# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

**(Mark One)**

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2021**

**OR**

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**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 |

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 Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such 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 the 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 July 28, 2021, there were 116,921,554 shares of Class A Common Stock and 397,461,268 shares of Class B Common Stock of the registrant outstanding.

**WARNER MUSIC GROUP CORP.**

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

### Warner Music Group Corp.

### Consolidated Balance Sheets (Unaudited)

| | June 30, 2021 | September 30, 2020 |
|---|---|---|
| | (in millions, except share data) | |
| **Assets** | | |
| Current assets: | | |
| Cash and equivalents | $ 442 | $ 553 |
| Accounts receivable, net of allowances of $19 million and $23 million | 834 | 771 |
| Inventories | 79 | 79 |
| Royalty advances expected to be recouped within one year | 315 | 220 |
| Prepaid and other current assets | 64 | 55 |
| Total current assets | 1,734 | 1,678 |
| Royalty advances expected to be recouped after one year | 385 | 269 |
| Property, plant and equipment, net | 347 | 331 |
| Operating lease right-of-use assets, net | 273 | 273 |
| Goodwill | 1,836 | 1,831 |
| Intangible assets subject to amortization, net | 2,061 | 1,653 |
| Intangible assets not subject to amortization | 156 | 154 |
| Deferred tax assets, net | 35 | 68 |
| Other assets | 213 | 153 |
| Total assets | $ 7,040 | $ 6,410 |
| **Liabilities and Equity (Deficit)** | | |
| Current liabilities: | | |
| Accounts payable | $ 226 | $ 264 |
| Accrued royalties | 1,841 | 1,628 |
| Accrued liabilities | 385 | 382 |
| Accrued interest | 31 | 30 |
| Operating lease liabilities, current | 43 | 39 |
| Deferred revenue | 275 | 297 |
| Other current liabilities | 101 | 80 |
| Total current liabilities | 2,902 | 2,720 |
| Long-term debt | 3,367 | 3,104 |
| Operating lease liabilities, noncurrent | 293 | 299 |
| Deferred tax liabilities, net | 211 | 163 |
| Other noncurrent liabilities | 172 | 169 |
| Total liabilities | $ 6,945 | $ 6,455 |
| Equity (deficit): | | |
| Class A common stock, $0.001 par value; 1,000,000,000 shares authorized, 116,921,554 and 88,578,361 shares issued and outstanding as of June 30, 2021 and September 30, 2020, respectively | $ — | $ — |
| Class B common stock, $0.001 par value; 1,000,000,000 shares authorized, 397,461,268 and 421,450,000 issued and outstanding as of June 30, 2021 and September 30, 2020, respectively | 1 | 1 |
| Additional paid-in capital | 1,934 | 1,907 |
| Accumulated deficit | (1,660) | (1,749) |
| Accumulated other comprehensive loss, net | (194) | (222) |
| Total Warner Music Group Corp. equity (deficit) | 81 | (63) |
| Noncontrolling interest | 14 | 18 |
| Total equity (deficit) | 95 | (45) |
| Total liabilities and equity (deficit) | $ 7,040 | $ 6,410 |

See accompanying notes

**Warner Music Group Corp.**

**Consolidated Statements of Operations (Unaudited)**

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | (in millions, except share and per share data) | | | |
| Revenue | $ 1,340 | $ 1,010 | $ 3,925 | $ 3,337 |
| Costs and expenses: | | | | |
| Cost of revenue | (681) | (527) | (1,990) | (1,727) |
| Selling, general and administrative expenses (a) | (437) | (869) | (1,256) | (1,786) |
| Amortization expense | (60) | (47) | (170) | (141) |
| Total costs and expenses | (1,178) | (1,443) | (3,416) | (3,654) |
| Operating income (loss) | 162 | (433) | 509 | (317) |
| Loss on extinguishment of debt | (12) | — | (12) | — |
| Interest expense, net | (30) | (32) | (93) | (98) |
| Other (expense) income | (18) | (3) | — | (12) |
| Income (loss) before income taxes | 102 | (468) | 404 | (427) |
| Income tax expense | (41) | (51) | (127) | (44) |
| Net income (loss) | 61 | (519) | 277 | (471) |
| Less: Income attributable to noncontrolling interest | — | (1) | (1) | (3) |
| Net income (loss) attributable to Warner Music Group Corp. | $ 61 | $ (520) | $ 276 | $ (474) |
| | | | | |
| Net income (loss) per share attributable to common stockholders: | | | | |
| Class A – Basic and Diluted | $ 0.12 | $ (1.03) | $ 0.53 | $ (1.09) |
| Class B – Basic and Diluted | $ 0.12 | $ (1.03) | $ 0.53 | $ (0.94) |
| Weighted average common shares: | | | | |
| Class A – Basic and Diluted | 116,890,959 | 20,307,692 | 108,245,599 | 6,769,231 |
| Class B – Basic and Diluted | 397,461,268 | 483,796,267 | 404,933,311 | 495,926,718 |
| | | | | |
| (a) Includes depreciation expense: | $ (19) | $ (15) | $ (57) | $ (53) |

See accompanying notes

**Warner Music Group Corp.**

**Consolidated Statements of Comprehensive Income (Loss) (Unaudited)**

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | (in millions) | | | |
| Net income (loss) | $ 61 | $ (519) | $ 277 | $ (471) |
| Other comprehensive income (loss), net of tax: | | | | |
| Foreign currency adjustment | 12 | 17 | 19 | 9 |
| Deferred gain (loss) on derivative financial instruments | 3 | (2) | 9 | (22) |
| Other comprehensive income (loss), net of tax | 15 | 15 | 28 | (13) |
| Total comprehensive income (loss) | 76 | (504) | 305 | (484) |
| Less: Income attributable to noncontrolling interest | — | (1) | (1) | (3) |
| Comprehensive income (loss) attributable to Warner Music Group Corp. | $ 76 | $ (505) | $ 304 | $ (487) |

See accompanying notes

**Warner Music Group Corp.**

**Consolidated Statements of Cash Flows (Unaudited)**

| | Nine Months Ended June 30, | |
|---|---|---|
| | 2021 | 2020 |
| | (in millions) | |
| **Cash flows from operating activities** | | |
| Net income (loss) | $ 277 | $ (471) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 227 | 194 |
| Unrealized losses and remeasurement of foreign-denominated loans and foreign currency forward exchange contracts | 17 | 14 |
| Deferred income taxes | 27 | (34) |
| Loss on extinguishment of debt | 12 | — |
| Net (gain) loss on divestitures and investments | (26) | 2 |
| Non-cash interest expense | 3 | 4 |
| Non-cash stock-based compensation expense | 33 | 600 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (48) | 45 |
| Inventories | 2 | 16 |
| Royalty advances | (202) | (41) |
| Accounts payable and accrued liabilities | (62) | (113) |
| Royalty payables | 172 | 60 |
| Accrued interest | 1 | (12) |
| Operating lease liabilities | (3) | (2) |
| Deferred revenue | (27) | 11 |
| Other balance sheet changes | 7 | 14 |
| Net cash provided by operating activities | 410 | 287 |
| **Cash flows from investing activities** | | |
| Acquisition of music publishing rights and music catalogs, net | (459) | (28) |
| Capital expenditures | (58) | (48) |
| Investments and acquisitions of businesses, net of cash received | (49) | (11) |
| Net cash used in investing activities | (566) | (87) |
| **Cash flows from financing activities** | | |
| Proceeds from issuance of 3.000% Senior Secured Notes due 2031 | 244 | — |
| Proceeds from increase supplement to Senior Term Loan Facility | 325 | — |
| Repayment of 5.500% Senior Notes due 2026 | (325) | — |
| Deferred financing costs paid | (8) | (1) |
| Call premiums paid on early redemption of debt | (8) | — |
| Distribution to noncontrolling interest holders | (6) | (6) |
| Dividends paid | (187) | (281) |
| Net cash provided by (used in) financing activities | 35 | (288) |
| Effect of exchange rate changes on cash and equivalents | 10 | 1 |
| Net decrease in cash and equivalents | (111) | (87) |
| Cash and equivalents at beginning of period | 553 | 619 |
| Cash and equivalents at end of period | $ 442 | $ 532 |

See accompanying notes

**Warner Music Group Corp.**

**Consolidated Statements of Equity (Deficit) (Unaudited)**

**Nine Months Ended June 30, 2021**

| | Class A Common Stock | | Class B Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Total Warner Music Group Corp. Equity (Deficit) | Non-controlling Interest | Total Equity (Deficit) |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Value | Shares | Value | | | | | | |
| | (in millions, except share and per share data) | | | | | | | | | |
| Balance at September 30, 2020 | 88,578,361 | $ — | 421,450,000 | $ 1 | $ 1,907 | $ (1,749) | $ (222) | $ (63) | $ 18 | $ (45) |
| Net income | — | — | — | — | — | 276 | — | 276 | 1 | 277 |
| Other comprehensive income, net of tax | — | — | — | — | — | — | 28 | 28 | — | 28 |
| Dividends ($0.36 per share) | — | — | — | — | — | (187) | — | (187) | — | (187) |
| Stock-based compensation expense | — | — | — | — | 27 | — | — | 27 | — | 27 |
| Distribution to noncontrolling interest holders | — | — | — | — | — | — | — | — | (6) | (6) |
| Exchange of Class B shares for Class A shares | 19,234,103 | — | (19,234,106) | — | — | — | — | — | — | — |
| Shares issued under the Plan | 4,321,259 | — | — | — | — | — | — | — | — | — |
| Conversion of Class B shares | 4,754,626 | — | (4,754,626) | — | — | — | — | — | — | — |
| Shares issued under Omnibus Incentive Plan | 33,205 | — | — | — | — | — | — | — | — | — |
| Other | — | — | — | — | — | — | — | — | 1 | 1 |
| Balance at June 30, 2021 | 116,921,554 | $ — | 397,461,268 | $ 1 | $ 1,934 | $ (1,660) | $ (194) | $ 81 | $ 14 | $ 95 |

**Three Months Ended June 30, 2021**

| | Class A Common Stock | | Class B Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Total Warner Music Group Corp. Equity (Deficit) | Non-controlling Interest | Total Equity (Deficit) |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Value | Shares | Value | | | | | | |
| | (in millions, except share and per share data) | | | | | | | | | |
| Balance at March 31, 2021 | 116,921,411 | $ — | 397,461,268 | $ 1 | $ 1,924 | $ (1,659) | $ (209) | $ 57 | $ 16 | $ 73 |
| Net income | — | — | — | — | — | 61 | — | 61 | — | 61 |
| Other comprehensive income, net of tax | — | — | — | — | — | — | 15 | 15 | — | 15 |
| Dividends ($0.12 per share) | — | — | — | — | — | (62) | — | (62) | — | (62) |
| Stock-based compensation expense | — | — | — | — | 10 | — | — | 10 | — | 10 |
| Distribution to noncontrolling interest holders | — | — | — | — | — | — | — | — | (3) | (3) |
| Shares issued under Omnibus Incentive Plan | 143 | — | — | — | — | — | — | — | — | — |
| Other | — | — | — | — | — | — | — | — | 1 | 1 |
| Balance at June 30, 2021 | 116,921,554 | $ — | 397,461,268 | $ 1 | $ 1,934 | $ (1,660) | $ (194) | $ 81 | $ 14 | $ 95 |

**Nine Months Ended June 30, 2020**

| | Class A Common Stock | | Class B Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Total Warner Music Group Corp. Deficit | Non-controlling Interest | Total Deficit |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Value | Shares | Value | | | | | | |
| | (in millions, except share and per share data) | | | | | | | | | |
| Balance 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 |
| Cumulative effect of ASC 718 accounting policy change | — | — | — | — | — | 33 | — | 33 | — | 33 |
| Net loss | — | — | — | — | — | (474) | — | (474) | 3 | (471) |
| Other comprehensive loss, net of tax | — | — | — | — | — | — | (13) | (13) | — | (13) |
| Dividends ($0.15 per share) | — | — | — | — | — | (75) | — | (75) | — | (75) |
| Distribution to noncontrolling interest holders | — | — | — | — | — | — | — | — | (6) | (6) |
| Modification of stock-based compensation plan | — | — | — | — | 769 | — | — | 769 | — | 769 |
| Stock-based compensation expense | — | — | — | — | 3 | — | — | 3 | — | 3 |
| Shares listed through IPO | 77,000,000 | — | (77,000,000) | — | — | — | — | — | — | — |
| Other | — | — | 4,169,978 | — | — | 1 | — | 1 | — | 1 |
| Balance at June 30, 2020 | 77,000,000 | $ — | 433,000,000 | $ 1 | $ 1,899 | $ (1,685) | $ (253) | $ (38) | $ 17 | $ (21) |

**Three Months Ended June 30, 2020**

| | Class A Common Stock | | Class B Common Stock | | Additional Paid-in Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Total Warner Music Group Corp. Deficit | Non-controlling Interest | Total Deficit |
|---|---|---|---|---|---|---|---|---|---|---|
| | Shares | Value | Shares | Value | | | | | | |
| | (in millions, except share and per share data) | | | | | | | | | |
| Balance at March 31, 2020 | — | $ — | 510,000,000 | $ 1 | $ 1,127 | $ (1,166) | $ (268) | $ (306) | $ 21 | $ (285) |
| Net loss | — | — | — | — | — | (520) | — | (520) | 1 | (519) |
| Other comprehensive income, net of tax | — | — | — | — | — | — | 15 | 15 | — | 15 |
| Distribution to noncontrolling interest holders | — | — | — | — | — | — | — | — | (5) | (5) |
| Modification of stock-based compensation plan | — | — | — | — | 769 | — | — | 769 | — | 769 |
| Stock-based compensation expense | — | — | — | — | 3 | — | — | 3 | — | 3 |
| Shares listed through IPO | 77,000,000 | — | (77,000,000) | — | — | — | — | — | — | — |
| Other | — | — | — | — | — | 1 | — | 1 | — | 1 |
| Balance at June 30, 2020 | 77,000,000 | $ — | 433,000,000 | $ 1 | $ 1,899 | $ (1,685) | $ (253) | $ (38) | $ 17 | $ (21) |

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.

### *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.

### *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**

**Interim Financial Statements**

The accompanying unaudited consolidated financial statements have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all the information and notes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended June 30, 2021 are not necessarily indicative of the results that may be expected for the fiscal year ending September 30, 2021.

The consolidated balance sheet at September 30, 2020 has been derived from the audited consolidated financial statements at that date but does not include all the information and notes required by U.S. GAAP for complete financial statements.

For further information, refer to the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2020 (File No. 001-32502).

**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.

The Company maintains a 52-53 week fiscal year ending on the last Friday in each reporting period. As such, all references to June 30, 2021 and June 30, 2020 relate to the periods ended June 25, 2021 and June 26, 2020, respectively. For convenience purposes, the Company continues to date its third-quarter financial statements as of June 30. The fiscal year ended September 30, 2020 ended on September 25, 2020.

The Company has performed a review of all subsequent events through the date the financial statements were issued and has determined that no additional disclosures are necessary.

**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 interim 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.

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 is 31,169,099 shares of Class A Common Stock over the 10-year period from the date of adoption, including up to 1,000,000 shares of our Class A Common Stock in connection with the IPO. Since the IPO, a total of 61,423 shares of restricted stock have been issued under the Omnibus Incentive Plan to the Company's directors, which includes zero and 33,062 shares issued during the three and nine months ended June 30, 2021, respectively. Refer to "Stock-Based Compensation" below regarding additional shares issued under our Omnibus Incentive Plan.

