our financial condition and results of operations, particularly in the case of any acquisitions. In addition, the financing of any significant acquisition may result in changes in our capital structure, including the incurrence of additional indebtedness, which may be substantial. Conversely, any material disposition could reduce our indebtedness or require the amendment or refinancing of our outstanding indebtedness or a portion thereof. We may not be successful in addressing these risks or any other problems encountered in connection with any strategic or transformative transactions. We cannot assure you that if we make any future acquisitions, investments, strategic alliances or joint ventures or enter into any business combination that they will be completed in a timely manner, or at all, that they will be structured or financed in a way that will enhance our creditworthiness or that they will meet our strategic objectives or otherwise be successful. We also may not be successful in implementing appropriate operational, financial and management systems and controls to achieve the benefits expected to result from these transactions. Failure to effectively manage any of these transactions could result in material increases in costs or reductions in expected revenues, or both. In addition, if any new business in which we invest or which we attempt to develop does not progress as planned, we may not recover the funds and resources we have expended and this could have a negative impact on our businesses or our company as a whole.

We have outsourced certain finance and accounting functions and may outsource other back-office functions, which will make us more dependent upon third parties.

In an effort to be more efficient and generate cost savings, we have outsourced certain finance and accounting functions. As a result, we rely on third parties to ensure that our needs are sufficiently met. This reliance subjects us to risks arising from the loss of control over processes, changes in pricing that may affect our operating results, and potentially, termination of provisions of these services by our suppliers. A failure of our service providers to perform services in a satisfactory manner may have a significant adverse effect on our business. We may outsource other back-office functions in the future, which would increase our reliance on third parties.

We have engaged in substantial restructuring activities in the past, and may need to implement further restructurings in the future and our restructuring efforts may not be successful or generate expected cost savings.

Our business is significantly impacted by ongoing changes in the music entertainment industry. In response, we actively seek to adapt our cost structure to the changing economics of the industry. For example, we have shifted and continue to shift resources from our physical sales channels to efforts focused on digital channels, emerging technologies and other new revenue streams, and we continue our efforts to reduce overhead and manage our variable and fixed-cost structure. In fiscal year 2018, we completed the creation of our new center of excellence for U.S. financial shared services in Nashville, Tennessee, which combined our U.S. transactional financial functions in one location. To establish the new center, we moved some of our U.S. departments to Nashville. In August 2019, we announced that we were beginning a financial transformation initiative to upgrade our information technology and finance infrastructure over the next two years, including related systems and processes. There has been a slight delay in the timing of the transformation initiative as a result of COVID-19 interruption but it is still expected to be completed over the next year. We expect to incur material costs in connection with this project, and there can be no assurance that we will be successful in upgrading our systems and processes effectively or on the timetable and at the costs contemplated, or that we will achieve the expected long-term cost savings.

We cannot be certain that we will not be required to implement further restructuring activities, make additions or other changes to our management or workforce based on other cost reduction measures or changes in the markets and industry in which we compete. Our inability to structure our operations based on evolving market conditions could impact our business. Restructuring activities can create unanticipated consequences and negative impacts on the business, and we cannot be sure that any ongoing or future restructuring efforts will be successful or generate expected cost savings.

The enactment of legislation limiting the terms by which an individual can be bound under a "personal services" contract could impair our ability to retain the services of key artists.

California Labor Code Section 2855 ("Section 2855") limits the duration of time any individual can be bound under a contract for "personal services" to a maximum of seven years. In 1987, Subsection (b) was added, which provides a limited exception to Section 2855 for recording contracts, creating a damages remedy for record companies. Such legislation could result in certain of our existing contracts with artists being declared unenforceable, or may restrict the terms under which we enter into contracts with artists in the future, either of which could adversely affect our results of operations. There is no assurance that California will not introduce legislation in the future seeking to repeal Subsection (b). The repeal of Subsection (b) and/or the passage of legislation similar to Section 2855 by other states could materially adversely affect our results of operations and financial position.

If our recording artists and songwriters are characterized as employees, we would be subject to employment and withholding liabilities.

Although we believe that the recording artists and songwriters with which we partner are properly characterized as independent contractors, tax or other regulatory authorities may in the future challenge our characterization of these relationships. We are aware of a number of judicial decisions and legislative proposals that could bring about major reforms in worker classification, including the California legislature's recent passage of California Assembly Bill 5 ("AB 5"). AB 5 purports to codify a new test for determining worker classification that is widely viewed as expanding the scope of employee relationships and narrowing the scope of independent contractor relationships. Given AB 5's recent passage, there is no guidance from the regulatory authorities charged with its enforcement, and there is a significant degree of uncertainty regarding its application. In addition, AB 5 has been the subject of widespread national discussion and it is possible that other jurisdictions may enact similar laws. If such regulatory authorities or state, federal or foreign courts were to determine that our recording artists and songwriters are employees, and not independent contractors, we would be required to withhold income taxes, to withhold and pay Social Security, Medicare and similar taxes and to pay unemployment and other related payroll taxes. We would also be liable for unpaid past taxes and subject to penalties. As a result, any determination that our recording artists and songwriters are our employees could have a material adverse effect on our business, financial condition and results of operations.

Fulfilling our obligations incident to being a public company will be expensive and time-consuming, and any delays or difficulties in satisfying these obligations could have a material adverse effect on our future results of operations and our stock price.

Following our IPO, we are subject to the reporting, accounting and corporate governance requirements applicable to issuers of listed equity, including the listing standards of NASDAQ and the Sarbanes-Oxley Act. The expenses associated with being a public company include increases in auditing, accounting and legal fees and expenses, investor relations expenses, increased directors' fees and director and officer liability insurance costs, registrar and transfer agent fees and listing fees, as well as other expenses. Failure to comply with any of the public company requirements applicable to us could potentially subject us to sanctions or investigations by the SEC or other regulatory authorities.

If streaming adoption or revenues grows less rapidly or levels off, our prospects and our results of operations may be adversely affected.

Streaming revenues are important because they have offset declines in downloads and physical sales and represent a growing area of our Recorded Music business. According to IFPI, streaming revenues, which includes revenues from ad-supported and subscription services, accounted for approximately 88% of digital revenues in 2019, up approximately 5% year-over-year. There can be no assurance that this growth pattern will persist or that digital revenues will continue to grow at a rate sufficient to offset and exceed declines in downloads and physical sales. If growth in streaming revenues levels off or fails to grow as quickly as it has over the past several years, our Recorded Music business may experience reduced levels of revenues and operating income. Additionally, slower growth in streaming adoption or revenues is also likely to have a negative impact on our Music Publishing business, which generates a significant portion of its revenues from sales and other uses of recorded music.

We are substantially dependent on a limited number of digital music services for the online distribution and marketing of our music, and they are able to significantly influence the pricing structure for online music stores and may not correctly calculate royalties under license agreements.

We derive an increasing portion of our revenues from the licensing of music through digital distribution channels. We are currently dependent on a small number of leading digital music services. In fiscal year 2020, revenue earned under our license agreements with our top two digital music accounts, Apple and Spotify, accounted for approximately 31% of our total revenues. We have limited ability to increase our wholesale prices to digital music services as a small number of digital music services control much of the legitimate digital music business. If these services were to adopt a lower pricing model or if there were structural changes to other pricing models, we could receive substantially less for our music, which could cause a material reduction in our revenues, unless offset by a corresponding increase in the number of transactions. We currently enter into short-term license agreements with many digital music services and provide our music on an at-will basis to others. There can be no assurance that we will be able to renew or enter into new license agreements with any digital music service. The terms of these license agreements, including the royalty rates that we receive pursuant to them, may change as a result of changes in our bargaining power, changes in the industry, changes in the law, or for other reasons. Decreases in royalty rates, rates of revenue sharing or changes to other terms of these license agreements may materially impact our business, operating results and financial condition. Digital music services generally accept and make available all of the music that we deliver to them. However, if digital music services in the future decide to limit the types or amount of music they will accept from music entertainment companies like us, our revenues could be significantly reduced. See "Business—Recorded Music—Sales and Digital Distribution."

We are also substantially dependent on a limited number of digital music services for the marketing of our music. A significant proportion of the music streamed on digital music services is from playlists curated by those services or generated from those services' algorithms. If these services were to fail to include our music on playlists, change the position of our music on playlists or give us less marketing space, it could adversely affect our business, operating results and financial condition.

Under our license agreements and relevant statutes, we receive royalties from digital music services in order to stream or otherwise offer our music. The determination of the amount and timing of such payments is complex and subject to a number of variables, including the revenue generated, the type of music offered and the country in which it is sold, identification of the appropriate licensor, and the service tier on which music is made available. As a result, we may not be paid appropriately for our music. Failure to be accurately paid our royalties may adversely affect our business, operating results, and financial condition.

Risks Related to Intellectual Property and Data Security

Failure to obtain, maintain, protect and enforce our intellectual property rights could substantially harm our business, operating results and financial condition.

The success of our business depends on our ability to obtain, maintain, protect and enforce our trademarks, copyrights and other intellectual property rights. The measures that we take to obtain, maintain, protect and enforce our intellectual property rights, including, if necessary, litigation or proceedings before governmental authorities and administrative bodies, may be ineffective, expensive and time-consuming and, despite such measures, third parties may be able to obtain and use our intellectual property rights without our permission. Additionally, changes in law may be implemented, or changes in interpretation of such laws may occur, that may affect our ability to obtain, maintain, protect or enforce our intellectual property rights. Failure to obtain, maintain, protect or enforce our intellectual property rights could harm our brand or brand recognition and adversely affect our business, financial condition and results of operation.

We also in-license certain major trademarks from third parties, including the WARNER, WARNER MUSIC and WARNER RECORDS trademarks and the "W" logo, pursuant to a perpetual, royalty-free license agreement that may be terminated by the licensor under certain circumstances, including our material breach of the license agreement and certain events of insolvency. Upon any such termination, we may be required to either negotiate a new or reinstated agreement with less favorable terms or otherwise lose our rights to use the licensed trademarks, which may require us to change our corporate name and undergo other significant rebranding efforts. Any such rebranding efforts may be disruptive to our business operations, require us to incur significant expenses and have an adverse effect on our business, financial condition and results of operation.

Our involvement in intellectual property litigation could adversely affect our business.

Our business is highly dependent upon intellectual property, an area that has encountered increased litigation in recent years. If we are alleged to infringe, misappropriate or otherwise violate the intellectual property rights of a third party, any litigation to defend the claim could be costly and would divert the time and resources of management, regardless of the merits of the claim and whether the claim is settled out of court or determined in our favor. There can be no assurance that we would prevail in any such litigation. If we were to lose a litigation relating to intellectual property, we could be forced to pay monetary damages and to cease using certain intellectual property or technologies. Any of the foregoing may adversely affect our business.

Digital piracy continues to adversely impact our business.

A substantial portion of our revenue comes from the distribution of music which is potentially subject to unauthorized consumer copying and widespread digital dissemination without an economic return to us, including as a result of "stream-ripping." In its Music Listening 2019 report, IFPI surveyed 34,000 Internet users to examine the ways in which music consumers aged 16 to 64 engage with recorded music across 21 countries. Of those surveyed, 23% used illegal stream-ripping services, the leading form of music piracy. Organized industrial piracy may also lead to decreased revenues. The impact of digital piracy on legitimate music revenues and subscriptions is hard to quantify, but we believe that illegal file sharing and other forms of unauthorized activity, including stream manipulation, have a substantial negative impact on music revenues. If we fail to obtain appropriate relief through the judicial process or the complete enforcement of judicial decisions issued in our favor (or if judicial decisions are not in our favor), if we are unsuccessful in our efforts to lobby governments to enact and enforce stronger legal penalties for copyright infringement or if we fail to develop effective means of protecting and enforcing our intellectual property (whether copyrights or other intellectual property rights such as patents, trademarks and trade secrets) or our music entertainment-related products or services, our results of operations, financial position and prospects may suffer.

If we or our service providers do not maintain the security of information relating to our customers, employees and vendors and our music, security information breaches through cyber security attacks or otherwise could damage our reputation with customers, employees, vendors and artists, and we could incur substantial additional costs, become subject to litigation and our results of operations and financial condition could be adversely affected. Moreover, even if we or our service providers maintain such security, such breaches remain a possibility due to the fact that no data security system is immune from attacks or other incidents.

We receive certain personal information about our customers and potential customers, and we also receive personal information concerning our employees, artists and vendors. In addition, our online operations depend upon the secure transmission of confidential information over public networks. We maintain security measures with respect to such information, but despite these measures, are vulnerable to security breaches by computer hackers and others that attempt to penetrate the security measures that we have in place. A compromise of our security systems (through cyber-attacks, which are rapidly evolving and sophisticated, or otherwise) that results in personal information being obtained by unauthorized persons or other bad acts could adversely affect our reputation with our customers, potential customers, employees, artists and vendors, as well as our operations, results of operations, financial condition and liquidity, and could result in litigation against us or the imposition of governmental penalties. Unauthorized persons have also attempted to redirect payments to or from us. If any such attempt were successful, we could lose and fail to recover the redirected funds, which loss could be material. We may also be subject to cyber-attacks that target our music, including not-yet-released music. The theft and premature release of this music may adversely affect our reputation with current and potential artists and adversely impact our results of operations and financial condition. In addition, a security breach could require that we expend significant additional resources related to our information security systems and could result in a disruption of our operations.

We increasingly rely on third-party data storage providers, including cloud storage solution providers, resulting in less direct control over our data. Such third parties may also be vulnerable to security breaches and compromised security systems, which could adversely affect our business.

Evolving laws and regulations concerning data privacy may result in increased regulation and different industry standards, which could increase the costs of operations or limit our activities.

We engage in a wide array of online activities and are thus subject to a broad range of related laws and regulations including, for example, those relating to privacy, consumer protection, data retention and data protection, online behavioral advertising, geo-location tracking, text messaging, e-mail advertising, mobile advertising, content regulation, defamation, age verification, the protection of children online, social media and other Internet, mobile and online-related prohibitions and restrictions. The regulatory framework for privacy and data security issues worldwide has become increasingly burdensome and complex, and is likely to continue to be so for the foreseeable future. Practices regarding the collection, use, storage, transmission, security and disclosure of personal information by companies operating over the Internet and mobile platforms are receiving ever-increasing public and governmental scrutiny. The U.S. government, including Congress, the Federal Trade Commission and the Department of Commerce, has announced that it is reviewing the need for even greater regulation for the collection of information concerning consumer behavior on the Internet and mobile platforms, including regulation aimed at restricting certain targeted advertising practices, the use of location data and disclosures of privacy practices in the online and mobile environments, including with respect to online and mobile applications. State governments are engaged in similar legislative and regulatory activities. In addition, privacy and data security laws and regulations around the world are being implemented rapidly and evolving. These new and evolving laws (including the European Union General Data Protection Regulation effective on May 25, 2018 and the California Consumer Privacy Act effective on January 1, 2020) are likely to result in greater compliance burdens for companies with global operations. Globally, many government and consumer agencies have also called for new regulation and changes in industry practices with respect to information collected from consumers, electronic marketing and the use of third-party cookies, web beacons and similar technology for online behavioral advertising.

The Federal Trade Commission adopted certain revisions to its rule promulgated pursuant to the Children's Online Privacy Protection Act ("COPPA"), effective as of July 1, 2013, that may impose greater compliance burdens on us. COPPA imposes a number of obligations, such as obtaining verifiable parental permission on operators of websites, apps and other online services to the extent they collect certain information from children who are under 13 years of age. The changes broaden the applicability of COPPA, including by expanding the definition of "personal information" subject to the rule's parental consent and other obligations.

Our business, including our ability to operate and expand internationally, could be adversely affected if laws or regulations are adopted, interpreted or implemented in a manner that is inconsistent with our current business practices and that require changes to these practices. Therefore, our business could be harmed by any significant change to applicable laws, regulations or industry practices regarding the collection, use or disclosure of customer data, or regarding the manner in which the express or implied consent of consumers for such collection, use and disclosure is obtained. Such changes may require us to modify our operations, possibly in a material manner, and may limit our ability to develop new products, services, mechanisms, platforms and features that make use of data regarding our customers and potential customers. Any actual or alleged violations of laws and regulations relating to privacy and data security, and any relevant claims, may expose us to potential liability, fines and may require us to expend significant resources in responding to and defending such allegations and claims, regardless of merit. Claims or allegations that we have violated laws and regulations relating to privacy and data security could also result in negative publicity and a loss of confidence in us.

We face a potential loss of catalog to the extent that our recording artists have a right to recapture rights in their recordings under the U.S. Copyright Act.

The U.S. Copyright Act provides authors (or their heirs) a right to terminate U.S. licenses or assignments of rights in their copyrighted works in certain circumstances. This right does not apply to works that are "works made for hire." Since the enactment of the Sound Recordings Act of 1971, which first accorded federal copyright protection for sound recordings in the U.S., virtually all of our agreements with recording artists provide that such recording artists render services under a work-made-for-hire relationship. A termination right exists under the U.S. Copyright Act for U.S. rights in musical compositions that are not "works made for hire." If any of our commercially available sound recordings were determined not to be "works made for hire," then the recording artists (or their heirs) could have the right to terminate the U.S. federal copyright rights they granted to us, generally during a five-year period starting at the end of 35 years from the date of release of a recording under a post-1977 license or assignment (or, in the case of a pre-1978 grant in a pre-1978 recording, generally during a five-year period starting at the end of 56 years from the date of copyright). A termination of U.S. federal copyright rights could have an adverse effect on our Recorded Music business. From time to time, authors (or their heirs) have the opportunity to terminate our U.S. rights in musical compositions. We believe the effect of any potential terminations is already reflected in the financial results of our business.

Risks Related to Our Leverage

Our substantial leverage on a consolidated basis could adversely affect our ability to raise additional capital to fund our operations, limit our ability to react to changes in the economy or our industry and prevent us from meeting our obligations under our indebtedness.

We are highly leveraged. As of September 30, 2020, our total consolidated indebtedness, net of deferred financing costs, was \$3.104 billion. In addition, on November 2, 2020, Acquisition Corp. issued and sold \$250 million of additional 3.000% Senior Secured Notes (as defined herein). Further, we would have been able to borrow up to \$290 million under our Revolving Credit Facility (as defined later in this Annual Report) as of September 30, 2020 (after giving effect to approximately \$10 million of letters of credit outstanding under our Revolving Credit Facility as of September 30, 2020).

Our high degree of leverage could have important consequences for our investors. For example, it may make it more difficult for us to make payments on our indebtedness; increase our vulnerability to general economic and industry conditions, including recessions and periods of significant inflation and financial market volatility; expose us to the risk of increased interest rates because any borrowings we make under the revolving portion of our Senior Credit Facilities (as defined later in this Annual Report) will bear interest at variable rates; require us to use a substantial portion of our cash flow from operations to service our indebtedness, thereby reducing our ability to fund working capital, capital expenditures and other expenses; limit our ability to refinance existing indebtedness on favorable terms or at all or borrow additional funds in the future for, among other things, working capital, acquisitions or debt service requirements; limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate; place us at a competitive disadvantage compared to competitors that have less indebtedness; and limit our ability to borrow additional funds that may be needed to operate and expand our business.

We and our subsidiaries may be able to incur substantial additional indebtedness in the future, subject to the restrictions contained in the indentures governing our outstanding notes as well as under the Senior Credit Facilities. If new indebtedness is added to our current debt levels, the related risks that we and our subsidiaries now face could intensify.

The indentures that govern our outstanding notes and the credit agreements that govern the Senior Credit Facilities (as defined later in this Annual Report) contain restrictive covenants that limit our ability to engage in activities that may be in our long-term best interests. Those covenants include restrictions on our ability to, among other things, incur more indebtedness, pay dividends, redeem stock or make other distributions, make investments, create liens, transfer or sell assets, merge or consolidate and enter into certain transactions with our affiliates. Our failure to comply with those covenants could result in an event of default, which, if not cured or waived, could result in the acceleration of all of our indebtedness. See also "—Our debt agreements contain restrictions that limit our flexibility in operating our business.” Any such event of default or acceleration could have an adverse effect on the trading price of our common stock.

As a holding company, the Company depends on the ability of its subsidiaries to transfer funds to it to meet its obligations.

The Company is a holding company for all of our operations and is a legal entity separate from its subsidiaries. Dividends and other distributions from the Company’s subsidiaries are the principal sources of funds available to the Company to pay corporate operating expenses, to pay stockholder dividends, to repurchase stock and to meet its other obligations. The inability to receive dividends from our subsidiaries could have a material adverse effect on our business, financial condition, liquidity or results of operations.

The subsidiaries of the Company have no obligation to pay amounts due on any liabilities of the Company or to make funds available to the Company for such payments. The ability of our subsidiaries to pay dividends or other distributions to the Company in the future will depend, among other things, on their earnings, tax considerations and covenants contained in any financing or other agreements, such as the covenants governing our current indebtedness which restrict the ability of Acquisition Corp. to pay dividends and make distributions. In addition, such payments may be limited as a result of claims against our subsidiaries by their creditors, including suppliers, vendors, lessors and employees.

If the ability of our subsidiaries to pay dividends or make other distributions or payments to the Company is materially restricted by cash needs, bankruptcy or insolvency, or is limited due to operating results or other factors, we may be required to raise cash through the incurrence of debt, the issuance of equity or the sale of assets. However, there is no assurance that we would be able to raise sufficient cash by these means. This could materially and adversely affect our ability to pay our obligations or pay dividends, which could have an adverse effect on the trading price of our common stock.

Acquisition Corp. may not be able to generate sufficient cash to service all of its indebtedness and may be forced to take other actions to satisfy its obligations under its indebtedness, which may not be successful.

Acquisition Corp.’s ability to make scheduled payments on or to refinance its debt obligations depends on its financial condition and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control. Acquisition Corp. may not maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness.

Acquisition Corp. will rely on its subsidiaries to make payments on its borrowings. If these subsidiaries do not dividend funds to Acquisition Corp. in an amount sufficient to make such payments, if necessary in the future, Acquisition Corp. may default under the indentures or credit agreements governing its borrowings, which would result in all such borrowings becoming due and payable.

Our debt agreements contain restrictions that limit our flexibility in operating our business.

The indentures governing our outstanding notes contain various covenants that limit our ability to engage in specified types of transactions. These covenants limit our ability and the ability of our restricted subsidiaries to, among other things: incur additional debt or issue certain preferred shares; create liens on certain debt; pay dividends on or make distributions in respect of our capital stock or make investments or other restricted payments; sell certain assets; pay dividends to us (in the case of our restricted subsidiaries) or make certain other intercompany transfers; enter into certain transactions with our affiliates; and consolidate, merge, sell or otherwise dispose of all or substantially all of our assets.

In addition, the credit agreements governing the Senior Credit Facilities contain a number of covenants that limit our ability and the ability of our restricted subsidiaries to:

- pay dividends on, and redeem and purchase, equity interests;
- make other restricted payments; make prepayments on, redeem or repurchase certain debt;
- incur certain liens; make certain loans and investments;
- incur certain additional debt; enter into guarantees and hedging arrangements;
- enter into mergers, acquisitions and asset sales;
- enter into transactions with affiliates;
- change the business that we and our subsidiaries conduct;
- pay dividends or make distributions;

- amend the terms of subordinated debt and unsecured bonds; and
- make certain capital expenditures.

Our ability to borrow additional amounts under the revolving portion of the Senior Credit Facilities depends upon satisfaction of these covenants. Events beyond our control can affect our ability to meet these covenants. In addition, under the credit agreement governing the revolving portion of the Senior Credit Facilities, a financial maintenance covenant is applicable if at the end of a fiscal quarter the outstanding amount of loans and letters of credit is in excess of $105 million.

Our failure to comply with obligations under the instruments governing our indebtedness may result in an event of default under such instruments. We cannot be certain that we will have funds available to remedy these defaults. A default, if not cured or waived, may permit acceleration of our indebtedness. If our indebtedness is accelerated, we cannot be certain that we will have sufficient funds available to pay the accelerated indebtedness or will have the ability to refinance the accelerated indebtedness on terms favorable to us or at all.

All of these restrictions could affect our ability to operate our business or may limit our ability to take advantage of potential business opportunities as they arise, and may have an adverse effect on the trading price of our common stock. We may, from time to time, refinance our existing indebtedness, which could result in the agreements governing any new indebtedness having fewer or less restrictive covenants, including removing or lessening restrictions on our ability to incur additional indebtedness or make restricted payments.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments in recording artists and songwriters, capital expenditures or dividends, or to sell assets, seek additional capital or restructure or refinance our indebtedness. These alternative measures may not be successful and may not permit us to meet our scheduled debt service obligations. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. The indentures governing our outstanding notes restrict our ability to dispose of assets and use the proceeds from dispositions. We may not be able to consummate those dispositions or to obtain the proceeds which we could realize from them and these proceeds may not be adequate to meet any debt service obligations then due. While subject to certain restrictions in our debt agreements, if we were to pay dividends to our shareholders, the funds used to make such dividend payments would not be available to service our indebtedness.

Despite our indebtedness levels, we may be able to incur substantially more indebtedness, which may increase the risks created by our substantial indebtedness.

We may be able to incur substantial additional indebtedness, including additional secured indebtedness, in the future. The indentures governing our outstanding notes and the credit agreements governing the Senior Credit Facilities will not fully prohibit us, Holdings or our subsidiaries from incurring additional indebtedness under certain circumstances. If we, Holdings or our subsidiaries are in compliance with certain incurrence ratios set forth in such indentures and credit agreements, we, Holdings or our subsidiaries may be able to incur substantial additional indebtedness, which may increase the risks created by our current substantial indebtedness.

Our ability to incur secured indebtedness is subject to compliance with certain secured leverage ratios that are calculated as of the date of incurrence. The amount of secured indebtedness that we are able to incur and the timing of any such incurrence under these ratios vary from time to time and are a function of several variables, including our outstanding indebtedness and our results of operations calculated as of specified dates or for certain periods.

To the extent that the terms of our current debt agreements would prevent us from incurring additional indebtedness, we may be able to obtain amendments to those agreements that would allow us to incur such additional indebtedness, and such additional indebtedness could be material.

We will require a significant amount of cash to service our indebtedness. The ability to generate cash or refinance indebtedness as it becomes due depends on many factors, some of which are beyond our control.

Our ability to make scheduled payments on, or to refinance our obligations under, our indebtedness and to fund planned capital expenditures and other corporate expenses will depend on our future operating performance and on economic, financial, competitive, legislative and other factors and any legal and regulatory restrictions on the payment of distributions and dividends to which they may be subject. Many of these factors are beyond our control. We cannot assure you that our business will generate sufficient cash flow from operations, that currently anticipated cost savings and operating improvements will be realized or that future borrowings will be available to us in an amount sufficient to enable us to satisfy our obligations under our indebtedness or to fund our other needs. To satisfy our obligations under our indebtedness and to fund planned capital expenditures, we must continue to execute our business strategy. If we are unable to do so, we may need to reduce or delay our planned capital expenditures or refinance all or a portion of our indebtedness on or before maturity. Significant delays in our planned capital expenditures may materially and adversely affect our future revenue prospects. In addition, we cannot assure you that we will be able to refinance any of our indebtedness on commercially reasonable terms or at all. While limited by the terms of our debt agreements, if we were to pay dividends to our shareholders, the funds used to make such dividend payments would not be available to service our indebtedness.

A downgrade, suspension or withdrawal of the rating assigned by a rating agency to us could cause the liquidity or market value of our indebtedness to decline and our cost of capital to increase.

Any future lowering of our ratings may make it more difficult or more expensive for us to obtain additional debt financing. Therefore, although reductions in our debt ratings may not have an immediate impact on the cost of debt or our liquidity, they may impact the cost of debt and liquidity over the medium term and future access at a reasonable rate to the debt markets may be adversely impacted.

Risks Related to Our Controlling Stockholder

Following the completion of the IPO, Access continues to control us and may have conflicts of interest with other stockholders. Conflicts of interest may arise because affiliates of our controlling stockholder have continuing agreements and business relationships with us.

Subsequent to the IPO, Access holds approximately 99% of the total combined voting power of our outstanding common stock and approximately 83% of the economic interest of our outstanding common stock. As a result, and in addition to certain other rights granted to Access as disclosed in the Registration Statement on Form S-1 related to the IPO, Access will continue to be able to control the election of our directors, affect our legal and capital structure, change our management, determine our corporate and management policies and determine, without the consent of our other stockholders, the outcome of any corporate transaction or other matter submitted to our stockholders for approval, including potential mergers or acquisitions, asset sales and other significant corporate transactions. Access also has sufficient voting power to amend our organizational documents. In addition, under the provisions of a stockholder agreement entered into with Access (the “Stockholder Agreement”), the relevant terms of which govern the powers afforded the Company under our organizational documents, Access has consent rights with respect to certain corporate and business activities that we may undertake, including during periods where Access holds less than a majority of the total combined voting power of our outstanding common stock. Specifically, the Stockholder Agreement provides that, until the date on which Access ceases to hold at least 10% of our outstanding common stock, Access’s prior written consent will be required before we may take certain corporate and business actions, whether directly or indirectly through a subsidiary, including, among others, the following:

- any merger, consolidation or similar transaction (or any amendment to or termination of an agreement to enter into such a transaction) with or into any other person whether in a single transaction or a series of transactions, subject to certain specified exceptions;
- any acquisition or disposition of securities, assets or liabilities, subject to certain specified exceptions;
- any change in our authorized capital stock or the creation of any new class or series of our capital stock;
- any issuance or acquisition of capital stock (including stock buy-backs, redemptions or other reductions of capital), or securities convertible into or exchangeable or exercisable for capital stock or equity-linked securities, subject to certain specified exceptions;
- any issuance or acquisition of debt securities to or from a third party, subject to certain specified exceptions; and
- any amendment (or approval or recommendation of any amendment) to our certificate of incorporation or by-laws.

As a result of these consent rights, Access will maintain significant control over our corporate and business activities until such rights cease.

Additionally, until Access ceases to hold more than 50% of the total combined voting power of our outstanding common stock, pursuant to Section 141(a) of the General Corporation Law of the State of Delaware (“DGCL”), our Executive Committee, as the Company’s governing body, has all of the power and authority (including voting power) of our board of directors. The Executive Committee has the authority to approve any actions of the Company, except for matters that must be approved by the Audit Committee of our board of directors (or both the Executive Committee and the Audit Committee), or by a committee or sub-committee qualified to grant equity to persons subject to Section 16 of the Exchange Act for purposes of exempting transactions pursuant to Section 16b-3 thereunder, or as required under Delaware law, SEC rules and NASDAQ rules.

Access also has the power to direct us to engage in strategic transactions, with or involving other companies in our industry, including acquisitions, combinations or dispositions, and the acquisition of certain assets that may become available for purchase, and any such transaction could be material.

Our amended and restated certificate of incorporation and our amended and restated by-laws also include a number of provisions that may discourage, delay or prevent a change in our management or control for so long as Access owns specified percentages of our common stock. See "—Risks Related to Our Common Stock—Anti-takeover provisions in our amended and restated certificate of incorporation and amended and restated by-laws and Delaware law could discourage, delay or prevent a change of control of our company and may affect the trading price of our Class A Common Stock." These provisions not only could have a negative impact on the trading price of our Class A Common Stock, but could also allow Access to delay or prevent a corporate transaction of which the public stockholders approve.

Additionally, Access is in the business of making investments in companies and is actively seeking to acquire interests in businesses that operate in our industry and other industries and may compete, directly or indirectly, with us. Access may also pursue acquisition opportunities that may be complementary to our business, which could have the effect of making such acquisition opportunities unavailable to us. Access could elect to cause us to enter into business combinations or other transactions with any business or businesses in our industry that Access may acquire or control, or we could become part of a group of companies organized under the ultimate common control of Access that may be operated in a manner different from the manner in which we have historically operated. Any such business combination transaction could require that we or such group of companies incur additional indebtedness, and could also require us or any acquired business to make divestitures of assets necessary or desirable to obtain regulatory approval for such transaction. The amounts of such additional indebtedness, and the size of any such divestitures, could be material. Access may also from time to time purchase outstanding debt securities that we issued, and could also subsequently sell any such debt securities. Any such purchase or sale may affect the value of, trading price or liquidity of our debt securities. See "—Under our amended and restated certificate of incorporation, Access and its affiliates, and in some circumstances, any of our directors and officers who is also a director, officer, employee, stockholder, member or partner of Access and its affiliates, have no obligation to offer us corporate opportunities."

Conflicts of interest may arise between our controlling stockholder and us. Affiliates of our controlling stockholder engage in transactions with us. Further, Access may, from time to time, acquire and hold interests in businesses that compete directly or indirectly with us, and they may either directly, or through affiliates, also maintain business relationships with companies that may directly compete with us. In general, Access or its affiliates could pursue business interests or exercise their voting power as stockholders in ways that are detrimental to us but beneficial to themselves or to other companies in which they invest or with whom they have a material relationship. In addition, a number of persons who currently are our directors and officers have been and remain otherwise affiliated with Access and, in some cases, such affiliations also involve financial interests. These relationships may create, or may create the appearance of, conflicts of interest when these directors and officers are faced with decisions that could have different implications for Access and us.

As a result of these relationships, the interests of Access may not coincide with our interests or the interests of the holders of our Class A Common Stock. So long as Access continues to control a significant amount of the total combined voting power of our outstanding common stock, Access will continue to be able to strongly influence or effectively control our decisions, including potential mergers or acquisitions, asset sales and other significant corporate transactions.

Under our amended and restated certificate of incorporation, Access and its affiliates, and in some circumstances, any of our directors and officers who is also a director, officer, employee, stockholder, member or partner of Access and its affiliates, have no obligation to offer us corporate opportunities.

The policies relating to corporate opportunities and transactions with Access and its affiliates set forth in our amended and restated certificate of incorporation, address potential conflicts of interest between the Company, on the one hand, and Access, its affiliates and its directors, officers, employees, stockholders, members or partners who are directors or officers of the Company, on the other hand. Our amended and restated certificate of incorporation provides that we, on our behalf and on behalf of our subsidiaries, renounce any interest or expectancy in, or in being offered an opportunity to participate in, corporate opportunities, that are from time to time presented to Access or any of its affiliates, directors, officers, employees, stockholders, members or partners, even if the opportunity is one that we or our subsidiaries might reasonably be deemed to have pursued or had the ability or desire to pursue if granted the opportunity to do so. None of Access, its affiliates or any of its directors, officers, employees, stockholders, members or partners will generally be liable to us or any of our subsidiaries for breach of any fiduciary or other duty, as a director or otherwise, by reason of the fact that such person pursues, acquires or participates in such corporate opportunity, directs such corporate opportunity to another person or fails to present such corporate opportunity, or information regarding such corporate opportunity, to us or our subsidiaries unless, in the case of any such person who is a director or officer, such corporate opportunity is expressly offered to such director or officer in writing solely in his or her capacity as a director or officer. To the fullest extent permitted by law, by becoming a stockholder in our company, stockholders will be deemed to have notice of and consented to this provision of our amended and restated certificate of incorporation. Although these provisions are designed to resolve conflicts between us and Access and its affiliates fairly, conflicts may not be resolved in our favor or be resolved at all.

If Access sells a controlling interest in our company to a third party in a private transaction, our stockholders may not realize any change of control premium on shares of our Class A Common Stock and we may become subject to the control of a presently unknown third party.

Access has the ability, should it choose to do so, to sell some or all of its shares of our common stock in a privately negotiated transaction. If such a transaction were to be sufficient in size, it could result in a change of control of the Company. The ability of Access to privately sell such shares of our common stock, with no requirement for a concurrent offer to be made to acquire all of the shares of our Class A Common Stock, could prevent our stockholders from realizing any change of control premium on their shares of our Class A Common Stock that may otherwise accrue to Access upon its private sale of our common stock. Additionally, if Access privately sells a significant equity interest in us, we may become subject to the control of a presently unknown third party. Such third party may have conflicts of interest with the interests of other stockholders.

Risks Related to Our Common Stock

The dual class structure of our common stock and the existing ownership of Class B Common Stock by Access have the effect of concentrating voting control with Access for the foreseeable future, which will limit or preclude the ability of our other stockholders to influence corporate matters.

Our Class A Common Stock has one vote per share and our Class B Common Stock has 20 votes per share. Given the greater number of votes per share attributed to our Class B Common Stock, Access, who is our only Class B Common Stock stockholder, holds approximately 99% of the total combined voting power of our outstanding common stock. As a result of our dual class ownership structure, Access is able to exert a significant degree of influence or actual control over our management and affairs and over matters requiring stockholder approval, including the election of directors, mergers or acquisitions, asset sales and other significant corporate transactions. Further, Access owns shares representing approximately 83% of the economic interest of our outstanding common stock. Because of the 20-to-1 voting ratio between the Class B Common Stock and Class A Common Stock, the holders of Class B Common Stock collectively continue to control a majority of the total combined voting power of our outstanding common stock and therefore be able to control all matters submitted to our stockholders for approval, so long as the outstanding shares of Class B Common Stock represent at least approximately 10% of the total number of outstanding shares of common stock. This concentrated control will limit the ability of our other stockholders to influence corporate matters for the foreseeable future. For example, Access will be able to control elections of directors, amendments of our certificate of incorporation or by-laws, increases to the number of shares available for issuance under our equity incentive plans or adoption of new equity incentive plans and approval of any merger or sale of assets for the foreseeable future. This control may materially adversely affect the market price of our Class A Common Stock.

Additionally, the holders of our Class B Common Stock may cause us to make strategic decisions or pursue acquisitions that could involve risks to our other stockholders or may not be aligned with their interests. The holders of our Class B Common Stock will also be entitled to a separate vote in the event we seek to amend our certificate of incorporation.

The difference in the voting rights of our Class A Common Stock and Class B Common Stock may harm the value and liquidity of our Class A Common Stock.

The difference in the voting rights of our Class A Common Stock and Class B Common Stock could harm the value of our Class A Common Stock to the extent that any investor or potential future purchaser of our Class A Common Stock ascribes value to the right of holders of our Class B Common Stock to 20 votes per share of Class B Common Stock. The existence of two classes of common stock could also result in less liquidity for our Class A Common Stock than if there were only one class of our common stock.

Our dual class structure may depress the trading price of our Class A Common Stock.

Our dual class structure may result in a lower or more volatile market price of our Class A Common Stock or in adverse publicity or other adverse consequences. For example, certain index providers have announced restrictions on including companies with dual or multiple class share structures in certain of their indexes. S&P Dow Jones and FTSE Russell have announced changes to their eligibility criteria for inclusion of shares of public companies on certain indices, including the S&P 500. These changes exclude companies with multiple classes of shares of common stock from being added to these indices. In addition, several stockholder advisory firms have announced their opposition to the use of dual or multiple class structures. As a result, the dual class structure of our common stock may prevent the inclusion of our Class A Common Stock in these indices and may cause stockholder advisory firms to publish negative commentary about our corporate governance practices or otherwise seek to cause us to change our capital structure. Any such exclusion from indices could result in a less active trading market for our Class A Common Stock. Any actions or publications by stockholder advisory firms critical of our corporate governance practices or capital structure could also adversely affect the value of our Class A Common Stock.

Future sales of shares by existing stockholders could cause our stock price to decline.

Sales of substantial amounts of our Class A Common Stock in the public market, or the perception that these sales could occur, could cause the market price of our Class A Common Stock to decline. These sales, or the possibility that these sales may occur, also might make it more difficult for us to sell equity securities in the future at a time and at a price that we deem appropriate.

Upon completion of the IPO and the exercise in full of the underwriters' option to purchase additional shares, we had 88,550,000 outstanding shares of Class A Common Stock and 421,450,000 outstanding shares of Class B Common Stock. All of the shares of Class A Common Stock sold in the IPO were immediately tradable without restriction under the Securities Act except for any shares held by "affiliates," as that term is defined in Rule 144 under the Securities Act, or "Rule 144."

The remaining shares of Class B Common Stock outstanding subsequent to the consummation of the IPO are restricted securities within the meaning of Rule 144, but will be eligible for resale subject, in certain cases, to applicable volume, manner of sale, holding period and other limitations of Rule 144 or pursuant to an exception from registration under Rule 701 under the Securities Act, or "Rule 701," subject to the terms of the lock-up agreements described below.

Additionally, shares of Class A Common Stock are registered under our registration statements on Form S-8 to be issued under our equity compensation plans, including the Plan, and, as a result, all shares of Class A Common Stock acquired upon settlement of deferred equity units granted under the Plan will also be freely tradable under the Securities Act, subject to the terms of the lock-up agreements, unless purchased by our affiliates. In addition, 31,169,099 shares of our Class A Common Stock were reserved for future issuances under the Omnibus Incentive Plan adopted in connection with the IPO over the 10-year period from the date of adoption. The Company granted members of its Board of Directors a total of 28,361 shares of restricted common stock on August 14, 2020, and 2,553 shares of restricted common stock on October 1, 2020, pursuant to the Omnibus Incentive Plan. These grants represent compensation for board service for the period from the Company's initial public offering until the Company's 2021 regularly scheduled annual shareholder meeting, at which time the restricted stock will be vested. Directors are entitled to dividends on this restricted stock during the vesting period.

In connection with the IPO, we, the selling stockholders, all of our directors and executive officers and the holders of all of our outstanding stock have entered into lock-up agreements under which, subject to certain exceptions, we and they have agreed not to sell, transfer or dispose of or hedge, directly or indirectly, any shares of our Class A Common Stock or any securities convertible into or exercisable or exchangeable for shares of our Class A Common Stock for a period of 180 days after the pricing date of the IPO, June 3, 2020, except with the prior written consent of Morgan Stanley & Co. LLC. Following the expiration of this 180-day lock-up period, approximately 421,450,000 shares of our Class A Common Stock (assuming conversion of all shares of Class B Common Stock into shares of Class A Common Stock) will be eligible for future sale, subject to the applicable volume, manner of sale, holding period and other limitations of Rule 144 or pursuant to an exception from registration under Rule 701. As resale restrictions end, the market price of our Class A Common Stock could decline if Access sells its shares or is perceived by the market as intending to sell them. Morgan Stanley & Co. LLC may, in its sole discretion and at any time, release all or any portion of the securities subject to lock-up agreements. Furthermore, subject to the expiration or waiver of the lock-up agreements, Access will have the right to require us to register shares of common stock for resale in some circumstances pursuant to a registration rights agreement we entered into with Access.

In the future, we may issue additional shares of Class A Common Stock, Class B Common Stock or other equity or debt securities convertible into or exercisable or exchangeable for shares of our Class A Common Stock in connection with a financing, strategic investment, litigation settlement or employee arrangement or otherwise. Any of these issuances could result in substantial dilution to our existing stockholders and could cause the trading price of our Class A Common Stock to decline.

The market price of our Class A Common Stock may be volatile and could decline after the IPO.

The market price of our Class A Common Stock may fluctuate significantly. Among the factors that could affect our stock price are:

- industry or general market conditions;
- domestic and international economic factors unrelated to our performance;
- changes in our customers' preferences;
- changes in law or regulation;
- lawsuits, enforcement actions and other claims by third parties or governmental authorities;
- adverse publicity related to us or another industry participant;
- actual or anticipated fluctuations in our operating results;

- changes in securities analysts' estimates of our financial performance or lack of research coverage and reports by industry analysts;
- action by institutional stockholders or other large stockholders (including Access), including future sales of our Class A Common Stock;
- failure to meet any guidance given by us or any change in any guidance given by us, or changes by us in our guidance practices;
- speculation in the press or investment community;
- investor perception of us and our industry;
- changes in market valuations or earnings of similar companies;
- announcements by us or our competitors of significant contracts, acquisitions, dispositions or strategic partnerships;
- war, terrorist acts, epidemic disease and pandemics, including COVID-19;
- any future sales of our Class A Common Stock or other securities;
- additions or departures of key personnel; and
- misconduct or other improper actions of our employees.

Stock markets have experienced extreme volatility in recent years that has been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the trading price of our Class A Common Stock. In the past, following periods of volatility in the market price of a company's securities, class action litigation has often been instituted against the affected company. Any litigation of this type brought against us could result in substantial costs and a diversion of our management's attention and resources, which could materially and adversely affect our business, consolidated results of operations, liquidity or financial condition.

Due to the nature of our business, our results of operations, cash flows and the trading price of our common stock may fluctuate significantly from period to period.

Our results of operations are affected by the amount and quality of music that we release, the number of releases that include musical compositions published by us, timing of release schedules and, more importantly, the consumer demand for these releases. We also make advance payments to recording artists and songwriters, which impact our results of operations and operating cash flows. The timing of releases and advance payments is largely based on business and other considerations and is made without regard to the impact of the timing of the release on our financial results. In addition, certain of our license agreements with digital music services contain minimum guarantees and/or require that we are paid minimum guarantee payments. Our results of operations and cash flows in any reporting period may be materially affected by the timing of releases and advance payments and minimum guarantees, which may result in significant fluctuations from period to period, which may have an adverse impact on the price of our Class A Common Stock.

