MORNINGSTAR

# SESAC Finance, LLC, Series 2019-1

**Presale Report**

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## Preliminary Ratings (as of July 19, 2019)

| Notes | Notional Amount ($) | Coupon (%) | Morningstar Preliminary Rating[1] | Legal Final Maturity Date |
|---|---|---|---|---|
| Class A-1[2] | 30,000,000 | [--] | BBB | July 2034 |
| Class A-2[3] | 530,000,000 | [--] | BBB | July 2049 |
| Total | 560,000,000 | | | |

[1] The preliminary ratings do not address the quarterly contingent additional interest after the anticipated repayment date and do not address the change of law or payment of extraordinary expenses.
[2] The Class A-1 notes are variable funding notes and are expected to be undrawn at closing. The Class A-1 notes have a renewal date of July 2024, with two options to extend the renewal date by one year.
[3] The Class A-2 notes have an anticipated repayment date of July 2026.

## Transaction Overview

The issuance is SESAC Finance, LLC's first whole-business securitization. This transaction is secured by substantially all of the music affiliate agreements, license agreements, and software and intellectual property of the SESAC Group. The series consists of two classes of notes. Class A-1 is a $30 million class of variable funding notes that can be drawn on a revolving basis up until the Class A-1 notes renewal date. The issuer will have the option to extend the A-1 notes renewal date twice, after the fifth and sixth year, each option allowing an extension of the draw period by one year, subject to certain conditions. The Class A-1 notes are not expected to be drawn at closing (other than the use of the Class A-1 commitments in the form of issuance off the interest reserve letter of credit). Class A-2 is a $530 million class of fixed-rate notes and has an anticipated repayment date in July 2026. The class A-2 notes will receive scheduled principal payments of 1% of the notional amount up to and including the ARD. The failure to pay or refinance the Class A-2 notes in full by their anticipated repayment date will result in a rapid amortization event. There is a step up of at least 5% as a post-ARD additional interest paid on the offered notes. The legal final maturity date for the Class A-1 is July 2034 and the legal final maturity date for the Class A-2 notes is July 2049. The transaction includes certain triggers, which when tripped will result in either a diversion of proceeds in the waterfall to pay down the principal on the notes until paid in full in case of a rapid amortization event, or the full or partial trapping of proceeds into a cash account for the benefit of the issued notes as a result of a cash trap event.

### Strengths (Page 3)

- Long history of consistent revenue growth
- For-profit structure of the company
- High affiliate retention rate
- Strength of the cash flow analysis
- Transaction structure and key covenant transaction triggers

### Concerns (Page 4)

- High financial leverage
- Weaker channel growth within TV and radio
- Potential loss of affiliates or licensees
- Regulatory risk

Morningstar Credit Ratings, LLC analyzed this transaction using the U.S. ABS General Ratings Methodology available at www.morningstarcreditratings.com.

| | |
|---|---|
| Master Issuer | SESAC Finance, LLC |
| Co-Issuer | CCLI Finance, LLC |
| Manager | SESAC Rights Management, Inc. |
| Back-up Manager | FTI Consulting Inc. |
| Servicer | Midland Loan Services |

| | |
|---|---|
| Trustee | Citibank, N.A. |
| Guarantors and Asset Holders | CCLI, LLC, SESAC Performing Rights, LLC SESAC LLC |
| Structuring Advisor and Bookrunner | Guggenheim Securities, LLC |

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# Ratings Rationale

Morningstar evaluated the transaction's cash flow using a cash flow analytical tool. Details regarding the inputs, assumptions, and results are described in the Cash Flow Analysis section on Page 6. We based our assumptions on the assets' historical performance, built stress scenarios to simulate adverse business conditions, and in some cases, found the break-even business reduction rates. The tool analyzed the cash flow according to the various covenant triggers to enforce the proper payment priority.

In our analysis, we do not assume the notes will be refinanced by the anticipated repayment date and our stresses include reductions to growth rates and termination of the top licensees. The projected results for the Class A-1 and A-2 notes demonstrate that the issuer will be able to pay timely interest and ultimate principal by the legal final maturity date under stressful scenarios that correspond to our BBB scenario.

In addition to the cash flow analysis, Morningstar's preliminary ratings contemplate the legal structure of the transaction, the credit quality of the operating company, its business position in the industry, the potential industry prospects, and the operation of the sponsor.

Morningstar's preliminary ratings considered that the legal opinions issued in relation to the transactions adequately address certain true sale and nonconsolidation matters and opined that the trustee has a perfected security interest in the assets. We also reviewed the procedures and incentives, which have been put in place to ensure that the backup manager will have time to put together a transition plan before the removal of the original manager if there is a manager termination event. The preliminary ratings do not address the likelihood of changes of laws or the incurrence and payment by the issuer of extraordinary expenses.

