

Goldman Sachs Talks
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Epidemic Sound
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Oscar Höglund: I'd love to live in a world where the ultimate beneficiaries, the winners of the music industry, how about if that's the artists? If that's the creators?

Clif Marriott: Welcome to Goldman Sachs Talks. I'm Clif Marriott, co-head of our EMEA technology, media, and telecom advisory group. I'm truly delighted to be here today with Oscar Hoglund, founder and CEO of Epidemic Sound. A serial entrepreneur, Oscar has founded several companies over his 20-year career. And since 2009 has led Epidemic Sound to become the market leader of royalty-free music for content creators.

Epidemic Sound has garnered critical claim for its democratization of music and innovative digital rights model that helps creators elevate their content with music while simultaneously supporting musicians both financially and creatively.

Today, we're going to talk about the evolutions we have

seen in music and look forward to some of those trends going forward. And then also the growth of the creator economy and the impact of AI on his sector and on music more generally. Oscar, thank you for coming and welcome.

Oscar Höglund: Thank you so much, Cliff.

Clif Marriott: So maybe before we start, Epidemic is critical for the creator economy and for democratizing music and for soundtracking the Internet. Can you explain what Epidemic Sound is and how the business works?

Oscar Höglund: Yep. So in order to do that, I'll just take a quick step back in time. So we'll move back about 15 years. I was a recovering mediocre management consultant. I left BCG and I joined the TV production industry. So I worked with TV production, and we were making TV shows all around the world. *The Girl with the Dragon Tattoo* I think were the ones that traveled the most here to the UK and to the US. And so we were passionate about content creation and storytelling.

And I was tasked with making coffee but also running IPOs. I was tasked with throwing office parties and

acquiring companies. And so I had a fairly wide remit. And then eventually I got to be responsible for something called multimedia, which is a term which has aged really poorly. I didn't like the name back then. Multimedia sounds off.

But basically it was my boss pointing at YouTube, which at the time was a cat on a skateboard, and saying that, "Oscar, there's probably something to be done here. Could you take a look at online video?" And elevating that to a bit more of a strategic level, basically what played out and what we saw earlier the most was that the Internet, as this forum was initially in these early days, very tech-centric. And we had a very clear picture. This was pre Instagram, pre like anything that we see today, short form as well. So the Internet was tech-centric and we saw that over time it was reasonable to believe that this would become from text to picture but then eventually a video-centric medium. And it was quite anthropological as in first principle because we knew that video is a much more efficient way for humans to communicate. Carries more emotion. Carries more information. So that was a given.

But despite that, so adding music to said video was, like,

really, really difficult in the analog world. And we anticipated it would be even more difficult. And so that was like the backdrop. But then basically what we decided to try and do was let's see if we can try and soundtrack the infinite. If we're poised for a world where the Internet's going to move from text to picture to video, we think that soundtracking all of that content is going to be a huge task.

We'll get into the intricacies a little bit later on, but that was, like, the 50,000-foot view. And what we were able to do is we were able to turn that into a SAAS business and into a subscription business. And basically what we decided to do was to sell subscriptions to this incredible catalog of music initially because initially it was the IP, which we can talk about later on. But then we sold subscriptions to the likes of Mr. Beast and the PewDiePies and the Netflix. But we always knew that eventually we'd see the Fortune 500 companies, the mom-and-pop stores, the millions of content creators would keep on expanding.

So we've now built this subscription business which is Epidemic. We sell subscriptions to a platform of music and innovation. And we get to reach 2.5 billion people every single day. We soundtrack about 20% of all of YouTube.

Customers are in the hundreds of thousands all around the world. And we're in the business of trying to soundtrack the Internet.

Clif Marriott: So a little bit off script, but how did you make the leap from working at a corporate identifying this opportunity to starting a company? I mean, how did you make that decision?

Oscar Höglund: We stumbled upon two specific problems which made it much more tangible and easier to address. And so the first problem that we stumbled upon was that, as a content creator initially back then making television and ads and commercials, we knew first-hand that adding music to content was absolutely crucial. The analogy I love to use is it's similar to adding taste to food.