If securities or industry analysts do not publish research or publish misleading or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our Class A Common Stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. We do not currently have, and may never obtain, research coverage for our Class A Common Stock. If there is no research coverage of our Class A Common Stock, the trading price for our common stock may be negatively impacted. In the event we obtain research coverage for our Class A Common Stock, if one or more of the analysts downgrades our stock or publishes misleading or unfavorable research about our business, our stock price would likely decline. If one or more of the analysts ceases coverage of our Class A Common Stock or fails to publish reports on us regularly, demand for our Class A Common Stock could decrease, which could cause our Class A Common Stock price or trading volume to decline.

Our existing debt securities do, and future offerings of debt or equity securities may, rank senior to our common stock, which may adversely affect the market price of our Class A Common Stock.

As of September 30, 2020, our total consolidated indebtedness, net of deferred financing costs, was $3.104 billion, all of which ranks senior to our Class A Common Stock. Additionally, on November 2, 2020, Acquisition Corp. issued and sold $250 million of additional 3.000% Senior Secured Notes (as defined herein). Our existing debt is subject to agreements which contain provisions restricting our operating flexibility. If, in the future, we decide to issue additional debt or equity securities that rank senior to our Class A Common Stock, it is likely that such securities will also be governed by an indenture or other instrument containing covenants restricting our operating flexibility consistent with our existing debt agreements. Additionally, any convertible or exchangeable securities that we issue in the future may have rights, preferences and privileges more favorable than those of our Class A Common Stock and may result in dilution to owners of our Class A Common Stock. We and, indirectly, our stockholders, bear the cost of issuing and servicing such securities. Because our decision to issue debt or equity securities in any future offering will depend on market conditions and other factors beyond our control, we cannot predict or estimate the amount, timing or nature of our future offerings. Thus, holders of our Class A Common Stock will bear the risk of our future offerings reducing the market price of our Class A Common Stock and diluting the value of their stock holdings in us.

Anti-takeover provisions in our amended and restated certificate of incorporation and amended and restated by-laws and Delaware law could discourage, delay or prevent a change of control of our company and may affect the trading price of our Class A Common Stock.

Our amended and restated certificate of incorporation and our amended and restated by-laws include a number of provisions that may discourage, delay or prevent a change in our management or control over us that stockholders may consider favorable. For example, our amended and restated certificate of incorporation and amended and restated by-laws collectively:

- authorize two classes of common stock with disparate voting power;
- permit different treatment of our Class A Common Stock and Class B Common Stock in a change of control transaction if approved by a majority of the voting power of our outstanding Class A Common Stock and a majority of the voting power of our outstanding Class B Common Stock, voting separately;
- authorize the issuance of "blank check" preferred stock that could be issued by our board of directors to thwart a takeover attempt;
- provide that vacancies on our board of directors, including vacancies resulting from an enlargement of our board of directors, may be filled only by a majority vote of directors then in office once Access ceases to beneficially own more than 50% of the total combined voting power of the outstanding shares of our common stock;
- prohibit stockholders from calling special meetings of stockholders if Access ceases to beneficially own more than 50% of the total combined voting power of the outstanding shares of our common stock;
- prohibit stockholder action by written consent, thereby requiring all actions to be taken at a meeting of the stockholders, if Access ceases to beneficially own more than 50% of the total combined voting power of the outstanding shares of our common stock;
- establish advance notice requirements for nominations of candidates for election as directors or to bring other business before an annual meeting of our stockholders;
- require the approval of holders of at least 66 2/3% of the total combined voting power of the outstanding shares of our common stock to amend our amended and restated by-laws and certain provisions of our amended and restated certificate of incorporation if Access ceases to beneficially own more than 50% of the total combined voting power of the outstanding shares of our common stock; and
- subject us to Section 203 of the DGCL, which limits the ability of stockholders holding shares representing more than 15% of the voting power of our outstanding voting stock from engaging in certain business combinations with us, once Access no longer owns at least 5% of the total combined voting power of our outstanding common stock.

These provisions may prevent our stockholders from receiving the benefit from any premium to the market price of our Class A Common Stock offered by a bidder in a takeover context. Even in the absence of a takeover attempt, the existence of these provisions may adversely affect the prevailing market price of our Class A Common Stock if the provisions are viewed as discouraging takeover attempts in the future.

Our amended and restated certificate of incorporation and amended and restated by-laws may also make it difficult for stockholders to replace or remove our management. Furthermore, the existence of the foregoing provisions, as well as the significant amount of common stock that Access owns and voting power that Access holds, could limit the price that investors might be willing to pay in the future for shares of our Class A Common Stock. These provisions may facilitate management and board entrenchment that may delay, deter, render more difficult or prevent a change in our control, which may not be in the best interests of our stockholders.

We are a "controlled company" within the meaning of NASDAQ rules and, as a result, we qualify for, and intend to rely on, exemptions from certain corporate governance requirements.

After the consummation of the IPO, Access holds approximately 99% of the total combined voting power of our outstanding common stock. Accordingly, we qualify as a "controlled company" within the meaning of NASDAQ corporate governance standards.

Under NASDAQ rules, a company of which more than 50% of the voting power is held by an individual, group or another company is a "controlled company" and may elect not to comply with certain NASDAQ corporate governance standards, including:

- the requirement that a majority of the members of our board of directors be independent directors;
- the requirement that our nominating and corporate governance committee be composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities;
- the requirement that we have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities; and
- the requirement for an annual performance evaluation of the nominating and corporate governance and compensation committees.

We intend to use these exemptions. As a result, we will not have a majority of independent directors, our compensation and our nominating and corporate governance committees will not consist entirely of independent directors and such committees may not be subject to annual performance evaluations. Additionally, we are only required to have all independent audit committee members within one year from the date of listing. Consequently, our stockholders will not have the same protections afforded to stockholders of companies that are subject to all of NASDAQ corporate governance rules and requirements. Our status as a controlled company could make our Class A Common Stock less attractive to some investors or otherwise harm our stock price.

Our amended and restated certificate of incorporation includes provisions limiting the personal liability of our directors for breaches of fiduciary duty under the DGCL.

Our amended and restated certificate of incorporation contains provisions permitted under the action asserting a claim arising under the DGCL relating to the liability of directors. These provisions will eliminate a director's personal liability to the fullest extent permitted by the DGCL for monetary damages resulting from a breach of fiduciary duty, except in circumstances involving:

- any breach of the director's duty of loyalty;
- acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of the law;
- Section 174 of the DGCL (unlawful dividends); or
- any transaction from which the director derives an improper personal benefit.

The principal effect of the limitation on liability provision is that a stockholder will be unable to prosecute an action for monetary damages against a director unless the stockholder can demonstrate a basis for liability for which indemnification is not available under the DGCL. These provisions, however, should not limit or eliminate our rights or any stockholder's rights to seek non-monetary relief, such as an injunction or rescission, in the event of a breach of a director's fiduciary duty. These provisions will not alter a director's liability under federal securities laws. The inclusion of this provision in our amended and restated certificate of incorporation may discourage or deter stockholders or management from bringing a lawsuit against directors for a breach of their fiduciary duties, even though such an action, if successful, might otherwise have benefited us and our stockholders.

Our amended and restated certificate of incorporation designates the Court of Chancery of the State of Delaware as the sole and exclusive forum for certain litigation that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or stockholders.

Our amended and restated certificate of incorporation provides that, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware will, to the fullest extent permitted by law, be the sole and exclusive forum for (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed to us or our stockholders by any of our directors, officers, other employees, agents or stockholders, (iii) any action asserting a claim arising out of or under the DGCL, or as to which the DGCL confers jurisdiction on the Court of Chancery of the State of Delaware (including, without limitation, any action asserting a claim arising out of or pursuant to our amended and restated certificate of incorporation or our amended and restated by-laws) or (iv) any action asserting a claim that is governed by the internal affairs doctrine, in each case subject to such Court of Chancery of the State of Delaware having personal jurisdiction over the indispensable parties named as defendants. However, claims subject to exclusive jurisdiction in the federal courts, such as suits brought to enforce a duty or liability created by the Securities Act, the Exchange Act, or the rules and regulations thereunder, need not be brought in the Court of Chancery of the State of Delaware. Stockholders in our company will be deemed to have notice of and have consented to the provisions of our amended and restated certificate of incorporation related to choice of forum. The choice of forum provision in our amended and restated certificate of incorporation may limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or any of our directors, officers, other employees, agents or stockholders, which may discourage lawsuits with respect to such claims. Additionally, a court could determine that the exclusive forum provision is unenforceable, and our stockholders will not be deemed to have waived our compliance with the federal securities laws and the rules and regulations thereunder. If a court were to find these provisions of our amended and restated certificate of incorporation inapplicable to, or unenforceable in respect of, one or more of the specified types of actions or proceedings, we may incur additional costs associated with resolving such matters in other jurisdictions, which could adversely affect our business, financial condition, or results of operations.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our principal executive offices and worldwide headquarters are currently located at 1633 Broadway, New York, New York 10019, under a long-term lease ending July 31, 2029. The lease also includes a single option for us to extend the term for either five years or ten years. In addition, under certain conditions, we have the ability to lease additional space in the building and have a right of first refusal with regard to certain additional space. We also have a lease agreement for office space located in the Ford Factory Building at 777 S. Santa Fe Avenue, Los Angeles, California 90021 for an initial term of 12 years and 9 months with a single option to extend the term of the lease for 10 years, set to initially expire on April 30, 2030. This office space is currently used as our Los Angeles, California headquarters. We also own other property and lease facilities elsewhere throughout the world as necessary to operate our businesses. We consider our properties adequate for our current needs.

ITEM 3. LEGAL PROCEEDINGS

The Company is involved in various litigation and regulatory proceedings arising in the normal course of business. Where it is determined, in consultation with counsel based on litigation and settlement risks, that a loss is probable and estimable in a given matter, the Company establishes an accrual. In the currently pending proceedings, the amount of accrual is not material. An estimate of the reasonably possible loss or range of loss in excess of the amounts already accrued cannot be made at this time due to various factors typical in contested proceedings, including (1) the results of ongoing discovery; (2) uncertain damage theories and demands; (3) a less than complete factual record; (4) uncertainty concerning legal theories and their resolution by courts or regulators; and (5) the unpredictable nature of the opposing party and its demands. However, the Company cannot predict with certainty the outcome of any litigation or the potential for future litigation. As such, the Company continuously monitors these proceedings as they develop and adjusts any accrual or disclosure as needed. Regardless of the outcome, litigation could have an adverse impact on the Company, including the Company’s brand value, because of defense costs, diversion of management resources and other factors and it could have a material effect on the Company’s results of operations for a given reporting period.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information for Common Stock

The Company's Class A Common Stock began trading on the Nasdaq stock market under the symbol "WMG" on June 3, 2020. The Company's Class B Common Stock is not listed on any stock exchange nor traded on any public market.

Holders of Record

As of November 19, 2020, there were approximately 10 stockholders of record of the Company's Class A Common Stock. Because many of our shares of Class A Common Stock are held by brokers and other institutions on behalf of individuals and entities, we excluded the total number of beneficial owners represented by these record holders. As of November 19, 2020, there were 10 stockholders of record of our Class B Common Stock.

Dividend Policy

The Company's ability to pay dividends may be restricted by covenants in certain of the indentures governing its notes and in the credit agreements for the Senior Term Loan Facility and the Revolving Credit Facility.

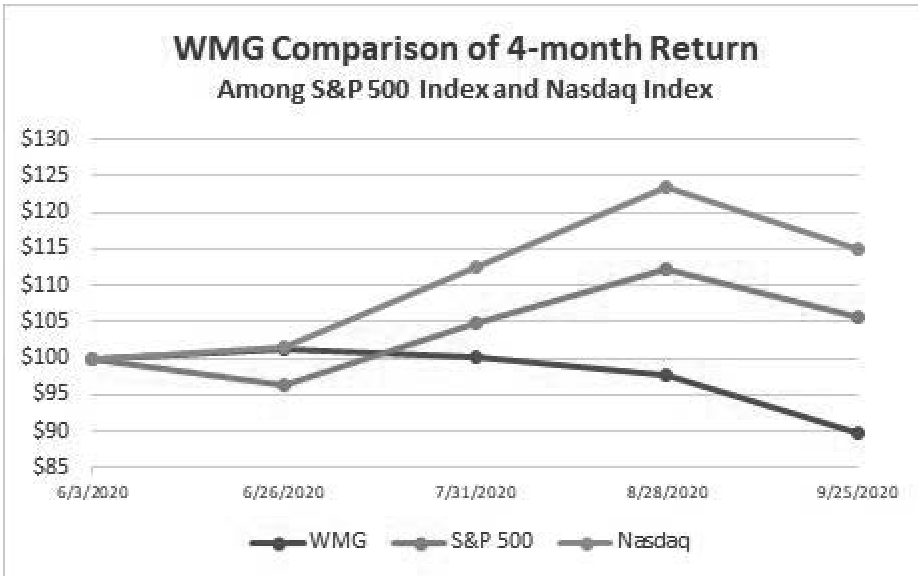
In the first quarter of fiscal year 2019, the Company instituted a regular quarterly dividend policy whereby it intended to pay a modest regular quarterly dividend in each of the first three fiscal quarters and a variable dividend for the fourth fiscal quarter in an amount commensurate with cash expected to be generated from operations in such fiscal year, in each case, after taking into account other potential uses for cash, including acquisitions, investment in our business and repayment of indebtedness. In connection with the IPO, the Company amended its dividend policy whereby it intends to pay quarterly cash dividends to holders of its Class A Common Stock and Class B Common Stock. The Company paid the first dividend under this policy of $0.12 per share in September 2020. The declaration of each dividend will continue to be at the discretion of the Company's board of directors and will depend on the Company's financial condition, earnings, liquidity and capital requirements, level of indebtedness, contractual restrictions with respect to payment of dividends, restrictions imposed by Delaware law, general business conditions and any other factors that the Company's board of directors deems relevant in making such a determination. Therefore, there can be no assurance that the Company will pay any dividends to holders of the Company's common stock, or as to the amount of any such dividends.

Stock Performance Graph

This performance graph shall not be deemed to be "filed" with the SEC for purposes of Section 18 of the Exchange Act, or otherwise subject to the liabilities under that Section, and shall not be deemed to be incorporated by reference into any filing of the Company under the Securities Act or the Exchange Act.

The following graph shows a comparison of the cumulative total return on our Class A Common Stock from June 3, 2020 (the date our Class A Common Stock commenced trading on the Nasdaq Global Select Market) through September 30, 2020 with the cumulative total return of the Standard & Poor's 500 Index ("S&P 500 Index") and the Nasdaq Composite Index over the same period, assuming the investment of $100 in our Class A Common Stock and in each index on June 3, 2020 and the reinvestment of dividends in each of our Class A Common Stock and each index. The graph uses the closing market price on June 3, 2020 of $30.12 per share as the initial value of our common stock, which had an initial public offering price of $25.00. The monthly intervals below are based on the Company's 52-53 week fiscal year in which each reporting period ends on the last Friday of the respective period.

The comparisons in the graph below are based on historical data and are not indicative of, nor intended to forecast, future performance of our Class A Common Stock.



	6/3/2020	6/26/2020	7/31/2020	8/28/2020	9/25/2020
Warner Music Group Corp.	$ 100	$ 101	$ 100	$ 98	$ 90
S&P 500 Index	100	96	105	112	106
NASDAQ Composite Index	100	101	112	124	115

Securities Authorized for Issuance Under Equity Compensation Plans

See Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related notes thereto included elsewhere in this Annual Report.

The following selected financial data have been derived from the Company's consolidated financial statements. The financial data for the fiscal years ended September 30, 2020, September 30, 2019 and September 30, 2018, and as of September 30, 2020 and September 30, 2019 have been derived from the Company's consolidated financial statements included elsewhere in this Annual Report. The financial data for the fiscal years ended September 30, 2017 and September 30, 2016, and as of September 30, 2018, September 30, 2017 and September 30, 2016 have been derived from the Company's consolidated financial statements not included in this Annual Report. Historical results are not indicative of future operating results.

	Fiscal Year Ended September 30,				
	2020	2019	2018	2017	2016
	(in millions, except per share data)				
Consolidated Statements of Operations Data:					
Revenues	$ 4,463	$ 4,475	$ 4,005	$ 3,576	$ 3,246
Interest expense, net	(127)	(142)	(138)	(149)	(173)
Net (loss) income	(470)	258	312	149	30
Less: Income attributable to noncontrolling interest	(5)	(2)	(5)	(6)	(5)
Net (loss) income attributable to Warner Music Group Corp. (1)	(475)	256	307	143	25
Net (loss) income per share attributable to common stockholders:					
Class A – Basic and Diluted	$ (0.82)	$ —	$ —	$ —	$ —
Class B – Basic and Diluted	(0.95)	0.51	0.61	0.29	0.05
Cash dividends declared per common share:					
Class A Common Stock	$ 0.12	$ —	$ —	$ —	$ —
Class B Common Stock	0.27	0.59	1.84	0.17	—
Consolidated Balance Sheet Data (at period end):					
Cash and equivalents	$ 553	$ 619	$ 514	$ 647	$ 359
Total assets	6,410	6,017	5,344	5,718	5,335
Total debt (including current portion of long-term debt)	3,104	2,974	2,819	2,811	2,778
Total (deficit) equity	(45)	(269)	(320)	308	210
Consolidated Statements of Cash Flows Data:					
Cash flows provided by (used in):					
Operating activities	$ 463	$ 400	$ 425	$ 535	$ 342
Investing activities	(219)	(376)	405	(126)	(8)
Financing activities	(316)	88	(955)	(128)	(216)
Depreciation and amortization	261	269	261	251	293
Capital expenditures	(85)	(104)	(74)	(44)	(42)

(1) Net loss attributable to Warner Music Group Corp. for the fiscal year ended September 30, 2020 includes a net loss on extinguishment of debt of $34 million, non-cash stock-based compensation expense of $608 million, and a one-time management agreement termination fee and IPO-related expenses of $89 million. Net income attributable to Warner Music Group Corp. for the fiscal year ended September 30, 2019 includes a net loss on extinguishment of debt of $7 million, variable compensation costs associated with the Senior Management Free Cash Flow Plan of $71 million and a benefit due to the reversal of the U.S. valuation allowance of $59 million related to foreign tax credits. Net income attributable to Warner Music Group Corp. for the fiscal year ended September 30, 2018 includes a net loss on extinguishment of debt of $31 million, variable compensation costs associated with the Senior Management Free Cash Flow Plan of $108 million, net gain on the Spotify share sale of $317 million after taxes and restructuring charges of $44 million. Net income attributable to Warner Music Group Corp. for the fiscal year ended September 30, 2017 includes a benefit due to the reversal of the U.S. valuation allowance of $125 million, net loss on extinguishment of debt of $35 million, variable compensation costs associated with the Senior Management Free Cash Flow Plan of $102 million and net gain on divestitures primarily related to

PLG of $6 million. Net income attributable to Warner Music Group Corp. for the fiscal year ended September 30, 2016 includes net loss on extinguishment of debt of $18 million, gain on sale of real estate of $24 million and net gain on divestitures primarily related to PLG of $9 million.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This Annual Report contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act, and Section 21E of the Exchange Act. Actual results and the timing of events could differ materially from those projected in forward-looking statements due to a number of factors, including those described under "Item 1A. Risk Factors" and elsewhere in this Annual Report. See "Special Note Regarding Forward-Looking Statements."

You should read the following discussion of our financial condition and results of operations in conjunction with the consolidated financial statements and related notes thereto included elsewhere in this Annual Report.

INTRODUCTION

The Company was formed on November 21, 2003. The Company is the direct parent of Holdings, which is the direct parent of Acquisition Corp. Acquisition Corp. is one of the world's major music entertainment companies.

On June 5, 2020, the Company completed an IPO of 77,000,000 shares of Class A Common Stock at a public offering price of $25 per share. The offering consisted entirely of secondary shares sold by Access and certain related selling stockholders. On July 7, 2020, the Company completed the sale of an additional 11,550,000 shares of Class A Common Stock from the selling stockholders to the underwriters of the Company's IPO pursuant to the exercise by the underwriters of their option to purchase additional shares of Class A Common Stock. We did not receive any of the proceeds of the IPO or exercise of the underwriters' option.

Following completion of the IPO and the exercise in full of the underwriters' option to purchase additional shares, Access and its affiliates held an aggregate of 421,450,000 shares of Class B Common Stock, representing approximately 99% of the total combined voting power of the Company's outstanding common stock and approximately 83% of the economic interest. As a result, the Company is a "controlled company" within the meaning of the corporate governance standards of NASDAQ. See Item 1A. Risk Factors — Risks Related to Our Controlling Stockholder.

The Company and Holdings are holding companies that conduct substantially all of their business operations through their subsidiaries. The terms "we," "us," "our," "ours" and the "Company" refer collectively to Warner Music Group Corp. and its consolidated subsidiaries, except where otherwise indicated.

Management's discussion and analysis of financial condition and results of operations ("MD&A") is provided as a supplement to the consolidated financial statements and related notes thereto included elsewhere herein to help provide an understanding of our financial condition, changes in financial condition and results of our operations. MD&A is organized as follows:

- *Business overview.* This section provides a general description of our business, as well as a discussion of factors that we believe are important in understanding our results of operations and comparability and in anticipating future trends.
- *Results of operations.* This section provides an analysis of our results of operations for the fiscal years ended September 30, 2020, September 30, 2019 and September 30, 2018. This analysis is presented on both a consolidated and segment basis.
- *Financial condition and liquidity.* This section provides an analysis of our cash flows for the fiscal years ended September 30, 2020, September 30, 2019 and September 30, 2018, as well as a discussion of our financial condition and liquidity as of September 30, 2020. The discussion of our financial condition and liquidity includes recent debt financings and a summary of the key debt covenant compliance measures under our debt agreements.
- *Critical accounting policies.* This section identifies those accounting policies that are considered important to the Company's results of operations and financial condition, require significant judgment and involve significant management estimates. The Company's significant accounting policies, including those considered to be critical accounting policies, are summarized in Note 2 to the accompanying consolidated financial statements.

Use of OIBDA

We evaluate our operating performance based on several factors, including our primary financial measure of operating income (loss) before non-cash depreciation of tangible assets and non-cash amortization of intangible assets ("OIBDA"). We consider OIBDA to be an important indicator of the operational strengths and performance of our businesses. However, a limitation of the use of OIBDA as a performance measure is that it does not reflect the periodic costs of certain capitalized tangible and intangible assets used in generating revenues in our businesses and other non-operating income (loss). Accordingly, OIBDA should be considered in addition to, not as a substitute for, operating income (loss), net income (loss) attributable to Warner Music Group Corp. and other measures of financial performance reported in accordance with United States generally accepted accounting principles ("U.S. GAAP"). In addition, our definition of OIBDA may differ from similarly titled measures used by other companies. A reconciliation of consolidated OIBDA to operating income (loss) and net income (loss) attributable to Warner Music Group Corp. is provided in "—Results of Operations."

Use of Constant Currency

As exchange rates are an important factor in understanding period to period comparisons, we believe the presentation of revenue on a constant-currency basis in addition to reported results helps improve the ability to understand our operating results and evaluate our performance in comparison to prior periods. Constant-currency information compares revenue between periods as if exchange rates had remained constant period over period. We use revenue on a constant-currency basis as one measure to evaluate our performance. We calculate constant currency by calculating prior-year revenue using current-year foreign currency exchange rates. We generally refer to such amounts calculated on a constant-currency basis as "excluding the impact of foreign currency exchange rates." This revenue should be considered in addition to, not as a substitute for, revenue reported in accordance with U.S. GAAP. Revenue on a constant-currency basis, as we present it, may not be comparable to similarly titled measures used by other companies and are not a measure of performance presented in accordance with U.S. GAAP.

BUSINESS OVERVIEW

We are one of the world's leading music entertainment companies. Our renowned family of iconic record labels, including Atlantic Records, Warner Records, Elektra Records and Parlophone Records, is home to many of the world's most popular and influential recording artists. In addition, Warner Chappell Music, our global music publishing business, boasts an extraordinary catalog that includes timeless standards and contemporary hits, representing works by over 80,000 songwriters and composers, with a global collection of more than one million musical compositions. We classify our business interests into two fundamental operations: Recorded Music and Music Publishing. A brief description of each of those operations is presented below.

Components of Our Operating Results

Recorded Music Operations

Our Recorded Music business primarily consists of the discovery and development of recording artists and the related marketing, promotion, distribution, sale and licensing of music created by such recording artists. We play an integral role in virtually all aspects of the recorded music value chain from discovering and developing talent to producing, distributing and selling music to marketing and promoting recording artists and their music.

In the United States, our Recorded Music business is conducted principally through our major record labels—Atlantic Records and Warner Records. In October 2018, we launched Elektra Music Group in the United States as a standalone label group, which comprises the Elektra, Fueled by Ramen and Roadrunner labels. Our Recorded Music business also includes Rhino Entertainment, a division that specializes in marketing our recorded music catalog through compilations, reissuances of previously released music and video titles and releasing previously unreleased material from our vault. We also conduct our Recorded Music business through a collection of additional record labels including Asylum, Big Beat, Canvasback, East West, Erato, FFRR, Nonesuch, Parlophone, Reprise, Sire, Spinnin' Records, Warner Classics and Warner Music Nashville.

Outside the United States, our Recorded Music business is conducted in more than 70 countries through various subsidiaries, affiliates and non-affiliated licensees. Internationally, we engage in the same activities as in the United States: discovering and signing artists and distributing, selling, marketing and promoting their music. In most cases, we also market, promote, distribute and sell the music of those recording artists for whom our domestic record labels have international rights. In certain smaller markets, we license the right to distribute and sell our music to non-affiliated third-party record labels.

Our Recorded Music business' distribution operations include WEA Corp., which markets, distributes and sells music and video products to retailers and wholesale distributors; ADA, which markets, distributes and sells the products of independent labels to retail and wholesale distributors; and various distribution centers and ventures operated internationally.

In addition to our music being sold in physical retail outlets, our music is also sold in physical form to online physical retailers, such as amazon.com, barnesandnoble.com and bestbuy.com, and distributed in digital form to an expanded universe of digital partners, including streaming services such as those of Amazon, Apple, Deezer, SoundCloud, Spotify, Tencent Music Entertainment Group and YouTube, radio services such as iHeart Radio and SiriusXM and download services.

We have integrated the marketing of digital content into all aspects of our business, including A&R and distribution. Our business development executives work closely with A&R departments to ensure that while music is being produced, digital assets are also created with all distribution channels in mind, including streaming services, social networking sites, online portals and music-centered destinations. We also work side-by-side with our online and mobile partners to test new concepts. We believe existing and new digital businesses will be a significant source of growth and will provide new opportunities to successfully monetize our assets and create new revenue streams. The proportion of digital revenues attributable to each distribution channel varies by region and proportions may change as the introduction of new technologies continues. As one of the world's largest music entertainment companies, we believe we are well positioned to take advantage of growth in digital distribution and emerging technologies to maximize the value of our assets.

We have diversified our revenues beyond our traditional businesses by entering into expanded-rights deals with recording artists in order to partner with such artists in other aspects of their careers. Under these agreements, we provide services to and participate in recording artists' activities outside the traditional recorded music business such as touring, merchandising and sponsorships. We have built and acquired artist services capabilities and platforms for marketing and distributing this broader set of music-related rights and participating more widely in the monetization of the artist brands we help create. We believe that entering into expanded-rights deals and enhancing our artist services capabilities in areas such as merchandising, VIP ticketing, fan clubs, concert promotion and management has permitted us to diversify revenue streams and capitalize on other revenue opportunities. This provides for improved long-term relationships with our recording artists and allows us to more effectively connect recording artists and fans.

Recorded Music revenues are derived from four main sources:

- *Digital*: the rightsholder receives revenues with respect to streaming and download services;
- *Physical*: the rightsholder receives revenues with respect to sales of physical products such as vinyl, CDs and DVDs;
- *Artist services and expanded-rights*: the rightsholder receives revenues with respect to our artist services businesses and our participation in expanded rights associated with our recording artists, including merchandising, touring, concert promotion, ticketing, sponsorship, fan clubs, artist websites and artist and brand management; and
- *Licensing*: the rightsholder receives royalties or fees for the right to use sound recordings in combination with visual images such as in films or television programs, television commercials and video games; the rightsholder also receives royalties if sound recordings are performed publicly through broadcast of music on television, radio and cable, and in public spaces such as shops, workplaces, restaurants, bars and clubs.

The principal costs associated with our Recorded Music business are as follows:

- *A&R costs*: the costs associated with (i) paying royalties to recording artists, producers, songwriters, other copyright holders and trade unions; (ii) signing and developing recording artists; and (iii) creating master recordings in the studio;
- *Product costs*: the costs to manufacture, package and distribute products to wholesale and retail distribution outlets, the royalty costs associated with distributing products of independent labels to wholesale and retail distribution outlets, as well as the costs related to our artist services business;
- *Selling and marketing expenses*: the costs associated with the promotion and marketing of recording artists and music, including costs to produce music videos for promotional purposes and artist tour support; and
- *General and administrative expenses*: the costs associated with general overhead and other administrative expenses.

Music Publishing Operations

While Recorded Music is focused on marketing, promoting, distributing and licensing a particular recording of a musical composition, Music Publishing is an intellectual property business focused on generating revenue from uses of the musical composition itself. In return for promoting, placing, marketing and administering the creative output of a songwriter, or engaging in those activities for other rightsholders, our Music Publishing business garners a share of the revenues generated from use of the musical compositions.

The operations of our Music Publishing business are conducted principally through Warner Chappell Music, our global music publishing company headquartered in Los Angeles, with operations in over 70 countries through various subsidiaries, affiliates, and non-affiliated licensees and sub-publishers. We own or control rights to more than one million musical compositions, including numerous pop hits, American standards, folk songs and motion picture and theatrical compositions. Assembled over decades, our award-winning catalog includes over 80,000 songwriters and composers and a diverse range of genres including pop, rock, jazz, classical, country, R&B, hip-hop, rap, reggae, Latin, folk, blues, symphonic, soul, Broadway, techno, alternative and gospel. Warner Chappell Music also administers the music and soundtracks of several third-party television and film producers and studios. We have an extensive production music catalog collectively branded as Warner Chappell Production Music.

Music Publishing revenues are derived from five main sources:

- *Performance:* the rightsholder receives revenues if the musical composition is performed publicly through broadcast of music on television, radio and cable and in retail locations (e.g. bars and restaurants), live performance at a concert or other venue (e.g., arena concerts and nightclubs), and performance of music in staged theatrical productions;
- *Digital:* the rightsholder receives revenues with respect to musical compositions embodied in recordings distributed in streaming services, download services and other digital music services;
- *Mechanical:* the rightsholder receives revenues with respect to musical compositions embodied in recordings sold in any physical format or configuration such as vinyl, CDs and DVDs;
- *Synchronization:* the rightsholder receives revenues for the right to use the musical composition in combination with visual images such as in films or television programs, television commercials and video games as well as from other uses such as in toys or novelty items and merchandise; and
- *Other:* the rightsholder receives revenues for use in sheet music and other uses.

The principal costs associated with our Music Publishing business are as follows:

- *A&R costs*: the costs associated with (i) paying royalties to songwriters, co-publishers and other copyright holders in connection with income generated from the uses of their works and (ii) signing and developing songwriters; and
- *Selling and marketing, general overhead and other administrative expenses*: the costs associated with selling and marketing, general overhead and other administrative expenses.

Factors Affecting Results of Operations and Comparability

COVID-19 Pandemic

In January 2020, a new strain of coronavirus, COVID-19, was identified in Wuhan, China. On March 11, 2020, the World Health Organization declared a global pandemic. The global pandemic and governmental responses thereto have disrupted physical and manufacturing supply chains and required the closures of physical retailers, resulting in declines in our physical revenue streams. Additionally, stay-at-home orders, limited indoor and outdoor gatherings and other restrictions have negatively affected our business in other ways, such as, making it impossible to hold live concert tours, adversely impacting our concert promotion business and the sale of merchandise, delaying the release of new recordings and disrupting the production and release of motion pictures and television programs, which has negatively affected licensing revenue in our Recorded Music business and synchronization revenue in our Music Publishing business. However, the disruption from the COVID-19 pandemic may accelerate growth of other revenue streams such as fitness and interactive gaming (including augmented reality and virtual reality). Our results of operations, cash flows and financial condition at and for the fiscal year ended September 30, 2020 were adversely affected by the global pandemic. In addition to the impact resulting from the business disruption, the Company recognized charges of $17 million impacting OIBDA and a total of $22 million impacting net income for the fiscal year ended September 30, 2020.

Initial Public Offering

On June 5, 2020, we completed an IPO of 77,000,000 shares of Class A Common Stock, par value $0.001 per share at a public offering price of $25 per share. On July 7, 2020, we completed a sale of an additional 11,550,000 shares of Class A Common Stock from the selling stockholders to the underwriters of the IPO pursuant to the exercise by the underwriters of their option to purchase additional shares of Class A Common Stock.

The sale of shares through the offering consisted entirely of secondary shares sold by Access. We did not receive any proceeds resulting from the sale and listing of shares. As a result, we incurred one-time costs associated with the IPO of approximately $89 million for the fiscal year ended September 30, 2020, $60 million of which relates to the Management Agreement as defined below. Going forward, our results of operations will include expenses associated with being a public company, including auditing, accounting and legal fees and expenses, investor relations expenses, increased directors' fees and director and officer liability insurance costs, registrar and transfer agent fees and listing fees, as well as other expenses. For the fiscal year ended September 30, 2020, costs associated with being a public company were approximately $4 million.

Senior Management Free Cash Flow Plan

On June 5, 2020, we amended our Senior Management Free Cash Flow Plan (the "Plan"), which pays annual bonuses to certain executives based on our free cash flow and offers participants the opportunity to share in the appreciation of the value of our common stock, to remove the cash-settlement feature of the awards issued previously under the Plan. Our results of operations were adversely impacted by a non-cash stock-based compensation charge of $593 million for the fiscal year ended September 30, 2020 which reflects the mark-to-market adjustment through the modification date of the Plan for the change in value of our common stock upon consummation of the IPO. We incurred non-cash stock-based compensation charges associated with mark-to-market adjustments of $42 million and $43 million for the fiscal years ended September 30, 2019 and September 30, 2018, respectively.

Subsequent to the amendment, the awards issued under the Plan will no longer be adjusted for changes in the value of our common stock. We will continue to incur non-cash stock-based compensation expense for awards that were unvested as of the modification date of the Plan and for any future awards that may be issued under the Plan.

Acquisition of EMP

On October 10, 2018, we acquired E.M.P. Merchandising Handelsgesellschaft mbH, a limited liability company under the laws of Germany, and its subsidiaries, all of the share capital of MIG Merchandising Investment GmbH, a limited liability company under the laws of Germany, and its subsidiaries, and certain shares of Large Popmarchandising BVBA, a limited liability company under the laws of Belgium (together, "EMP"). EMP is a specialty retailer of merchandise for many popular artists along with other forms of entertainment such as movies and television.

Adoption of New Revenue Recognition Standard

In May 2014, the FASB issued guidance codified in ASC 606, *Revenue from Contracts with Customers* ("ASC 606"), which replaces the guidance in former ASC 605, *Revenue Recognition* and ASC 928-605, *Entertainment—Music*. We adopted ASC 606 in fiscal 2019, which resulted in a change in the timing of revenue recognition in our Music Publishing business as well as international broadcast rights within our Recorded Music business. Under the new revenue recognition rules, revenue is recorded based on best estimates available in the period of sale or usage whereas revenue was previously recorded when cash was received for both the licensing of music publishing rights and international recorded music broadcast fees. Additionally, for certain licenses where the consideration is fixed and the intellectual property being licensed is static, revenue is recognized at the point in time when control of the licensed content is transferred to the customer. See "Critical Accounting Policies."

Management Agreement

Upon completion of the Merger, the Company and Holdings entered into a management agreement with Access, dated as of the Merger Closing Date (the "Management Agreement"), pursuant to which Access provided the Company and its subsidiaries with financial, investment banking, management, advisory and other services. As a result of the completion of the IPO, the Management Agreement terminated in accordance with its terms and the Company paid to Access a one-time termination fee and a fee for transaction services in an aggregate amount of $60 million. Prior to the termination of the Management Agreement, the Company incurred costs associated with the Management Agreement of approximately $7 million, $11 million and $16 million for the fiscal years ended September 30, 2020, September 30, 2019 and September 30, 2018, respectively. Such amounts have been included as a component of selling, general and administrative expenses in the accompanying consolidated statements of operations.

RESULTS OF OPERATIONS

Fiscal Year Ended September 30, 2020 Compared with Fiscal Year Ended September 30, 2019 and Fiscal Year Ended September 30, 2018

Consolidated Results

Revenues

The Company's revenues were composed of the following amounts (in millions):

	For the Fiscal Year Ended September 30,			2020 vs. 2019		2019 vs. 2018	
	2020	2019	2018	$ Change	% Change	$ Change	% Change
Revenue by Type							
Digital	$ 2,568	$ 2,343	$ 2,019	$ 225	10%	$ 324	16%
Physical	434	559	630	(125)	-22%	(71)	-11%
Total Digital and Physical	3,002	2,902	2,649	100	3%	253	10%
Artist services and expanded-rights	525	629	389	(104)	-17%	240	62%
Licensing	283	309	322	(26)	-8%	(13)	-4%
Total Recorded Music	3,810	3,840	3,360	(30)	-1%	480	14%
Performance	142	183	212	(41)	-22%	(29)	-14%
Digital	337	271	237	66	24%	34	14%
Mechanical	48	55	72	(7)	-13%	(17)	-24%
Synchronization	119	120	119	(1)	-1%	1	1%
Other	11	14	13	(3)	-21%	1	8%
Total Music Publishing	657	643	653	14	2%	(10)	-2%
Intersegment eliminations	(4)	(8)	(8)	4	-50%	—	—%
Total Revenues	$ 4,463	$ 4,475	$ 4,005	$ (12)	—%	$ 470	12%
Revenue by Geographical Location							
U.S. Recorded Music	$ 1,609	$ 1,656	$ 1,460	$ (47)	-3%	$ 196	13%
U.S. Music Publishing	325	300	294	25	8%	6	2%
Total U.S.	1,934	1,956	1,754	(22)	-1%	202	12%
International Recorded Music	2,201	2,184	1,900	17	1%	284	15%
International Music Publishing	332	343	359	(11)	-3%	(16)	-4%
Total International	2,533	2,527	2,259	6	—%	268	12%
Intersegment eliminations	(4)	(8)	(8)	4	-50%	—	—%
Total Revenues	$ 4,463	$ 4,475	$ 4,005	$ (12)	—%	$ 470	12%

Total Revenues

2020 vs. 2019

Total revenues decreased by $12 million, or 0%, to $4,463 million for the fiscal year ended September 30, 2020 from $4,475 million for the fiscal year ended September 30, 2019. Prior to intersegment eliminations, Recorded Music revenues represented 85% and 86% of total revenues for the fiscal years ended September 30, 2020 and September 30, 2019, respectively. Prior to intersegment eliminations, Music Publishing revenues represented 15% and 14% of total revenues for the fiscal years ended September 30, 2020 and September 30, 2019, respectively. Prior to intersegment eliminations, U.S. and international revenues represented 43% and 57% of total revenues for the fiscal year ended September 30, 2020 and 44% and 56% of total revenues for the fiscal year ended September 30, 2019, respectively.

Total digital revenues after intersegment eliminations increased by $293 million, or 11%, to $2,903 million for the fiscal year ended September 30, 2020 from $2,610 million for the fiscal year ended September 30, 2019. Total digital revenues represented 65% and 58% of consolidated revenues for the fiscal years ended September 30, 2020 and September 30, 2019, respectively. The increase in digital revenue as a percentage of consolidated revenue is due to the continued growth in streaming revenue, which was largely uninterrupted by COVID-19, and the decrease in total consolidated revenue due to the business interruption impact of COVID-19. Prior to intersegment eliminations, total digital revenues for the fiscal year ended September 30, 2020 were comprised of U.S. revenues of $1,479 million and international revenues of $1,426 million, or 51% and 49% of total digital revenues, respectively. Prior to intersegment eliminations, total digital revenues for the fiscal year ended September 30, 2019 were comprised of U.S. revenues of $1,382 million and international revenues of $1,232 million, or 53% and 47% of total digital revenues, respectively.

Recorded Music revenues decreased by $30 million, or 1%, to $3,810 million for the fiscal year ended September 30, 2020 from $3,840 million for the fiscal year ended September 30, 2019. U.S. Recorded Music revenues were $1,609 million and $1,656 million, or 42% and 43% of consolidated Recorded Music revenues for the fiscal years ended September 30, 2020 and September 30, 2019, respectively. International Recorded Music revenues were $2,201 million and $2,184 million, or 58% and 57% of consolidated Recorded Music revenues for the fiscal years ended September 30, 2020 and September 30, 2019, respectively.

The overall decrease in Recorded Music revenue was driven by decreases in physical, artist services and expanded-rights, and licensing revenue partially offset by increases in digital revenue. Physical revenue decreased by $125 million primarily due to the continued shift from physical revenue to digital revenue, timing of releases, prior-year success of Johnny Hallyday and impact of the COVID-19 business interruption resulting in lower physical sales, offset by current year release success in Japan. Artist services and expanded-rights revenue decreased by $104 million primarily due to a decrease in touring activity and tour related merchandising resulting from COVID-19 business interruption related tour postponements and cancellations, partially offset by higher e-commerce merchandising revenue. Licensing revenue decreased by $26 million primarily due to the impact of COVID-19, which resulted in lower broadcast fees, synchronization revenue due to lower advertising, television and film deal activity, partially offset by $5 million of licensing settlements. Digital revenue increased by $225 million as a result of the continued growth in streaming services and strength of releases, which included new releases from Roddy Ricch, YoungBoy Never Broke Again and Dua Lipa, as well as carryover success from Ed Sheeran, Tones and I, Hamilton, Lizzo, Cardi B, and Young Thug. Revenue from streaming services grew by $274 million or 13% to $2,403 million for the fiscal year ended September 30, 2020 from $2,129 million for the fiscal year ended September 30, 2019. Streaming revenue growth was partially offset by a decline in download and other digital revenues of $49 million to $165 million for the fiscal year ended September 30, 2020 from $214 million for the fiscal year ended September 30, 2019 due to the continued shift to streaming services.

Music Publishing revenues increased by $14 million, or 2%, to $657 million for the fiscal year ended September 30, 2020 from $643 million for the fiscal year ended September 30, 2019. U.S. Music Publishing revenues were $325 million, or 49% of consolidated Music Publishing revenues for the fiscal year ended September 30, 2020, and $300 million, or 47% of consolidated Music Publishing revenues for the fiscal year ended September 30, 2019. International Music Publishing revenues were $332 million, or 51% of consolidated Music Publishing revenues for the fiscal year ended September 30, 2020, and $343 million, or 53% of consolidated Music Publishing revenues for the fiscal year ended September 30, 2019.

The overall increase in Music Publishing revenue was mainly driven by an increase in digital revenue of $66 million or 24%, partially offset by decreases in performance revenue of $41 million or 22%, mechanical revenue of $7 million, synchronization revenue of $1 million and other revenue of $3 million. The increase in digital revenue mainly reflects the continued shift to streaming services. The decreases in Music Publishing performance revenue and mechanical revenue are primarily due to COVID-19 related business interruption and the timing of distributions.

2019 vs. 2018

Total revenues increased by $470 million, or 12%, to $4,475 million for the fiscal year ended September 30, 2019 from $4,005 million for the fiscal year ended September 30, 2018, which includes an increase of $240 million, or 6%, due to the acquisition of EMP and $28 million, or 1%, due to the adoption of the new revenue recognition standard, ASC 606, in October 2018. Prior to intersegment eliminations, Recorded Music revenues represented 86% and 84% of total revenues for the fiscal years ended September 30, 2019 and September 30, 2018, respectively. Prior to intersegment eliminations, Music Publishing revenues represented 14% and 16% of total revenues for the fiscal years ended September 30, 2019 and September 30, 2018, respectively. Prior to intersegment eliminations, U.S. and international revenues represented 44% and 56% of total revenues for each of the fiscal years ended September 30, 2019 and September 30, 2018.

