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Universal Music Group N.V. (UNVGY) Q2 2026 Earnings Call Transcript

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Universal Music Group N.V. (UNVGY) Q2 2026 Earnings Call July 30, 2026 12:15 PM EDT

Company Participants

Lucian Grainge - Chairman & CEO
Matthew Ellis - Chief Financial Officer
Michael Nash - Executive VP & Chief Digital Officer

Conference Call Participants

Stephen Laszczyk - Goldman Sachs Group, Inc., Research Division
William Packer - BNP Paribas, Research Division
Douglas Creutz - TD Cowen, Research Division
Michael Morris - Guggenheim Securities, LLC, Research Division
Richard Greenfield - LightShed Partners, LLC
Julien Roch - Barclays Bank PLC, Research Division

Presentation

Operator

Good evening, and welcome to Universal Music Group's Second Quarter and First Half Earnings Call for the period ended June 30 2026. My name is Gavin, and I'll be your conference operator today. Your speakers for today's call will be Lucian Grainge, Chairman and CEO of Universal Music Group; and Matt Ellis, Chief Financial Officer. They will be joined during Q&A by Michael Nash, Chief Digital Officer; and Boyd Muir, Chief Operating Officer. [Operator Instructions] As a reminder, this call is being recorded. Please also let me remind you that management's commentary and responses to questions on today's call may include forward-looking statements, which, by their nature, are uncertain and outside of the company's control.

Although these forward-looking statements are based on management's current expectations and beliefs, actual results may vary in a material way. For a discussion of some of the factors that could cause actual results to differ from expected results, please see the Risk Factors section of UMG's 2025 annual report, which is available on the Investor Relations page of UMG's website at universalmusic.com. Management's commentary will also refer to non-IFRS measures on today's call. Reconciliations are available in the interim financial review and unaudited condensed consolidated interim financial statements for the 6-month period ended June 30, 2026, on the Investor Relations page of UMG's website. Thank you, Lucian. You may begin your conference.

Lucian Grainge
Chairman & CEO

Thank you, and thank you all for joining us today to discuss our second quarter performance. For the quarter, UMG in its entirety grew total revenue by 13%, of which was 6%, excluding Downtown. Our adjusted EBITDA in its entirety grew by 1.5% to EUR 674 million. For the half year, adjusted EPS grew 4%. We recently completed our first EUR 500 million buyback program and declared an interim dividend of EUR 432 million. Matt will take you through the numbers in greater detail later. This quarter, there were areas where we performed well and areas where I expect us to improve. While I'm pleased with our strategic progress and aspects of our financial performance, we know where we can accelerate our growth and operate more efficiently.

Our confidence starts with the fact that music is the world's most enduring and accessible form of entertainment and every wave of innovation has expanded its reach as well as its appeal. And this one will, too. But what gives me the greatest confidence is the broad strength of UMG. No other company brings together the 3 things I'm about to describe. Together, they create a competitive advantage that positions us to lead the next phase of growth. I'm very confident in what we're doing and where we're going. First is the strength of our core business. UMG develops, elevates and sustains more of the world's most successful artists and songwriters than anyone else. Second is our leadership in shaping a more valuable ecosystem through initiatives such as streaming 2.0. Third, are the significant opportunities still ahead of us from artist and label services and high-growth markets to super fans and of course, AI.

So let me start with how we continue to strengthen our core business. Our chart performance is undeniable and has regained momentum after a lighter release schedule earlier in the year. We expect that momentum to continue into the second half with new releases from Ariana Grande, Katseye, Sam Smith, Mrs. Green Apple and some other very exciting things yet to be announced. Over the past 10 years, on the IFPI's annual list of the world's best-selling artists, UMG has averaged just under 14 of the top 20. Put a different way, UMG artists have accounted for nearly 70% of the world's most successful stars for the last decade. And if you look across our roster over the past 3 months, you'll see the range of our results. Here are a few results of those examples. Sam Fender earned his first #1 single in the U.K., which is a duet with Olivia Dean, which went on to tie the record for the U.K.'s longest running #1 ever. Olivia Rodrigo, Noah Kahan, and Gracie Abrams all celebrated #1 albums in the U.S. with career best first week sales globally.

And our success spans every stage of an artist's career, including legends such as Paul McCartney, whose latest album was his 22nd top 10 album in the U.S. and The Rolling Stones, who hit #1 in 11 countries with a 25th studio album. Every new release by a successful artist lifts their entire body of work. It also expands opportunities to build lifelong fans across merchandise, touring, brand partnerships, film, television and so on. At the same time, each successful release by an exciting newly signed artist is building the value of tomorrow's catalog. And I know our artist roster acts as a magnet for the next generation of talent. We see that all of the time. This virtuous cycle is where we invest for decades, not just quarters. Next, our leadership is shaping a more valuable music ecosystem. Subscription revenue grew 16.6% or 6.7%, excluding Downtown. A key component of our Streaming 2.0 strategy is to continue accelerating customer acquisition whilst driving conversion of free tiers to paid and then adoption of new super premium tiers.