In December 2020, all of the outstanding equity interests held by certain participants in the Second Amended and Restated Warner Music Group Corp. Senior Management Free Cash Flow Plan (the "Plan") were settled or redeemed in accordance with the terms of the Plan. The Class A and Class B equity units held by certain participants in WMG Management Holdings, LLC ("Management LLC") were redeemed in exchange for 18,265,183 shares of Class B Common Stock. These shares of Class B Common Stock converted to shares of Class A Common Stock upon exchange. The Company also issued a total of 4,321,259 additional shares of Class A Common Stock to settle the participants' remaining deferred equity units previously issued under the Plan. In March 2021, the Compensation Committee of the Board of Directors of the Company approved an amendment to the Plan that allowed certain remaining Plan participants to redeem a portion of their vested Class B equity units of Management LLC. These Class B equity units were redeemed in exchange for a total of 968,920 shares of Class B Common Stock, which shares of Class B Common Stock converted to shares of Class A Common Stock upon the exchange.

In February 2021, Access converted 4,754,626 shares of Class B Common Stock to the same number of shares of Class A Common Stock, which it subsequently sold through open market sales, which is reflected as an exchange of Class B Common Stock for Class A Common Stock in the consolidated statements of equity for the nine months ended June 30, 2021.

**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 per share were computed by dividing net income 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 per share. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock according to dividends declared and participation rights in undistributed earnings. Undistributed earnings allocated to participating securities are subtracted from net income in determining net income attributable to common stockholders.

**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.

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 required settlement in equity. 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 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. Subsequent to the amendment, the awards issued under the Plan will no longer be adjusted for changes in the value of the Company's common stock. The Company will continue to incur non-cash stock-based compensation expense for awards that were unvested as of the modification date of the Plan and awards issued under the Omnibus Incentive Plan. During the nine months ended June 30, 2021, the Company granted restricted stock units ("RSUs") under the Omnibus Incentive Plan to eligible employees and executives.

The Company recognized approximately $12 million and $33 million of non-cash stock-based compensation expense for the three and nine months ended June 30, 2021, respectively, of which $10 million and $27 million was recorded to additional paid-in capital, and a remaining $6 million has been classified as a share-based compensation liability as of June 30, 2021. The share-based compensation liability represents executive awards that have not yet been granted under the Omnibus Incentive Plan, where a total value is known and settlement will occur in a variable number of RSUs.

**Income Taxes**

The Company uses the estimated annual effective tax rate method in computing its interim tax provision. Certain items, including those deemed to be unusual and infrequent are excluded from the estimated annual effective tax rate. In such cases, the actual tax expense or benefit is reported in the same period as the related item. Certain tax effects are also not reflected in the estimated annual effective tax rate, primarily certain changes in the realizability of deferred tax assets and uncertain tax positions.

**New Accounting Pronouncements**

Recently Adopted Accounting Pronouncements

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. The Company adopted ASU 2016-13 in the first quarter of fiscal 2021 and this adoption did not have a material impact on the Company's consolidated financial statements.

Accounting Pronouncements Not Yet Adopted

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**

The Company utilizes the two-class method to report earnings per share. Basic earnings per share is computed by dividing net income available to each class of stock by the weighted average number of outstanding common shares for each class of stock. Diluted earnings per share is computed by dividing net income 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 potentially dilutive common shares did not have a dilutive effect on the Company's EPS calculation for the three and nine months ended June 30, 2021 and 2020, respectively.

In computing earnings 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 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.

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. Refer to Note 2 for a description of current period activity.

The following table sets forth the calculation of basic and diluted net income (loss) per common share under the two-class method for the three and nine months ended June 30, 2021 and 2020 (in millions, except share and per share data):

| | Three Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2021 | | 2020 | |
| | Class A | Class B | Class A | Class B |
| Basic and Diluted EPS: | | | | |
| Numerator | | | | |
| Net income (loss) attributable to Warner Music Group Corp. | $ 15 | $ 46 | $ (21) | $ (499) |
| Less: Net income attributable to participating securities | (1) | — | — | — |
| Net income (loss) attributable to common stockholders | $ 14 | $ 46 | $ (21) | $ (499) |
| Denominator | | | | |
| Weighted average shares outstanding | 116,890,959 | 397,461,268 | 20,307,692 | 483,796,267 |
| Basic and Diluted EPS | $ 0.12 | $ 0.12 | $ (1.03) | $ (1.03) |

| | Nine Months Ended June 30, | | | |
|---|---|---|---|---|
| | 2021 | | 2020 | |
| | Class A | Class B | Class A | Class B |
| Basic and Diluted EPS: | | | | |
| Numerator | | | | |
| Net income (loss) attributable to Warner Music Group Corp. | $ 61 | $ 215 | $ (7) | $ (467) |
| Less: Net income attributable to participating securities | (4) | — | — | — |
| Net income (loss) attributable to common stockholders | $ 57 | $ 215 | $ (7) | $ (467) |
| Denominator | | | | |
| Weighted average shares outstanding | 108,245,599 | 404,933,311 | 6,769,231 | 495,926,718 |
| Basic and Diluted EPS | $ 0.53 | $ 0.53 | $ (1.09) | $ (0.94) |

## 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:

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | (in millions) | | | |
| **Revenue by Type** | | | | |
| Digital | $ 815 | $ 630 | $ 2,298 | $ 1,889 |
| Physical | 130 | 51 | 422 | 329 |
| Total Digital and Physical | 945 | 681 | 2,720 | 2,218 |
| Artist services and expanded-rights | 133 | 124 | 431 | 427 |
| Licensing | 74 | 56 | 221 | 207 |
| Total Recorded Music | 1,152 | 861 | 3,372 | 2,852 |
| Performance | 27 | 27 | 92 | 114 |
| Digital | 113 | 90 | 316 | 237 |
| Mechanical | 13 | 8 | 36 | 38 |
| Synchronization | 34 | 22 | 105 | 92 |
| Other | 2 | 2 | 7 | 7 |
| Total Music Publishing | 189 | 149 | 556 | 488 |
| Intersegment eliminations | (1) | — | (3) | (3) |
| Total Revenues | $ 1,340 | $ 1,010 | $ 3,925 | $ 3,337 |
| **Revenue by Geographical Location** | | | | |
| U.S. Recorded Music | $ 504 | $ 358 | $ 1,454 | $ 1,191 |
| U.S. Music Publishing | 90 | 74 | 277 | 242 |
| Total U.S. | 594 | 432 | 1,731 | 1,433 |
| International Recorded Music | 648 | 503 | 1,918 | 1,661 |
| International Music Publishing | 99 | 75 | 279 | 246 |
| Total International | 747 | 578 | 2,197 | 1,907 |
| Intersegment eliminations | (1) | — | (3) | (3) |
| Total Revenues | $ 1,340 | $ 1,010 | $ 3,925 | $ 3,337 |

### 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 vinyl, 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 participation 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 vinyl, 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, in addition to other factors to estimate an allowance for credit losses. 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 estimated credit losses.

Based on management's analysis of sales returns, refund liabilities of $29 million and $24 million were established at June 30, 2021 and September 30, 2020, respectively.

Based on management's analysis of estimated credit losses, reserves of $19 million and $23 million were established at June 30, 2021 and September 30, 2020, 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 $347 million during the nine months ended June 30, 2021 related to cash received from customers for fixed fees and minimum guarantees in advance of performance, including amounts recognized in the period. Revenues of $187 million were recognized during the nine months ended June 30, 2021 related to the balance of deferred revenue at September 30, 2020. There were no other significant changes to deferred revenue during the reporting period.

**Performance Obligations**

For the nine months ended June 30, 2021 and June 30, 2020, the Company recognized revenue of $57 million and $35 million, respectively, from performance obligations satisfied in previous periods.

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 June 30, 2021 are as follows:

| | Rest of FY21 | FY22 | FY23 | Thereafter | Total |
|---|---|---|---|---|---|
| | | | (in millions) | | |
| Remaining performance obligations | $ 283 | $ 270 | $ 119 | $ 15 | $ 687 |
| Total | $ 283 | $ 270 | $ 119 | $ 15 | $ 687 |

**5. Comprehensive Income**

Comprehensive income, which is reported in the accompanying consolidated statements of equity (deficit), 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 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, *Derivatives and Hedging*, which include foreign exchange contracts. The following summary sets forth the changes in the components of accumulated other comprehensive loss, net of related tax expense of approximately $3 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, 2020 | $ (181) | $ (12) | $ (29) | $ (222) |
| Other comprehensive income | 19 | — | 9 | 28 |
| Balances at June 30, 2021 | $ (162) | $ (12) | $ (20) | $ (194) |

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

**6. 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 are 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 21 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 June 30, 2021, the aggregate lease liability related to these leases was $128 million.

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 were as follows:

| | Three Months Ended June 30, | | Nine Months Ended June 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| | (in millions) | | | |
| **Lease Cost** | | | | |
| Operating lease cost | $ 13 | 14 | $ 41 | $ 40 |
| Short-term lease cost | 1 | — | 2 | — |
| Variable lease cost | 3 | 2 | 8 | 7 |
| Sublease income | — | — | — | — |
| Total lease cost | $ 17 | $ 16 | $ 51 | $ 47 |

The Company incurred and recorded other occupancy expenses of $3 million and $11 million for the three and nine months ended June 30, 2021, respectively, and $4 million and $13 million for the three and nine months ended June 30, 2020, respectively.

Supplemental cash flow information related to leases was as follows:

| | Nine Months Ended June 30, | |
|---|---|---|
| | 2021 | 2020 |
| | (in millions) | |
| Cash paid for amounts included in the measurement of operating lease liabilities | $ 44 | $ 41 |
| Right-of-use assets obtained in exchange for operating lease obligations | 24 | 12 |

Supplemental balance sheet information related to leases was as follows:

| | June 30, 2021 | September 30, 2020 |
|---|---|---|
| | (in millions) | |
| **Operating Leases** | | |
| Operating lease right-of-use assets | $ 273 | $ 273 |
| | | |
| Operating lease liabilities, current | $ 43 | $ 39 |
| Operating lease liabilities, noncurrent | 293 | 299 |
| Total operating lease liabilities | $ 336 | $ 338 |
| | | |
| **Weighted Average Remaining Lease Term** | | |
| Operating leases | 8 years | 8 years |
| **Weighted Average Discount Rate** | | |
| Operating leases | 4.67 % | 4.58 % |

Maturities of lease liabilities were as follows:

| Years | Operating Leases |
|---|---|
| | (in millions) |
| 2021 | $ 43 |
| 2022 | 55 |
| 2023 | 52 |
| 2024 | 49 |
| 2025 | 47 |
| Thereafter | 160 |
| Total lease payments | 406 |
| Less: Imputed interest | (70) |
| Total | $ 336 |

As of June 30, 2021, there have been no leases entered into that have not yet commenced.

## 7. 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, 2020 | $ 1,367 | $ 464 | $ 1,831 |
| Acquisitions (a) | (7) | — | (7) |
| Other adjustments (b) | 12 | — | 12 |
| Balances at June 30, 2021 | $ 1,372 | $ 464 | $ 1,836 |

(a) Includes purchase price allocations for acquisitions closed during the nine months ended June 30, 2021 offset by measurement period adjustments for acquisitions which closed during the fiscal year ended September 30, 2020.

(b) Other adjustments during the nine months ended June 30, 2021 represent foreign currency movements.

The Company performs its annual goodwill impairment test in accordance with ASC 350, *Intangibles—Goodwill and Other* (“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. No indicators of impairment were identified during the current period that required the Company to perform an interim assessment or recoverability test.

**Intangible Assets**

Intangible assets consist of the following:

| | Weighted-Average Useful Life | June 30, 2021 | September 30, 2020 |
|---|---|---|---|
| | | (in millions) | |
| Intangible assets subject to amortization: | | | |
| Recorded music catalog | 12 years | $ 1,179 | $ 876 |
| Music publishing copyrights | 26 years | 1,735 | 1,597 |
| Artist and songwriter contracts | 13 years | 1,003 | 862 |
| Trademarks | 15 years | 96 | 81 |
| Other intangible assets | 6 years | 109 | 84 |
| Total gross intangible asset subject to amortization | | 4,122 | 3,500 |
| Accumulated amortization | | (2,061) | (1,847) |
| Total net intangible assets subject to amortization | | 2,061 | 1,653 |
| Intangible assets not subject to amortization: | | | |
| Trademarks and tradenames | Indefinite | 156 | 154 |
| Total net intangible assets | | $ 2,217 | $ 1,807 |

The increase in intangible assets during the nine months ended June 30, 2021 primarily relates to certain acquisition transactions of music-related assets within recorded music catalogs, music publishing copyrights, and artist and songwriter contracts for approximately $470 million.

**8. Debt**

**Debt Capitalization**

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

| | June 30, 2021 | September 30, 2020 |
|---|---|---|
| | (in millions) | |
| Revolving Credit Facility (a) | $ — | $ — |
| Senior Term Loan Facility due 2028 | 1,145 | 820 |
| 3.625% Senior Secured Notes due 2026 (€445 face amount) | 531 | 518 |
| 2.750% Senior Secured Notes due 2028 (€325 face amount) | 387 | 379 |
| 3.875% Senior Secured Notes due 2030 | 535 | 535 |
| 3.000% Senior Secured Notes due 2031 | 800 | 550 |
| 5.500% Senior Notes due 2026 (b) | — | 325 |
| Total long-term debt, including the current portion | $ 3,398 | $ 3,127 |
| Issuance premium less unamortized discount and unamortized deferred financing costs | (31) | (23) |
| Total long-term debt, including the current portion, net | $ 3,367 | $ 3,104 |

(a) Reflects $300 million of commitments under the Revolving Credit Facility, less letters of credit outstanding of approximately $10 million at both June 30, 2021 and September 30, 2020. There were no loans outstanding under the Revolving Credit Facility at June 30, 2021 or September 30, 2020.

(b) In April 2021, the 5.500% Senior Notes due 2026 were redeemed in full.

The Company is the direct parent of Holdings, which is the direct parent of Acquisition Corp. As of June 30, 2021 Acquisition Corp. had issued and outstanding the 3.625% Senior Secured 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 are guaranteed by the Company. The Company's guarantee of the 3.625% Senior Secured Notes due 2026 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.

**Recent Transactions**

***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. The Additional Notes have identical terms as (other than the issue date and the issue price) and are fungible with, and treated as a single series of senior secured debt securities with, the 3.000% Senior Secured Notes issued on August 12, 2020 (the “Original Notes”).

***Senior Term Loan Facility***

On January 20, 2021, Acquisition Corp. entered into an amendment (the “Senior Term Loan Credit Agreement Amendment”) to the credit agreement, dated November 1, 2012 (as amended by the amendments dated as of May 9, 2013, July 13, 2016, November 21, 2016, May 22, 2017, December 6, 2017 and June 7, 2018), among Acquisition Corp., the guarantors party thereto, the lenders party thereto and Credit Suisse AG, as administrative agent, governing the Senior Term Loan Facility with Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto (the “Senior Term Loan Credit Agreement”). The Senior Term Loan Credit Agreement Amendment (among other changes) (i) extends the maturity date of its outstanding term loans from November 1, 2023 to January 20, 2028 and (ii) removes a number of negative covenants limiting the ability of Acquisition Corp. to take various actions. The remaining negative covenants are limited to restrictions on liens, restrictions on fundamental changes and change of control, and are in a form substantially similar to the negative covenants in the 2.750% Senior Secured Notes due 2028, 3.875% Senior Secured Notes due 2030 and 3.000% Senior Secured Notes due 2031. The Company recorded approximately $3 million of expenses associated with fees paid to third parties in connection with this debt modification and capitalized approximately $1 million in fees paid to creditors.