Total digital revenues after intersegment eliminations increased by $358 million, or 16%, to $2,610 million for the fiscal year ended September 30, 2019 from $2,252 million for the fiscal year ended September 30, 2018. Total digital revenues represented 58% and 56% of consolidated revenues for the fiscal years ended September 30, 2019 and September 30, 2018, respectively. Prior to intersegment eliminations, total digital revenues for the fiscal year ended September 30, 2019 were comprised of U.S. revenues of

$1,382 million and international revenues of $1,232 million, or 53% and 47% of total digital revenues, respectively. Prior to intersegment eliminations, total digital revenues for the fiscal year ended September 30, 2018 were comprised of U.S. revenues of $1,169 million and international revenues of $1,087 million, or 52% and 48% of total digital revenues, respectively.

Recorded Music revenues increased by $480 million, or 14%, to $3,840 million for the fiscal year ended September 30, 2019 from $3,360 million for the fiscal year ended September 30, 2018. U.S. Recorded Music revenues were $1,656 million and $1,460 million, or 43% of consolidated Recorded Music revenues for each of the fiscal years ended September 30, 2019 and September 30, 2018. International Recorded Music revenues were $2,184 million and $1,900 million, or 57% of consolidated Recorded Music revenues for each of the fiscal years ended September 30, 2019 and September 30, 2018.

The overall increase in Recorded Music revenue was driven by increases in digital revenue and artist services and expanded-rights revenue, partially offset by decreases in physical revenue and licensing revenue. Digital revenue increased by $324 million as a result of the continued growth in streaming services and a strong release schedule including top seller Meek Mill and carryover success from Ed Sheeran, The Greatest Showman and Cardi B as well as the adoption of ASC 606. Revenue from streaming services grew by $396 million to $2,129 million for the fiscal year ended September 30, 2019 from $1,733 million for the fiscal year ended September 30, 2018. Digital revenue growth was partially offset by a decline in download and other digital revenues of $72 million to $214 million for the fiscal year ended September 30, 2019 from $286 million for the fiscal year ended September 30, 2018 due to the continued shift to streaming. Artist services and expanded-rights revenue increased by $240 million primarily due to a $240 million increase related to the acquisition of EMP, higher merchandising and advertising revenues and timing of larger tours in Japan, partially offset by $94 million related to the divestment of a concert promotion business in Italy and the unfavorable impact of foreign currency exchange rates of $11 million. Physical revenue decreased by $71 million primarily due to the unfavorable impact of foreign currency exchange rates of $15 million, continued shift from physical revenue to digital revenue, partially offset by the success of new releases. Licensing revenue decreased by $13 million primarily due to the unfavorable impact of foreign currency exchange rates of $11 million and the impact of ASC 606 of $4 million.

Music Publishing revenues decreased by $10 million, or 2%, to $643 million for the fiscal year ended September 30, 2019 from $653 million for the fiscal year ended September 30, 2018, which was partially offset by an increase of $23 million due to the adoption of ASC 606. U.S. Music Publishing revenues were $300 million, or 47% of consolidated Music Publishing revenues for the fiscal year ended September 30, 2019, and $294 million, or 45% of consolidated Music Publishing revenues for the fiscal year ended September 30, 2018. International Music Publishing revenues were $343 million, or 53% of consolidated Music Publishing revenues for the fiscal year ended September 30, 2019, and $359 million, or 55% of consolidated Music Publishing revenues for the fiscal year ended September 30, 2018.

The overall decrease in Music Publishing revenue was mainly driven by decreases in performance revenue of $29 million and mechanical revenue of $17 million, partially offset by increases in digital revenue of $34 million, synchronization revenue of $1 million and other revenue of $1 million. The decreases in Music Publishing performance revenue and mechanical revenue are primarily due to lost administration rights and lower market share, partially offset by $7 million related to the adoption of ASC 606. The increase in digital revenue includes an $14 million increase resulting from the adoption of ASC 606 and increases in streaming revenue driven by the continued growth in streaming services, partially offset by decreases in download revenue.

Revenue by Geographical Location

2020 vs. 2019

U.S. revenue decreased by $22 million, or 1%, to $1,934 million for the fiscal year ended September 30, 2020 from $1,956 million for the fiscal year ended September 30, 2019. U.S. Recorded Music revenue decreased by $47 million or 3%. The primary drivers were the decreases in U.S. Recorded Music physical revenue and U.S artist services and expanded rights revenue. These decreases were partially offset by increases in U.S digital revenue, which increased by $64 million due to the continued growth in streaming services, and U.S licensing revenue, which increased by $10 million primarily due to licensing settlements despite the impact of COVID-19 interruptions. U.S. streaming revenue increased by $91 million, partially offset by a $27 million decline in download revenue. U.S. artist services and expanded-rights revenue decreased by $63 million, or 36%, driven by the impact of COVID-19 business interruptions, which resulted in tour postponements and cancellations and decreased physical retail and tour-related merchandising revenues. U.S. physical revenue decreased by $58 million due to the shift from physical to digital formats, impact of COVID-19 and timing of releases. U.S. Music Publishing revenue increased by $25 million or 8%. This was primarily driven by the increase in U.S. Music Publishing digital revenue of $33 million due to the continued growth in streaming services partially offset by a decrease in performance revenue of $6 million and synchronization revenue of $2 million due to COVID-19.

International revenue increased by $6 million, or 0%, to $2,533 million for the fiscal year ended September 30, 2020 from $2,527 million for the fiscal year ended September 30, 2019. Excluding the unfavorable impact of foreign currency exchange rates, International revenue increased by $35 million or 1%. International Recorded Music revenue increased $17 million primarily due to an increase in digital revenue of $161 million partially offset by decreases in artist services and expanded-rights revenue of $41 million, physical revenue of $67 million and licensing revenue of $36 million. International Recorded Music digital revenue increased due to a $183 million increase in streaming services revenue, partially offset by a $22 million decline in download and other digital revenue. The increase in international Recorded Music streaming revenue was due to the continued growth in streaming services internationally. International Recorded Music artist services and expanded-rights revenue decreased primarily due to the impact of COVID-19 business interruptions, which resulted in tour postponements and cancellations, in contrast to strong touring in the prior year. This was offset by an increase in merchandise revenue, which reflects a decrease in physical retail and tour related merchandising offset by growth in EMP e-commerce merchandise revenue. International Recorded Music physical revenue decreased due to the continued shift from physical revenue to digital revenue, impact of COVID-19, timing of releases, and the prior-year physical success of Johnny Hallyday. International Recorded Music licensing revenue decreased due to the impact of COVID-19. International Music Publishing revenue decreased $11 million or 3%. This was primarily driven by decreases in international Music Publishing performance revenue of $35 million and mechanical revenue of $7 million, both due to the impact of COVID-19 and timing of distributions, other revenue of $3 million partially offset by increases in digital revenue of $33 million, primarily due to growth in streaming, and synchronization revenue of $1 million.

2019 vs. 2018

U.S. revenue increased by $202 million, or 12%, to $1,956 million for the fiscal year ended September 30, 2019 from $1,754 million for the fiscal year ended September 30, 2018. U.S. Recorded Music revenue increased by $196 million or 13%. The primary driver was the increase in U.S. Recorded Music digital revenue, which increased by $191 million due to the continued growth in streaming services. Streaming revenue increased by $228 million, partially offset by a $37 million decline in download revenue. U.S. artist services and expanded-rights revenue also increased by $50 million, or 40%, driven by higher advertising and merchandising revenues. These increases were partially offset by a decline in U.S. physical revenue of $38 million due to the shift from physical to digital formats. U.S. Music Publishing revenue increased by $6 million or 2%. This was primarily driven by the increase in U.S. Music Publishing digital revenue of $22 million due to an increase in streaming revenue and adoption of ASC 606, partially offset by decreases in mechanical revenue of $12 million, performance revenue of $3 million and other revenue of $1 million.

International revenue increased by $268 million, or 12%, to $2,527 million for the fiscal year ended September 30, 2019 from $2,259 million for the fiscal year ended September 30, 2018, which includes $240 million related to the acquisition of EMP. Excluding the unfavorable impact of foreign currency exchange rates, International revenue increased by $375 million or 17%. International Recorded Music revenue increased $284 million primarily due to increases in digital revenue of $133 million and artist services and expanded-rights revenue of $190 million, partially offset by a decrease in physical revenue of $33 million and licensing revenue of $6 million. International Recorded Music digital revenue increased due to a $168 million increase in streaming services revenue, partially offset by a $35 million decline in download and other digital revenue. The increase in international Recorded Music streaming revenue was due to the continued growth in streaming services internationally and strong release performance. Decline in downloads was due to the continued shift to streaming services. International Recorded Music artist services and expanded-rights revenue increased $240 million due to the acquisition of EMP, higher merchandising revenues and timing of larger tours in Japan in the current fiscal year, partially offset by $94 million related to the divestment of a concert promotion business in Italy and the unfavorable impact of foreign currency exchange rates of $11 million. International Recorded Music physical revenue decreased due to the continued shift from physical to digital formats and the unfavorable impact of foreign currency exchange rates of $15 million, partially offset by the success of new releases including Johnny Hallyday in France and local artists in Japan. International Recorded Music licensing revenue decreased due to the unfavorable impact of foreign currency exchange rates of $13 million and the impact of ASC 606, partially offset by increased synchronization activity in the U.K. and Japan. International Music Publishing revenue decreased $16 million or 4%. This was primarily driven by decreases in international Music Publishing performance revenue of $26 million and mechanical revenue of $5 million both due to lost administration rights and lower market share, partially offset by the increase in digital revenue of $12 million primarily due to growth in streaming and the adoption of ASC 606.

Cost of revenues

Our cost of revenues was composed of the following amounts (in millions):

	For the Fiscal Year Ended September 30,			*2020 vs. 2019*		*2019 vs. 2018*	
	2020	2019	2018	$ Change	% Change	$ Change	% Change
Artist and repertoire costs	$ 1,560	$ 1,574	$ 1,471	$ (14)	-1%	$ 103	7%
Product costs	773	827	700	(54)	-7%	127	18%
Total cost of revenues	$ 2,333	$ 2,401	$ 2,171	$ (68)	-3%	$ 230	11%

2020 vs. 2019

Our cost of revenues decreased by $68 million, or 3%, to $2,333 million for the fiscal year ended September 30, 2020 from $2,401 million for the fiscal year ended September 30, 2019. Expressed as a percentage of revenues, cost of revenues decreased to 52% for the fiscal year ended September 30, 2020 from 53% for the fiscal year ended September 30, 2019.

Artist and repertoire costs decreased by $14 million, or 1%, to $1,560 million for the fiscal year ended September 30, 2020 from $1,574 million for the fiscal year ended September 30, 2019. Artist and repertoire costs as a percentage of revenues remained constant at 35% for each of the fiscal years ended September 30, 2020 and September 30, 2019.

Product costs decreased by $54 million, or 7%, to $773 million for the fiscal year ended September 30, 2020 from $827 million for the fiscal year ended September 30, 2019. Product costs as a percentage of revenues decreased to 17% for the fiscal year ended September 30, 2020 from 18% for the fiscal year ended September 30, 2019. The overall decrease in product costs primarily relates to revenue mix due to lower physical and artist-services and expanded rights revenues, partially offset by increases in our third party distributed label revenue.

2019 vs. 2018

Our cost of revenues increased by $230 million, or 11%, to $2,401 million for the fiscal year ended September 30, 2019 from $2,171 million for the fiscal year ended September 30, 2018. Expressed as a percentage of revenues, cost of revenues remained constant at 54% for each of the fiscal years ended September 30, 2019 and September 30, 2018.

Artist and repertoire costs increased by $103 million, or 7%, to $1,574 million for the fiscal year ended September 30, 2019 from $1,471 million for the fiscal year ended September 30, 2018. Artist and repertoire costs as a percentage of revenues decreased to 35% for the fiscal year ended September 30, 2019 from 37% for the fiscal year ended September 30, 2018 due to the acquisition of EMP, which has no artist and repertoire costs and therefore reduces our total artist and repertoire costs as a percentage of revenue. Excluding EMP revenue, artist and repertoire costs were flat at 37%.

Product costs increased by $127 million, or 18%, to $827 million for the fiscal year ended September 30, 2019 from $700 million for the fiscal year ended September 30, 2018. Product costs as a percentage of revenues remained flat at 18% for each of the fiscal years ended September 30, 2019 and September 30, 2018. The overall increase in product costs relate to the acquisition of EMP of $116 million as well as revenue mix related to increasing artist services and expanded-rights revenues, which were partially offset by $82 million related to the divestment of a concert promotion business in Italy.

Selling, general and administrative expenses

Our selling, general and administrative expenses are composed of the following amounts (in millions):

	For the Fiscal Year Ended September 30,			2020 vs. 2019		2019 vs. 2018	
	2020	2019	2018	$ Change	% Change	$ Change	% Change
General and administrative expense (1)	$ 1,434	$ 764	$ 814	$ 670	88%	$ (50)	-6%
Selling and marketing expense	640	632	530	8	1%	102	19%
Distribution expense	95	114	67	(19)	-17%	47	70%
Total selling, general and administrative expense	$ 2,169	$ 1,510	$ 1,411	$ 659	44%	$ 99	7%

(1) Includes depreciation expense of $71 million, $61 million and $55 million for the fiscal years ended September 30, 2020, September 30, 2019 and September 30, 2018, respectively.

2020 vs. 2019

Total selling, general and administrative expense increased by $659 million, or 44%, to $2,169 million for the fiscal year ended September 30, 2020 from $1,510 million for the fiscal year ended September 30, 2019. Expressed as a percentage of revenues, selling, general and administrative expenses increased to 49% for the fiscal year ended September 30, 2020 from 34% for the fiscal year ended September 30, 2019. This is primarily due to the $559 million of increased expense associated with non-cash stock-based compensation, the one-time management agreement termination fee and IPO related expenses totaling $89 million and a one-time charge within depreciation expense of $10 million related to our Los Angeles, California headquarters relocation. Excluding non-cash stock-based compensation expense, the one-time management agreement termination fee and IPO related expenses, and one-time charge within depreciation expense, selling, general and administrative expense as a percentage of revenue remained constant at 33% for each of the fiscal years ended September 30, 2020 and September 30, 2019.

General and administrative expenses increased by $670 million, or 88%, to $1,434 million for the fiscal year ended September 30, 2020 from $764 million for the fiscal year ended September 30, 2019. The increase in general and administrative expense was primarily due to higher expense associated with non-cash stock-based compensation of $559 million, the one-time management agreement termination fee and IPO related expenses totaling $89 million, a one-time charge within depreciation expense of $10 million, costs associated with transformation initiatives of $19 million and costs associated with COVID-19 business interruption of $17 million, partially offset by lower overhead due to active cost management efforts. Expressed as a percentage of revenue, general and administrative expense increased to 32% for the fiscal year ended September 30, 2020 from 17% for the fiscal year ended September 30, 2019. Excluding non-cash stock-based compensation expense, the one-time management agreement termination fee and IPO related expenses, and the one-time charge within depreciation expense, general and administrative expense as a percentage of revenue remained constant at 16% for each of the fiscal years ended September 30, 2020 and September 30, 2019.

Selling and marketing expense increased by $8 million, or 1%, to $640 million for the fiscal year ended September 30, 2020 from $632 million for the fiscal year ended September 30, 2019. Expressed as a percentage of revenues, selling and marketing expense remained constant at 14% for each of the fiscal years ended September 30, 2020 and September 30, 2019.

Distribution expense decreased by $19 million, or 17%, to $95 million for the fiscal year ended September 30, 2020 from $114 million for the fiscal year ended September 30, 2019. Expressed as a percentage of revenues, distribution expense decreased to 2% for the fiscal year ended September 30, 2020 from 3% for the fiscal year ended September 30, 2019 mainly due to revenue mix, specifically declines in physical and artist services and expanded rights revenue.

2019 vs. 2018

Total selling, general and administrative expense increased by $99 million, or 7%, to $1,510 million for the fiscal year ended September 30, 2019 from $1,411 million for the fiscal year ended September 30, 2018. Expressed as a percentage of revenues, selling, general and administrative expenses decreased to 34% for the fiscal year ended September 30, 2019 from 35% for the fiscal year ended September 30, 2018.

General and administrative expenses decreased by $50 million, or 6%, to $764 million for the fiscal year ended September 30, 2019 from $814 million for the fiscal year ended September 30, 2018. The decrease in general and administrative expense was primarily due to lower expense associated with the Senior Management Free Cash Flow Plan of $37 million and a decrease in severance and restructuring costs of $46 million, partially offset by higher employee-related costs. Expressed as a percentage of revenue, general and administrative expense decreased to 17% for the fiscal year ended September 30, 2019 from 20% for the fiscal year ended September 30, 2018.

Selling and marketing expense increased by $102 million, or 19%, to $632 million for the fiscal year ended September 30, 2019 from $530 million for the fiscal year ended September 30, 2018. The increase in selling and marketing expense was primarily due to an increase of $71 million relating to the acquisition of EMP and increased variable marketing expenses on higher revenue during the fiscal year. Expressed as a percentage of revenues, selling and marketing expense increased to 14% for the fiscal year ended September 30, 2019 from 13% for the fiscal year September 30, 2018. Excluding the acquisition of EMP, selling and marketing expense was flat at 13%.

Distribution expense increased by $47 million, or 70%, to $114 million for the fiscal year ended September 30, 2019 from $67 million for the fiscal year ended September 30, 2018. Expressed as a percentage of revenues, distribution expense increased to 3% for the fiscal year ended September 30, 2019 from 2% for the fiscal year ended September 30, 2018 mainly due to $35 million in costs resulting from the acquisition of EMP. Excluding the acquisition of EMP, distribution expense was flat at 2%.

Reconciliation of Net Income Attributable to Warner Music Group Corp. and Operating Income to Consolidated OIBDA

As previously described, we use OIBDA as our primary measure of financial performance. The following table reconciles operating income to OIBDA, and further provides the components from net income attributable to Warner Music Group Corp. to operating income for purposes of the discussion that follows (in millions):

	For the Fiscal Year Ended September 30,			*2020 vs. 2019*		*2019 vs. 2018*	
	2020	**2019**	**2018**	**$ Change**	**% Change**	**$ Change**	**% Change**
Net (loss) income attributable to Warner Music Group Corp.	$ (475)	$ 256	$ 307	$ (731)	—%	$ (51)	-17%
Income attributable to noncontrolling interest	5	2	5	3	—%	(3)	-60%
Net (loss) income	(470)	258	312	(728)	—%	(54)	-17%
Income tax expense	23	9	130	14	—%	(121)	-93%
(Loss) income before income taxes	(447)	267	442	(714)	—%	(175)	-40%
Other expense (income)	57	(60)	(394)	117	—%	334	-85%
Interest expense, net	127	142	138	(15)	-11%	4	3%
Loss on extinguishment of debt	34	7	31	27	—%	(24)	-77%
Operating (loss) income	(229)	356	217	(585)	—%	139	64%
Amortization expense	190	208	206	(18)	-9%	2	1%
Depreciation expense	71	61	55	10	16%	6	11%
OIBDA	$ 32	$ 625	$ 478	$ (593)	-95%	$ 147	31%

OIBDA

2020 vs. 2019

Our OIBDA decreased by $593 million, or 95%, to $32 million for the fiscal year ended September 30, 2020 as compared to $625 million for the fiscal year ended September 30, 2019 primarily as a result of higher selling, general and administrative expenses. Expressed as a percentage of total revenue, OIBDA margin decreased to 1% for the fiscal year ended September 30, 2020 from 14% for the fiscal year ended September 30, 2019. Excluding non-cash stock-based compensation expense, the one-time management agreement termination fee and IPO related expenses, as a percentage of total revenue, OIBDA margin increased to 16% for the fiscal year ended September 30, 2020 from 15% for the fiscal year ended September 30, 2019.

2019 vs. 2018

Our OIBDA increased by $147 million, or 31%, to $625 million for the fiscal year ended September 30, 2019 as compared to $478 million for the fiscal year ended September 30, 2018 primarily as a result of higher revenues and lower general and administrative expenses. Expressed as a percentage of total revenues, OIBDA increased to 14% for the fiscal year ended September 30, 2019 from 12% for the fiscal year ended September 30, 2018 largely due to $15 million related to the transition in timing of revenues and related costs resulting from the adoption of ASC 606, $18 million related to the acquisition of EMP, which is a lower-margin business, and lower general and administrative expenses.

Depreciation expense

2020 vs. 2019

Our depreciation expense increased by $10 million, or 16%, to $71 million for the fiscal year ended September 30, 2020 from $61 million for the fiscal year ended September 30, 2019, primarily due to a one-time charge of $10 million representing the difference between the net book value of a building and its recoverable value. The building was exited as part of our Los Angeles, California headquarters relocation.

2019 vs. 2018

Our depreciation expense increased by $6 million, or 11%, to $61 million for the fiscal year ended September 30, 2019 from $55 million for the fiscal year ended September 30, 2018, primarily due to increased assets from the EMP acquisition in October 2018 and our new Los Angeles, California headquarters placed into service in April 2019.

Amortization expense

2020 vs. 2019

Amortization expense decreased by $18 million, or 9%, to $190 million for the fiscal year ended September 30, 2020 from $208 million for the fiscal year ended September 30, 2019, primarily due to certain intangible assets becoming fully amortized.

2019 vs. 2018

Amortization expense increased by $2 million, or 1%, to $208 million for the fiscal year ended September 30, 2019 from $206 million for the fiscal year ended September 30, 2018, primarily due to an increase in amortizable intangible assets related to the acquisition of EMP in October 2018, offset by the impact of foreign currency exchange rates.

Operating (loss) income

2020 vs. 2019

Our operating income decreased by $585 million to a loss of $229 million for the fiscal year ended September 30, 2020 from income of $356 million for the fiscal year ended September 30, 2019. The decrease in operating income was due to the factors that led to the decrease in OIBDA.

2019 vs. 2018

Our operating income increased by $139 million to $356 million for the fiscal year ended September 30, 2019 from $217 million for the fiscal year ended September 30, 2018. The increase in operating income was due to the factors that led to the increase in OIBDA.

Loss on extinguishment of debt

2020 vs. 2019

We recorded a loss on extinguishment of debt in the amount of $34 million for the fiscal year ended September 30, 2020, which represents the premiums paid for early redemption and unamortized deferred financing costs in connection with the redemption of the 4.125%, 4.875% and 5.00% Senior Secured Notes (as defined later in this Annual Report) and the partial repayment of the Senior Term Loan Facility (as defined later in this Annual Report). We recorded a loss on extinguishment of debt in the amount of $7 million for the fiscal year ended September 30, 2019, which represents the unamortized deferred financing costs related to the redemption of a portion of the 4.125% Senior Notes and all of the 5.625% Senior Notes, in addition to the open market purchases of the 4.875% Senior Notes. Please refer to Note 10 of our consolidated financial statements for further discussion.

2019 vs. 2018

We recorded a loss on extinguishment of debt in the amount of $7 million for the fiscal year ended September 30, 2019, which represents the unamortized deferred financing costs related to the redemption of the 4.125% Senior Secured Notes (as defined later in this Annual Report) and 5.625% Senior Secured Notes (as defined later in this Annual Report), in addition to the open market purchase of the 4.875% Senior Secured Notes (as defined later in this Annual Report). We recorded a loss on extinguishment of debt in the amount of $31 million for the fiscal year ended September 30, 2018, which represents the premium paid on early redemption and unamortized deferred financing costs related to the refinancing transactions that occurred during fiscal 2018. Please refer to Note 10 of our consolidated financial statements for further discussion.

Interest expense, net

2020 vs. 2019

Our interest expense, net decreased by $15 million, or 11% to $127 million for the fiscal year ended September 30, 2020 from $142 million for the fiscal year ended September 30, 2019. This was primarily driven by a decline in LIBOR rates as well as lower interest rates as a result of refinancing transactions and redemption activity.

2019 vs. 2018

Our interest expense, net increased by $4 million, or 3% to $142 million for the fiscal year ended September 30, 2019 from $138 million for the fiscal year ended September 30, 2018. This was primarily driven by the higher debt balance from the issuance of the 3.625% Secured Notes (as defined later in this Annual Report) during the current year, offset by lower interest rates as a result of refinancing transactions and redemption activity.

Other expense (income)

2020 vs. 2019

Other expense (income) decreased by $117 million to other expense of $57 million for the fiscal year ended September 30, 2020 from other income of $60 million for the fiscal year ended September 30, 2019. Other expense for the fiscal year ended September 30, 2020 primarily includes the non-cash unrealized loss on the remeasurement of our Euro-denominated debt of $56 million, $4 million loss on hedging activity and losses on investments of $7 million, partially offset by an unrealized gain of $9 million on the mark-to-market of an equity method investment.

Other expense (income) for the fiscal year ended September 30, 2019 includes non-cash unrealized foreign exchange currency gains on the remeasurement of our Euro-denominated debt of $43 million, unrealized gain of $19 million on the mark-to-market of an equity method investment, partially offset by the impact of other movements in foreign exchange rates.

2019 vs. 2018

Other (income) expense, net decreased by $334 million to other income of $60 million for the fiscal year ended September 30, 2019 from other income of $394 million for the fiscal year ended September 30, 2018. Other (income) expense, net for the fiscal year ended September 30, 2019 primarily includes the unrealized gain of $19 million on the mark-to-market of an equity method investment and foreign exchange currency gains on our Euro-denominated debt of $43 million, partially offset by movements in foreign exchange rates.

Other (income) expense, net for the fiscal year ended September 30, 2018 includes the gain on the Spotify share sale, net of estimated artist share and other related costs, of $382 million, gain on investments of $7 million and foreign currency gains on our Euro-denominated debt of $4 million.

Income tax expense

2020 vs. 2019

Our income tax expense increased by $14 million to $23 million for the fiscal year ended September 30, 2020 from $9 million for the fiscal year ended September 30, 2019. The net increase of $14 million in income tax expense primarily relates to a greater release of a U.S. deferred tax valuation allowance in the fiscal year ended September 30, 2019.

2019 vs. 2018

Our income tax expense decreased by $121 million to $9 million for the fiscal year ended September 30, 2019 from $130 million for the fiscal year ended September 30, 2018. The net decrease of $121 million in income tax expense primarily relates to the release of $59 million of our U.S. deferred tax valuation allowance and higher tax expense of $77 million in fiscal 2018 as a result of the gain on the sale of the Spotify shares in the fiscal year ended September 30, 2018.

Net (loss) income

2020 vs. 2019

Our net income decreased by $728 million to a loss of $470 million for the fiscal year ended September 30, 2020 from income of $258 million for the fiscal year ended September 30, 2019 as a result of the factors described above.

2019 vs. 2018

Our net income decreased by $54 million to $258 million for the fiscal year ended September 30, 2019 from $312 million for the fiscal year ended September 30, 2018 as a result of the factors described above.

Noncontrolling interest

2020 vs. 2019

There was $5 million of income attributable to noncontrolling interests for the fiscal year ended September 30, 2020. There was $2 million of income attributable to noncontrolling interests for the fiscal year ended September 30, 2019.

2019 vs. 2018

There was $2 million of income attributable to noncontrolling interests for the fiscal year ended September 30, 2019 primarily due to the adoption of ASC 606. There was $5 million of income attributable to noncontrolling interests for the fiscal year ended September 30, 2018.

Business Segment Results

Revenues, operating income (loss) and OIBDA by business segment were as follows (in millions):

	For the Fiscal Year Ended September 30,			*2020 vs. 2019*		*2019 vs. 2018*	
	2020	2019	2018	$ Change	% Change	$ Change	% Change
Recorded Music							
Revenues	$ 3,810	$ 3,840	$ 3,360	$ (30)	-1%	$ 480	14%
Operating income	175	439	307	(264)	-60%	132	43%
OIBDA	349	623	480	(274)	-44%	143	30%
Music Publishing							
Revenues	657	643	653	14	2%	(10)	-2%
Operating income	81	92	84	(11)	-12%	8	10%
OIBDA	157	166	159	(9)	-5%	7	4%
Corporate expenses and eliminations							
Revenue eliminations	(4)	(8)	(8)	4	-50%	—	—%
Operating loss	(485)	(175)	(174)	(310)	—%	(1)	1%
OIBDA	(474)	(164)	(161)	(310)	—%	(3)	2%
Total							
Revenues	4,463	4,475	4,005	(12)	—%	470	12%
Operating (loss) income	(229)	356	217	(585)	—%	139	64%
OIBDA	32	625	478	(593)	-95%	147	31%

Recorded Music

Revenues

2020 vs. 2019

Recorded Music revenues decreased by $30 million, or 1%, to $3,810 million for the fiscal year ended September 30, 2020 from $3,840 million for the fiscal year ended September 30, 2019. U.S. Recorded Music revenues were $1,609 million and $1,656 million, or 42% and 43% of consolidated Recorded Music revenues, for the fiscal years ended September 30, 2020 and September 30, 2019, respectively. International Recorded Music revenues were $2,201 million and $2,184 million, or 58% and 57% of consolidated Recorded Music revenues, for the fiscal years ended September 30, 2020 and September 30, 2019, respectively.

The overall decrease in Recorded Music revenue was driven by decreases in physical, artist services and expanded-rights and licensing revenue, partially offset by an increase in digital revenue as described in the “Total Revenues” and “Revenue by Geographical Location” sections above.

2019 vs. 2018

Recorded Music revenues increased by $480 million, or 14%, to $3,840 million for the fiscal year ended September 30, 2019 from $3,360 million for the fiscal year ended September 30, 2018. U.S. Recorded Music revenues were $1,656 million and $1,460 million, or 43% of consolidated Recorded Music revenues, for the fiscal year ended September 30, 2019 and September 30, 2018, respectively. International Recorded Music revenues were $2,184 million and $1,900 million, or 57% of consolidated Recorded Music revenues, for each of the fiscal years ended September 30, 2019 and September 30, 2018, respectively.

The overall increase in Recorded Music revenue was driven by increases in digital revenue and artist services and expanded-rights revenue, partially offset by a decrease in physical revenue and licensing revenue as described in the "Total Revenues" and "Revenue by Geographical Location" sections above.

Cost of revenues

Recorded Music cost of revenues was composed of the following amounts (in millions):

	For the Fiscal Year Ended September 30,			*2020 vs. 2019*		*2019 vs. 2018*	
	2020	2019	2018	$ Change	% Change	$ Change	% Change
Artist and repertoire costs	$ 1,148	$ 1,178	$ 1,054	$ (30)	-3%	$ 124	12%
Product costs	771	827	700	(56)	-7%	127	18%
Total cost of revenues	$ 1,919	$ 2,005	$ 1,754	$ (86)	-4%	$ 251	14%

2020 vs. 2019

Recorded Music cost of revenues decreased by $86 million, or 4%, to $1,919 million for the fiscal year ended September 30, 2020 from $2,005 million for the fiscal year ended September 30, 2019. Expressed as a percentage of Recorded Music revenue, cost of revenues decreased from 50% for the fiscal year ended September 30, 2020 from 52% for the fiscal year ended September 30, 2019.

Artist and repertoire costs as a percentage of revenue decreased to 30% for the fiscal year ended September 30, 2020 from 31% for the fiscal year ended September 30, 2019. The decrease is primarily attributable to revenue mix and lower artist related costs, including a decrease in spending.

Product costs as a percentage of revenue decreased to 20% for the fiscal year ended September 30, 2020 from 22% for the fiscal year ended September 30, 2019. The decrease in product costs primarily relates to revenue mix due to lower physical and artist-services and expanded rights revenues, partially offset by increases in our third party distributed label revenue.

2019 vs. 2018

Recorded Music cost of revenues increased by $251 million, or 14%, to $2,005 million for the fiscal year ended September 30, 2019 from $1,754 million for the fiscal year ended September 30, 2018. Expressed as a percentage of Recorded Music revenues, cost of revenues remained flat at 52% for each of the fiscal years ended September 30, 2019 and September 30, 2018.

Artist and repertoire costs as a percentage of revenue remained constant at 31% for each of the fiscal years ended September 30, 2019 and September 30, 2018. Excluding EMP revenue, artist and repertoire costs as a percentage of revenue increased to 33% primarily driven by the mix of revenue, increased investments in artists and songwriters and the prior year benefit for advance recoveries of $10 million.

Product costs as a percentage of revenue increased to 22% for the fiscal year ended September 30, 2019 from 21% for the fiscal year ended September 30, 2018. The increase in product costs is primarily due to the acquisition of EMP, partially offset by a concert promotion business divestment in Italy.

Selling, general and administrative expense

Recorded Music selling, general and administrative expenses were composed of the following amounts (in millions):

	For the Fiscal Year Ended September 30,			*2020 vs. 2019*		*2019 vs. 2018*	
	2020	2019	2018	$ Change	% Change	$ Change	% Change
General and administrative expense (1)	$ 875	$ 522	$ 573	$ 353	68%	$ (51)	-9%
Selling and marketing expense	627	621	521	6	1%	100	19%
Distribution expense	95	114	67	(19)	-17%	47	70%
Total selling, general and administrative expense	$ 1,597	$ 1,257	$ 1,161	$ 340	27%	$ 96	8%

(1) Includes depreciation expense of $55 million, $45 million, and $35 million for the fiscal years ended September 30, 2020, September 30, 2019 and September 30, 2018, respectively.

2020 vs. 2019

Recorded Music selling, general and administrative expense increased by $340 million, or 27%, to $1,597 million for the fiscal year ended September 30, 2020 from $1,257 million for the fiscal year ended September 30, 2019. The increase in general and administrative expense was primarily due to higher non-cash stock-based compensation expense of $359 million and a one-time charge within depreciation expense of $10 million related to our Los Angeles, California headquarters relocation, partially offset by lower overhead from active cost management efforts. The decrease in distribution expense was primarily due to lower physical and artist services and expanded rights revenues. Expressed as a percentage of Recorded Music revenue, Recorded Music selling, general and administrative expense increased to 42% for the fiscal year ended September 30, 2020 from 33% for the fiscal year ended September 30, 2019. Excluding non-cash stock-based compensation expense and the one-time charge within depreciation expense, selling, general and administrative expense as a percentage of Recorded Music revenue decreased to 31% for the fiscal year ended September 30, 2020 from 32% for the fiscal year ended September 30, 2019.

2019 vs. 2018

Recorded Music selling, general and administrative expense increased by $96 million, or 8%, to $1,257 million for the fiscal year ended September 30, 2019 from $1,161 million for the fiscal year ended September 30, 2018. The decrease in Recorded Music general and administrative expense was primarily due to lower expense associated with the Senior Management Free Cash Flow Plan of $21 million and decreases in severance and restructuring costs of $44 million, partially offset by higher employee related costs. The increase in selling and marketing expense was primarily due to $71 million resulting from the acquisition of EMP and increased variable marketing expense on higher revenue in the fiscal year. The increase in distribution expense was primarily due to $35 million in costs resulting from the acquisition of EMP during the year. Expressed as a percentage of Recorded Music revenue, Recorded Music selling, general and administrative expense decreased to 33% for the fiscal year ended September 30, 2019 from 35% for the fiscal year ended September 30, 2018.

Operating income and OIBDA

Recorded Music OIBDA included the following amounts (in millions):

	For the Fiscal Year Ended September 30,			*2020 vs. 2019*		*2019 vs. 2018*	
	2020	**2019**	**2018**	**$ Change**	**% Change**	**$ Change**	**% Change**
Operating income	$ 175	$ 439	$ 307	$ (264)	-60%	$ 132	43%
Depreciation and amortization	174	184	173	(10)	-5%	11	6%
OIBDA	$ 349	$ 623	$ 480	$ (274)	-44%	$ 143	30%

2020 vs. 2019

Recorded Music OIBDA decreased by $274 million, or 44%, to $349 million for the fiscal year ended September 30, 2020 from $623 million for the fiscal year ended September 30, 2019 primarily as a result of higher general and administrative expenses. Expressed as a percentage of Recorded Music revenues, Recorded Music OIBDA margin decreased to 9% for the fiscal year ended September 30, 2020 from 16% for the fiscal year ended September 30, 2019. Excluding non-cash stock-based compensation expense, OIBDA as a percentage of Recorded Music revenue increased to 19% for the fiscal year ended September 30, 2020 from 17% for the fiscal year ended September 30, 2019.

Recorded Music operating income decreased by $264 million to $175 million for the fiscal year ended September 30, 2020 from $439 million for the fiscal year ended September 30, 2019 due to the factors that led to the increase in Recorded Music OIBDA noted above. Excluding non-cash stock-based compensation expense and the one-time charge within depreciation expense, Recorded Music operating income increased by $105 million due to lower total cost of revenues, amortization expense, distribution expense, and general and administrative expense.

2019 vs. 2018

Recorded Music OIBDA increased by $143 million, or 30%, to $623 million for the fiscal year ended September 30, 2019 from $480 million for the fiscal year ended September 30, 2018 primarily as a result of higher Recorded Music revenues, $18 million related to the acquisition of EMP which is a lower-margin business and lower general and administrative expenses. Expressed as a percentage of Recorded Music revenues, Recorded Music OIBDA increased to 16% for the fiscal year ended September 30, 2019 from 14% for the fiscal year ended September 30, 2018.

Recorded Music operating income increased by $132 million to $439 million for the fiscal year ended September 30, 2019 from $307 million for the fiscal year ended September 30, 2018 due to the factors that led to the increase in Recorded Music OIBDA noted above.

Music Publishing

Revenues

2020 vs. 2019

Music Publishing revenues increased by $14 million, or 2%, to $657 million for the fiscal year ended September 30, 2020 from $643 million for the fiscal year ended September 30, 2019. U.S. Music Publishing revenues were $325 million and $300 million, or 49% and 47%, of Music Publishing revenues for the fiscal years ended September 30, 2020 and September 30, 2019, respectively. International Music Publishing revenues were $332 million and $343 million, or 51% and 53%, of Music Publishing revenues for the fiscal years ended September 30, 2020 and September 30, 2019, respectively.

The overall increase in Music Publishing revenue was mainly driven by digital revenue growth, partially offset by lower performance revenue, mechanical revenue, synchronization revenue and other revenue, as described in the “Total Revenues” and “Revenue by Geographical Location” sections above.

2019 vs. 2018

Music Publishing revenues decreased by $10 million, or 2%, to $643 million for the fiscal year ended September 30, 2019 from $653 million for the fiscal year ended September 30, 2018. U.S. Music Publishing revenues were $300 million and $294 million, or 47% and 45%, of Music Publishing revenues for the fiscal years ended September 30, 2019 and September 30, 2018, respectively. International Music Publishing revenues were $343 million and $359 million, or 53% and 55%, of Music Publishing revenues for the fiscal years ended September 30, 2019 and September 30, 2018, respectively.

The overall decrease in Music Publishing revenue was mainly driven by a decrease in revenues associated with lost administrative rights and lower market share, partially offset by the increase in digital revenue and the impact of the adoption of ASC 606, as described in the “Total Revenues” and “Revenue by Geographical Location” sections above.

Cost of revenues

Music Publishing cost of revenues was composed of the following amounts (in millions):

	For the Fiscal Year Ended September 30,			*2020 vs. 2019*		*2019 vs. 2018*	
	2020	**2019**	**2018**	**$ Change**	**% Change**	**$ Change**	**% Change**
Artist and repertoire costs	$ 418	$ 404	$ 425	$ 14	3%	$ (21)	-5%
Total cost of revenues	$ 418	$ 404	$ 425	$ 14	3%	$ (21)	-5%

2020 vs. 2019

Music Publishing cost of revenues increased by $14 million, or 3%, to $418 million for the fiscal year ended September 30, 2020 from $404 million for the fiscal year ended September 30, 2019. Expressed as a percentage of Music Publishing revenue, Music Publishing cost of revenues increased to 64% for the fiscal year ended September 30, 2020 from 63% for the fiscal year ended September 30, 2019.

2019 vs. 2018

Music Publishing cost of revenues decreased by $21 million, or 5%, to $404 million for the fiscal year ended September 30, 2019 from $425 million for the fiscal year ended September 30, 2018. Expressed as a percentage of Music Publishing revenue, Music Publishing cost of revenues decreased to 63% for the fiscal year ended September 30, 2019 from 65% for the fiscal year ended September 30, 2018, primarily due to the adoption of ASC 606, which resulted in a shift in the timing of recognition of revenues and certain related costs from a cash to an accrual basis.

Selling, general and administrative expense

Music Publishing selling, general and administrative expenses were comprised of the following amounts (in millions):

	For the Fiscal Year Ended September 30,			2020 *vs.* 2019		2019 *vs.* 2018	
	2020	2019	2018	$ Change	% Change	$ Change	% Change
General and administrative expense (1)	$ 85	$ 76	$ 74	$ 9	12%	$ 2	3%
Selling and marketing expense	2	2	2	—	—%	—	—%
Total selling, general and administrative expense	$ 87	$ 78	$ 76	$ 9	12%	$ 2	3%

(1) Includes depreciation expense of $5 million, $5 million and $7 million for the fiscal year ended September 30, 2020, September 30, 2019 and September 30, 2018, respectively.

2020 vs. 2019

Music Publishing selling, general and administrative expense increased by $9 million, or 12%, to $87 million for the fiscal year ended September 30, 2020 as compared to $78 million for the fiscal year ended September 30, 2019. The increase in general and administrative expense was primarily due to higher employee-related costs and restructuring costs, partially offset by active cost management efforts. Expressed as a percentage of Music Publishing revenues, Music Publishing selling, general and administrative expense increased to 13% for the fiscal year ended September 30, 2020 from 12% for the fiscal year ended September 30, 2019.

2019 vs. 2018

Music Publishing selling, general and administrative expense increased by $2 million, or 3%, to $78 million for the fiscal year ended September 30, 2019 as compared to $76 million for the fiscal year ended September 30, 2018. The increase in general and administrative expense was primarily due to an increase in facilities costs. Expressed as a percentage of Music Publishing revenues, Music Publishing selling, general and administrative expense remained flat at 12% for each of the fiscal years ended September 30, 2019 and September 30, 2018.

Operating income and OIBDA

Music Publishing OIBDA includes the following amounts (in millions):

	For the Fiscal Year Ended September 30,			2020 *vs.* 2019		2019 *vs.* 2018	
	2020	2019	2018	$ Change	% Change	$ Change	% Change
Operating income	$ 81	$ 92	$ 84	$ (11)	-12%	$ 8	10%
Depreciation and amortization	76	74	75	2	3%	(1)	-1%
OIBDA	$ 157	$ 166	$ 159	$ (9)	-5%	$ 7	4%

2020 vs. 2019

Music Publishing OIBDA decreased by $9 million, or 5%, to $157 million for the fiscal year ended September 30, 2020 from $166 million for the fiscal year ended September 30, 2019. Expressed as a percentage of Music Publishing revenues, Music Publishing OIBDA margin decreased to 24% for the fiscal year ended September 30, 2020 from 26% for the fiscal year ended September 30, 2019. The decrease was primarily due to higher artist and repertoire costs and general and administrative expenses.

Music Publishing operating income decreased by $11 million to $81 million for the fiscal year ended September 30, 2020 from $92 million for the fiscal year ended September 30, 2019 due to the factors that led to the decrease in Music Publishing OIBDA noted above.

2019 vs. 2018

Music Publishing OIBDA increased by $7 million, or 4%, to $166 million for the fiscal year ended September 30, 2019 from $159 million for the fiscal year ended September 30, 2018. Expressed as a percentage of Music Publishing revenues, Music Publishing OIBDA margin increased to 26% for the fiscal year ended September 30, 2019 from 24% for the fiscal year ended September 30, 2018. The increase was primarily due to $12 million from the adoption of ASC 606, which resulted in a shift in the timing of recognition of revenues and certain related costs from a cash to an accrual basis, partially offset by lower revenue and higher general and administrative expenses.

Music Publishing operating income increased by $8 million to $92 million for the fiscal year ended September 30, 2019 from $84 million for the fiscal year ended September 30, 2018 due to the factors that led to the increase in Music Publishing OIBDA noted above.

Corporate Expenses and Eliminations

2020 vs. 2019

Our operating loss from corporate expenses and eliminations increased by $310 million to $485 million for the fiscal year ended September 30, 2020 from $175 million for the fiscal year ended September 30, 2019 which includes an increase in non-cash stock-based compensation expense of $200 million, the one-time management agreement termination fee and IPO related expenses totaling $89 million and higher costs related to transformation initiatives of $19 million.

Our OIBDA loss from corporate expenses and eliminations increased by $310 million to $474 million for the fiscal year ended September 30, 2020 from $164 million for the fiscal year ended September 30, 2019, due to the operating loss factors noted above.

2019 vs. 2018

Our operating loss from corporate expenses and eliminations increased by $1 million to $175 million for the fiscal year ended September 30, 2019 from $174 million for the fiscal year ended September 30, 2018, which includes higher corporate related costs, partially offset by a decrease of $15 million in non-cash stock-based compensation expense associated with the Senior Management Free Cash Flow Plan.

Our OIBDA loss from corporate expenses and eliminations increased by $3 million to $164 million for the fiscal year ended September 30, 2019 from $161 million for the fiscal year ended September 30, 2018, due to the operating loss factors noted above.