Let me remind you, we anticipated the rise of AI slot, and we anticipated the potential for fraud. So our 2.0 agreements have built in protections against royalty dilution. This is important work, and it will be ongoing. We now have streaming 2.0 agreements with almost all of our major streaming partners, including subscription services, Spotify, YouTube, Amazon and Visa. This quarter, we announced a new strengthened deal with TikTok. And today, I'm happy to share we have completed our agreement with Pandora, a top 10 partner. I'm pleased that all these partners share our commitment to protecting human artistry. Music platforms should reward creativity and guard against illegally trained AI models, pumping AI slop or fraud designed to divert royalties from artists, songwriters, labels and music publishers.

Fans don't want AI slop. And there's no justifiable reason that this content should be algorithmically served to audiences on streaming platforms or siphoning money from human artists. Leading the industry in growing the value of music requires bold decisions, especially in local markets. Streaming 2.0 provides a repeatable framework for doing exactly that. I'll come back to this in a second.

Leadership isn't just about strategy. It's about disciplined execution, including our capital allocation. As promised last quarter, we'll take you through our investment returns across A&R advances, catalog, and M&A. Our track record from EMI in 2012 and frankly, for many years before that to Downtown this year and many more demonstrates our ability to create significant upside. Whether we're investing in artists and songwriters, catalogs, emerging markets, or the independent services sector, we deploy capital under rigorous financial framework.

As a result, since our public listing, we have exceeded our target hurdle rates. We're also sharpening our focus on the highest return investments and improving efficiency across the entire company. The bottom line is that we're determined to translate the strength of our business into stronger earnings per share and stronger free cash flow. That brings us to an update on the four areas where we see significant opportunities to widen our advantage. First, artists and label services. Serving the independent community is central to our strategy. We've been building these capabilities for more than a decade. Just as we do with artists and songwriters, we've invested patiently developing the business for long-term success.

In 2013, we relaunched Caroline, the independent services business of EMI. In 2019, we acquired the remaining 50% of Ingrooves. In 2022, we brought the two together under the newly launched Virgin Music Group with new leadership. This year, with our acquisition of Downtown, Virgin offers a best-in-class suite of services spanning high-touch support to self-service solutions. With the deal approved and the combined leadership team in place, our focus has been fully on execution. And therefore, I'm proud to say that we're now the second largest operator in this fast-growing space, and we're seeing extremely encouraging momentum. Downtown's contribution to our revenue this quarter is just the beginning, and we expect it to create increasing strategic and financial value with opportunities for greater efficiencies moving forward.

Next high-potential markets. While other companies have been pulling back from new frontiers, we've continued investing in the countries, genres, and artists that will produce the next generation of global stars. Last quarter, I talked about Indonesia. Today, I want to focus on how we're building healthier music markets in the world's two most popular countries, China and India. Both have extraordinary creative talent, vast smartphone adoption, and all the ingredients for long-term growth. Over the past five years, we've transformed our business in China through a multi-label strategy. In 2023, we decided we needed to refresh and strengthen our local management, and we brought in Tim Xu to lead our Greater China region. And just this past quarter, we signed one of China's biggest stars, Jason Zhang, and acquired Carrier Creative, home of the legendary group Little Tigers and one of Mandopop's most important catalogs.

These investments have strengthened our ability to discover and develop Chinese artists while connecting them to audiences around the world through UMG's global network. At the same time, we help build a more valuable music ecosystem. In 2019, we worked with major Chinese DSPs to put domestic and international music behind the paywall. In close collaboration with our partners, we carefully escalated the staging of this initiative over time until we significantly transformed the market. Many skeptics predicted it would have a negative impact and that we shouldn't do it and that it would affect music consumption and the market development. Exactly the opposite happened. By 2025, China had overtaken Germany to become the world's fourth largest Recorded Music market.

Driven by premium subscriptions and new superfan experiences, revenue grew more than 20% year-over-year, making China the world's fastest-growing major music market and the second largest digital market after the U.S. Now we are applying the lessons we've learned in China to India. Tailored to the diverse and dynamic Indian market, we've also built a multi-label system to cater to the many different genres and dialects. We've also expanded our capabilities through strategic investments and acquisitions across artist management, live entertainment, film and television, and regional repertoire, so important there.

Now we're taking the next step. Pleased to announce today that beginning at the end of August, UMG's new releases from major domestic and international artists will be launched exclusively to paid streaming subscribers for their first 72 hours on both global and regional streaming services. After that, they will become available on ad-supported services, too. Fans will still have access to the music they love, and artists will see the benefit of improved compensation. China has shown what's possible when healthy music ecosystems take hold. We want India to follow a similar path and believe many other high-potential markets will do too.

As I said before, superfans represent one of the greatest opportunities to help artists build longer, more valuable careers. Today's biggest fans want more than just the music. They want community, physical products, and deeper relationships with the artists they love. As a result, we're helping grow an entirely new category of superfan experiences. Our direct-to-consumer channels represent up to 50% of first-week physical sales for this quarter's biggest releases. That's one reason we've been reorganizing our merchandise operations, creating an improved platform to serve artists and better capture this growing opportunity. And beyond music itself, we're creating new ways for fans to experience artists and their stories. Sinatra The Musical recently opened in London's West End, while UMG Productions accounted for three of the top four most watched music documentaries in the midyear rankings.