***Revolving Credit Agreement Amendment***

On March 1, 2021, Acquisition Corp. entered into an amendment (the “Revolving Credit Agreement Amendment”) to the revolving credit agreement, dated January 31, 2018 (as amended by the amendments dated as of October 9, 2019 and April 3, 2020), among Acquisition Corp., the several banks and other financial institutions party thereto and Credit Suisse AG, as administrative agent, governing Acquisition Corp.’s 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 Agreement Amendment (among other changes) adds certain exceptions and increases the leverage ratio below which Acquisition Corp. can access certain baskets in connection with Acquisition Corp.’s negative covenants, including those related to incurrence of indebtedness, restricted payments and covenant suspension.

***Senior Term Loan Facility Increase Supplement and Redemption of 5.500% Senior Notes due 2026***

On March 8, 2021, Acquisition Corp. entered into an Increase Supplement (the “Increase Supplement”), dated as of March 8, 2021, among Acquisition Corp., the guarantors party thereto, WMG Holdings Corp., Credit Suisse AG, Cayman Islands Branch, as increasing lender, and Credit Suisse AG, as administrative agent, to the Senior Term Loan Credit Agreement, whereby prior to April 22, 2021 and subject to the satisfaction of certain conditions, Acquisition Corp. may borrow additional term loans in an amount up to $325 million for an aggregate principal amount outstanding under the Senior Term Loan Credit Agreement of up to $1,145 million. The Increase Supplement was entered into to provide for the redemption of Acquisition Corp.’s 5.500% Senior Notes due 2026 (the “5.500% Notes”).

On April 14, 2021, Acquisition Corp. borrowed additional term loans in an amount of $325 million under the Increase Supplement. Following such borrowing, there was an aggregate principal amount outstanding under the Senior Term Loan Credit Agreement of $1,145 million.

On April 15, 2021, Acquisition Corp. redeemed all of the outstanding 5.500% Notes. The redemption price for the 5.500% Notes was approximately $343 million, equivalent to 102.750% of the principal amount of the 5.500% Notes, plus accrued but unpaid

interest thereon to, but excluding, the redemption date, which was April 15, 2021. The Company recorded a loss on extinguishment of debt of approximately $12 million for the three and nine months ended June 30, 2021, 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 3.00x at June 30, 2021, the applicable margin for Eurodollar loans would be 1.375% instead of 1.875% and the applicable margin for ABR loans would be 0.375% 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 11 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 January 20, 2028.

**Maturity of Revolving Credit Facility**

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

**Maturities of Senior Secured Notes**

As of June 30, 2021, there are no scheduled maturities of notes until 2026, when $531 million is scheduled to mature. Thereafter, $1.722 billion is scheduled to mature.

**Interest Expense, net**

Total interest expense, net was $30 million and $32 million for the three months ended June 30, 2021 and 2020, respectively, and $93 million and $98 million for the nine months ended June 30, 2021 and 2020, respectively. The weighted-average interest rate of the Company's total debt was 3.4% at June 30, 2021, 3.7% at September 30, 2020 and 4.0% at June 30, 2020.

### 9. Commitments and Contingencies

From time to time the Company is involved in claims and legal proceedings that arise in the ordinary course of business. The Company is currently subject to several such claims and legal proceedings. Based on currently available information, the Company does not believe that resolution of pending matters will have a material adverse effect on its financial condition, cash flows or results of operations. However, litigation is subject to inherent uncertainties, and there can be no assurances that the Company's defenses will be successful or that any such lawsuit or claim would not have a material adverse impact on the Company's business, financial condition, cash flows and results of operations in a particular period. Any claims or proceedings against the Company, whether meritorious or not, can have an adverse impact because of defense costs, diversion of management and operational resources, negative publicity and other factors.

### 10. 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 significantly revised the U.S. federal corporate income tax provisions, including, but not limited to, 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"). GILTI, FDII and BEAT were 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.

As a result of final regulations regarding the interest expense allocation rules issued by the Internal Revenue Service in December 2019, the Company concluded that it is more likely than not that the entire amount of the Company's deferred tax assets relating to foreign tax credit carryforwards will be realized. Consequently, the Company released its $33 million valuation allowance at September 30, 2019 relating to such deferred tax assets and recognized a corresponding U.S. tax benefit of $33 million during the three months ended December 31, 2019. The Company will continue to weigh the evidence including the projections of sufficient future taxable income, foreign source income and the reversal of future taxable temporary differences to assess the future realization of our foreign tax credits.

As a result of the IPO in June 2020, the Company is subject to limitation on the deductibility of executive compensation under Internal Revenue Code ("IRC") Section 162(m).

For the three and nine months ended June 30, 2021, the Company recorded an income tax expense of $41 million and $127 million, respectively. The income tax expense for the three months ended June 30, 2021 is higher than the expected tax expense at the statutory tax rate of 21% primarily due to income tax arising from an increase in our net U.K. deferred tax liability due to the change in the U.K. future statutory tax rate, U.S. state and local taxes, foreign income taxes at rates higher than the U.S., and non-deductible executive compensation under IRC Section 162(m), offset by FDII. The income tax expense for the nine months ended June 30, 2021 is higher than the expected tax expense at the statutory tax rate of 21% primarily due to income tax arising from an increase in our net U.K. deferred tax liability due to the change in the U.K. future statutory tax rate, U.S. state and local taxes, foreign income taxes at rates higher than the U.S., and non-deductible executive compensation under IRC Section 162(m), offset by FDII and excess tax benefits from the Plan.

For the three and nine months ended June 30, 2020, the Company recorded an income tax expense of $51 million and $44 million, respectively. The income tax expense for the three months ended June 30, 2020 is higher than the expected tax benefit at the statutory tax rate of 21% primarily due to non-deductible expenses of the Plan, non-deductible transaction costs and non-deductible executive compensation under IRC Section 162(m). The income tax expense for the nine months ended June 30, 2020 is higher than the expected tax benefit at the statutory rate of 21% primarily due to non-deductible expenses of the Plan, non-deductible transaction costs and non-deductible executive compensation under IRC Section 162(m), offset by the tax benefit of the valuation allowance release relating to foreign tax credit carryforwards.

The Company has determined that it is reasonably possible that the gross unrecognized tax benefits as of June 30, 2021 could decrease by up to approximately $2 million related to various ongoing audits and settlement discussions in various foreign jurisdictions during the next twelve months.

### 11. 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.

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 14. 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 June 30, 2021 are expected to be recognized within three 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 14. 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 June 30, 2021, the Company had outstanding hedge contracts for the sale of $131 million and the purchase of $85 million of foreign currencies at fixed rates that will be settled by September 2021.

As of June 30, 2021, the Company had outstanding $820 million in pay-fixed receive-variable interest rate swaps with $20 million of unrealized deferred losses in comprehensive income related to the interest rate swaps. 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 income related to the interest rate swaps.

The Company recorded realized pre-tax losses of $4 million and no unrealized pre-tax gains or losses related to its foreign currency forward exchange contracts in the consolidated statement of operations as other expense for the nine months ended June 30, 2021. The Company recorded realized pre-tax losses of $2 million and no unrealized pre-tax gains or losses related to its foreign currency forward exchange contracts in the consolidated statement of operations as other expense for the nine months ended June 30, 2020.

The unrealized pre-tax gains of the Company's derivative interest rate swaps designated as cash flow hedges recorded in other comprehensive income during the nine months ended June 30, 2021 were $12 million. 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 nine months ended June 30, 2020 were $29 million.

The following is a summary of amounts recorded in the consolidated balance sheets pertaining to the Company's derivative instruments at June 30, 2021 and September 30, 2020:

| | June 30, 2021 (a) | September 30, 2020 (b) |
|---|---|---|
| | (in millions) | |
| Other current assets | $ — | $ — |
| Other current liabilities | — | — |
| Other noncurrent assets | — | — |
| Other noncurrent liabilities | (26) | (38) |

(a) $4 million and $4 million of foreign exchange derivative contracts in current asset and liability positions, respectively, and $26 million of interest rate swaps in noncurrent liability positions.

(b) $38 million of interest rate swaps in noncurrent liability positions.

**12. 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.

| Three Months Ended | Recorded Music | Music Publishing | Corporate expenses and eliminations | Total |
|---|---|---|---|---|
| | (in millions) | | | |
| **June 30, 2021** | | | | |
| Revenues | $ 1,152 | $ 189 | $ (1) | $ 1,340 |
| Operating income (loss) | 197 | 21 | (56) | 162 |
| Amortization of intangible assets | 39 | 21 | — | 60 |
| Depreciation of property, plant and equipment | 14 | 1 | 4 | 19 |
| OIBDA | 250 | 43 | (52) | 241 |
| **June 30, 2020** | | | | |
| Revenues | $ 861 | $ 149 | $ — | $ 1,010 |
| Operating income (loss) | (160) | 14 | (287) | (433) |
| Amortization of intangible assets | 30 | 17 | — | 47 |
| Depreciation of property, plant and equipment | 11 | 2 | 2 | 15 |
| OIBDA | (119) | 33 | (285) | (371) |

| Nine Months Ended | Recorded Music | Music Publishing | Corporate expenses and eliminations | Total |
|---|---|---|---|---|
| | (in millions) | | | |
| **June 30, 2021** | | | | |
| Revenues | $ 3,372 | $ 556 | $ (3) | $ 3,925 |
| Operating income (loss) | 604 | 61 | (156) | 509 |
| Amortization of intangible assets | 110 | 60 | — | 170 |
| Depreciation of property, plant and equipment | 40 | 4 | 13 | 57 |
| OIBDA | 754 | 125 | (143) | 736 |
| **June 30, 2020** | | | | |
| Revenues | $ 2,852 | $ 488 | $ (3) | $ 3,337 |
| Operating income (loss) | 67 | 58 | (442) | (317) |
| Amortization of intangible assets | 89 | 52 | — | 141 |
| Depreciation of property, plant and equipment | 42 | 4 | 7 | 53 |
| OIBDA | 198 | 114 | (435) | (123) |

## 13. Additional Financial Information

### Cash Interest and Taxes

The Company made interest payments of approximately $28 million and $43 million during the three months ended June 30, 2021 and 2020, respectively, and approximately $92 million and $108 million during the nine months ended June 30, 2021 and 2020, respectively. The Company paid approximately $37 million and $18 million of income and withholding taxes, net of refunds, for the three months ended June 30, 2021 and 2020, respectively, and approximately $89 million and $58 million of income and withholding taxes, net of refunds, for the nine months ended June 30, 2021 and 2020, 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.

The Company 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 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.

On May 13, 2021, 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 to stockholders on June 1, 2021. The Company paid an aggregate of approximately $62 million and $187 million, or $0.12 and $0.36 per share, in cash dividends to stockholders and participating security holders for the three and nine months ended June 30, 2021, respectively.

**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 for the three and nine months ended June 30, 2021 and June 30, 2020, including touring and live events. While global vaccination efforts are underway and businesses are beginning to reopen, the continued impact of COVID-19, including any increases in infection rates, new variants and renewed governmental action to slow the spread of COVID-19 cannot be predicted. As such, it is unclear how long the global pandemic will last and to what extent it will impact demand for the Company's music and related services.

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.

**14. 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 tables show the fair value of the Company's financial instruments that are required to be measured at fair value as of June 30, 2021 and September 30, 2020.

| | Fair Value Measurements as of June 30, 2021 | | | |
|---|---|---|---|---|
| | (Level 1) | (Level 2) | (Level 3) | Total |
| | | (in millions) | | |
| *Other Current Liabilities:* | | | | |
| Contractual Obligations (a) | — | — | (4) | (4) |
| *Other Noncurrent Assets:* | | | | |
| Equity Method Investment (b) | — | 54 | — | 54 |
| Equity Investment with Readily Determinable Fair Value (c) | 39 | — | — | 39 |
| *Other Noncurrent Liabilities:* | | | | |
| Contractual Obligations (a) | — | — | (13) | (13) |
| Interest Rate Swaps (d) | — | (26) | — | (26) |
| Total | $ 39 | $ 28 | $ (17) | $ 50 |

| | 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 (b) | — | 47 | — | 47 |
| *Other Noncurrent Liabilities:* | | | | |
| Contractual Obligations (a) | — | — | (4) | (4) |
| Interest Rate Swaps (d) | — | (38) | — | (38) |
| Total | $ — | $ 9 | $ (6) | $ 3 |

(a) This represents contingent consideration related to an acquisition. This is based on a probability weighted performance approach and it is adjusted to fair value on a recurring basis and any adjustments are typically included as a component of operating income in the consolidated statements of operations. This amount was mainly calculated using unobservable inputs such as future earnings performance of the acquiree and the expected timing of the payment.

(b) This 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.

(c) This represents an equity investment with a readily determinable fair value that was acquired and subsequently became publicly traded during the nine months ended June 30, 2021. The Company has measured its investment to fair value in accordance with ASC 321, *Investments—Equity Securities*, based on quoted prices in active markets. The Company recognized an unrealized gain on this equity investment of $7 million and $19 million for the three and nine months ended June 30, 2021, respectively, which was recorded as other income in the consolidated statements of operations.

(d) 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 June 30, 2021 for contracts involving the same attributes and maturity dates.

The following table reconciles the beginning and ending balances of net liabilities classified as Level 3:

| | Total |
|---|---|
| | (in millions) |
| Balance at September 30, 2020 | $ (6) |
| Additions | (11) |
| Reductions | — |
| Payments | — |
| Balance at June 30, 2021 | $ (17) |

Additions to net liabilities during the nine months ended June 30, 2021 include a measurement period adjustment of $7 million to contingent consideration for a fiscal 2020 acquisition.

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 three and nine months ended June 30, 2021 and 2020. In addition, there were no observable price changes events that were completed during the three and nine months ended June 30, 2021 and 2020.

**Fair Value of Debt**

Based on the level of interest rates prevailing at June 30, 2021, the fair value of the Company's debt was $3.383 billion. Based on the level of interest rates prevailing at September 30, 2020, the fair value of the Company's debt was $3.137 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.

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion of our results of operations and financial condition with the unaudited interim financial statements included elsewhere in this Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2021 (the "Quarterly Report").

### "SAFE HARBOR" STATEMENT UNDER PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

This Quarterly Report includes forward-looking statements and cautionary 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 Quarterly 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 Quarterly 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 Quarterly 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 “Risk Factors” of our Quarterly Reports on Form 10-Q for the quarterly periods ended March 31, 2021 and June 30, 2021, and in our Annual Report on Form 10-K for the fiscal year ended September 30, 2020.

You should read this Quarterly Report completely and with the understanding that actual future results may be materially different from expectations. All forward-looking statements made in this Quarterly 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 the "Risk Factors" of our Quarterly Reports and our Annual Report on Form 10-K, could cause our actual results to differ materially from those projected in any forward-looking statements we make. You should read carefully the factors described in the "Risk Factors" section of our Quarterly Reports and our Annual Report on Form 10-K to better understand the risks and uncertainties inherent in our business and underlying any forward-looking statements.

