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 December 31, 2020

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 January 29, 2021, there were 111,167,356 shares of Class A Common Stock and 403,184,814 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)

	December 31, 2020	September 30, 2020
	(in millions, except share data)	
Assets		
Current assets:		
Cash and equivalents	$ 566	$ 553
Accounts receivable, net of allowances of $24 million and $23 million	884	771
Inventories	71	79
Royalty advances expected to be recouped within one year	246	220
Prepaid and other current assets	61	55
Total current assets	1,828	1,678
Royalty advances expected to be recouped after one year	307	269
Property, plant and equipment, net	334	331
Operating lease right-of-use assets, net	275	273
Goodwill	1,851	1,831
Intangible assets subject to amortization, net	1,968	1,653
Intangible assets not subject to amortization	156	154
Deferred tax assets, net	62	68
Other assets	162	153
Total assets	$ 6,943	$ 6,410
Liabilities and Equity (Deficit)		
Current liabilities:		
Accounts payable	$ 214	$ 264
Accrued royalties	1,722	1,628
Accrued liabilities	414	382
Accrued interest	36	30
Operating lease liabilities, current	41	39
Deferred revenue	326	297
Other current liabilities	137	80
Total current liabilities	2,890	2,720
Long-term debt	3,387	3,104
Operating lease liabilities, noncurrent	298	299
Deferred tax liabilities, net	166	163
Other noncurrent liabilities	169	169
Total liabilities	$ 6,910	$ 6,455
Deficit:		
Class A common stock, $0.001 par value; 1,000,000,000 shares authorized, 111,167,356 and 88,578,361 shares issued and outstanding as of December 31, 2020 and September 30, 2020, respectively	$ —	$ —
Class B common stock, $0.001 par value; 1,000,000,000 shares authorized, 403,184,814 and 421,450,000 issued and outstanding as of December 31, 2020 and September 30, 2020, respectively	1	1
Additional paid-in capital	1,913	1,907
Accumulated deficit	(1,713)	(1,749)
Accumulated other comprehensive loss, net	(185)	(222)
Total Warner Music Group Corp. equity (deficit)	16	(63)
Noncontrolling interest	17	18
Total equity (deficit)	33	(45)
Total liabilities and equity (deficit)	$ 6,943	$ 6,410

See accompanying notes

Warner Music Group Corp.

Consolidated Statements of Operations (Unaudited)

	Three Months Ended December 31,	
	2020	2019
	(in millions, except share and per share data)	
Revenue	$ 1,335	$ 1,256
Costs and expenses:		
Cost of revenue	(686)	(665)
Selling, general and administrative expenses (a)	(401)	(379)
Amortization expense	(52)	(47)
Total costs and expenses	(1,139)	(1,091)
Operating income	196	165
Interest expense, net	(31)	(33)
Other expense	(31)	(5)
Income before income taxes	134	127
Income tax expense	(35)	(5)
Net income	99	122
Less: Income attributable to noncontrolling interest	(1)	(2)
Net income attributable to Warner Music Group Corp.	$ 98	$ 120
(a) Includes depreciation expense:	$ (19)	$ (24)
Net income per share attributable to common stockholders:		
Class A – Basic and Diluted	$ 0.18	$ —
Class B – Basic and Diluted	$ 0.19	$ 0.24
Weighted average common shares:		
Class A – Basic and Diluted	94,221,946	—
Class B – Basic and Diluted	416,632,808	501,991,944

See accompanying notes

Warner Music Group Corp.

Consolidated Statements of Comprehensive Income (Unaudited)

	Three Months Ended December 31,	
	2020	2019
	(in millions)	
Net income	$ 99	$ 122
Other comprehensive income, net of tax:		
Foreign currency adjustment	34	7
Deferred gain on derivative financial instruments	3	3
Other comprehensive income, net of tax	37	10
Total comprehensive income	136	132
Less: Income attributable to noncontrolling interest	(1)	(2)
Comprehensive income attributable to Warner Music Group Corp.	$ 135	$ 130

See accompanying notes

Warner Music Group Corp.

Consolidated Statements of Cash Flows (Unaudited)

	Three Months Ended December 31, 2020	Three Months Ended December 31, 2019
	(in millions)	
Cash flows from operating activities		
Net income	$ 99	$ 122
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	71	71
Unrealized losses and remeasurement of foreign-denominated loans and foreign currency forward exchange contracts	45	5
Deferred income taxes	2	(29)
Net (gain) loss on divestitures and investments	(14)	1
Non-cash interest expense	1	1
Non-cash stock-based compensation expense	6	(7)
Changes in operating assets and liabilities:		
Accounts receivable, net	(98)	(101)
Inventories	11	10
Royalty advances	(56)	(38)
Accounts payable and accrued liabilities	(35)	(44)
Royalty payables	54	84
Accrued interest	6	(11)
Operating lease liabilities	(2)	1
Deferred revenue	24	(21)
Other balance sheet changes	55	34
Net cash provided by operating activities	169	78
Cash flows from investing activities		
Acquisition of music publishing rights and music catalogs, net	(324)	(11)
Capital expenditures	(18)	(15)
Investments and acquisitions of businesses, net of cash received	(1)	(6)
Net cash used in investing activities	(343)	(32)
Cash flows from financing activities		
Proceeds from issuance of 3.000% Senior Secured Notes due 2031	244	—
Deferred financing costs paid	(3)	—
Distribution to noncontrolling interest holder	(1)	(1)
Dividends paid	(62)	(206)
Net cash provided by (used in) financing activities	178	(207)
Effect of exchange rate changes on cash and equivalents	9	4
Net increase (decrease) in cash and equivalents	13	(157)
Cash and equivalents at beginning of period	553	619
Cash and equivalents at end of period	$ 566	$ 462

See accompanying notes

Warner Music Group Corp.

Consolidated Statements of Equity (Deficit) (Unaudited)

Three Months Ended December 31, 2020

	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	—	—	—	—	—	98	—	98	1	99
Other comprehensive income, net of tax	—	—	—	—	—	—	37	37	—	37
Dividends ($0.12 per Class A and B share)	—	—	—	—	—	(62)	—	(62)	—	(62)
Stock-based compensation expense	—	—	—	—	6	—	—	6	—	6
Distribution to noncontrolling interest holders	—	—	—	—	—	—	—	—	(2)	(2)
Exchange of Class B shares for Class A shares	18,265,183	—	(18,265,186)	—	—	—	—	—	—	—
Shares issued under the Plan	4,321,259	—	—	—	—	—	—	—	—	—
Shares issued under Omnibus Incentive Plan	2,553	—	—	—	—	—	—	—	—	—
Balance at December 31, 2020	111,167,356	$ —	403,184,814	$ 1	$ 1,913	$ (1,713)	$ (185)	$ 16	$ 17	$ 33

Three Months Ended December 31, 2019

	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
Net income	—	—	—	—	—	120	—	120	2	122
Other comprehensive income, net of tax	—	—	—	—	—	—	10	10	—	10
Dividends ($0.07 per Class B share)	—	—	—	—	—	(38)	—	(38)	—	(38)
Distribution to noncontrolling interest holders	—	—	—	—	—	—	—	—	(1)	(1)
Other	—	—	4,169,978	—	—	—	—	—	—	—
Balance at December 31, 2019	—	$ —	510,000,000	$ 1	$ 1,127	$ (1,088)	$ (230)	$ (190)	$ 21	$ (169)

See accompanying notes

Warner Music Group Corp.

Notes to Consolidated Interim Financial Statements (Unaudited)

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 months ended December 31, 2020 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 December 31, 2020 and December 31, 2019 relate to the periods ended December 25, 2020 and December 27, 2019, respectively. For convenience purposes, the Company continues to date its first-quarter financial statements as of December 31. 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 30,914 shares of restricted stock has been issued under the Omnibus Incentive Plan to the Company's directors, which includes 2,553 issued during the three months ended December 31, 2020. Refer to "Stock-Based Compensation" below regarding additional shares issued under our Omnibus Incentive Plan.

In connection with the Company's Senior Management Cash Flow Plan ("the Plan"), equity units held by certain participants were required to be settled in December 2020. This resulted in the redemption of Class A and Class B units held by certain participants in WMG Management Holdings, LLC ("Management LLC") in exchange for 18,265,813 shares of Class B Common Stock. These shares of Class B Common Stock converted to shares of Class A Common Stock upon exchange. Additionally, the Company 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. As a result of these transactions, the participants received a total of 22,586,442 shares of Class A Common Stock in connection with the final settlement in December 2020 for all interests previously issued under the Plan.

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 three months ended December 31, 2020, the Company approved the issuance of restricted stock units ("RSUs") under the Omnibus Incentive Plan to eligible employees and executives. For accounting purposes, vesting of such restricted stock units commenced during the period. The Company recognized approximately $6 million of stock-based compensation expense for the three months ended December 31, 2020, which is included in additional paid-in capital, for its unvested share awards that were granted prior to the IPO and shares issued under the Omnibus Incentive Plan.

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

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 Company did not have any dilutive securities for the three months ended December 31, 2019.

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.

Restricted stock units with anti-dilutive effect were excluded from the EPS calculation and they were not material for the three months ended December 31, 2020.

The following table sets forth the calculation of basic and diluted net income per common share under the two-class method for the three months ended December 31, 2020 and 2019 (in millions, except share and per share data):

	Three Months Ended December 31,			
	2020		2019	
	Class A	Class B	Class A	Class B
Basic and Diluted EPS:				
Numerator				
Net income attributable to Warner Music Group Corp.	$ 19	$ 79	$ —	$ 120
Less: Net income attributable to participating securities	(2)	—	—	—
Net income attributable to common stockholders	$ 17	$ 79	$ —	$ 120
Denominator				
Weighted average shares outstanding	94,221,946	416,632,808	0	501,991,944
Basic and Diluted EPS	$ 0.18	$ 0.19	$ —	$ 0.24

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 December 31,	
	2020	2019
	(in millions)	
Revenue by Type		
Digital	$ 727	$ 633
Physical	174	184
Total Digital and Physical	901	817
Artist services and expanded-rights	180	188
Licensing	80	79
Total Recorded Music	1,161	1,084
Performance	30	46
Digital	99	73
Mechanical	11	15
Synchronization	33	36
Other	2	3
Total Music Publishing	175	173
Intersegment eliminations	(1)	(1)
Total Revenues	$ 1,335	$ 1,256
Revenue by Geographical Location		
U.S. Recorded Music	$ 481	$ 453
U.S. Music Publishing	91	81
Total U.S.	572	534
International Recorded Music	680	631
International Music Publishing	84	92
Total International	764	723
Intersegment eliminations	(1)	(1)
Total Revenues	$ 1,335	$ 1,256

Recorded Music

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

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

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

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

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

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

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

Music Publishing

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

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

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

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

Sales Returns and Uncollectible Accounts

In accordance with practice in the recorded music industry and as customary in many territories, certain physical revenue products (such as vinyls, 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 $37 million and $24 million were established at December 31, 2020 and September 30, 2020, respectively.