These are films about Noah Kahan, Red Hot Chili Peppers, and Paul McCartney on platforms such as Netflix and Amazon. And we have several other projects, which I'm equally excited about to come further down the pipe. And now, of course, AI. Licensed innovation is replacing unlicensed exploitation. That is our North Star. Our responsible AI strategy is being brought to life through partnerships with start-ups such as Udio and KLAY, creative platforms like Splice and Stability and tech giants like NVIDIA. This quarter, Spotify and UMG announced an industry-first framework that will enable fans to use generative AI within Spotify's self-contained environment to create covers and remixes of songs from those artists who've opted in.

Industry standards are improving, too, with a new industry labeling initiative distinguishing between AI-generated and AI-assisted tracks as well as chart eligibility principles requiring AI-assisted recordings to be properly authorized, substantially human-made, and free from fraud concerns. I've been doing this a long time. Every generation invents new instruments. Great artists show us what's possible with them. AI is a new instrument and not the next artist. I'll conclude with this. Music has never been more global. Artists have never had more ways to reach fans and fans have never had more possibilities to engage with the artists they love. Those trends are creating extraordinary opportunities. But as I said at the beginning, what gives me the greatest confidence is UMG itself. And on that note, I'd like now to hand over to Matt, who's going to run through in more detail the numbers for you. Thank you.

Matthew Ellis
Chief Financial Officer

Thank you. As Lucian has outlined, we're confident that our strategic plan will drive healthy top- and bottom-line growth over a multiyear horizon. That said, there are aspects of our quarterly results that we're pleased with and other areas that we're not satisfied with and already at work to improve. For the second quarter, total revenue grew 13.3% year-over-year to EUR 3.3 billion. In Recorded Music, Downtown physical sales, Streaming 2.0 pricing, audiovisual, and live and related all contributed to revenue growth. Downtown contributed EUR 202 million to total revenue. Excluding Downtown, total revenue grew 6.4%. Recorded Music revenue grew a solid 8.7%, Music Publishing grew 2.7%, and Merchandising declined 10.7%.

Q2 adjusted EBITDA grew 1.5% to EUR 674 million, with EUR 10 million from Downtown. Excluding Downtown, adjusted EBITDA was flat year-over-year and would have grown 2.2% if not for the settlement with an Internet service provider we disclosed in Q2 last year. Excluding Downtown, adjusted EBITDA margin declined by 1.3 percentage points to 21.5% because of revenue and repertoire mix in Recorded Music, the settlement I just mentioned, which helped last year's margins by 30 basis points and a loss in merchandising, which I will cover in more detail later.

In addition, we had an increase in corporate overhead that included higher professional and legal fees. While we remain on schedule with our EUR 250 million cost savings program, some of the cost savings in the first half of this year were reinvested into areas of growing importance to our business, such as AI, for example. For the half-year, total revenue grew 10.8% or 5.7% excluding Downtown, while adjusted EBITDA grew 2.7% or 1.6% excluding Downtown. Operating profit declined 0.8%, excluding Downtown, with EBITDA growth and lower restructuring charges more than offset by an increase in depreciation and amortization and higher integration and business transformation costs.

The higher amortization is software related, while the higher depreciation is related to real estate projects. Adjusted net profit grew 3.9% and adjusted diluted EPS grew by 4.3% to EUR 0.47 a share.

The decline in operating profit, combined with higher interest expense was more than offset by an increase in income from equity affiliates. The higher interest expense is largely the result of higher net debt due to the closing of the Downtown acquisition and the implementation of our share buyback program, partially offset by the sale of a portion of our Spotify shares. We bought back EUR 485 million of shares as part of our first EUR 500 million buyback program, which was completed during July, and EUR 250 million from our second EUR 500 million authorization to participate in the shares sold by Pershing Square in June. While the share buybacks will ultimately be primarily funded by the sale of a portion of our Spotify shares, that share sale is still in process. During the first half, we sold just under one-third of our planned 50% stake sale for gross proceeds of EUR 403 million.

Now let me turn to the second quarter results from each segment. For the quarter, Recorded Music revenue grew 16.2% and adjusted EBITDA grew 2.8%. Downtown added EUR 162 million of revenue and EUR 7 million of EBITDA in the quarter. Excluding the contribution from Downtown, Recorded Music revenue grew 8.7% and adjusted EBITDA grew 1.6% with adjusted EBITDA margin down 1.8 percentage points to 24.9%. EBITDA margin was affected by both revenue and repertoire mix, but also by the inclusion last year of the high-margin settlement I mentioned. This was booked in other digital revenue and accounted for EUR 31 million of revenue and EUR 15 million of EBITDA. The margin effect from revenue mix was due to outsized growth in lower-margin audiovisual and live and related income as well as strong physical revenue growth, while the repertoire mix pressure was driven by healthy growth in Virgin Music.

Looking further at Recorded Music revenue, subscription revenue grew 16.6% or 6.7%, excluding the EUR 116 million contribution from Downtown. This underlying growth reflects 3.5 percentage points of pricing benefits from Streaming 2.0 agreements, partially offset by 1.5 percentage points of headwind from market share.