FINANCIAL CONDITION AND LIQUIDITY

Financial Condition at September 30, 2020

At September 30, 2020, we had $3.104 billion of debt (which is net of $29 million of deferred financing costs), $553 million of cash and equivalents (net debt of $2.551 billion, defined as total debt, less cash and equivalents and deferred financing costs) and $63 million of Warner Music Group Corp. deficit. This compares to $2.974 billion of debt (which is net of $29 million of deferred financing costs), $619 million of cash and equivalents (net debt of $2.355 billion) and $289 million of Warner Music Group Corp. deficit at September 30, 2019.

Cash Flows

The following table summarizes our historical cash flows (in millions). The financial data for fiscal years ended September 30, 2020, September 30, 2019 and September 30, 2018 have been derived from our consolidated financial statements included elsewhere herein.

	Fiscal Year Ended September 30,		
	2020	2019	2018
Cash provided by (used in):			
Operating activities	$ 463	$ 400	$ 425
Investing activities	(219)	(376)	405
Financing activities	(316)	88	(955)

Operating Activities

Cash provided by operating activities was $463 million for the fiscal year ended September 30, 2020 compared to $400 million for the fiscal year ended September 30, 2019 and $425 million for the fiscal year ended September 30, 2018. The primary driver of the $63 million increase in cash provided by operating activities during the current year was due to timing of working capital partially offset by higher taxes paid and increased cash A&R investments in the current year.

The decrease in results from operating activities for the fiscal year ended September 30, 2019 compared to the fiscal year ended September 30, 2018 reflected timing of royalty payments, partially offset by improved operating performance.

Investing Activities

Cash used in investing activities was $219 million for the fiscal year ended September 30, 2020 compared to $376 million for the fiscal year ended September 30, 2019 and cash provided by investing activities of $405 million for the fiscal year ended September 30, 2018.

Cash used in investing activities of $219 million for the fiscal year ended September 30, 2020 consisted of $81 million related to an acquisition, net of cash and equivalents acquired, $13 million relating to other investments, $85 million relating to capital expenditures, including investment in transformation initiatives, and $40 million to acquire music publishing rights and music catalogs.

Cash used in investing activities of $376 million for the fiscal year ended September 30, 2019 consisted of $183 million related to the acquisition of EMP, net of cash and equivalents acquired, $48 million relating to other investments, $104 million relating to capital expenditures, including investment in transformation initiatives, and $41 million to acquire music publishing rights and music catalogs.

Cash provided by investing activities of $405 million for the fiscal year ended September 30, 2018 consisted of $516 million of proceeds from sale of investments which includes the Spotify share sale of $504 million, partially offset by $74 million of capital expenditures, which has increased due to costs incurred related to the build-out of our new Los Angeles, California headquarters of $28 million, $23 million of investments and acquisitions and $14 million to acquire music publishing rights.

Financing Activities

Cash used in financing activities was $316 million for the fiscal year ended September 30, 2020 compared to cash provided by financing activities of $88 million for the fiscal year ended September 30, 2019 and cash used in financing activities of $955 million for the fiscal year ended September 30, 2018.

The $316 million of cash used in financing activities for the fiscal year ended September 30, 2020 consisted of the tender for and repayment of Acquisition Corp.'s 5.000% Senior Secured Notes due 2023 of $300 million, repayment of Acquisition Corp.'s 4.875% Senior Secured Notes due 2024 of $220 million, repayment of Acquisition Corp.'s 4.125% Senior Secured Notes due 2024 of $349 million, partial repayment of Acquisition Corp.'s Senior Term Loan Facility due 2023 of $506 million, call premiums paid on and redemption deposits for early redemption of the aforementioned Senior Secured Notes of $23 million, dividends paid of $344 million and distributions to noncontrolling interest holders of $7 million, partially offset by the proceeds from the issuance of Acquisition Corp.'s 3.875% Senior Secured Notes due 2030 of $535 million, proceeds from the issuance of Acquisition Corp.'s 2.750% Senior Secured Notes due 2028 of $365 million, and proceeds from the issuance of Acquisition Corp.'s 3.000% Senior Secured Notes due 2031 of $550 million. Proceeds from issuance of Senior Secured Notes were offset by deferred financing costs paid of $17 million.

The $88 million of cash provided by financing activities for the fiscal year ended September 30, 2019 consisted of proceeds of $514 million from the issuance of Acquisition Corp.'s 3.625% Secured Notes due 2026, partially offset by deferred financing costs paid of $7 million, the repayment of Acquisition Corp.'s 5.625% Secured Notes due 2022 of $247 million including call premiums paid of $5 million, partial repayment of Acquisition Corp.'s 4.125% Secured Notes due 2024 of $40 million and 4.875% Secured Notes due 2024 of $30 million, for an aggregate $185 million, dividends paid of $94 million and distributions to noncontrolling interest holders of $3 million.

The $955 million of cash used in financing activities for the fiscal year ended September 30, 2018 consisted of the repayment of and deposit for Acquisition Corp.'s 6.750% Senior Notes (as defined below) of $635 million, special cash dividends paid of $925 million, call premiums paid on and redemption deposit for early redemption of $23 million, deferred financing costs paid of $12 million and a distribution to our non-controlling interest holders of $5 million, partially offset by proceeds from issuance of Acquisition Corp.'s Senior Notes (as defined below) of $325 million and proceeds from the issuance of Acquisition Corp.'s Senior Term Loan Facility of $320 million.

There were no drawdowns on the Revolving Credit Facility during the fiscal years ended September 30, 2020, September 30, 2019 and September 30, 2018.

Liquidity

Our primary sources of liquidity are the cash flows generated from our subsidiaries' operations, available cash and equivalents and funds available for drawing under our Revolving Credit Facility. These sources of liquidity are needed to fund our debt service requirements, working capital requirements, capital expenditure requirements, strategic acquisitions and investments, and dividends, prepayments of debt, repurchases or retirement of our outstanding debt or notes or repurchases of our outstanding equity securities in open market purchases, privately negotiated purchases or otherwise, we may elect to pay or make in the future.

We believe that our primary sources of liquidity will be sufficient to support our existing operations over the next twelve months.

In August 2019, we announced that we were beginning a financial transformation initiative to upgrade our information technology and finance infrastructure over the next two years, including related systems and processes, for which we currently expect upfront costs to be approximately $120 million, which includes capital expenditures of approximately $40 million to $50 million (approximately half of which was incurred in the 2020 fiscal year and the remainder of which is largely expected to be incurred in fiscal 2021). There has been a slight delay in the timing of the transformation initiative as a result of COVID-19 business interruption but it is still expected to be completed over the next year. Annualized run-rate savings from the financial transformation initiative are expected to be between approximately $35 million and $40 million once fully implemented. We expect that our primary sources of liquidity will be sufficient to fund these expenditures.

Debt Capital Structure

Since Access acquired us in 2011, we have sought to extend the maturity dates on our outstanding indebtedness, reduce interest expense and improve our debt ratings. For example, our S&P corporate credit rating has improved from B in 2017 to BB in 2020 with a stable outlook, and our Moody's corporate family rating has improved from B1 in 2016 to Ba3 in 2020. In addition, our weighted-average interest rate on our outstanding indebtedness has decreased from 10.5% in 2011 to 3.7% as of September 30, 2020. Our nearest-term maturity date is in 2023. Subject to market conditions, we expect to continue to take opportunistic steps to extend our maturity dates and reduce related interest expense. From time to time, we may incur additional indebtedness for, among other things, working capital, repurchasing, redeeming or tendering for existing indebtedness and acquisitions or other strategic transactions.

On June 29, 2020, Acquisition Corp. issued and sold $535 million in aggregate principal amount of 3.875% Senior Secured Notes due 2030 (the “3.875% Senior Secured Notes”) and €325 million in aggregate principal amount of 2.750% Senior Secured Notes due 2028 (the “2.750% Senior Secured Notes”) as further described below. Net proceeds of the offerings were used to redeem €311 million of the 4.125% Senior Secured Notes due 2024 (the “4.125% Senior Secured Notes”) and $220 million of the 4.875% Senior Secured Notes due 2024 (the “4.875% Senior Secured Notes”) on June 30, 2020, constituting the redemption of all of the outstanding aggregate principal amount of the 4.125% Senior Secured Notes and the 4.875% Senior Secured Notes. The redemption price for the 4.125% Senior Secured Notes was approximately €322 million, equivalent to 103.094% of the principal amount of the 4.125% Senior Secured Notes, plus accrued but unpaid interest thereon to, but excluding, the redemption date, which was June 30, 2020. The redemption price for the 4.875% Senior Secured Notes was approximately $230 million, equivalent to 103.656% of the principal amount of the 4.875% Senior Secured Notes, plus accrued but unpaid interest thereon to, but excluding, the redemption date, which was June 30, 2020. The Company recorded a loss on extinguishment of debt of approximately $24 million in the fourth quarter of fiscal year 2020 as a result of these redemptions, which represents the premium paid on early redemption and unamortized deferred financing costs. The remaining proceeds of the offerings were used towards the tender offer for $300 million aggregate principal amount of 5.000% Senior Secured Notes due 2023 (the “5.000% Senior Secured Notes”), $244 million of which was tendered and accepted on June 29, 2020 and $295,000 of which was tendered and accepted on July 14, 2020. The remainder of the 5.000% Senior Secured Notes not tendered in the tender offer were redeemed on August 1, 2020. The Company recorded a loss on extinguishment of debt of approximately $6 million for the fiscal year ended 2020 as a result of this tender offer and redemption, which represents the premium to tender and unamortized deferred financing costs.

Additionally, on August 12, 2020, Acquisition Corp. issued and sold $550 million in aggregate principal amount of 3.000% Senior Secured Notes due 2031 (the “3.000% Senior Secured Notes”) as further described below. Net proceeds of the offering were used to repay a portion of the Senior Term Loan Facility. The Company recorded a loss on extinguishment of debt of approximately $4 million for the fiscal year ended 2020 which represented unamortized discount and unamortized deferred financing cost associated with the portion of the term loan repaid. On November 2, 2020, Acquisition Corp. issued and sold an additional $250 million in aggregate principal amount of 3.000% Senior Secured Notes.

Revolving Credit Facility

On January 31, 2018, Acquisition Corp. entered into the revolving credit agreement (as amended by the amendment dated October 9, 2019 and as further amended, amended and restated or otherwise modified from time to time, the “Revolving Credit Agreement”) for a senior secured revolving credit facility with Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto (the “Revolving Credit Facility”). On April 3, 2020, Acquisition Corp. entered into an amendment to the Revolving Credit Agreement (the “Second Amendment”) which, among other things, extended the final maturity of the Revolving Credit Facility from January 31, 2023 to April 3, 2025. For a more detailed description of the changes effected by the Second Amendment, see Note 10 to our consolidated financial statements included elsewhere herein.

Acquisition Corp. is the borrower under the Revolving Credit Agreement which provides for a revolving credit facility in the amount of up to $300 million and includes a $90 million letter of credit sub-facility. Amounts are available under the Revolving Credit Facility in U.S. dollars, euros or pounds sterling. The Revolving Credit Agreement permits loans for general corporate purposes and may also be utilized to issue letters of credit. Borrowings under the Revolving Credit Agreement bear interest at Acquisition Corp.’s election at a rate equal to (i) the rate for deposits in the borrowing currency in the London interbank market (adjusted for maximum reserves) for the applicable interest period (“Revolving LIBOR”) plus 1.875% per annum, or (ii) the base rate, which is the highest of (x) the corporate base rate established by the administrative agent from time to time, (y) the overnight federal funds rate plus 0.5% and (z) the one-month Revolving LIBOR plus 1.00% per annum, plus, in each case, 0.875% per annum; provided that, for each of clauses (i) and (ii), the applicable margin with respect to such loans is subject to adjustment upon achievement of certain leverage ratios as set forth in a leverage-based pricing grid in the Revolving Credit Agreement. Based on the Senior Secured Indebtedness to EBITDA Ratio of 3.05x at September 30, 2020, the applicable margin for Eurodollar loans would be 1.625% instead of 1.875% and the applicable margin for ABR loans would be 0.625% instead of 0.875% in the case of 2020 Revolving Loans (as defined in the Revolving Credit Agreement).

Prepayments

If, at any time, the aggregate amount of outstanding loans (including letters of credit outstanding thereunder) exceeds the commitments under the Revolving Credit Facility, prepayments of the loans (and after giving effect to such prepayment the cash collateralization of letters of credit) will be required in an amount equal to such excess. The application of proceeds from mandatory prepayments shall not reduce the aggregate amount of then effective commitments under the Revolving Credit Facility and amounts prepaid may be reborrowed, subject to then effective commitments under the Revolving Credit Facility.

Voluntary reductions of the unutilized portion of the Commitments under the Revolving Credit Facility are permitted at any time in certain minimum principal amounts, without premium or penalty. Voluntary prepayments of borrowings under the Revolving Credit Facility are permitted at any time in certain minimum principal amounts, subject to reimbursement of the lenders' redeployment costs actually incurred in the case of a prepayment of LIBOR-based borrowings other than on the last day of the relevant interest period.

Senior Term Loan Facility

Acquisition Corp. is party to a $820 million senior secured term loan credit facility, pursuant to a credit agreement dated November 1, 2012, as amended or supplemented (the "Senior Term Loan Credit Agreement") with Credit Suisse AG, as administrative agent and collateral agent, and the other financial institutions and lenders from time to time party thereto (as described below, the "Senior Term Loan Facility" and, together with the Revolving Credit Facility, the "Senior Credit Facilities"). In August 2020, Acquisition Corp. used the proceeds of the offering of the 3.000% Senior Secured Notes to repay a portion of the Senior Term Loan Facility.

General

Acquisition Corp. is the borrower under the Senior Term Loan Facility (the "Term Loan Borrower"). The loans outstanding under the Senior Term Loan Facility mature on November 1, 2023.

In addition, the Senior Term Loan Credit Agreement provides the right for individual lenders to extend the maturity date of their loans upon the request of the Term Loan Borrower and without the consent of any other lender.

Subject to certain conditions, without the consent of the then existing lenders (but subject to the receipt of commitments), the Senior Term Loan Facility may be expanded (or a new term loan facility entered into) by up to the greater of (i) $300 million and (ii) such additional amount as would not cause the net senior secured leverage ratio, after giving effect to the incurrence of such additional amount and any use of proceeds thereof, to exceed 4.50:1.00.

Interest Rates and Fees

Term loan borrowings under the Senior Term Loan Credit Agreement bear interest at a floating rate measured by reference to, at Acquisition Corp.'s option, either (i) an adjusted London inter-bank offered rate, LIBOR, not less than 0.00% per annum plus a borrowing margin of 2.125% per annum or (ii) an alternative base rate plus a borrowing margin of 1.125% per annum.

Prepayments

The Senior Term Loan Facility is subject to mandatory prepayment and reduction in an amount equal to (a) 50% of excess cash flow (as defined in the Senior Term Loan Credit Agreement), with reductions to 25% and zero based upon achievement of a net senior secured leverage ratio of less than or equal to 4.50:1.00 or 4.00:1.00, respectively, (b) 100% of the net cash proceeds received from the incurrence of indebtedness by the Term Loan Borrower or any of its restricted subsidiaries (other than indebtedness permitted under the Senior Term Loan Facility) and (c) 100% of the net cash proceeds of all non-ordinary course asset sales or other dispositions of property by the Term Loan Borrower and its restricted subsidiaries (including certain insurance and condemnation proceeds) in excess of $75 million and subject to the right of the Term Loan Borrower and its restricted subsidiaries to reinvest such proceeds within a specified period of time, and other exceptions. Voluntary prepayments of borrowings under the Senior Term Loan Facility are permitted at any time, in minimum principal amounts of $1 million or a whole multiple of $500,000 in excess thereof, subject to reimbursement of the lenders' redeployment costs actually incurred in the case of a prepayment of adjusted LIBOR borrowings other than on the last day of the relevant interest period.

Secured Notes

3.625% Senior Secured Notes

On October 9, 2018, Acquisition Corp. issued €250 million in aggregate principal amount of its 3.625% Senior Secured Notes due 2026 (the "3.625% Senior Secured Notes") and on April 30, 2019, Acquisition Corp. issued an additional €195 million in aggregate principal amount of the 3.625% Senior Secured Notes, in each case under the Indenture, dated as of November 1, 2012 (the "Original Senior Secured Base Indenture", among Acquisition Corp., the guarantors party thereto, Credit Suisse AG, as Notes Authorized Agent and Collateral Agent and Wells Fargo Bank, National Association, as Trustee (the "Trustee"), as supplemented by the Eighth Supplemental Indenture and the Ninth Supplemental Indenture (the Original Senior Secured Base Indenture together with the Eight Supplemental Indenture and Ninth Supplemental Indenture, the "3.625% Senior Notes Indenture"). The 3.625% Senior Secured Notes may be redeemed, in whole or in part, at any time prior to October 15, 2021, at the option of Acquisition Corp., at a redemption price equal to 100% of the principal amount of the 3.625% Senior Secured Notes redeemed plus the applicable make-whole premium (the "Make-Whole Redemption") set forth in the 3.625% Senior Notes Indenture, plus accrued and unpaid interest thereon, if any, to the applicable redemption date. Additionally, at any time prior to October 15, 2021, Acquisition Corp. may on any one or more occasions redeem up to 40% of the aggregate principal amount of the 3.625% Senior Secured Notes (including the aggregate principal amount of any additional securities constituting 3.625% Senior Secured Notes) issued under the 3.625% Secured Notes Indenture, at its option, at a redemption price equal to 103.625% of the principal amount of the 3.625% Senior Secured Notes redeemed, plus accrued and unpaid interest thereon, if any, to the date of redemption with proceeds that Acquisition Corp. or its direct or indirect parent raises in one or more equity offerings (the "Equity Redemption").

On or after October 15, 2021, Acquisition Corp. may redeem all or a portion of the 3.625% Senior Secured Notes, at its option, at redemption prices starting at 101.813% during the twelve month period beginning on October 15, 2021 (expressed as percentages of principal amount), declining ratably each year to a price of 100% beginning on October 15, 2023, plus accrued and unpaid interest thereon, if any, on the 3.625% Senior Secured Notes to be redeemed to the applicable redemption date.

Additionally, during any twelve-month period prior to October 15, 2021, Acquisition Corp. may redeem up to 10% of the original aggregate principal amount of the 3.625% Senior Secured Notes (including the principal amount of any additional securities of the same series) at a redemption price equal to 103.000% of the aggregate principal amount thereof, plus accrued and unpaid interest thereon, if any, to the redemption date (the "Secured Notes Redemption").

3.875% Senior Secured Notes

On June 29, 2020, Acquisition Corp. issued $535 million in aggregate principal amount of its 3.875% Senior Secured Notes under the Indenture, dated June 29, 2020 (the "New Senior Secured Base Indenture"), among Acquisition Corp., the guarantors party thereto, Credit Suisse AG, as Notes Authorized Representative and Collateral Agent and Wells Fargo Bank, National Association, as Trustee, as supplemented by the First Supplemental Indenture (the "3.875% Supplemental Indenture").

At any time prior to July 15, 2025, the 3.875% Senior Secured Notes may be redeemed pursuant to a Make-Whole Redemption in accordance with the 3.875% Supplemental Indenture. Additionally, at any time prior to July 15, 2025, the 3.875% Senior Secured Notes may be redeemed pursuant to an Equity Redemption at a redemption price equal to 103.875% of the principal amount of the 3.875% Senior Secured Notes redeemed, plus accrued and unpaid interest, subject to the same provisos as the 3.625% Senior Secured Notes Equity Redemption. On or after July 15, 2025, Acquisition Corp. may redeem all or a portion of the 3.875% Senior Secured Notes, at its option, at the redemption prices starting at 101.938% (expressed as percentages of principal amount) plus accrued and unpaid interest thereon, if any, on the 3.875% Senior Secured Notes to be redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on July 15, 2025. Additionally, during any twelve month period prior to July 15, 2025, the 3.875% Senior Secured Notes may be redeemed pursuant to a Secured Notes Redemption.

2.750% Senior Secured Notes

Also on June 29, 2020, Acquisition Corp. issued €325 million in aggregate principal amount of its 2.750% Senior Secured Notes under the New Senior Secured Base Indenture, as supplemented by the Second Supplemental Indenture, dated as of June 29, 2020, among Acquisition Corp., the guarantors party thereto and the Trustee (the "2.750% Supplemental Indenture").

At any time prior to July 15, 2023, the 2.750% Senior Secured Notes may be redeemed pursuant to a Make-Whole Redemption in accordance with the 2.750% Supplemental Indenture. Additionally, at any time prior to July 15, 2023, the 2.750% Senior Secured Notes may be redeemed pursuant to an Equity Redemption at a redemption price equal to 102.750% of the principal amount of the 2.750% Senior Secured Notes redeemed, plus accrued and unpaid interest, subject to the same provisos as the 3.625% Senior Secured Notes Equity Redemption. On or after July 15, 2023, Acquisition Corp. may redeem all or a portion of the 2.750% Senior Secured Notes, at its option, at the redemption prices starting at 101.375% (expressed as percentages of principal amount) plus accrued and unpaid interest thereon, if any, on the 2.750% Senior Secured Notes to be redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on July 15, 2023. Additionally, during any twelve month period prior to July 15, 2023, the 2.750% Senior Secured Notes may be redeemed pursuant to a Secured Notes Redemption.

3.000% Senior Secured Notes

On August 12, 2020, Acquisition Corp. issued $550 million in aggregate principal amount of its 3.000% Senior Secured Notes under the New Senior Secured Base Indenture, as supplemented by the Third Supplemental Indenture, dated as of August 12, 2020, among Acquisition Corp., the guarantors party thereto and the Trustee (the "3.000% Supplemental Indenture", collectively with the New Senior Secured Based Indenture, the 3.875% Supplemental Indenture and the 2.750% Supplemental Indenture, the "New Secured Notes Indenture"). The 3.625% Secured Notes Indenture and the New Secured Notes Indenture are referred to together as the "Secured Notes Indentures".

At any time prior to February 15, 2026, the 3.000% Senior Secured Notes may be redeemed pursuant to a Make-Whole Redemption in accordance with the 3.000% Supplemental Indenture. Additionally, at any time prior to August 15, 2023, the 3.000% Senior Secured Notes may be redeemed pursuant to an Equity Redemption at a redemption price equal to 103.000% of the principal amount of the 3.000% Senior Secured Notes redeemed, plus accrued and unpaid interest, subject to the same provisos as the 3.625% Senior Secured Notes Equity Redemption. On or after February 15, 2026, Acquisition Corp. may redeem all or a portion of the 3.000% Senior Secured Notes, at its option, at the redemption prices starting at 101.500% (expressed as percentages of principal amount) plus accrued and unpaid interest thereon, if any, on the 3.000% Senior Secured Notes to be redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on February 15, 2026. Additionally, during any twelve month period prior to February 15, 2026, the 3.000% Senior Secured Notes may be redeemed pursuant to a Secured Notes Redemption.

Senior Notes

5.500% Senior Notes

On March 14, 2018, Acquisition Corp. issued $325 million in aggregate principal amount of 5.500% Senior Notes due 2026 (the "5.500% Senior Notes") under the Indenture, dated as of April 9, 2014 (the "Senior Notes Base Indenture"), among Acquisition Corp., the guarantors party thereto and the Trustee, as supplemented by the fifth supplemental indenture thereto, dated as of March 14, 2018 (the "Senior Notes Supplemental Indenture" and, together with the Senior Notes Base Indenture, the "Senior Notes Indenture"), among Acquisition Corp., the guarantors party thereto and the Trustee.

At any time prior to April 15, 2021, Acquisition Corp. may on any one or more occasions redeem up to 40% of the aggregate principal amount of the 5.500% Senior Notes, pursuant to an Equity Redemption, at a redemption price equal to 105.500% of the principal amount of the 5.500% Senior Notes redeemed, plus accrued and unpaid interest thereon, if any, to the date of redemption.

The 5.500% Senior Notes may be redeemed, in whole or in part, at any time prior to April 15, 2021, at the option of Acquisition Corp., at a redemption price equal to 100% of the principal amount of the 5.500% Senior Notes redeemed plus the applicable make-whole premium as of, and accrued and unpaid interest thereon, if any, to the applicable redemption date (subject to the right of holders of record on the relevant record date to receive interest due on the relevant interest payment date).

On or after April 15, 2021, Acquisition Corp. may redeem all or a portion of the 5.500% Senior Notes, at its option, at the redemption prices starting at 102.750% (expressed as percentages of principal amount) plus accrued and unpaid interest thereon, if any, on the 5.500% Senior Notes to be redeemed to the applicable redemption date, if redeemed during the twelve-month period beginning on April 15, 2021.

General Terms of Our Indebtedness

Certain terms of the Senior Credit Facilities and certain terms of each series of notes under our Secured Notes Indentures and Senior Notes Indenture are described below.

Ranking

The indebtedness incurred pursuant to the Revolving Credit Facility and the Senior Term Loan Facility and the Secured Notes are Acquisition Corp.'s senior secured obligations and are secured on an equal and ratable basis with all existing and future indebtedness secured with the same security arrangements. The Secured Notes rank senior in right of payment to Acquisition Corp.'s existing and future subordinated indebtedness; rank equally in right of payment with all of Acquisition Corp.'s existing and future senior indebtedness and any future senior secured credit facility; are effectively senior to Acquisition Corp.'s unsecured senior indebtedness, including the Senior Notes, to the extent of the value of the collateral securing the senior secured obligations; and are structurally subordinated in right of payment to all existing and future indebtedness and other liabilities of any of Acquisition Corp.'s non-guarantor subsidiaries (other than indebtedness and liabilities owed to Acquisition Corp. or one of its subsidiary guarantors (as such term is defined below)).

The Senior Notes are Acquisition Corp.'s senior unsecured obligations. The Senior Notes rank senior in right of payment to Acquisition Corp.'s subordinated indebtedness; rank equally in right of payment with all of Acquisition Corp.'s existing and future senior indebtedness; are effectively subordinated to Acquisition Corp.'s secured senior indebtedness, to the extent of the value of the collateral securing such indebtedness; and are structurally subordinated in right of payment to all existing and future indebtedness and other liabilities of any of Acquisition Corp.'s non-guarantor subsidiaries (other than indebtedness and liabilities owed to Acquisition Corp. or one of its subsidiary guarantors).

Guarantees and Security

The obligations under each of the Revolving Credit Facility, the Senior Term Loan Facility, the Secured Notes Indentures and the Senior Notes Indenture are guaranteed by each direct and indirect U.S. restricted subsidiary of Acquisition Corp., other than certain excluded subsidiaries. All obligations of Acquisition Corp. and each guarantor under the Revolving Credit Facility, the Senior Term Loan Facility and the Secured Notes Indenture are secured by substantially all the assets of Acquisition Corp and each subsidiary guarantor. In addition, the 3.625% Senior Secured Notes and the Senior Notes have been fully and unconditionally guaranteed by the Company.

Covenants, Representations and Warranties

The Revolving Credit Facility, the Senior Term Loan Facility, the Secured Notes and the Senior Notes contain customary representations and warranties and customary affirmative and negative covenants. The negative covenants applicable to the Revolving Credit Facility, the Senior Term Loan Facility, the 3.625% Senior Secured Notes and the Senior Notes are incurrence-based high yield covenants and limit the ability of Acquisition Corp. and its restricted subsidiaries to, among other things, incur additional indebtedness or issue certain preferred shares; pay dividends, redeem stock or make other distributions; repurchase, prepay or redeem subordinated indebtedness; make investments; create restrictions on the ability of its restricted subsidiaries to pay dividends to it or make other intercompany transfers; create liens; transfer or sell assets; consolidate, merge, sell or otherwise dispose of all or substantially all of its assets; enter into certain transactions with its affiliates; and designate subsidiaries as unrestricted subsidiaries. The negative covenants applicable to securities issued pursuant to the New Secured Notes Indenture limit the ability of Acquisition Corp. and its restricted subsidiaries to, among other things, create liens and consolidate, merge, sell or otherwise dispose of all or substantially all of its assets.

The negative covenants are subject to customary exceptions. There are no financial covenants included in the Revolving Credit Agreement, other than a springing leverage ratio of 5.00:1.00 (with no step-down), which is not tested unless at the end of a fiscal quarter the outstanding amount of loans and drawings under letters of credit which have not been reimbursed exceeds $105 million. There are no financial covenants included in the Senior Term Loan Credit Agreement, the Secured Notes Indentures or the Senior Notes Indenture.

Events of Default

Events of default under the Revolving Credit Facility, the Senior Term Loan Facility and the Secured Notes Indenture include, as applicable, nonpayment of principal when due, nonpayment of interest or other amounts, inaccuracy of representations or warranties in any material respect, violation of covenants, cross default and cross acceleration to other material debt, certain bankruptcy or insolvency events, certain ERISA events, certain material judgments, actual or asserted invalidity of security interests in excess of $50 million, or $75 million in the case of the New Secured Notes Indenture, in each case subject to customary thresholds, notice and grace period provisions.

Change of Control

Upon the occurrence of a change of control, which is defined in the Original Senior Secured Base Indenture and the Senior Notes Base Indenture, or a change of control triggering event, which is defined in the New Senior Secured Base Indenture, each holder of the Secured Notes and the Senior Notes has the right to require Acquisition Corp. to repurchase some or all of such holder's Secured Notes and Senior Notes at a purchase price in cash equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to the repurchase date.

Existing Debt as of September 30, 2020

As of September 30, 2020, our long-term debt, all of which was issued by Acquisition Corp., was as follows (in millions):

Revolving Credit Facility (a)	$ —
Senior Term Loan Facility due 2023 (b)	814
3.625% Senior Secured Notes due 2026 (c)	521
2.750% Senior Secured Notes due 2028 (d)	375
3.875% Senior Secured Notes due 2030 (e)	529
3.000% Senior Secured Notes due 2031 (f)	544
5.500% Senior Notes due 2026 (g)	321
Total long-term debt, including the current portion (h)	$ 3,104

(a) Reflects $300 million of commitments under the Revolving Credit Facility available at September 30, 2020, less letters of credit outstanding of approximately $10 million at September 30, 2020. There were no loans outstanding under the Revolving Credit Facility at September 30, 2020.

(b) Principal amount of $820 million less unamortized discount of $1 million and unamortized deferred financing costs of $5 million at September 30, 2020.

(c) Face amount of €445 million at September 30, 2020. Above amount represents the dollar equivalent of such note at September 30, 2020. Principal amount of $519 million, an additional issuance premium of $7 million, less unamortized deferred financing costs of $5 million at September 30, 2020.

(d) Face amount of €325 million at September 30, 2020. Above amount represents the dollar equivalent of such notes at September 30, 2020. Principal amount of $379 million less unamortized deferred financing costs of $4 million at September 30, 2020.

(e) Principal amount of $535 million less unamortized deferred financing costs of $6 million at September 30, 2020.

(f) Principal amount of $550 million less unamortized deferred financing costs of $6 million at September 30, 2020.

(g) Principal amount of $325 million less unamortized deferred financing costs of $4 million at September 30, 2020.

(h) Principal amount of debt of $3.127 billion, an additional issuance premium of $7 million, less unamortized discount of $1 million and unamortized deferred financing costs of $29 million at September 30, 2020.

Dividends

The Company's ability to pay dividends may be restricted by covenants in certain of the indentures governing its notes and in the credit agreements for the Senior Term Loan Facility and the Revolving Credit Facility.

The Company intends to pay quarterly cash dividends to holders of its Class A Common Stock and Class B Common Stock. The declaration of each dividend will continue to be at the discretion of the Company's board of directors and will depend on the Company's financial condition, earnings, liquidity and capital requirements, level of indebtedness, contractual restrictions with respect to payment of dividends, restrictions imposed by Delaware law, general business conditions and any other factors that the Company's board of directors deems relevant in making such a determination. Therefore, there can be no assurance that the Company will pay any dividends to holders of the Company's common stock, or as to the amount of any such dividends.

Prior to the completion of the IPO, in fiscal 2020 the Company paid an aggregate of $281 million in cash dividends to common stockholders, $75 million of which was declared by the Company's board of directors in fiscal 2020 and $206 million of which was declared by the Company's board of directors in fiscal 2019 and recorded as an accrual as of September 30, 2019. On August 14, 2020, the Company's board of directors declared a cash dividend of $0.12 per share on the Company's Class A Common Stock and Class B Common Stock, as well as related payments under certain stock-based compensation plans, which was paid on September 1, 2020.

For fiscal year 2020, the Company paid an aggregate of $344 million in cash dividends to stockholders and participating security holders. For fiscal year 2019, the Company paid an aggregate of $94 million in cash dividends to stockholders. For fiscal year 2018, the Company paid an aggregate of $925 million in cash dividends to stockholders, which reflected proceeds from the sale of Spotify shares acquired in the ordinary course of business.

On November 13, 2020, the Company's board of directors declared a cash dividend of $0.12 per share on the Company's Class A Common Stock and Class B Common Stock, as well as related payments under certain stock-based compensation plans, payable on December 1, 2020 to stockholders of record as of the close of business on November 24, 2020.

Covenant Compliance

The Company was in compliance with its covenants under its outstanding notes, the Revolving Credit Facility and the Senior Term Loan Facility as of September 30, 2020.

On January 18, 2019, we delivered a notice to the administrative agent under the Senior Term Loan Facility and the trustee under the indentures governing each of the Senior Notes and the Secured Notes changing the Fixed GAAP Date, as defined under each such facility and the indentures, to October 1, 2018. Under the Revolving Credit Facility, the Fixed GAAP Date is set for April 3, 2020, other than in respect of capital leases, which are frozen at November 1, 2012.

The Revolving Credit Facility contains a springing leverage ratio that is tied to a ratio based on EBITDA, which is defined under the Revolving Credit Agreement. Our ability to borrow funds under the Revolving Credit Facility may depend upon our ability to meet the leverage ratio test at the end of a fiscal quarter to the extent we have drawn a certain amount of revolving loans. EBITDA as defined in the Revolving Credit Facility is based on Consolidated Net Income (as defined in the Revolving Credit Facility), both of which terms differ from the terms “EBITDA” and “net income” as they are commonly used. For example, the calculation of EBITDA under the Revolving Credit Facility, in addition to adjusting net income to exclude interest expense, income taxes and depreciation and amortization, also adjusts net income by excluding items or expenses such as, among other items, (1) the amount of any restructuring charges or reserves; (2) any non-cash charges (including any impairment charges); (3) any net loss resulting from hedging currency exchange risks; (4) the amount of management, monitoring, consulting and advisory fees paid to Access; (5) business optimization expenses (including consolidation initiatives, severance costs and other costs relating to initiatives aimed at profitability improvement); (6) transaction expenses; (7) equity-based compensation expense; and (8) certain extraordinary, unusual or non-recurring items. The definition of EBITDA under the Revolving Credit Facility also includes adjustments for the pro forma impact of certain projected cost savings, operating expense reductions and synergies and any quality of earnings analysis prepared by independent certified public accountants in connection with an acquisition, merger, consolidation or other investment. The indentures governing our notes and the Senior Term Loan Facility use financial measures called “Consolidated EBITDA” or “EBITDA” and “Consolidated Net Income”, that have similar (but not identical) definitions to EBITDA and Consolidated Net Income, each as defined under the Revolving Credit Agreement.

EBITDA as defined in the Revolving Credit Facility (referred to in this section as “Adjusted EBITDA”) is presented herein because it is a material component of the leverage ratio contained in the Revolving Credit Agreement. Non-compliance with the leverage ratio could result in the inability to use the Revolving Credit Facility, which could have a material adverse effect on our results of operations, financial position and cash flow. Adjusted EBITDA does not represent net income or cash from operating activities as those terms are defined by U.S. GAAP and does not necessarily indicate whether cash flows will be sufficient to fund cash needs. While Adjusted EBITDA and similar measures are frequently used as measures of operations and the ability to meet debt service requirements, these terms are not necessarily comparable to other similarly titled captions of other companies due to the potential inconsistencies in the method of calculation. Adjusted EBITDA does not reflect the impact of earnings or charges resulting from matters that we may consider not to be indicative of our ongoing operations. In particular, the definition of Adjusted EBITDA in the Revolving Credit Agreement allows us to add back certain non-cash, extraordinary, unusual or non-recurring charges that are deducted in calculating net income. However, these are expenses that may recur, vary greatly and are difficult to predict.

Adjusted EBITDA as presented below should not be used by investors as an indicator of performance for any future period. Further, our debt instruments require that it be calculated for the most recent four fiscal quarters. As a result, the measure can be disproportionately affected by a particularly strong or weak quarter. Further, it may not be comparable to the measure for any subsequent four quarter period or any complete fiscal year. In addition, our debt instruments require that the leverage ratio be calculated on a pro forma basis for certain transactions including acquisitions as if such transactions had occurred on the first date of the measurement period and may include expected cost savings and synergies resulting from or related to any such transaction. There can be no assurances that any such cost savings or synergies will be achieved in full.

In addition, Adjusted EBITDA is a key measure used by our management to understand and evaluate our operating performance, generate future operating plans and make strategic decisions regarding the allocation of capital. Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under U.S. GAAP. Some of those limitations include: (1) it does not reflect the periodic costs of certain capitalized tangible and intangible assets used in generating revenue for our business; (2) it does not reflect the significant interest expense or cash requirements necessary to service interest or principal payments on our indebtedness; and (3) it does not reflect every cash expenditure, future requirements for capital expenditures or contractual commitments. In particular, this measure adds back certain non-cash, extraordinary, unusual or non-recurring charges that are deducted in calculating net income; however, these are expenses that may recur, vary greatly and are difficult to predict. In addition, Adjusted EBITDA is not the same as net income or cash flow provided by operating activities as those terms are defined by U.S. GAAP and does not necessarily indicate whether cash flows will be sufficient to fund cash needs. Accordingly, Adjusted EBITDA should be considered in addition to, not as a substitute for, net income (loss) and other measures of financial performance reported in accordance with U.S. GAAP.

The following is a reconciliation of net income (loss), which is a U.S. GAAP measure of our operating results, to Adjusted EBITDA as defined, for the most recently ended four fiscal quarters, or the twelve months ended September 30, 2020, for the twelve months ended September 30, 2019 and for the three months ended September 30, 2020 and September 30, 2019. In addition, the reconciliation includes the calculation of the Senior Secured Indebtedness to Adjusted EBITDA ratio, which we refer to as the Leverage Ratio, under the Revolving Credit Agreement for the most recently ended four fiscal quarters, or the twelve months ended September 30, 2020. The terms and related calculations are defined in the Revolving Credit Agreement. All amounts in the reconciliation below reflect Acquisition Corp. (in millions, except ratios):

	Twelve Months Ended September 30,		Three Months Ended September 30,	
	2020	2019	2020	2019
Net (Loss) Income	$ (470)	$ 258	$ 1	$ 91
Income tax expense (benefit)	23	9	(21)	(77)
Interest expense, net	127	142	29	34
Depreciation and amortization	261	269	67	66
Loss on extinguishment of debt (a)	34	7	34	—
Net gain on divestitures and sale of securities (b)	(1)	(4)	—	(1)
Restructuring costs (c)	22	27	9	9
Net hedging and foreign exchange losses (gains) (d)	61	(38)	51	(27)
Management fees (e)	20	11	(3)	2
Transaction costs (f)	76	3	(1)	—
Business optimization expenses (g)	39	22	6	9
Non-cash stock-based compensation expense (h)	608	49	8	22
Other non-cash charges (i)	10	(19)	(6)	5
Pro forma impact of cost savings initiatives and specified transactions (j)	27	1	3	—
Adjusted EBITDA	**$ 837**	**$ 737**	**$ 177**	**$ 133**
Senior Secured Indebtedness (k)	**$ 2,553**			
Leverage Ratio (l)	**3.05x**			

(a) For the three and twelve months ended September 30, 2020, reflects a net loss incurred on the early extinguishment of our debt incurred as part of the June 2020 redemption of our 4.125% Senior Secured Notes and 4.875% Senior Secured Notes, the June 2020 tender for and the August 2020 redemption of the 5.000% Senior Secured Notes and the August 2020 partial repayment of the Senior Term Loan Facility. For the twelve months ended September 30, 2019, reflects net loss incurred on the early extinguishment of our debt incurred as part of the October 2018 partial redemption of our 4.125% Secured Notes, the October 2018 open market purchase of our 4.875% Senior Secured Notes, the November 2018 partial redemption of our 5.625% Secured Notes and the May 2019 redemption of the remaining 5.625% Secured Notes.

(b) Reflects net gain on sale of securities and divestitures.

(c) Reflects severance costs and other restructuring related expenses.

(d) Reflects (gains) losses from hedging activities and unrealized (gains) losses due to foreign exchange on our Euro-denominated debt and intercompany transactions.

(e) Reflects management fees and related expenses paid to Access. For the twelve months ended September 30, 2020, amounts include a one-time fee of $13 million related to termination of the management agreement with Access. Prior to termination of the management agreement, the annual fee was equal to the greater of a base amount, equal to approximately $7 million for the twelve months ended September 30, 2020, and 1.5% of EBITDA (as defined in the indenture governing the redeemed Holdings 13.75% Senior Notes due 2019) of the Company for the applicable fiscal year, plus expenses. Refer to Note 14 of our consolidated financial statements included in Part II to this Annual Report for further discussion.

(f) Reflects transaction costs, including qualifying IPO costs of $76 million for the twelve months ended September 30, 2020.

(g) Reflects costs associated with our transformation initiatives and IT system updates, which includes costs of $5 million and $30 million related to our finance transformation for the three and twelve months ended September 30, 2020, respectively, as well as $8 million and $18 million for the three and twelve months ended September 30, 2019, respectively.

(h) Reflects non-cash stock-based compensation expense mainly related to the Warner Music Group Corp. Senior Management Free Cash Flow Plan.

(i) Reflects non-cash activity, including the unrealized losses (gains) on the mark-to-market of an equity method investment, investment losses (gains) and other non-cash impairments.

(j) Reflects expected savings resulting from transformation initiatives and pro forma impact of specified transactions for the three and twelve months ended September 30, 2020 and September 30, 2019. Certain of these costs savings initiatives and transactions were identified in the current quarter and as a result the proforma impact was not included in the three and twelve months ended June 30, 2020. The impact of which would have been approximately a $7 million increase in the twelve months ended June 30, 2020 Adjusted EBITDA. In addition, the three and twelve months ended September 30, 2019 also excluded certain proforma items identified within the current fiscal year, the impact of which would have been an approximately $9 million increase in the three and twelve months ended September 30, 2019 Adjusted EBITDA.

(k) Reflects the principal balance of senior secured debt at Acquisition Corp. of approximately $2.803 billion less cash of $250 million.

(l) Reflects the ratio of Senior Secured Indebtedness, including Revolving Credit Agreement Indebtedness, to Adjusted EBITDA. This is calculated net of cash and equivalents of the Company as of September 30, 2020 not exceeding $250 million. If the outstanding aggregate principal amount of borrowings and drawings under letters of credit which have not been reimbursed under our Revolving Credit Facility is greater than $105 million at the end of a fiscal quarter, the maximum leverage ratio permitted under the Revolving Credit Facility is 5.00:1.00. The Company’s Revolving Credit Facility does not impose any “leverage ratio” maintenance requirement on the Company when the aggregate principal amount of borrowings and drawings under letters of credit, which have not been reimbursed under the Revolving Credit Facility, is less than or equal to $105 million at the end of a fiscal quarter.

Summary

Management believes that funds generated from our operations and borrowings under the Revolving Credit Facility and available cash and equivalents will be sufficient to fund our debt service requirements, working capital requirements and capital expenditure requirements for the foreseeable future. We also have additional borrowing capacity under our indentures and the Senior Term Loan Facility. However, our ability to continue to fund these items and to reduce debt may be affected by general economic, financial, competitive, legislative and regulatory factors, as well as other industry-specific factors such as the ability to control music piracy and the continued transition from physical to digital formats in the recorded music and music publishing industries. It could also be affected by the severity and duration of natural or man-made disasters, including pandemics such as COVID-19. We and our affiliates continue to evaluate opportunities to, from time to time, depending on market conditions and prices, contractual restrictions, our financial liquidity and other factors, seek to pay dividends or prepay outstanding debt or repurchase or retire Acquisition Corp.’s outstanding debt or debt securities in open market purchases, privately negotiated purchases or otherwise. The amounts involved in any such transactions, individually or in the aggregate, may be material and may be funded from available cash or from additional borrowings. In addition, from time to time, depending on market conditions and prices, contractual restrictions, our financial liquidity and other factors, we may seek to refinance the Senior Credit Facilities or our outstanding debt or debt securities with existing cash and/or with funds provided from additional borrowings.

Contractual and Other Obligations

Firm Commitments

The following table summarizes the Company's aggregate contractual obligations at September 30, 2020, and the estimated timing and effect that such obligations are expected to have on the Company's liquidity and cash flow in future periods.