Based on management's analysis of estimated credit losses, reserves of $24 million and $23 million were established at December 31, 2020 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 $128 million during the three months ended December 31, 2020 related to cash received from customers for fixed fees and minimum guarantees in advance of performance, including amounts recognized in the period. Revenues of $87 million were recognized during the three months ended December 31, 2020 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

The Company recognized revenue of $20 million and $27 million from performance obligations satisfied in previous periods for the three months ended December 31, 2020 and December 31, 2019, respectively.

Wholly and partially unsatisfied performance obligations represent future revenues not yet recorded under long-term intellectual property licensing contracts containing fixed fees, advances and minimum guarantees. Revenues expected to be recognized in the future related to performance obligations that are unsatisfied at December 31, 2020 are as follows:

	Rest of FY21	FY22	FY23	Thereafter	Total
			(in millions)		
Remaining performance obligations	$ 712	$ 82	$ 1	$ —	$ 795
Total	$ 712	$ 82	$ 1	$ —	$ 795

5. Comprehensive Income (Loss)

Comprehensive income (loss), 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 (loss) primarily consist of foreign currency translation gains and losses, minimum pension liabilities, and deferred gains and losses on financial instruments designated as hedges under ASC 815, *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 $1 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	34	—	3	37
Balances at December 31, 2020	$ (147)	$ (12)	$ (26)	$ (185)

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(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 11 years, some of which include options to extend the leases for up to 10 years, and some of which include options to terminate the leases within 1 year.

Among the Company's operating leases are its leases for the Ford Factory Building, located at 777 S. Santa Fe Avenue in Los Angeles, California, and for 27 Wrights Lane, Kensington, London. The landlord for both leases is an affiliate of Access. As of December 31, 2020, the aggregate lease liability related to these leases was $133 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 December 31,	
	2020	2019
	(in millions)	
Lease Cost		
Operating lease cost	$ 14	14
Short-term lease cost	1	—
Variable lease cost	2	3
Sublease income	—	—
Total lease cost	$ 17	$ 17

Supplemental cash flow information related to leases was as follows:

	Three Months Ended December 31,	
	2020	2019
	(in millions)	
Cash paid for amounts included in the measurement of operating lease liabilities	$ 15	$ 14
Right-of-use assets obtained in exchange for operating lease obligations	6	5

Supplemental balance sheet information related to leases was as follows:

	December 31, 2020	September 30, 2020
	(in millions)	
Operating Leases		
Operating lease right-of-use assets	$ 275	$ 273
Operating lease liabilities, current	$ 41	$ 39
Operating lease liabilities, noncurrent	298	299
Total operating lease liabilities	$ 339	$ 338
Weighted Average Remaining Lease Term		
Operating leases	8 years	8 years
Weighted Average Discount Rate		
Operating leases	4.58 %	4.58 %

Maturities of lease liabilities were as follows:

Years	Operating Leases
	(in millions)
2021	$ 42
2022	55
2023	52
2024	49
2025	48
Thereafter	161
Total lease payments	407
Less imputed interest	(68)
Total	$ 339

As of December 31, 2020, 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	—	—	—
Other adjustments (a)	20	—	20
Balances at December 31, 2020	$ 1,387	$ 464	$ 1,851

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(a) Other adjustments during the three months ended December 31, 2020 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	December 31, 2020	September 30, 2020
		(in millions)	
Intangible assets subject to amortization:			
Recorded music catalog	11 years	$ 1,028	$ 876
Music publishing copyrights	26 years	1,721	1,597
Artist and songwriter contracts	13 years	994	862
Trademarks	16 years	83	81
Other intangible assets	6 years	87	84
Total gross intangible asset subject to amortization		3,913	3,500
Accumulated amortization		(1,945)	(1,847)
Total net intangible assets subject to amortization		1,968	1,653
Intangible assets not subject to amortization:			
Trademarks and tradenames	Indefinite	156	154
Total net intangible assets		$ 2,124	$ 1,807

The increase in intangible assets during the three months ended December 31, 2020 primarily relates to two acquisition transactions of music-related assets within recorded music catalogs, music publishing copyrights, and artist and songwriter contracts for approximately $318 million.

8. Debt

Debt Capitalization

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

	December 31, 2020	September 30, 2020
	(in millions)	
Revolving Credit Facility (a)	$ —	$ —
Senior Term Loan Facility due 2023 (b)	815	814
3.625% Senior Secured Notes due 2026 (c)	545	521
2.750% Senior Secured Notes due 2028 (d)	392	375
3.875% Senior Secured Notes due 2030 (e)	529	529
3.000% Senior Secured Notes due 2031 (f)	784	544
5.500% Senior Notes due 2026 (g)	322	321
Total long-term debt, including the current portion (h)	$ 3,387	$ 3,104

(a) Reflects $300 million of commitments under the Revolving Credit Facility, less letters of credit outstanding of approximately $10 million at both December 31, 2020 and September 30, 2020. There were no loans outstanding under the Revolving Credit Facility at December 31, 2020 or September 30, 2020.

(b) Principal amount of $820 million at both December 31, 2020 and September 30, 2020 less unamortized discount of $1 million and $1 million and unamortized deferred financing costs of $4 million and $5 million at December 31, 2020 and September 30, 2020, respectively. On January 20, 2021, Acquisition Corp. entered into an amendment of the credit agreement governing the Senior Term Loan Facility which, among other things, extends the maturity date of its outstanding term loans from November 1, 2023 to January 20, 2028 and removes a number of negative covenants limiting the ability of Acquisition Corp. to take various actions. See Note 15.

(c) Face amount of €445 million at both December 31, 2020 and September 30, 2020. Above amounts represent the dollar equivalent of such note at December 31, 2020 and September 30, 2020. Principal amount of $543 million and $519 million at December 31, 2020 and September 30, 2020, respectively, an additional issuance premium of $7 million, less unamortized deferred financing costs of $5 million at both December 31, 2020 and September 30, 2020.

(d) Face amount of €325 million at both December 31, 2020 and September 30, 2020. Above amounts represent the dollar equivalent of such note at December 31, 2020 and September 30, 2020. Principal amount of $396 million and $379 million at

December 31, 2020 and September 30, 2020, respectively, less unamortized deferred financing costs of $4 million and $4 million at both December 31, 2020 and September 30, 2020.

(e) Principal amount of $535 million less unamortized deferred financing costs of $6 million at both December 31, 2020 and September 30, 2020.

(f) Principal amount of $800 million and $550 million at December 31, 2020 and September 30, 2020, respectively, less unamortized discount of $7 million at December 31, 2020 and unamortized deferred financing costs of $9 million and $6 million at December 31, 2020 and September 30, 2020, respectively. On November 2, 2020, Acquisition Corp. issued an additional $250 million in aggregate principal amount of its 3.000% Senior Secured Notes due 2031.

(g) Principal amount of $325 million less unamortized deferred financing costs of $3 million and $4 million at December 31, 2020 and September 30, 2020.

(h) Principal amount of debt of $3.419 billion and $3.127 billion, an additional issuance premium of $7 million and $7 million, less unamortized discount of $8 million and $1 million and unamortized deferred financing costs of $31 million and $29 million at December 31, 2020 and September 30, 2020, respectively.

The Company is the direct parent of Holdings, which is the direct parent of Acquisition Corp. As of December 31, 2020 Acquisition Corp. had issued and outstanding the 3.625% Senior Secured Notes due 2026, the 5.500% Senior Notes due 2026, the 2.750% Senior Secured Notes due 2028, the 3.875% Senior Secured Notes due 2030 and the 3.000% Senior Secured Notes due 2031 (together, the “Acquisition Corp. Notes”).

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

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

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. Acquisition Corp. had the option to repurchase all or a portion of the Additional Notes at any time on one or more occasions on or prior to the fifth business day after December 18, 2020 (the “Special Optional Redemption Election Date”), but did not exercise its option to repurchase. The Additional Notes were not initially fungible with the 3.000% Senior Secured Notes issued on August 12, 2020 (the “Original Notes”). Following the Special Optional Redemption Election Date, Acquisition Corp. caused the Additional Notes to bear the same CUSIP and ISIN numbers as the Original Notes (the “CUSIP Merger Event”). Following the CUSIP Merger Event, 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 Original Notes.

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 3.15x at December 31, 2020, the applicable margin for Eurodollar loans would be 1.625% instead of 1.875% and the applicable margin for ABR loans would be 0.625% instead of 0.875% in the case of 2020 Revolving Loans. If there is a payment default at any time, then the interest rate applicable to overdue principal will be the rate otherwise applicable to such loan plus 2.0% per annum. Default

interest will also be payable on other overdue amounts at a rate of 2.0% per annum above the amount that would apply to an alternative base rate loan.

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

The Company has entered into, and in the future may enter into, interest rate swaps to manage interest rate risk. Please refer to Note 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 November 1, 2023. On January 20, 2021, Acquisition Corp. entered into an amendment of the credit agreement governing the Senior Term Loan Facility which, among other things, extends the maturity date of its outstanding term loans from November 1, 2023 to January 20, 2028 and removes a number of negative covenants limiting the ability of Acquisition Corp. to take various actions.

Maturity of Revolving Credit Facility

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

Maturities of Senior Notes and Senior Secured Notes

As of December 31, 2020, there are no scheduled maturities of notes until 2026, when $868 million is scheduled to mature. Thereafter, $1.731 billion is scheduled to mature.

Interest Expense, net

Total interest expense, net was $31 million and $33 million for the three months ended December 31, 2020 and December 31, 2019, respectively. The weighted-average interest rate of the Company's total debt was 3.7% at December 31, 2020, 3.7% at September 30, 2020 and 4.2% at December 31, 2019.

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 months ended December 31, 2020, the Company recorded an income tax expense of $35 million. The income tax expense for the three months ended December 31, 2020 is higher than the expected tax expense at the statutory tax rate of 21% primarily due to U.S. state and local taxes, foreign income taxed at rates higher than the US, and non-deductible executive compensation under IRC Section 162(m), offset by FDII and excess tax benefits from long term incentive plan.

For the three months ended December 31, 2019, the Company recorded an income tax expense of $5 million. The income tax expense for the three months ended December 31, 2019 is lower than the expected tax expense at the statutory tax rate of 21% primarily due to tax benefit of a release of a valuation allowance relating to foreign tax credit carryforwards and FDII, offset by non-deductible long term incentive plan, U.S. state and local taxes, foreign income taxed at rates higher than the U.S. statutory tax rate, withholding taxes and foreign losses with no tax benefit.

The Company has determined that it is reasonably possible that the gross unrecognized tax benefits as of December 31, 2020 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 December 31, 2020 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 December 31, 2020, the Company had outstanding hedge contracts for the sale of $270 million and the purchase of $176 million of foreign currencies at fixed rates that will be settled by September 2021.

As of December 31, 2020, the Company had outstanding $820 million in pay-fixed receive-variable interest rate swaps with $26 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 $1 million and unrealized pre-tax losses of $4 million related to its foreign currency forward exchange contracts in the consolidated statement of operations as other expense for the three months ended December 31, 2020. The Company recorded realized pre-tax losses of $1 million and unrealized pre-tax losses of $3 million related to its foreign currency forward exchange contracts in the consolidated statement of operations as other expense for the three months ended December 31, 2019.