It's worth noting that we recorded improved market share as the quarter progressed and ended the period with good momentum, thanks to strong releases from our artists. In addition, the year-over-year growth reflects the normal variability of each quarter where items such as minimum guarantees, accruals, audits, and catch-up payments can impact year-over-year comparisons. This quarter, these types of movements created a 1 percentage point headwind to growth. The remainder of the differential compared to first quarter growth was a result of the typical fluctuations in subscriber growth related to timing of promotions and price increases.

We do not see any meaningful changes in industry trend lines and industry subscriber growth remains healthy.

In physical, revenue grew 16% in the quarter with a minimal contribution from Downtown as strength in the U.S. and Europe, led by Olivia Rodrigo and Noah Kahan was only partially offset by a decline in Japan, which benefited from significant local releases last year. These strong results support our conviction around the growing opportunity to monetize music culture and fandom through Vinyl and other collectibles, which remains a key component of our superfan strategy.

Turning to Music Publishing. Revenue grew 9.8% in the quarter or 2.7% excluding EUR 40 million from Downtown. Healthy live performance revenue growth was partially offset by a decline in sync revenue, which was largely related to the timing of deals. Digital revenue growth reflected strength in subscription, partially offset by softer ad-supported streaming, similar to the trends in Recorded Music. Excluding the EUR 3 million contributed by Downtown, adjusted EBITDA grew 1.6% and margin was down 20 basis points to 22.6%, largely due to higher legal fees. Much of the slowdown in Music Publishing growth for the past three quarters tends to anniversarying new deals, which we talked about last year or the timing of various industry payups in addition to the secular slowdown in radio and linear TV performance revenues.

And within Music Publishing, digital revenue ad-supported streaming faces the same pressures we are seeing in the Recorded Music business. As a result, we expect Music Publishing to be a mid-single-digit growth business rather than high single digit for the immediate future.

Moving to Merchandising and Other, which is not impacted by the Downtown acquisition. For the quarter, revenue was down 11% due to declines in touring, merch and direct-to-consumer sales, both of which were largely related to the timing of artists touring and album release cycles. Adjusted EBITDA fell EUR 6 million year-on-year to a loss of EUR 5 million due to a timing-related increase in A&R costs. We are making some structural changes to our merchandising operations, which we believe will produce improved performance over time, and we expect 2027 to show improvement over 2026.

Turning now to cash flow. For fiscal year 2026, in response to shareholder feedback, we've revised our free cash flow definition to better represent the cash that's available for strategic investments and capital return. Our new definition is before our discretionary strategic investments in catalog and M&A, which better aligns with how we view the business and will give investors a clearer view of the cash available to fund our long-term growth. A fact sheet with our historical results in this new presentation can be found on our IR website. As you know, our 2023 to '28 guidance framework includes an adjusted EBITDA conversion target. With this new definition, our conversion range remains 60% to 70%, but will now be the conversion from free cash flow rather than our prior free cash flow before investment metric. You'll notice that these numbers are very similar.

After the definition change, our first half '25 free cash flow increased from an outflow of EUR 179 million under the prior definition to an inflow of EUR 163 million under the new definition. In the first half of 2026, net cash provided by operating activities before income tax amounted to EUR 408 million compared to EUR 488 million in the first half of 2025. This included net royalty advance payments of EUR 292 million, down from EUR 377 million in the first half of last year due to the timing of deals and a higher recoupment.

The decline in net cash provided by operating activities is largely the result of unfavorable working capital movement with a higher share of sales from our distribution business and payment of certain live event costs accrued last year.

CapEx rose to EUR 44 million from EUR 23 million in the prior year. This was mainly due to the real estate projects we discussed on our 2025 year-end earnings call, and we expect the spend to pick up in the second half of the year. Free cash flow amounted to EUR 24 million compared to EUR 163 million in the first half of last year. This decline was primarily the result of the working capital movement.

As usual, we expect free cash flow in the second half of the year to be stronger than the first half. As Lucian mentioned in his remarks, I'd like to provide our shareholders with more color on the performance of our investment framework in recent years. It's worth distinguishing between the two types of capital at work in our business because they sit on different sides of our new free cash flow definition. First is the recurring investment required to operate and organically grow the business, principally the advances we make to artists, songwriters, and partners, which are recouped as royalties are earned. We view these advances as working capital, short-term investments that drive revenue and scale the growth of our business.

And second is the investments our free cash flow enables us to make under our capital allocation framework across catalog acquisitions, core M&A and other M&A investments and also to return cash to shareholders. Of this discretionary and opportunistic investment from 2022 to 2025, approximately 60% went to catalog, 20% to core M&A and 20% to other M&A, while we returned EUR 3.6 billion to shareholders in the form of dividends. And additionally, in 2026, we've authorized EUR 1 billion in share buybacks to enhance our investor return profile. We apply a disciplined risk-adjusted returns-based framework to both the advances and the discretionary investments we make with each project assessed against its appropriate hurdle rate and time horizon.