So you can think about music a bit like umami. Like, if you don't have taste, it's basically empty calories and the content will never be memorable and definitely not unforgettable. But as soon as you add flavor to it, as soon as you add taste, something happens. And the same is true with content. And despite sort of that pivotal role of music, trying to put music into content back then was

fundamentally broken.

You always had to call a guy called Patrick. For some reason, everyone was called Patrick. So you got Patrick at Sony, Warner, Universal, or any one of the other record labels or publishers. And there wasn't any software. Music reporting didn't work. The technology wasn't there. The business models weren't there. So it was very difficult from a demand side to try and make that model work. And instead it was quite litigious, it was difficult, and you would shun using music in your content because there was an asymmetrical reward curve. You could get crucified if you got it wrong, and you typically got sued. And the upside was sort of less apparent.

And so you ended up using less music. You asked the interns to put music in the shows because that was more expendable at the time. So a bit rough. But taking a step back, we said that we'd like to live in a world where adding music to content is, like, the pivotal part of the creative process. It's where you cross your t's, dot your i's, where your content becomes lively and meaningful.

So the first problem that we stumbled upon was the

demand side. And then we flipped over to the supply side. So we looked to the music side of things, and we took a long, hard look at sort of how does the music industry work and how does it feel? And we came to understand that, on paper, it's a beautiful construct because the idea of royalties is amazing because the idea is that we laugh together and we cry together and it scales quite beautifully.

The fine print, however, was that basically that's the equivalent of a rigged lottery because what people didn't come to understand is that 90% of the most music didn't get critical acclaim, it didn't get distribution, there was a power log curve, so there's only a small subset of people who really saw true royalty. And we took an issue with that and we said that, well, we don't really like that problem set either because we'd love to live in a world where the ultimate beneficiaries, the winners of the music industry, how about if that's the artists? If that's the creators instead of everyone else?

So these were the two initial problems that sort of popped up and made it very real for us. That, as content creators and as music creators, they were struggling with two specific problems. And we came to understand that these

two problems were actually flip sides of the same coin because the creators were looking for the stuff that the artists could create and vice versa.

So that was the bottom-up approach in terms of, "Hmm, two specific problems that need solving." And the top-down approach was the one that would merit how on earth do you go about rationalizing to yourself that you want to invest the next 15 years, 80 hours, weeks -- which I guess nobody in this room is --

Clif Marriott: Shy of.

Oscar Höglund: Shy of, right? It's like a regular week. But how do you motivate and how do you go out on a limb and take that risk? And for me, the ethos, the motivation, and the thinking behind sort of making that kind of a leap is very important. We've had that kind of discussion in the company, and we took a long, hard think. What could be the best way that we could contribute?

We felt that wouldn't it be amazing if we get to be the company that soundtracks the infinite? What if, when we democratize access to music, which is ultimately emotion,

what if we helped turn the Internet into this rich, beautiful mosaic of video and culture and creativity from all around the world? And so that the Internet becomes this repository, which is the best of our generation. All of our education, all of our knowledge, everything that we sort of - the defining trait of our species, if you will, is storytelling. What if we can bring that into the 21st and the 22nd century? And in the process we think we can help revolutionize the music industry. We can lean on technology to make this happen. We can sort of help build the creator economy.

But those are the two reasons why we got into this. Two specific problems but then the bigger version in terms of why on earth would we then throw everything we have then some at this? Because I want to have that discussion.

Clif Marriott: The orientation of the company is it to helping creative people bring the taste to their food, as you said? So use your analogy. Or is it, you know, helping musicians that aren't the Swedish elf mafias [?] of the world but are the longer tail artists that are producing great music to help them monetize and earn money from their work? How do you orient the company from a

mission standpoint?