## INTRODUCTION

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.

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.

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 unaudited 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 three and nine months ended June 30, 2021 and June 30, 2020. 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 nine months ended June 30, 2021 and June 30, 2020, as well as a discussion of our financial condition and liquidity as of June 30, 2021. 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.

### 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 our "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 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 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 digital performance 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 (also referred to as "COVID"), was identified in Wuhan, China. On March 11, 2020, the World Health Organization declared a global pandemic. The global pandemic and governmental responses thereto disrupted physical and manufacturing supply chains and required the closures of physical retailers, resulting in declines in our physical revenue streams at the onset of the pandemic. 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 difficult 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 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 did accelerate growth of other revenue streams such as fitness and interactive gaming (including augmented reality and virtual reality), which continue to grow. While global vaccination efforts are underway and businesses are beginning to reopen, it is unclear how long the global pandemic will last due to the possibility of new variants, increases in infection rates and renewed government action to slow the spread of the virus, and as such, it cannot be predicted to what extent the global pandemic will continue to impact the demand for our music and related services.

Our results of operations, cash flows and financial condition for both the three and nine months ended June 30, 2021 and June 30, 2020, were adversely affected by the global pandemic despite some recovery in the current quarter as businesses are beginning to reopen. The Company recognized a one-time $2 million credit loss reserve reversal impacting OIBDA for the three and nine months ended June 30, 2021, compared to one-time charges of $13 million impacting OIBDA and a total of $18 million impacting net income for the nine months ended June 30, 2020. No such charges were incurred for the three months ended June 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. 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 three and nine months ended June 30, 2021, costs associated with being a public company were $3 million and $9 million, respectively.

***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. 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 awards issued under the Omnibus Incentive Plan.

We incurred non-cash stock-based compensation expense and other related expenses of $14 million and $440 million for the three months ended June 30, 2021 and June 30, 2020, respectively, and $36 million and $600 million for the nine months ended June 30, 2021 and June 30, 2020, respectively.

## RESULTS OF OPERATIONS

### Three Months Ended June 30, 2021 Compared with Three Months Ended June 30, 2020

***Consolidated Results***

***Revenues***

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

| | For the Three Months Ended June 30, | | 2021 vs. 2020 | |
|---|---|---|---|---|
| | 2021 | 2020 | $ Change | % Change |
| **Revenue by Type** | | | | |
| Digital | $ 815 | $ 630 | $ 185 | 29 % |
| Physical | 130 | 51 | 79 | 155 % |
| Total Digital and Physical | 945 | 681 | 264 | 39 % |
| Artist services and expanded-rights | 133 | 124 | 9 | 7 % |
| Licensing | 74 | 56 | 18 | 32 % |
| Total Recorded Music | 1,152 | 861 | 291 | 34 % |
| Performance | 27 | 27 | — | — % |
| Digital | 113 | 90 | 23 | 26 % |
| Mechanical | 13 | 8 | 5 | 63 % |
| Synchronization | 34 | 22 | 12 | 55 % |
| Other | 2 | 2 | — | — % |
| Total Music Publishing | 189 | 149 | 40 | 27 % |
| Intersegment eliminations | (1) | — | (1) | — % |
| Total Revenues | $ 1,340 | $ 1,010 | $ 330 | 33 % |
| **Revenue by Geographical Location** | | | | |
| U.S. Recorded Music | $ 504 | $ 358 | $ 146 | 41 % |
| U.S. Music Publishing | 90 | 74 | 16 | 22 % |
| Total U.S. | 594 | 432 | 162 | 38 % |
| International Recorded Music | 648 | 503 | 145 | 29 % |
| International Music Publishing | 99 | 75 | 24 | 32 % |
| Total International | 747 | 578 | 169 | 29 % |
| Intersegment eliminations | (1) | — | (1) | — % |
| Total Revenues | $ 1,340 | $ 1,010 | $ 330 | 33 % |

***Total Revenues***

Total revenues increased by $330 million, or 33%, to $1,340 million for the three months ended June 30, 2021 from $1,010 million for the three months ended June 30, 2020. The increase includes $49 million of favorable currency exchange fluctuations. Prior to intersegment eliminations, Recorded Music and Music Publishing revenues represented 86% and 14% of total revenue for the three months ended June 30, 2021, respectively, and 85% and 15% of total revenue for the three months ended June 30, 2020, respectively. Prior to intersegment eliminations, U.S. and international revenues represented 44% and 56% of total revenues for the three months ended June 30, 2021, respectively, and 43% and 57% of total revenues for the three months ended June 30, 2020, respectively.

Total digital revenues after intersegment eliminations increased by $208 million, or 29%, to $928 million for the three months ended June 30, 2021 from $720 million for the three months ended June 30, 2020. Total digital revenues represented 69% and 71% of consolidated revenues for the three months ended June 30, 2021 and June 30, 2020, respectively. Prior to intersegment eliminations, total digital revenues for the three months ended June 30, 2021 were comprised of U.S. revenues of $458 million and international revenues of $470 million, respectively or 49% and 51% of total digital revenues, respectively. Prior to intersegment eliminations, total digital revenues for the three months ended June 30, 2020 were comprised of U.S. revenues of $363 million and international revenues of $357 million, respectively, or 50% of total digital revenues for each of U.S. and international revenues.

Recorded Music revenues increased by $291 million, or 34%, to $1,152 million for the three months ended June 30, 2021 from $861 million for the three months ended June 30, 2020. The increase includes $42 million of favorable currency exchange fluctuations. U.S. Recorded Music revenues were $504 million and $358 million, or 44% and 42%, of consolidated Recorded Music revenues for the three months ended June 30, 2021 and June 30, 2020, respectively. International Recorded Music revenues were $648 million and $503 million, or 56% and 58%, of consolidated Recorded Music revenues for the three months ended June 30, 2021 and June 30, 2020, respectively.

The overall increase in Recorded Music revenue was driven by increases in digital, physical, licensing, and artist services and expanded-rights revenues. Digital revenue increased by $185 million as a result of the continued growth in streaming services, including growth in emerging streaming platforms such as Facebook, TikTok, and Peloton, strength of releases including the current year release from Cardi B and Masked Wolf as well as carryover success from Dua Lipa, Ed Sheeran, and Ava Max. Revenue from streaming services grew by $192 million, or 33%, to $781 million for the three months ended June 30, 2021 from $589 million for the three months ended June 30, 2020. Digital revenue growth was partially offset by decreases in digital download and other digital declines of $7 million, or 17%, to $34 million for the three months ended June 30, 2021 from $41 million for the three months ended June 30, 2020 due to the continued shift to streaming services. Physical revenue increased by $79 million, or 155%, primarily from higher sales due to an increased demand for vinyl products, increasing retail sales as businesses began to recover from the COVID disruption, as well as the favorable impact of foreign currency exchange rates of $4 million. Artist services and expanded-rights revenue increased by $9 million primarily due to higher direct-to-consumer merchandising revenue at EMP and the favorable impact of foreign currency exchange rates of $8 million, partially offset by the decrease in touring activity resulting from the COVID disruption. Licensing revenue increased by $18 million mainly due to higher broadcast fees and synchronization revenue as businesses began to recover from the COVID disruption, and favorable foreign currency exchange rates.

Music Publishing revenues increased by $40 million, or 27%, to $189 million for the three months ended June 30, 2021 from $149 million for the three months ended June 30, 2020. U.S. Music Publishing revenues were $90 million and $74 million, or 48% and 50%, of consolidated Music Publishing revenues for the three months ended June 30, 2021 and June 30, 2020, respectively. International Music Publishing revenues were $99 million and $75 million or 52% and 50%, of consolidated Music Publishing revenues for the three months ended June 30, 2021 and June 30, 2020, respectively.

The overall increase in Music Publishing revenue was mainly driven by increases in digital revenue of $23 million, synchronization revenue of $12 million, and mechanical revenue of $5 million. The increase in digital revenue of 26% to $113 million is primarily due to increases in streaming revenue driven by the continued growth in streaming services and timing of new digital deals, partially offset by a shift in the collection of certain writer’s share income from certain digital service providers. This change has no impact on Music Publishing OIBDA, but results in a slight improvement to OIBDA margin. The increase in synchronization revenue is attributable to higher motion picture and commercial income. The increase in mechanical revenue is a result of businesses beginning to recover from the COVID disruption. Performance revenue was flat due to the ongoing COVID impact on bars, restaurants, concerts and live events, partially offset by the favorable impact of foreign currency exchange rates.

***Revenue by Geographical Location***

U.S. revenue increased by $162 million, or 38%, to $594 million for the three months ended June 30, 2021 from $432 million for the three months ended June 30, 2020. U.S. Recorded Music revenue increased by $146 million, or 41%. The primary driver was the increase of U.S. Recorded Music digital revenue of $85 million driven by the continued growth in streaming services. Increases are also attributable to the increase in U.S. Recorded Music physical revenue of $43 million from higher sales due to an increased demand for vinyl products and increasing retail sales as businesses began to recover from the COVID disruption. U.S. Recorded Music artist services and expanded-rights revenue increased $13 million primarily driven by higher advertising and platform revenues from recent acquisitions. The increase in licensing revenue of $5 million is due to higher synchronization activity. U.S. Music Publishing revenue increased by $16 million, or 22%, to $90 million for the three months ended June 30, 2021 from $74 million for the three months ended June 30, 2020. This was primarily driven by the increase in U.S. Music Publishing of $10 million in digital revenue due to the continued growth in streaming services and timing of new digital deals. The increase in synchronization revenue of $6 million is due to higher motion picture and commercial income. The increase in performance revenue of $2 million is a result of businesses beginning to recover from the COVID disruption. Increases are partially offset by the decrease in mechanical revenue of $1 million driven by the continuing shift to streaming services.

International revenue increased by $169 million, or 29%, to $747 million for the three months ended June 30, 2021 from $578 million for the three months ended June 30, 2020. Excluding the favorable impact of foreign currency exchange rates, International revenue increased by $120 million, or 19%. International Recorded Music revenue increased by $145 million primarily due to increases in digital revenue of $100 million, physical revenue of $36 million, and licensing revenue of $13 million, partially offset by the decrease in artist services and expanded-rights revenue of $4 million. The increase in International Recorded Music digital revenue was due to continued growth in streaming services internationally. International Recorded Music physical revenue increased by $36 million due to the increased demand for vinyl products, increasing retail sales as businesses began to recover from the COVID disruption, and favorable impact of foreign currency exchange rates. International Recorded Music licensing revenue increased by $13 million due to higher broadcast fees, and favorable impact of foreign currency exchange rates. International Recorded Music artist services and expanded-rights revenue decreased by $4 million primarily due to the decrease in touring activity resulting from the COVID disruption. This was offset by growth in EMP direct-to-consumer merchandise revenue and the favorable impact of foreign currency exchange rates of $8 million. International Music Publishing revenue increased from the prior-year quarter by $24 million, or 32%, to $99 million for the three months ended June 30, 2021 from $75 million for the three months ended June 30, 2020. This was primarily driven by the increase in digital revenue of $13 million, synchronization revenue of $6 million, and mechanical revenue of $6 million, partially offset by the decrease in performance revenue of $2 million. The increase in digital revenue is primarily due to increases in streaming revenue driven by the continued growth in streaming services and timing of new digital deals. Higher synchronization revenue is primarily driven by higher commercial income. The increase in mechanical revenue is a result of businesses beginning to recover from the COVID disruption and favorable impact of foreign currency exchange rates. The decline in performance revenue is due to the impact from the COVID disruption.

***Cost of revenues***

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

| | For the Three Months Ended June 30, | | *2021 vs. 2020* | |
|---|---|---|---|---|
| | 2021 | 2020 | $ Change | % Change |
| Artist and repertoire costs | $ 444 | $ 367 | $ 77 | 21 % |
| Product costs | 237 | 160 | 77 | 48 % |
| Total cost of revenues | $ 681 | $ 527 | $ 154 | 29 % |

Artist and repertoire costs increased by $77 million, to $444 million for the three months ended June 30, 2021 from $367 million for the three months ended June 30, 2020. Artist and repertoire costs as a percentage of revenue decreased to 33% for the three months ended June 30, 2021 from 36% for the three months ended June 30, 2020. The overall decrease as a percentage of revenue is due to revenue mix.

Product costs increased by $77 million, to $237 million for the three months ended June 30, 2021 from $160 million for the three months ended June 30, 2020. Product costs as a percentage of revenue increased to 18% for the three months ended June 30, 2021 from 16% for the three months ended June 30, 2020. The overall increase as a percentage of revenue is due to revenue mix, primarily increases in physical revenue.

***Selling, general and administrative expenses***

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

| | For the Three Months Ended June 30, | | *2021 vs. 2020* | |
|---|---|---|---|---|
| | 2021 | 2020 | $ Change | % Change |
| General and administrative expense (1) | $ 223 | $ 717 | $ (494) | -69 % |
| Selling and marketing expense | 190 | 133 | 57 | 43 % |
| Distribution expense | 24 | 19 | 5 | 26 % |
| Total selling, general and administrative expense | $ 437 | $ 869 | $ (432) | -50 % |

(1) Includes depreciation expense of $19 million and $15 million for the three months ended June 30, 2021 and for the three months ended June 30, 2020, respectively.

Total selling, general and administrative expense decreased by $432 million, or 50%, to $437 million for the three months ended June 30, 2021 from $869 million for the three months ended June 30, 2020. Expressed as a percentage of revenue, selling, general and administrative expense decreased to 33% for the three months ended June 30, 2021 from 86% for the three months ended June 30, 2020. This is primarily due to lower non-cash stock-based compensation and other related expenses of $426 million, the

prior-year quarter management agreement termination fee and IPO related expenses totaling $86 million. Excluding the expense associated with non-cash stock-based compensation and other related expenses, the prior-year quarter management agreement termination fee and IPO related expenses, selling, general and administrative expense as a percentage of revenue decreased to 32% for the three months ended June 30, 2021 from 34% for the three months ended June 30, 2020.

General and administrative expense decreased by $494 million to $223 million for the three months ended June 30, 2021 from $717 million for the three months ended June 30, 2020. The decrease in general and administrative expense was mainly due to lower non-cash stock-based compensation and other related expenses of $426 million, the prior-year quarter management agreement termination fee and IPO related expenses totaling $86 million, and credit loss reserve reversal, partially offset by increased employee related costs. Expressed as a percentage of revenue, general and administrative expense decreased to 17% for the three months ended June 30, 2021 from 71% for the three months ended June 30, 2020. Excluding the expense associated with non-cash stock-based compensation and other related expenses, the prior-year quarter management agreement termination fee and IPO related expenses, general and administrative expenses as a percentage of revenue decreased to 16% for the three months ended June 30, 2021 from 19% for the three months ended June 30, 2020 due to COVID related revenue impacts in the prior-year quarter.

Selling and marketing expense increased by $57 million, or 43%, to $190 million for the three months ended June 30, 2021 from $133 million for the three months ended June 30, 2020. Expressed as a percentage of revenue, selling and marketing expense increased to 14% for the three months ended June 30, 2021 from 13% for the three months ended June 30, 2020 due to an increase in spend as a percentage of revenue resulting from an increase in variable marketing in Recorded Music driven by the COVID disruption in the prior-year quarter.

Distribution expense was $24 million for the three months ended June 30, 2021 and $19 million the three months ended June 30, 2020. Expressed as a percentage of revenue, distribution expense remained constant at 2% for both the three months ended June 30, 2021 and the three months ended June 30, 2020.