Let me first walk you through the framework, and then I will discuss our actual returns in these areas since our public listing. I'll start with advances. We underwrite advances at a project level with risk-adjusted IRR hurdle rates based on artist stature, deal structure and terms. We target overall portfolio pretax returns of at least 15% with project-level hurdle rates ranging from 10% to 20% based on risk. For example, we use the lower end of those hurdle rates of proven superstars and higher hurdle rates for developing artists. The second area of our framework relates to catalog acquisitions. These are investments in recording and Music Publishing rights with predictable long-term cash flows. Our catalog deals target pretax IRR hurdle rates of at least 10%, improving as we further monetize the assets.

Our industry-leading global reach across marketing, sync, audiovisual and branded content enables us to amplify the rights we acquire and to grow their income. Our partnership with Chord further expands our capacity to invest in this area. Chord is designed to attract long-term institutional capital by combining UMG's operational expertise with an asset class that offers investors stable, long-duration cash flows, enabling the vehicle to continuously grow to acquisition capacity. Chord targets mid-teen returns and has invested over $2.6 billion in catalog acquisitions that are then managed and cultivated by UMG.

Third, our core M&A acquisitions are focused on scaling attractive businesses, expanding into new geographies, and adding strategic capabilities. These investments include the purchase of consolidated companies, equity affiliates, or financial assets. We deployed about EUR 530 million in this core M&A category from 2022 to '25. For example, in Mavin and [indiscernible], our target IRR hurdle rates are at least 10% to 20% for these investments, depending on factors such as geography, revenue concentration, business maturity, and integration risk. And finally, other M&A represents venture-like investments in innovative adjacent businesses as well as other less typical investments that are complementary to our core business.

Our evaluations of these opportunities reflect broader benefits to UMG alongside near-term financial return. Hurdle rates on these investments have a broad range of 10% to 25-plus percent depending on risk. Now let me turn to the actual performance of our investments since our listing. The results reinforce our conviction in our approach and our capabilities of our team to successfully invest and generate attractive returns. Our investments in Recorded Music and Music Publishing advances have generated blended IRRs in the high teens, which is above our 15% portfolio target.

On catalog acquisitions, we are acquiring assets at an average entry multiple of 16.6x EBITDA with run rate EBITDA multiples improving to approximately 13x, reflecting our expertise in underwriting and the additional value we capture through active management. And touching on Chord. Since our initial investment in early 2024, we have invested a total of EUR 342 million booked in investments in equity affiliates. This includes our upfront payment of EUR 238 million to buy into the pre-existing fund as well as an additional EUR 104 million we invested in 2025 to fund incremental catalog purchases and maintain our share. Chord's portfolio has delivered mid-teen returns in line with their targets while generating additional returns to UMG as manager of those rights.

Turning to core M&A. Our investments in this category have generated blended IRRs in the mid- to high teens, in line with our objectives. The cash we call other M&A primarily relates to two investments, our stake in the entity that acquired the Capitol Records Tower in L.A. and our minority investment in Complex Network. The Capitol Tower is an iconic cultural landmark with strategic value to UMG. This transaction is captured in investments because of its deal structure, but it should be viewed more as CapEx for a long-lived real estate asset that supports our operations. And our stake in Complex Network is a growth equity investment tied to the opportunity we see in the superfan ecosystem. These two transactions were unique. And going forward, our investments in other M&A are expected to moderate. Since the listing, the vast majority of our growth has been organic.

Between 2021 and 2025, we have grown EBITDA at a 12% CAGR, including organic EBITDA growing at 11% and acquisitions contributing 1 percentage point of growth. And the acquisition benefit to our revenue growth CAGR is less than 1%. Most of the inorganic contribution has come from catalog acquisitions. We expect our M&A investments to contribute over time. Additionally, a significant portion of our investments are not consolidated and the impact is below EBITDA with Chord being the largest example.

In summary, we are fortunate to have an abundance of attractive investment opportunities, and we take a financially disciplined and highly selective approach consistent with our capital allocation framework. We will continue to invest in areas where we see our greatest comparative advantages and attractive rate of return. With that, Sir Lucian Grainge, Michael Nash, and I will now take your questions. Operator, please open the line for Q&A.

Question-and-Answer Session

Operator

[Operator Instructions] First question comes from the line of Stephen Laszczyk from Goldman Sachs.

Stephen Laszczyk
Goldman Sachs Group, Inc., Research Division

Lucian, I was curious if you could -- maybe talk a little bit more about the components of your streaming revenue growth. I appreciate the context you provided in the second quarter. Would just be curious if you could speak a little bit more to how you would expect volume, pricing, and market share factors to progress here over the next couple of quarters. And then Lucian, maybe second, on the exclusive windowing in some select markets, would just be curious to learn more about how some of those conversations came together with your DSP partners and how you expect that to translate ultimately into improved monetization in those markets in the coming quarters?

Lucian Grainge
Chairman & CEO

Well, I'll answer your second question first. I've not been happy with some of the monetization as I called out earlier, in India, for example. And these are discussions that we've had with several of the major partners, and they're very sequential. So I'm excited about these developments, and we've got a lot of experience in driving extra revenue and profit and benefit to the artists over a period of time with these platforms. And that's it's something that we did in China, where we put an amount of product around the pay wall. And I said when the first conversations came in, I said, well, let's do it. Let's book 5x the amount of product around the pay wall and have a real go, and we did. And the tests were extremely successful. And we've ended up with a much more healthy robust ecosystem there.