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 three months ended December 31, 2020 were $4 million. 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 three months ended December 31, 2019 were $4 million.

The following is a summary of amounts recorded in the consolidated balance sheets pertaining to the Company's derivative instruments at December 31, 2020 and September 30, 2020:

	December 31, 2020 (a)	September 30, 2020 (b)
	(in millions)	
Other current assets	$ —	$ —
Other current liabilities	(4)	—
Other noncurrent assets	—	—
Other noncurrent liabilities	(34)	(38)

(a) $8 million and $12 million of foreign exchange derivative contracts in current asset and liability positions, respectively, and $34 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)		
December 31, 2020				
Revenues	$ 1,161	$ 175	$ (1)	$ 1,335
Operating income (loss)	223	18	(45)	196
Amortization of intangible assets	33	19	—	52
Depreciation of property, plant and equipment	13	2	4	19
OIBDA	269	39	(41)	267
December 31, 2019				
Revenues	$ 1,084	$ 173	$ (1)	$ 1,256
Operating income (loss)	191	14	(40)	165
Amortization of intangible assets	29	18	—	47
Depreciation of property, plant and equipment	21	1	2	24
OIBDA	241	33	(38)	236

13. Additional Financial Information

Cash Interest and Taxes

The Company made interest payments of approximately $27 million and $44 million during the three months ended December 31, 2020 and December 31, 2019, respectively. The Company paid approximately $17 million and $20 million of income and withholding taxes, net of refunds, for the three months ended December 31, 2020 and December 31, 2019, 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 November 13, 2020, the Company’s board of directors declared a cash dividend of $0.12 per share on the Company’s Class A Common Stock and Class B Common Stock, as well as related payments under certain stock-based compensation plans, which was paid to stockholders on December 1, 2020. The Company paid an aggregate of approximately $62 million in cash dividends to stockholders and participating security holders for the three months ended December 31, 2020.

COVID-19 Pandemic

On March 11, 2020, the COVID-19 outbreak was declared a global pandemic by the World Health Organization. Government-imposed mandates limiting public assembly and restrictions on non-essential businesses have adversely impacted the Company’s operations, including touring and physical product distribution, for the three months ended December 31, 2020. It is unclear how long government-imposed mandates and restrictions will last and to what extent the global pandemic will impact demand for the Company’s music and related services, even as federal, state, local and foreign governments start to lift restrictions.

The Company is not presently aware of any events or circumstances arising from the global pandemic that would require us to update any estimates, judgments or materially revise the carrying value of our assets or liabilities. The Company’s estimates may change, however, as new events occur and additional information is obtained, and any such changes will be recognized in the consolidated financial statements. Actual results could differ from estimates, and any such differences may be material to our consolidated financial statements.

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 December 31, 2020 and September 30, 2020.

	Fair Value Measurements as of December 31, 2020			
	(Level 1)	(Level 2)	(Level 3)	Total
	(in millions)			
Other Current Liabilities:				
Foreign Currency Forward Exchange Contracts (a)		(4)		(4)
Contractual Obligations (b)	—	—	(2)	(2)
Other Noncurrent Assets:				
Equity Method Investment (c)	—	61	—	61
Other Noncurrent Liabilities:				
Contractual Obligations (b)	—	—	(5)	(5)
Interest Rate Swaps (d)	—	(34)	—	(34)
Total	$ —	$ 23	$ (7)	$ 16

	Fair Value Measurements as of September 30, 2020			
	(Level 1)	(Level 2)	(Level 3)	Total
	(in millions)			
Other Current Liabilities:				
Contractual Obligations (b)	$ —	$ —	$ (2)	$ (2)
Other Noncurrent Assets:				
Equity Method Investment (c)	—	47	—	47
Other Noncurrent Liabilities:				
Contractual Obligations (b)	—	—	(4)	(4)
Interest Rate Swaps (d)	—	(38)	—	(38)
Total	$ —	$ 9	$ (6)	$ 3

(a) The fair value of foreign currency forward exchange contracts is based on dealer quotes of market forward rates and reflects the amount that the Company would receive or pay at their maturity dates for contracts involving the same currencies and maturity dates.

(b) 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 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.

(c) The fair value of equity method investment represents an equity method investment acquired in fiscal 2019 whereby the Company has elected the fair value option under ASC 825, *Financial Instruments* (“ASC 825”). The valuation is based upon quoted prices in active markets and model-based valuation techniques to determine fair value.

(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 December 31, 2020 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	(1)
Reductions	—
Payments	—
Balance at December 31, 2020	$ (7)

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 months ended December 31, 2020. In addition, there were no observable price changes events that were completed during the three months ended December 31, 2020.

Fair Value of Debt

Based on the level of interest rates prevailing at December 31, 2020, the fair value of the Company’s debt was $3.468 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.

15. Subsequent Events

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 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.

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 December 31, 2020 (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 this Quarterly Report 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 this Quarterly Report 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 this Quarterly Report 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 months ended December 31, 2020 and December 31, 2019. 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 three months ended December 31, 2020 and December 31, 2019, as well as a discussion of our financial condition and liquidity as of December 31, 2020. The discussion of our financial condition and liquidity includes recent debt financings and a summary of the key debt covenant compliance measures under our debt agreements.

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, was identified in Wuhan, China. On March 11, 2020, the World Health Organization declared a global pandemic. The global pandemic and governmental responses thereto have disrupted physical and manufacturing supply chains and required the closures of physical retailers, resulting in declines in our physical revenue streams. Additionally, stay at home orders, limited indoor and outdoor gatherings and other restrictions have negatively affected our business in other ways, such as, making it impossible to hold live concert tours, adversely impacting our concert promotion business and the sale of merchandise, delaying the release of new recordings and disrupting the production and release of motion pictures and television programs, which has negatively affected licensing revenue in our Recorded Music business and synchronization revenue in our Music Publishing business. However, the disruption from the COVID-19 pandemic has accelerated growth of other revenue streams such as fitness and interactive gaming (including augmented reality and virtual reality). Our results of operations, cash flows and financial condition at and for the three months ended December 31, 2020 were adversely affected by the global pandemic, but direct costs recorded to OIBDA related to COVID-19 were not material.

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 months ended December 31, 2020, costs associated with being a public company were $4 million.

Senior Management Free Cash Flow Plan

On June 5, 2020, we amended our Senior Management Free Cash Flow Plan (the "Plan"), which pays annual bonuses to certain executives based on our free cash flow and offers participants the opportunity to share in the appreciation of the value of our common stock, to remove the cash-settlement feature of the awards issued previously under the Plan. 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 of $6 million and non-cash stock-based compensation benefit of $7 million for the three months ended December 31, 2020 and December 31, 2019, respectively.

RESULTS OF OPERATIONS

Three Months Ended December 31, 2020 Compared with Three Months Ended December 31, 2019

Consolidated Results

Revenues

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

	For the Three Months Ended December 31,		2020 vs. 2019	
	2020	2019	$ Change	% Change
Revenue by Type				
Digital	$ 727	$ 633	$ 94	15 %
Physical	174	184	(10)	-5 %
Total Digital and Physical	901	817	84	10 %
Artist services and expanded-rights	180	188	(8)	-4 %
Licensing	80	79	1	1 %
Total Recorded Music	1,161	1,084	77	7 %
Performance	30	46	(16)	-35 %
Digital	99	73	26	36 %
Mechanical	11	15	(4)	-27 %
Synchronization	33	36	(3)	-8 %
Other	2	3	(1)	-33 %
Total Music Publishing	175	173	2	1 %
Intersegment eliminations	(1)	(1)	—	— %
Total Revenues	$ 1,335	$ 1,256	$ 79	6 %
Revenue by Geographical Location				
U.S. Recorded Music	$ 481	$ 453	$ 28	6 %
U.S. Music Publishing	91	81	10	12 %
Total U.S.	572	534	38	7 %
International Recorded Music	680	631	49	8 %
International Music Publishing	84	92	(8)	-9 %
Total International	764	723	41	6 %
Intersegment eliminations	(1)	(1)	—	— %
Total Revenues	$ 1,335	$ 1,256	$ 79	6 %

Total Revenues

Total revenues increased by $79 million, or 6%, to $1,335 million for the three months ended December 31, 2020 from $1,256 million for the three months ended December 31, 2019. The increase includes $30 million of favorable currency exchange fluctuations. Prior to intersegment eliminations, Recorded Music and Music Publishing revenues represented 87% and 13% of total revenue for the three months ended December 31, 2020, respectively, and 86% and 14% of total revenue for the three months ended December 31, 2019. Prior to intersegment eliminations, U.S. and international revenues represented 43% and 57% of total revenues for the three months ended December 31, 2020, respectively, and 43% and 58% of total revenues for the three months ended December 31, 2019, respectively.

Total digital revenues after intersegment eliminations increased by $119 million, or 17%, to $825 million for the three months ended December 31, 2020 from $706 million for the three months ended December 31, 2019. Total digital revenues represented 62% and 56% of consolidated revenues for the three months ended December 31, 2020 and December 31, 2019, respectively. Prior to intersegment eliminations, total digital revenues for the three months ended December 31, 2020 were comprised of U.S. revenues of $418 million and international revenues of $408 million, or 51% and 49% of total digital revenues, respectively. Prior to intersegment eliminations, total digital revenues for the three months ended December 31, 2019 were comprised of U.S. revenues of $380 million and international revenues of $326 million, or 54% and 46% of total digital revenues, respectively.

Recorded Music revenues increased by $77 million, or 7%, to $1,161 million for the three months ended December 31, 2020 from $1,084 million for the three months ended December 31, 2019. The increase includes $27 million of favorable currency exchange fluctuations. U.S. Recorded Music revenues were $481 million and $453 million, or 41% and 42%, of consolidated Recorded Music revenues for the three months ended December 31, 2020 and December 31, 2019, respectively. International Recorded Music revenues were $680 million and $631 million, or 59% and 58%, of consolidated Recorded Music revenues for the three months ended December 31, 2020 and December 31, 2019, respectively.

The overall increase in Recorded Music revenue was driven by increases in digital and licensing revenue, partially offset by decreases in physical and artist services and expanded-rights revenues. Digital revenue increased by $94 million as a result of the continued growth in streaming services and strength of releases, which included carryover success from Dua Lipa, Ava Max, Hamilton, Cardi B, Ed Sheeran, and Roddy Ricch. Revenue from streaming services grew by $103 million or 17% to $692 million for the three months ended December 31, 2020 from $589 million for the three months ended December 31, 2019. Digital revenue growth was partially offset by decreases in digital download and other digital declines of $9 million to $35 million for the three months ended December 31, 2020 from $44 million for the three months ended December 31, 2019 due to the continued shift to streaming services. Digital revenue was not materially impacted by COVID-19 in the quarter. Licensing revenue increased by $1 million due to favorable foreign currency exchange rates. Physical revenue decreased by $10 million primarily due to the impact of the COVID-19 business disruption resulting in lower physical sales and continued shift from physical revenue to digital revenue, partially offset by the success of new releases including Johnny Hallyday, Mariya Takeuchi, and Kim Hojoong, and favorable impact of foreign currency exchange rates of $7 million. Artist services and expanded-rights revenue decreased by $8 million primarily due to a decrease in touring activity resulting from COVID-19 business interruption related tour postponements and cancellations, partially offset by higher direct-to-consumer merchandising revenue at EMP and the favorable impact of foreign currency exchange rates of $10 million.