Firm Commitments and Outstanding Debt	Less than 1 year	1-3 years	3-5 years (in millions)	After 5 years	Total
Senior Secured Notes (1)	$ —	$ —	$ —	$ 1,982	$ 1,982
Interest on Senior Secured Notes (1)	66	133	133	254	586
Senior Notes (1)	—	—	325	—	325
Interest on Senior Notes (1)	18	36	36	18	107
Senior Term Loan Facility (1)	—	—	820	—	820
Interest on Senior Term Loan Facility (1)	33	69	3	—	105
Operating leases (2)	54	102	93	159	408
Artist, songwriter and co-publisher commitments (3)	442	*	*	*	442
Minimum funding commitments to investees and other obligations (4)	6	3	3	—	12
Total firm commitments and outstanding debt	$ 619	$ 343	$ 1,413	$ 2,413	$ 4,787

The following is a description of our firmly committed contractual obligations at September 30, 2020:

(1) Outstanding debt obligations consist of the Senior Term Loan Facility, the Senior Secured Notes and the Senior Notes. These obligations have been presented based on the principal amounts due, current and long term as of September 30, 2020. Amounts do not include any fair value adjustments, bond premiums, discounts or unamortized deferred financing costs.

(2) Operating lease obligations primarily relate to the minimum lease rental obligations for our real estate and operating equipment in various locations around the world.

(3) The Company routinely enters into long-term commitments with recording artists, songwriters and publishers for the future delivery of music. Such commitments generally become due only upon delivery and Company acceptance of albums from the artists or future musical compositions by songwriters and publishers. Additionally, such commitments are typically cancelable at the Company's discretion, generally without penalty. Based on contractual obligations, aggregate firm commitments to such talent approximate $442 million at September 30, 2020. The aggregate firm commitments expected for the next twelve-month period based on contractual obligations and the Company's expected release schedule approximates $268 million at September 30, 2020.

(4) We have minimum funding commitments and other related obligations to support the operations of various investments, which are reflected in the table above. Other long-term liabilities, which are not included in the table above, include $12 million and $12 million of liabilities for uncertain tax positions as of September 30, 2020 and September 30, 2019, respectively. We are unable to accurately predict when these amounts will be realized or released.

* Because the timing of payment, and even whether payment occurs, is dependent upon the timing of delivery of albums and musical compositions, the timing and amount of payment of these commitments as presented in the above summary can vary significantly.

CRITICAL ACCOUNTING POLICIES

The SEC's Financial Reporting Release No. 60, "Cautionary Advice Regarding Disclosure About Critical Accounting Policies" ("FRR 60"), suggests companies provide additional disclosure and commentary on those accounting policies considered most critical. FRR 60 considers an accounting policy to be critical if it is important to our financial condition and results, and requires significant judgment and estimates on the part of management in our application. We believe the following list represents critical accounting policies as contemplated by FRR 60. For a summary of all of our significant accounting policies, see Note 2 to our consolidated financial statements included elsewhere herein.

Accounting for Goodwill and Other Intangible Assets

We account for our goodwill and other indefinite-lived intangible assets as required by ASC 350. We test goodwill for impairment at the reporting unit level and have concluded that our reporting units are generally the same as our reportable segments. We evaluate the determination of our reporting units periodically or whenever events or substantive changes in circumstances occur. ASC 350 requires that goodwill and certain intangible assets be assessed for impairment using fair value measurement techniques on an annual basis and when events occur that may suggest that the fair value of such assets cannot support the carrying value. ASC 350 gives an entity the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit or intangible asset is less than its carrying amount. If an entity determines it is not more likely than not that the fair value of a reporting unit or intangible asset is less than its carrying amount, then performing the quantitative impairment test is unnecessary. However, if an entity concludes otherwise, then the quantitative impairment test shall be used to identify the impairment and measure the amount of an impairment loss to be recognized (if applicable).

As of September 30, 2020, we had recorded goodwill in the amount of $1.831 billion, including $1.367 billion and $464 million for our Recorded Music and Music Publishing businesses, respectively, primarily related to the Merger and PLG Acquisition. As of September 30, 2020, we had recorded definite-lived intangible assets of $1.653 billion and indefinite-lived intangible assets of $154 million. We test our goodwill and other indefinite-lived intangible assets for impairment on an annual basis in the fourth quarter of each fiscal year as of July 1. We performed a qualitative assessment for our reporting units and other indefinite-lived intangible assets in fiscal 2020. This assessment considered changes in our projected future cash flows and discount rates, recent market transactions and overall macroeconomic conditions. Based on this assessment, we concluded that it was more likely than not that the estimated fair values of our reporting units and other indefinite-lived intangible assets were higher than their carrying values and that the performance of a quantitative impairment test was not required.

See Note 9 to the consolidated financial statements for a further discussion of our goodwill and intangible assets.

Revenue and Cost Recognition

Revenues

Recorded Music

As required by FASB ASC Topic 606, *Revenue from Contracts with Customers* ("ASC 606"), the Company recognizes revenue when, or as, control of the promised services or goods is transferred to our customers and in an amount that reflects the consideration the Company is contractually due in exchange for those services or goods. The Company adopted ASC 606 as of October 1, 2018 using the modified retrospective method to all contracts not completed as of the date of adoption.

Revenues from the sale or license of Recorded Music products through digital distribution channels are typically recognized when sale or usage occurs based on usage reports received from the customer. Certain contracts contain non-recoupable fixed fees or minimum guarantees, which are recoupable against royalties. Upon contract inception, the Company will assess whether a shortfall or breakage is expected (i.e., where the minimum guarantee will not be recouped through royalties) in order to determine timing of revenue recognition for the fixed fee or minimum guarantee.

For fixed fee and minimum guarantee contracts where breakage is expected, the total transaction price (fixed fee or minimum guarantee) is typically recognized using an appropriate measure of progress over the contractual term. The Company updates its assessment of the transaction price each reporting period to see if anticipated royalty earnings exceed the minimum guarantee. For contracts where breakage is not expected, royalties are recognized as revenue as sales or usage occurs based upon the licensee's usage reports and, when these reports are not available, revenue is based on historical data, industry information and other relevant trends.

Music Publishing

Music Publishing revenues are earned from the receipt of royalties relating to the licensing of rights in musical compositions and the sale of published sheet music and songbooks. The receipt of royalties principally relates to amounts earned from the public performance of musical compositions, the mechanical reproduction of musical compositions on recorded media including digital formats and the use of musical compositions in synchronization with visual images. Music publishing royalties, except for synchronization royalties, generally are recognized when the sale or usage occurs. The most common form of consideration for publishing contracts is sales- and usage-based royalties. The collecting societies submit usage reports, typically with payment for royalties due, often on a quarterly or biannual reporting period, in arrears. Royalties are recognized as the sale or usage occurs based upon usage reports and, when these reports are not available, royalties are estimated based on historical data, such as recent royalties reported, company-specific information with respect to changes in repertoire, industry information and other relevant trends. Synchronization revenue is typically recognized as revenue when control of the license is transferred to the customer in accordance with ASC 606.

Accounting for Royalty Costs and Royalty Advances

The Company incurs royalty costs that are payable to our recording artists and songwriters generated from the sale or license of our Recorded Music catalog and Music Publishing copyrights. Royalties are calculated using negotiated rates in accordance with recording artist and songwriter contracts. Calculations are based on revenue earned or user/usage measures or a combination of these. There are instances where such data is not available to be processed and royalty cost calculations may be complex or involve judgments about significant volumes of data to be processed and analyzed.

We had $1,628 million and $1,567 million of royalty payables in our balance sheet at September 30, 2020 and September 30, 2019, respectively.

In many instances, the Company commits to pay our recording artists and songwriters royalties in advance of future sales. The Company accounts for these advances under the related guidance in FASB ASC Topic 928, *Entertainment—Music* (“ASC 928”). Under ASC 928, the Company capitalizes as assets certain advances that it believes are recoverable from future royalties to be earned by the recording artist or songwriter. Recoverability is assessed upon initial commitment of the advance based upon the Company’s forecast of anticipated revenue from the sale of future and existing albums or musical compositions. In determining whether the advance is recoverable, the Company evaluates the current and past popularity of the recording artist or songwriter, the sales history of the recording artist or songwriter, the initial or expected commercial acceptability of the product, the current and past popularity of the genre of music that the product is designed to appeal to, and other relevant factors. Advances vary in both amount and expected life based on the underlying recording artist or songwriter. To the extent that a portion of an outstanding advance is no longer deemed recoverable, that amount will be expensed in the period the determination is made.

We had $489 million and $378 million of advances in our balance sheet at September 30, 2020 and September 30, 2019, respectively. We believe such advances are recoverable through future royalties to be earned by the applicable recording artists and songwriters.

Accounting for Income Taxes

As part of the process of preparing the consolidated financial statements, we are required to estimate income taxes payable in each of the jurisdictions in which we operate. This process involves estimating the actual current tax expense together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheets. FASB ASC Topic 740, *Income Taxes* (“ASC 740”), requires a valuation allowance be established when it is more likely than not that all or a portion of deferred tax assets will not be realized. In circumstances where there is sufficient negative evidence, establishment of a valuation allowance must be considered. We believe that cumulative losses in the most recent three-year period generally represent sufficient negative evidence to consider a valuation allowance under the provisions of ASC 740. As a result, we determined that certain of our deferred tax assets required the establishment of a valuation allowance.

The realization of the remaining deferred tax assets is primarily dependent on forecasted future taxable income. Any reduction in estimated forecasted future taxable income may require that we record additional valuation allowances against our deferred tax assets on which a valuation allowance has not previously been established. The valuation allowance that has been established will be maintained until there is sufficient positive evidence to conclude that it is more likely than not that such assets will be realized. An ongoing pattern of profitability will generally be considered as sufficient positive evidence. Our income tax expense recorded in the future may be reduced to the extent of offsetting decreases in our valuation allowance. The establishment and reversal of valuation allowances could have a significant negative or positive impact on our future earnings.

From time to time, the Company engages in transactions in which the tax consequences may be subject to uncertainty. Significant judgment is required in assessing and estimating the tax consequences of these transactions. The Company prepares and files tax returns based on its interpretation of tax laws and regulations. In the normal course of business, the Company's tax returns are subject to examination by various taxing authorities. Such examinations may result in future tax and interest assessments by these taxing authorities. In determining the Company's tax provision for financial reporting purposes, the Company establishes a reserve for uncertain tax positions unless such positions are determined to be more likely than not of being sustained upon examination based on their technical merits. There is considerable judgment involved in determining whether positions taken on the Company's tax returns are more likely than not of being sustained.

Accounting for Stock-Based Compensation

Share-based compensation represents compensation payment for which the amounts are based on the fair market value of the Company's common stock. Prior to the Company's IPO, the Company's Senior Management Free Cash Flow Plan (the "Plan") was classified as a liability rather than equity under FASB ASC Topic 718, *Compensation—Stock Compensation* ("ASC 718"). In February 2020, the Company filed a Form S-1 registration statement with the SEC in connection with the IPO, which required a change in accounting policy during the three months ended March 31, 2020 from the intrinsic value method to fair value method in determining the basis of measurement of its stock-based compensation liability.

In determining fair value, the Company utilized an option pricing model for those awards with an option-like pay-off, which includes various inputs for volatility, term to exit, discount for lack of marketability, expected dividend yield and risk-free rates. For awards with an equity-like pay-off, inputs for discount of lack of marketability and non-performance risk were considered. The Company continued to use an income approach using a discounted cash flow model to determine its per-share value input within the model. Upon completion of the IPO in June 2020, the Plan was amended to remove the cash-settlement feature on all future redemptions. As a result, all awards previously issued under the Plan will require settlement in Class A Common Stock. Under the provision of ASC 718, the Company determined the Plan was modified as of June 3, 2020, and as such, converted the awards from liability-classified to equity-classified. Prior to conversion, the Company performed a final measurement of its stock-based compensation liability under the fair value method. The final measurement utilized the IPO listing price of $25 per share as the per-share value input within its fair value model.

New Accounting Principles

In February 2016, the FASB issued ASU 2016-02, *Leases* ("ASU 2016-02"), which established a new ASC Topic 842 ("ASC 842") that introduces a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. In July 2018, the FASB issued ASU 2018-11, *Leases – Targeted Improvements* ("ASU 2018-11"), which allows for retrospective application with the recognition of a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Under this option, entities do not need to apply ASC 842 (along with its disclosure requirements) to the comparative prior periods presented. The Company adopted ASU 2016-02 on October 1, 2019, using the modified retrospective transition method provided by ASU 2018-11. The adoption of ASU 2016-02 resulted in the recognition of operating lease liabilities of $366 million and ROU assets of $297 million, which is net of the historical deferred rent liability balance of $69 million, primarily related to real estate leases. The Company also recorded a decrease to opening accumulated deficit of $7 million, net of taxes, related to previously deferred gains related to sale-leaseback transactions.

Upon transition, the Company adopted the "package of three" practical expedient provided by ASC 842 and therefore has not (1) reassessed whether any expired or existing contracts are or contain a lease, (2) reassessed the lease classification for expired or existing leases and (3) reassessed initial direct costs for any existing leases. Rather, the Company will retain the conclusions reached for these items under ASC 840.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As discussed in Note 16 to our consolidated financial statements included herein, the Company is exposed to market risk arising from changes in market rates and prices, including movements in foreign currency exchange rates and interest rates. As of September 30, 2020, other than as described below, there have been no material changes to the Company's exposure to market risk since September 30, 2019.

Foreign Currency Risk

Within our global business operations we have transactional exposures that may be adversely affected by changes in foreign currency exchange rates relative to the U.S. dollar. We may at times choose to use foreign exchange currency derivatives, primarily forward contracts, to manage the risk associated with the volatility of future cash flows denominated in foreign currencies, such as unremitted or future royalties and license fees owed to our U.S. companies for the sale or licensing of U.S.-based music and merchandise abroad that may be adversely affected by changes in foreign currency exchange rates. We focus on managing the level of exposure to the risk of foreign currency exchange rate fluctuations on major currencies, which can include the Euro, British pound sterling, Japanese yen, Canadian dollar, Swedish krona, Australian dollar, Brazilian real, Korean won and Norwegian krone, and in many cases we have natural hedges where we have expenses associated with local operations that offset the revenue in local currency and our Euro-denominated debt, which can offset declines in the Euro. As of September 30, 2020, the Company had no outstanding hedge contracts.

The fair value of foreign exchange contracts is subject to changes in foreign currency exchange rates. For the purpose of assessing the specific risks, we use a sensitivity analysis to determine the effects that market risk exposures may have on the fair value of our financial instruments. For foreign exchange forward contracts, we typically perform a sensitivity analysis assuming a hypothetical 10% depreciation of the U.S. dollar against foreign currencies from prevailing foreign currency exchange rates and assuming no change in interest rates. As we have no hedge contracts outstanding as of September 30, 2020, the fair value of the foreign exchange forward contracts would have no impact. Hypothetically, even if there was a decrease in the fair value of the forward contracts, because our foreign exchange contracts are entered into for hedging purposes, these losses would be largely offset by gains on the underlying transactions.

Interest Rate Risk

We had $3.128 billion of principal debt outstanding at September 30, 2020, of which $820 million was variable-rate debt and $2.308 billion was fixed-rate debt. As such, we are exposed to changes in interest rates. At September 30, 2020, 74% of the Company's debt was at a fixed rate. In addition, as of September 30, 2020, we have the option under all of our floating rate debt under the Senior Term Loan Facility to select a one, two, three or six month LIBOR rate. To manage interest rate risk on $820 million of U.S. dollar-denominated variable-rate debt, the Company has entered into interest rate swaps to effectively convert the floating interest rates to a fixed interest rate on a portion of its variable-rate debt.

Based on the level of interest rates prevailing at September 30, 2020, the fair value of the Company's fixed-rate and variable-rate debt was approximately $3.137 billion. Further, as of September 30, 2020, based on the amount of the Company's fixed-rate debt, a 25 basis point increase or decrease in the level of interest rates would decrease the fair value of the fixed-rate debt by approximately $21 million or increase the fair value of the fixed-rate debt by approximately $36 million. This potential fluctuation is based on the simplified assumption that the level of fixed-rate debt remains constant with an immediate across the board increase or decrease in the level of interest rates with no subsequent changes in rates for the remainder of the period.

Inflation Risk

Inflationary factors such as increases in overhead costs may adversely affect our results of operations. We do not believe that inflation has had a material effect on our business, financial condition or results of operations to date. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases for services. Our inability or failure to do so could harm our business, financial condition or results of operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

WARNER MUSIC GROUP CORP.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Stockholders and Board of Directors of Warner Music Group Corp.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Warner Music Group Corp. and subsidiaries (the Company) as of September 30, 2020 and 2019, the related consolidated statements of operations, comprehensive income (loss), cash flows and (deficit) equity for each of the years in the three-year period ended September 30, 2020, and the related notes, and financial statement schedule II as listed in the accompanying index to Item 8 (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2020 and 2019, and the results of its operations and its cash flows for each of the years in the three-year period ended September 30, 2020, in conformity with U.S. generally accepted accounting principles.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, the Company changed its method of accounting for leases as of October 1, 2019 due to the adoption of ASC Topic 842, Leases, and the Company changed its method of accounting for revenue recognition as of October 1, 2018 due to the adoption of ASC Topic 606, Revenue from Contracts with Customers.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2015.

New York, New York
November 23, 2020

Warner Music Group Corp.

Consolidated Balance Sheets

	September 30, 2020	September 30, 2019
	(in millions, except share data)	
Assets		
Current assets:		
Cash and equivalents	$ 553	$ 619
Accounts receivable, net of allowances of $23 million and $17 million	771	775
Inventories	79	74
Royalty advances expected to be recouped within one year	220	170
Prepaid and other current assets	55	53
Total current assets	1,678	1,691
Royalty advances expected to be recouped after one year	269	208
Property, plant and equipment, net	331	300
Operating lease right-of-use assets, net	273	—
Goodwill	1,831	1,761
Intangible assets subject to amortization, net	1,653	1,723
Intangible assets not subject to amortization	154	151
Deferred tax assets, net	68	38
Other assets	153	145
Total assets	$ 6,410	$ 6,017
Liabilities and Deficit		
Current liabilities:		
Accounts payable	$ 264	$ 260
Accrued royalties	1,628	1,567
Accrued liabilities	382	492
Accrued interest	30	34
Operating lease liabilities, current	39	—
Deferred revenue	297	180
Other current liabilities	80	286
Total current liabilities	2,720	2,819
Long-term debt	3,104	2,974
Operating lease liabilities, noncurrent	299	—
Deferred tax liabilities, net	163	172
Other noncurrent liabilities	169	321
Total liabilities	$ 6,455	$ 6,286
Deficit:		
Class A common stock, $0.001 par value; 1,000,000,000 shares authorized, 88,578,361 and 0 shares issued and outstanding as of September 30, 2020 and September 30, 2019, respectively	$ —	$ —
Class B common stock, $0.001 par value; 1,000,000,000 shares authorized, 421,450,000 and 505,830,022 issued and outstanding as of September 30, 2020 and September 30, 2019, respectively	1	1
Additional paid-in capital	1,907	1,127
Accumulated deficit	(1,749)	(1,177)
Accumulated other comprehensive loss, net	(222)	(240)
Total Warner Music Group Corp. deficit	(63)	(289)
Noncontrolling interest	18	20
Total deficit	(45)	(269)
Total liabilities and deficit	$ 6,410	$ 6,017

See accompanying notes

Warner Music Group Corp.

Consolidated Statements of Operations

	Fiscal Year Ended September 30,		
	2020	2019	2018
	(in millions, except share and per share data)		
Revenues	$ 4,463	$ 4,475	$ 4,005
Costs and expenses:			
Cost of revenue	(2,333)	(2,401)	(2,171)
Selling, general and administrative expenses (a)	(2,169)	(1,510)	(1,411)
Amortization expense	(190)	(208)	(206)
Total costs and expenses	(4,692)	(4,119)	(3,788)
Operating (loss) income	(229)	356	217
Loss on extinguishment of debt	(34)	(7)	(31)
Interest expense, net	(127)	(142)	(138)
Other (expense) income	(57)	60	394
(Loss) income before income taxes	(447)	267	442
Income tax expense	(23)	(9)	(130)
Net (loss) income	(470)	258	312
Less: Income attributable to noncontrolling interest	(5)	(2)	(5)
Net (loss) income attributable to Warner Music Group Corp.	$ (475)	$ 256	$ 307
(a) Includes depreciation expense of:	$ (71)	$ (61)	$ (55)
Net (loss) income per share attributable to common stockholders:			
Class A – Basic and Diluted	$ (0.82)	$ —	$ —
Class B – Basic and Diluted	$ (0.95)	$ 0.51	$ 0.61
Weighted average common shares:			
Class A – Basic and Diluted	26,897,115	—	—
Class B – Basic and Diluted	477,624,846	501,991,944	502,630,835

See accompanying notes

Warner Music Group Corp.

Consolidated Statements of Comprehensive Income (Loss)

	Fiscal Year Ended September 30,		
	2020	2019	2018
		(in millions)	
Net (loss) income	$ (470)	$ 258	$ 312
Other comprehensive income (loss), net of tax:			
Foreign currency adjustment	37	(34)	(13)
Deferred (loss) gain on derivative financial instruments	(21)	(11)	3
Minimum pension liability	2	(5)	1
Other comprehensive income (loss), net of tax	18	(50)	(9)
Total comprehensive (loss) income	(452)	208	303
Less: Income attributable to noncontrolling interest	(5)	(2)	(5)
Comprehensive (loss) income attributable to Warner Music Group Corp.	$ (457)	$ 206	$ 298

See accompanying notes

Warner Music Group Corp.

Consolidated Statements of Cash Flows

	Fiscal Year Ended September 30,		
	2020	2019	2018
		(in millions)	
Cash flows from operating activities			
Net (loss) income	$ (470)	$ 258	$ 312
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	261	269	261
Unrealized losses (gains) and remeasurement of foreign-denominated loans and foreign currency forward exchange contracts	54	(28)	(3)
Deferred income taxes	(57)	(68)	66
Loss on extinguishment of debt	34	7	31
Net (gain) loss on divestitures and investments	(2)	(20)	(389)
Non-cash interest expense	5	6	6
Non-cash stock-based compensation expense	608	50	62
Changes in operating assets and liabilities:			
Accounts receivable, net	18	(90)	(43)
Inventories	(2)	3	(3)
Royalty advances	(108)	(110)	31
Accounts payable and accrued liabilities	(32)	3	82
Royalty payables	36	130	22
Accrued interest	(4)	3	(10)
Operating lease liabilities	(3)	—	—
Deferred revenue	114	(4)	(4)
Other balance sheet changes	11	(9)	4
Net cash provided by operating activities	463	400	425
Cash flows from investing activities			
Acquisition of music publishing rights and music catalogs, net	(40)	(41)	(14)
Capital expenditures	(85)	(104)	(74)
Investments and acquisitions of businesses, net of cash received	(94)	(231)	(23)
Proceeds from the sale of investments	—	—	516
Net cash (used in) provided by investing activities	(219)	(376)	405
Cash flows from financing activities			
Proceeds from issuance of 3.875% Senior Secured Notes due 2030	535	—	—
Proceeds from issuance of 2.750% Senior Secured Notes due 2028	365	—	—
Proceeds from issuance of 3.000% Senior Secured Notes due 2031	550	—	—
Repayment of 5.000% Senior Secured Notes due 2023	(300)	—	—
Repayment of 4.875% Senior Secured Notes due 2024	(220)	—	—
Repayment of 4.125% Senior Secured Notes due 2024	(349)	—	—
Partial repayment of Senior Term Loan Facility due 2023	(506)	—	—
Proceeds from issuance of Acquisition Corp. 5.500% Senior Notes	—	—	325
Proceeds from supplement of Acquisition Corp. Senior Term Loan Facility	—	—	320
Proceeds from issuance of Acquisition Corp. 3.625% Senior Secured Notes	—	514	—
Repayment of Acquisition Corp. 4.125% Senior Secured Notes	—	(40)	—
Repayment of Acquisition Corp. 4.875% Senior Secured Notes	—	(30)	—
Repayment of Acquisition Corp. 5.625% Senior Secured Notes	—	(247)	—
Repayment of and redemption deposit for Acquisition Corp. 6.750% Senior Notes	—	—	(635)
Call premiums paid and deposit on early redemption of debt	(23)	(5)	(23)
Deferred financing costs paid	(17)	(7)	(12)
Distribution to noncontrolling interest holder	(7)	(3)	(5)
Dividends paid	(344)	(94)	(925)
Net cash (used in) provided by financing activities	(316)	88	(955)
Effect of exchange rate changes on cash and equivalents	6	(7)	(8)
Net (decrease) increase in cash and equivalents	(66)	105	(133)
Cash and equivalents at beginning of period	619	514	647
Cash and equivalents at end of period	$ 553	$ 619	$ 514

See accompanying notes

Warner Music Group Corp.

Consolidated Statements of (Deficit) Equity

	Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Warner Music Group Corp. (Deficit) Equity	Non-controlling Interest	Total (Deficit) Equity
	Shares	Value	Shares	Value						
	(in millions, except share and per share data)									
Balances at September 30, 2017	—	$ —	503,392,885	$ 1	$ 1,127	$ (654)	$ (181)	$ 293	$ 15	$ 308
Net income	—	—	—	—	—	307	—	307	5	312
Other comprehensive loss, net of tax	—	—	—	—	—	—	(9)	(9)	—	(9)
Dividends ($1.84 per Class B share)	—	—	—	—	—	(925)	—	(925)	—	(925)
Distribution to noncontrolling interest holders	—	—	—	—	—	—	—	—	(6)	(6)
Other	—	—	(1,400,941)	—	—	—	—	—	—	—
Balances at September 30, 2018	—	$ —	501,991,944	$ 1	$ 1,127	$ (1,272)	$ (190)	$ (334)	$ 14	$ (320)
Cumulative effect of ASC 606 adoption	—	—	—	—	—	139	—	139	11	150
Net income	—	—	—	—	—	256	—	256	2	258
Other comprehensive loss, net of tax	—	—	—	—	—	—	(50)	(50)	—	(50)
Dividends ($0.59 per Class B share)	—	—	—	—	—	(300)	—	(300)	—	(300)
Distribution to noncontrolling interest holders	—	—	—	—	—	—	—	—	(3)	(3)
Other	—	—	3,838,078	—	—	—	—	—	(4)	(4)
Balances at September 30, 2019	—	$ —	505,830,022	$ 1	$ 1,127	$ (1,177)	$ (240)	$ (289)	$ 20	$ (269)
Cumulative effect of ASC 842 adoption	—	—	—	—	—	7	—	7	—	7
Net loss	—	—	—	—	—	(475)	—	(475)	5	(470)
Other comprehensive loss, net of tax	—	—	—	—	—	—	18	18	—	18
Dividends ($0.12 per Class A share and $0.27 per Class B share)	—	—	—	—	—	(137)	—	(137)	—	(137)
Stock-based compensation expense	—	—	—	—	11	—	—	11	—	11
Distribution to noncontrolling interest holders	—	—	—	—	—	—	—	—	(7)	(7)
Cumulative effect of ASC 718 accounting policy change	—	—	—	—	—	33	—	33	—	33
Modification of stock-based compensation plan	—	—	—	—	769	—	—	769	—	769
Shares listed through IPO	88,550,000	—	(88,550,000)	—	—	—	—	—	—	—
Shares issued under Omnibus Incentive Plan	28,361	—	—	—	—	—	—	—	—	—
Other	—	—	4,169,978	—	—	—	—	—	—	—
Balances at September 30, 2020	88,578,361	$ —	421,450,000	$ 1	$ 1,907	$ (1,749)	$ (222)	$ (63)	$ 18	$ (45)

See accompanying notes

1. Description of Business

Warner Music Group Corp. (the "Company") was formed on November 21, 2003. The Company is the direct parent of WMG Holdings Corp. ("Holdings"), which is the direct parent of WMG Acquisition Corp. ("Acquisition Corp."). Acquisition Corp. is one of the world's major music entertainment companies.

Acquisition of Warner Music Group by Access Industries

Pursuant to the Agreement and Plan of Merger, dated as of May 6, 2011 (the "Merger Agreement"), by and among the Company, AI Entertainment Holdings LLC (formerly Airplanes Music LLC), a Delaware limited liability company ("Parent") and an affiliate of Access Industries, Inc., and Airplanes Merger Sub, Inc., a Delaware corporation and a wholly owned subsidiary of Parent ("Merger Sub"), on July 20, 2011 (the "Merger Closing Date"), Merger Sub merged with and into the Company with the Company surviving as a wholly owned subsidiary of Parent (the "Merger"). In connection with the Merger, the Company delisted its common stock from the New York Stock Exchange (the "NYSE").

The Company continued to voluntarily file with the U.S. Securities and Exchange Commission (the "SEC") current and periodic reports that would be required to be filed with the SEC pursuant to Section 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") as provided for in certain covenants contained in the instruments covering its outstanding indebtedness.

Initial Public Offering

On June 5, 2020, the Company completed an initial public offering ("IPO") of 77,000,000 shares of Class A common stock of the Company, par value $0.001 per share ("Class A Common Stock") at a public offering price of $25 per share. The Company listed these shares on the NASDAQ stock market under the ticker symbol "WMG." The offering consisted entirely of secondary shares sold by Access Industries, LLC (collectively with its affiliates, "Access") and certain related selling stockholders. On July 7, 2020, the Company completed the sale of an additional 11,550,000 shares of Class A Common Stock from the selling stockholders to the underwriters of the Company's IPO pursuant to the exercise by the underwriters of their option to purchase additional shares of Class A Common Stock. The Company did not receive any of the proceeds of the IPO or exercise of the underwriters' option.

Following the completion of the IPO and the exercise in full of the underwriters' option to purchase additional shares, Access and its affiliates held an aggregate of 421,450,000 shares of Class B common stock of the Company, par value $0.001 per share ("Class B Common Stock"), representing approximately 99% of the total combined voting power of the Company's outstanding common stock and approximately 83% of the economic interest. As a result, the Company is a "controlled company" within the meaning of the corporate governance standards of NASDAQ. See Item 1A. Risk Factors — Risks Related to Our Controlling Stockholder.

Recorded Music Operations

Our Recorded Music business primarily consists of the discovery and development of recording artists and the related marketing, promotion, distribution, sale and licensing of music created by such recording artists. We play an integral role in virtually all aspects of the recorded music value chain from discovering and developing talent to producing, distributing and selling music to marketing and promoting recording artists and their music.

In the United States, our Recorded Music business is conducted principally through our major record labels—Atlantic Records and Warner Records. In October 2018, we launched Elektra Music Group in the United States as a standalone label group, which comprises the Elektra, Fueled by Ramen and Roadrunner labels. Our Recorded Music business also includes Rhino Entertainment, a division that specializes in marketing our recorded music catalog through compilations, reissuances of previously released music and video titles and releasing previously unreleased material from our vault. We also conduct our Recorded Music business through a collection of additional record labels including Asylum, Big Beat, Canvasback, East West, Erato, FFRR, Nonesuch, Parlophone, Reprise, Sire, Spinnin' Records, Warner Classics and Warner Music Nashville.

Outside the United States, our Recorded Music business is conducted in more than 70 countries through various subsidiaries, affiliates and non-affiliated licensees. Internationally, we engage in the same activities as in the United States: discovering and signing artists and distributing, selling, marketing and promoting their music. In most cases, we also market, promote, distribute and sell the music of those recording artists for whom our domestic record labels have international rights. In certain smaller markets, we license the right to distribute and sell our music to non-affiliated third-party record labels.

Our Recorded Music business' distribution operations include Warner-Elektra-Atlantic Corporation ("WEA Corp."), which markets, distributes and sells music and video products to retailers and wholesale distributors; Alternative Distribution Alliance ("ADA"), which markets, distributes and sells the products of independent labels to retail and wholesale distributors; and various distribution centers and ventures operated internationally.

In addition to our music being sold in physical retail outlets, our music is also sold in physical form to online physical retailers, such as amazon.com, barnesandnoble.com and bestbuy.com, and distributed in digital form to an expanded universe of digital partners, including streaming services such as those of Amazon, Apple, Deezer, SoundCloud, Spotify, Tencent Music Entertainment Group and YouTube, radio services such as iHeart Radio and SiriusXM and download services.

We have integrated the marketing of digital content into all aspects of our business, including artists and repertoire ("A&R") and distribution. Our business development executives work closely with A&R departments to ensure that while music is being produced, digital assets are also created with all distribution channels in mind, including streaming services, social networking sites, online portals and music-centered destinations. We also work side-by-side with our online and mobile partners to test new concepts. We believe existing and new digital businesses will be a significant source of growth and will provide new opportunities to successfully monetize our assets and create new revenue streams. The proportion of digital revenues attributable to each distribution channel varies by region and proportions may change as the introduction of new technologies continues. As one of the world's largest music entertainment companies, we believe we are well positioned to take advantage of growth in digital distribution and emerging technologies to maximize the value of our assets.

We have diversified our revenues beyond our traditional businesses by entering into expanded-rights deals with recording artists in order to partner with such artists in other aspects of their careers. Under these agreements, we provide services to and participate in recording artists' activities outside the traditional recorded music business such as touring, merchandising and sponsorships. We have built and acquired artist services capabilities and platforms for marketing and distributing this broader set of music-related rights and participating more widely in the monetization of the artist brands we help create. We believe that entering into expanded-rights deals and enhancing our artist services capabilities in areas such as merchandising, VIP ticketing, fan clubs, concert promotion and management has permitted us to diversify revenue streams and capitalize on other revenue opportunities. This provides for improved long-term relationships with our recording artists and allows us to more effectively connect recording artists and fans.

Music Publishing Operations

While Recorded Music is focused on marketing, promoting, distributing and licensing a particular recording of a musical composition, Music Publishing is an intellectual property business focused on generating revenue from uses of the musical composition itself. In return for promoting, placing, marketing and administering the creative output of a songwriter, or engaging in those activities for other rightsholders, our Music Publishing business garners a share of the revenues generated from use of the musical compositions.

The operations of our Music Publishing business are conducted principally through Warner Chappell Music, our global music publishing company headquartered in Los Angeles, with operations in over 70 countries through various subsidiaries, affiliates, and non-affiliated licensees and sub-publishers. We own or control rights to more than one million musical compositions, including numerous pop hits, American standards, folk songs and motion picture and theatrical compositions. Assembled over decades, our award-winning catalog includes over 80,000 songwriters and composers and a diverse range of genres including pop, rock, jazz, classical, country, R&B, hip-hop, rap, reggae, Latin, folk, blues, symphonic, soul, Broadway, techno, alternative and gospel. Warner Chappell Music also administers the music and soundtracks of several third-party television and film producers and studios. We have an extensive production music catalog collectively branded as Warner Chappell Production Music.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP"). In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included.

The Company maintains a 52-53 week fiscal year ending on the last Friday in each reporting period. The fiscal year ended September 30, 2020 ended on September 25, 2020, the fiscal year ended September 30, 2019 ended on September 27, 2019 and the fiscal year ended September 30, 2018 ended on September 28, 2018. For convenience purposes, the Company continues to date its financial statements as of September 30.

Basis of Consolidation

The accompanying financial statements present the consolidated accounts of all entities in which the Company has a controlling voting interest and/or variable interest required to be consolidated in accordance with U.S. GAAP. All intercompany balances and transactions have been eliminated.

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 810, *Consolidation* ("ASC 810") requires the Company first evaluate its investments to determine if any investments qualify as a variable interest entity ("VIE"). A VIE is consolidated if the Company is deemed to be the primary beneficiary of the VIE, which is the party involved with the VIE that has both (i) the power to control the most significant activities of the VIE and (ii) either the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. If an entity is not deemed to be a VIE, the Company consolidates the entity if the Company has a controlling voting interest.

Common Stock

On February 28, 2020, the Company amended its certificate of incorporation to increase its authorized capital stock to 2,100,000,000 shares, consisting of 1,000,000,000 shares of Class A Common Stock, 1,000,000,000 shares of Class B Common Stock, and 100,000,000 shares of preferred stock, par value $1.00 per share. In addition, the February 28, 2020 amendment to the Company's certificate of incorporation also gave effect to the reclassification and 477,242.614671815-for-1 stock split of the Company's existing common stock outstanding into 510,000,000 shares of Class B Common Stock. This stock split has been retrospectively presented throughout the financial statements. Upon completion of the IPO and the exercise in full of the underwriters' option to purchase additional shares, 88,550,000 shares of Class A Common Stock, 421,450,000 shares of Class B Common Stock and no shares of preferred stock were outstanding. The Company has also issued 28,361 shares under the Warner Music Group Corp. 2020 Omnibus Incentive Plan as of September 30, 2020. See Note 13, Stock-Based Compensation Plans.

Earnings per Share

The consolidated statements of operations present basic and diluted earnings per share ("EPS"). Prior to the completion of the IPO, basic and diluted earnings (loss) per share were computed by dividing net income (loss) available to common stockholders by the weighted average number of outstanding common shares less shares issued for the exercise of the deferred equity units since these units were mandatorily redeemable in cash. As such, the deferred equity units were excluded from the denominator of the basic and diluted EPS calculation prior to the IPO completion.

Subsequent to the completion of the IPO, the Company utilizes the two-class method to report earnings (loss) per share. The two-class method is an earnings (loss) allocation formula that determines earnings (loss) per share for each class of common stock according to dividends declared and participation rights in undistributed earnings (losses). Undistributed earnings allocated to participating securities are subtracted from net income in determining net income attributable to common stockholders. Since there was a loss for the fiscal year ended September 30, 2020, no earnings were allocated to our participating securities or our post-modification deferred equity units that are no longer mandatorily redeemable in cash after the IPO. See also Note 3, Earnings Per Share.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. Actual results could differ from those estimates.

Business Combinations

The Company accounts for its business acquisitions under the FASB ASC Topic 805, *Business Combinations* ("ASC 805") guidance for business combinations. The total cost of acquisitions is allocated to the underlying identifiable net assets based on their respective estimated fair values. The excess of the purchase price over the estimated fair values of the net assets acquired is recorded as goodwill. Determining the fair value of assets acquired and liabilities assumed requires management's judgment and often involves the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, asset lives and market multiples, among other items.

Cash and Equivalents

The Company considers all highly liquid investments with maturities of three months or less at the date of purchase to be cash equivalents. The Company includes checks outstanding at year end as a component of accounts payable, instead of a reduction in its cash balance where there is not a right of offset in the related bank accounts.

Accounts Receivable

Credit is extended to customers based upon an evaluation of the customer's financial condition. Accounts receivable are recorded at net realizable value.

Refund Liabilities and Allowance for Doubtful Accounts

Management's estimate of Recorded Music physical products that will be returned, and the amount of receivables that will ultimately be collected is an area of judgment affecting reported revenues and operating income. In determining the estimate of physical product sales that will be returned, management analyzes vendor sales of product, historical return trends, current economic conditions, changes in customer demand and commercial acceptance of the Company's products. Based on this information, management reserves a percentage of each dollar of physical product sales that provide the customer with the right of return. The provision for such sales returns is reflected as a reduction in the revenues from the related sale.

Similarly, the Company monitors customer credit risk related to accounts receivable. Significant judgments and estimates are involved in evaluating if such amounts will ultimately be fully collected. On an ongoing basis, the Company tracks customer exposure based on news reports, ratings agency information, reviews of customer financial data and direct dialogue with customers. Counterparties that are determined to be of a higher risk are evaluated to assess whether the payment terms previously granted to them should be modified. The Company also monitors payment levels from customers, and a provision for estimated uncollectible amounts is maintained based on such payment levels, historical experience, management's views on trends in the overall receivable agings and, for larger accounts, analyses of specific risks on a customer-specific basis.

Concentration of Credit Risk

Customer credit risk represents the potential for financial loss if a customer is unwilling or unable to meet its agreed upon contractual payment obligations. As of September 30, 2020 and September 30, 2019, Spotify represented 16% and 13%, respectively, of the Company's accounts receivable balance. No other single customer accounted for more than 10% of accounts receivable in either period. The Company, by policy, routinely assesses the financial strength of its customers. As such, the Company does not believe there is any significant collection risk.

In the Music Publishing business, the Company collects a significant portion of its royalties from copyright collecting societies around the world. Collecting societies and associations generally are not-for-profit organizations that represent composers, songwriters and music publishers. These organizations seek to protect the rights of their members by licensing, collecting license fees and distributing royalties for the use of the members' works. Accordingly, the Company does not believe there is any significant collection risk from such societies.

Inventories

Inventories consist of merchandise, vinyl, CDs, DVDs and other related music products. Inventories are stated at the lower of cost or estimated realizable value. Cost is determined using first-in, first-out ("FIFO") and average cost methods, which approximate cost under the FIFO method. Returned goods included in inventory are valued at estimated realizable value, but not in excess of cost.

Derivative and Financial Instruments

The Company accounts for these investments as required by the FASB ASC Topic 815, *Derivatives and Hedging* ("ASC 815"), which requires that all derivative instruments be recognized on the balance sheet at fair value. ASC 815 also provides that, for derivative instruments that qualify for hedge accounting, changes in the fair value are either (a) offset against the change in fair value of the hedged assets, liabilities or firm commitments through earnings or (b) recognized in equity until the hedged item is recognized in earnings, depending on whether the derivative is being used to hedge changes in fair value or cash flows. In addition, the ineffective portion of a derivative's change in fair value is immediately recognized in earnings.

The carrying value of the Company's financial instruments approximates fair value, except for certain differences relating to long-term, fixed-rate debt (see Note 19) and other financial instruments that are not significant. The fair value of financial instruments is generally determined by reference to market values resulting from trading on a national securities exchange or an over-the-counter market. In cases where quoted market prices are not available, fair value is based on estimates using present value or other valuation techniques.

Property, Plant and Equipment

Property, plant and equipment acquired in conjunction with business combinations are recorded at fair value. All other additions are recorded at historical cost. Depreciation is calculated using the straight-line method based upon the estimated useful lives of depreciable assets commencing at the date assets are placed in service as follows: five to seven years for furniture and fixtures, periods of up to five years for computer equipment and software and periods of up to thirteen years for machinery and equipment. Buildings are depreciated over periods of up to forty years. Leasehold improvements are depreciated over the life of the lease or estimated useful lives of the improvements, whichever period is shorter.

The Company accounts for costs incurred to develop or purchase computer software for internal use in accordance with FASB ASC Subtopic 350-40, *Internal-Use Software* ("ASC 350-40"). As required by ASC 350-40, the Company capitalizes the costs incurred during the application development stage, which include costs to design the software configuration and interfaces, coding, installation, and testing.

Accounting for Goodwill and Other Intangible Assets

In accordance with FASB ASC Topic 350, *Intangibles—Goodwill and Other* ("ASC 350"), the Company accounts for business combinations using the acquisition method of accounting and accordingly, the assets and liabilities of the acquired entities are recorded at their estimated fair values at the acquisition date. Goodwill represents the excess of the purchase price over the fair value of net assets, including the amount assigned to identifiable intangible assets. Pursuant to this guidance, the Company does not amortize the goodwill balance and instead, performs an annual impairment test to assess the fair value of goodwill over its carrying value. Identifiable intangible assets with finite lives are amortized over their useful lives.

Goodwill is tested annually for impairment on July 1 and at any time upon occurrence of certain events or changes in circumstances. ASC 350 gives an entity the option to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit or intangible asset is less than its carrying amount. If an entity determines it is not more likely than not that the fair value of a reporting unit or intangible asset is less than its carrying amount, then performing the quantitative impairment test is unnecessary. However, if an entity concludes otherwise, then the quantitative impairment test shall be used to identify the impairment and measure the amount of an impairment loss to be recognized (if applicable).

The Company performs an annual impairment test of its indefinite-lived intangible assets as of July 1 of each fiscal year, unless events occur which trigger the need for an earlier impairment test. The Company has the option to perform a qualitative assessment to determine if an impairment is more likely than not to have occurred. In the qualitative assessment, the Company must evaluate the totality of qualitative factors, including any recent fair value measurements, that impact whether an indefinite-lived intangible asset other than goodwill has a carrying amount that more likely than not exceeds its fair value. The Company must proceed to conduct a quantitative analysis if the Company (i) determines that such an impairment is more likely than not to exist or (ii) forgoes the qualitative assessment entirely.

The impairment tests require management to make assumptions about future conditions impacting the value of the indefinite-lived intangible assets, including projected growth rates, cost of capital, effective tax rates, tax amortization periods, royalty rates, market share and others.

