

Typical Record Company P&L

Expressed in % of Net Sales

	Bad R.O.S	Good R.O.S	Areas to Improve
GROSS SALES	119%	116%	
Discounts	4%	3%	1%
Returns	15%	13%	2%
NET SALES	<u>100%</u>	<u>100%</u>	
Royalties/Copyright	28%	28%	
Manufacturing Costs	18%	17%	1%
Distribution/Sales Costs	11%	10%	1%
PRIME CONTRIBUTION	<u>43%</u>	<u>45%</u>	
Unrecouped Recording/Video	8%	6%	2%
Advertising/Promo/Marketing	11%	11%	
Provisions	3%	3%	
GROSS MARGIN	<u>21%</u>	<u>25%</u>	4%
Overheads			
A&R	1%	1%	
Marketing & Promotion	7%	6%	1%
Selling (Label)	1%	1%	
Administration	6%	4%	2%
OPERATING PROFIT	6%	13%	7%
Interest			
Profit before Tax			

CEMA Roadshow Dallas
August 1991

R.O.S

What is ROS?

Return On Sales, or Profit expressed as a percent of sales.

A low ROS is in the range of up to 8%, a medium ROS is in the range of 8% to 12%. A high ROS is above 12%. (Refer to typical Record Company P&Ls attached.)

Our competitors don't publish their ROSs by geographical region but we think that WEA's ROS is above 15%. Sony's is about 15%. Capitol-EMI's is less than 6%, as is MCA's. (BMG and Polygram are lucky if they break even.)

We clearly have a lot of upside.

Why is it important?

Companies have to make **consistent profits** to invest in future growth

Low ROS causes risk of making losses if sales decline below the breakeven level, and then have to downsize the organization to be able to survive

A high ROS compared with competition is a sign of strength in a company, as it enables the company to reinvest more than its competitors, and to ride out bad times more easily without cutting investment spending

How can CEMA people help improve our ROS?

MAXIMIZE NET SALES

Sell Smart. Sell thorough (cover on everything in the catalogue - new releases, catalogue, Angel, Jazz. **Sell through** (to the ultimate consumer). Create marketing plans that sell the product through.

Limit program discounts to what is necessary to meet our competition. Do you really need the program discount? Are you selling the same product as the competition or are you better? Make sure the customer doesn't run out of product.

Limit extra dating. Every thirty days dating at current interest rates costs us nearly one percent of sales. Make sure that the customers understand the effective discount that they are getting.

Hold returns in the system for current projects, where another single will be worked, for example.

MINIMIZE COSTS

Limit advertising allowances to what is necessary to get price and position. We have a high advertising %. Every little reduction can improve our ROS. Would our customers notice a 10% reduction in our advertising?

Keep T&E costs down. Book your flights well in advance. There are huge price advantages to booking early. Get the best package plan in hotels. If you're only there to sleep from 11 pm to 7 am, do you need such an expensive room? Use you phone card in your hotel room. Control your mileage by planning territory coverage geographically.

Limit Concert tickets - those \$22.00s add up.

Overnight mail - Does it really need to go overnight, or could it just as well go by US Mail? Could you have saved the need for overnighting by planning earlier? Are you using UPS rather than FedEx - we save 15% on UPS. Be careful of using FedEx as the generic term for overnight.

Fax only what needs to be faxed. Particularly for long distance, the mail is much cheaper.

Use 800 numbers wherever possible.

Be on the look-out for ways to save money. Share your ideas with your branch manager or with Joe.

Mark Jackson
August 1991

LEGAL/BUSINESS AFFAIRS CONFERENCE 1986

A G E N D A

June 18, 1986 -- 9:30 a.m. - 12:30 p.m.