# Strengths and Concerns

### Strengths

- **Long history of consistent revenue growth**: SESAC's revenue has grown at a 12.9% CAGR since 1994. During the last recession, revenue managed to grow 6.9% from FY2008 to FY2011, demonstrating the overall resiliency of the business. Its network of licensees has increased consistently at a CAGR of 3.7% since FY2008. This growth has been supported primarily by the constant growth and diversification of its affiliate-based business model and its steadily growing licensee network across its different revenue-generating channels.
- **For-profit structure of the company**: SESAC is the only company in the top three of the industry with a for-profit status. When compared with nonprofit organizations, this allows the company to be more selective in accepting affiliates into its portfolio, managing its affiliate compensation in a more timely manner, and seeking arbitration in lieu of rate court proceedings to settle pricing disputes that may emerge.
- **High affiliate retention rate**: The company's music affiliate retention rate has historically averaged 99.7% since 2003. SESAC's affiliate base has grown to approximately 35,000 songwriters and publishers, three times its size in 2008. Some of its larger affiliates include highly regarded composers and songwriters, such as Michael Egizi and Bob Dylan. SESAC boasts a highly selective affiliate base that is diversified across genres, formats, and generations. Top 100 affiliates represent 61% of FY2019 pro forma adjusted cost of revenue.
- **Strength of the cash flow analysis**: Under various stress scenarios, which include significant reductions to expected revenue growth, a downturn in business conditions affecting the underlying licensees, and disruption in the affiliate contracting process with digital outlets, the cash flow analysis demonstrated the notes would be repaid in a timely manner. Please see the Cash Flow Analysis section on Page 6 for additional details.
- **Transaction structure and key covenant transaction triggers**: The transaction contains features that include rapid amortization and cash flow sweep events tied to specific debt service coverage ratios, which help protect the transaction from deteriorating business conditions. There is also an interest reserve account to be funded at closing expected to be in the form of letters of credit, providing three months' worth of interest on the senior notes. Please see the Transaction Structure and Legal Considerations section on page 7 for additional details.

**Concerns**

- **High financial leverage**: The transaction is expected to close with leverage of 6.4x on a funded debt basis and 6.7x assuming the VFN is fully drawn, which is on the higher end of the range for recent whole business securitizations of 5x to 7x SNCF. High leverage can add financial challenges to managing company operations and executing growth strategies to sustain profitability the transaction will rely on for generating cash flows. The company does possess a demonstrated track record of consistent profitability and the securitization will feature legal and structural protections such as bankruptcy remote entities and legal separation of assets from the operating company, which are meant to ring-fence the revenue generating assets in the event of an operating company bankruptcy. The transaction also includes structural triggers designed to benefit the notes in the event of a deterioration in cash flow generation.
- **Weaker channel growth within TV and Radio**: The areas of Radio and TV have come under pressure from the growing popularity and convenience of digital streaming and other online platforms available to consumers today. This may result in continued deterioration in revenue generation from these two channels in the near future. Morningstar addresses this in its stresses by assuming annual declines in both TV and Radio channels and determining the impact of these on the repayment of the notes.
- **Potential Loss of Affiliates or Licensees**: While artists and publishers have had long-term relationships with SESAC as evidenced by the 99% retention rate, the exit of certain artists and publishers could still occur, and consequently impact SESAC's business negatively with the loss of valuable source of material for licensing. In addition, publishers could increasingly approach licensing channels directly in the future. An increase in the direct-to-online licensing trend, where rights owners contract directly with the users of music, could develop as a threat to SESAC's performance rights organization, or PRO, business model, potentially affecting channel revenues, particularly in the digital space where direct licensing between publishers and online outlets for music could gain traction. The same can be said with licensees in terms of potential for contract terminations. Should licensees experience downturns in their respective businesses and shut down, we believe this would adversely affect licensing revenue for that particular channel. Morningstar addresses this in its stress analysis by applying haircuts to overall revenues early on in the transaction and determining the impact on the repayment of the notes.
- **Regulatory Risks**: As a performing rights organization, SESAC is subject to copyright law provisions, which control the determination of license rates or fees to be charged in connection with noncommercial broadcasting and retransmission of broadcast television programming by cable systems and satellite systems. In addition, the Fairness in Music Licensing Act of 1998 limits the ability of performing rights organizations to collect license fees from certain food service and drinking establishments and retail centers. Furthermore, religious congregations are exempt from liability for failure to obtain a license for the public performance of a musical work during worship services. There can be no assurance that the relevant copyright law provisions will not be amended or modified in the future in a manner that may materially and adversely affect the ability of the manager, on behalf of the co-issuers and the asset holding companies, to renew securitized music affiliate agreements and securitized license agreements or enter into new securitized music affiliate agreements and securitized license agreements on favorable terms.

## The Company

SESAC is a performance rights organization. These companies collect performance royalty fees for the use of copyrighted songs for public consumption. Under 17 U.S.C. Section 115 of the U.S. Code, every copyrighted musical work is covered by two types of protection: sound recording rights including both mechanical and synchronization rights and a public performance right. Mechanical licenses allow musicians the permission to cover, reproduce, or sample a copyrighted performance. This would include re-recordings in whole or part of a copyrighted song or production. Synchronization rights apply when a recording is to be used in conjunction with video content (e.g., a copyrighted song used as part of the soundtrack to a movie, television show, or a music video). Licensing for mechanical and sync rights is normally handled by music publishers, while the licensing and collection of public performance rights fees has been delegated to the PRO firms. However, through its acquisition of the Harry Fox Agency in 2015, SESAC also generate some revenue from mechanical rights.

Public performance rights cover a wide variety of situations, including radio or television broadcast, live performances, or playback in a public venue meeting certain criteria. Venues where licenses are applicable include, but are not limited to, bars and restaurants, hotels, fitness centers, retail stores, or public meeting areas. Consumers of music enter into a contract to license public performance of music and pay a license fee to the PRO who in turn distributes royalties to the music affiliates. For PROs licensees are the fee payors while affiliates (that is, copyright holders) receive royalty fees. The top three largest U.S. PROs generate over 99% of industry revenue. SESAC is the smallest of the primary U.S. PROs with a 7% market share based on revenue.