Valuation of Long-Lived Assets

The Company periodically reviews the carrying value of its long-lived assets, including finite-lived intangibles, property, plant and equipment and amortizable intangible assets, whenever events or changes in circumstances indicate that the carrying value may not be recoverable or that the lives assigned may no longer be appropriate. To the extent the estimated future cash inflows attributable to the asset, less estimated future cash outflows, are less than the carrying amount, an impairment loss is recognized in an amount equal to the difference between the carrying value of such asset and its fair value. Assets to be disposed of and for which there is a committed plan to dispose of the assets, whether through sale or abandonment, are reported at the lower of carrying value or fair value less costs to sell. If it is determined that events and circumstances warrant a revision to the remaining period of amortization, an asset's remaining useful life would be changed, and the remaining carrying amount of the asset would be amortized prospectively over that revised remaining useful life.

Foreign Currency Translation

The financial position and operating results of substantially all foreign operations are consolidated using the local currency as the functional currency. Local currency assets and liabilities are translated at the rates of exchange on the balance sheet date, and local currency revenues and expenses are translated at average rates of exchange during the period. Resulting translation gains or losses are included in the accompanying consolidated statements of (deficit) equity as a component of accumulated other comprehensive loss.

Revenues

Recorded Music

As required by FASB ASC Topic 606, *Revenue from Contracts with Customers* ("ASC 606"), the Company recognizes revenue when, or as, control of the promised services or goods is transferred to our customers and in an amount that reflects the consideration the Company is contractually due in exchange for those services or goods. The Company adopted ASC 606 as of October 1, 2018 using the modified retrospective method to all contracts not completed as of the date of adoption.

Revenues from the sale or license of Recorded Music products through digital distribution channels are typically recognized when sale or usage occurs based on usage reports received from the customer. These licenses typically contain a single performance obligation, which is ongoing access to all intellectual property in an evolving content library, predicated on: (1) the business practice and contractual ability to remove specific content without a requirement to replace the content and without impact to minimum royalty guarantees and (2) the contracts not containing a specific listing of content subject to the license. For certain licenses where the consideration is fixed and the intellectual property being licensed is static, revenue is recognized at the point in time when control of the licensed content is transferred to the customer.

Revenues from the sale of Recorded Music products through digital distribution channels are typically recognized when sale or usage occurs based on usage reports received from the customer. Certain contracts contain non-recoupable fixed fees or minimum guarantees, which are recoupable against royalties. Upon contract inception, the Company will assess whether a shortfall or breakage is expected (i.e., where the minimum guarantee will not be recouped through royalties) in order to determine timing of revenue recognition for the fixed fee or minimum guarantee.

For fixed fee and minimum guarantee contracts where breakage is expected, the total transaction price (fixed fee or minimum guarantee) is typically recognized using an appropriate measure of progress over the contractual term. The Company updates its assessment of the transaction price each reporting period to see if anticipated royalty earnings exceed the minimum guarantee. For contracts where breakage is not expected, royalties are recognized as revenue as sales or usage occurs based upon the licensee's usage reports and, when these reports are not available, revenue is based on historical data, industry information and other relevant trends.

Music Publishing

Music Publishing revenues are earned from the receipt of royalties relating to the licensing of rights in musical compositions and the sale of published sheet music and songbooks. The receipt of royalties principally relates to amounts earned from the public performance of musical compositions, the mechanical reproduction of musical compositions on recorded media including digital formats and the use of musical compositions in synchronization with visual images. Music publishing royalties, except for synchronization royalties, generally are recognized when the sale or usage occurs. The most common form of consideration for publishing contracts is sales- and usage-based royalties. The collecting societies submit usage reports, typically with payment for royalties due, often on a quarterly or biannual reporting period, in arrears. Royalties are recognized as the sale or usage occurs based upon usage reports and, when these reports are not available, royalties are estimated based on historical data, such as recent royalties reported, company-specific information with respect to changes in repertoire, industry information and other relevant trends. Synchronization revenue is typically recognized as revenue when control of the license is transferred to the customer in accordance with ASC 606. See also Note 4, Revenue Recognition.

Royalty Costs and Royalty Advances

The Company incurs royalty costs that are payable to our recording artists and songwriters generated from the sale or license of our Recorded Music catalog and Music Publishing copyrights. Royalties are calculated using negotiated rates in accordance with recording artist and songwriter contracts. Calculations are based on revenue earned or user/usage measures or a combination of these. There are instances where such data is not available to be processed and royalty cost calculations may be complex or involve judgments about significant volumes of data to be processed and analyzed.

In many instances, the Company commits to pay our recording artists and songwriters royalties in advance of future sales. The Company accounts for these advances under the related guidance in FASB ASC Topic 928, *Entertainment—Music* ("ASC 928"). Under ASC 928, the Company capitalizes as assets certain advances that it believes are recoverable from future royalties to be earned by the recording artist or songwriter. Recoverability is assessed upon initial commitment of the advance based upon the Company's forecast of anticipated revenue from the sale of future and existing albums or musical compositions. In determining whether the advance is recoverable, the Company evaluates the current and past popularity of the recording artist or songwriter, the sales history of the recording artist or songwriter, the initial or expected commercial acceptability of the product, the current and past popularity of the genre of music that the product is designed to appeal to, and other relevant factors. Advances vary in both amount and expected life based on the underlying recording artist or songwriter. To the extent that a portion of an outstanding advance is no longer deemed recoverable, that amount will be expensed in the period the determination is made.

Advertising

As required by the FASB ASC Subtopic 720-35, *Advertising Costs* ("ASC 720-35"), advertising costs, including costs to produce music videos used for promotional purposes, are expensed as incurred. Advertising expense amounted to approximately $115 million, $108 million and $104 million for the fiscal years ended September 30, 2020, September 30, 2019 and September 30, 2018, respectively. Deferred advertising costs, which principally relate to advertisements that have been paid for but not been exhibited or services that have not been received, were not material for all periods presented.

Stock-Based Compensation

The Company accounts for stock-based payments as required by ASC 718, *Compensation—Stock Compensation* ("ASC 718"). Under the recognition provision of ASC 718, the Company's liability classified stock-based compensation costs are measured each reporting date until settlement. In February 2020, the Company filed a Form S-1 registration statement with the SEC in connection with the IPO, which required a change in accounting policy during the three months ended March 31, 2020 from the intrinsic value method to fair value method in determining the basis of measurement of its stock-based compensation liability.

In determining fair value, the Company utilized an option pricing model for those awards with an option-like pay-off, which includes various inputs for volatility, term to exit, discount for lack of marketability, expected dividend yield and risk-free rates. For awards with an equity-like pay-off, inputs for discount of lack of marketability and non-performance risk were considered. The Company continued to use an income approach using a discounted cash flow model to determine its per-share value input within the model. As a result of this change in accounting policy, the Company recorded a decrease to its stock-based compensation liability of $38 million as of March 31, 2020, which resulted in a decrease of $33 million, net of tax, to accumulated deficit for the fiscal year ended September 30, 2020.

Upon completion of the IPO in June 2020, the Senior Management Free Cash Flow Plan (the "Plan") was amended to remove the cash-settlement feature on all future redemptions. As a result, all awards previously issued under the Plan will require settlement in Class A Common Stock. The participants in such plan were also allowed to sell a pro rata portion, consistent with Access's percentage reduction in shares of Class B Common Stock as a result of the IPO, of their vested profits interests and acquired units of the LLC holding company, Management LLC, in the IPO through a "tag-along right."

Under the provision of ASC 718, the Company determined the Plan was modified as of June 3, 2020, and as such, converted the awards from liability-classified to equity-classified. Prior to conversion, the Company performed a final measurement of its stock-based compensation liability under the fair value method. The final measurement utilized the IPO listing price of $25 per share as the per-share value input within its fair value model. Upon modification of the Plan, the Company reclassified a $769 million stock-based compensation liability to additional paid-in capital, which included $57 million associated with the awards settled through the IPO tag-along right on June 5, 2020. In addition, the Company recognized approximately $11 million of stock-based compensation expense for the period of June 3, 2020 through September 30, 2020 for its unvested share awards that were granted prior to the IPO, which is included in additional paid-in capital.

Income Taxes

Income taxes are provided using the asset and liability method presented by FASB ASC Topic 740, *Income Taxes* ("ASC 740"). Under this method, income taxes (i.e., deferred tax assets, deferred tax liabilities, taxes currently payable/refunds receivable and tax expense) are recorded based on amounts refundable or payable in the current fiscal year and include the results of any differences between U.S. GAAP and tax reporting. Deferred income taxes reflect the tax effect of net operating loss, capital loss and general business credit carryforwards and the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial statements and income tax purposes, as determined under enacted tax laws and rates. Valuation allowances are established when management determines that it is more likely than not that some portion or the entire deferred tax asset will not be realized. The financial effect of changes in tax laws or rates is accounted for in the period of enactment. On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act"). In accordance with ASC 740, the Company recorded the impacts in the period of enactment.

From time to time, the Company engages in transactions in which the tax consequences may be subject to uncertainty. Significant judgment is required in assessing and estimating the tax consequences of these transactions. The Company prepares and files tax returns based on its interpretation of tax laws and regulations. In the normal course of business, the Company's tax returns are subject to examination by various taxing authorities. Such examinations may result in future tax and interest assessments by these taxing authorities. In determining the Company's tax provision for financial reporting purposes, the Company establishes a reserve for uncertain tax positions unless such positions are determined to be more likely than not of being sustained upon examination based on their technical merits. There is considerable judgment involved in determining whether positions taken on the Company's tax returns are more likely than not of being sustained.

New Accounting Pronouncements

<u>Recently Adopted Accounting Pronouncements</u>

In February 2016, the FASB issued ASU 2016-02, *Leases* ("ASU 2016-02"), which established a new ASC Topic 842 ("ASC 842") that introduces a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases are classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. In July 2018, the FASB issued ASU 2018-11, *Leases – Targeted Improvements* ("ASU 2018-11"), which allows for retrospective application with the recognition of a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Under this option, entities do not need to apply ASC 842 (along with its disclosure requirements) to the comparative prior periods presented. The Company adopted ASU 2016-02 on October 1, 2019, using the modified retrospective transition method provided by ASU 2018-11. The adoption of ASU 2016-02 resulted in the recognition of operating lease liabilities of $366 million and ROU assets of $297 million, which is net of the historical deferred rent liability balance of $69 million, primarily related to real estate leases. The Company also recorded a decrease to opening accumulated deficit of $7 million, net of taxes, related to previously deferred gains related to sale-leaseback transactions.

Upon transition, the Company adopted the "package of three" practical expedient provided by ASC 842 and therefore has not (1) reassessed whether any expired or existing contracts are or contain a lease, (2) reassessed the lease classification for expired or existing leases and (3) reassessed initial direct costs for any existing leases. Rather, the Company will retain the conclusions reached for these items under ASC 840.

In August 2017, the FASB issued ASU 2017-12, *Targeted Improvements to Accounting for Hedging Activities* ("ASU 2017-12"). This ASU improves certain aspects of the hedge accounting model including making more risk management strategies eligible for hedge accounting and simplifying the assessment of hedge effectiveness. ASU 2017-12 is effective for all annual periods beginning after December 15, 2018 and interim periods within those fiscal years. Early adoption is permitted and requires a prospective adoption with a cumulative-effect adjustment to accumulated deficit as of the beginning of the fiscal year of adoption for existing hedging relationships. The Company adopted ASU 2017-12 in the first quarter of fiscal 2020 and this adoption did not have a significant impact on the Company's financial statements.

<u>Accounting Pronouncements Not Yet Adopted</u>

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses: Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13 requires that expected credit losses relating to financial assets measured on an amortized cost basis and available-for-sale debt securities be recorded through an allowance for credit losses. ASU 2016-13 limits the amount of credit losses to be recognized for available-for-sale debt securities to the amount by which carrying value exceeds fair value and also requires the reversal of previously recognized credit losses if fair value increases. ASU 2016-13 will be effective for annual periods beginning after December 15, 2019, and interim periods within those fiscal years. The Company will adopt ASU 2016-13 beginning October 1, 2020 and this adoption is not expected to have a material impact on the Company's financial statements.

In December 2019, the FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes* ("ASU 2019-12"). This ASU eliminates certain exceptions to the general principles in ASC 740, Income Taxes. Specifically, it eliminates the exception to (1) the incremental approach for intraperiod tax allocation when there is a loss from continuing operations, and income or a gain from other items; (2) the requirement to recognize a deferred tax liability for equity method investments when a foreign subsidiary becomes an equity method investment; (3) the ability not to recognize a deferred tax liability for a foreign subsidiary when a foreign equity method investment becomes a subsidiary; and (4) the general methodology for calculating income taxes in an interim period when a year-to-date loss exceeds the anticipated loss for the year. ASU 2019-12 also simplifies U.S. GAAP by making other changes. ASU 2019-12 will be effective for the annual periods beginning after December 15, 2021, and for interim periods beginning after December 15, 2022. Earlier adoption is permitted. The Company is evaluating the impact of the adoption of this standard on its consolidated financial statements.

3. Earnings per Share

Basic earnings (loss) per share is computed by dividing net income (loss) available to each class of stock by the weighted average number of outstanding common shares for each class of stock. Diluted earnings (loss) per share is computed by dividing net income (loss) available to each class of stock by the weighted average number of outstanding common shares, plus dilutive potential common shares, which is calculated using the treasury-stock method. Under the treasury-stock method, potential common shares are excluded from the computation of EPS in periods in which they have an anti-dilutive effect. The potential dilutive effects of our deferred equity units, shares issued under the Omnibus Incentive Plan, and Class B Common Stock under an if-converted method have been excluded from the Class A Common Stock diluted earnings (loss) per share calculation since their effects would be anti-dilutive due to the net loss attributable to Class A Common Stock for the fiscal year ended September 30, 2020. The Company did not have any dilutive securities for the fiscal years ended September 30, 2019 or September 30, 2018.

In computing earnings (loss) per share subsequent to the completion of our IPO, the Company has allocated dividends declared to Class A Common Stock and Class B Common Stock based on timing and amounts actually declared for each class of stock and the undistributed earnings (losses) have been allocated to Class A Common Stock and Class B Common Stock pro rata on a basic weighted average shares outstanding basis since the two classes of stock participate equally on a per share basis upon liquidation. Prior to the completion of the IPO in fiscal 2020, the Company declared two dividends of $37.5 million each, for a total amount of $75 million, on December 26, 2019 and March 25, 2020, respectively, which were allocated solely to Class B Common Stock as there was no outstanding Class A Common Stock at the time these dividends were declared. While Class A and Class B Common Stock have the same dividend rights, the allocation of all dividends declared prior to the IPO to Class B Common Stock has resulted in a different earnings (loss) per share for the two classes of common stock for the fiscal year ended September 30, 2020.

Subsequent to the completion of the IPO, and modification of our stock-based compensation awards as described in Note 2, the Class B Common Stock issued to Management LLC for the exercise of the vested deferred equity units is included in the basic weighted average number of outstanding shares of Class B Common Stock. Upon issuance to the participants in the Plan, the Class B Common Stock will be converted into Class A Common Stock and included in the basic weighted average number of outstanding shares of Class A Common Stock. Since the shares expected to satisfy the vested portion of the deferred equity units are already included in the basic weighted average number of outstanding common shares, there is no potential dilutive effect associated with the vested portion of these stock-based compensation awards.

The following table sets forth the calculation of basic and diluted net income (loss) per common share under the two-class method (in millions, except share and per share data):

	Fiscal Year Ended September 30,					
	2020		2019		2018	
	Class A	Class B	Class A	Class B	Class A	Class B
Basic and Diluted EPS:						
Numerator						
Net (loss) income attributable to Warner Music Group Corp.	$ (21)	$ (454)	$ —	$ 256	$ —	$ 307
Less: Net income attributable to participating securities	(1)	—	—	—	—	—
Net (loss) income attributable to common stockholders	$ (22)	$ (454)	$ —	$ 256	$ —	$ 307
Denominator						
Weighted average shares outstanding	26,897,115	477,624,846	0	501,991,944	0	502,630,835
Basic and Diluted EPS	$ (0.82)	$ (0.95)	$ —	$ 0.51	$ —	$ 0.61

4. Revenue Recognition

For our operating segments, Recorded Music and Music Publishing, the Company accounts for a contract when it has legally enforceable rights and obligations and collectability of consideration is probable. The Company identifies the performance obligations and determines the transaction price associated with the contract, which is then allocated to each performance obligation, using management's best estimate of standalone selling price for arrangements with multiple performance obligations. Revenue is recognized when, or as, control of the promised services or goods is transferred to the Company's customers, and in an amount that reflects the consideration the Company is contractually due in exchange for those services or goods. An estimate of variable consideration is included in the transaction price if, in the Company's judgment, it is probable that a significant future reversal of cumulative revenue under the contract will not occur. Certain of the Company's arrangements include licenses of intellectual property with consideration in the form of sales- and usage-based royalties. Royalty revenue is recognized when the subsequent sale or usage occurs using the best estimates available of the amounts that will be received by the Company.

Disaggregation of Revenue

The Company's revenue consists of the following categories, which aggregate into the segments – Recorded Music and Music Publishing:

	Fiscal Year Ended September 30,		
	2020	2019	2018
		(in millions)	
Revenue by Type			
Digital	$ 2,568	$ 2,343	$ 2,019
Physical	434	559	630
Total Physical and Digital	3,002	2,902	2,649
Artist services and expanded-rights	525	629	389
Licensing	283	309	322
Total Recorded Music	3,810	3,840	3,360
Performance	142	183	212
Digital	337	271	237
Mechanical	48	55	72
Synchronization	119	120	119
Other	11	14	13
Total Music Publishing	657	643	653
Intersegment eliminations	(4)	(8)	(8)
Total Revenues	$ 4,463	$ 4,475	$ 4,005
Revenue by Geographical Location			
U.S. Recorded Music	$ 1,609	$ 1,656	$ 1,460
U.S. Music Publishing	325	300	294
Total U.S.	1,934	1,956	1,754
International Recorded Music	2,201	2,184	1,900
International Music Publishing	332	343	359
Total International	2,533	2,527	2,259
Intersegment eliminations	(4)	(8)	(8)
Total Revenues	$ 4,463	$ 4,475	$ 4,005

Recorded Music

Recorded Music mainly involves selling, marketing, distribution and licensing of recorded music produced by the Company's recording artists. Recorded Music revenues are derived from four main sources, which include digital, physical, artist services and expanded-rights and licensing.

Digital revenues are generated from the expanded universe of digital partners, including digital streaming services and download services. These licenses typically contain a single performance obligation, which is ongoing access to all intellectual property in an evolving content library, predicated on: (1) the business practice and contractual ability to remove specific content without a requirement to replace the content and without impact to minimum royalty guarantees and (2) the contracts not containing a specific listing of content subject to the license. Digital licensing contracts are generally long-term with consideration in the form of sales- and usage-based royalties that are typically received monthly. Certain contracts contain non-recoupable fixed fees or minimum guarantees, which are recoupable against royalties. Upon contract inception, the Company will assess whether a shortfall or breakage is expected (i.e., where the minimum guarantee will not be recouped through royalties) in order to determine timing of revenue recognition for the fixed fee or minimum guarantee.

For fixed fee and minimum guarantee contracts where breakage is expected, the total transaction price (fixed fee or minimum guarantee) is recognized proportionately over the contract term using an appropriate measure of progress which is typically based on the Company's digital partner's subscribers or streaming activity as these are measures of access to an evolving catalog, or on a straight-line basis. The Company updates its assessment of the transaction price each reporting period to see if anticipated royalty earnings exceed the minimum guarantee. For contracts where breakage is not expected, royalties are recognized as revenue as sales or usage occurs based upon the licensee's usage reports and, when these reports are not available, revenue is based on historical data, industry information and other relevant trends.

Additionally, for certain licenses where the consideration is fixed and the intellectual property being licensed is static, revenue is recognized at the point in time when control of the licensed content is transferred to the customer.

Physical revenues are generated from the sale of physical products such as vinyl, CDs and DVDs. Revenues from the sale of physical Recorded Music products are recognized upon transfer of control to the customer, which typically occurs once the product has been shipped and the ability to direct use and obtain substantially all of the benefit from the asset have been transferred. In accordance with industry practice and as is customary in many territories, certain products, such as CDs and DVDs, are sold to customers with the right to return unsold items. Revenues from such sales are generally recognized upon shipment based on gross sales less a provision for future estimated returns.

Artist services and expanded-rights revenues are generated from artist services businesses and participations in expanded-rights associated with artists, including merchandising, touring, concert promotion, ticketing, sponsorship, fan clubs, artist websites and artist and brand management. Artist services and expanded-rights contracts are generally short term. Revenue is recognized as or when services are provided (e.g., at time of an artist's event) assuming collectability is probable. In some cases, the Company is reliant on the artist to report revenue generating activities. For certain artist services and expanded-rights contracts, collectability is not considered probable until notification is received from the artist's management.

Licensing revenues represent royalties or fees for the right to use sound recordings in combination with visual images such as in films or television programs, television commercials and video games. In certain territories, the Company may also receive royalties when sound recordings are performed publicly through broadcast of music on television, radio and cable and in public spaces such as shops, workplaces, restaurants, bars and clubs. Licensing contracts are generally short term. For fixed-fee contracts, revenue is recognized at the point in time when control of the licensed content is transferred to the customer. Royalty based contracts are recognized as the underlying sales or usage occurs.

Music Publishing

Music Publishing acts as a copyright owner and/or administrator of the musical compositions and generates revenues related to the exploitation of musical compositions (as opposed to recorded music). Music publishers generally receive royalties from the use of the musical compositions in public performances, digital and physical recordings and in combination with visual images. Music publishing revenues are derived from five main sources: mechanical, performance, synchronization, digital and other.

Performance revenues are received when the musical composition is performed publicly through broadcast of music on television, radio and cable and in retail locations (e.g. bars and restaurants), live performance at a concert or other venue (e.g., arena concerts and nightclubs) and performance of musical compositions in staged theatrical productions. Digital revenues are generated with respect to the musical compositions being embodied in recordings licensed to digital streaming services and digital download services and for digital performance. Mechanical revenues are generated with respect to the musical compositions embodied in recordings sold in any physical format or configuration such as vinyl, CDs and DVDs. Synchronization revenues represent the right to use the composition in combination with visual images such as in films or television programs, television commercials and video games as well as from other uses such as in toys or novelty items and merchandise. Other revenues represent earnings for use in printed sheet music and other uses. Digital and synchronization revenue recognition is similar for both Recorded Music and Music Publishing, therefore refer to the discussion within Recorded Music.

Included in these revenue streams, excluding synchronization and other, are licenses with performing rights organizations or collecting societies (e.g., ASCAP, BMI, SESAC and GEMA), which are long-term contracts containing a single performance obligation, which is ongoing access to all intellectual property in an evolving content library. The most common form of consideration for these contracts is sales- and usage-based royalties. The collecting societies submit usage reports, typically with payment for royalties due, often on a quarterly or biannual reporting period, in arrears. Royalties are recognized as the sale or usage occurs based upon usage reports and, when these reports are not available, royalties are estimated based on historical data, such as recent royalties reported, company-specific information with respect to changes in repertoire, industry information and other relevant trends. Also included in these revenue streams are smaller, short-term contracts for specified content, which generally involve a fixed fee. For fixed-fee contracts, revenue is recognized at the point in time when control of the license is transferred to the customer.

The Company excludes from the measurement of transaction price all taxes assessed by governmental authorities that are both (i) imposed on and concurrent with a specific revenue-producing transaction and (ii) collected from customers.

Sales Returns and Uncollectible Accounts

In accordance with practice in the recorded music industry and as customary in many territories, certain physical revenue products (such as CDs and DVDs) are sold to customers with the right to return unsold items. Revenues from such sales are recognized when the products are shipped based on gross sales less a provision for future estimated returns.

In determining the estimate of physical product sales that will be returned, management analyzes vendor sales of product, historical return trends, current economic conditions, changes in customer demand and commercial acceptance of the Company's products. Based on this information, management reserves a percentage of each dollar of physical product sales that provide the customer with the right of return and records an asset for the value of the returned goods and liability for the amounts expected to be refunded.

Similarly, management evaluates accounts receivables to determine if they will ultimately be collected. In performing this evaluation, significant judgments and estimates are involved, including an analysis of specific risks on a customer-by-customer basis for larger accounts and customers and a receivables aging analysis that determines the percent that has historically been uncollected by aged category. The time between the Company's issuance of an invoice and payment due date is not significant; customer payments that are not collected in advance of the transfer of promised services or goods are generally due no later than 30 days from invoice date. Based on this information, management provides a reserve for the estimated amounts believed to be uncollectible.

Based on management's analysis of sales returns, refund liabilities of $24 million and $23 million were established at September 30, 2020 and September 30, 2019, respectively.

Based on management's analysis of uncollectible accounts, reserves of $23 million and $17 million were established at September 30, 2020 and September 30, 2019, respectively.

Principal versus Agent Revenue Recognition

The Company reports revenue on a gross or net basis based on management's assessment of whether the Company acts as a principal or agent in the transaction. The determination of whether the Company acts as a principal or an agent in a transaction is based on an evaluation of whether the Company controls the good or service before transfer to the customer. When the Company concludes that it controls the good or service before transfer to the customer, the Company is considered a principal in the transaction and records revenue on a gross basis. When the Company concludes that it does not control the good or service before transfer to the customer but arranges for another entity to provide the good or service, the Company acts as an agent and records revenue on a net basis in the amount it earns for its agency service.

In the normal course of business, the Company distributes music content on behalf of third-party record labels. Based on the above guidance, the Company records the distribution of content of third-party record labels on a gross basis, subject to the terms of the contract, as the Company controls the content before transfer to the customer. Conversely, recorded music compilations distributed by other record companies where the Company has a right to participate in the profits are recorded on a net basis.

Deferred Revenue

Deferred revenue principally relates to fixed fees and minimum guarantees received in advance of the Company's performance or usage by the licensee. Reductions in deferred revenue are a result of the Company's performance under the contract or usage by the licensee.

Deferred revenue increased by $527 million during the fiscal year ended September 30, 2020 related to cash received from customers for fixed fees and minimum guarantees in advance of performance, including amounts recognized in the period. Revenues of $157 million were recognized during the fiscal year ended September 30, 2020 related to the balance of deferred revenue at October 1, 2018. There were no other significant changes to deferred revenue during the reporting period.

Performance Obligations

The Company recognized revenue of $42 million and $51 million from performance obligations satisfied in previous periods for the fiscal years ended September 30, 2020 and September 30, 2019, respectively.

Wholly and partially unsatisfied performance obligations represent future revenues not yet recorded under long-term intellectual property licensing contracts containing fixed fees, advances and minimum guarantees. Revenues expected to be recognized in the future related to performance obligations that are unsatisfied at September 30, 2020 are as follows:

	FY21	FY22	FY23	Thereafter	Total
			(in millions)		
Remaining performance obligations	$ 888	$ 73	$ 1	$ —	$ 962
Total	$ 888	$ 73	$ 1	$ —	$ 962

5. Acquisition of EMP

On October 10, 2018, Warner Music Group Germany Holding GmbH ("WMG Germany"), a limited liability company under the laws of Germany and an indirect subsidiary of Warner Music Group Corp., closed its previously announced acquisition (the "Acquisition") of certain shares of E.M.P. Merchandising Handelsgesellschaft mbH, a limited liability company under the laws of Germany, all of the share capital of MIG Merchandising Investment GmbH, a limited liability company under the laws of Germany ("MIG"), certain shares of Large Popmarchandising BVBA, a limited liability company under the laws of Belgium ("Large") and each of EMP Merchandising Handelsgesellschaft mbH and MIG's direct and indirect subsidiaries (the "Subsidiaries" and, together with EMP Merchandising Handelsgesellschaft mbH, MIG and Large, "EMP") from funds associated with Sycamore Partners, pursuant to the Sale and Purchase Agreement, dated as of September 11, 2018, by and between SP Merchandising Holding GmbH & Co. KG, a limited partnership under the laws of Germany, and WMG Germany ("Acquisition Agreement"). The cash consideration paid at closing of the Acquisition was approximately €166 million, which reflects an agreed enterprise value of EMP of approximately €155 million (equivalent to approximately $180 million), as adjusted for, among other items, net debt and estimates of working capital of EMP. The final purchase price paid was determined to be €165 million after finalization of purchase price adjustments, including working capital and other items.

The Acquisition was accounted for in accordance with ASC 805, using the acquisition method of accounting. The assets and liabilities of EMP, including identifiable intangible assets, have been measured at their fair value primarily using Level 3 inputs (see Note 19 for additional information on fair value inputs). Determining the fair value of the assets acquired and liabilities assumed requires judgment and involved the use of significant estimates and assumptions, including assumptions with respect to future cash inflows and outflows, discount rates, asset useful lives and market multiples, among other items. The use of different estimates and judgments could yield materially different results.

The excess of the purchase price, over the fair value of net assets acquired, including the amount assigned to identifiable intangible assets and deferred tax adjustments, has been recorded to goodwill. The resulting goodwill has been allocated to the Company's Recorded Music reportable segment. The recognized goodwill will not be deductible for income tax purposes. Any impairment charges made in future periods associated with goodwill will not be tax deductible.

The table below presents (i) the Acquisition consideration as it relates to the acquisition of EMP by WMG Germany and (ii) the allocation of the purchase price to the estimated fair values of the assets acquired and liabilities assumed on the closing date of October 10, 2018 (in millions):

Purchase Price	€	155
Working Capital		10
Final Purchase Price	€	165
Foreign Currency Rate at October 10, 2018		1.15
Final Purchase Price in U.S. dollars	$	190
Fair value of assets acquired and liabilities assumed		
Cash and equivalents	$	7
Accounts receivable, net		3
Inventories		37
Other current assets		5
Property plant and equipment		32
Intangible assets		81
Accounts payable		(18)
Other current liabilities		(11)
Deferred revenue		(7)
Deferred tax liabilities		(25)
Other noncurrent liabilities		(3)
Fair value of assets acquired and liabilities assumed		101
Goodwill recorded		89
Total purchase price allocated	$	190

During fiscal 2019, the Company performed a preliminary allocation in the first and third quarters, which was finalized as of September 30, 2019. The acquisition accounting was based on final determinations of fair value and allocations of purchase price to the identifiable assets and liabilities acquired, including determination of the final working capital adjustment made pursuant to the mechanism set forth in the Acquisition Agreement.

Pro Forma Financial Information

The following unaudited pro forma information has been presented as if the Acquisition occurred on October 1, 2017. This information is based on historical results of operations, adjusted to give effect to pro forma events that are (i) directly attributable to the Acquisition; (ii) factually supportable; and (iii) expected to have a continuing impact on the Company’s combined results. The pro forma information as presented below is for informational purposes only and is not indicative of the results of operations that would have been achieved if the Acquisition had taken place at the beginning of fiscal 2018.

	Fiscal Year Ended September 30, 2019	Fiscal Year Ended September 30, 2018
	(in millions)	
Revenue	$ 4,480	$ 4,239
Operating income	356	215
Net income attributable to Warner Music Group Corp.	256	304

Actual results related to EMP included in the consolidated statement of operations for the fiscal year ended September 30, 2019 relate to the transition period from October 10, 2018 to September 30, 2019 and consist of revenues of $240 million and operating income of $8 million.

6. Comprehensive Income (Loss)

Comprehensive income (loss), which is reported in the accompanying consolidated statements of (deficit) equity, consists of net income and other gains and losses affecting equity that, under U.S. GAAP, are excluded from net income. For the Company, the components of other comprehensive income (loss) primarily consist of foreign currency translation gains and losses, minimum pension liabilities, and deferred gains and losses on financial instruments designated as hedges under ASC 815, which include foreign exchange contracts. The following summary sets forth the changes in the components of accumulated other comprehensive loss, net of related tax benefit of approximately $7 million:

	Foreign Currency Translation Loss (a)	Minimum Pension Liability Adjustment	Deferred Gains (Losses) On Derivative Financial Instruments	Accumulated Other Comprehensive Loss, net
		(in millions)		
Balances at September 30, 2017	$ (171)	$ (10)	$ —	$ (181)
Other comprehensive loss	(13)	1	3	(9)
Balances at September 30, 2018	$ (184)	$ (9)	$ 3	$ (190)
Other comprehensive loss	(34)	(5)	(11)	(50)
Balances at September 30, 2019	$ (218)	$ (14)	$ (8)	$ (240)
Other comprehensive income	37	2	(21)	18
Balances at September 30, 2020	$ (181)	$ (12)	$ (29)	$ (222)

(a) Includes historical foreign currency translation related to certain intra-entity transactions.

7. Property, Plant and Equipment

Property, plant and equipment consist of the following:

	September 30, 2020	September 30, 2019
	(in millions)	
Land	$ 12	$ 12
Buildings and improvements	179	186
Furniture and fixtures	31	25
Computer hardware and software	371	337
Construction in progress	64	20
Machinery and equipment	29	27
Gross Property, Plant and Equipment	$ 686	$ 607
Less: Accumulated depreciation	(355)	(307)
Net Property, Plant and Equipment	$ 331	$ 300

Depreciation Expense

During the fiscal year ended September 30, 2020, the Company recorded depreciation expense of $71 million, which included a one-time charge of $10 million representing the difference between the net book value of a building and its recoverable value.

8. Leases

The Company's lease portfolio consists operating real estate leases for its corporate offices and, to a lesser extent, storage and other equipment. Under ASC 842, a contract is or contains a lease when (1) an explicitly or implicitly identified asset has been deployed in the contract and (2) the customer obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Company determines if an arrangement is or contains a lease at inception of the contract. For all leases (finance and operating), other than those that qualify for the short-term recognition exemption, the Company will recognize on the balance sheet a lease liability for its obligation to make lease payments arising from the lease and a corresponding ROU asset representing its right to use the underlying asset over the period of use based on the present value of lease payments over the lease term as of the lease commencement date. ROU assets are adjusted for initial direct costs, lease payments made and incentives. As the rates implicit in our leases are not readily determinable, the Company uses its incremental borrowing rate based on the information available at the lease commencement date in determining the present value of lease payments. This rate is based on the estimated rate of interest for collateralized borrowing over a similar term of the lease payments. The lease term used to calculate the lease liability will include options to extend or terminate the lease when the option to extend or terminate is at the Company's discretion and it is reasonably certain that the Company will exercise the option. Fixed payments are recognized as lease expense on a straight-line basis over the lease term. For leases with a term of one year or less ("short-term leases"), the lease payments are recognized in the consolidated statements of operations on a straight-line basis over the lease term.

ASC 842 requires that only limited types of variable payments be included in the determination of lease payments, which affects lease classification and measurement. Variable lease costs, if any, are recognized as incurred and such costs are excluded from lease balances recorded on the consolidated balance sheet. The initial measurement of the lease liability and ROU asset are determined based on fixed lease payments. Lease payments that depend on an index or a rate (such as the Consumer Price Index or a market interest rate) are variable and recognized in the period in which the payments are incurred.

The Company's operating ROU assets are included in operating lease right-of-use assets and the Company's current and non-current operating lease liabilities are included in operating lease liabilities, current and operating lease liabilities, noncurrent, respectively, in the Company's balance sheet.

Operating lease liabilities are amortized using the effective interest method. That is, in each period, the liability will be increased to reflect the interest that is accrued on the related liability by using the appropriate discount rate and decreased by the lease payments made during the period. The subsequent measurement of the ROU asset is linked to the amount recognized as the lease liability. Accordingly, the ROU asset is measured as the lease liability adjusted by (1) accrued or prepaid rents (i.e., the aggregate difference between the cash payment and straight-line lease cost), (2) remaining unamortized initial direct costs and lease incentives, and (3) impairments of the ROU asset. Operating lease costs are included in Selling, general and administrative expenses.

For lease agreements that contain both lease and non-lease components, the Company has elected the practical expedient provided by ASC 842 that permits the accounting for these components as a single lease component (rather than separating the lease from the non-lease components and accounting for the components individually).

The Company enters into operating leases for buildings, office equipment, production equipment, warehouses, and other types of equipment. Our leases have remaining lease terms of 1 year to 11 years, some of which include options to extend the leases for up to 10 years, and some of which include options to terminate the leases within 1 year.

Among the Company's operating leases are its leases for the Ford Factory Building, located at 777 S. Santa Fe Avenue in Los Angeles, California, and for 27 Wrights Lane, Kensington, London. The landlord for both leases is an affiliate of Access. As of September 30, 2020, the aggregate lease liability related to these leases was $135 million. See also Note 14, Related Party Transactions.

There are no restrictions or covenants, such as those relating to dividends or incurring additional financial obligations, relating to our lease portfolio, and residual value guarantees are not significant.

The components of lease expense for the fiscal year ended September 30, 2020 were as follows (in millions):

Lease Cost		
Operating lease cost	$	53
Short-term lease cost		1
Variable lease cost		8
Sublease income		—
Total lease cost	$	62

Supplemental cash flow information related to leases for the fiscal year ended September 30, 2020 was as follows (in millions):

Cash paid for amounts included in the measurement of operating lease liabilities	$	55
Right-of-use assets obtained in exchange for operating lease obligations		14

Supplemental balance sheet information related to leases as of September 30, 2020 was as follows (in millions):

Operating Leases		
Operating lease right-of-use assets	$	273
Operating lease liabilities, current	$	39
Operating lease liabilities, noncurrent		299
Total operating lease liabilities	$	338
Weighted Average Remaining Lease Term		
Operating leases		8 years
Weighted Average Discount Rate		
Operating leases		4.58%

Maturities of lease liabilities as of September 30, 2020 were as follows (in millions):

2021	$	54
2022		53
2023		49
2024		47
2025		46
Thereafter		159
Total lease payments		408
Less imputed interest		(70)
Total	$	338

As of September 30, 2020, there have been no leases entered into that have not yet commenced.

9. Goodwill and Intangible Assets

Goodwill

The following analysis details the changes in goodwill for each reportable segment:

	Recorded Music	Music Publishing	Total
		(in millions)	
Balances at September 30, 2018	$ 1,228	$ 464	$ 1,692
Acquisitions	89	—	89
Other adjustments	(20)	—	(20)
Balances at September 30, 2019	$ 1,297	$ 464	$ 1,761
Acquisitions	47	—	47
Other adjustments	23	—	23
Balances at September 30, 2020	$ 1,367	$ 464	$ 1,831

The increase in goodwill during the fiscal year ended September 30, 2020 primarily relates to an acquisition in August 2020, which resulted in goodwill of $47 million. The increase in goodwill during the fiscal year ended September 30, 2019 primarily relates to the EMP acquisition, which resulted in an increase in goodwill of $89 million. Please refer to Note 5 of our consolidated financial statements for further discussion. The other adjustments during both the fiscal years ended September 30, 2020 and September 30, 2019 primarily represent foreign currency movements.

The Company performs its annual goodwill impairment test in accordance with ASC 350 during the fourth quarter of each fiscal year as of July 1. The Company may conduct an earlier review if events or circumstances occur that would suggest the carrying value of the Company's goodwill may not be recoverable. The performance of the annual fiscal 2020 impairment analysis did not result in an impairment of the Company's goodwill.

Intangible Assets

Intangible assets consist of the following:

	Weighted-Average Useful Life	September 30, 2020	September 30, 2019
		(in millions)	
Intangible assets subject to amortization:			
Recorded music catalog	10 years	$ 876	$ 855
Music publishing copyrights	26 years	1,597	1,539
Artist and songwriter contracts	13 years	862	841
Trademarks	16 years	81	53
Other intangible assets	6 years	84	59
Total gross intangible assets subject to amortization		3,500	3,347
Accumulated amortization		(1,847)	(1,624)
Total net intangible assets subject to amortization		1,653	1,723
Intangible assets not subject to amortization:			
Trademarks and tradenames	Indefinite	154	151
Total net intangible assets		$ 1,807	$ 1,874

The Company performs its annual indefinite-lived intangible assets impairment test in accordance with ASC 350 during the fourth quarter of each fiscal year as of July 1. The Company may conduct an earlier review if events or circumstances occur that would suggest the carrying value of the Company's indefinite-lived intangible assets may not be recoverable. The performance of the annual fiscal 2020 impairment analysis did not result in an impairment of the Company's indefinite-lived intangible assets.

Amortization

Based on the amount of intangible assets subject to amortization at September 30, 2020, the expected amortization for each of the next five fiscal years and thereafter are as follows (in millions):

2021	$ 192
2022	189
2023	152
2024	118
2025	111
Thereafter	891
Total	$ 1,653

The life of all acquired intangible assets is evaluated based on the expected future cash flows associated with the asset. The expected amortization expense above reflects estimated useful lives assigned to the Company's identifiable, finite-lived intangible assets primarily established in the accounting for the Merger and the PLG Acquisition.

10. Debt

Debt Capitalization

Long-term debt, all of which was issued by Acquisition Corp., consists of the following:

	September 30, 2020	September 30, 2019
	(in millions)	
Revolving Credit Facility (a)	$ —	$ —
Senior Term Loan Facility due 2023 (b)	814	1,313
5.000% Senior Secured Notes due 2023 (c)	—	298
4.125% Senior Secured Notes due 2024 (d)	—	336
4.875% Senior Secured Notes due 2024 (e)	—	218
3.625% Senior Secured Notes due 2026 (f)	521	488
2.750% Senior Secured Notes due 2028 (g)	375	—
3.875% Senior Secured Notes due 2030 (h)	529	—
3.000% Senior Secured Notes due 2031 (i)	544	—
5.500% Senior Notes due 2026 (j)	321	321
Total long-term debt, including the current portion (k)	$ 3,104	$ 2,974

(a) Reflects $300 million of commitments under the Revolving Credit Facility, less letters of credit outstanding of approximately $10 million and $13 million at September 30, 2020 and September 30, 2019, respectively. There were no loans outstanding under the Revolving Credit Facility at September 30, 2020 or September 30, 2019.

(b) Principal amount of $820 million and $1.326 billion less unamortized discount of $1 million and $3 million and unamortized deferred financing costs of $5 million and $10 million at September 30, 2020 and September 30, 2019, respectively. On August 12, 2020, Acquisition Corp. made a partial repayment of $506 million under the Senior Term Loan Facility.

(c) On July 14, 2020, Acquisition Corp. completed a cash tender offer for its 5.000% Senior Secured Notes due 2023, pursuant to which $244 million of the 5.000% Senior Secured Notes due 2023 were repurchased and the remaining notes were redeemed by Acquisition Corp. on August 1, 2020. The Company recorded a loss on extinguishment of debt of approximately $6 million as a result of the debt redemption, which represents the premium paid on early redemption and unamortized deferred financing costs.

(d) On June 30, 2020, Acquisition Corp. redeemed all of the outstanding aggregate principal amount, or €311 million, of its 4.125% Senior Secured Notes due 2024. The Company recorded a loss on extinguishment of debt of approximately $14 million as a result of the debt redemption, which represents the premium paid on early redemption and unamortized deferred financing costs.

(e) On June 30, 2020, Acquisition Corp. redeemed all of the outstanding aggregate principal amount, or $220 million, of its 4.875% Senior Secured Notes due 2024. The Company recorded a loss on extinguishment of debt of approximately $10 million as a result of the debt redemption, which represents the premium paid on early redemption and unamortized deferred financing costs.

(f) Face amount of €445 million at both September 30, 2020 and September 30, 2019. Above amounts represent the dollar equivalent of such notes at September 30, 2020 and September 30, 2019. Principal amount of $519 million and $487 million, an additional issuance premium of $7 million and $8 million, less unamortized deferred financing costs of $5 million and $7 million at September 30, 2020 and September 30, 2019, respectively.

(g) Face amount of €325 million at September 30, 2020. Above amounts represent the dollar equivalent of such notes at September 30, 2020. Principal amount of $379 million less unamortized deferred financing costs of $4 million at September 30, 2020.

(h) Principal amount of $535 million less unamortized deferred financing costs of $6 million at September 30, 2020.

(i) Principal amount of $550 million less unamortized deferred financing costs of $6 million at September 30, 2020.

(j) Principal amount of $325 million less unamortized deferred financing costs of $4 million at both September 30, 2020 and September 30, 2019.

(k) Principal amount of debt of $3.127 billion and $2.998 billion, an additional issuance premium of $7 million and $8 million, less unamortized discount of $1 million and $3 million and unamortized deferred financing costs of $29 million and $29 million at September 30, 2020 and September 30, 2019, respectively.

The Company is the direct parent of Holdings, which is the direct parent of Acquisition Corp. As of September 30, 2020 Acquisition Corp. had issued and outstanding the 3.625% Senior Secured Notes due 2026, the 5.500% Senior Notes due 2026, the 2.750% Senior Secured Notes due 2028, the 3.875% Senior Secured Notes due 2030 and the 3.000% Senior Secured Notes due 2031 (together, the "Acquisition Corp. Notes").