And as I said earlier, we're doing exactly the same in India. And this is all part of our strategy with 2.0, fraud, AI slop, dilution, real artists, real talent, how we get the talent to actually integrate with the platforms. And phasing is critically important in this process. It's across all the various geographies. Obviously, as I said, different platforms, different products, genres. And the benefits aren't just always limited to price. So I hope that gives you some sense. Michael, you should probably handle some of the details on the first question.

Michael Nash
Executive VP & Chief Digital Officer

Yes. Maybe just to go into some specifics with respect to India. Big picture, of course, key high-potential market, most populous country, fastest-growing major economy. Importantly, a burgeoning youth demographic, over 40% of the population under 25. And of course, in India, music is deeply rooted into the culture of the nation. So we look at all these macros and we say India should certainly rank higher than the #15 global Music market. It's one of the largest growth opportunities in the world, and we've got to accelerate market development. So why this focus in terms of the windowing of the content? India is one of the largest markets in the world for ad-funded streaming. This is a trillion stream market in 2025, that has very, very low paid conversion rates. We're talking about industry estimates, 7% to 10% of the total individual streaming users are paid users.

So we felt like it was very important under Lucian's leadership to work to organize an effort to facilitate market development. Again, on the specifics, beginning in the last week in August, we're going to initiate this short 72-hour premium window for all of our top releases, both domestic and international. And during this first 72 hours of release, these tracks are only going to be available in premium tiers, and that's across all platforms in India, the global DSPs as well as the domestic players. Lucian went into great detail about what we were able to accomplish in China, the lessons that we learned there. And I would just add this thought that with respect to examples in the India market of pay wall and content, recently, the premium -- the Indian Premium League, the Cricket League, all their matches were moved by Jio behind the paywall, and that was one of the major elements that drove Jio to obtain more than 200 million subscribers in that market.

So that's a great example that points directionally to the opportunity to move premium content behind the paywall and work to engineer market development. On the first question in terms of the streaming growth, Matt, maybe over to you and you and I can tag team on that.

Matthew Ellis
Chief Financial Officer

Yes. Yes. Thanks for the question Steve. I think you mentioned three components of streaming volume, pricing and market share. I'll make some general comments and see if Michael wants to add anything. From an overall volume standpoint, we continue to see very strong industry subscriber growth on a global basis. Even as we see price increases be put in place from a retail standpoint, we see continued good subscriber growth. So we would expect that to continue here as we head into the second half of the year.

From a pricing standpoint, obviously, in the second quarter, we had the full benefit of the three major DSP agreements that we talked about a quarter ago. And obviously, a couple of updates to that, that will impact the second half of the year. As you heard Lucian mentioned in his remarks, we have an updated arrangement with Pandora. And then as you saw last week Apple announced increases in their retail prices, which we'll see some benefit of in the third quarter and a more full quarter benefit as we get into the back end of the year. And then finally, on market share. And while that's certainly been a topic for us during the first part of the year, as I mentioned in my remarks, because of the stronger release schedule we saw in Q2, especially the back half of Q2, Lucian mentioned a number of the specific artists. We come into third quarter with better market share momentum than we saw at the beginning of the second quarter. So those are some highlights across the three components you mentioned, Mike, I don't know if there's anything you want to add.

Lucian Grainge
Chairman & CEO

I'd like to add something as well actually. You constantly hear me refer to long-term. Well, there's also part of that is sequencing and phasing. It's not that long ago that many household name artists didn't support digital downloads. It didn't support the dissemination of the album bundle. Not so long ago that there are many, many household names didn't support streaming. So our work in creating different tiers in some of these newer markets is around the data that we have to allow the artists as well as ourselves and the platforms themselves to see in terms of consumer behavior. That's what creates artist followership and artists will follow the platforms and each other as well as us into this new world.

It supports everything that we've been doing for three years now on anti-dilution. You've heard me talk repeatedly about 2.0, the anti-fraud and then that applies to platform integrity and the partnerships and the relationships that we've got with those platforms. This is the work that goes on behind the scenes and takes time and takes trust. And then over this period of time, then the platforms themselves, let's say, in India and China, for example, start to see the economics for themselves. And we give them the opportunity to develop their own markets and their own platforms with our product in partnership with them. And one other thing I'd just like to add something that you said that with regard to market share.

We've been around long enough to know that releases can be seasonal. When I started, everything came out in the last six weeks of the year because that was when Thanksgiving and Christmas was. Now we've got a 52-week of the year release cycle. And obviously, there are gifting cycles within that depending on which market you're talking about. So you're going to have seasonality, I suppose, in market share based on some of those releases. And we'll continue to see it, and it's just an inevitability of artistry and creation. And sometimes artists there may be events, promotional events, timing events, which may slow down or extend when things come down the pipe. And that's just a constant part of what the business is.