SESAC is the only one of the top three which is managed as a for-profit enterprise. Its largest segments are general licensing, radio television broadcast, and digital revenue, and its Christian music licensing division, Christian Copyright Licensing International. SESAC's revenue is well-diversified by source. As of the 2019 fiscal year, which ended March 31, SESAC derived 32% of revenue from broadcasting rights (radio and television) and 39% from CCLI and general licensing. It generated 15% of revenue from digital music platforms. However, we believe digital will remain its fastest source of growth.

PROs typically offer blanket licenses for a flat fee, which cover the use of all songs in their catalogue, though the amount of the fees varies depending on use. U.S. business owners typically contract with all three of the major U.S. PROs to ensure that they are properly protected, and their license covers all of the works that might be played. For global franchises, the issue becomes more complicated as each country has its own set of PROs. SESAC obtains performance royalties from radio and television broadcasters, digital streaming music platforms, and general licensees (bars and restaurants, fitness clubs, retail stores, etc.). SESAC also maintains reciprocal agreements with certain PROs outside of the United States.

The music industry has undergone a dramatic transformation over the past 20 years, propelled by a steep decline in purchases of music in physical form (CDs, cassette, LPs) in favor of digital download or streaming consumption. According to data published by the International Federation of the Phonographic Industry, total global music revenue generated from all sources has declined 31% since 1999. Of this total, the contribution of physical music sales has declined to 30% in 2017 from 100% in 1999 and 2000. Meanwhile, revenues contributed by the consumption of digital and streaming music has increased from zero to 54% of industry revenues. Digital music revenues peaked around 2012, largely replaced in succeeding years by revenue from music streaming services. Moreover, as streaming usage has expanded, so has revenue from performance rights. SESAC management expects digital streaming rights to remain the fastest growth contributor over the next five years.

## The Collateral and Related Factors

This transaction is secured by substantially all of SESAC's revenue-generating assets including existing and future music affiliate and license agreements, trade secrets, software intellectual property and pledge of the equity interests in the issuer and its subsidiaries. The cash flow for the securitization comes primarily from the licensing fees generated by each license agreement. The key metrics to measure such cash flow are the revenues generated from the license agreements and the royalty expenses due to music affiliates. SESAC has a long history of consistent growth and diversification within its music affiliate base and licensee network.

The following tables contain information showing the growth of the company over time, demonstrating positive growth trajectory for the business and its stability over time.

**Table 1: SESAC PRO Entities Historical Music Affiliate Base (in thousands)**

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Affiliates | 15.1 | 18.0 | 20.7 | 23.7 | 26.4 | 29.0 | 31.2 | 32.6 | 33.6 | 34.3 | 34.6 |

**Table 2: SESAC PRO Entities Historical Licensed Locations (in thousands)**

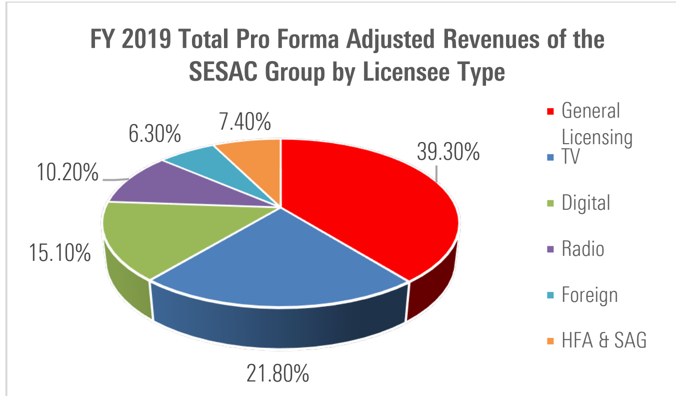
| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Licensees | 90.4 | 93.9 | 98.6 | 102.3 | 110.1 | 111.1 | 116.9 | 125.0 | 126.7 | 134.7 | 127.2 |

**Table 3: SESAC Group Historical Total Pro Forma Adjusted Revenues ($millions)**

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Revenue | N/A | N/A | N/A | N/A | N/A | N/A | 237.8 | 247.5 | 244.1 | 255.5 | 274.8 |

**Table 4: FY2019 Total Pro Forma Adjusted Revenues of the SESAC Group by Licensee Type**

| Revenues | (%) |
|---|---|
| General Licensing | 39.30 |
| TV | 21.80 |
| Digital | 15.10 |
| Radio | 10.20 |
| Foreign | 6.30 |
| HFA & SAG | 7.40 |




## Cash Flow Analysis

Morningstar's preliminary ratings are based on timely interest payment of the notes and ultimate payment of principal and do not consider any potential extraordinary expenses. We used a cash flow tool to evaluate how we expect the transaction to perform under various stressful scenarios. The key assumptions in our cash flow analysis include assumptions on management fees, annual expenses, operating expenses, servicer fees, growth rates for the various channels, and assumptions on terminations of top licensees or loss of affiliates.

### Key Base Assumptions

Some of the variable assumptions such as management fees and its related aggregate amount cap are as contained in the offering memorandum's priority of payments. Other variables such as historical growth rates, are based on information from the company. The analytical tool we used has a quarterly time step. Our key assumptions are listed below.