***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 Three Months Ended June 30, | | *2021 vs. 2020* | |
|---|---|---|---|---|
| | **2021** | **2020** | **$ Change** | **% Change** |
| Net income (loss) attributable to Warner Music Group Corp. | $ 61 | $ (520) | $ 581 | — % |
| Income attributable to noncontrolling interest | — | 1 | (1) | -100 % |
| Net income (loss) | 61 | (519) | 580 | — % |
| Income tax expense | 41 | 51 | (10) | -20 % |
| Income (loss) before income taxes | 102 | (468) | 570 | — % |
| Other expense | 18 | 3 | 15 | — % |
| Interest expense, net | 30 | 32 | (2) | -6 % |
| Loss on extinguishment of debt | 12 | — | 12 | — % |
| Operating income (loss) | 162 | (433) | 595 | — % |
| Amortization expense | 60 | 47 | 13 | 28 % |
| Depreciation expense | 19 | 15 | 4 | 27 % |
| OIBDA | $ 241 | $ (371) | $ 612 | — % |

*OIBDA*

OIBDA increased by $612 million to $241 million for the three months ended June 30, 2021 as compared to a loss of $371 million for the three months ended June 30, 2020 as a result of higher revenues and lower expense associated with non-cash stock-based compensation and other related expenses, the prior-year quarter management agreement termination fee and IPO related expenses, partially offset by higher cost of revenues. Expressed as a percentage of total revenue, OIBDA margin increased to 18% for the three months ended June 30, 2021 from (37)% for the three months ended June 30, 2020. Excluding the expense associated with non-cash stock-based compensation and other related expenses, the prior-year quarter management agreement termination fee and IPO related expenses, OIBDA margin as a percentage of revenue increased to 19% for the three months ended June 30, 2021 from 15% for the three months ended June 30, 2020 due to strong operating performance and margin improvement associated with revenue mix.

*Depreciation expense*

Our depreciation expense increased by $4 million, or 27%, to $19 million for the three months ended June 30, 2021 from $15 million for the three months ended June 30, 2020. The increase is primarily due to an increase in capital spending and new assets being placed into service.

*Amortization expense*

Our amortization expense increased by $13 million, or 28%, to $60 million for the three months ended June 30, 2021 from $47 million for the three months ended June 30, 2020. The increase is primarily due to an increase in amortizable intangible assets related to the recent acquisitions of music-related assets.

*Operating income (loss)*

Our operating income increased by $595 million to $162 million for the three months ended June 30, 2021 from operating loss of $433 million for the three months ended June 30, 2020. The increase in operating income was due to the factors that led to the increase in OIBDA, partially offset by higher depreciation and amortization as noted above.

*Loss on extinguishment of debt*

We recorded a loss on extinguishment of debt in the amount of $12 million for the three months ended June 30, 2021 which represents the premium paid on early redemption and unamortized deferred financing costs related to the redemption of the 5.500% Notes. There was no loss on extinguishment of debt for the three months ended June 30, 2020.

*Interest expense, net*

Our interest expense, net, decreased to $30 million for the three months ended June 30, 2021 from $32 million for the three months ended June 30, 2020 due to lower interest rates resulting from debt refinancing, partially offset by a higher principal balance.

*Other expense*

Other expense for the three months ended June 30, 2021 primarily includes foreign currency losses on our Euro-denominated debt of $12 million and unrealized losses of $5 million on the mark-to-market of equity investments. This compares to foreign currency losses on our Euro-denominated debt of $16 million, unrealized loss on hedging activity of $2 million, and a loss on investment of $1 million, partially offset by unrealized gains of $14 million on the mark-to-market of an equity investment and currency exchange gains on our intercompany loans of $3 million for the three months ended June 30, 2020.

*Income tax expense*

Our income tax expense decreased by $10 million to $41 million for the three months ended June 30, 2021 from $51 million for the three months ended June 30, 2020. The change of $10 million in income tax expense is due to timing of expense and the impact of the Company's IPO in the prior-year quarter, partially offset by the impact of higher pre-tax income and the change in the U.K. future statutory tax rate recognized in the current-year quarter.

*Net income (loss)*

Net income increased by $580 million to $61 million for the three months ended June 30, 2021 from a net loss of $519 million for the three months ended June 30, 2020 as a result of the factors described above.

*Noncontrolling interest*

There was no income attributable to noncontrolling interest for three months ended June 30, 2021 and $1 million of income attributable to noncontrolling interest for the three months ended June 30, 2020.

**Business Segment Results**

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

| | For the Three Months Ended June 30, | | 2021 vs. 2020 | |
|---|---|---|---|---|
| | 2021 | 2020 | $ Change | % Change |
| **Recorded Music** | | | | |
| Revenues | $ 1,152 | $ 861 | $ 291 | 34 % |
| Operating income (loss) | 197 | (160) | 357 | — % |
| OIBDA | 250 | (119) | 369 | — % |
| **Music Publishing** | | | | |
| Revenues | 189 | 149 | 40 | 27 % |
| Operating income | 21 | 14 | 7 | 50 % |
| OIBDA | 43 | 33 | 10 | 30 % |
| **Corporate expenses and eliminations** | | | | |
| Revenue eliminations | (1) | — | (1) | — % |
| Operating loss | (56) | (287) | 231 | -80 % |
| OIBDA loss | (52) | (285) | 233 | -82 % |
| **Total** | | | | |
| Revenues | 1,340 | 1,010 | 330 | 33 % |
| Operating income (loss) | 162 | (433) | 595 | — % |
| OIBDA | 241 | (371) | 612 | — % |

***Recorded Music***

***Revenues***

Recorded Music revenue increased by $291 million, or 34%, to $1,152 million for the three months ended June 30, 2021 from $861 million for the three months ended June 30, 2020. U.S. Recorded Music revenues were $504 million and $358 million, or 44% and 42%, of consolidated Recorded Music revenues for the three months ended June 30, 2021 and June 30, 2020, respectively. International Recorded Music revenues were $648 million and $503 million, or 56% and 58%, of consolidated Recorded Music revenues for the three months ended June 30, 2021 and June 30, 2020, respectively.

The overall increase in Recorded Music revenue was mainly driven by increases in digital, physical, licensing, and artist services and expanded-rights revenues 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 Three Months Ended June 30, | | 2021 vs. 2020 | |
|---|---|---|---|---|
| | 2021 | 2020 | $ Change | % Change |
| Artist and repertoire costs | $ 323 | $ 271 | $ 52 | 19 % |
| Product costs | 237 | 160 | 77 | 48 % |
| Total cost of revenues | $ 560 | $ 431 | $ 129 | 30 % |

Recorded Music cost of revenues increased by $129 million, or 30%, to $560 million for the three months ended June 30, 2021 from $431 million for the three months ended June 30, 2020. Expressed as a percentage of Recorded Music revenue, Recorded Music artist and repertoire costs decreased to 28% for the three months ended June 30, 2021 from 31% for the three months ended June 30, 2020. The decrease is primarily attributable to revenue mix. Expressed as a percentage of Recorded Music revenue, Recorded Music product costs increased to 21% for the three months ended June 30, 2021 from 19% for the three months ended June 30, 2020. The overall increase as a percentage of revenue is due to revenue mix, primarily increases in physical revenue.

***Selling, general and administrative expense***

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

| | For the Three Months Ended June 30, | | 2021 vs. 2020 | |
|---|---|---|---|---|
| | 2021 | 2020 | $ Change | % Change |
| General and administrative expense (1) | $ 145 | $ 409 | $ (264) | -65 % |
| Selling and marketing expense | 187 | 132 | 55 | 42 % |
| Distribution expense | 24 | 19 | 5 | 26 % |
| Total selling, general and administrative expense | $ 356 | $ 560 | $ (204) | -36 % |

(1) Includes depreciation expense of $14 million and $11 million for the three months ended June 30, 2021 and June 30, 2020, respectively.

Recorded Music selling, general and administrative expense decreased by $204 million, or 36%, to $356 million for the three months ended June 30, 2021 from $560 million for the three months ended June 30, 2020. The decrease in general and administrative expense was primarily due to lower non-cash stock-based compensation and other related expenses of $279 million and credit loss reserve reversal, partially offset by increased employee related costs. The increase in selling and marketing expense was primarily due to increased variable marketing spend driven by the COVID disruption in the prior-year quarter. The increase in distribution expense was primarily due to revenue mix. Expressed as a percentage of Recorded Music revenue, Recorded Music selling, general and administrative expense decreased to 31% for the three months ended June 30, 2021 from 65% for the three months ended June 30, 2020. This is primarily due to lower non-cash stock-based compensation and other related expenses of $279 million. Excluding non-cash stock-based compensation expense and other related expenses, selling, general and administrative expense as a percentage of Recorded Music revenue decreased to 30% for the three months ended June 30, 2021 from 32% for the three months ended June 30, 2020 due to COVID related revenue impacts in the prior-year quarter.

***Operating income and OIBDA***

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

| | For the Three Months Ended June 30, | | 2021 vs. 2020 | |
|---|---|---|---|---|
| | 2021 | 2020 | $ Change | % Change |
| Operating income | $ 197 | $ (160) | $ 357 | — % |
| Depreciation and amortization | 53 | 41 | 12 | 29 % |
| OIBDA | $ 250 | $ (119) | $ 369 | — % |

Recorded Music OIBDA increased by $369 million to $250 million for the three months ended June 30, 2021 from a loss of $119 million for the three months ended June 30, 2020 as a result of higher revenues and lower non-cash stock-based compensation and other related expenses of $279 million, partially offset by higher costs of revenue. Expressed as a percentage of Recorded Music revenue, Recorded Music OIBDA margin increased to 22% for the three months ended June 30, 2021 from (14)% for the three months ended June 30, 2020. Excluding the expense associated with non-cash stock-based compensation and other related expenses, OIBDA margin increased to 22% for the three months ended June 30, 2021 from 19% for the three months ended June 30, 2020 due to strong operating performance, revenue mix, and the impact of recent acquisitions.

Recorded Music operating income increased by $357 million to $197 million for the three months ended June 30, 2021 from operating loss of $160 million for the three months ended June 30, 2020 due to the factors that led to the increase in Recorded Music OIBDA noted above, partially offset by higher depreciation from new assets placed into service and an increase in amortizable intangible assets related to the recent acquisitions of music-related assets.

***Music Publishing***

***Revenues***

Music Publishing revenues increased by $40 million, or 27%, to $189 million for the three months ended June 30, 2021 from $149 million for the three months ended June 30, 2020. U.S. Music Publishing revenues were $90 million and $74 million, or 48% and 50%, of consolidated Music Publishing revenues for the three months ended June 30, 2021 and June 30, 2020, respectively. International Music Publishing revenues were $99 million and $75 million, or 52% and 50%, of consolidated Music Publishing revenues for the three months ended June 30, 2021 and June 30, 2020, respectively.

The overall increase in Music Publishing revenue was mainly driven by digital, synchronization and mechanical revenue growth as described in the "Total Revenues" and "Revenue by Geographical Location" sections above.

***Cost of revenues***

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

| | For the Three Months Ended June 30, | | *2021 vs. 2020* | |
|---|---|---|---|---|
| | **2021** | **2020** | **$ Change** | **% Change** |
| Artist and repertoire costs | $ 122 | $ 96 | $ 26 | 27 % |
| Total cost of revenues | $ 122 | $ 96 | $ 26 | 27 % |

Music Publishing cost of revenues increased by $26 million, or 27%, to $122 million for the three months ended June 30, 2021 from $96 million for the three months ended June 30, 2020. Expressed as a percentage of Music Publishing revenue, Music Publishing cost of revenues increased to 65% for the three months ended June 30, 2021 from 64% for the three months ended June 30, 2020. This increase is primarily attributable to revenue mix, partially offset by lower royalty expense due to a shift in the collection of certain writer's share income from certain digital service providers.

***Selling, general and administrative expense***

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

| | For the Three Months Ended June 30, | | *2021 vs. 2020* | |
|---|---|---|---|---|
| | **2021** | **2020** | **$ Change** | **% Change** |
| General and administrative expense (1) | $ 25 | $ 22 | $ 3 | 14 % |
| Total selling, general and administrative expense | $ 25 | $ 22 | $ 3 | 14 % |

(1) Includes depreciation expense of $1 million and $2 million for the three months ended June 30, 2021 and June 30, 2020, respectively.

Music Publishing selling, general and administrative expense increased by $3 million or 14% to $25 million for the three months ended June 30, 2021 from $22 million for the three months ended June 30, 2020. Expressed as a percentage of Music Publishing revenue, Music Publishing selling, general and administrative expense decreased to 13% for the three months ended June 30, 2021 from 15% for the three months ended June 30, 2020 due to restructuring and COVID related revenue impacts in the prior-year quarter.

***Operating income and OIBDA***

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

| | For the Three Months Ended June 30, | | *2021 vs. 2020* | |
|---|---|---|---|---|
| | **2021** | **2020** | **$ Change** | **% Change** |
| Operating income | $ 21 | $ 14 | $ 7 | 50 % |
| Depreciation and amortization | 22 | 19 | 3 | 16 % |
| OIBDA | $ 43 | $ 33 | $ 10 | 30 % |

Music Publishing OIBDA increased by $10 million, or 30%, to $43 million for the three months ended June 30, 2021 from $33 million for the three months ended June 30, 2020. Expressed as a percentage of Music Publishing revenue, Music Publishing OIBDA margin increased to 23% for the three months ended June 30, 2021 from 22% for the three months ended June 30, 2020. The increase was due to revenue mix, lower royalty expense due to a shift in the collection of certain writer's share income from certain digital service providers, and restructuring in the prior-year quarter.

Music Publishing operating income increased by $7 million to $21 million for the three months ended June 30, 2021 from $14 million for the three months ended June 30, 2020 due to the factors that led to the increase in Music Publishing OIBDA noted above.

***Corporate Expenses and Eliminations***

Our operating loss from corporate expenses and eliminations decreased by $231 million for the three months ended June 30, 2021 to $56 million from $287 million for the three months ended June 30, 2020, which primarily includes the decrease in non-cash stock-based compensation and other related expenses of $148 million, the prior-year quarter management agreement termination fee and IPO related expenses totaling $86 million, decline in management fees of $3 million, partially offset by higher employee related costs and public company related expenses.

Our OIBDA loss from corporate expenses and eliminations decreased by $233 million for the three months ended June 30, 2021 to $52 million from $285 million for the three months ended June 30, 2020 due to the operating loss factors noted above.