Oscar Höglund: First off, that's a great question, and I'll start by saying that, for many years, that was an internal debate that saw us shift our footing quite a bit between one hand and the other. Because on the one hand, we wanted to find ourselves as a creator company where we would be oriented around our storytellers who are our paying customers. But at the same time, it was very, very alluring to ornate ourselves around our suppliers, who were the artists, and as a music company.

I think the way I'd prefix this is that I'm a huge fan of analogies, right? And so I think there's a beautiful one. Maybe one could learn this well in this room. But if you borrow a million and you default, then you have a problem. But if you borrow a billion and default, then suddenly the bank has a problem and the entire logic is reversed and the dynamics are very different and the people who want to solve the problems changes quite a bit.

The point being that, with scale, with volume, there's an interesting thing that happens and dynamics that play out. So as we started the business, we started very much from

an IP perspective. And so we started building a catalog of music where we did a massive [UNINTEL] pop. So if you will, the traditional music industry is hinged around representation. And the way of explaining that is think about a track as a CAP table, right? And it has multiple shareholders. And so you have a record label, a publisher, a PRO, an artist, a top liner, a producer, and they all hold percentage splits of that track and of the future potential revenue.

There are two quirks. One, they all hate each other with a vengeance. And two, they all have veto rights. So as soon as anyone drops a veto, like, the track is dead. You can't use it, it can't travel, right? And so that was one of the inhabiting factors of the music industry at large.

Clif Marriott: Wow.

Oscar Höglund: It was basically a tragedy of the commons. There's this beautiful park, everyone feels entitled, nobody wants to clean it. There's this beautiful track, there's 17 different shareholders, everyone feels entitled to the revenue, but nobody has the financial incentive to go build the infrastructure to accumulate it

because of the veto rights.

And so we placed one big contrarian bet 15 years ago, which allowed my face to end up in many journals around the music industry and the world. But we acquired all of the rights to the music. We said sort of let's not hinge on a model representation. Let's acquire 100% of all the IP rights because if we do that, we're setting ourselves up such that we can then motivate making the massive technological investment of scaling this business. We can then build a subscription SAAS business around this. We can then do the inverse of what many product companies do is we can start with a great product market fit and then 92% gross margin business. And then we can scale and we can do these other things if we control all of these rights.

And so we started doing this, and, lo and behold, in the beginning our business was this legal innovation. And what happened was that we started to build catalog, which our paying customers, our storytellers, started to use. And these storytellers, as the world played out, turned out to be our generation's most prolific storytellers. So they would garner millions and tons of millions and hundreds of millions of views. And so when the likes of Mr. Beast and

PewDiePie and Netflix and others started to use our content, we started seeing hundreds of thousands, millions, tens of millions, and eventually billions of views every single day.

So we were able to generate massive distribution of said music through our paying customers. So much so that this music then started to travel to regular streaming platforms such as Spotify and Apple and Deezer and more strict music context because so many viewers had seen the music and heard it in their content of choice that they wanted to start to listen to it sort of individually on streaming platforms as well.

So we inadvertently stumbled upon the world's most efficient way of launching artists and new music through said storytellers. And as this scaled, we then saw millions of listens. And as we started to accumulate all of that knowledge, that data, that signal, we also at some point said that why don't we collect the royalty revenue from all of the music streaming platforms as well as a second-order consequence of our business? Because we're not royalty-free per se. We're restriction-free. So we'll collect all of that royalty. And we looked at our artists and said how

much would they make in the traditional world? And arguably take quickly a record label or a publisher or a PRO would keep 80-85% of all that royalty and the artist would get 10-15.

We said, well, that's a really poor model. So let's pay for the music, own the rights, grant them distribution, seed it in all of your -- so you've probably -- everyone in this room has probably heard Epidemic two or three times today already on your way to the [UNINTEL] relaxation, any content that you watch on any social media plat --

Clif Marriott: What Netflix would they have seen that would have some music?

Oscar Höglund: Many.

Clif Marriott: Many?

Oscar Höglund: Yeah, the answer at this point is many.