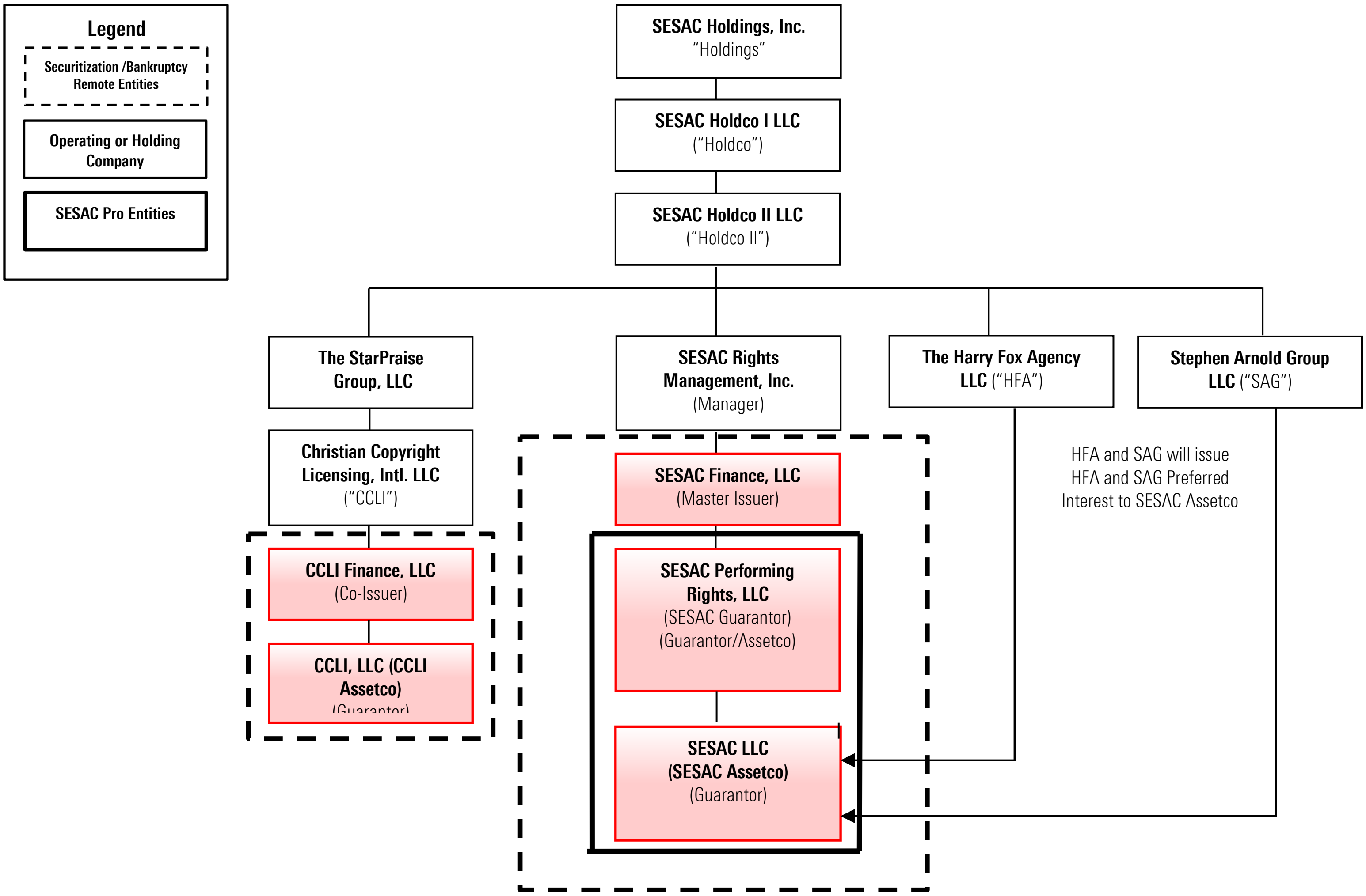
- SPE annual expense cap: $500,000
- SPE annual expense cap: $1 million (warm and hot-back up periods)
- Management fee: greater of $30 million (annualized) and 17% of core retained collections
- Management fee floor annual escalator: 2% per annum
- Senior operating expense cap: 53% as a percent of core collections
- Servicer fee: 0.04% (cold back-up period), 0.125% (warm back-up period), 0.25% (hot back-up period)
- We assumed the Class A-1 notes will carry an indicative spread of three-month Libor plus 2.50%. For the Class A-2 notes, we assumed a coupon of 5.50%. We used Morningstar's BBB three-month Libor curves for this transaction.

## Stress Scenarios and Results

Morningstar has formulated scenarios to test the Class A-1 and A-2 notes and to examine the sensitivities to stress scenarios at the BBB rating category. We formed these by applying stresses to revenue growth rates, including initial haircuts to revenue early in the transaction's life. The results to these stresses can be found in the table below. We tested the transaction with similar scenarios using more stressful assumptions in line with an A rating category. The results showed failures under certain A rating category scenarios. Note that these results are just a sample of the cash flow tool's outputs, and the ratings committee may have reviewed additional cash flow runs, along with qualitative factors such as the ones listed under the Ratings Rationale and Strengths and Concerns sections.