## RESULTS OF OPERATIONS

### Nine Months Ended June 30, 2021 Compared with Nine Months Ended June 30, 2020

#### *Consolidated Results*

#### *Revenues*

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

| | For the Nine Months Ended June 30, | | 2021 vs. 2020 | |
|---|---|---|---|---|
| | 2021 | 2020 | $ Change | % Change |
| **Revenue by Type** | | | | |
| Digital | $ 2,298 | $ 1,889 | $ 409 | 22 % |
| Physical | 422 | 329 | 93 | 28 % |
| Total Digital and Physical | 2,720 | 2,218 | 502 | 23 % |
| Artist services and expanded-rights | 431 | 427 | 4 | 1 % |
| Licensing | 221 | 207 | 14 | 7 % |
| Total Recorded Music | 3,372 | 2,852 | 520 | 18 % |
| Performance | 92 | 114 | (22) | -19 % |
| Digital | 316 | 237 | 79 | 33 % |
| Mechanical | 36 | 38 | (2) | -5 % |
| Synchronization | 105 | 92 | 13 | 14 % |
| Other | 7 | 7 | — | — % |
| Total Music Publishing | 556 | 488 | 68 | 14 % |
| Intersegment eliminations | (3) | (3) | — | — % |
| Total Revenues | $ 3,925 | $ 3,337 | $ 588 | 18 % |
| **Revenue by Geographical Location** | | | | |
| U.S. Recorded Music | $ 1,454 | $ 1,191 | $ 263 | 22 % |
| U.S. Music Publishing | 277 | 242 | 35 | 14 % |
| Total U.S. | 1,731 | 1,433 | 298 | 21 % |
| International Recorded Music | 1,918 | 1,661 | 257 | 15 % |
| International Music Publishing | 279 | 246 | 33 | 13 % |
| Total International | 2,197 | 1,907 | 290 | 15 % |
| Intersegment eliminations | (3) | (3) | — | — % |
| Total Revenues | $ 3,925 | $ 3,337 | $ 588 | 18 % |

#### *Total Revenues*

Total revenues increased by $588 million to $3,925 million for the nine months ended June 30, 2021 from $3,337 million for the nine months ended June 30, 2020. The increase includes $116 million of favorable currency exchange fluctuations. Prior to intersegment eliminations, Recorded Music and Music Publishing revenues represented 86% and 14% of total revenues for the nine months ended June 30, 2021, respectively, and 85% and 15% of total revenues for the nine months ended June 30, 2020, respectively. Prior to intersegment eliminations, U.S. and international revenues represented 44% and 56% for the nine months ended June 30, 2021, respectively, and 43% and 57% for the nine months ended June 30, 2020, respectively.

Total digital revenues after intersegment eliminations increased by $488 million, or 23%, to $2,613 million for the nine months ended June 30, 2021 from $2,125 million for the nine months ended June 30, 2020. Total digital revenues represented 67% and 64% of consolidated revenues for the nine months ended June 30, 2021 and June 30, 2020, respectively. Prior to intersegment eliminations, total digital revenues for the nine months ended June 30, 2021 were comprised of U.S. revenues of $1,308 million and international revenues of $1,306 million, or 50% of total digital revenues for each of U.S. and international revenues. Prior to intersegment eliminations, total digital revenues for the nine months ended June 30, 2020 were comprised of U.S. revenues of $1,094 million and international revenues of $1,032 million, or 51% and 49% of total digital revenues, respectively.

Recorded Music revenues increased by $520 million, or 18%, to $3,372 million for the nine months ended June 30, 2021 from $2,852 million for the nine months ended June 30, 2020. The increase includes $100 million of favorable currency exchange fluctuations. U.S. Recorded Music revenues were $1,454 million and $1,191 million, or 43% and 42%, of consolidated Recorded Music revenues for the nine months ended June 30, 2021 and June 30, 2020, respectively. International Recorded Music revenues were $1,918 million and $1,661 million, or 57% and 58%, of consolidated Recorded Music revenues for the nine months ended June 30, 2021 and June 30, 2020, respectively.

The overall increase in Recorded Music revenue was driven by increases in digital, physical, licensing, and artist services and expanded-rights revenues. Digital revenue increased by $409 million as a result of the continued growth in streaming services, including growth in emerging streaming platforms such as Facebook, TikTok, and Peloton as well as strength of releases from Dua Lipa, Ed Sheeran, Ava Max, Cardi B, and Hamilton Cast Recording. Revenue from streaming services grew by $431 million to $2,195 million for the nine months ended June 30, 2021 from $1,764 million for the nine months ended June 30, 2020. Digital revenue growth was partially offset by digital download and other digital declines of $22 million, or 18%, to $103 million for the nine months ended June 30, 2021 from $125 million for the nine months ended June 30, 2020 due to the continued shift to streaming services. Physical revenue increased by $93 million primarily from higher sales due to an increased demand for vinyl products, success of releases including Tom Petty, Mariya Takeuchi, Johnny Hallyday, Kim Hojoong in Korea, and The Yellow Monkey in Japan as well as the favorable impact of foreign currency exchange rates of $16 million. Licensing revenue increased by $14 million due to higher broadcast fees and synchronization activity as businesses began to recover from the COVID disruption and favorable foreign currency exchange rates. Artist services and expanded-rights revenue increased by $4 million primarily due to the favorable impact of foreign currency exchange rates of $25 million and higher direct-to-consumer merchandising revenue at EMP, partially offset by a decrease in touring activity resulting from the impact of the COVID disruption.

Music Publishing revenues increased by $68 million, or 14%, to $556 million for the nine months ended June 30, 2021 from $488 million for the nine months ended June 30, 2020. U.S. Music Publishing revenues were $277 million and $242 million, or 50% and 50%, of consolidated Music Publishing revenues for the nine months ended June 30, 2021 and June 30, 2020, respectively. International Music Publishing revenues were $279 million and $246 million, or 50% and 50%, of Music Publishing revenues for the nine months ended June 30, 2021 and June 30, 2020, respectively.

The overall increase in Music Publishing revenue was mainly driven by increases in digital revenue of $79 million and synchronization revenue of $13 million, partially offset by decreases in performance revenue of $22 million and mechanical revenue of $2 million. The increase in digital revenue is primarily due to increases in streaming revenue driven by the continued growth in streaming services and timing of new digital deals. The increase in synchronization revenue is attributable to higher motion picture and commercial income. The decline in performance revenue is primarily driven by the impact of the COVID disruption. The decline in mechanical revenue is driven by the continuing shift to streaming services and the impact from the COVID disruption.

***Revenue by Geographical Location***

U.S. revenue increased by $298 million, or 21%, to $1,731 million for the nine months ended June 30, 2021 from $1,433 million for the nine months ended June 30, 2020. U.S. Recorded Music revenue increased by $263 million, or 22%. The primary driver was the increase of U.S. Recorded Music digital revenue of $179 million driven by the continued growth in streaming services. Streaming revenue increased by $189 million, partially offset by $10 million of digital download and other digital declines. Increases are also attributable to the increase in U.S. Recorded Music physical revenue, which increased by $63 million from higher sales due to an increased demand for vinyl products as well as the success of releases including Tom Petty. U.S. Recorded Music artist services and expanded-rights revenue increased by $16 million primarily driven by higher advertising and platform revenues from recent acquisitions. U.S. Music Publishing revenue increased by $35 million to $277 million for the nine months ended June 30, 2021 from $242 million for the nine months ended June 30, 2020. This was primarily driven by the increase in U.S. Music Publishing of $35 million in digital revenue due to the continued growth in streaming services and timing of new digital deals, and increase in synchronization revenue of $6 million due to higher motion picture and commercial income, partially offset by decreases in performance revenue of $2 million due to the impact of the COVID disruption, as well as a decline in mechanical revenue of $3 million from the continuing shift to streaming services.

International revenue increased by $290 million to $2,197 million for the nine months ended June 30, 2021 from $1,907 million for the nine months ended June 30, 2020. Excluding the favorable impact of foreign currency exchange rates, International revenue increased by $174 million or 9%. International Recorded Music revenue increased by $257 million primarily due to increases in digital revenue of $230 million, physical revenue of $30 million, and licensing revenue of $9 million, partially offset by decreases in artist services and expanded-rights revenue of $12 million. The increase in International Recorded Music digital revenue was due to continued growth in streaming services internationally, partially offset by a decline in digital downloads. International Recorded Music physical revenue increased by $30 million primarily due to an increased demand for vinyl products as well as the success of releases including Mariya Takeuchi, Johnny Hallyday, and Kim Hojoong, and favorable impact of foreign currency exchange rates. International Recorded Music licensing revenue increased by $9 million as businesses began to recover from the COVID disruption,

as well as favorable foreign currency exchange rates. International Recorded Music artist services and expanded-rights revenue decreased primarily due to the decrease in touring activity resulting from the impact of the COVID disruption. This was offset by growth in EMP direct-to consumer merchandise revenue and the favorable impact of foreign currency exchange rates of $25 million. International Music Publishing revenue increased by $33 million, or 13%, to $279 million for the nine months ended June 30, 2021 from $246 million for the nine months ended June 30, 2020. This was primarily driven by increases in digital revenue of $44 million, synchronization revenue of $7 million, and mechanical revenue of $1 million, partially offset by decreases in performance revenue of $20 million. The increase in digital revenue is primarily due to the increases in streaming revenue driven by the continued growth in streaming services and timing of new digital deals. The increase in synchronization revenue is due to higher commercial income. The increase in mechanical revenue is a result of favorable foreign currency exchange rates, partially offset by the continuing shift to streaming. The decline in performance revenue is due to the impact of the COVID disruption.

***Cost of revenues***

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

| | For the Nine Months Ended June 30, | | 2021 vs. 2020 | |
|---|---|---|---|---|
| | 2021 | 2020 | $ Change | % Change |
| Artist and repertoire costs | $ 1,288 | $ 1,138 | $ 150 | 13 % |
| Product costs | 702 | 589 | 113 | 19 % |
| Total cost of revenues | $ 1,990 | $ 1,727 | $ 263 | 15 % |

Artist and repertoire costs increased by $150 million, to $1,288 million for the nine months ended June 30, 2021 from $1,138 million for the nine months ended June 30, 2020. Artist and repertoire costs as a percentage of revenue decreased to 33% for the nine months ended June 30, 2021 from 34% for the nine months ended June 30, 2020. The overall decrease as a percentage of revenue is due to revenue mix.

Product costs increased by $113 million, to $702 million for the nine months ended June 30, 2021 from $589 million for the nine months ended June 30, 2020. Product costs as a percentage of revenue remained constant at 18% for the nine months ended June 30, 2021 and June 30, 2020.

***Selling, general and administrative expenses***

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

| | For the Nine Months Ended June 30, | | 2021 vs. 2020 | |
|---|---|---|---|---|
| | 2021 | 2020 | $ Change | % Change |
| General and administrative expense (1) | $ 629 | $ 1,240 | $ (611) | -49 % |
| Selling and marketing expense | 544 | 472 | 72 | 15 % |
| Distribution expense | 83 | 74 | 9 | 12 % |
| Total selling, general and administrative expense | $ 1,256 | $ 1,786 | $ (530) | -30 % |

(1) Includes depreciation expense of $57 million and $53 million for the nine months ended June 30, 2021 and June 30, 2020, respectively.

Total selling, general and administrative expense decreased by $530 million, or 30%, to $1,256 million for the nine months ended June 30, 2021 from $1,786 million for the nine months ended June 30, 2020. Expressed as a percentage of revenue, selling, general and administrative expense decreased to 32% for the nine months ended June 30, 2021 from 54% for the nine months ended June 30, 2020. This is primarily due to the decreased expense associated with non-cash stock-based compensation and other related expenses of $564 million, the prior-year management agreement termination fee and IPO related expenses totaling $90 million. Excluding non-cash stock-based compensation and other related expenses, the prior-year management agreement termination fee and IPO related expenses, selling, general and administrative expense as a percentage of revenue decreased to 31% for the nine months ended June 30, 2021 from 33% for the nine months ended June 30, 2020.

General and administrative expense decreased by $611 million to $629 million for the nine months ended June 30, 2021 from $1,240 million for the nine months ended June 30, 2020. The decrease in general and administrative expense was mainly due to lower expense associated with non-cash stock-based compensation and other related expenses of $564 million, the prior-year management agreement termination fee and IPO related expenses totaling $90 million, credit loss reserve reversal, and lower overhead due to active cost management efforts, partially offset by increased employee related costs. Expressed as a percentage of revenue, general and

administrative expense decreased to 16% for the nine months ended June 30, 2021 from 37% for the nine months ended June 30, 2020. Excluding non-cash stock-based compensation and other related expenses, the prior-year management agreement termination fee and IPO related expenses, general and administrative expense as a percentage of revenue decreased to 15% for the nine months ended June 30, 2021 from 16% for the nine months ended June 30, 2020 due to the factors described above.

Selling and marketing expense increased by $72 million, or 15%, to $544 million for the nine months ended June 30, 2021 from $472 million for the nine months ended June 30, 2020. Expressed as a percentage of revenue, selling and marketing expense remained constant at 14% for both the nine months ended June 30, 2021 and June 30, 2020.

Distribution expense increased by $9 million, or 12%, to $83 million for the nine months ended June 30, 2021 from $74 million for the nine months ended June 30, 2020. Expressed as a percentage of revenue, distribution expense remained constant at 2% for both the nine months ended June 30, 2021 and June 30, 2020.

***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 Nine Months Ended June 30, | | *2021 vs. 2020* | |
|---|---|---|---|---|
| | **2021** | **2020** | **$ Change** | **% Change** |
| Net income (loss) attributable to Warner Music Group Corp. | $ 276 | $ (474) | $ 750 | — % |
| Income attributable to noncontrolling interest | 1 | 3 | (2) | -67 % |
| Net income (loss) | 277 | (471) | 748 | — % |
| Income tax expense | 127 | 44 | 83 | — % |
| Income (loss) before income taxes | 404 | (427) | 831 | — % |
| Other expense | — | 12 | (12) | -100 % |
| Interest expense, net | 93 | 98 | (5) | -5 % |
| Loss on extinguishment of debt | 12 | — | 12 | — % |
| Operating income (loss) | 509 | (317) | 826 | — % |
| Amortization expense | 170 | 141 | 29 | 21 % |
| Depreciation expense | 57 | 53 | 4 | 8 % |
| OIBDA | $ 736 | $ (123) | $ 859 | — % |

*OIBDA*

OIBDA increased by $859 million to $736 million for the nine months ended June 30, 2021 as compared to a loss of $123 million for the nine months ended June 30, 2020 as a result of higher revenues and lower expense associated with non-cash stock-based compensation and other related expenses, the prior-year management agreement termination fee and IPO related expenses, partially offset by higher cost of revenues. Expressed as a percentage of total revenue, OIBDA margin increased to 19% for the nine months ended June 30, 2021 from (4)% for the nine months ended June 30, 2020. Excluding the expense associated with non-cash stock-based compensation and other related expenses, the prior-year management agreement termination fee and IPO related expenses, OIBDA margin as a percentage of revenue increased to 20% for the nine months ended June 30, 2021 from 17% for the nine months ended June 30, 2020 from revenue mix and lower overhead due to active cost management efforts.

*Depreciation expense*

Our depreciation expense increased by $4 million to $57 million for the nine months ended June 30, 2021 from $53 million for the nine months ended June 30, 2020. This is due to new assets placed into service, partially offset by a one-time charge of $10 million representing the difference between the net book value of a building and its recoverable value in the prior year.

*Amortization expense*

Our amortization expense increased by $29 million, or 21%, to $170 million for the nine months ended June 30, 2021 from $141 million for the nine months ended June 30, 2020. The increase is primarily due to an increase in amortizable intangible assets related to the acquisition of music-related assets.

*Operating income (loss)*

Our operating income increased by $826 million to $509 million for the nine months ended June 30, 2021 from operating loss of $317 million for the nine months ended June 30, 2020. The increase in operating income was due to the factors that led to the increase in OIBDA, partially offset by higher depreciation and amortization as noted above.

*Interest expense, net*

Our interest expense, net, decreased to $93 million for the nine months ended June 30, 2021 from $98 million for the nine months ended June 30, 2020 due to lower interest rates resulting from debt refinancing, partially offset by a higher principal balance due to the issuance of senior secured notes.