- A. Introduction
- B. Legal/Business Affairs Inter-departmental Procedures
 - 1. Overview
 - 2. Deal Memoranda
 - 3. Commitment Approvals
 - 4. Name Search
 - 5. Prioritization
 - 6. Turn-around Time
 - 7. Contract Review Procedures
 - 8. Negotiation Responsibility
 - 9. Re-drafts -- Standard Secondary Language
 - 10. Over-night and Hand Transmittals
 - 11. Follow-up Responsibility
 - 12. Execution Procedures
 - 13. Data Briefs
 - 14. Quarterly Status Reports
- C. Review of Third-Party-Drafted Agreements
- D. Artwork Review and Approval
 - 1. General Review
 - 2. Copyright Notices
 - 3. Credits
 - 4. Lyric Sheets
 - 5. Distributed Labels
- E. Label Copy Review and Approval
 - 1. Executed Contracts
 - 2. Copyright Notices
 - 3. Credits
- F. Clearance Procedures
 - 1. Contents of Request
 - 2. Royalty Department Participation
- G. Data Briefs
 - 1. Distribution and Use
 - 2. New Developments -- Computer Data Base

H. Paralegal Functions

1. Special Markets
2. Master Use Licenses
3. Other Paralegal Functions

I. Other Procedures

1. Artist Roster Preparation

June 18, 1986 -- 2:00 p.m. - 5:30 p.m.

J. Matrix Exchange Agreements

1. Record Clubs
2. Other

K. Artist Royalty Agreements

1. First Draft Agreements -- A/B Versions
2. New Provisions
3. Delivery and Acceptance of Masters
4. Sales Inducement Records
5. Special Packaging
6. CD and DAT Royalty
7. Royalty Escalations
8. Mechanical Royalties
9. Definitions
 - a. LP-Master
 - b. Owned Composition
 - c. Net Sales
 - d. Full-Price Units
 - e. Budget/Mid-line
10. Permitted Recordings
11. Other Issues

L. Producer Agreements

1. A/B Versions
2. Long Form/Short Form Royalty Provisions
3. Recoupment
4. Multiple Producers
5. Remixers
6. Other Issues

preeminence of 12" over 7" singles
- 12" jets only. Stand. alone v. integ. tool
- returns policy on 12"? it's 2 diff. mkt?
packaging & distribution: \$ is better than 70
B-sides

June 19, 1986 -- 9:30 a.m. - 12:30 p.m.

- M. Artist & Repertoire Issues (Don Grierson)
- N. Financial Analysis (Bill Robertson)
- O. Distribution and CORE Issues (Nikki Vallot)
- P. Artwork and Marketing Issues (Bill Burks)
- Q. Special Markets (Jack Reynolds)
- R. Royalties (Steve Sica)

remixed - who pays?
[recoup from sales in
ret mkt only]

June 19, 1986 -- 2:00 p.m. - 5:30 p.m.

S. Audio-Visual/P.M.I. (Vic Rappoport)

- 1. "Standard" Video Language
- 2. Long Form Videos
- 3. MTV Agreement
- 4. New Developments
- 5. Other Issues

T. Music Publishing (Stan Winsten)

- 1. The Harry Fox License
- 2. Free Goods
- 3. Foreign-manufactured Records
- 4. New Developments
- 5. Other Issues

June 20, 1986 -- 9:30 a.m. - 12:00 noon

U. A.F.M./A.F.T.R.A. Issues

- 1. Payment of Session Fees
- 2. Contingent Payments
- 3. Foreign and Domestic Recording
- 4. Other Issues

V. Other Agreements

- 1. Soundtrack Agreements
- 2. Master Purchase Agreements
- 3. P & D Agreements
- 4. Label Agreements
- 5. Demo Agreements
- 6. Amendments

W. Audits and Litigation

1. Linda Ronstadt
2. Santa Claus
3. James Brown
4. Baltimora

X. New Developments -- Entertainment Law

1. Seven-year Rule
2. Blank Tape Royalty
3. Foreign Audit

Y. Computerization Efforts

Z. Other Business Affairs and/or Legal Issues

June 20, 1986 -- 2:00 p.m. - 5:30 p.m.