| Scenario | Assumption | Class A-1 Result | Class A-2 Result |
|---|---|---|---|
| Base Case | The base case scenario assumes mixed performance across channels, with significant growth in Digital, steady growth in General Licensing, but accompanied by weakness in both Radio and TV channels. | The A-1 notes are paid off in 7.25 years. | The A-2 notes are paid off in 13.75 years. |
| Zero Growth | The zero growth scenario assumes no growth across all licensing channels. | The A-1 notes are paid off in 7.50 years. | The A-2 notes are paid off in 15 years. |
| Downside | The downside scenario assumes severe declines in TV and Radio channels, weakness in CCLI and General Licensing, and Digital with moderate growth. | The A-1 notes are paid off in 7.75 years. | The A-2 notes are paid off in 20.50 years. |
| Top Licenses Terminate (15%) | This scenario assumes several top licensees by revenue contribution experience distress and shut down. | The A-1 notes are paid off in 7.75 years. | The A-2 notes are paid off in 17.75 years. |
| Break-even Initial Haircut (36.5%) | The break-even initial haircut scenario solves for the highest revenue haircut percentage that the transaction can withstand. | At 36%, the A-1 notes are paid off in 2.00 years. | At 36%, the A-2 notes are paid off in 30 years. |
| Post-ARD channel performance decline | This scenario assumes the faster growing Digital channel experiences severe and sudden decline during the post-ARD period, as alternatives such as direct licensing gain traction over the next several years. | The A-1 notes are paid off in 7.50 years. | The A-2 notes are paid off in 15.5 years. |

## Transaction Structure and Legal Considerations




*Source: Preliminary Offering Memorandum

SESAC Finance, LLC as issuer and CCLI Finance, LLC as co-issuer issue the Series 2019-1 senior secured notes, which are secured by the security interest in substantially all of the assets of the securitization entities, which will include, among other things, all of their respective rights, title, and interest in, to, and under the collateral. Each securitization entity is a Delaware limited-liability company and structured to be bankruptcy remote. Additionally, transferring assets to the issuer should be treated as a "true sale."

### Interest Reserve Account

On or prior to closing, for the benefit of the secured parties, the co-issuers will establish and maintain an interest reserve account funded with at least three months' worth of interest for the Class A-1 and A-2 notes.

### Priority of Payments

The transaction follows a typical sequential waterfall where senior notes interest is paid sequentially prior to the sequential pay of any unpaid scheduled principal payments due, if no rapid amortization event is in effect. After senior interest and scheduled principal are paid, the waterfall checks if a rapid amortization event is in effect, and if none, and if an A-1 amortization event is in effect, then the Class A-1 notes will be paid down until they are reduced to 0. Then a cash trapping event is checked, and if in effect, the cash trap percentage is allocated for the benefit of the senior notes. The waterfall then checks once more for a rapid amortization event, and if in effect, pays down the Class A-1 and A-2 notes sequentially until reduced to 0. There is a supplementary management fee payable only after senior interest and scheduled principal for the senior notes are paid, and it requires consent of the controlling class, and is payable only at the direction of the controlling class representative. Senior admin expenses are capped.

### Legal Analysis
Morningstar used external legal counsel to review certain items in the transaction relevant to our analysis. During the rating process, we have reviewed a draft of the term sheet and preliminary offering memorandum. As of the publication date, certain transaction documents have not yet been provided. Any additional documents required for our review will be examined, and we expect to receive legal signoff prior to the closing of the transaction. The representations, warranties, and enforcement mechanisms (listed in a separate publication and incorporated herein by reference) are acceptable to Morningstar and meet Morningstar's published criteria.

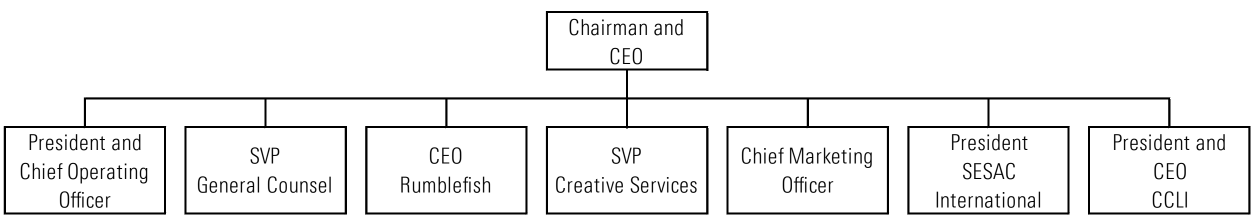
## Operational Risk Assessment

Morningstar representatives Monte Bays, Joshua Gatmaitan, and Michael Dimler, met with SESAC senior managers at the company's operational headquarters in Nashville, Tennessee. After the meeting and a review of company-provided and publicly available information, Morningstar believes that SESAC is an acceptable manager of performing artists licensing rights.

### Introduction
SESAC is a performing rights organization originally founded in 1931 as The Society of European Stage Authors and Composers. A performing rights organization acts as an intermediary collecting royalties on behalf of performers and publishers and ensuring the royalty payments are properly paid to the correct party. SESAC currently represents approximately 35,000 artists and music publishers to approximately 127,200 licensees. The company is headquartered in Nashville with additional offices in New York, Los Angeles, Vancouver (WA), London, and Munich with approximately 300 employees in the United States and another 40 internationally.

### Operational Risk Assessment

**Organizational Structure:** SESAC has well-defined reporting lines clearly identifying roles and responsibilities. The HFA and Christian Copyright Licensing International business lines are operating subsidiaries of SESAC Holdings.




**Management and Staff:** SESAC is led by an experienced senior management team that averages close to 12 years of company tenure and over 24 years of industry experience. The President and COO was promoted to this position within the last year and formerly was the executive vice president and CFO in charge of operations and corporate development. SESAC filled the vacated CFO role with a highly experienced candidate with over 26 years of industry experience. We view the historical employee turnover rate at the company as acceptable.