Music Publishing revenues increased by $2 million, or 1%, to $175 million for the three months ended December 31, 2020 from $173 million for the three months ended December 31, 2019. U.S. Music Publishing revenues were $91 million and $81 million, or 52% and 47%, of consolidated Music Publishing revenues for the three months ended December 31, 2020 and December 31, 2019, respectively. International Music Publishing revenues were $84 million and $92 million or 48% and 53%, of consolidated Music Publishing revenues for the three months ended December 31, 2020 and December 31, 2019, respectively.

The overall increase in Music Publishing revenue was mainly driven by increases in digital revenue of $26 million, partially offset by decreases in performance revenue of $16 million, synchronization revenue of $3 million, and mechanical revenue of $4 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 decline in performance revenue and synchronization revenue is primarily driven by the impact from COVID-19. The decline in mechanical revenue is driven by the continued market decline in physical revenue and the impact from COVID-19.

Revenue by Geographical Location

U.S. revenue increased by $38 million, or 7%, to $572 million for the three months ended December 31, 2020 from $534 million for the three months ended December 31, 2019. U.S. Recorded Music revenue increased by $28 million, or 6%. The primary driver was the increase of U.S. Recorded Music digital revenue of $24 million driven by the continued growth in streaming services and an increase in U.S. Recorded Music physical revenue of $6 million due to the success of new releases, partially offset by market decline due to the shift from physical to digital formats and the impact of COVID-19. These increases were also partially offset by a decrease of U.S. Recorded Music artist services and expanded-rights revenue of $2 million primarily driven by the impact of COVID-19 business interruptions, which resulted in tour postponements and cancellations and decreased physical retail and tour-related merchandising revenues. U.S. Music Publishing revenue increased by $10 million, or 12%, to $91 million for the three months ended December 31, 2020 from $81 million for the three months ended December 31, 2019. This was primarily driven by the increase in U.S. Music Publishing of $14 million in digital revenue due to the continued growth in streaming services and timing of new digital deals, partially offset by decreases in synchronization revenue and performance revenue of $2 million and $1 million, respectively, primarily due to the impact of COVID-19 as well as a decline in mechanical revenue of $1 million driven by the continued market decline in physical revenue.

International revenue increased by $41 million, or 6%, to $764 million for the three months ended December 31, 2020 from $723 million for the three months ended December 31, 2019. Excluding the favorable impact of foreign currency exchange rates, International revenue increased by $11 million, or 2%. International Recorded Music revenue increased by $49 million primarily due to increases in digital revenue of $70 million and licensing revenue of $1 million, partially offset by decreases in physical revenue of $16 million and artist services and expanded-rights revenue of $6 million. The increase in International Recorded Music digital revenue was due to continued growth in streaming services internationally. International Recorded Music licensing revenue increased by $1 million due to favorable foreign currency exchange rates. International Recorded Music physical revenue decreased by $16 million due to the continued shift from physical revenue to digital revenue and the impact of COVID-19, partially offset by the success of new releases, including Johnny Hallyday, Mariya Takeuchi, and Kim Hojoong, and favorable impact of foreign currency exchange rates. International Recorded Music artist services and expanded-rights revenue decreased by $6 million primarily due to the impact of COVID-19 business interruptions, which resulted in tour postponements and cancellations, in contrast to strong touring in the prior year. This was offset by growth in EMP direct-to-consumer merchandise revenue and the favorable impact of foreign currency exchange rates of $10 million. International Music Publishing revenue decreased from the prior-year quarter by $8 million, or 9%, to $84 million for the three months ended December 31, 2020. This was primarily driven by decreases in performance revenue of $15 million, mechanical revenue of $3 million, and synchronization revenue of $1 million, partially offset by an increase in digital revenue of $12 million. The decline in performance revenue and synchronization revenue is primarily driven by the impact from COVID-19. The decline in mechanical revenue is driven by the continued market decline in physical revenue and the impact from COVID-19. 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 deals.

Cost of revenues

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

	For the Three Months Ended December 31,		*2020 vs. 2019*	
	2020	2019	$ Change	% Change
Artist and repertoire costs	$ 425	$ 411	$ 14	3 %
Product costs	261	254	7	3 %
Total cost of revenues	$ 686	$ 665	$ 21	3 %

Artist and repertoire costs increased by $14 million, to $425 million for the three months ended December 31, 2020 from $411 million for the three months ended December 31, 2019. Artist and repertoire costs as a percentage of revenue decreased to 32% for the three months ended December 31, 2020 from 33% for the three months ended December 31, 2019. The overall decrease as a percentage of revenue is due to revenue mix and timing of artist and repertoire investments within the Music Publishing segment.

Product costs increased by $7 million, to $261 million for the three months ended December 31, 2020 from $254 million for the three months ended December 31, 2019. Product costs as a percentage of revenue remained constant at 20% for both the three months ended December 31, 2020 and the three months ended December 31, 2019.

Selling, general and administrative expenses

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

	For the Three Months Ended December 31,		*2020 vs. 2019*	
	2020	2019	$ Change	% Change
General and administrative expense (1)	$ 189	$ 172	$ 17	10 %
Selling and marketing expense	178	173	5	3 %
Distribution expense	34	34	—	— %
Total selling, general and administrative expense	$ 401	$ 379	$ 22	6 %

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(1) Includes depreciation expense of $19 million and $24 million for the three months ended December 31, 2020 and December 31, 2019, respectively.

Total selling, general and administrative expense increased by $22 million, or 6%, to $401 million for the three months ended December 31, 2020 from $379 million for the three months ended December 31, 2019. Expressed as a percentage of revenue, selling, general and administrative expense remained flat at 30% for both the three months ended December 31, 2020 and the three months ended December 31, 2019.

General and administrative expense increased by $17 million to $189 million for the three months ended December 31, 2020 from $172 million for the three months ended December 31, 2019. The increase in general and administrative expense was mainly due to higher non-cash stock-based compensation expense of $13 million, public company related expenses totaling $4 million, and increased employee related costs, partially offset by a one-time charge in the prior year within depreciation expense of $10 million and lower overhead due to active cost management efforts. Expressed as a percentage of revenue, general and administrative expense remained constant at 14% for both the three months ended December 31, 2020 and the three months ended December 31, 2019 due to the factors described above.

Selling and marketing expense increased by $5 million, or 3%, to $178 million for the three months ended December 31, 2020 from $173 million for the three months ended December 31, 2019. Expressed as a percentage of revenue, selling and marketing expense decreased to 13% for the three months ended December 31, 2020 from 14% for the three months ended December 31, 2019 due to a decrease in spend as a percentage of revenue resulting from COVID-19 business disruption.

Distribution expense was $34 million for both the three months ended December 31, 2020 and the three months ended December 31, 2019. Expressed as a percentage of revenue, distribution expense remained constant at 3% for both the three months ended December 31, 2020 and the three months ended December 31, 2019.

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 December 31,		*2020 vs. 2019*	
	2020	2019	$ Change	% Change
Net income attributable to Warner Music Group Corp.	$ 98	$ 120	$ (22)	-18 %
Income attributable to noncontrolling interest	1	2	(1)	-50 %
Net income	99	122	(23)	-19 %
Income tax expense	35	5	30	— %
Income before income taxes	134	127	7	6 %
Other expense	31	5	26	— %
Interest expense, net	31	33	(2)	-6 %
Operating income	196	165	31	19 %
Amortization expense	52	47	5	11 %
Depreciation expense	19	24	(5)	-21 %
OIBDA	$ 267	$ 236	$ 31	13 %

OIBDA

OIBDA increased by $31 million to $267 million for the three months ended December 31, 2020 as compared to $236 million for the three months ended December 31, 2019 as a result of higher revenues, partially offset by higher cost of revenues and selling, general, and administrative expenses. Expressed as a percentage of total revenue, OIBDA margin increased to 20% for the three months ended December 31, 2020 from 19% for the three months ended December 31, 2019.

Depreciation expense

Our depreciation expense decreased by $5 million, or 21%, to $19 million for the three months ended December 31, 2020 from $24 million for the three months ended December 31, 2019. The decrease is primarily due to a one-time charge of $10 million representing the difference between the net book value of a building and its recoverable value. The building was exited was part of our Los Angeles, California headquarters relocation. This was partially offset by new assets placed into service.

Amortization expense

Our amortization expense increased by $5 million, or 11%, to $52 million for the three months ended December 31, 2020 from $47 million for the three months ended December 31, 2019. The increase is primarily due to an increase in amortizable intangible assets related to the acquisition of music-related assets.

Operating income

Our operating income increased by $31 million to $196 million for the three months ended December 31, 2020 from $165 million for the three months ended December 31, 2019. The increase in operating income was due to the factors that led to the increase in OIBDA.

Interest expense, net

Our interest expense, net, decreased to $31 million for the three months ended December 31, 2020 from $33 million for the three months ended December 31, 2019 due to lower interest rates resulting from debt refinancing, partially offset by the issuance of the new senior secured notes.

Other expense

Other expense for the three months ended December 31, 2020 primarily includes foreign currency loss on our Euro-denominated debt of $41 million, aggregate realized and unrealized losses on hedging activity of $5 million, and currency exchange losses on our intercompany loans of $2 million, partially offset by an unrealized gain of $14 million on the mark-to-market of an equity method investment. This compares to foreign currency loss on our Euro-denominated debt of $12 million and aggregate realized and unrealized losses on hedging activity of $4 million, partially offset by currency exchange gains on our intercompany loans of $11 million for the three months ended December 31, 2019.

Income tax expense

Our income tax expense increased by $30 million to $35 million for the three months ended December 31, 2020 from $5 million for the three months ended December 31, 2019. The change of $30 million in income tax expense primarily relates to the release of a valuation allowance on foreign tax credits of $33 million during the three months ended December 31, 2019. For the three months ended December 31, 2020, income tax expense is partially offset by a $4 million benefit related to the impact of excess tax benefits on our long term incentive plan.

Net income

Net income decreased by $23 million to $99 million for the three months ended December 31, 2020 from $122 million for the three months ended December 31, 2019 as a result of the factors described above.

Noncontrolling interest

There was $1 million of income attributable to noncontrolling interest for the three months ended December 31, 2020 and $2 million for the three months ended December 31, 2019.