[CONTINUATION IF NECESSARY]

Developed by *Booner & Rothwell*

*** CONFIDENTIAL ***

DATE: May 15, 1986 COMMITMENT: \$235,000
TO: Raphael Tisdale APPROVAL: Zimmerman
FROM: Larry J. Swayzer
SUBJ: PEGGI BLU - DIRECT RECORDING AGREEMENT

THE FINANCIAL GUIDELINES YOU REQUESTED FOLLOW:

I. ASSUMPTIONS

PRODUCT: 1 album firm - \$8.98
ADVANCES: \$185m - recoupable from artist royalties
ROYALTIES: 0 - 400m 11% on 85% pkg. ded. 10%/20% = \$.7053
400 - 700m 12% on 85% pkg. ded. 10%/20% = \$.7694
700 - 1000m 14% on 85% pkg. ded. 10%/20% = \$.8976
MECHANICALS: 10 tracks (25% owned comps. at 3/4 statutory)
(75% at full statutory rate)
VIDEO: \$50m/video - 100% recoupable from record & video royalty
OTHER:

sales base
disc
cassette

II. ESTIMATED BREAKEVEN (000)

UNITS

A. ARTIST RECOUPMENT

\$235 advance from \$0.7053 earned royalty 333

B. BREAKEVEN AT CONTRIBUTION LEVEL

\$274 direct investment (adv. & rel. costs)
from \$2.6648 per unit contribution before recoupment 103

C. BREAKEVEN AT PRE-TAX PROFIT LEVEL

\$331 total investment (dir. + o.h. allocation)
from \$2.0193 per unit pre-tax profit before recoupment 164

D. EARN A 10% PRE-TAX PROFIT

\$331 total investment from \$1.5126 before recoupment

directly affects breakeven

marginal + direct fixed cost

pay the artist more royalties, you recoup faster

once you've covered fixed costs, you make a lot of money

RDS

impact of add-ons - eg. remixing

219

CRI of new support > volume, but. of high fixed overhead.

CAPITOL DEAL ANALYSIS
ARTIST: PEGGI BLU

COST OF MONEY	0.1		
O/T MIX	0.4	0.6	
# OF TRACKS	10.00		
ROYALTY RATE	0.7053	0.7694	0.8976
STEP LEVELS		400	700
REC & ADV	235.0		
VIDEO	0.0		
AFTRA	9.0		
ALBUM PRICE	8.98		
# DISCS	1		
# JACKETS	1		
O/T SMC	0.7844	0.4769	
CUSTOMER MIX:			
BASE %		5%	
CONS %		5%	
BULK %		90%	

100% (MUST TOTAL TO 100%)

NOTE: ANY PORTION OF VIDEO COSTS THAT ARE RECOUPABLE FROM RECORD ROYALTIES, ARE TO BE INCLUDED AS PART OF REC & ADV. WHATEVER PORTION IS NOT RECOUPABLE FROM RECORD ROYALTIES IS TO BE INPUT AS VIDEO COSTS. IF NO VIDEO COSTS ARE GIVEN USE THE BUDGETED AMOUNT. ALSO, IF THERE IS EITHER ONE OR NO ROYALTY STEPS, THEN ENTER THE FIGURE 100000 WHERE THE ROYALTY STEP WOULD OTHERWISE GO.

inventory & receivables only - not advance

99% of advances or royalties earned up to \$100k counted as yr. only if AFTRA artist

how support?

in 1968 was ~40¢

what is size - what is pkg - this includes

	FIXED COSTS	VARIABLE COSTS
CARD SALES - based on mix		5.2025
PROG DSCT & RET A/C		0.0380
INVOICED SALES		5.1645
DSCTS & ALLOW		0.0981
NET SALES		5.0664
SMC		0.5999
PKG DEVIATION from std. cost		0.0400
PROD VAR		0.0030
CTU <i>custom tape upl. 77 - 26 random</i>		0.0000
TRANSPORTATION		0.0658
MECHANICALS		0.4688
AFM		0.0441
AFTRA	9.0	
CO-OP ads		0.3460
ROYALTY		0.7053
REC & ADV	235.0	
RECOVERY - recoupment		(0.7053)
DIR PKG	12.5	
MERCHANDISING		0.1033

on payments

CD inventory turn is 11x/yr.

on the average this will be 28% std cost - not a 35% w/ specific project assumes that to be concept to album

blended average for all artists. now vs be 50¢.