*Other expense*

Other expense for the nine months ended June 30, 2021 primarily includes unrealized gains of $26 million on the mark-to-market of equity investments, offset by foreign currency losses on our Euro-denominated debt of $20 million and currency exchange losses on our intercompany loans of $7 million. This compares to unrealized losses on our Euro-denominated debt of $22 million, $6 million relating to loss on investments, and $2 million unrealized loss on hedging activity, partially offset by currency exchange gains on our intercompany loans of $14 million and unrealized gain of $4 million on the mark-to-market of an equity method investment for the nine months ended June 30, 2020.

*Loss on extinguishment of debt*

We recorded a loss on extinguishment of debt in the amount of $12 million for the nine months ended June 30, 2021 which represents the premium paid on early redemption and unamortized deferred financing costs related to the redemption of the 5.500% Notes. There was no loss on extinguishment of debt for the nine months ended June 30, 2020.

*Income tax expense*

Our income tax expense increased by $83 million to $127 million for the nine months ended June 30, 2021 from $44 million for the nine months ended June 30, 2020. The change of $83 million in income tax expense primarily relates to the higher pre-tax income in the current year as compared to pre-tax income before non-deductible executive compensation and transaction costs and release of a valuation allowance of foreign tax credits of $33 million for the nine months ended June 30, 2020.

*Net income (loss)*

Net income increased by $748 million to $277 million for the nine months ended June 30, 2021 from net loss of $471 million for the nine months ended June 30, 2020 as a result of the factors described above.

*Noncontrolling interest*

There was $1 million of income attributable to noncontrolling interest for the nine months ended June 30, 2021 and $3 million of income attributable to noncontrolling interest for the nine months ended June 30, 2020.

**Business Segment Results**

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

| | For the Nine Months Ended June 30, | | 2021 vs. 2020 | |
|---|---|---|---|---|
| | 2021 | 2020 | $ Change | % Change |
| **Recorded Music** | | | | |
| Revenues | $ 3,372 | $ 2,852 | $ 520 | 18 % |
| Operating income | 604 | 67 | 537 | — % |
| OIBDA | 754 | 198 | 556 | — % |
| **Music Publishing** | | | | |
| Revenues | 556 | 488 | 68 | 14 % |
| Operating income | 61 | 58 | 3 | 5 % |
| OIBDA | 125 | 114 | 11 | 10 % |
| **Corporate expenses and eliminations** | | | | |
| Revenue eliminations | (3) | (3) | — | — % |
| Operating loss | (156) | (442) | 286 | -65 % |
| OIBDA loss | (143) | (435) | 292 | -67 % |
| **Total** | | | | |
| Revenues | 3,925 | 3,337 | 588 | 18 % |
| Operating income (loss) | 509 | (317) | 826 | — % |
| OIBDA | 736 | (123) | 859 | — % |

***Recorded Music***

***Revenues***

Recorded Music revenue increased by $520 million, or 18%, to $3,372 million for the nine months ended June 30, 2021 from $2,852 million for the nine months ended June 30, 2020. U.S. Recorded Music revenues were $1,454 million and $1,191 million, or 43% and 42%, of consolidated Recorded Music revenues for the nine months ended June 30, 2021 and June 30, 2020, respectively. International Recorded Music revenues were $1,918 million and $1,661 million, or 57% and 58%, of consolidated Recorded Music revenues for the nine months ended June 30, 2021 and June 30, 2020, respectively.

The overall increase in Recorded Music revenue was driven by increases in digital, physical, licensing, and artist services and expanded-rights revenues, 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 Nine Months Ended June 30, | | 2021 vs. 2020 | |
|---|---|---|---|---|
| | 2021 | 2020 | $ Change | % Change |
| Artist and repertoire costs | $ 931 | $ 829 | $ 102 | 12 % |
| Product costs | 702 | 589 | 113 | 19 % |
| Total cost of revenues | $ 1,633 | $ 1,418 | $ 215 | 15 % |

Recorded Music cost of revenues increased by $215 million, or 15%, to $1,633 million for the nine months ended June 30, 2021 from $1,418 million for the nine months ended June 30, 2020. Expressed as a percentage of Recorded Music revenue, Recorded Music artist and repertoire costs decreased to 28% for the nine months ended June 30, 2021 from 29% for the nine months ended June 30, 2020. The decrease is primarily attributable to revenue mix. Expressed as a percentage of Recorded Music revenue, Recorded Music product costs remained constant at 21% for both the nine months ended June 30, 2021 and June 30, 2020.

***Selling, general and administrative expense***

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

| | For the Nine Months Ended June 30, | | *2021 vs. 2020* | |
|---|---|---|---|---|
| | **2021** | **2020** | **$ Change** | **% Change** |
| General and administrative expense (1) | $ 408 | $ 741 | $ (333) | -45 % |
| Selling and marketing expense | 534 | 463 | 71 | 15 % |
| Distribution expense | 83 | 74 | 9 | 12 % |
| Total selling, general and administrative expense | $ 1,025 | $ 1,278 | $ (253) | -20 % |

(1) Includes depreciation expense of $40 million and $42 million for the nine months ended June 30, 2021 and June 30, 2020, respectively.

Recorded Music selling, general and administrative expense decreased by $253 million, or 20%, to $1,025 million for the nine months ended June 30, 2021 from $1,278 million for the nine months ended June 30, 2020. The decrease in general and administrative expense was primarily due to lower non-cash stock-based compensation and other related expenses of $365 million, credit loss reserve reversal, and lower overhead due to active cost management efforts, partially offset by increased employee related costs. The increase in selling and marketing expense was primarily due to increased variable marketing spend on higher revenues and new releases. The increase in distribution expense was primarily due to revenue mix. Expressed as a percentage of Recorded Music revenue, Recorded Music selling, general and administrative expense decreased to 30% for the nine months ended June 30, 2021 from 45% for the nine months ended June 30, 2020 primarily due to lower non-cash stock-based compensation and other related expenses of $365 million. Excluding non-cash stock-based compensation and other related expenses, selling, general and administrative expense as a percentage of Recorded Music revenue decreased to 30% for the nine months ended June 30, 2021 from 31% for the nine months ended June 30, 2020 due to the factors described above.

***Operating income and OIBDA***

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

| | For the Nine Months Ended June 30, | | *2021 vs. 2020* | |
|---|---|---|---|---|
| | **2021** | **2020** | **$ Change** | **% Change** |
| Operating income | $ 604 | $ 67 | $ 537 | — % |
| Depreciation and amortization | 150 | 131 | 19 | 15 % |
| OIBDA | $ 754 | $ 198 | $ 556 | — % |

Recorded Music OIBDA increased by $556 million, to $754 million for the nine months ended June 30, 2021 from $198 million for the nine months ended June 30, 2020 as a result of higher revenues and lower non-cash stock-based compensation and other related expenses of $365 million, partially offset by higher costs of revenue. Expressed as a percentage of Recorded Music revenue, Recorded Music OIBDA margin increased to 22% for the nine months ended June 30, 2021 from 7% for the nine months ended June 30, 2020. Excluding non-cash stock-based compensation and other related expenses, OIBDA, as a percentage of Recorded Music revenue, increased to 23% for the nine months ended June 30, 2021 from 20% for the nine months ended June 30, 2020 due to revenue mix, impact from a recent acquisition and lower costs of revenue and selling, general and administrative expenses as a percentage of total Recorded Music revenue.

Recorded Music operating income increased by $537 million to $604 million for the nine months ended June 30, 2021 from $67 million for the nine months ended June 30, 2020 due to the factors that led to the increase in Recorded Music OIBDA noted above, partially offset by an increase in amortizable intangible assets related to the acquisition of music-related assets.

***Music Publishing***

***Revenues***

Music Publishing revenues increased by $68 million, or 14%, to $556 million for the nine months ended June 30, 2021 from $488 million for the nine months ended June 30, 2020. U.S. Music Publishing revenues were $277 million and $242 million, or 50% and 50%, of consolidated Music Publishing revenues for the nine months ended June 30, 2021 and June 30, 2020, respectively. International Music Publishing revenues were $279 million and $246 million, or 50% and 50%, of consolidated Music Publishing revenues for the nine months ended June 30, 2021 and June 30, 2020, respectively.

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

***Cost of revenues***

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

| | For the Nine Months Ended June 30, | | 2021 vs. 2020 | |
|---|---|---|---|---|
| | 2021 | 2020 | $ Change | % Change |
| Artist and repertoire costs | $ 360 | $ 312 | $ 48 | 15 % |
| Total cost of revenues | $ 360 | $ 312 | $ 48 | 15 % |

Music Publishing cost of revenues increased by $48 million, or 15%, to $360 million for the nine months ended June 30, 2021 from $312 million for the nine months ended June 30, 2020. Expressed as a percentage of Music Publishing revenue, Music Publishing cost of revenues increased to 65% for the nine months ended June 30, 2021 from 64% for the nine months ended June 30, 2020, primarily attributable to revenue mix.

***Selling, general and administrative expense***

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

| | For the Nine Months Ended June 30, | | 2021 vs. 2020 | |
|---|---|---|---|---|
| | 2021 | 2020 | $ Change | % Change |
| General and administrative expense (1) | $ 74 | $ 65 | $ 9 | 14 % |
| Selling and marketing expense | 1 | 1 | — | — % |
| Total selling, general and administrative expense | $ 75 | $ 66 | $ 9 | 14 % |

(1) Includes depreciation expense of $4 million for both the nine months ended June 30, 2021 and June 30, 2020.

Music Publishing selling, general and administrative expense increased to $75 million for the nine months ended June 30, 2021 from $66 million for the nine months ended June 30, 2020 due to higher employee-related costs. Expressed as a percentage of Music Publishing revenue, Music Publishing selling, general and administrative expense decreased to 13% for the nine months ended June 30, 2021 from 14% for the nine months ended June 30, 2020 due to COVID related revenue impacts in the prior year.

***Operating income and OIBDA***

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

| | For the Nine Months Ended June 30, | | 2021 vs. 2020 | |
|---|---|---|---|---|
| | 2021 | 2020 | $ Change | % Change |
| Operating income | $ 61 | $ 58 | $ 3 | 5 % |
| Depreciation and amortization | 64 | 56 | 8 | 14 % |
| OIBDA | $ 125 | $ 114 | $ 11 | 10 % |

Music Publishing OIBDA increased by $11 million, or 10%, to $125 million for the nine months ended June 30, 2021 from $114 million for the nine months ended June 30, 2020 as a result of higher revenues, partially offset by higher costs of revenue. Expressed as a percentage of Music Publishing revenue, Music Publishing OIBDA margin remained constant at 23% for both the nine months ended June 30, 2021 and June 30, 2020.

Music Publishing operating income increased by $3 million to $61 million for the nine months ended June 30, 2021 from $58 million operating income for the nine months ended June 30, 2020 largely due to the factors that led to the increase in Music Publishing OIBDA noted above, partially offset by an increase in amortizable intangible assets related to the acquisition of music-related assets.

*Corporate Expenses and Eliminations*

Our operating loss from corporate expenses and eliminations decreased by $286 million to $156 million for the nine months ended June 30, 2021 from $442 million for the nine months ended June 30, 2020 which primarily includes the decrease in non-cash stock-based compensation and other related expenses of $201 million, the prior-year management agreement termination fee and IPO related expenses totaling $90 million, decline in management fees of $9 million and lower overhead due to active cost management efforts, partially offset by higher employee related costs and public company related expenses.

Our OIBDA loss from corporate expenses and eliminations decreased by $292 million to $143 million for the nine months ended June 30, 2021 from $435 million for the nine months ended June 30, 2020 due to the operating loss factors noted above.

## FINANCIAL CONDITION AND LIQUIDITY

### Financial Condition at June 30, 2021

At June 30, 2021, we had $3.367 billion of debt (which is net of $31 million of premiums, discounts and deferred financing costs), $442 million of cash and equivalents (net debt of $2.925 billion, defined as total debt, less cash and equivalents and premiums, discounts and deferred financing costs) and $81 million of Warner Music Group Corp. equity. This compares to $3.104 billion of debt (which is net of $29 million of premiums, discounts and deferred financing costs), $553 million of cash and equivalents (net debt of $2.551 billion) and $63 million of Warner Music Group Corp. deficit at September 30, 2020.

### Cash Flows

The following table summarizes our historical cash flows (in millions). The financial data for the nine months ended June 30, 2021 and June 30, 2020 are unaudited and have been derived from our consolidated interim financial statements included elsewhere herein.

| | Nine Months Ended June 30, | |
|---|---|---|
| | 2021 | 2020 |
| Cash provided by (used in): | | |
| Operating activities | $ 410 | $ 287 |
| Investing activities | (566) | (87) |
| Financing activities | 35 | (288) |

#### *Operating Activities*

Cash provided by operating activities was $410 million for the nine months ended June 30, 2021 as compared with cash provided by operating activities of $287 million for the nine months ended June 30, 2020. The $123 million increase in cash provided by operating activities was primarily due to an increase in OIBDA offset by a decrease in non-cash equity compensation expense and continued A&R investment driving a use of cash from working capital.

#### *Investing Activities*

Cash used in investing activities was $566 million for the nine months ended June 30, 2021 as compared with cash used in investing activities of $87 million for the nine months ended June 30, 2020. The $566 million of cash used in investing activities in the nine months ended June 30, 2021 consisted of $49 million relating to investments and acquisitions of businesses, $58 million relating to capital expenditures and $459 million to acquire music related assets, a portion of which was debt-financed. The $87 million of cash used in investing activities in the nine months ended June 30, 2020 consisted of $11 million relating to investments, $48 million relating to capital expenditures and $28 million to acquire music publishing rights and recorded music catalogs.

#### *Financing Activities*

Cash provided by financing activities was $35 million for the nine months ended June 30, 2021 as compared with cash used in financing activities of $288 million for the nine months ended June 30, 2020. The $35 million of cash provided by financing activities for the nine months ended June 30, 2021 consisted of proceeds from debt issuance of $244 million, which was used to fund, the acquisition of music related assets, and proceeds from the increase supplement to the Senior Term Loan Facility of $325 million, partially offset by the redemption of the outstanding aggregate principal amount of $325 million of the 5.500% Senior Notes due 2026, dividends paid of $187 million, call premiums paid on early redemption of the 5.500% Senior Notes due 2026 of $8 million, distributions to noncontrolling interest holders of $6 million and deferred financing costs of $8 million. The $288 million of cash used in financing activities for the nine months ended June 30, 2020 consisted of dividends paid of $281 million, which included a special cash dividend of $206 million, distributions to noncontrolling interest holders of $6 million and deferred financing costs of $1 million.

### 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.

We are continuing our financial transformation initiative, launched in August 2019, to upgrade our information technology and finance infrastructure, including related systems and processes, for which we currently expect upfront costs to be approximately $140 million, which includes capital expenditures of approximately $45 million to $55 million. There has been a slight delay in the timing of the transformation initiative as a result of COVID lasting over a year, but it is still expected to be delivered in fiscal 2022. Annualized run-rate savings from the financial transformation initiative are expected to be between approximately $35 million and $40 million once fully implemented starting in fiscal 2023. 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 improved from B in 2017 to BB+ in July 2021 with a stable outlook, and our Moody's corporate family rating 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 3.4% as of June 30, 2021. Our nearest-term maturity date is in 2026. 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.