Clif Marriott: Many. Okay.

Oscar Höglund: Too many to list. And so we get all this

signal, all this data. We start collecting additional revenue. And so this revenue then pours in. We start splitting that 50/50 with the artists as opposed to the traditional model, which is they wouldn't get paid it upfront. And then this garners then more artists because you get distribution, you get more money, and so we get even more artists which we then put forward to our content creators. And suddenly you've created this virtuous cycle where you see that the fact that the music drives the content creators that drive the distribution that drive even more revenue that drive even more signal. So suddenly there's this flywheel, and that's the ultimate answer to your question.

Because we started out not being sure. But what we've now come to understand and how we've organized our company is the uniqueness that we build, the magic that we create is by supplying the data, the platform, the IP to our generation's most prolific storytellers. So we optimize for that. And then the downstream repercussions of that are is that we can present a second-to-none remuneration but also data inclusion model for an artist such that this becomes a flywheel.

But we are creator-centric as a company in order to serve

music and artists, creators.

Clif Marriott: Great answer. I'm going to move on to the next generation's contribution around AI. And obviously 2023 was the year of AI. It doesn't seem like 2024 is going to be any different. How do you see AI impacting content creators? And that goes into a lot of what you just went through in your last answer around ownership of IP, who owns it, how will LLMs access and use that data to potentially generate AI-created music? What are the different things at play here and how do you think about it?

Oscar Höglund: So I think one of the things I took with me from my brief stint at BCG was the use of models. So I'm a huge fan of models. And so the way that I think about this is that there are three different distinct steps you can think about this. If we first look from a macro perspective, we look at the creator economy with an AI lens. I think there are three things that come to mind.

First question you can ask yourself is, okay, will there be any further sort of wins from an efficacy perspective as AI gets introduced into the creator economy? And the answer

is emphatically yes. Like, we're seeing it in sort of how we sign up customers, how we sort of write agreements, how we get chores done, how we tag things. And so the generals of efficacy that AI can provide on a macro level is definitely true.

The second thing from a macro level which is interesting as you think about AI is TAM. And does it drive TAM expansion or TAM reduction? And I was fortunate enough to participate at your PICC [sp?] event in Las Vegas. And for those of you who were there, like, Camera [sp?] was one of the big companies speaking there. And they're a close partner of ours, and so we power their services with our music. And I think there's an excellent example that AI is very much helping to expand the total TAM for the creator economy because basically everyone has a smartphone but there are still some barriers in terms of creating content because it's been somewhat complicated.

But AI is tearing down these barriers, and so the TAM is expanding thanks to AI as well because it's democratizing assets to creating content. Make a video. Put music on it. Do this. No faster, better. And then suddenly you have something that works.

And then the third macro element from an AI perspective is is there something also which can ideally be transformation for the creators of industry as a whole? And in our case, the answer is emphatically yes, which brings us to the micro. Because if you're a fan of AI in general and maybe LLMs in particular, the way I like to think about it is there are three ingredients that need to be in play if you want to be a net beneficiary from AI within the creator economy.

So the first one you alluded to is access to data. And so do you have large amounts of data, and is it unencumbered as in do you own all of that data? And is it of a high data quality? And I'm not going to lie, we were super fortunate because 15 years ago when we placed the macro bet to acquire 100% of the rights, it was in no way, shape, or form because we saw around the corner that that would have been a genius move from an AI perspective. It's because we went up against the entire music industry and said that we don't need your infrastructure. We're going to use our own. We have to be able to prove without any doubt that every single track, every single stem, every single vocal we own 100% of it.

But fast forward now, we find ourselves in a world where we happen to own the world's largest depository of completely uninhabited music IP. It's one of the richest in terms of data. And it's of considerable size. And so the legacies of IP owners only own fractions, as I alluded to, the whole CAP table, so they can't determine what they can do because there are 50 other stakeholders who disagree with how that should be used. Startups don't have a massive catalog of IP such that we've built over the last decade and a half. So data is one point that you need.