\$ 19M total

VIDEO	0.0
PRESS & ART DEV	7.3
IND PROMO	
PROMO PROD	4.8
OBSOLESCENCE	5.3
PROV DA - <i>Jan 1st/2nd 2003</i>	
COMMISSION	
WHSG & DISTR	0.2
C.C. A/R	
INV	
FREE COST	

both are changed
initial release
pipeline 95%
0.1498
alter #

*ways of looking @ deals
 "after the fact" - now
 working on artist profitability
 study got restricted distrib.*

*ways of attenuating
 analysis to specific cost
 centers of artists.*

recoupment

CONTRIBUTION: BEFORE	274.1	2.6648
AFTER		1.9595

*5.066 of over
 sales*

*5/18/86 325K units
 of C-D product in
 inventory despite
 max efforts to ship.*

OVERHEAD ALLOC	56.5	- 0.6456
<i>(not changed to label itself)</i>		
PRE TAX PROFIT: BEFORE	330.6	2.0193
AFTER		1.3140

diff. is royalty rate
*12 1/2% of invoice sales. apportionment is
 based on cost centers - some are fixed
 marginal sensitive.*

*Skews big & small albums.
 IM is better than 10x case.
 big are better if small are worse.*

BREAKEVEN CALCULATIONS

		UNITS
A. RECOUPMENT		
ADVANCES	ROYALTY	
235.0	0.7053	333

		UNITS
B. AT CONTRIBUTION LEVEL		
DIRECT INVESTMENT	\$/UNIT	
274.1	2.6648	BEFORE RECOUPMENT 103
	1.9595	AFTER RECOUPMENT 0
		AFTER FIRST STEP 0
		AFTER SECOND STEP 0

		UNITS
C. AT PRE TAX PROFIT LEVEL		
TOTAL FIXED INVESTMENT	\$/UNIT	
330.6	2.0193	BEFORE RECOUPMENT 164
	1.3140	AFTER RECOUPMENT 0
		AFTER FIRST STEP 0
		AFTER SECOND STEP 0

		UNITS
D. EARN 10% PRE TAX PROFIT		
TOTAL FIXED INVESTMENT	\$/UNIT	
330.6	1.5126	BEFORE RECOUPMENT 219
	0.8073	AFTER RECOUPMENT 0
		AFTER FIRST STEP 0
		AFTER SECOND STEP 0

PROBLEM

*what will the
 artist receive?*

*PLC analysis takes
 this 2 step further!*

*this may not be
 second deal*

NOTE: THIS ANALYSIS ASSUMES THAT THE NUMBER OF UNITS NEEDED FOR RECOUPMENT DOES NOT EXCEED ANY ROYALTY STEP.

SMC TABLE

# DISCS	# JACKETS		DISC SMC	TAPE SMC
1	1		0.7844	0.4769
1	2		1.0226	0.6204
2	2		1.5343	0.8656

Date: June 4, 1986
 To: Kevin Breen
 From: Larry J. Swayzer

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Note of Int'l. not changed w/ advances.

SUBJECT: JOE COCKER LIVE ALBUM - #2

The financial guides you requested follow:

WTL

we get 20% on mixed product class PKB (less royalty - but that's less too) rate on 100%

10% 2(b) 17% class

I. ASSUMPTIONS

Product: 1 Live album priced @ \$8.98 list
 Royalty: U.S. 28%W; R.O.W. 13%\$
 Fee Income: All-in, 20% on 90%, 10%/17% pkg. ded.
 Mechanicals: 10X statutory = \$.50/unit
 Advance: \$100M (Note: Separate royalty account. However, if live album does not recoup, \$25M from current artist account may be used to recoup)
 Other:

ESTIMATED SALES & PROFITABILITY (000)
 (Capitol only. R.O.W. profitability not included) *

II.