Michael Nash
Executive VP & Chief Digital Officer

I guess the only thing to add is that we don't see any meaningful changes in industry trend lines with that variability that Lucian described as part of the context for looking at quarter-by-quarter numbers.

Operator

Your next question comes from the line of Will Packer from BNPP.

William Packer
BNP Paribas, Research Division

Obviously, AI worries have weighed on UMG and the wider music complex in the last six months. As a result, your new partnership with Spotify takes on particular importance as a potential catalyst for AI-based revenue growth. A couple of quick questions. Do you think the AI team needs to have Top artists opt in for the product to succeed with consumers? And secondly, is it realistic to think that a substantial portion of your Top artists will participate in the product at launch?

Michael Nash
Executive VP & Chief Digital Officer

Will, thank you for your question. So with respect to this new AI tier that Spotify announced with us. We're obviously very excited about the development of the product. In terms of the success of this tier, obviously, it's going to be very important for us to work to get our artists to opt in to support the launch of this service. With respect to our engagement with the creative community, it's been going very well. Now keep in mind that we've had several deals that we previously announced in this AI product category. So we've been in conversations with thousands of our artists in their estates for a long time on this product model.

We've already converted a significant percentage of those discussions into signed opt-in agreements, and we expect to be able to continue to make substantial progress. So we're building the portfolio of partnerships in this category. This new Spotify deal is obviously a very significant addition. And we believe that, obviously, this product model is going to become increasingly attractive. We expect to achieve a critical mass of artist support to help launch these services. So in terms of how you should think about this, yes, it's important for us to have significant artists. Yes, it's important for us to have a critical mass of artists that are involved. And it is our expectation that we're going to work towards that level of support from our artist roster and it builds on the conversations that have been ongoing for some period of time.

Operator

Your next question comes from the line of Douglas Creutz from TD Cowen.

Douglas Creutz
TD Cowen, Research Division

You mentioned elevated legal professional fees is impacting results in Q2. Are those going to remain elevated in the second half of the year? Or should they come back to more normal levels?

Matthew Ellis
Chief Financial Officer

Yes. Thanks for the question. So we certainly look at those where they were during the year, professional fees spending around opportunities to continue to expand and enhance our business. So we'll monitor them throughout the rest of the year. There's the opportunity for those to come back down from where we saw them in the second quarter, but we also see a lot of opportunities ahead to develop the business, too. So -- but overall, we're not going to give specific guidance, but there's -- the most exciting thing about them is the opportunities that they are supporting that we see for the business going forward.

Operator

Your next question comes from the line of Michael Morris of Guggenheim Securities, LLC.

Michael Morris
Guggenheim Securities, LLC, Research Division

I wanted to follow up on the recorded music subscription streaming question. And what I'm curious about is the various factors that you noted that contributed to the 1% headwind in the quarter, Matt, how much visibility do you have into those items in advance? And do you expect any of those types of items to recur or to reverse as we look forward? And given the positive core trends that you talked about, how much acceleration do you expect in the second half of the year off that 7.7% core? That's my first topic, if I could. And just if I could ask one on downtown, the margin on downtown that you reported in the quarter, how does that compare to what you believe you can do with that business over time? And what's the path to get there?

Matthew Ellis
Chief Financial Officer

Starting with the subscription revenue. Certainly, a number of those items, you said do they reverse whatever. I mean, they literally are typically onetime in nature. So I would not expect to see a reversal there. In terms of visibility, in terms of some of them come in, we're aware of earlier in the quarter, some of them come in later in the quarter, just by the nature of the individual items and when they crystallize. In terms of the back half of the year, certainly, when you think about the fact additional pricing coming through, market share entering the third quarter, a little better than it was at the start of the quarter, I would say, cautiously optimistic that we'll see the number be better than we saw in the second quarter and excited about what our artists will continue to bring to the market as well.

In terms of the downtown margin, obviously, right at around 5% for the quarter, which was in line with the number that we reported that they produced in 2025 prior to closing the transaction. But certainly, we see the real value in the Downtown acquisition, the great business they already have. But when we combine it with the Virgin business that we have and that real -- as Lucian described earlier, best-in-class suite of products that we can support the independent label and artist segment with gives us belief that there's opportunity to see that margin perform as we complete the integration.

Lucian Grainge
Chairman & CEO

Look, it's also a long-term strategy in networks and relationships with entrepreneurs so that we can actually develop business partnerships moving forward as they develop. And we've done this before. We know how to do it. Several of our extremely successful and profitable artist relationships came from much earlier independent network supportive deals. And it's absolutely part of our intent and our strategy, long-term networks, long-term entrepreneurs, new ideas, different markets.

Operator

Your next question comes from the line of Rich Greenfield from LightShed Partners.

Richard Greenfield
LightShed Partners, LLC

I wanted to follow up on the earlier question about Spotify and this new tier. Spotify seems like they are reticent to launch without a significant enough number of artists, but they don't seem like they need multiple labels. Like they seem like if they get a tangible number of artists from Universal, they will launch. And that would obviously, I would assume, given that all of this new content is going to flow into the overall calculations, this would actually help Universal shift market share in its direction and hopefully encourage a wider array of labels and artists to participate.