Business Segment Results

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

	For the Three Months Ended December 31,		2020 vs. 2019	
	2020	2019	$ Change	% Change
Recorded Music				
Revenues	$ 1,161	$ 1,084	$ 77	7 %
Operating income	223	191	32	17 %
OIBDA	269	241	28	12 %
Music Publishing				
Revenues	175	173	2	1 %
Operating income	18	14	4	29 %
OIBDA	39	33	6	18 %
Corporate expenses and eliminations				
Revenue eliminations	(1)	(1)	—	— %
Operating loss	(45)	(40)	(5)	13 %
OIBDA loss	(41)	(38)	(3)	8 %
Total				
Revenues	1,335	1,256	79	6 %
Operating income	196	165	31	19 %
OIBDA	267	236	31	13 %

Recorded Music

Revenues

Recorded Music revenue increased by $77 million, or 7%, to $1,161 million for the three months ended December 31, 2020 from $1,084 million for the three months ended December 31, 2019. U.S. Recorded Music revenues were $481 million and $453 million, or 41% and 42%, of consolidated Recorded Music revenues for the three months ended December 31, 2020 and December 31, 2019, respectively. International Recorded Music revenues were $680 million and $631 million, or 59% and 58%, of consolidated Recorded Music revenues for the three months ended December 31, 2020 and December 31, 2019, respectively.

The overall increase in Recorded Music revenue was mainly driven by increases in digital and licensing revenues, partially offset by decreases in physical 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 December 31,		2020 vs. 2019	
	2020	2019	$ Change	% Change
Artist and repertoire costs	$ 313	$ 294	$ 19	6 %
Product costs	261	254	7	3 %
Total cost of revenues	$ 574	$ 548	$ 26	5 %

Recorded Music cost of revenues increased by $26 million, or 5%, to $574 million for the three months ended December 31, 2020 from $548 million for the three months ended December 31, 2019. Expressed as a percentage of Recorded Music revenue, Recorded Music artist and repertoire costs remained constant at 27% for both the three months ended December 31, 2020 and December 31, 2019. Expressed as a percentage of Recorded Music revenue, Recorded Music product costs decreased to 22% for the three months ended December 31, 2020 from 23% for the three months ended December 31, 2019. The decrease in product costs relates to revenue mix due to lower physical and artist services and expanded-rights revenues.

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 December 31,		2020 vs. 2019	
	2020	2019	$ Change	% Change
General and administrative expense (1)	$ 122	$ 113	$ 9	8 %
Selling and marketing expense	175	169	6	4 %
Distribution expense	34	34	—	— %
Total selling, general and administrative expense	$ 331	$ 316	$ 15	5 %

(1) Includes depreciation expense of $13 million and $21 million for the three months ended December 31, 2020 and for the three months ended December 31, 2019, respectively.

Recorded Music selling, general and administrative expense increased by $15 million, or 5%, to $331 million for the three months ended December 31, 2020 from $316 million for the three months ended December 31, 2019. The increase in general and administrative expense was primarily due to higher non-cash stock-based compensation expense of $8 million and increase in employee related costs, partially offset by a one-time charge in the prior year within depreciation expense of $10 million representing the difference between the net book value of a building and its recoverable value, and lower overhead due to active cost management efforts. The increase in selling and marketing expense was primarily due to increased variable marketing spend primarily at EMP, which drove higher direct-to-consumer merchandising revenue. Distribution expense remained flat. Expressed as a percentage of Recorded Music revenue, Recorded Music selling, general and administrative expense remained flat at 29% for both the three months ended December 31, 2020 and the three months ended December 31, 2019. Excluding non-cash stock-based compensation expense, selling, general and administrative expense as a percentage of Recorded Music revenue decreased to 28% for the three months ended December 31, 2020 from 29% for the three months ended December 31, 2019 due to the factors described above.

Operating income and OIBDA

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

	For the Three Months Ended December 31,		2020 vs. 2019	
	2020	2019	$ Change	% Change
Operating income	$ 223	$ 191	$ 32	17 %
Depreciation and amortization	46	50	(4)	-8 %
OIBDA	$ 269	$ 241	$ 28	12 %

Recorded Music OIBDA increased by $28 million, or 12%, to $269 million for the three months ended December 31, 2020 from $241 million for the three months ended December 31, 2019 as a result of higher revenues and lower costs. Expressed as a percentage of Recorded Music revenue, Recorded Music OIBDA margin increased to 23% for the three months ended December 31, 2020 from 22% for the three months ended December 31, 2019.

Recorded Music operating income increased by $32 million to $223 million for the three months ended December 31, 2020 from $191 million for the three months ended December 31, 2019 due to the factors that led to the increase in Recorded Music OIBDA noted above.

Music Publishing

Revenues

Music Publishing revenues increased by $2 million, or 1%, to $175 million for the three months ended December 31, 2020 from $173 million for the three months ended December 31, 2019. U.S. Music Publishing revenues were $91 million and $81 million, or 52% and 47%, of consolidated Music Publishing revenues for the three months ended December 31, 2020 and December 31, 2019, respectively. International Music Publishing revenues were $84 million and $92 million, or 48% and 53%, of consolidated Music Publishing revenues for the three months ended December 31, 2020 and December 31, 2019, respectively.

The overall increase in Music Publishing revenue was mainly driven by digital revenue growth, partially offset by lower performance, synchronization, 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 Three Months Ended December 31,		2020 vs. 2019	
	2020	2019	$ Change	% Change
Artist and repertoire costs	$ 113	$ 118	$ (5)	-4 %
Total cost of revenues	$ 113	$ 118	$ (5)	-4 %

Music Publishing cost of revenues decreased by $5 million, or 4%, to $113 million for the three months ended December 31, 2020 from $118 million for the three months ended December 31, 2019. Expressed as a percentage of Music Publishing revenue, Music Publishing cost of revenues decreased to 65% for the three months ended December 31, 2020 from 68% for the three months ended December 31, 2019. This decrease is primarily attributable to revenue mix and timing of artist and repertoire investments.

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 December 31,		2020 vs. 2019	
	2020	2019	$ Change	% Change
General and administrative expense (1)	$ 24	$ 22	$ 2	9 %
Selling and marketing expense	1	1	—	— %
Total selling, general and administrative expense	$ 25	$ 23	$ 2	9 %

(1) Includes depreciation expense of $2 million and $1 million for the three months ended December 31, 2020 and the three months ended December 31, 2019, respectively.

Music Publishing selling, general and administrative expense increased to $25 million for the three months ended December 31, 2020 from $23 million for the three months ended December 31, 2019. Expressed as a percentage of Music Publishing revenue, Music Publishing selling, general and administrative expense increased to 14% for the three months ended December 31, 2020 from 13% for the three months ended December 31, 2019 mainly due to higher employee-related costs and higher depreciation expense.

Operating income and OIBDA

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

	For the Three Months Ended December 31,		2020 vs. 2019	
	2020	2019	$ Change	% Change
Operating income	$ 18	$ 14	$ 4	29 %
Depreciation and amortization	21	19	2	11 %
OIBDA	$ 39	$ 33	$ 6	18 %

Music Publishing OIBDA increased by $6 million, or 18%, to $39 million for the three months ended December 31, 2020 from $33 million for the three months ended December 31, 2019. Expressed as a percentage of Music Publishing revenue, Music Publishing OIBDA margin increased to 22% for the three months ended December 31, 2020 from 19% for the three months ended December 31, 2019. The increase was primarily due to the increase in revenue and the timing of artist and repertoire investments.

Music Publishing operating income increased by $4 million to $18 million for the three months ended December 31, 2020 from $14 million for the three months ended December 31, 2019 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 increased by $5 million for the three months ended December 31, 2020 to $45 million from $40 million for the three months ended December 31, 2019, which primarily includes an increase in non-cash stock-based compensation expense of $5 million, public company related expenses totaling $4 million, and

higher employee related costs, partially offset by a decline in management fees of $3 million and lower overhead due to active cost management efforts.

Our OIBDA loss from corporate expenses and eliminations increased by $3 million for the three months ended December 31, 2020 to $41 million from $38 million for the three months ended December 31, 2019 due to the operating loss factors noted above.

FINANCIAL CONDITION AND LIQUIDITY

Financial Condition at December 31, 2020

At December 31, 2020, we had $3.387 billion of debt (which is net of $31 million of deferred financing costs), $566 million of cash and equivalents (net debt of $2.821 billion, defined as total debt, less cash and equivalents and deferred financing costs) and $16 million of Warner Music Group Corp. equity. This compares to $3.104 billion of debt (which is net of $29 million of deferred financing costs), $553 million of cash and equivalents (net debt of $2.551 billion) 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 three months ended December 31, 2020 and December 31, 2019 are unaudited and have been derived from our consolidated interim financial statements included elsewhere herein.

	Three Months Ended December 31,	
	2020	2019
Cash provided by (used in):		
Operating activities	$ 169	$ 78
Investing activities	(343)	(32)
Financing activities	178	(207)

Operating Activities

Cash provided by operating activities was $169 million for the three months ended December 31, 2020 as compared with cash provided by operating activities of $78 million for the three months ended December 31, 2019. The $91 million increase in cash provided by operating activities was primarily due to an increase in OIBDA, a decrease in cash interest payments, and timing of working capital.

Investing Activities

Cash used in investing activities was $343 million for the three months ended December 31, 2020 as compared with cash used in investing activities of $32 million for the three months ended December 31, 2019. The $343 million of cash used in investing activities in the three months ended December 31, 2020 consisted of $1 million relating to investments, $18 million relating to capital expenditures and $324 million to acquire music publishing rights and recorded music catalogs, a portion of which was debt-financed. The $32 million of cash used in investing activities in the three months ended December 31, 2019 consisted of $6 million relating to investments, $15 million relating to capital expenditures and $11 million to acquire music publishing rights.

Financing Activities

Cash provided by financing activities was $178 million for the three months ended December 31, 2020 as compared with cash used in financing activities of $207 million for the three months ended December 31, 2019. The $178 million of cash provided by financing activities for the three months ended December 31, 2020 consisted of proceeds from debt issuance of $244 million which was used to fund investments, partially offset by dividends paid of $62 million, distributions to noncontrolling interest holders of $1 million and deferred financing costs of $3 million. The $207 million of cash used in financing activities for the three months ended December 31, 2019 consisted of dividends paid of $206 million and distributions to noncontrolling interest holders 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.

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

Debt Capital Structure

Since Access acquired us in 2011, we have sought to extend the maturity dates on our outstanding indebtedness, reduce interest expense and improve our debt ratings. For example, our S&P corporate credit rating has improved from B in 2017 to BB in 2020 with a stable outlook, and our Moody's corporate family rating has improved from B1 in 2016 to Ba3 in 2020. In addition, our weighted-average interest rate on our outstanding indebtedness has decreased from 10.5% in 2011 to 3.7% as of December 31, 2020. Our nearest-term maturity date is in 2026 following effectiveness of the Senior Term Loan Credit Agreement Amendment in January 2021. 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. Acquisition Corp. had the option to repurchase all or a portion of the Additional Notes at any time on one or more occasions on or prior to the fifth business day after December 18, 2020 (the "Special Optional Redemption Election Date"), but did not exercise its option to repurchase. The Additional Notes were not initially fungible with the 3.000% Senior Secured Notes issued on August 12, 2020 (the "Original Notes"). Following the Special Optional Redemption Election Date, Acquisition Corp. caused the Additional Notes to bear the same CUSIP and ISIN numbers as the Original Notes (the "CUSIP Merger Event"). Following the CUSIP Merger Event, 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 Original Notes.