**Audit and Quality Control:** SESAC has engaged EY to complete independent financial audits. The company does not have a formal internal-audit department but does have internal-audit functions built into the policies and procedures to ensure the proper controls are in place and being adhered to as expected.

The company has engaged independent third-party audience measurement systems to determine the level of music usage in different media outlets. These systems detect a unique digital signature to identify licensed work. The data providers monitor a large number of radio and television channels to provide a randomly significant sample to determine how often a song/music is used and the royalties owed.

**Technology Architecture:** SESAC's information-technology platform is internally managed with support from third-party vendors. The company's network resides on Amazon Web Services. The IT platform consists of a combination of off-the-shelf software, customized third-party solutions, and internally developed applications.

The company's network security is managed by AWS and includes an intrusion-prevention system, gateway antivirus, antispyware, event monitoring, intrusion detection, and vulnerability scanning. SESAC also maintains its own network security systems to work in coordination AWS solutions to further protect its systems. Employee passwords must meet complexity requirements and be changed on a regular schedule.

The disaster-recovery and business-continuity plans are managed around AWS solutions. SESAC data is backed up incrementally throughout the day with a full backup nightly. Employees can securely connect to network applications remotely. The disaster-recovery and business-continuity plans are tested at least annually.

**Policies and Procedures:** The company has developed policies and procedures to guide the day-to-day operations. It stores the policies and procedures on a company intranet and reviews and updates them annually and as needed.

**Training:** SESAC has developed a training program starting with onboarding and then continues with job-specific manager-led training. Nashville provides a large music-industry talent pool and the company has built strong relationships with local universities to recruit potential employees.

### Back-Up Manager

FTI Consulting, Inc. is a global business advisory firm with over 4,700 employees. As the back-up manager, FTI Consulting will provide certain consulting services to the servicer, the manager, the control party, the securitization entities, and the trustee for the benefit of the secured parties, and will assume the duties of the manager following a termination of the manager until a successor manager has been appointed. The transaction can enter a warm-back up period or a hot-back up period triggered by either of the following: (a) A warm back-up management trigger event occurs if (i) any event that causes a cash trapping period to begin and that continues for at least two consecutive quarterly calculation dates or (ii) a rapid amortization event, in each case, that has not been waived or approved by the control party acting at the direction of the controlling class representative, provided that any rapid amortization event pursuant to clause (iii) of the definition thereof will not be a warm back-up management trigger event unless such rapid amortization event has not been cured within six months from the date of such Rapid Amortization Event or (b) a hot back-up management trigger event occurs if a manager termination event has occurred and is continuing for at least thirty days and has not been waived by the control party at the direction of the controlling class representative.

## Monitoring and Surveillance

We expect to receive a payment date report from the note trustee, Citibank, N.A., which details the amount and type of collections received, the expenses paid, the key statistics of the portfolio, the royalty fees, and the key trigger levels calculated during the most recent collection period.
Our surveillance, which is conducted subject to the terms of Appendix B below, involves quantitative and qualitative analysis that includes reviewing transaction performance relative to initial expectations, the likelihood that deal triggers will be breached, and information obtained from any ongoing operational reviews.

## Representations, Warranties, and Enforcement Mechanisms

Morningstar's Rule 17g-7 report on the representations, warranties, and enforcement mechanisms for this transaction is available on its website, www.morningstarcreditratings.com and is incorporated herein by reference.

# Appendix A: Covenant Ratio Definitions and Trigger Levels

Ratio Definitions

- **DSCR** equals (i) the net cash flow over the four quarterly collection periods immediately preceding the related quarterly allocation date, divided by (ii) the debt service with respect to the related quarterly payment date and the three quarterly payment dates immediately preceding such quarterly payment date.
- The **Interest-Only DSCR** is the sum of the NCF of the immediately preceding four quarters divided by total interest due for both notes (including A-1 commitment fee) for the immediately preceding four quarters.
- The **Principal and Interest DSCR** is the sum of the NCF of the immediately preceding four quarters divided by the sum of the total interest due for both notes (including A-1 commitment fee) and any scheduled amortization of Class A-2 notes for the immediately preceding four quarters.
- The **Senior ABS Leverage Ratio** is the total notes notional outstanding, minus interest reserve account, minus any amount from interest reserve letter of credit for the senior notes, divided by the sum of the NCF of the immediately preceding four quarters.
- The **SESAC Leverage Ratio** is the ratio of (a)(i) indebtedness of holdings and its consolidated affiliates that are not securitization entities (the nonsecuritization entities) and the securitization entities (provided that, with respect to each series of Class A-1 Notes outstanding, the aggregate outstanding principal amount of each such series of Class A-1 notes will be deemed to be the Class A-1 notes maximum principal amount for each such series) minus (ii) the sum of (w) the cash and eligible investments of the securitization entities on deposit in the interest reserve account as of the end of the most recently ended quarterly collection period, (x) the available amount of each interest reserve letter of credit, (y) the cash and eligible investments of the securitization entities credited to the cash trap reserve account as of the end of the most recently ended quarterly collection period, and (z) the unrestricted cash and eligible investments of the nonsecuritization entities as of the end of the most recently ended quarterly collection period to (b) the sum of the adjusted EBITDA of the nonsecuritization entities and the securitization entities, for the immediately preceding four quarterly collection periods most recently ended as of such date and for which financial statements have been prepared.
- The **Net Cash Flow** is the retained collections received for the given quarter, minus (ii) the amount, if any, by which equity contributions included in such retained collections exceed the relevant amount of retained collections contributions (as defined below) permitted to be included in NCF, minus (iii) without duplication, the sum of the amounts allocated pursuant to priorities (ii)(D), (iv), (v), (vii) and (xi) of the priority of payments on any allocation date for the quarterly collection period and any advances for the quarterly collection period; provided that, for the first three quarterly allocation dates, (1) NCF for the quarterly collection period ended Dec. 31, 2018, will be deemed to be $19,707,366, (2) NCF for the quarterly collection period ended March 31, 2019, will be deemed to be $20,351,368, and (3) NCF for the quarterly collection period ended June 30, 2019, will be deemed to be $20,000,174.
- The **Debt Service** on the notes, with respect to any quarterly payment date, equals the sum of (i) the senior notes quarterly interest amount plus (ii) the senior subordinated notes quarterly interest amount plus (iii) the Class A-1 notes quarterly commitment fee amount plus (iv) with respect to any class of senior notes and senior subordinated notes outstanding, the aggregate amount of scheduled principal payments due and payable on such quarterly payment date, as ratably reduced by the aggregate amount of any (A) indemnification payments, (B) repurchases and cancellations of such class of notes or (C) optional prepayments of principal of such class of notes. For the purposes of calculating the DSCR for the first quarterly payment date, debt service will be deemed to be the sum of (A) the product of (x) the sum of the amounts referred to in clauses (i), (ii), and (iii) of the definition of "debt service" multiplied by (y) a fraction, the numerator of which is 90 and the denominator of which is the actual number of days elapsed during the period commencing on and including the closing date and ending on but excluding the first quarterly payment date, plus (B) the amount referred to in clause (iv) of the definition of debt service.