The 3.625% Senior Secured Notes due 2026 and the 5.500% Senior Notes due 2026 are guaranteed by the Company. The Company's guarantee of the Acquisition Corp. Notes is full and unconditional. All of the Acquisition Corp. Notes are guaranteed by all of Acquisition Corp.'s domestic wholly-owned subsidiaries. The guarantee of the Acquisition Corp. Notes by Acquisition Corp.'s domestic wholly-owned subsidiaries is full, unconditional and joint and several. The secured notes are guaranteed on a senior secured basis and the unsecured notes are guaranteed on an unsecured senior basis.

The Company and Holdings are holding companies that conduct substantially all of their business operations through Acquisition Corp. Accordingly, the ability of the Company and Holdings to obtain funds from their subsidiaries is restricted by the indentures for the Acquisition Corp. Notes, as well as the credit agreements for the Acquisition Corp. Senior Credit Facilities, including the Revolving Credit Facility and the Senior Term Loan Facility.

Fiscal 2020 Transactions

Revolving Credit Agreement Amendment

On April 3, 2020, Acquisition Corp. entered into an amendment (the "Second Amendment") to the Revolving Credit Agreement, dated January 31, 2018 (as amended by the amendment dated October 9, 2019), among Acquisition Corp., the several banks and other financial institutions party thereto and Credit Suisse AG, as administrative agent, governing Acquisition Corp.'s senior secured revolving credit facility (the "Revolving Credit Facility") with Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto. The Second Amendment (among other changes) (i) increases the commitments under the Revolving Credit Facility from an aggregate principal amount of $180 million to an aggregate principal amount of $300 million, (ii) extends the final maturity date of the Revolving Credit Facility from January 31, 2023 to April 3, 2025, (iii) reduces the interest margin applicable to the loans upon achievement of certain leverage ratios based on a leverage-based pricing grid, (iv) reduces the commitment fee based on a leverage-based pricing grid and limits commitment fees to be paid only on unused amounts of commitments, (v) increases the maximum letter of credit exposure permitted under the Revolving Credit Facility from $50 million to $90 million, (vi) increases the springing financial maintenance covenant from a Senior Secured Indebtedness to EBITDA Ratio of 4.75:1.00 to a Senior Secured Indebtedness to EBITDA Ratio of 5.00:1.00 and provides that the covenant shall not be tested unless at the end of a fiscal quarter the outstanding amount of loans and drawings under letters of credit which have not been reimbursed exceeds $105 million, (vii) adds covenant suspension upon achievement of an investment grade rating or a Total Indebtedness to EBITDA Ratio of 3.25:1.00, and (viii) adds certain exceptions and increases certain baskets in connection with Acquisition Corp.'s negative covenants, including those related to the incurrence of indebtedness, liens and restricted payments. The Company incurred approximately $1 million in financing fees associated with the Second Amendment which were capitalized and will be amortized over the amended term of the Revolving Credit Facility.

Redemption of 4.125% Senior Secured Notes and 4.875% Senior Secured Notes

On June 30, 2020, Acquisition Corp. redeemed in full all of the outstanding aggregate principal amount of the 4.125% Senior Secured Notes and 4.875% Senior Secured Notes, equal to €311 million aggregate principal amount of the 4.125% Senior Secured Notes and $220 million aggregate principal amount of the 4.875% Senior Secured Notes, using a portion of the proceeds from the offering of 3.875% Senior Secured Notes and 2.750% Senior Secured Notes described above. The redemption price for the 4.125% Senior Secured Notes was approximately €322 million, equivalent to 103.094% of the principal amount of the 4.125% Senior Secured Notes, plus accrued but unpaid interest thereon to, but excluding, the redemption date, which was June 30, 2020. The redemption price for the 4.875% Senior Secured Notes was approximately $230 million, equivalent to 103.656% of the principal amount of the 4.875% Senior Secured Notes, plus accrued but unpaid interest thereon to, but excluding, the redemption date, which was June 30, 2020. The Company recorded a loss on extinguishment of debt of approximately $24 million for the fiscal year ended 2020 as a result of these redemptions, which represents the premium paid on early redemption and unamortized deferred financing costs.

Tender Offer and Redemption of 5.000% Senior Secured Notes

On June 16, 2020, Acquisition Corp. announced a cash tender offer to purchase any and all of the 5.000% Senior Secured Notes. On June 30, 2020, Acquisition Corp. announced that $244 million of the aggregate principal amount of $300 million outstanding had tendered and been accepted in the tender offer. Also on June 30, 2020, Acquisition Corp. issued a notice of redemption calling the remaining outstanding 5.000% Senior Secured Notes not tendered in the tender offer for redemption on August 1, 2020. An additional $295,000 tendered and was accepted in the tender offer on July 14, 2020 and Acquisition Corp. redeemed all 5.000% Senior Secured Notes that were not tendered and accepted for purchase in the tender offer and consent solicitation on August

1, 2020 at the then-applicable redemption price of 101.250%. The Company recorded a loss on extinguishment of debt of approximately $6 million for the fiscal year ended 2020 as a result of this tender offer and redemption, which represents the premium to tender and unamortized deferred financing costs.

3.875% Senior Secured Notes and 2.750% Senior Secured Notes Offerings

On June 29, 2020, Acquisition Corp. issued and sold $535 million in aggregate principal amount of 3.875% Senior Secured Notes due 2030 (the "3.875% Senior Secured Notes") and €325 million in aggregate principal amount of 2.750% Senior Secured Notes due 2028 (the "2.750% Senior Secured Notes"). Net proceeds of the offerings were used to redeem €311 million of the 4.125% Senior Secured Notes and $220 million of the 4.875% Senior Secured Notes (as described above), constituting the redemption of all of the outstanding aggregate principal amount of the 4.125% Senior Secured Notes and the 4.875% Senior Secured Notes, and the remaining proceeds were used towards the tender offer for $300 million aggregate principal amount of 5.000% Senior Secured Notes, $244 million of which was tendered and accepted on June 29, 2020 and $295,000 of which was tendered and accepted on July 14, 2020. The remainder of the 5.000% Senior Secured Notes not tendered in the tender offer were redeemed on August 1, 2020 (as described above).

Interest on the 3.875% Senior Secured Notes will accrue at the rate of 3.875% per annum and will be payable semi-annually in arrears on January 15 and July 15, commencing on January 15, 2021. Interest on the 2.750% Senior Secured Notes will accrue at the rate of 2.750% per annum and will be payable semi-annually in arrears on January 15 and July 15, commencing on January 15, 2021.

The 3.875% Senior Secured Notes and the 2.750% Senior Secured Notes are fully and unconditionally guaranteed on a senior secured basis by each of Acquisition Corp.'s existing direct or indirect wholly-owned domestic restricted subsidiaries and by any such subsidiaries that guarantee obligations of Acquisition Corp. under its existing credit facilities, subject to customary exceptions.

The indentures governing the 3.875% Senior Secured Notes and the 2.750% Senior Secured Notes (collectively, the "New Secured Notes Indenture") do not contain many of the restrictive covenants, certain events of default and other related provisions contained in the indentures previously governing the 4.125% Senior Secured Notes and 4.875% Senior Secured Notes. The New Secured Notes Indenture contains covenants limiting, among other things, Acquisition Corp.'s ability and the ability of most of its subsidiaries to create liens and consolidate, merge, sell or otherwise dispose of all or substantially all of its assets.

3.000% Senior Secured Notes Offering

On August 12, 2020, Acquisition Corp. issued and sold $550 million in aggregate principal amount of 3.000% Senior Secured Notes due 2031 (the "3.000% Senior Secured Notes"). Net proceeds of the offering were used to repay a portion of the Senior Term Loan Facility and to pay certain other related fees and expenses. Interest on the Notes will accrue at the rate of 3.000% per annum and will be payable semi-annually in arrears on February 15 and August 15, commencing on February 15, 2021. The Company recorded a loss on extinguishment of debt of approximately $4 million which represented unamortized discount and unamortized deferred financing cost associated with the portion of the term loan repaid.

Interest on the 3.000% Senior Secured Notes will accrue at the rate of 3.000% per annum and will be payable semi-annually in arrears on February 15 and August 15, commencing on February 15, 2021.

The 3.000% Senior Secured Notes are fully and unconditionally guaranteed on a senior secured basis by each of Acquisition Corp.'s existing direct or indirect wholly-owned domestic restricted subsidiaries and by any such subsidiaries that guarantee obligations of Acquisition Corp. under its existing credit facilities, subject to customary exceptions.

The indenture governing the 3.000% Senior Secured Notes contains covenants limiting, among other things, Acquisition Corp.'s ability and the ability of most of its subsidiaries to create liens and consolidate, merge, sell or otherwise dispose of all or substantially all of its assets.

Historical Transactions

December 2017 Senior Term Loan Credit Agreement Amendment

On December 6, 2017, Acquisition Corp. entered into an amendment (the "December 2017 Senior Term Loan Credit Agreement Amendment") to the Senior Term Loan Credit Agreement, dated November 1, 2012, among Acquisition Corp., the guarantors party thereto, the lenders party thereto and Credit Suisse AG, as administrative agent, governing Acquisition Corp.'s senior secured term loan facility with Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto, to, among other things, reduce the pricing terms of its outstanding term loans, change certain incurrence thresholds governing the ability to incur debt and liens, change certain EBITDA add-backs and increase the thresholds above which the excess cash flow sweep is triggered. The Company recorded a loss on extinguishment of debt of approximately $1 million for the fiscal year ended September 30, 2018, which represented the discount and unamortized deferred financing costs related to the prior tranche of debt of the lenders that was replaced.

New Revolving Credit Agreement

On January 31, 2018, the Company entered into a new revolving credit agreement (the "Revolving Credit Agreement") for its Revolving Credit Facility, and terminated its existing revolving credit agreement (the "Old Revolving Credit Agreement"). The Revolving Credit Agreement differs from the Old Revolving Credit Agreement in that it, among other things, reduces the interest rate margin applicable to the loans, extends the maturity date thereunder, provides for the option to increase the commitments under the Company's then existing revolving credit agreement, provides for greater flexibility to amend and extend the Company's then existing revolving credit agreement and create additional tranches thereunder, provides for greater flexibility over future amendments, increases the springing financial maintenance covenant to 4.75:1.00 and provides that the covenant shall not be tested unless at the end of a fiscal quarter the outstanding amount of loans and drawings under letters of credit which have not been reimbursed exceeds $54 million and aligns the other negative covenants with those of the Senior Term Loan Credit Agreement.

March 2018 Senior Term Loan Credit Agreement Amendment

On March 14, 2018, Acquisition Corp. incurred $320 million of supplemental term loans (the "Supplemental Term Loans") pursuant to an increase supplement (the "March 2018 Senior Term Loan Credit Agreement Supplement") to the Senior Term Loan Credit Agreement, dated November 1, 2012, among Acquisition Corp., the guarantors party thereto, the lenders party thereto and Credit Suisse AG, as administrative agent, governing Acquisition Corp.'s senior secured term loan facility with Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto (as amended, the "Senior Term Loan Credit Agreement"). The principal amount outstanding under the Senior Term Loan Credit Agreement including the Supplemental Term Loans prior to the partial repayment with the proceeds of the 3.000% Senior Secured Notes offering as described above was $1.326 billion.

Notes Offering

On March 14, 2018, Acquisition Corp. issued $325 million in aggregate principal amount of its 5.500% Senior Notes due 2026. Acquisition Corp. used the net proceeds to pay the consideration in the tender offer for its 6.750% Senior Notes due 2022 (the "6.750% Senior Notes") and to redeem the remaining 6.750% Senior Notes as described below.

Tender Offer and Notes Redemption

On March 14, 2018, Acquisition Corp. accepted for purchase in connection with the tender offer for the 6.750% Senior Notes that had been validly tendered and not validly withdrawn at or prior to 5:00 p.m., New York City time on March 13, 2018 thereby reducing the aggregate principal amount of the 6.750% Senior Notes by $523 million. Acquisition Corp. then issued a notice of redemption on March 14, 2018 with respect to the remaining $112 million of 6.750% Senior Notes outstanding that were not accepted for payment pursuant to the tender offer. Following payment of the 6.750% Senior Notes tendered at or prior to the expiration time, Acquisition Corp. deposited with the Trustee funds of $119 million to satisfy all obligations under the applicable indenture governing the 6.750% Senior Notes, including call premiums and interest through the date of redemption on April 15, 2018, for the remaining 6.750% Senior Notes not accepted for purchase in the tender offer. On April 15, 2018, Acquisition Corp. redeemed the remaining outstanding 6.750% Senior Notes. The Company recorded a loss on extinguishment of debt in connection with the tender offer of approximately $23 million for the fiscal year ended September 30, 2018 as a result of the partial debt redemption, which represents the premium paid on early redemption and unamortized deferred financing costs in March 2018. The Company incurred an additional loss on extinguishment of approximately $5 million in April 2018 related to the redemption on the remaining 6.750% Senior Notes, which represents the premium paid on early redemption and unamortized deferred financing costs.

June 2018 Senior Term Loan Credit Agreement Amendment

On June 7, 2018, Acquisition Corp. entered into an amendment (the "June 2018 Senior Term Loan Credit Agreement Amendment") to the Senior Term Loan Credit Agreement, dated November 1, 2012, among Acquisition Corp., the guarantors party thereto, the lenders party thereto and Credit Suisse AG, as administrative agent, governing Acquisition Corp.'s senior secured term loan facility with Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto, to, among other things, reduce the pricing terms of its outstanding term loans, change certain incurrence thresholds governing the ability to incur debt and liens and exclude from the definition of "Senior Secured Indebtedness" certain liens that have junior lien priority on the collateral in relation to the outstanding term loans and the relevant guarantees, as applicable. The Company recorded a loss on extinguishment of debt of approximately $2 million for the fiscal year ended September 30, 2018, which represented the discount and unamortized deferred financing costs related to the prior tranche of debt of the lenders that was replaced.

3.625% Senior Secured Notes Offerings

On October 9, 2018, Acquisition Corp. issued and sold €250 million in aggregate principal amount of 3.625% Senior Secured Notes due 2026 (the "3.625% Secured Notes"). Net proceeds of the offering were used to pay the purchase price of the acquisition of EMP, to redeem €34.5 million of the 4.125% Secured Notes (as described below), purchase $30 million of Acquisition Corp.'s 4.875% Senior Secured Notes (as described above) on the open market and to redeem $26.55 million of the 5.625% Senior Secured Notes (as described below).

On April 30, 2019, Acquisition Corp. issued and sold €195 million in aggregate principal amount of additional 3.625% Senior Secured Notes due 2026 (the "Additional Notes"). The Additional Notes and the 3.625% Secured Notes were treated as the same series for all purposes under the indenture that governs the 3.625% Secured Notes and the Additional Notes. Net proceeds of the offering were used to redeem all of the 5.625% Secured Notes due 2022.

Partial Redemption of 4.125% Senior Secured Notes

On October 12, 2018, Acquisition Corp. redeemed €34.5 million aggregate principal amount of its 4.125% Senior Secured Notes due 2024 (the "4.125% Secured Notes") using a portion of the proceeds from the offering of the 3.625% Secured Notes described above. The redemption price for the 4.125% Secured Notes was approximately €36.17 million, equivalent to 103% of the principal amount of the 4.125% Secured Notes, plus accrued but unpaid interest thereon to, but excluding, the redemption date, which was October 12, 2018. Following the partial redemption of the 4.125% Secured Notes, €311 million of the 4.125% Secured Notes remain outstanding. The Company recorded a loss on extinguishment of debt of approximately $2 million for the fiscal year ended September 30, 2019, which represents the premium paid on early redemption and unamortized deferred financing costs related to the partial redemption of this note.

Open Market Purchase

On October 9, 2018, Acquisition Corp. purchased, in the open market, $30 million aggregate principal amount of its outstanding 4.875% Senior Secured Notes due 2024 (the "4.875% Secured Notes"). The acquired notes were subsequently retired. Following retirement of the acquired notes, $220 million of the 4.875% Secured Notes remain outstanding. The Company recorded a loss on extinguishment of debt of less than $1 million for the fiscal year ended September 30, 2019, which represents the unamortized deferred financing costs related to the open market purchase.

Redemption of 5.625% Senior Secured Notes

On November 5, 2018, Acquisition Corp. redeemed $26.55 million aggregate principal amount of its 5.625% Senior Secured Notes due 2022 (the "5.625% Secured Notes"). The redemption price for the 5.625% Secured Notes was approximately $27.38 million, equivalent to 102.813% of the principal amount of the 5.625% Secured Notes, plus accrued but unpaid interest thereon to, but excluding, the redemption date, which was November 5, 2018. Following the partial redemption of the 5.625% Secured Notes, $220.95 million of the 5.625% Secured Notes remain outstanding. The Company recorded a loss on extinguishment of debt of approximately $1 million for the fiscal year ended September 30, 2019, which represents the premium paid on early redemption and unamortized deferred financing costs related to the partial redemption of this note.

On April 16, 2019, Acquisition Corp. issued a conditional notice of redemption for all of its 5.625% Secured Notes due 2022 currently outstanding. Settlement of the called 5.625% Secured Notes occurred on May 16, 2019. The Company recorded a loss on extinguishment of debt of approximately $4 million for the fiscal year ended September 30, 2019, which represents the premium paid on early redemption and unamortized deferred financing costs.

Interest Rates

The loans under the Revolving Credit Facility bear interest at Acquisition Corp.'s election at a rate equal to (i) the rate for deposits in the borrowing currency in the London interbank market (adjusted for maximum reserves) for the applicable interest period ("Revolving LIBOR") subject to a zero floor, plus 1.75% per annum in the case of Initial Revolving Loans (as defined in the Revolving Credit Agreement), or 1.875% per annum in the case of 2020 Revolving Loans (as defined in the Revolving Credit Agreement), or (ii) the base rate, which is the highest of (x) the corporate base rate established by the administrative agent from time to time, (y) 0.50% in excess of the overnight federal funds rate and (z) the one-month Revolving LIBOR plus 1.0% per annum, plus, in each case, 0.75% per annum in the case of Initial Revolving Loans, or 0.875% per annum in the case of 2020 Revolving Loans; provided that, in respect of 2020 Revolving Loans, the applicable margin with respect to such loans is subject to adjustment as set forth in the pricing grid in the Revolving Credit Agreement. Based on the Senior Secured Indebtedness to EBITDA Ratio of 3.05x at September 30, 2020, the applicable margin for Eurodollar loans would be 1.625% instead of 1.875% and the applicable margin for ABR loans would be 0.625% instead of 0.875% in the case of 2020 Revolving Loans. If there is a payment default at any time, then the interest rate applicable to overdue principal will be the rate otherwise applicable to such loan plus 2.0% per annum. Default interest will also be payable on other overdue amounts at a rate of 2.0% per annum above the amount that would apply to an alternative base rate loan.

The loans under the Senior Term Loan Facility bear interest at Acquisition Corp.'s election at a rate equal to (i) the rate for deposits in U.S. dollars in the London interbank market (adjusted for maximum reserves) for the applicable interest period ("Term Loan LIBOR") subject to a zero floor, plus 2.125% per annum or (ii) the base rate, which is the highest of (x) the corporate base rate established by the administrative agent as its prime rate in effect at its principal office in New York City from time to time, (y) 0.50% in excess of the overnight federal funds rate and (z) one-month Term Loan LIBOR, plus 1.00% per annum, plus, in each case, 1.125% per annum. If there is a payment default at any time, then the interest rate applicable to overdue principal and interest will be the rate otherwise applicable to such loan plus 2.0% per annum. Default interest will also be payable on other overdue amounts at a rate of 2.0% per annum above the amount that would apply to an alternative base rate loan.

The Company has entered into, and in the future may enter into, interest rate swaps to manage interest rate risk. Please refer to Note 16 of our consolidated financial statements for further discussion.

Maturity of Senior Term Loan Facility

The loans outstanding under the Senior Term Loan Facility mature on November 1, 2023.

Maturity of Revolving Credit Facility

The maturity date of the Revolving Credit Facility is April 3, 2025.

Maturities of Senior Notes and Senior Secured Notes

As of September 30, 2020, there are no scheduled maturities of notes until 2026, when $844 million is scheduled to mature. Thereafter, $1.463 billion is scheduled to mature.

Interest Expense, net

Total interest expense, net was $127 million, $142 million and $138 million for the fiscal years ended September 30, 2020, September 30, 2019 and September 30, 2018, respectively. The weighted-average interest rate of the Company's total debt was 3.7% at September 30, 2020, 4.3% at September 30, 2019 and 4.7% at September 30, 2018.

11. Income Taxes

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act ("Tax Act"). The Tax Act contains significant revisions to U.S. federal corporate income tax provisions, including, but not limited to, a reduction of the U.S. federal corporate statutory tax rate from 35% to 21%, a one-time transition tax on accumulated foreign earnings, an income inclusion of global intangible low-taxed income ("GILTI"), a deduction against foreign-derived intangible income ("FDII") and a new minimum tax, the base erosion anti-abuse tax ("BEAT"). In accordance with ASC 740, the Company recorded the effects of the Tax Act during the three months ended December 31, 2017.

The reduction in U.S. federal corporate statutory tax rate from 35% to 21% was effective January 1, 2018. The Tax Act requires companies with a fiscal year that begins before and ends after the effective date of the rate change to calculate a blended tax rate based on the pro rata number of days in the fiscal year before and after the effective date. As a result, for the fiscal year ending September 30, 2018, the Company's U.S. federal statutory income tax rate was 24.5%. For the fiscal years ending September 30, 2020 and 2019, the Company was subject to the U.S. federal corporate statutory tax rate of 21%.

The reduction in the U.S. federal corporate statutory tax rate required the Company to adjust its U.S. deferred tax assets and liabilities using the newly enacted tax rate of 21%. As a result, the Company recorded a U.S. income tax expense of $23 million for the reduction of its net U.S. deferred tax assets for the fiscal year ended September 30, 2018.

The Company has not recorded any income tax liability related to the one-time transition tax on accumulated foreign earnings ("Transition Tax") due to an overall deficit in accumulated foreign earnings. GILTI, FDII and BEAT are effective for the Company's fiscal year ending September 30, 2019. The Company has elected to recognize the GILTI impact in the specific period in which it occurs.

The domestic and foreign pretax (loss) income from continuing operations is as follows:

	Fiscal Year Ended September 30,		
	2020	2019	2018
		(in millions)	
Domestic	$ (655)	$ 84	$ 347
Foreign	208	183	95
(Loss) income before income taxes	$ (447)	$ 267	$ 442

Current and deferred income tax expense provided are as follows:

	Fiscal Year Ended September 30,		
	2020	2019	2018
		(in millions)	
Federal:			
Current	$ 3	$ —	$ —
Deferred	(28)	(49)	91
Foreign:			
Current (a)	74	74	58
Deferred	(28)	(18)	(26)
U.S. State:			
Current	3	3	6
Deferred	(1)	(1)	1
Income tax expense	$ 23	$ 9	$ 130

(a) Includes withholding taxes of $15 million, $17 million and $15 million for the fiscal years ended September 30, 2020, 2019 and 2018, respectively.

The differences between the U.S. federal statutory income tax rate of 21.0%, 21.0% and 24.5% for the fiscal years ended September 30, 2020, 2019 and 2018, respectively, and income taxes provided are as follows:

	Fiscal Year Ended September 30,		
	2020	2019	2018
		(in millions)	
Taxes on income at the U.S. federal statutory rate	$ (94)	$ 56	$ 108
U.S. state and local taxes	2	2	7
Foreign income taxed at different rates, including withholding taxes	10	16	19
Increase in valuation allowance	1	1	4
Release of valuation allowance	(38)	(65)	(14)
Change in tax rates	4	(4)	23
Impact of GILTI and FDII	2	(4)	—
Intergroup transfer	—	—	(30)
IPO Costs	22	—	—
Executive Compensation	2	—	—
Non-deductible long term incentive plan	112	6	8
Other	—	1	5
Income tax expense	$ 23	$ 9	$ 130

During the fiscal year ended September 30, 2020, the Company recognized a net U.S. tax benefit of $25 million primarily related to the release of a U.S. deferred tax valuation allowance of $33 million offset by a write-off of expiring foreign tax credits of $10 million and a tax benefit of $15 million for the release of valuation allowances in Japan and various foreign jurisdictions. During the fiscal year ended September 30, 2019, the Company recognized a U.S. tax benefit of $59 million related to the release of valuation allowance on U.S. foreign tax credits. During the fiscal year ended September 30, 2018, the Company recognized a U.S. tax expense of $23 million related to the reductions of net U.S. deferred tax assets as a result of the Tax Act.

For the fiscal years ended September 30, 2020 and September 30, 2019, the Company incurred losses in certain foreign territories and has offset the tax benefit associated with these losses with a valuation allowance as the Company has determined that it is more likely than not that these losses will not be utilized. For the fiscal year ended September 30, 2020 and September 30, 2019, the Company released $33 million and $59 million, respectively of the U.S. valuation allowance related to foreign tax credit carryforwards. Significant components of the Company's net deferred tax liabilities are summarized below:

	September 30, 2020	September 30, 2019
	(in millions)	
Deferred tax assets:		
Allowances and reserves	$ 30	$ 27
Employee benefits and compensation	80	79
Other accruals	19	17
Tax attribute carryforwards	168	203
Other	22	3
Total deferred tax assets	319	329
Less: Valuation allowance	(45)	(91)
Deferred tax assets, net of valuation allowance	274	238
Deferred tax liabilities:		
Intangible assets	(369)	(372)
Total deferred tax liabilities	(369)	(372)
Net deferred tax liabilities	$ (95)	$ (134)

During the fiscal year ended September 30, 2020, as a result of final regulations regarding the interest expense allocation rules issued by the Internal Revenue Service in December of 2019, the Company concluded that it is more likely than not that the entire amount of the Company's deferred tax assets related to foreign tax credits carryforwards in the U.S. will be realized. The current levels of pre-tax income are sufficient to generate the minimum amount of future taxable income needed to support U.S. deferred tax assets realization. In the fiscal year ended September 30, 2019, the Company concluded that the positive evidence relating to the utilization of foreign tax credits outweighs the negative evidence with respect to a portion of the valuation allowance on its foreign tax credit carryovers and released $59 million of its valuation allowance.

At September 30, 2020, the Company has no remaining U.S. federal tax net operating loss carryforwards. The Company also has tax net operating loss carryforwards, with no expiration date, in France and Spain of $78 million and $29 million, respectively, and other tax net operating loss carryforwards in state, local and foreign jurisdictions that expire in various periods. In addition, the Company has foreign tax credit carryforwards for U.S. tax purposes of $94 million. The U.S. foreign tax credits will begin to expire in fiscal year 2021.

Deferred income taxes have not been recorded on indefinitely reinvested earnings of certain foreign subsidiaries of approximately $234 million at September 30, 2020. Distribution of these earnings may result in foreign withholding taxes and U.S. state taxes. However, variables existing if and when remittance occurs make it impracticable to estimate the amount of the ultimate tax liability, if any, on these accumulated foreign earnings.

The Company classifies interest and penalties related to uncertain tax position as a component of income tax expense. As of September 30, 2020 and September 30, 2019, the Company had accrued $4 million and $3 million of interest and penalties, respectively.

A reconciliation of the beginning and ending amount of unrecognized tax benefits, including interest and penalties, are as follows (in millions):

Balance at September 30, 2017	$	19
Additions for current year tax positions		3
Additions for prior year tax positions		3
Subtractions for prior year tax positions		(7)
Balance at September 30, 2018	$	18
Additions for prior year tax positions		1
Subtractions for prior year tax positions		(7)
Balance at September 30, 2019	$	12
Additions for prior year tax positions		3
Subtractions for prior year tax positions		(3)
Balance at September 30, 2020	$	12

Included in the total unrecognized tax benefits at September 30, 2020 and September 30, 2019 are $12 million and $12 million, respectively, that if recognized, would reduce the effective income tax rate. The Company has determined that is reasonably possible that its existing reserve for uncertain tax positions as of September 30, 2020 could decrease by up to approximately $2 million related to various ongoing audits and settlement discussions in various foreign jurisdictions.

The Company and its subsidiaries file income tax returns in the U.S. and various foreign jurisdictions. The Company has completed tax audits in the U.S. for tax years ended through September 30, 2013, in the U.K. for the tax years ended through September 30, 2017, in Germany for the tax years ended through September 30, 2014 and in France for the tax years ended through September 30, 2018. The Company is at various stages in the tax audit process in certain foreign and local jurisdictions.

12. Employee Benefit Plans

Certain international employees, such as those in Germany and Japan, participate in locally sponsored defined benefit plans, which are not considered to be material either individually or in the aggregate and have a combined projected benefit obligation of approximately $83 million and $82 million as of September 30, 2020 and September 30, 2019, respectively. Pension benefits under the plans are based on formulas that reflect the employees' years of service and compensation levels during their employment period. The Company had unfunded pension liabilities relating to these plans of approximately $57 million and $56 million recorded in its balance sheets as of September 30, 2020 and September 30, 2019, respectively. The Company uses a September 30 measurement date for its plans. For each of the fiscal years ended September 30, 2020, September 30, 2019 and September 30, 2018, pension expense amounted to $4 million.

Certain employees also participate in defined contribution plans. The Company's contributions to the defined contribution plans are based upon a percentage of the employees' elected contributions. The Company's defined contribution plan expense amounted to approximately $8 million for the fiscal year ended September 30, 2020, $6 million for the fiscal year ended September 30, 2019 and $5 million for the fiscal year ended September 30, 2018.

13. Stock-Based Compensation Plans

Warner Music Group Corp. 2020 Omnibus Incentive Plan

In connection with the IPO, the Company's board of directors and stockholders approved the Warner Music Group Corp. 2020 Omnibus Incentive Plan, or the "Omnibus Incentive Plan." The aggregate number of shares of common stock available for issuance under the Omnibus Incentive Plan were 31,169,099 shares of Class A Common Stock over the 10-year period from the date of adoption. On August 14, 2020, the Company granted members of its Board of Directors a total of 28,361 shares of restricted common stock pursuant to the Omnibus Incentive Plan. These grants represent compensation for board service for the period from the Company's initial public offering until the Company's 2021 regularly scheduled annual shareholder meeting, at which time the restricted stock will be vested. Directors are entitled to dividends on this restricted stock during the vesting period.

As of September 30, 2020, there have been 28,361 shares issued under the Omnibus Incentive Plan.

Warner Music Group Corp. Senior Management Free Cash Flow Plan

Effective January 1, 2013, eligible individuals were invited to participate in the Senior Management Free Cash Flow Plan (as amended, the "Plan"). Eligible individuals include any employee, consultant or officer of the Company or any of its affiliates, who is selected by the Company's Compensation Committee to participate in the Plan. In 2017, the Company's Compensation Committee invited two additional employees to participate in the Plan. Under the Plan, participants are allocated a specific portion of the Company's free cash flow to use to purchase the equivalent of Company stock through the acquisition of deferred equity units. Participants also receive a grant of profit interests in a purposely established LLC holding company (the "LLC") that represent an economic entitlement to future appreciation over an equivalent number of shares of Company stock ("matching units"). The Company's board of directors authorized the issuance of up to 39,255,429.54 shares of the Company's common stock pursuant to the Plan, 19,612,714.77 in respect of deferred equity units and 19,612,714.77 in respect of matching units, as adjusted in accordance with the Plan. The LLC currently owns 23,640,925 shares of Class B Common Stock, which includes 4,169,978 of additional shares issued in connection with the December 2019 redemption whereby certain participants in the Plan elected to exchange their deferred equity units for shares of Class B Common Stock of the Company, which were immediately contributed to the LLC in exchange for Class A units of the LLC. Each deferred equity unit is equivalent to a share of Company stock. The Company credits units to active participants each Plan year at the time that annual free cash flow bonuses for such Plan year are determined (although certain participants have already received their complete allocations) and may grant unallocated units under the Plan to certain members of current or future management. At the time that annual free cash flow bonuses for such Plan year are determined, a participant is credited a number of deferred equity units based on their respective allocation divided by the grant date intrinsic value and an equal number of the related matching units is vested. The redemption price of the deferred equity units equals the fair market value of a share of the Company's stock on the date of the settlement and the redemption price for the matching units equals the excess, if any, of the then fair market value of one Company fractional share over the grant date intrinsic value of one share. Dividend distributions, if any, are also paid out on vested deferred equity units and are calculated on the same basis as the Company's common shares. The Company has applied a graded (tranche-by-tranche) attribution method and expenses share-based compensation on an accelerated basis over the vesting period of the share award.

The Company accounts for share-based payments as required by ASC 718. ASC 718 requires all share-based payments to employees to be recognized as compensation expense. Under the recognition provision of ASC 718, liability classified share-based compensation costs are measured each reporting date until settlement. The Plan was liability classified from inception through June 3, 2020, upon completion of the IPO, further discussed herein.

For accounting purposes, the grant date was established at the point the Company and the participant reached a mutual understanding of the key terms and conditions, in this case the date at which the participant accepted the invitation to participate in the Plan. For accounting purposes, deferred equity units are deemed to generally vest between one and seven years and matching equity units granted under the Plan are deemed to vest two years after the allocation to the participant's account. The deferred and matching equity units have cash settlement dates that began in December 2018. Upon the scheduled settlement dates in December 2019 and December 2018, the Company settled 314,631.58 deferred equity units, including special deferred equity units, in cash totaling approximately $2 million, 8,359,629.35 in Company shares (which were contributed to the LLC in exchange for Class A units of the LLC) with an estimated value of $58 million and 217,312.53 matching equity units in cash totaling approximately $1 million.

Upon completion of the IPO in June 2020, the Plan was amended to remove the cash-settlement feature on all future redemptions. As a result, all awards previously issued under the Plan will require settlement in Class A Common Stock. The participants in such plan were also allowed to sell a pro rata portion, consistent with Access's percentage reduction in shares of Class

B Common Stock as a result of the IPO, of their vested profits interests and acquired units of the LLC holding company, WMG Management Holdings, LLC (“Management LLC”), in the IPO through a “tag-along right.”

Under the provision of ASC 718, the Company determined the Plan was modified as of June 3, 2020, and as such, converted the awards from liability-classified to equity-classified. Prior to conversion, the Company performed a final measurement of its stock-based compensation liability under the fair value method. The final measurement utilized the IPO listing price of $25 per share as the per-share value input within its fair value model. Upon modification of the Plan, the Company reclassified a $769 million stock-based compensation liability to additional paid-in capital, which included $57 million associated with the awards settled through the IPO tag-along right on June 5, 2020.

The following is a summary of the Company’s share awards:

	Deferred Equity Units	Matching Equity Units	Deferred Equity Units Weighted-Average Intrinsic Value	Matching Equity Units Weighted-Average Intrinsic Value	Deferred Equity Units Weighted-Average Grant-Date Intrinsic Value	Matching Equity Units Weighted-Average Grant-Date Intrinsic Value
Unvested units at September 30, 2018	2,863,456	12,885,551	$ 6.37	$ 3.50	$ 3.12	$ —
Granted	—	—	—	—	—	—
Vested	(962,709)	(6,204,154)	7.71	5.10	3.09	—
Forfeited	—	—	—	—	—	—
Unvested units at September 30, 2019	1,900,747	6,681,397	$ 7.71	$ 4.60	$ 3.13	$ —
Granted	—	—	—	—	—	—
Vested	(1,351,293)	(2,369,536)	27.01	24.04	23.91	—
Forfeited	—	—	—	—	—	—
Unvested units at September 30, 2020	549,454	4,311,861	$ 27.01	$ 23.82	$ 23.82	$ —

The weighted-average grant date intrinsic value of deferred equity unit awards for the fiscal year ended September 30, 2020 was $23.82. The fair value of these deferred equity units at September 30, 2020 was $27.01. The weighted-average grant date intrinsic value of deferred equity unit awards for the fiscal year ended September 30, 2019 was $3.13. The fair value of these deferred equity units at September 30, 2019 was $7.71. The weighted-average grant date intrinsic value of deferred equity unit awards for the fiscal year ended September 30, 2018 was $3.12. The fair value of these deferred equity units at September 30, 2018 was $6.37.

Compensation Expense

The Company recognized non-cash share-based compensation expense of $608 million, free cash flow compensation expense of $16 million and dividend expense related to the equity units of $1 million for the fiscal year ended September 30, 2020. The Company recognized non-cash share-based compensation expense of $50 million, free cash flow compensation expense of $15 million and dividend expense related to the equity units of $7 million for the fiscal year ended September 30, 2019. The Company recognized non-cash share-based compensation expense of $62 million, free cash flow compensation expense of $19 million and dividend expense related to the equity units of $27 million for the fiscal year ended September 30, 2018.

In addition, at September 30, 2020, September 30, 2019 and September 30, 2018, the Company had approximately $14 million, $16 million and $18 million, respectively, of unrecognized compensation costs related to its unvested share awards. As of September 30, 2020, the remaining weighted-average period over which total compensation related to unvested awards is expected to be recognized is 1 year.

14. Related Party Transactions

Management Agreement

Upon completion of the Merger, the Company and Holdings entered into the Management Agreement, dated as of the Merger Closing Date, pursuant to which Access provided the Company and its subsidiaries with financial, investment banking, management, advisory and other services. Pursuant to the Management Agreement, the Company paid to Access an annual fee on quarterly basis and reimbursed Access for certain expenses incurred performing services under the agreement. The Company and Holdings agreed to indemnify Access and certain of its affiliates against all liabilities arising out of performance of the Management Agreement.

As a result of the completion of the IPO, the Management Agreement terminated in accordance with its terms and the Company paid to Access a one-time termination fee and a fee for transaction services in an aggregate amount of $60 million. The

Company recorded these fees within selling, general and administrative expenses in the consolidated statements of operations for the fiscal year ended September 30, 2020.

Prior to the termination of the Management Agreement, the Company incurred costs associated with the Management Agreement of approximately $7 million, $11 million and $16 million for the fiscal years ended September 30, 2020, September 30, 2019 and September 30, 2018, respectively. Such amounts have been included as a component of selling, general and administrative expense in the accompanying consolidated statements of operations.

Lease Arrangements with Related Parties

On March 29, 2019, an affiliate of Access acquired the Ford Factory Building, located on 777 S. Santa Fe Avenue in Los Angeles, California from an unaffiliated third party. The building is the Company's new Los Angeles, California headquarters and as such, the Company is the sole tenant of the building acquired by Access. The existing lease agreement was assumed by Access upon purchase of the building and was not modified as a result of the purchase. Rental payments by the Company under the existing lease total approximately $13 million per year, subject to annual fixed increases. The remaining lease term is approximately 10 years, after which the Company may exercise a single option to extend the term of the lease for 10 years thereafter.

On August 13, 2015, a subsidiary of the Company, Warner Music Inc., entered into a license agreement with Access for the use of office space in the Company's corporate headquarters at 1633 Broadway, New York, New York. The license fee of $2,775 per month, plus an IT support fee of $1,000 per month, was based on the per foot lease costs to the Company of its headquarters space, which represented market terms. For the fiscal year ended September 30, 2020, an immaterial amount was recorded as rental income. The space is occupied by The Blavatnik Archive, which is dedicated to the discovery and preservation of historically distinctive and visually compelling artifacts, images and stories that contribute to the study of 20th century Jewish, WWI and WWII history.

On July 29, 2014, AI Wrights Holdings Limited, an affiliate of Access, entered into a lease and related agreements with Warner Chappell Music Limited and WMG Acquisition (UK) Limited, subsidiaries of the Company, for the lease of 27 Wrights Lane, Kensington, London. The Company had been the tenant of the building which Access acquired. Subsequent to the change in ownership, the parties entered into the lease and related agreements pursuant to which, on January 1, 2015, the rent was increased to £3,460,250 per year and the term was extended for an additional five years from December 24, 2020 to December 24, 2025, with a market rate rent review beginning December 25, 2020.

License Agreements with Deezer

Access owns a controlling equity interest in Deezer S.A., which was formerly known as Odyssey Music Group ("Odyssey"), a French company that controls and operates a music streaming service, formerly through Odyssey's subsidiary, Blogmusik SAS ("Blogmusik"), under the name Deezer ("Deezer"), and is represented on Deezer S.A.'s Board of Directors. Subsidiaries of the Company have been a party to license arrangements with Deezer since 2008, which provide for the use of the Company's sound recordings on Deezer's ad-supported and subscription streaming services worldwide (excluding Japan) in exchange for fees paid by Deezer. The Company has also authorized Deezer to include the Company's sound recordings in Deezer's streaming services where such services are offered as a bundle with third-party services or products (e.g., telco services or hardware products), for which Deezer is also required to make payments to the Company. Deezer paid to the Company an aggregate amount of approximately $42 million, $49 million and $39 million in connection with the foregoing arrangements during the fiscal years ended September 30, 2020, 2019 and 2018, respectively. In addition, in connection with these arrangements, (i) the Company was issued, and currently holds, warrants to purchase shares of Deezer S.A. and (ii) the Company purchased a small number of shares of Deezer S.A., which collectively represent a small minority interest in Deezer S.A. The Company also has various publishing agreements with Deezer. Warner Chappell has licenses with Deezer for use of repertoire on the service in Europe, which the Company refers to as a PEDL license (referencing the Company's Pan European Digital Licensing initiative), and for territories in Latin America. For the PEDL and Latin American licenses for the fiscal years ended September 30, 2020 and 2019, Deezer paid the Company an additional approximately $2 million and $1 million, respectively. Deezer also licenses other publishing rights controlled by Warner Chappell through statutory licenses or through various collecting societies.

License Agreements with Snap

In 2020, a subsidiary of the Company entered into a worldwide (excluding China) recorded music license agreement for a 24-month term and Warner Chappell also entered into a 2-year license with Snap, Inc. covering the personal, non-commercial use of up to 60 second song clips from WMG's catalog in messages across Snap properties. The Company earned approximately $500,000 in connection with the foregoing deals during the fiscal year ended September 30, 2020. The Company's Chairman, Michael Lynton, is also a director of Snap, Inc.

Distribution Agreement with Mattel

In 2020, a subsidiary of the Company entered into a 3-year digital distribution and physical license of the existing catalog plus new material of Mattel Inc. The Company earned approximately $200,000 in connection with the foregoing arrangements during the fiscal year ended September 30, 2020. The Company's director, Ynon Kreiz, is also the CEO of Mattel Inc.

Investment in Tencent Music Entertainment Group

On October 1, 2018, WMG China LLC ("WMG China"), an affiliate of the Company, entered into a share subscription agreement with Tencent Music Entertainment Group pursuant to which WMG China agreed to purchase 37,162,288 ordinary shares of Tencent Music Entertainment Group for $100 million. WMG China is 80% owned by AI New Holdings 5 LLC, an affiliate of Access, and 20% owned by the Company. On October 3, 2018, WMG China acquired the shares pursuant to the share subscription agreement.

15. Commitments and Contingencies

Talent Advances

The Company routinely enters into long-term commitments with recording artists, songwriters and publishers for the future delivery of music. Such commitments generally become due only upon delivery and Company acceptance of albums from the recording artists or future musical compositions from songwriters and publishers. Additionally, such commitments are typically cancellable at the Company's discretion, generally without penalty. Based on contractual obligations and the Company's expected release schedule, aggregate firm commitments to such talent approximated $442 million and $428 million as of September 30, 2020 and September 30, 2019, respectively.

Other

Other off-balance sheet, firm commitments, which primarily include minimum funding commitments to investees, amounted to approximately $12 million and $10 million at September 30, 2020 and September 30, 2019, respectively.

Litigation

The Company is involved in various litigation and regulatory proceedings arising in the normal course of business. Where it is determined, in consultation with counsel based on litigation and settlement risks, that a loss is probable and estimable in a given matter, the Company establishes an accrual. In the currently pending proceedings, the amount of accrual is not material. An estimate of the reasonably possible loss or range of loss in excess of the amounts already accrued cannot be made at this time due to various factors typical in contested proceedings, including (1) the results of ongoing discovery; (2) uncertain damage theories and demands; (3) a less than complete factual record; (4) uncertainty concerning legal theories and their resolution by courts or regulators; and (5) the unpredictable nature of the opposing party and its demands. However, the Company cannot predict with certainty the outcome of any litigation or the potential for future litigation. As such, the Company continuously monitors these proceedings as they develop and adjusts any accrual or disclosure as needed. Regardless of the outcome, litigation could have an adverse impact on the Company, including the Company's brand value, because of defense costs, diversion of management resources and other factors and it could have a material effect on the Company's results of operations for a given reporting period.

16. Derivative Financial Instruments

The Company uses derivative financial instruments, primarily foreign currency forward exchange contracts and interest rate swaps, for the purposes of managing foreign currency exchange rate risk and interest rate risk on expected future cash flows. However, the Company may choose not to hedge certain exposures for a variety of reasons including, but not limited to, accounting considerations and the prohibitive economic cost of hedging particular exposures. There can be no assurance the hedges will offset more than a portion of the financial impact resulting from movements in foreign currency exchange or interest rates.