The second one is access to LLMs. And that was always the big question mark for us. But fortunately, as the world evolved during 2023, the LLM builders decided to use a scorch-the-earth model so they granted everyone access to them because data was their scarce resource and tons of people are building LLMs. So now as long as you have access and you have a skilled workforce that can sort of access and use and fine tune these models, you're in pretty good shape.

And the third component that you need is reinforcement learning loops. So once you have the data, you put it through LLMs, you want a massive footprint amongst

yourselves being humans to give you feedback. Relevant track, not relevant, faster, slower, give me some signal.

And the fact that we reach 2.5 billion people every single day, as soon as we put out our music across all the platforms of the world, we immediately know do people like it, do they skip it, do they track it, do they use it? And then that feeds back to the model and back to the signal.

So if you're looking at the creator economy in general, I would argue you want to look for these three different traits and understand how they play out. And then for us in particular, what that breaks down to is, okay, so you understand the macro, you understand the micro, so what? What do you want to do as a company around that?

And for us, I think when we launched 15 years ago, it was interesting because a quick Google search would have showed, if you search for the creative commons, you would have found 15 million tracks which were completely free. Free music archive would have gone an additional 10 million tracks. So forever there have been 25 million tracks where the cost of usage or the cost of production has been zero. So I can't help but reflect that I think the

people are over indexing the technology itself and saying, "Aha! Zero marginal cost of music." Like, that's always been the case, if you ask me.

And still and despite that, we were able to build a very strong IP business because it turns out that actually what you need to be focused on is solving users' problem. So the vast abundance has always been there, but you need to understand, like, quality, business model, reps, warranty, customer service, fronts of efficacy, efficiency, brand. Like, there's so many components that go into building something which is truly valuable. And I would argue even more so if you intellectually just linger on artificial intelligence.

If artificial is in abundance, then authenticity suddenly has a premium. So relationship with brands and artists and stories. If you think about umami and you want that flavor, it needs to pop. It needs to say something. You need to feel something ultimately, right?

Clif Marriott: Yeah.

Oscar Höglund: And so we were very excited and we're

deep into generative music obviously. But I think rather what you need is you want recommendations, which are incredibly important, and you need adaptation, which I think maybe brings us to a point like where you do go from music-only and how do you start identifying that data is the product? And so I think that generative music is super important, but ahead of that, taking a step back, helping content creators find the music that they want is the more difficult and the more pressing job to be done.

And music is quite different from pictures because pictures within -- I don't know what the English term -- but a split second, you immediately swipe left or swipe right as it were. You know exactly what you want. But a track, you need to invest multiple seconds. What's the build? What's the vocal? Oh, it's a man, I thought it was a woman. Oh, that's a swear word? That's not good. What's the build? What's the drop? 25 seconds later, "Eh, bad track."

So that takes a ton of time, so you want to use recommendations. So this is where we started using AI initially. We came to understand that, okay, hang on, if we soundtrack 2.5 billion interactions every single day and we own that data, we know exactly what track goes well with

what video. We have billions of pieces of signal that we accrue every single day. What if we take all of that data and turn that into part of the product?

And so if you're making a video about Goldman Sachs and sort of this is the group of individuals you want to reach, we can immediately play back to you that that kind of content does well with this kind of music, this kind of length, this is the best edit, this is what you should be doing. So you're basically buying success more than you're buying the actual IP, even though the IP is a prerequisite. So recommendation was one thing which we started doing a lot.

So we can now pull frames from videos and we can then reference that to every single frame that we've ever soundtracked in the history of time. And we know exactly, we can suggest that this synth [UNINTEL] would be a good intro music when we go on stage. If we want to make something exciting, this is the music you should use if you want to build. If it's emotional, let's put that music in there. And so recommendation becomes a huge part of the actual product, which in itself is data.