The proceeds of the issuance and sale of the aforementioned Additional Notes, in conjunction with cash on hand, were used to fund the acquisition of music-related assets for aggregate cash consideration of $338 million.

Revolving Credit Facility

On January 31, 2018, Acquisition Corp. entered into the revolving credit agreement (as amended by the amendment dated October 9, 2019 and as further amended, amended and restated or otherwise modified from time to time, the "Revolving Credit Agreement") for a senior secured revolving credit facility with Credit Suisse AG, as administrative agent, and the other financial institutions and lenders from time to time party thereto (the "Revolving Credit Facility"). On April 3, 2020, Acquisition Corp. entered into an amendment to the Revolving Credit Agreement (the "Second Amendment") which, among other things, extended the final maturity of the Revolving Credit Facility from January 31, 2023 to April 3, 2025.

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 3.15x at December 31, 2020, the applicable margin for Eurodollar loans would be 1.625% instead of 1.875% and the applicable margin for ABR loans would be 0.625% instead of 0.875% in the case of 2020 Revolving Loans (as defined in the Revolving Credit Agreement).

Existing Debt as of December 31, 2020

As of December 31, 2020, our long-term debt, all of which was issued by Acquisition Corp., was as follows (in millions):

Revolving Credit Facility (a)	$	—
Senior Term Loan Facility due 2023 (b)		815
3.625% Senior Secured Notes due 2026 (c)		545
2.750% Senior Secured Notes due 2028 (d)		392
3.875% Senior Secured Notes due 2030 (e)		529
3.000% Senior Secured Notes due 2031 (f)		784
5.500% Senior Notes due 2026 (g)		322
Total long-term debt, including the current portion (h)	$	3,387

(a) Reflects $300 million of commitments under the Revolving Credit Facility available at December 31, 2020, less letters of credit outstanding of approximately $10 million at December 31, 2020. There were no loans outstanding under the Revolving Credit Facility at December 31, 2020.

(b) Principal amount of $820 million less unamortized discount of $1 million and unamortized deferred financing costs of $4 million at December 31, 2020. On January 20, 2021, Acquisition Corp. entered into an amendment of the credit agreement governing the Senior Term Loan Facility which, among other things, extends the maturity date of its outstanding term loans from November 1, 2023 to January 20, 2028 and removes a number of negative covenants limiting the ability of Acquisition Corp. to take various actions. See Note 15 to our unaudited interim consolidated financial statements included in Part I to this Quarterly Report.

(c) Face amount of €445 million at December 31, 2020. Above amount represents the dollar equivalent of such note at December 31, 2020. Principal amount of $543 million and an additional issuance premium of $7 million, less unamortized deferred financing costs of $5 million at December 31, 2020.

(d) Face amount of €325 million at December 31, 2020. Above amount represents the dollar equivalent of such note at December 31, 2020. Principal amount of $396 million less unamortized deferred financing costs of $4 million at December 31, 2020.

(e) Principal amount of $535 million less unamortized deferred financing costs of $6 million at December 31, 2020.

(f) Principal amount of $800 million at December 31, 2020 less unamortized discount of $7 million and unamortized deferred financing costs of $9 million at December 31, 2020. On November 2, 2020, Acquisition Corp. issued an additional $250 million in aggregate principal amount of its 3.000% Senior Secured Notes due 2031.

(g) Principal amount of $325 million less unamortized deferred financing costs of $3 million at December 31, 2020.

(h) Principal amount of debt of $3.419 billion and an additional issuance premium of $7 million, less unamortized discount of $8 million and unamortized deferred financing costs of $31 million at December 31, 2020.

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 November 13, 2020, the Company's board of directors declared a cash dividend of $0.12 per share on the Company's Class A Common Stock and Class B Common Stock, as well as related payments under certain stock-based compensation plans, which was paid to stockholders on December 1, 2020. The Company paid an aggregate of approximately $62 million in cash dividends to stockholders and participating security holders for the three months ended December 31, 2020.

Covenant Compliance

The Company was in compliance with its covenants under its outstanding notes, the Revolving Credit Facility and the Senior Term Loan Facility as of December 31, 2020.

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. 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 and the 2014 Unsecured Indenture use 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 (loss) income, 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 December 31, 2020, for the twelve months ended December 31, 2019 and for the three months ended December 31, 2020 and December 31, 2019. In addition, the reconciliation includes the calculation of the Senior Secured Indebtedness to Adjusted EBITDA ratio, which we refer to as the Leverage Ratio, under the Revolving Credit Agreement for the most recently ended four fiscal quarters, or the twelve months ended December 31, 2020. The terms and related calculations are defined in the Revolving Credit Agreement. All amounts in the reconciliation below reflect Acquisition Corp. (in millions, except ratios):

	Twelve Months Ended December 31,		Three Months Ended December 31,	
	2020	2019	2020	2019
Net (Loss) Income	$ (493)	$ 294	$ 99	$ 122
Income tax (benefit) expense	53	(36)	35	5
Interest expense, net	125	140	31	33
Depreciation and amortization	261	271	71	71
Loss on extinguishment of debt (a)	34	4	—	—
Net gain on divestitures and sale of securities (b)	(1)	(4)	—	—
Restructuring costs (c)	20	26	3	5
Net hedging and foreign exchange losses (gains) (d)	104	(23)	48	5
Management fees (e)	17	11	—	3
Transaction costs (f)	76	—	—	—
Business optimization expenses (g)	37	28	8	10
Non-cash stock-based compensation expense (h)	621	30	6	(7)
Other non-cash charges (i)	(5)	(3)	(14)	1
Pro forma impact of cost savings initiatives and specified transactions (j)	55	2	10	1
Adjusted EBITDA	**$ 904**	**$ 740**	**$ 297**	**$ 249**
Senior Secured Indebtedness (k)	**$ 2,844**			
Leverage Ratio (l)	**3.15x**			

(a) For the twelve months ended December 31, 2020, reflects a net loss incurred on the early extinguishment of our debt incurred as part of the June 2020 redemption of our 4.125% Senior Secured Notes and 4.875% Senior Secured Notes, the June 2020 tender for and the August 2020 redemption of the 5.000% Senior Secured Notes and the August 2020 partial repayment of the Senior Term Loan Facility. For the twelve months ended December 31, 2019, reflects a net loss incurred on the early extinguishment of our debt incurred as part of the May 2019 redemption of the remaining 5.625% Secured Notes.

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

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

(d) Reflects losses 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. For the twelve months ended December 31, 2020, amounts include a one-time fee of $13 million related to termination of the management agreement with Access. Prior to termination of the management agreement, the annual fee was equal to the greater of a base amount, equal to approximately $4 million for the twelve months ended December 31, 2020, and 1.5% of EBITDA (as defined in the indenture governing the redeemed Holdings 13.75% Senior Notes due 2019) of the Company for the applicable fiscal year, plus expenses.

(f) Reflects transaction costs, including qualifying IPO costs of $76 million for the twelve months ended December 31, 2020.

(g) Reflects costs associated with our transformation initiatives and IT system updates, which includes costs of $6 million and $27 million related to our finance transformation for the three and twelve months ended December 31, 2020, respectively, as well as $10 million and $24 million for the three and twelve months ended December 31, 2019, 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 December 31, 2020. Certain of these costs savings initiatives and transactions were identified in the current quarter and as a result the proforma impact was not included in the three and twelve months ended September 30, 2020, the impact of which would have been approximately a $29 million increase in the previously reported quarters included in the twelve months ended December 31, 2020 Adjusted EBITDA.

(k) Reflects the principal balance of senior secured debt at Acquisition Corp. of approximately $3.094 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 December 31, 2020 not exceeding $250 million. If the outstanding aggregate principal amount of borrowings and drawings under letters of credit which have not been reimbursed under our Revolving Credit Facility is greater than $105 million at the end of a fiscal quarter, the maximum leverage ratio permitted under the Revolving Credit Facility is 5.00:1.00. The Company’s Revolving Credit Facility does not impose any “leverage ratio” maintenance requirement on the Company when the aggregate principal amount of borrowings and drawings under letters of credit, which have not been reimbursed under the Revolving Credit Facility, is less than or equal to $105 million at the end of a fiscal quarter.

Summary

Management believes that funds generated from our operations and borrowings under the Revolving Credit Facility and available cash and equivalents will be sufficient to fund our debt service requirements, working capital requirements and capital expenditure requirements for the foreseeable future. We also have additional borrowing capacity under our indentures and the Senior Term Loan Facility. However, our ability to continue to fund these items and to reduce debt may be affected by general economic, financial, competitive, legislative and regulatory factors, as well as other industry-specific factors such as the ability to control music piracy and the continued transition from physical to digital formats in the recorded music and music publishing industries. It could also be affected by the severity and duration of natural or man-made disasters, including pandemics such as COVID-19. We and our affiliates continue to evaluate opportunities to, from time to time, depending on market conditions and prices, contractual restrictions, our financial liquidity and other factors, seek to pay dividends or prepay outstanding debt or repurchase or retire Acquisition Corp.’s outstanding debt or debt securities 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 December 31, 2020, 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 December 31, 2020, the Company had outstanding hedge contracts for the sale of $270 million and the purchase of $176 million of foreign currencies at fixed rates. Subsequent to December 31, 2020, 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 December 31, 2020, 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 $9 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 $3.419 billion of principal debt outstanding at December 31, 2020, of which $820 million was variable-rate debt and $2.599 billion was fixed-rate debt. As such, we are exposed to changes in interest rates. At December 31, 2020, 76% of the Company's debt was at a fixed rate. In addition, as of December 31, 2020, we have the option under all of our floating rate debt under the Senior Term Loan Facility to select a one, two, three or six month LIBOR rate. To manage interest rate risk on $820 million of U.S. dollar-denominated variable-rate debt, the Company has entered into interest rate swaps to effectively convert the floating interest rates to a fixed interest rate on a portion of its variable-rate debt. As of December 31, 2020, the Company's interest rate swaps are expected to mature within three years.

Based on the level of interest rates prevailing at December 31, 2020, the fair value of the Company's fixed-rate and variable-rate debt was approximately $3.468 billion. Further, as of December 31, 2020, based on the amount of the Company's fixed-rate debt, a 25 basis point increase or decrease in the level of interest rates would decrease the fair value of the fixed-rate debt by approximately $15 million or increase the fair value of the fixed-rate debt by approximately $39 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 December 31, 2020 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
4.1	Fourth Supplemental Indenture, dated as of November 2, 2020, among WMG Acquisition Corp., the guarantors listed on the signature pages thereto and Wells Fargo Bank, National Association, as Trustee, relating to the 3.000% Senior Secured Notes due 2031 (incorporated by reference to Exhibit 4.3 to Warner Music Group Corp.'s Current Report on Form 8-K filed November 2, 2020).
4.2	Form of 3.000% Senior Secured Note due 2031 (included in Exhibit 4.1 hereto).
10.1†	Letter Agreement, dated as of October 21, 2020, between Warner Music Inc. and Eric Levin (incorporated by reference to Exhibit 10.1 to Warner Music Group Corp.'s Current Report on Form 8-K filed October 23, 2020).
10.2*†	Terms and Conditions of Restricted Stock Units (December 2020)
10.3*†	Additional Terms and Conditions of Restricted Stock Units in the United Kingdom.
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 December 31, 2020, filed on February 1, 2021, formatted in Inline XBRL: (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income, (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.