The Company enters into foreign currency forward exchange contracts primarily to hedge the risk that unremitted or future royalties and license fees owed to its U.S. companies for the sale or licensing of U.S.-based music and merchandise abroad may be adversely affected by changes in foreign currency exchange rates. The Company focuses on managing the level of exposure to the risk of foreign currency exchange rate fluctuations on its major currencies, which include the Euro, British pound sterling, Japanese yen, Canadian dollar, Swedish krona, Australian dollar, Brazilian real, Korean won and Norwegian krone. The Company also may at times choose to hedge foreign currency risk associated with financing transactions such as third-party debt and other balance sheet items. The Company's foreign currency forward exchange contracts have not been designated as hedges under the criteria prescribed in ASC 815. The Company records these contracts at fair value on its balance sheet and the related gains and losses are immediately recognized in the consolidated statement of operations where there is an offsetting entry related to the underlying exposure.

In prior periods, certain foreign currency forward exchange contracts were designated and qualified as cash flow hedges under the criteria prescribed in ASC 815. The Company recorded these contracts at fair value on its balance sheet and gains or losses on these contracts were deferred in equity (as a component of comprehensive income (loss)). These deferred gains and losses were recognized in income in the period in which the related royalties and license fees being hedged were received and recognized in income. However, to the extent that any of these contracts were not considered to be perfectly effective in offsetting the change in the value of the royalties and license fees being hedged, any changes in fair value relating to the ineffective portion of these contracts were immediately recognized in the consolidated statement of operations.

The Company has entered into, and in the future may enter into, interest rate swaps to manage interest rate risk. These instruments may offset a portion of changes in income or expense, or changes in fair value of the Company's long-term debt. The interest rate swap instruments are designated and qualify as cash flow hedges under the criteria prescribed in ASC 815. The Company records these contracts at fair value on its balance sheet and gains or losses on these contracts are deferred in equity (as a component of comprehensive income (loss)).

The fair value of foreign currency forward exchange contracts is determined by using observable market transactions of spot and forward rates (i.e., Level 2 inputs) which is discussed further in Note 19. Additionally, netting provisions are provided for in existing International Swap and Derivative Association Inc. agreements in situations where the Company executes multiple contracts with the same counterparty. As a result, net assets or liabilities resulting from foreign exchange derivatives subject to these netting agreements are classified within other current assets or other current liabilities in the Company's consolidated balance sheets.

The Company's hedged interest rate transactions as of September 30, 2020 are expected to be recognized within four years. The fair value of interest rate swaps is based on dealer quotes of market rates (i.e., Level 2 inputs) which is discussed further in Note 19. Interest income or expense related to interest rate swaps is recognized in interest income (expense), net in the same period as the related expense is recognized. The ineffective portions of interest rate swaps are recognized in other income (expense) in the period measured.

The Company monitors its positions with, and the credit quality of, the financial institutions that are party to any of its financial transactions.

As of September 30, 2020, the Company had no outstanding hedge contracts and no deferred gains or losses in comprehensive loss related to foreign exchange hedging. As of September 30, 2019, the Company had no outstanding hedge contracts and no deferred gains or losses in comprehensive loss related to foreign exchange hedging.

As of September 30, 2020, the Company had outstanding $820 million in pay-fixed receive-variable interest rate swaps with $29 million of unrealized deferred losses in comprehensive loss related to the interest rate swaps. As of September 30, 2019, the Company had outstanding $820 million in pay-fixed receive-variable interest rate swaps with $8 million of unrealized deferred losses in comprehensive income related to the interest rate swaps.

The Company recorded realized pre-tax losses of $4 million related to its foreign currency forward exchange contracts in the consolidated statement of operations as other expense for the fiscal year ended September 30, 2020. The Company recorded realized pre-tax gains of $3 million related to its foreign currency forward exchange contracts in the consolidated statement of operations as other income for the fiscal year ended September 30, 2019.

The unrealized pre-tax losses of the Company's derivative interest rate swaps designated as cash flow hedges recorded in other comprehensive income during the fiscal year ended September 30, 2020 were $27 million. The unrealized pre-tax losses of the Company's derivative interest rate swaps designated as cash flow hedges recorded in other comprehensive loss during the fiscal year ended September 30, 2019 were $11 million.

The following is a summary of amounts recorded in the consolidated balance sheets pertaining to the Company's derivative instruments at September 30, 2020 and September 30, 2019:

	September 30, 2020 (a)	September 30, 2019 (b)
	(in millions)	
Other noncurrent assets	$ —	$ 2
Other noncurrent liabilities	(38)	(13)

(a) $38 million of interest rate swaps in liability positions.
(b) $2 million and $13 million of interest rate swaps in asset and liability positions, respectively.

17. Segment Information

As discussed more fully in Note 1, based on the nature of its products and services, the Company classifies its business interests into two fundamental operations: Recorded Music and Music Publishing, which also represent the reportable segments of the Company. Information as to each of these operations is set forth below. The Company evaluates performance based on several factors, of which the primary financial measure is operating income (loss) before non-cash depreciation of tangible assets and non-cash amortization of intangible assets ("OIBDA"). The Company has supplemented its analysis of OIBDA results by segment with an analysis of operating income (loss) by segment.

The accounting policies of the Company's business segments are the same as those described in the summary of significant accounting policies included elsewhere herein. The Company accounts for intersegment sales at fair value as if the sales were to third parties. While intercompany transactions are treated like third-party transactions to determine segment performance, the revenues (and corresponding expenses recognized by the segment that is counterparty to the transaction) are eliminated in consolidation, and therefore, do not themselves impact consolidated results.

	Recorded Music	Music Publishing	Corporate expenses and eliminations	Total
		(in millions)		
2020				
Revenues	$ 3,810	$ 657	$ (4)	$ 4,463
Operating income (loss)	175	81	(485)	(229)
Amortization of intangible assets	119	71	—	190
Depreciation of property, plant and equipment	55	5	11	71
OIBDA	349	157	(474)	32
Total assets	2,483	2,656	1,271	6,410
Capital expenditures	28	1	56	85
2019				
Revenues	$ 3,840	$ 643	$ (8)	$ 4,475
Operating income (loss)	439	92	(175)	356
Amortization of intangible assets	139	69	—	208
Depreciation of property, plant and equipment	45	5	11	61
OIBDA	623	166	(164)	625
Total assets	2,217	2,581	1,219	6,017
Capital expenditures	29	3	72	104
2018				
Revenues	$ 3,360	$ 653	$ (8)	$ 4,005
Operating income (loss)	307	84	(174)	217
Amortization of intangible assets	138	68	—	206
Depreciation of property, plant and equipment	35	7	13	55
OIBDA	480	159	(161)	478
Capital expenditures	20	3	51	74

Revenues relating to operations in different geographical areas are set forth below for the fiscal years ended September 30, 2020, September 30, 2019 and September 30, 2018. Total long-lived assets relating to operations in different geographical areas, which consist of property, plant and equipment, net and operating lease right-of-use assets, net, are set forth below as of September 30, 2020 and September 30, 2019.

	2020		2019		2018
	Revenues	Long-lived Assets	Revenues	Long-lived Assets	Revenues
			(in millions)		
United States	$ 1,934	$ 426	$ 1,956	$ 201	$ 1,754
United Kingdom	551	49	596	20	593
All other territories	1,978	129	1,923	79	1,658
Total	$ 4,463	$ 604	$ 4,475	$ 300	$ 4,005

Customer Concentration

In the fiscal year ended September 30, 2020, the Company had two customers, Spotify and Apple, that individually represented 10% or more of total revenues, whereby Spotify represented 17%, and Apple represented 14% of total revenues. In the fiscal year ended September 30, 2019, the Company had two customers, Spotify and Apple, that individually represented 10% or more of total revenues, whereby Spotify represented 14%, and Apple represented 13% of total revenues. In the fiscal year ended September 30, 2018, the Company had two customers, Apple and Spotify, that individually represented 10% or more of total revenues, whereby Apple represented 15%, and Spotify represented 14% of total revenues. These customers' revenues are included in both the Company's Recorded Music and Music Publishing segments and the Company expects that the Company's license agreements with these customers will be renewed in the normal course of business.

18. Additional Financial Information

Cash Interest and Taxes

The Company made interest payments of approximately $128 million, $138 million and $148 million during the fiscal years ended September 30, 2020, September 30, 2019 and September 30, 2018, respectively. The Company paid approximately $81 million, $63 million and $49 million of income and withholding taxes, net of refunds, for the fiscal years ended September 30, 2020, September 30, 2019 and September 30, 2018, respectively.

Dividends

The Company's ability to pay dividends may be restricted by covenants in certain of the indentures governing its notes and in the credit agreements for the Senior Term Loan Facility and the Revolving Credit Facility.

In the first quarter of fiscal year 2019, the Company instituted a regular quarterly dividend policy whereby it intended to pay a modest regular quarterly dividend in each of the first three fiscal quarters and a variable dividend for the fourth fiscal quarter in an amount commensurate with cash expected to be generated from operations in such fiscal year, in each case, after taking into account other potential uses for cash, including acquisitions, investment in our business and repayment of indebtedness. In connection with the IPO, the Company amended its dividend policy whereby it intends to pay quarterly cash dividends to holders of its Class A Common Stock and Class B Common Stock. The Company paid the first dividend under this policy of $0.12 per share in September 2020. The declaration of each dividend will continue to be at the discretion of the Company's board of directors and will depend on the Company's financial condition, earnings, liquidity and capital requirements, level of indebtedness, contractual restrictions with respect to payment of dividends, restrictions imposed by Delaware law, general business conditions and any other factors that the Company's board of directors deems relevant in making such a determination. Therefore, there can be no assurance that the Company will pay any dividends to holders of the Company's common stock, or as to the amount of any such dividends.

Prior to the completion of the IPO, in fiscal 2020 the Company paid an aggregate of $281 million in cash dividends to common stockholders, $75 million of which was declared by the Company's board of directors in fiscal 2020 and $206 million of which was declared by the Company's board of directors in fiscal 2019 and recorded as an accrual as of September 30, 2019. On August 14, 2020, the Company's board of directors declared a cash dividend of $0.12 per share on the Company's Class A Common Stock and Class B Common Stock, as well as related payments under certain stock-based compensation plans which was paid on September 1, 2020.

For fiscal year 2020, the Company paid an aggregate of $344 million in cash dividends to stockholders and participating security holders. For fiscal year 2019, the Company paid an aggregate of $94 million in cash dividends to stockholders. For fiscal year 2018, the Company paid an aggregate of $925 million in cash dividends to stockholders, which reflected proceeds from the sale of Spotify shares acquired in the ordinary course of business.

On November 13, 2020, the Company's board of directors declared a cash dividend of $0.12 per share on the Company's Class A Common Stock and Class B Common Stock, as well as related payments under certain stock-based compensation plans, payable on December 1, 2020 to stockholders of record as of the close of business on November 24, 2020.

COVID-19 Pandemic

On March 11, 2020, the COVID-19 outbreak was declared a global pandemic by the World Health Organization. Government-imposed mandates limiting public assembly and restrictions on non-essential businesses have adversely impacted the Company's operations, including touring and physical product distribution, for the fiscal year ended September 30, 2020. It is unclear how long government-imposed mandates and restrictions will last and to what extent the global pandemic will impact demand for the Company's music and related services, even as federal, state, local and foreign governments start to lift restrictions.

The Company is not presently aware of any events or circumstances arising from the global pandemic that would require us to update any estimates, judgments or materially revise the carrying value of our assets or liabilities. The Company's estimates may change, however, as new events occur and additional information is obtained, and any such changes will be recognized in the consolidated financial statements. Actual results could differ from estimates, and any such differences may be material to our consolidated financial statements.

Spotify Share Sale

During the fiscal year ended September 30, 2018, the Company sold all of its shares of common stock in Spotify Technology S.A. ("Spotify") for cash proceeds of $504 million. In February 2016, the Company publicly announced that it would pay royalties in connection with these proceeds. The sale of shares resulted in an estimated pre-tax gain, net of the estimated royalty expense and other related costs, of $382 million, which was recorded as other income (expense) for the fiscal year ended September 30, 2018. As of September 30, 2018, the estimated royalty expense and other related costs had been accrued, and were subsequently paid. The processing of the royalty expense resulted in advance recoveries of previously expensed royalty advances. The Company calculated the advance recoveries to be $12 million, and recorded these advance recoveries as a credit within operating expense for the fiscal year ended September 30, 2018. The Company also recorded estimated tax expense of $77 million associated with the net income on the sale of shares in fiscal year ended September 30, 2018.

Additionally, the cash proceeds received in connection with the sale of shares have been reflected as an investing activity on the statement of cash flows within proceeds from the sale of investments for the fiscal year ended September 30, 2018.

19. Fair Value Measurements

ASC 820, *Fair Value Measurement* ("ASC 820") defines fair value as the price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity.

In addition to defining fair value, ASC 820 expands the disclosure requirements around fair value and establishes a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. Each fair value measurement is reported in one of the three levels which is determined by the lowest level input that is significant to the fair value measurement in its entirety. These levels are:

- Level 1—inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.
- Level 2—inputs are based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3—inputs are generally unobservable and typically reflect management's estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models and similar techniques.

In accordance with the fair value hierarchy, described above, the following table shows the fair value of the Company's financial instruments that are required to be measured at fair value as of September 30, 2020 and September 30, 2019.

	Fair Value Measurements as of September 30, 2020			
	(Level 1)	(Level 2)	(Level 3)	Total
	(in millions)			
Other Current Liabilities:				
Contractual Obligations (a)	$ —	$ —	$ (2)	$ (2)
Other Noncurrent Assets:				
Equity Method Investment (c)	—	47	—	47
Other Noncurrent Liabilities:				
Contractual Obligations (a)	—	—	(4)	(4)
Interest Rate Swaps (b)	—	(38)	—	(38)
Total	$ —	$ 9	$ (6)	$ 3

	Fair Value Measurements as of September 30, 2019			
	(Level 1)	(Level 2)	(Level 3)	Total
	(in millions)			
Other Current Liabilities:				
Contractual Obligations (a)	$ —	$ —	$ (9)	$ (9)
Other Noncurrent Assets:				
Equity Method Investment (c)	—	40	—	40
Interest Rate Swap	—	2	—	2
Other Noncurrent Liabilities:				
Interest Rate Swap	—	(13)	—	(13)
Total	$ —	$ 29	$ (9)	$ 20

(a) This represents purchase obligations and contingent consideration related to the Company's various acquisitions. This is based on a probability weighted performance approach and it is adjusted to fair value on a recurring basis and any adjustments are included as a component of operating income in the consolidated statements of operations. These amounts were mainly calculated using unobservable inputs such as future earnings performance of the Company's various acquisitions and the expected timing of the payment.

(b) The fair value of the interest rate swaps is based on dealer quotes of market forward rates and reflects the amount that the Company would receive or pay as of September 30, 2020 for contracts involving the same attributes and maturity dates.

(c) The fair value of equity method investment represents an equity method investment acquired in fiscal 2019 whereby the Company has elected the fair value option under ASC 825, *Financial Instruments* ("ASC 825"). The valuation is based upon quoted prices in active markets and model-based valuation techniques to determine fair value.

The following table reconciles the beginning and ending balances of net liabilities classified as Level 3:

	Total
	(in millions)
Balance at September 30, 2019	$ (9)
Additions	(6)
Reductions	7
Payments	2
Balance at September 30, 2020	$ (6)

Additions to net liabilities during the fiscal year ended September 30, 2020 relate to contingent consideration of $6 million recognized in connection with an acquisition in August 2020 and represent a non-cash investing activity for fiscal year ended September 30, 2020.

The majority of the Company's non-financial instruments, which include goodwill, intangible assets, inventories and property, plant and equipment, are not required to be re-measured to fair value on a recurring basis. These assets are evaluated for impairment if certain triggering events occur. If such evaluation indicates that impairment exists, the asset is written down to its fair value. In addition, an impairment analysis is performed at least annually for goodwill and indefinite-lived intangible assets.

Equity Investments Without Readily Determinable Fair Value

The Company evaluates its equity investments without readily determinable fair values for impairment if factors indicate that a significant decrease in value has occurred. The Company has elected to use the measurement alternative to fair value that will allow these investments to be recorded at cost, less impairment, and adjusted for subsequent observable price changes. The Company did not record any impairment charges on these investments during the fiscal year ended September 30, 2020. In addition, there were no observable price changes events that were completed during the fiscal year ended September 30, 2020.

Fair Value of Debt

Based on the level of interest rates prevailing at September 30, 2020, the fair value of the Company's debt was $3.137 billion. Based on the level of interest rates prevailing at September 30, 2019, the fair value of the Company's debt was $3.080 billion. The fair value of the Company's debt instruments is determined using quoted market prices from less active markets or by using quoted market prices for instruments with identical terms and maturities; both approaches are considered a Level 2 measurement.

20. Subsequent Events

Additional 3.000% Senior Secured Notes

On November 2, 2020, Acquisition Corp. issued and sold $250 million of additional 3.000% Senior Secured Notes (the "Additional Notes"). Interest on the Additional Notes will accrue at the rate of 3.000% per annum and will be payable semi-annually in arrears on February 15 and August 15, commencing on February 15, 2021. Acquisition Corp. has the option to repurchase all or a portion of the Additional Notes at any time on one or more occasions on or prior to the fifth business day after December 18, 2020 (the "Special Optional Redemption Election Date") by giving notice at least five business days prior to such time at the special optional redemption price equal to the issue price of the Additional Notes (excluding accrued interest for the period prior to the settlement date) plus 1% of the principal amount thereof together with accrued and unpaid interest on such Additional Notes from August 12, 2020 (or the most recent interest payment date on which interest was paid) to but excluding the redemption date. The Additional Notes are not initially fungible with the 3.000% Senior Secured Notes issued on August 12, 2020 (the "Original Notes"). To the extent that any Additional Notes remain outstanding following the Special Optional Redemption Election Date, Acquisition Corp. will cause the Additional Notes to bear the same CUSIP and ISIN numbers as the Original Notes (the "CUSIP Merger Event"). Until the CUSIP Merger Event, the Additional Notes will have identical terms as the Original Notes (other than the issue date, the issue price and the special optional redemption provision). After the CUSIP Merger Event, the Additional Notes will have identical terms as (other than the issue date and the issue price), and will be fungible with, and be treated as a single series of senior secured debt securities with, the Original Notes.

The proceeds of the issuance and sale of the aforementioned Additional Notes, in conjunction with cash on hand of approximately $90 million, were used to fund two acquisitions of music and music-related assets for aggregate cash consideration of $338 million. With the closing of these transactions, Acquisition Corp. does not intend to exercise the option to repurchase any of the Additional Notes on or prior to the Special Optional Redemption Election Date and, following the CUSIP Merger Event, the Additional Notes will be fungible with, and be treated as a single series of senior secured debt securities with, the Original Notes.

WARNER MUSIC GROUP CORP.

2020 QUARTERLY FINANCIAL INFORMATION

(unaudited)

The following table sets forth the quarterly information for Warner Music Group Corp.

	Three Months Ended			
	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019
	(in millions, except share data)			
Revenues	$ 1,126	$ 1,010	$ 1,071	$ 1,256
Costs and expenses:				
Cost of revenue	(606)	(527)	(535)	(665)
Selling, general and administrative expenses (a)	(383)	(869)	(538)	(379)
Amortization expense	(49)	(47)	(47)	(47)
Total costs and expenses	(1,038)	(1,443)	(1,120)	(1,091)
Operating income (expense)	88	(433)	(49)	165
Loss on extinguishment of debt	(34)	—	—	—
Interest expense, net	(29)	(32)	(33)	(33)
Other expense	(45)	(3)	(4)	(5)
(Loss) income before income taxes	(20)	(468)	(86)	127
Income tax benefit (expense)	21	(51)	12	(5)
Net income (loss)	1	(519)	(74)	122
Less: Income attributable to noncontrolling interest	(2)	(1)	—	(2)
Net (loss) income attributable to Warner Music Group Corp.	$ (1)	$ (520)	$ (74)	$ 120
(a) Includes depreciation expense of:	$ (18)	$ (15)	$ (14)	$ (24)
Net (loss) income per share attributable to common stockholders:				
Class A – Basic and Diluted	$ 0.00	$ (1.03)	$ —	$ —
Class B – Basic and Diluted	$ 0.00	$ (1.03)	$ (0.15)	$ 0.24
Weighted average common shares:				
Class A – Basic and Diluted	87,280,769	20,307,692	—	—
Class B – Basic and Diluted	422,719,231	483,796,267	501,991,944	501,991,944

Quarterly operating results can be disproportionately affected by a particularly strong or weak quarter. Therefore, these quarterly operating results are not necessarily indicative of the results that may be expected for the full fiscal year.

WARNER MUSIC GROUP CORP.

2019 QUARTERLY FINANCIAL INFORMATION

(unaudited)

The following table sets forth the quarterly information for Warner Music Group Corp.

	Three Months Ended			
	September 30, 2019	June 30, 2019	March 31, 2019	December 31, 2018
	(in millions, except share data)			
Revenues	$ 1,124	$ 1,058	$ 1,090	$ 1,203
Costs and expenses:				
Cost of revenue	(639)	(577)	(559)	(626)
Selling, general and administrative expenses (a)	(408)	(372)	(354)	(376)
Amortization expense	(48)	(51)	(55)	(54)
Total costs and expenses	(1,095)	(1,000)	(968)	(1,056)
Operating income	29	58	122	147
Loss on extinguishment of debt	—	(4)	—	(3)
Interest expense, net	(34)	(36)	(36)	(36)
Other income (expense)	19	(16)	29	28
Income before income taxes	14	2	115	136
Income tax benefit (expense)	77	12	(48)	(50)
Net income	91	14	67	86
Less: Income attributable to noncontrolling interest	(1)	(1)	—	—
Net income attributable to Warner Music Group Corp.	$ 90	$ 13	$ 67	$ 86
(a) Includes depreciation expense of:	$ (18)	$ (15)	$ (14)	$ (14)
Net income per share attributable to common stockholders:				
Class A – Basic and Diluted	$ —	$ —	$ —	$ —
Class B – Basic and Diluted	$ 0.18	$ 0.03	$ 0.13	$ 0.17
Weighted average common shares:				
Class A – Basic and Diluted	—	—	—	—
Class B – Basic and Diluted	501,991,944	501,991,944	501,991,944	501,991,944

Quarterly operating results can be disproportionately affected by a particularly strong or weak quarter. Therefore, these quarterly operating results are not necessarily indicative of the results that may be expected for the full fiscal year.

WARNER MUSIC GROUP CORP.

Schedule II — Valuation and Qualifying Accounts

Description	Balance at Beginning of Period	Additions Charged to Cost and Expenses	Deductions	Balance at End of Period
		(in millions)		
Fiscal Year Ended September 30, 2020				
Allowance for doubtful accounts	$ 17	$ 11	$ (5)	$ 23
Reserves for sales returns	23	66	(65)	24
Allowance for deferred tax asset	91	1	(47)	45
Fiscal Year Ended September 30, 2019				
Allowance for doubtful accounts	$ 18	$ 3	$ (4)	$ 17
Reserves for sales returns	28	88	(93)	23
Allowance for deferred tax asset	206	4	(119)	91
Fiscal Year Ended September 30, 2018				
Allowance for doubtful accounts	$ 18	$ 4	$ (4)	$ 18
Reserves for sales returns	33	108	(113)	28
Allowance for deferred tax asset	193	33	(20)	206

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Certification

The certifications of the principal executive officer and the principal financial officer (or persons performing similar functions) required by Rules 13a-14(a) and 15d-14(a) of the Exchange Act (the “Certifications”) are filed as exhibits to this report. This section of the report contains the information concerning the evaluation of the Company’s disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) (“Disclosure Controls”) and changes to internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) (“Internal Controls”) referred to in the Certifications and this information should be read in conjunction with the Certifications for a more complete understanding of the topics presented.

Introduction

The SEC’s rules define “disclosure controls and procedures” as controls and procedures that are designed to ensure that information required to be disclosed by public companies in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by public companies in the reports that they file or submit under the Exchange Act is accumulated and communicated to a company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

The SEC’s rules define “internal control over financial reporting” as a process designed by, or under the supervision of, a public company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the Company’s board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, or U.S. GAAP, including those policies and procedures that: (i) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Company, (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

The Company’s management, including its principal executive officer and principal financial officer, does not expect that our Disclosure Controls or Internal Controls will prevent or detect all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Because of the limitations in any and all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. Further, the design of any control system is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Because of these inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected even when effective Disclosure Controls and Internal Controls are in place.

Evaluation of Disclosure Controls and Procedures

Based on management’s evaluation (with the participation of the Company’s principal executive officer and principal financial officer), as of the end of the period covered by this report, the Company’s principal executive officer and principal financial officer have concluded that the Company’s Disclosure Controls are effective to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act will be recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, including that such information is accumulated and communicated to management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There have been no changes in our internal control over financial reporting or other factors that occurred during the fourth fiscal quarter of the fiscal year ended September 30, 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Exchange Act. Management designed our internal control systems in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with U.S. GAAP. Our internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. GAAP, and that receipts and expenditures are being made only in accordance with authorizations of management and directors and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Our internal control systems include the controls themselves, monitoring and internal auditing practices and actions taken to correct deficiencies as identified and are augmented by written policies, an organizational structure providing for division of responsibilities, careful selection and training of qualified financial personnel and a program of internal audits.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control—Integrated Framework (2013 Framework)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on the results of this evaluation, our management concluded that our internal control over financial reporting was effective as of September 30, 2020.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item is incorporated by reference to, and will be contained in, our Proxy Statement for the 2020 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended September 25, 2020.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this item is incorporated by reference to, and will be contained in, our Proxy Statement for the 2020 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended September 25, 2020.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this item is incorporated by reference to, and will be contained in, our Proxy Statement for the 2020 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended September 25, 2020.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item is incorporated by reference to, and will be contained in, our Proxy Statement for the 2020 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended September 25, 2020.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated by reference to, and will be contained in, our Proxy Statement for the 2020 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the fiscal year ended September 25, 2020.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this Annual Report:

(1) Financial Statements:

The Financial Statements listed in the Index to Consolidated Financial Statements under Part II, Item 8 of this Annual Report.

(2) Financial Statement Schedule:

Schedule II—Valuation and Qualifying Accounts.

Schedules other than that listed above have been omitted, since they are either not applicable, not required or the information is included elsewhere herein.

(3) Exhibits

The required exhibits are filed as part of this Annual Report or are incorporated herein by reference.

(b) Exhibits

The agreements and other documents filed as exhibits to this report are not intended to provide factual information or other disclosure other than with respect to the terms of the agreements or other documents themselves, and you should not rely on them for that purpose. In particular, the representations, warranties, covenants and agreements contained in such exhibits were made only for the purposes of such agreement and as of specified dates, were solely for the benefit of the parties to such agreement and may be subject to limitations agreed upon by the contracting parties. The representations and warranties may have been made for the purposes of allocating contractual risk between the parties to such agreements instead of establishing these matters as facts, and may be subject to standards of materiality applicable to the contracting parties that differ from those applicable to investors. Unless otherwise explicitly stated therein, investors and security holders are not third-party beneficiaries under any of the agreements attached as exhibits hereto and should not rely on the representations, warranties, covenants and agreements or any descriptions thereof as characterizations of the actual state of facts or condition of the Company or any of its affiliates or businesses. Moreover, the assertions embodied in the representations and warranties contained in each such agreement are qualified by information in confidential disclosure letters or schedules that the parties have exchanged. Moreover, information concerning the subject matter of the representations and warranties may change after the respective dates of such agreements, which subsequent information may or may not be fully reflected in the Company's public disclosures.

Exhibit Number	Exhibit Description
3.1(1)	Fourth Amended and Restated Certificate of Incorporation of Warner Music Group Corp.
3.2(1)	Fourth Amended and Restated By-Laws of Warner Music Group Corp.
4.1(2)	Form of Common Stock Certificate
4.2(2)	Indenture, dated as of November 1, 2012, among WMG Acquisition Corp., the guarantors listed on the signature pages thereto, Credit Suisse AG, as Notes Authorized Agent and as Collateral Agent, and Wells Fargo Bank, National Association, as Trustee, providing for the issuance of secured notes in series (the "Secured Notes").
4.3(2)	Eighth Supplemental Indenture, dated as of October 9, 2018, among WMG Acquisition Corp., the guarantors listed on the signature pages thereto and Wells Fargo Bank, National Association, as Trustee, relating to the 3.625% Senior Secured Notes due 2026.
4.4(2)	Ninth Supplemental Indenture, dated as of April 30, 2019, among WMG Acquisition Corp., the guarantors listed on the signature pages thereto and Wells Fargo Bank, National Association, as Trustee, relating to the 3.625% Senior Secured Notes due 2026.
4.5(3)	Tenth Supplemental Indenture, dated as of June 26, 2020, among WMG Acquisition Corp., the guarantors listed on the signature pages thereto and Wells Fargo Bank, National Association, as Trustee, relating to the 5.000% Senior Secured Notes due 2023.
4.6(2)	Indenture, dated as of April 9, 2014, among WMG Acquisition Corp., the guarantors listed on the signature pages thereto and Wells Fargo Bank, National Association, as Trustee, providing for the issuance of unsecured senior notes in series (the "Senior Notes").
4.7(2)	Fifth Supplemental Indenture, dated as of March 14, 2018, among WMG Acquisition Corp., the guarantors listed on the signature pages thereto and Wells Fargo Bank, National Association, as Trustee, relating to the 5.500% Senior Notes due 2026.

Exhibit Number	Exhibit Description
4.8(3)	Indenture, dated as of June 29, 2020, among WMG Acquisition Corp., the guarantors listed on the signature pages thereto, Credit Suisse AG, as Notes Authorized Representative and as Collateral Agent, and Wells Fargo Bank, National Association, as Trustee, providing for the issuance of secured notes in series.
4.9(3)	First Supplemental Indenture, dated as of June 29, 2020, among WMG Acquisition Corp., the guarantors listed on the signature pages thereto and Wells Fargo Bank, National Association, as Trustee, relating to the 3.875% Senior Secured Notes due 2030.
4.10(3)	Second Supplemental Indenture, dated as of June 29, 2020, among WMG Acquisition Corp., the guarantors listed on the signature pages thereto and Wells Fargo Bank, National Association, as Trustee, relating to the 2.750% Senior Secured Notes due 2028.
4.11(4)	Third Supplemental Indenture, dated as of August 12, 2020, among WMG Acquisition Corp., the guarantors listed on the signature pages thereto and Wells Fargo Bank, National Association, as Trustee, relating to the 3.000% Senior Secured Notes due 2031.
4.12	Form of 3.875% Senior Secured Note due 2030 (included in Exhibit 4.9 hereto).
4.13	Form of 2.750% Senior Secured Note due 2028 (included in Exhibit 4.10 hereto).
4.14	Form of 3.000% Senior Secured Note due 2031 (included in Exhibit 4.11 hereto).
4.15	Form of Secured Note of WMG Acquisition Corp. (included in Exhibit 4.2 hereto).
4.16	Form of Senior Note of WMG Acquisition Corp. (included in Exhibit 4.6 hereto).
4.17(2)	Guarantee, dated July 27, 2016, issued by Warner Music Group Corp., relating to the 5.000% Senior Secured Notes due 2023.
4.18(2)	Guarantee, dated March 14, 2018, issued by Warner Music Group Corp., relating to the 5.500% Senior Notes due 2026.
4.19(2)	Guarantee, dated October 9, 2018, issued by Warner Music Group Corp., relating to the 3.625% Senior Secured Notes due 2026.
4.20(2)	Guarantee, dated April 30, 2019, issued by Warner Music Group Corp., relating to the 3.625% Senior Secured Notes due 2026.
4.21(2)	Security Agreement, dated as of November 1, 2012, among WMG Acquisition Corp., WMG Holdings Corp., the guarantors listed on the signature pages thereto and Credit Suisse AG, as collateral agent, term loan authorized representative, revolving authorized representative and indenture authorized representative.
4.22(2)	Copyright Security Agreement, dated November 1, 2012, made by WMG Acquisition Corp. and the guarantors listed on the signature pages thereto in favor of Credit Suisse, AG, as collateral agent for the Secured First Lien Parties.
4.23(2)	Patent Security Agreement, dated November 1, 2012, made by WMG Acquisition Corp. and the guarantors listed on the signature pages thereto in favor of Credit Suisse, AG, as collateral agent for the Secured First Lien Parties.
4.24(2)	Trademark Security Agreement, dated November 1, 2012, made by WMG Acquisition Corp. and the guarantors listed on the signature pages thereto in favor of Credit Suisse, AG, as collateral agent for the Secured First Lien Parties.
4.25*	Description of the Capital Stock.
10.1(1)	Stockholder Agreement between Access Industries, LLC and Warner Music Group Corp.
10.2(1)	Registration Rights Agreement between Access Industries, LLC and Warner Music Group Corp.
10.3†(1)	Warner Music Group Corp. 2020 Omnibus Incentive Plan.
10.4†*(1)	Indemnification Agreement between Warner Music Group Corp. and Stephen Cooper (and Schedule to Exhibit 10.4).
10.5(2)	Credit Agreement, dated as of November 1, 2012, among WMG Acquisition Corp., each lender from time to time party thereto, Credit Suisse AG, as administrative agent, Credit Suisse Securities (USA) LLC, Barclays Bank PLC, UBS Securities LLC, Macquarie Capital (USA) Inc. and Nomura Securities International, Inc., as joint bookrunners and joint lead arrangers, and Barclays Bank PLC and UBS Securities LLC, as syndication agents, relating to a term loan credit facility.
10.6(2)	Incremental Commitment Amendment, dated as of May 9, 2013, by and among WMG Acquisition Corp., the other Loan Parties (as defined therein), WMG Holdings Corp., and the several banks and financial institutions parties thereto as Lenders and the Administrative Agent, as defined therein.
10.7(2)	Second Amendment to Credit Agreement, dated as of July 15, 2016, among WMG Acquisition Corp., the guarantors party thereto, the lenders party thereto and Credit Suisse AG, as administrative agent, relating to the term loan facility.
10.8(2)	Second Incremental Commitment Amendment, dated as of November 21, 2016, among WMG Acquisition Corp., the guarantors party thereto, the lenders party thereto and Credit Suisse AG, as administrative agent, relating to the term loan facility.
10.9(2)	Third Incremental Commitment Amendment, dated as of May 22, 2017, among WMG Acquisition Corp., the other Loan Parties (as defined therein) party thereto, WMG Holdings Corp., the Administrative Agent (as defined therein) and Credit Suisse AG Cayman Islands Branch, as Tranche D Term Lender.

Exhibit Number	Exhibit Description
10.10(2)	Fourth Incremental Commitment Amendment, dated as of December 6, 2017, among WMG Acquisition Corp., the other Loan Parties (as defined therein) party hereto, WMG Holdings Corp., the Administrative Agent (as defined therein) and Credit Suisse AG Cayman Islands Branch, as Tranche E Term Lender.
10.11(2)	Increase Supplement to the Credit Agreement, dated as of March 14, 2018, among WMG Acquisition Corp., the Loan Parties (as defined therein) party thereto, WMG Holdings Corp., Credit Suisse AG, Cayman Islands Branch, as increasing lender, and Credit Suisse AG, as administrative agent, relating to the term loan facility.
10.12(2)	Fifth Incremental Commitment Amendment, dated as of June 7, 2018, among WMG Acquisition Corp., the other Loan Parties (as defined therein) party thereto, WMG Holdings Corp., the Administrative Agent (as defined therein) and Credit Suisse AG Cayman Islands Branch, as Tranche F Term Lender.
10.13(2)	Guarantee Agreement, dated as of November 1, 2012, made by the persons listed on the signature pages thereto under the caption "Subsidiary Guarantors" and the Additional Guarantors in favor of the Secured Parties, relating to the term credit facility.
10.14(2)	Credit Agreement, dated as of January 31, 2018, among WMG Acquisition Corp., the lenders from time to time party thereto, and Credit Suisse AG, as administrative agent, relating to the revolving credit facility.
10.15(2)	Subsidiary Guaranty, dated as of January 31, 2018, made by the persons listed on the signature pages thereto under the caption "Guarantors" and the Additional Guarantors (as defined therein) in favor of the Secured Parties (as defined therein), relating to the revolving credit facility.
10.16(2)	First Amendment to Credit Agreement, dated as of October 9, 2019, among WMG Acquisition Corp. and Credit Suisse AG, as Administrative Agent, as defined therein, relating to the revolving credit facility.
10.17(2)	Second Amendment to Credit Agreement, dated as of April 3, 2020, among WMG Acquisition Corp., the several banks and other financial institutions party thereto and Credit Suisse AG, as administrative agent, relating to the revolving credit facility.
10.18†(2)	Letter Agreement, dated as of September 30, 2014, between Warner Music Inc. and Eric Levin
10.19†(2)	Letter Agreement, dated as of October 6, 2015, between Warner Music Inc. and Eric Levin
10.20†(2)	Letter Agreement, dated as of December 2, 2016, between Warner Music Inc. and Eric Levin
10.21†(2)	Letter Agreement, dated as of August 4, 2015, between Warner Music Inc. and Paul M. Robinson
10.22†(2)	Letter Agreement, dated May 2, 2018, between Warner Music Inc. and Eric Levin
10.23†(2)	Letter Agreement, dated May 2, 2018, between Warner Music Inc. and Paul M. Robinson
10.24†(2)	Letter Agreement, dated as of January 8, 2019, between Warner Chappell Music, Inc. and Guy Moot.
10.25†(2)	Service Agreement, dated as of January 8, 2019, between Warner Chappell Music Limited and Guy Moot.
10.26†(2)	Letter Agreement, dated as of March 12, 2018, between Warner Chappell Music, Inc. and Carianne Marshall.
10.27†(2)	Letter Agreement, dated as of November 16, 2018, between Warner Chappell Music, Inc. and Carianne Marshall.
10.28†(2)	Letter Agreement, dated as of January 8, 2019, between Warner Chappell Music, Inc. and Carianne Marshall.
10.29†(5)	Letter Agreement, dated as of October 21, 2020, between Warner Music Inc. and Eric Levin.
10.30†(2)	Service Agreement, dated as of March 20, 2017, between Max Lousada and Warner Music International Services Limited
10.31†(2)	Warner Music Group Corp. Deferred Compensation Plan
10.32†(2)	Second Amended and Restated Warner Music Group Corp. Senior Management Free Cash Flow Plan
10.33†(2)	Amendment to Warner Music Group Corp. Senior Management Free Cash Flow Plan
10.34†(2)	Form of Election for Warner Music Group Corp. Senior Management Free Cash Flow Plan
10.35†(2)	Form of Award Agreement under Warner Music Group Corp. Senior Management Free Cash Flow Plan
10.36†(2)	Form of Award Agreement for 2014 Additional Unit Allocation under Warner Music Group Corp. Senior Management Free Cash Flow Plan.
10.37†(2)	Second Amended and Restated Limited Liability Company Agreement of WMG Management Holdings, LLC, dated as of March 10, 2017
10.38(2)	Lease, dated as of October 1, 2013, between Paramount Group, Inc., as agent for PGREF I 1633 Broadway Tower, L.P., and WMG Acquisition Corp. (the "Headquarters Lease")
10.39(2)	Guaranty of Headquarters Lease, dated as of October 1, 2013
10.40(2)	Assurance of Discontinuance, dated November 22, 2005
10.41(2)	Management Agreement, made as of July 20, 2011, by and among Warner Music Group Corp., WMG Holdings Corp, and Access Industries Inc.
10.42(2)	Lease, dated as of October 7, 2016, between Warner Acquisition Corp. and Sri Ten Santa Fe LLC.

Exhibit Number	Exhibit Description
21.1*	List of Subsidiaries of Warner Music Group Corp.
23.1*	Consent of Independent Registered Public Accounting Firm.
24.1*	Power of Attorney (see signature page)
31.1*	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended
31.2*	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended
32.1*+	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*+	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.1*	Financial statements from the Annual Report on Form 10-K of Warner Music Group Corp. for the fiscal year ended September 30, 2020, filed on November 23, 2020, formatted in Inline XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Statements of Cash Flows, (v) Consolidated Statements of (Deficit) Equity and (vi) Notes to Consolidated Financial Statements
104*	Cover Page to this Annual Report on Form 10-K, formatted in Inline XBRL.

* Filed herewith.

\+ Pursuant to SEC Release No. 33-8212, this certification will be treated as "accompanying" this Annual Report on Form 10-K and not "filed" as part of such report for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subject to the liability of Section 18 of the Securities Exchange Act of 1934, as amended, and this certification will not be deemed to be incorporated by reference into any filing under the Securities Act of 1933, as amended, except to the extent that the registrant specifically incorporates it by reference

† Identifies each management contract or compensatory plan or arrangement in which directors and/or executive officers are eligible to participate.

(1) Incorporated by reference to Warner Music Group Corp.'s Quarterly Report on Form 10-Q for the period ended June 30, 2020 (File No. 001-32502)

(2) Incorporated by reference to Warner Music Group Corp.'s Registration Statement on Form S-1 (File No. 333-236298)

(3) Incorporated by reference to Warner Music Group Corp.'s Current Report on Form 8-K filed June 30, 2020.

(4) Incorporated by reference to Warner Music Group Corp.'s Current Report on Form 8-K filed August 12, 2020.

(5) Incorporated by reference to Warner Music Group Corp.'s Current Report on Form 8-K filed October 23, 2020.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on November 23, 2020.

WARNER MUSIC GROUP CORP.

By:	/s/ STEPHEN COOPER
Name:	**Stephen Cooper**
Title:	**Chief Executive Officer (Principal Executive Officer)**
By:	/s/ ERIC LEVIN
Name:	**Eric Levin**
Title:	**Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)**

POWER OF ATTORNEY

KNOW BY ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints jointly and severally, Paul M. Robinson and Trent N. Tappe, and each of them, his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities indicated on November 23, 2020.

Signature	Title
/s/ STEPHEN COOPER **Stephen Cooper**	CEO and President and Director (Principal Executive Officer)
/s/ ERIC LEVIN **Eric Levin**	Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
/s/ MICHAEL LYNTON **Michael Lynton**	Chairman of the Board of Directors
/s/ LEN BLAVATNIK **Len Blavatnik**	Vice Chairman of the Board of Directors
/s/ LINCOLN BENET **Lincoln Benet**	Director
/s/ ALEX BLAVATNIK **Alex Blavatnik**	Director
/s/ MATHIAS DÖEPFNER **Mathias Döepfner**	Director
/s/ NOREENA HERTZ **Noreena Hertz**	Director
/s/ YNON KREIZ **Ynon Kreiz**	Director
/s/ CECI KURZMAN **Ceci Kurzman**	Director
/s/ THOMAS H. LEE **Thomas H. Lee**	Director
/s/ DONALD A. WAGNER **Donald A. Wagner**	Director

BOARD OF DIRECTORS

Stephen Cooper
Chief Executive Officer of WMG

Lincoln Benet
Chief Executive Officer of Access Industries, LLC

Alex Blavatnik
Executive Vice President and Vice Chairman of Access Industries, LLC

Len Blavatnik
Founder and Chairman of Access Industries, LLC

Mathias Döpfner
Chairman and CEO of Axel Springer SE

Noreena Hertz
Associate Director of the Centre for International Business and Management at University of Cambridge

Ynon Kreiz
Chairman and CEO of Mattel, Inc.

Ceci Kurzman
Founder and President of Nexus Management Group, Inc

Thomas H. Lee
Chairman and CEO of Thomas H. Lee Capital, LLC, Chairman of Lee Equity Partners, LLC and Chairman of AGL Credit Management LP

Michael Lynton
Chairman of the Board of Snap, Inc.

Donald A. Wagner
Managing Director of Access Industries, LLC

EXECUTIVE OFFICERS

Stephen Cooper
Chief Executive Officer

Max Lousada
Chief Executive Officer, Recorded Music

Eric Levin
Executive Vice President and Chief Financial Officer

Carianne Marshall
Co-Chair and Chief Operating Officer, Warner Chappell Music

Guy Moot
Co-Chair and Chief Executive Officer, Warner Chappell Music

Maria Osherova
Executive Vice President and Chief People Officer

Paul M. Robinson
Executive Vice President and General Counsel and Secretary

Oana Ruxandra
Executive Vice President of Business Development and Chief Digital Officer

James Steven
Executive Vice President and Chief Communications Officer

WARNER CHAPPELL MUSIC

WARNER CHAPPELL PRODUCTION MUSIC

WARNER RECORDED MUSIC

ARTS MUSIC

WARNER CLASSICS

WARNER MUSIC ASIA

WARNER MUSIC CENTRAL EUROPE

WARNER MUSIC FRANCE

WARNER MUSIC JAPAN

WARNER MUSIC LATIN AMERICA

WARNER MUSIC NASHVILLE

WARNER MUSIC NORDICS

WARNER MUSIC UK

EMP

songkick

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