Key Covenant Triggers

- **Rapid Amortization Event:** Upon declaration by the control party as directed by the controlling class representative, a rapid amortization event occurs if any of these occur: (i) an event of default, (ii) a manager termination event, (iii) any series of notes has not been repaid or refinanced in full on or prior to the series anticipated repayment date, or (iv) the DSCR is less than 1.20x. For item (iii), this is a rapid amortization event without any declaration of the control party unless waived by the controlling class.
- **Manager Termination Events:** Manager termination events occur on (i) breaches of reps and warranties, (ii) breaches of covenants, (iii) bankruptcy events, or (iv) the interest-only DSCR being less than 1.20x.
- **Cash Flow Trapping Event**: A **Cash Flow Trapping Event** is triggered when the **DSCR** as calculated on the immediately preceding quarterly allocation date **is less than 1.75x** and will end on the first quarterly payment date on which the DSCR calculated on the immediately preceding quarterly allocation date is equal to or exceeds 1.75x. The cash trapping percentage with respect to any quarterly allocation date during a cash trapping period means (i) **50%,** if the DSCR as calculated on the immediately preceding quarterly allocation date is **less than 1.75x but equal to or greater than 1.50**x, and (ii) **100%, if** the DSCR as calculated on the immediately preceding quarterly allocation date **is less than 1.50x.**

- **Class A-1 Amortization Event:** If the Class A-1 notes are not renewed by the A-1 renewal date (with any extensions), the A-1 notes will be paid down until reduced to 0 through the priority of payments.
- **Non-securitization Debt Cap**: The nonsecuritization entities may not incur additional debt exceeding $25 million with exceptions only for (i) refinancing, (ii) if subject to a nondisturbance agreement and the SESAC leverage ratio is less than 7.0x, (iii) accounting changes, (iv) to reimburse master issuer for any draws from a letter of credit, or (v) for any letters of credit collateralized with cash.

## Appendix B: Events of Default

An "**Event of Default**" means the occurrence of any one of the following events:

(a) the co-issuers default in the payment of interest on any series of notes outstanding; and such default continues for 2 business days or, in the case of a failure to pay such interest results solely from an administrative error, such default continues for 5 business days; provided that failure to pay any contingent interest on any series of notes on any quarterly payment date in excess of available amounts in accordance with the priority of payments will not be an event of default;

(b) the co-issuers (i) default in the payment of any principal of any series of notes on its applicable series legal final maturity date or as and when due in connection with any mandatory or optional prepayment or (ii) fail to make any other principal payments or allocations due from funds available in the Collection Account in accordance with the priority of payments and the applicable series supplement on any allocation date or quarterly allocation date;

(c) any securitization entity fails to perform or comply with any of the covenants (other than those covered by *clause (a)* or *(b)* above or *clause (i)* below) (including any covenant to pay any amount other than interest on or principal of the notes when due in accordance with the priority of payments), or any of its representations or warranties contained in any related document to which it is a party proves to be incorrect in any material respect as of the date made or deemed to be made;

(d) the occurrence of an event of bankruptcy with respect to any securitization entity;

(e) the interest-only DSCR as calculated as of any quarterly allocation date is less than 1.10x;

(f) the U.S. Securities and Exchange Commission or other regulatory body having jurisdiction reaches a final determination that any securitization entity is required to register as an "investment company" under the Investment Company Act or is under the "control" of a person that is required to register as an "investment company" under the Investment Company Act;

(g) any of the related documents or any material portion thereof ceases to be in full force and effect or enforceable in accordance with its terms or any non-securitization entity or securitization entity so asserts in writing;