	LOW	MID	HIGH
U.S.			
Unit Sales (Per Dennis White)	10	25	50
Net Sales	\$51	\$128	\$255
Contribution Before Advances & Recoupment	6	33	79
Pretax Profit Before Advances & Recoupment	(48)	(31)	(1)
R.O.W. - rest of world. <i>could be incorporated into basic analysis depending on artist's sales potential.</i>			
Unit Sales (Per Jeremy Hammond)	70	140	290
Fee Income	\$104	\$207	\$429
Contribution Before Advances & Recoupment	31	62	129
Pretax Profit Before Advances & Recoupment	21	41	86
ARTIST ACCOUNT			
Advances	(100)	(100)	(100)
Earnings U.S.	11	28	57
Earnings R.O.W.	67	135	279
Protection/(Shortfall) W/o Recoupment From Regular Account	(21)	63	236
Plus Recoupment From Regular Account	25	25	25
Protection/(Shortfall) With Recoupment From Regular Account	4	88	261
SUMMARY			
Net Sales/Fee Income	155	335	684
Contribution Without Recoupment From Regular Account	16	96	208
Pretax Profit Without Recoupment From Regular Account	(49)	11	85
Contribution With Recoupment From Regular Account	37	96	208
Pretax Profit With Recoupment From Regular Account	(28)	11	85

cc: C. Fitzgerald J. McFadden K. Northrup W. Robertson F. Willms
 W. Lee J. Mansfield R. O'Neill R. Tisdale R. Young
 D. Grierson B. Menon H. Posner D. White D. Zimmermann

JOE COCKER LIVE ALBUM - #2

U.S.	Factor	Per Unit	LOW	MID	HIGH
UNIT SALES			10	25	50
CARD SALES		5.203	52.0	130.1	260.2
CASH DSCTS & ALLOW	1.9%	0.099	1.0	2.5	5.0
NET SALES		5.104	51.0	127.6	255.2
SMC		0.569	5.7	14.2	28.5
PKG. DEV.		0.000	0.0	0.0	0.0
PROD VAR.	-0.5%	-0.003	0.0	-0.1	-0.2
TRANSPORTATION		0.058	0.6	1.5	2.9
MECHANICALS		0.500	5.0	12.5	25.0
AFM		0.043	0.4	1.1	2.2
CO-OP	6.0%	0.312	3.1	7.8	15.6
ROYALTY		1.131	11.3	28.3	56.6
DIR. PKG.	12.5		12.5	12.5	12.5
MDSG	2.0%	0.104	1.0	2.6	5.2
PROMO PROD		0.013	0.1	0.3	0.7
OBSOLESCENCE		0.182	1.8	4.6	9.1
PROV D.A.	1.0%	0.052	0.5	1.3	2.6
COMMISSIONS	0.5%	0.026	0.3	0.7	1.3
WHSG. & DISTR.	0.2	0.043	0.6	1.3	2.4
CC: ACCTS REC		0.189	1.9	4.7	9.5
CC: INVENTORY		0.024	0.2	0.6	1.2
FREE COST		0.016	0.2	0.4	0.8
CONTRIBUTION	12.7	1.8	5.8	33.3	79.3
OVERHEAD	47.5	0.650	54.0	63.8	80.0
PRETAX PROFIT	60.2	1.195	-48.2	-30.5	-0.7
FEE INCOME					
UNIT SALES			70	140	290
ALL-IN 20% ON 90%, 10%/17% pkg. ded		1.48	103.6	207.2	429.2
ROYALTY @ 13%		0.962	67.3	134.7	279.0
AFM		0.074	5.2	10.4	21.5
NET FEE INCOME		0.444	31.1	62.2	128.8
OVERHEAD	10.0%	0.148	10.4	20.7	42.9
PRETAX PROFIT		0.296	20.7	41.4	85.8

CRI