But it's sort of like a chicken and the egg, obviously, getting enough artists to make it worth it. How -- I guess, Michael, how should we think about this chicken and the egg? And like how many do you need? And maybe even just more of a macro question, what is -- and maybe Lucian too, what gives all of you the confidence that consumers actually want to do this? Like do you have conviction that this is something people really want to do?

Michael Nash
Executive VP & Chief Digital Officer

Thank you for your questions. Let me first address the issue in terms of Spotify and partnership and critical mass. To the earlier question, I talked about our commitment to deliver critical mass of our artist roster to support the launch. I think that the way I would break down your question regarding the Spotify relationship with us and the plans around the launch, we think our support of their plans is instrumental to their success. And they certainly could launch their product with a more select set of licensing partners. I think the product offering is going to clearly be enhanced through additional music partnerships. We're obviously going to [indiscernible] developments there to Spotify.

But the way that I would break your question down, I do think that this is a unique product offer, and we think that we are in a position to significantly power the product offer. And if more of our artists were involved and featured in the product, then yes, that obviously would create an opportunity for us in terms of our share of the revenues produced there. With respect to the product's appeal, our consumer research, we looked at the 13 largest streaming markets, talked to 25,000 to 30,000 consumers in those markets. 30% of the respondents expressed an interest in using AI to remix, reinterpret or personalized songs.

33% are interested in using AI to remix old recordings to new formats. So I think that suggests a pretty significant level of expressed interest, and that would be interested that would be targeted for paid offer conversion. I also look at the recent media research on remix culture. They looked at a demo that they call Gen Alpha from age 16 to 19, very high level of interest there. 80% of this youth demo are interested in tools to modify or remix music from their favorite artists. And I think if you just consider the amount of activity right now on social platforms where the analysis says somewhere in the neighborhood of 30% to 40% of all the music-based content on social platforms has been modified by the uploader.

There's a pretty clear indication that there's high consumer interest in this type of engagement. So then finally, I think having Spotify focus their platform reach and their product development innovation on delivering a product like this to their very scaled audience. I think that there's a great opportunity for targeting that level of interest that we see indicated in the consumer research and in the metrics around consumer behavior to make this a very popular product offering.

Lucian Grainge
Chairman & CEO

I'd add, we have weekly meetings with 20, 25 people focusing on exciting and bringing in as many artists into this opt-in will respect what they want to do. But it's our job as well as the platform's job to show what the products are and to delight them and to get them excited so that we can have as big an offering as possible. There are billions being invested in AI by the tech platforms. Every time there's been a technological transition, it's had Music and content and IP and culture and consumers to power it a lot. And that's the relationship that we're seeing with them. That's the relationships that we've had with them in the past. We've had those relationships with technology for since the wireless into shellac, CDs into digital and streaming and social network, social media, et cetera. You've heard me say this before, and this is yet another one. We've seen the products. I'm excited about it. This is how they're going to win. They're going to win with our artists, and we're all going to win together.

Operator

Our last question comes from the line of Julien Roch from Barclays.

Julien Roch
Barclays Bank PLC, Research Division

The first one for Lucian. You said in your intro remarks, we are also sharpening our focus on the highest return investments and improving efficiency across the entire company. The bottom line is that we determined to translate the strength of our business into stronger EPS and stronger free cash flow. Can you explain concretely how you will get stronger EPS and free cash flow, more cost cutting, focus more on returns and margin as opposed to incremental absolute EBITDA? That's my first question.

And then the second one for Matt. In the first half, catalog acquisition, EUR 46 million and net content investment, EUR 292 million. I know you don't give a guidance, but some indications for the full year would be great, assuming, for instance, that you don't sign any extra artists that are not in your plan or you do not do unforeseen deals because they're attractive. So not a guidance, just more an indication or range that would be extremely helpful.

Matthew Ellis
Chief Financial Officer

Julien, thanks for the questions. And as you say, we don't provide guidance in that space. Certainly, the catalog and advanced deals that we do are going to be based off of the opportunities that come forward in that time period. So we certainly as we guided and spoke about in the past, that advances for this year will probably be a reasonable similar amount to last year. We continue to see a good amount of activity there. And then catalogs, you've seen more of our activity in the first part of the year was through partnerships with Chord and the like. And so obviously, there's the expectation that we'll see continued activity with in the catalog space as well. But we'll just have to wait and see on what comes to the table. We get to see everything, and we can be very selective about what we choose to participate. Lucian, I'll hand it over to you.

Lucian Grainge
Chairman & CEO

Look, obviously, inevitably, our primary focus is on growing revenue and profit. Profit is profit. And I've said this to you before, it's a portfolio of businesses. And there are some which have less margin, but they're all part of the genre, global reach as well as how they all stick it all together for us in terms of what our consumer offers are and how we can actually go to the platforms with what products we can actually create different revenue streams with.

So direct-to-consumer offer with TikTok, for example, can be different and should be different to what it might be with another more hardware platform. So everything that we're talking about is around different margins in different products with different platforms. But we do like profits and we like making profits on each individual line, whatever that different percentage is.

Operator

There are no further questions. I'd like to hand back.

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