And then the second part is adaptation because, once you've found said track and it's a beautiful piece of classical music, it's two minutes, 35 seconds, it's live strings, it's recorded, Abbey Road somewhere which would be reasonable, only problem is that you have a 15-second TikTok that you're looking to soundtrack. And taking a two minute 35, classical piece of music and trying to adapt that to a 15-second TikTok, you go into a software which is not designed to do that. You have to become a sound engineer. You have to try and start to cut the music. And so typically other catalogs, you don't have the rights, you don't have the time, nor do you have the skills. It takes multiple hours.

And so starting to adapt tracks is also a way more efficient way to use AI. So recommend and adapt I think go before generative, but there is definitely a trinity between those three. And so that's where we're deploying down sort of significant amounts of our time.

Clif Marriott: Okay, that's great. So we've talked a lot about your journey as an entrepreneur. We've talked about your relationship with the music owners or the creators. One question on just the creator economy, where

we were, where we are. So think about this economy basically didn't exist 10-15 years ago. YouTube, Instagram, TikTok, a bunch of other different platforms now. Where are we at in terms of the growth of that as a way for people to engage with other humans? And second question is: Is that a good thing or a bad thing and where do you see it going from here?

Oscar Höglund: Got it. I think, like all great things in life, it's complicated.

Clif Marriott: We have seven minutes, so.

Oscar Höglund: It's not that complicated. We can do it in three.

Clif Marriott: Okay.

Oscar Höglund: I think that taking a step back, the first thing I'll say is that the last three to five years will be called many things. They'll be called interesting, scary, pivotal, too late, best of times, worst of times. But one thing which I think is less obvious but I think is merited is that it's been a renaissance for content creation.

Like, short form, long form, the way you can express yourself, the way you can consume content. Like, binge watching wasn't even invented ten years ago. There's so much innovation that's happened from a storytelling perspective that there's truly been a renaissance for the last ten years. I think that's going to continue for the next 5-10 years as well. But point one is I want to highlight that we've been in an incredible period from a storytelling perspective.

Point number two is that I think we're in the last innings of the general experimentation. So what I mean by that is we've been seeing quite a lot now where short form has been going long, as in YouTube -- sorry, TikTok is now introducing long form. YouTube has been going short, so long form is going short. The models of the West, which are advertising driven, are merging with the models of the East, which are more fan driven.

Clif Marriott: Or commerce driven.

Oscar Höglund: Or commerce driven as well. And so I think there's been a lot of experimentation across many

different aspects, and so I'd say that we're towards the end of that.

The third point I think I'd point to is one of democratization. And so the first things that got democratized I think was distribution. And so through said platforms that we just mentioned, they were able to set up technology, they were able to set their business models such that content could proliferate and reach way more people around the world, both in terms of the business model, the technology powering, but also the access points in terms of cell phones and whatnot.

I think the theme of democratization keeps on and accelerates through AI now because, if distribution and consumption of content has been democratized, I think production of content is set to be democratized now. Back to the whole TAM increase, I don't know by heart what the ratio is, but sort of typically I think for every million viewer, I'll guess that there'll be one content creator. Pretty steep quote, I'd assume.

My prediction would be that that quote dramatically changes if, as soon as you pull out your phone, you take a

couple of pictures, you get an opportunity to turn that into video, you share it with the people that are relevant to you, you add music to it, you adjust it, you tell it, "No, faster, better, make me look more funnier, make me crack a good joke instead of a bad one," it's easier to be a content creator. So I'd say that those are maybe a few of the themes which are happening.

And then the complicated side is obviously with more content, the need for guardrails both intellectual property-wise but also safeguarding of kids and others, hate speech --

Clif Marriott: Binge watching.

Oscar Höglund: Binge watching. Lack of attention span. I worry sometimes that we're all going to be with super short attention spans who can't really get deep into anything, and so I think there are tons of challenges around that. But this comes as no surprise, I'm a hardcore optimist. I'm quite confident that we'll solve that.

Clif Marriott: Oscar, thank you very much for joining us. Really, really engage conversation.

Oscar Höglund: Thank you for having me. Thank you so much.

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