† Identifies each management contract or compensatory plan or arrangement in which directors and/or executive officers are eligible to participate.

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.

February 1, 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 10.2

RESTRICTED STOCK UNIT AWARD TERMS AND CONDITIONS (U.S.)

This document contains the Terms and Conditions of the Restricted Stock Units awarded by the Company to the Participant indicated in the Notice of Award of Restricted Stock Units to which this document is attached (the "Notice"), and constitutes a binding agreement by and between Warner Music Group Corp. (the "Company"), and the employee whose name is set forth on the Notice. Capitalized terms used but not defined herein shall have the respective meanings given to them in the Warner Music Group Corp. 2020 Omnibus Incentive Plan, as amended from time to time (the "Plan").

1. Grant of RSUs. The Company hereby evidences and confirms its grant to the individual whose name is set forth on the Notice (the "Participant"), effective as of the grant date set forth on the Notice (the "Grant Date"), of the number of Restricted Stock Units set forth on the Notice (the "RSUs"). Each RSU represents the unfunded, unsecured right of the Participant to receive one Share. The RSUs are subject to the terms and conditions of the Plan, which are incorporated by reference herein.

2. Vesting. Except as otherwise provided in this Section 2 or in the Plan or as approved by the Administrator, the RSUs shall vest in accordance with the terms of these Terms and Conditions (including the Notice and the Plan), as follows (the occurrence of each such event described in Section 2(a)-(d), a "Vesting Event"):

(a) all of the RSUs shall become vested on the earliest to occur of the vesting date set forth in the Notice (the "Vesting Date"), the Participant's death and the Participant's Disability, subject in each case to the Participant's continued employment with the Company or its Affiliate through such date;

(b) upon the occurrence of a Change in Control, all then outstanding unvested RSUs shall be treated as provided in the Plan;

(c) if the Participant's employment is terminated (i) by the Company or its Affiliate without Cause; (ii) if the Participant is party to an employment agreement or offer letter with the Company or its Affiliate agreement that contains a "good reason" definition, by the Participant for "good reason" (as defined therein) or (iii) if the Participant is party to an employment agreement or offer letter with the Company or its Affiliate agreement that contains a "qualifying non-renewal" definition, in a "qualifying non-renewal" (as defined therein), then, to the extent then unvested, a pro rata portion of the total number of RSUs shall become vested based on the portion of the period between the Grant Date and the Vesting Date that has elapsed as of the date of such termination; and

(d) if the Participant's employment terminates in a Qualifying Retirement (as defined below) prior to the Vesting Date, all of the RSUs shall become vested on the Vesting Date provided the Participant (i) has not violated Section 13(b) through the Vesting Date and (ii) has provided annual certification of such ongoing compliance with Section 13(b) in writing to the Company on each of the first three anniversaries of the Grant Date (if any) that occur

following such Qualifying Retirement, and a final certification to such effect prior to (but no more than 90 days prior to) the Vesting Date.

For purposes of these Terms and Conditions, employment with the Company will be deemed to include employment with, or, if approved by the Administrator, other service to, the Company or Company's Affiliates, but in the case of employment with or service to an Affiliate, only during such time as such Affiliate is an affiliate of the Company.

Notwithstanding anything contained in these Terms and Conditions to the contrary, the Administrator, in its sole discretion, may accelerate the vesting of any RSUs, at such times and upon such terms and conditions as the Administrator shall determine, so long as the delivery of Shares for any RSUs subject to Section 409A of the Code is permitted thereby.

3. Termination for Cause. If the Participant's employment is terminated for Cause, or if the Participant resigns at such time as the Company could have terminated the Participant's employment for Cause, then notwithstanding any other provision of these Terms and Conditions, the Participant will immediately forfeit any remaining RSUs, along with any Shares issuable with respect to such RSUs (even if otherwise vested) for which Shares have not yet been delivered, and any cash amounts payable under Section 9(b).

4. Delivery.

(a) In the case of a Vesting Event described in Section 2(a) or 2(b) (i.e., scheduled vesting dates, death or Disability, Change in Control), one Share shall be delivered in respect of each RSU then vesting, within 30 days of the applicable Vesting Event.

(b) In the case of a Vesting Event described in Section 2(c), (termination without Cause or, if applicable, with good reason or in a qualifying non-renewal), one Share will become deliverable in respect of each RSU then vesting, subject to the Participant executing a general release of claims in favor of the Company and its affiliates, directors and officers in a form provided by the Company and to such release becoming irrevocable within 45 days after such termination (such 45-day period, the "Release Period"). Subject to the Participant's compliance with the release requirement described in the preceding sentence, Shares deliverable under this Section 4(b) will be delivered (i) on the date the release becomes irrevocable (but if the Release Period spans two taxable years of the Participant, not before the first day of such second taxable year), or (ii) if sooner, upon the occurrence of a Change in Control or the Participant's death. If the Participant fails to timely satisfy this release requirement, all RSUs otherwise vesting under Section 2(c) (along with any Shares issuable with respect to such RSUs) shall be forfeited and the Participant will have no further rights with respect thereto.

(c) In the event of the death of the Participant, the delivery of Shares under this Section 4 shall be made to the Participant's estate or to a beneficiary designated in accordance with the Company's requirements as in effect from time to time.

(d) Subject to Participant's compliance with Section 2(d) and Section 13(b), in the case of a Vesting Event described in Section 2(d) (Qualifying Retirement), one Share will

become deliverable in respect of each RSU then vesting. Shares deliverable under this Section 4(d) will be delivered (i) on the date such Shares would have otherwise been delivered under Section 2(a)(i), but for the Participant's termination, or (ii) if sooner, upon the occurrence of a Change in Control or the Participant's Disability or death.

5. Certain Definitions. For purposes of these Terms and Conditions and notwithstanding any provision of the Plan to the contrary, the following definitions will apply:

(a) "Cause" with respect to the Participant, has the meaning set forth in (i) the Participant's employment agreement or offer letter with the Company or its Affiliate, or (ii) if the Participant is not party to an employment agreement or offer letter with the Company or its Affiliate agreement that contains a "cause" definition, the Warner Music Inc. Severance Plan for Regular U.S. Employees or its successor plan, as in effect from time to time.

(b) "Qualifying Retirement" means the Participant's "separation from service" within the meaning of Section 409A of the Code after the Participant has attained age 60 and completed at least 10 years of employment with the Company.

6. Adjustments Upon Certain Events. The Administrator shall, in its sole discretion, make equitable substitutions or adjustments to the number of Shares and the RSUs pursuant to Section 3.3 of the Plan.

7. No Right to Continued Employment. Neither the Plan, the Notice nor these Terms and Conditions shall be construed as giving the Participant the right to be retained in the employ of, or in any consulting relationship with, the Company or any of its Affiliates. Further, the Company (or, as applicable, its Affiliates) may at any time dismiss the Participant, free from any liability or any claim under the Plan, the Notice or these Terms and Conditions, except as otherwise expressly provided herein.

8. No Acquired Rights. The Award has been granted entirely at the discretion of the Administrator. The grant of the Award does not obligate the Company to grant additional Awards to the Participant in the future (whether on the same or different terms).

9. No Rights of a Stockholder; Dividend Equivalent Payments.

(a) The Participant shall not have any rights or privileges as a stockholder of the Company in respect of RSUs, which for the avoidance of doubt includes no rights to dividends or to vote, until the Shares in question have been registered in the Company's register of stockholders as being held by the Participant.

(b) Section 9(a) notwithstanding, if the Company declares and pays a cash dividend or distribution with respect to its Shares, then, with respect to each then outstanding RSUs as to which Shares have not been delivered, whether vested or unvested, the Participant will be paid an amount of cash equal to the value of such cash dividend or distribution within 30 days of the date the dividend becomes payable to the Company's shareholders or, if later, on the next practicable payroll date applicable to the Participant (but in any event no later than

December 31st of the calendar year in which the dividend becomes payable to the Company's shareholders).

10. Transferability of Shares. Any Shares issued or transferred to the Participant pursuant to the Award shall be subject to such stop transfer orders and other restrictions as the Administrator may deem advisable under the Plan, the Notice, these Terms and Conditions or the rules, regulations and other requirements of the U.S. Securities and Exchange Commission, any stock exchange upon which such Shares are listed, and any applicable federal or state laws or relevant securities laws of the jurisdiction of the domicile of the Participant, and the Administrator may cause a legend or legends to be put on any certificates representing such Shares or make an appropriate entry on the record books of the appropriate registered book-entry custodian, if the Shares are not certificated, to make appropriate reference to such restrictions.

11. Transferability of RSUs. Except as set forth in Section 4(c), the RSUs (and, prior to their actual issuance, the Shares) may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Participant other than by will or by the laws of descent and distribution, and any purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance not permitted by this Section 11 shall be void and unenforceable.

12. Withholding; Taxation.

(a) The Company and the Participant shall cooperate to satisfy applicable federal, state and local income and employment tax withholding requirements applicable to the grant, vesting and settlement of the RSUs and any dividends or distributions payable under Section 9(b) (the "Required Withholding"). The Company shall withhold from the Shares that would otherwise have been transferred to the Participant in settlement of vested RSUs the number of Shares necessary to satisfy the Participant's Required Withholding unless the Required Withholding shall previously have been satisfied by the Participant or from other amounts payable by the Company to the Participant and, if applicable, shall deliver the remaining Shares to the Participant. The Company shall withhold from any dividends or distributions payable under Section 9(b) a cash amount equal to the Required Withholding applicable thereto. The amount of the Required Withholding and the number of Shares to be withheld by the Company, if applicable, to satisfy Participant's Required Withholding, as well as the amount reflected on tax reports filed by the Company, shall be based on the Fair Market Value of the Shares on the date prior to the applicable Vesting Date or the date on which the Shares are delivered to the Participant, as appropriate. The obligations of the Company under these Terms and Conditions will be conditioned on such satisfaction of the Required Withholding. The payment of any applicable withholding taxes through the withholding of Shares otherwise issuable under the Award shall not exceed the minimum required withholding liability.

(b) The Award and these Terms and Conditions are intended to comply with Section 409A of the Code and should be interpreted accordingly. To the extent necessary to give effect to this intent, in the case of any conflict or potential inconsistency between the provisions of the Plan and these Terms and Conditions, the provisions of these Terms and Conditions will govern, and in the case of any conflict or potential inconsistency between this Section 12 and the

other provisions of these Terms and Conditions, this Section 12 will govern. Nonetheless, the Company does not guarantee the tax treatment of the Award.