*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. The Additional Notes have identical terms as (other than the issue date and the issue price) and are fungible with, and treated as a single series of senior secured debt securities with, the 3.000% Senior Secured Notes issued on August 12, 2020 (the "Original Notes").

The net proceeds of the issuance and sale of the aforementioned Additional Notes of $241 million, in conjunction with cash on hand, were used to fund the acquisition of music-related assets.

*Senior Term Loan Facility*

On January 20, 2021, Acquisition Corp. entered into an amendment (the "Senior Term Loan Credit Agreement Amendment") to the credit agreement, dated November 1, 2012 (as amended by the amendments dated as of May 9, 2013, July 13, 2016, November 21, 2016, May 22, 2017, December 6, 2017 and June 7, 2018), among Acquisition Corp., the guarantors party thereto, the lenders party thereto and Credit Suisse AG, as administrative agent, governing the Senior Term Loan Facility with Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto (the "Senior Term Loan Credit Agreement"). The Senior Term Loan Credit Agreement Amendment (among other changes) (i) extends the maturity date of its outstanding term loans from November 1, 2023 to January 20, 2028 and (ii) removes a number of negative covenants limiting the ability of Acquisition Corp. to take various actions. The remaining negative covenants are limited to restrictions on liens, restrictions on fundamental changes and change of control, and are in a form substantially similar to the negative covenants in the 2.750% Senior Secured Notes due 2028, 3.875% Senior Secured Notes due 2030 and 3.000% Senior Secured Notes due 2031.

*Senior Term Loan Facility Increase Supplement and Redemption of 5.500% Senior Notes due 2026*

On March 8, 2021, Acquisition Corp. entered into an Increase Supplement (the "Increase Supplement"), dated as of March 8, 2021, among Acquisition Corp., the guarantors party thereto, WMG Holdings Corp., Credit Suisse AG, Cayman Islands Branch, as increasing lender, and Credit Suisse AG, as administrative agent, to the Senior Term Loan Credit Agreement, whereby prior to April 22, 2021 and subject to the satisfaction of certain conditions, Acquisition Corp. may borrow additional term loans in an amount up to $325 million for an aggregate principal amount outstanding under the Senior Term Loan Credit Agreement of up to $1,145 million. The Increase Supplement was entered into to provide for the redemption of Acquisition Corp.'s 5.500% Senior Notes due 2026 (the "5.500% Notes").

On April 14, 2021, Acquisition Corp. borrowed additional term loans in an amount of $325 million under the Increase Supplement. Following such borrowing, there was an aggregate principal amount outstanding under the Senior Term Loan Credit Agreement of $1,145 million.

On April 15, 2021, Acquisition Corp. redeemed all of the outstanding 5.500% Notes. The redemption price for the 5.500% Notes was approximately $343 million, equivalent to 102.750% of the principal amount of the 5.500% Notes, plus accrued but unpaid interest thereon to, but excluding, the redemption date, which was April 15, 2021. The Company recorded a loss on extinguishment of debt of approximately $12 million for the three and nine months ended June 30, 2021, which represents the premium paid on early redemption and unamortized deferred financing costs.

***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, increased the commitments under the Revolving Credit Facility from an aggregate principal amount of $180 million to an aggregate principal amount of $300 million and extended the final maturity of the Revolving Credit Facility from January 31, 2023 to April 3, 2025.

On March 1, 2021, Acquisition Corp. entered into an amendment (the “Revolving Credit Agreement Amendment”) to the Revolving Credit Agreement among Acquisition Corp., the several banks and other financial institutions party thereto and Credit Suisse AG, as administrative agent, governing Acquisition Corp.’s 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 Agreement Amendment (among other changes) adds certain exceptions and increases the leverage ratio below which Acquisition Corp. can access certain baskets in connection with Acquisition Corp.’s negative covenants, including those related to incurrence of indebtedness, restricted payments and covenant suspension. On May 4, 2021, certain covenants set forth in our Revolving Credit Facility were suspended, including the restriction on incurring certain additional indebtedness, based on the determination that the total indebtedness to EBITDA ratio is below the required threshold specified therein.

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 3.00x at June 30, 2021, the applicable margin for Eurodollar loans would be 1.375% instead of 1.875% and the applicable margin for ABR loans would be 0.375% instead of 0.875% in the case of 2020 Revolving Loans (as defined in the Revolving Credit Agreement).

***Existing Debt as of June 30, 2021***

As of June 30, 2021, 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 2028 | | 1,145 |
| 3.625% Senior Secured Notes due 2026 (€445 face amount) | | 531 |
| 2.750% Senior Secured Notes due 2028 (€325 face amount) | | 387 |
| 3.875% Senior Secured Notes due 2030 | | 535 |
| 3.000% Senior Secured Notes due 2031 | | 800 |
| Total long-term debt, including the current portion | $ | 3,398 |
| Issuance premium less unamortized discount and unamortized deferred financing costs | | (31) |
| Total long-term debt, including the current portion, net | $ | 3,367 |

(a) Reflects $300 million of commitments under the Revolving Credit Facility available at June 30, 2021, less letters of credit outstanding of approximately $10 million at June 30, 2021. There were no loans outstanding under the Revolving Credit Facility at June 30, 2021.

For further discussion of our debt agreements, see “Liquidity” in the “Financial Condition and Liquidity” section of our Annual Report on Form 10-K for the fiscal year ended 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 Company paid the first dividend under this policy 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.

On May 13, 2021, 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 to stockholders on June 1, 2021. The Company paid an aggregate of approximately $62 million and $187 million, or $0.12 and $0.36 per share, in cash dividends to stockholders and participating security holders for the three and nine months ended June 30, 2021, respectively.

**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 June 30, 2021.

On January 18, 2019, we delivered a notice to the trustee under the 2012 Secured Indenture and 2014 Unsecured Indenture changing the Fixed GAAP Date, as defined under the indentures, to October 1, 2018. Under the Senior Term Loan Facility, the Revolving Credit Facility and the 2020 Secured Indenture, 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. On May 4, 2021, certain covenants set forth in our Revolving Credit Facility were suspended, including the restriction on incurring certain additional indebtedness, based on the determination that the total indebtedness to EBITDA ratio is below the required threshold specified therein. 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 Senior Term Loan Facility and the 2020 Secured Indenture use financial measures called “Consolidated EBITDA” or “EBITDA” and “Consolidated Net Income” that have substantially the same definitions to EBITDA and Consolidated Net Income, each as defined under the Revolving Credit Agreement. The 2012 Secured Indenture uses financial measures called “Consolidated EBITDA” or “EBITDA” and “Consolidated Net Income” that have similar (but not the same) 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 June 30, 2021, for the twelve months ended June 30, 2020 and for the three months ended June 30, 2021 and June 30, 2020. 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 June 30, 2021. 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 June 30, | | Three Months Ended June 30, | |
|---|---|---|---|---|
| | 2021 | 2020 | 2021 | 2020 |
| **Net Income (Loss)** | $ 278 | $ (380) | $ 61 | $ (519) |
| Income tax expense (benefit) | 106 | (33) | 41 | 51 |
| Interest expense, net | 122 | 132 | 30 | 32 |
| Depreciation and amortization | 294 | 260 | 79 | 62 |
| Loss on extinguishment of debt (a) | 46 | — | 12 | — |
| Net gain on divestitures and sale of securities (b) | (3) | (2) | (2) | — |
| Restructuring costs (c) | 20 | 22 | 5 | 6 |
| Net hedging and foreign exchange losses (gains) (d) | 82 | (17) | 15 | 15 |
| Management fees (e) | (3) | 25 | — | 17 |
| Transaction costs (f) | 4 | 77 | 2 | 73 |
| Business optimization expenses (g) | 36 | 42 | 12 | 10 |
| Non-cash stock-based compensation expense (h) | 41 | 622 | 12 | 440 |
| Other non-cash charges (i) | (31) | 21 | 5 | (12) |
| Pro forma impact of cost savings initiatives and specified transactions (j) | 47 | 16 | 10 | 14 |
| **Adjusted EBITDA** | **$ 1,039** | **$ 785** | **$ 282** | **$ 189** |
| **Senior Secured Indebtedness (k)** | **$ 3,117** | | | |
| **Leverage Ratio (l)** | **3.00x** | | | |

(a) For the three months ended June 30, 2021, reflects a net loss incurred on the early extinguishment of our debt as part of the April 2021 redemption of our 5.500% Senior Notes. The twelve months ended June 30, 2021 also reflects a net loss incurred on the early extinguishment of our debt as part of the redemption of our 4.125% Senior Secured Notes and 4.875% Senior Secured Notes, the tender for and redemption of the 5.000% Senior Secured Notes and the partial repayment of the Senior Term Loan Facility, all of which occurred in the fourth quarter of fiscal 2020.

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

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

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

(e) Reflects management fees and related expenses paid to Access pursuant to the management agreement which was terminated upon completion of the IPO in June 2020.

(f) Reflects mainly integration, transaction and qualifying IPO costs.

(g) Reflects costs associated with our transformation initiatives and IT system updates, which includes costs of $9 million and $28 million related to our finance transformation for the three and twelve months ended June 30, 2021, respectively, as well as $6 million and $33 million for the three and twelve months ended June 30, 2020, respectively.

(h) Reflects non-cash stock-based compensation expense related to the Warner Music Group Corp. Senior Management Free Cash Flow Plan and the Omnibus Incentive 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 June 30, 2021. Certain of these cost savings initiatives and transactions impacted quarters prior to the quarter during which they were identified within the last twelve-month period. The pro forma impact of these specified transactions and initiatives resulted in a $15 million increase in the twelve months ended June 30, 2021 Adjusted EBITDA.

(k) Reflects the balance of senior secured debt at Acquisition Corp. of approximately $3.367 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 June 30, 2021 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. On May 4, 2021, certain covenants set forth in our Revolving Credit Facility were suspended, including the restriction on incurring certain additional indebtedness, based on the determination that the total indebtedness to EBITDA ratio is below the required threshold specified therein.

**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 or repurchase our outstanding equity 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.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

As discussed in Note 16 to our audited consolidated financial statements for the fiscal year ended September 30, 2020, 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 June 30, 2021, other than as described below, there have been no material changes to the Company's exposure to market risk since September 30, 2020.

#### 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 June 30, 2021, the Company had outstanding hedge contracts for the sale of $131 million and the purchase of $85 million of foreign currencies at fixed rates. Subsequent to June 30, 2021, certain of our foreign exchange contracts expired.

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 outstanding at June 30, 2021, 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. The fair value of the foreign exchange forward contracts would have decreased by $5 million based on this analysis. 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 $3.398 billion of principal debt outstanding at June 30, 2021, of which $1,145 million was variable-rate debt and $2.253 billion was fixed-rate debt. As such, we are exposed to changes in interest rates. At June 30, 2021, 66% of the Company's debt was at a fixed rate. In addition, as of June 30, 2021, 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 $1,145 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. As of June 30, 2021, the Company's interest rate swaps are expected to mature within three years.

Based on the level of interest rates prevailing at June 30, 2021, the fair value of the Company's fixed-rate and variable-rate debt was approximately $3.383 billion. Further, as of June 30, 2021, 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 $19 million or increase the fair value of the fixed-rate debt by approximately $35 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 4. 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 three months ended June 30, 2021 that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting. The Company has not experienced any material impact to our internal controls over financial reporting despite the fact that most of our employees continue to work remotely due to the COVID-19 global pandemic. The Company will continue to monitor and assess the impact of the COVID-19 situation and our ability to maintain the design and operating effectiveness of internal controls over financial reporting.

# PART II. OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

From time to time the Company is involved in claims and legal proceedings that arise in the ordinary course of business. The Company is currently subject to several such claims and legal proceedings. Based on currently available information, the Company does not believe that resolution of pending matters will have a material adverse effect on its financial condition, cash flows or results of operations. However, litigation is subject to inherent uncertainties, and there can be no assurances that the Company's defenses will be successful or that any such lawsuit or claim would not have a material adverse impact on the Company's business, financial condition, cash flows and results of operations in a particular period. Any claims or proceedings against the Company, whether meritorious or not, can have an adverse impact because of defense costs, diversion of management and operational resources, negative publicity and other factors.

## ITEM 1A. RISK FACTORS

There are no material changes to the risk factors discussed in our Annual Report on Form 10-K for the fiscal year ended September 30, 2020.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

## ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

## ITEM 5. OTHER INFORMATION

Not applicable.

## ITEM 6. 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, any representations and warranties made by us in these agreements or other documents were made solely within the specific context of the relevant agreement or document and may not describe the actual state of affairs as of the date they were made or at any other time.

| Exhibit Number | Exhibit Description |
|---|---|
| 31.1* | Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended |
| 31.2* | Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, 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 Quarterly Report on Form 10-Q of Warner Music Group Corp. for the quarter ended June 30, 2021, filed on August 3, 2021, 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 Equity (Deficit) and (vi) Notes to Consolidated Interim Financial Statements |
| 104* | Cover Page to this Quarterly Report on Form 10-Q, formatted in Inline XBRL. |

* Filed herewith.

** Pursuant to SEC Release No. 33-8212, this certification will be treated as "accompanying" this Quarterly Report on Form 10-Q and not "filed" as part of such report for purposes of Section 18 of the Securities Exchange Act, as amended, or otherwise subject to the liability of Section 18 of the Securities Exchange Act, 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.

## SIGNATURES

Pursuant to the requirements of 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.

August 3, 2021

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)** |

**Exhibit 31.1**

## CHIEF EXECUTIVE OFFICER CERTIFICATION

I, Stephen Cooper, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended June 30, 2021 of Warner Music Group Corp. (the "Registrant");

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   c) Evaluated the effectiveness of the Registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the Registrant's internal control over financial reporting that occurred during the Registrant's most recent fiscal quarter (the Registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant's internal control over financial reporting; and

5. The Registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant's auditors and the audit committee of the Registrant's Board of Directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant's internal control over financial reporting.

Dated: August 3, 2021

/S/ STEPHEN COOPER

**Chief Executive Officer**
**(Principal Executive Officer)**

**Exhibit 31.2**

## CHIEF FINANCIAL OFFICER CERTIFICATION

I, Eric Levin, certify that:

1. I have reviewed this quarterly report on Form 10-Q for the period ended June 30, 2021 of Warner Music Group Corp. (the “Registrant”);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the Registrant as of, and for, the periods presented in this report;

4. The Registrant’s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the Registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   c) Evaluated the effectiveness of the Registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the Registrant’s internal control over financial reporting that occurred during the Registrant’s most recent fiscal quarter (the Registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Registrant’s internal control over financial reporting; and

5. The Registrant’s other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Registrant’s auditors and the audit committee of the Registrant’s Board of Directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Registrant’s ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the Registrant’s internal control over financial reporting.

Dated: August 3, 2021

/s/ Eric Levin

**Chief Financial Officer**
**(Principal Financial and Accounting Officer)**

**Exhibit 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**

In connection with the Quarterly Report of Warner Music Group Corp. (the “Company”) on Form 10-Q for the period ended June 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Stephen Cooper, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 3, 2021

/S/ STEPHEN COOPER

**Stephen Cooper**
**Chief Executive Officer**

**Exhibit 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**

In connection with the Quarterly Report of Warner Music Group Corp. (the "Company") on Form 10-Q for the period ended June 30, 2021 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Eric Levin, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 3, 2021

/s/ Eric Levin

**Eric Levin**
**Chief Financial Officer**