(c) In no event will the Participant be permitted to designate, directly or indirectly, the taxable year of the delivery. To the extent the Award includes a "series of installment payments" as described in Treas. Reg. § 1.409A-2(b)(2)(iii), the Participant's right to the series of installment payments will be treated as a right to a series of separate payments and not as a right to a single payment. The Award is subject to offset solely to the extent permitted by the Plan and Section 409A of the Code. To the extent any payment under the Award is conditioned on the effectiveness of a release of claims and the period the Participant is afforded to consider the release spans two taxable years of the Participant, payment will be made in the second taxable year.

(d) Notwithstanding anything in this Award to the contrary, (i) to the extent permitted by Treas. Reg. § 1.409A-3(j)(4)(vi), settlement of the Award may be accelerated to the extent necessary to satisfy employment tax withholding obligations that arise with respect to the Award, and (ii) the Company may terminate this arrangement and deliver Shares hereunder in a manner consistent with Treas. Reg. § 1.409A-3(j)(4)(ix).

13. Clawback/Forfeiture; Other Company Policies.

(a) Notwithstanding anything to the contrary contained herein or in the Plan, in consideration for the grant of this Award, the Participant agrees that the RSUs and any Shares or cash delivered in settlement of the RSUs, including in respect of dividends or distributions pursuant to Section 9(b), (i) will be subject to the terms of any clawback or recapture policy that the Company may have in effect from time to time and, in accordance with such policy, may be subject to the requirement that the Shares subject to the RSUs or any cash payments made in respect thereof be repaid to the Company after they have been distributed to the Participant, and (ii) will, along with any other equity interests in the Company held by the Participant, be subject to any policy with respect to hedging or pledging of Shares that the Company may have in effect from time to time.

(b) Unless otherwise approved by the Administrator, as a condition to the Vesting Event described in Section 2(d) (Qualifying Retirement), the Participant shall not, to the extent permitted by applicable law, during the period following a Qualifying Retirement and prior to the Vesting Date, without the prior written consent of Company, directly or indirectly, as an employee, agent, consultant, partner, joint venturer, owner, officer, director, member of any other firm, partnership, corporation or other entity, or in any other capacity, (i) own any interest in, manage, control, participate in, consult with, render services for, or otherwise be or be connected in any manner with, any recorded music, music distribution, music publishing or music entertainment business or any other business that the Company and its Affiliates has conducted during the one-year period immediately preceding the date of such Qualifying Retirement or has plans to conduct as of the date of such Qualifying Retirement anywhere in the world, or (ii) solicit, negotiate with, induce or encourage any record label, recording artist (including a duo or a group), publisher or songwriter who at the time is, or who within the preceding one-year prior period was, either directly or through a furnishing entity, under contract

to Company or any affiliate of Company or a label distributed by Company or an affiliate of Company, to end its relationship with Company, Company affiliate or label, to violate any provision of his or her contract or to enter into an exclusive recording or music publishing agreement with any other party. Accordingly, the Participant agrees that, unless otherwise approved by the Administrator, without limiting any of the Company's rights pursuant to any clawback or recapture policy that the Company may have in effect from time to time, in the event of the Participant's violation of any of the covenants contained in this Section 13(b), the Participant will immediately forfeit all unvested RSUs held by the Participant, and the Participant will have no further rights with respect thereto.

14. Choice of Law. THE AWARD, THESE TERMS AND CONDITIONS AND THE NOTICE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF DELAWARE APPLICABLE TO AGREEMENTS MADE AND TO BE WHOLLY PERFORMED WITHIN THAT STATE. ANY ACTION TO ENFORCE THE AWARD, THESE TERMS AND CONDITIONS OR THE NOTICE MUST BE BROUGHT IN A COURT SITUATED IN, AND THE PARTIES HEREBY CONSENT TO THE JURISDICTION OF, COURTS SITUATED IN NEW YORK COUNTY, NEW YORK. EACH PARTY HEREBY WAIVES THE RIGHTS TO CLAIM THAT ANY SUCH COURT IS AN INCONVENIENT FORUM FOR THE RESOLUTION OF ANY SUCH ACTION.

15. RSUs Subject to Plan. All the RSUs are subject to the Plan, a copy of which has been provided to the Participant and the terms of which are incorporated herein by this reference. Except as set forth in Section 12(b), if there is any inconsistency between any express provision of these Terms and Conditions and any express term of the Plan, the express term of the Plan shall govern.

16. Beneficiary. The Participant may file with the Company a written designation of a beneficiary on such form as may be prescribed by the Company and may, from time to time, amend or revoke such designation. If no designated beneficiary survives the Participant, the executor or administrator of the Participant's estate shall be deemed to be the Participant's beneficiary. The Participant's beneficiary shall succeed to the rights and obligations of the Participant hereunder upon the Participant's death, except as maybe otherwise described herein or in the Plan.

17. Entire Agreement; Severability. The Plan, these Terms and Conditions and the Notice contain the entire agreement and understanding of the parties hereto with respect to the subject matter contained herein and supersede all prior communications, representations and negotiations in respect thereto. No change, modification or waiver of any provision of the Notice or these Terms and Conditions shall be valid unless the same be in writing and signed by the parties hereto. Whenever possible, each provision of these Terms and Conditions shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of these Terms and Conditions is held to be invalid, illegal or unenforceable in any respect under any applicable law or rule in any jurisdiction, such invalidity, illegality or unenforceability shall not affect any other provision or any other jurisdiction, but these Terms and Conditions shall be

reformed, construed and enforced in such jurisdiction as if such invalid, illegal or unenforceable provision had never been contained herein.

18. Additional Terms. Notwithstanding any other provision of the Plan, these Terms and Conditions or the Notice, the RSUs shall be subject to any special terms and conditions set forth in Addendum A to these Terms and Conditions for the Participant's country or jurisdiction, if any. Moreover, if the Participant relocates to one of the countries included in Addendum A, the special terms and conditions for such country will apply to Participant, without the Participant's consent, to the extent the Company determines in its sole discretion that the application of such terms or conditions is necessary or advisable for legal or administrative reasons. Addendum A constitutes part of these Terms and Conditions.

19. Acceptance of RSUs and Agreement. The Participant has indicated the Participant's consent and acknowledgement of the terms of these Terms and Conditions pursuant to the instructions provided to the Participant by or on behalf of the Company. The Participant acknowledges receipt of the Plan, represents to the Company that the Participant has read and understood these Terms and Conditions and the Plan, and, as an express condition to the grant of the RSUs under these Terms and Conditions, agrees to be bound by the terms of both these Terms and Conditions and the Plan. The Participant and the Company each agrees and acknowledges that the use of electronic media (including, without limitation, a click-through button or checkbox on a website of the Company or a third-party administrator) to indicate the Participant's confirmation, consent, signature, agreement and delivery of these Terms and Conditions and the RSUs is legally valid and has the same legal force and effect as if the Participant and the Company signed and executed these Terms and Conditions in paper form. The same use of electronic media may be used for any amendment or waiver of these Terms and Conditions.

Exhibit 10.3

ADDITIONAL TERMS AND CONDITIONS OF THE RSUS IN THE UNITED KINGDOM

Termination of Service
The Participant has no right to compensation or damages on account of any loss in respect of Awards under the Plan where the loss arises or is claimed to arise in whole or part from: (a) the termination of the Participant's office or employment; or (b) notice to terminate the Participant's office or employment. This exclusion of liability shall apply regardless of how termination of office or employment, or the giving of notice, is caused, and regardless of how compensation or damages are claimed. For the purpose of the Plan, the implied duty of trust and confidence is expressly excluded.

Tax Acknowledgment
This provision supplements Section 12.11 of the Plan and Section 12 of the Terms and Conditions:

The Participant agrees that if the Participant does not pay, or the Participant's employer or the Company does not withhold from the Participant, the full amount of Tax-Related Items that the Participant will owe at vesting of the Awards, or the release or assignment of the Awards for consideration, or the receipt of any other benefit in connection with the Awards (the "Taxable Event") within 90 days after the end of the UK tax year in which the Taxable Event occurs, or such other period specified in Section 222(1)(c) of the UK Income Tax (Earnings and Pensions) Act 2003 ("Due Date"), then the amount that should have been withheld shall constitute a loan owed by the Participant to the Employer, effective on the Due Date. The Participant agrees that the loan will bear interest at Her Majesty's Revenue & Customs' ("HMRC") official rate and will be immediately due and repayable by the Participant, and the Company and/or the Participant's employer may recover it at any time thereafter by withholding the funds from salary, bonus or any other funds due to the Participant by the Participant's employer, by withholding in Shares issued upon vesting of the Units or from the cash proceeds from the sale of Shares or by demanding cash or a cheque from the Participant. The Participant also authorizes the Company to delay the issuance of any Shares unless and until the loan is repaid in full.

Notwithstanding the foregoing, if the Participant is an officer or executive director (as within the meaning of Section 13(k) of the Exchange Act), the terms of the immediately foregoing provision will not apply. In the event that the Participant is an officer or executive director, as defined above, and Tax-Related Items are not collected from or paid by the Participant by the Due Date, the amount of any uncollected Tax-Related Items may constitute a benefit to the Participant on which additional income tax and national insurance contributions may be payable. The Participant acknowledges that the Company or the Participant's employer may recover any such additional income tax and national insurance contributions at any time thereafter by any of the means referred to in Section 12.11 of the Plan and Section 12 of the Terms and Conditions.

Joint Election

Tax-related items referenced in Section 12.11 of the Plan and Section 12 of the Terms and Conditions ("Tax-Related Items") shall include Primary and, to the extent legally possible, Secondary Class 1 National Insurance Contributions.

As a term of receiving the grant of RSUs, the Participant agrees to accept any liability for all secondary Class 1 NICs which may be payable by the Company and/or the Company's Affiliate employing or retaining the Participant in connection with the RSUs and any event giving rise to Tax-Related Items (the "Employer's NICs"). Without limitation to the foregoing, the Participant agrees to enter into a joint election with the Company (the "Joint Election"), the form of such Joint Election being formally approved by HMRC, and to execute any other consents or elections required to accomplish the transfer of the entirety of Employer's NICs to the employee. The Participant further agrees to execute such other joint elections as may be required between the Participant and any successor to the Company and/or the Company's Affiliate employing or retaining the Participant. The Participant further agrees that the Company and/or the Company's Affiliate employing or retaining the Participant may collect the Employer's NICs from him or her by any of the means set forth in this Addendum A or in Section 12.11 of the Plan and Section 12 of the Terms and Conditions.

If the Participant does not enter into a Joint Election, if approval of the Joint Election has been withdrawn by HMRC or if such Joint Election is jointly revoked by the Participant and the Company's Affiliate employing or retaining the Participant, as applicable, the Company, in its sole discretion and without any liability to the Company or the Company's Affiliate employing or retaining the Participant, may choose not to issue or deliver any Shares to the employee upon vesting of the RSUs.

For the avoidance of doubt, this requirement will apply to all the Participants that work in the UK during any period from grant through the Vesting Date regardless of whether the Participant was in the UK at the time of grant.

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 December 31, 2020 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: February 1, 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 December 31, 2020 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: February 1, 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 December 31, 2020 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: February 1, 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 December 31, 2020 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: February 1, 2021

/s/ Eric Levin

Eric Levin
Chief Financial Officer