(h) other than with respect to collateral with an aggregate fair market value of less than $5,000,000, the trustee ceases to have for any reason a valid and perfected first priority security interest in the collateral (subject to permitted liens) in which perfection can be achieved under the UCC or other applicable Requirements of Law in the United States to the extent required by the related documents or any securitization entity or any affiliate thereof so asserts in writing;

(i) any securitization entity fails to perform or comply with any material provision of its organizational documents or the guarantee and collateral agreement relating to legal separateness of the securitization entities, which failure is reasonably likely to cause the contribution of the securitized assets to such securitization entity pursuant to the contribution agreements to fail to constitute a "true contribution" or other absolute transfer of such securitized assets pursuant to such contribution agreement or is reasonably likely to cause a court of competent jurisdiction to disregard the separate existence of such securitization entity relative to any person other than another securitization entity and, in each case, such failure continues for more than 30 consecutive days following the earlier to occur of the actual knowledge of an authorized officer of such securitization entity or written notice to such securitization entity from the trustee, the back-up manager or the control party (at the direction of the controlling class representative) of such failure;

(j) a final, non-appealable ruling has been made by a court of competent jurisdiction that the contribution of the securitized assets (other than any immaterial securitized assets and any securitized assets that have been disposed of to the extent permitted or required under the related documents) pursuant to a contribution agreement does not constitute a "true contribution" or other absolute transfer of such securitized assets pursuant to such agreement;

(k) one or more outstanding final non-appealable judgments for the payment of money are rendered against any securitization entity in an aggregate amount exceeding $1,000,000 (to the extent not covered by independent third-party insurance as to which the insurer is rated at least "A" by A.M. Best Company, Inc.) is rendered against any securitization entity, and either (i) enforcement proceedings are commenced by any creditor upon such judgment or order or (ii) there is any period of 30 consecutive days during which a stay of enforcement of such judgment or order, by reason of a pending appeal or otherwise, will not be in effect;

(l) the failure of any of (1) the manager to own (directly or indirectly) 100% of the equity interests of the master issuer, (2) the master issuer to own 100% of the equity interests of SESAC guarantor, (3) SESAC guarantor to own 100% of the equity interests of SESAC Assetco or preferred interest Assetco, (4) CCLI Finance to own (directly or indirectly) 100% of the equity interests of CCLI Assetco or (5) CCLI to own (directly or indirectly) 100% of the equity interests of the CCLI Finance;

(m) other than as permitted under the indenture or the other related documents, the securitization entities collectively fail to have good title to any material portion of the securitized assets;

(n) an ERISA event occurs that, would, individually or in the aggregate, be reasonably likely to have a material adverse effect on any securitization entity;

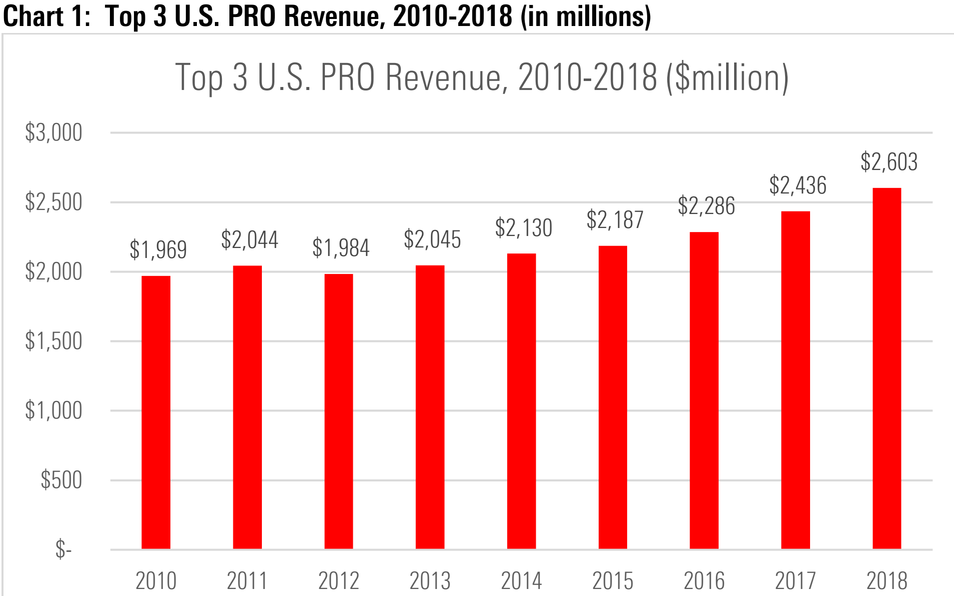
(o) the Internal Revenue Service files notice of a Lien pursuant to Section 6323 of the Code with regard to the assets of any Securitization Entity and such Lien has not been released within 60 days, unless (i) the manager or an affiliate thereof has provided evidence that payment to satisfy the full amount of the asserted liability has been provided to the Internal Revenue Service, and the Internal Revenue Service has released such asserted lien within 60 days of such payment, or (ii) such lien or the asserted liability is being contested in good faith and the manager has contributed to the co-issuers funds in the amount necessary to satisfy the asserted liability (the "Tax Lien Reserve Amount"), which such funds are set aside and remitted to a collateral deposit account;

(p) any securitization entity (other than any additional securitization entity that is a corporation for U.S. federal income tax purposes) becomes treated as an association or a publicly traded partnership taxable as a corporation for U.S. federal income tax purposes; or

(q) the $90^{th}$ day following the occurrence and continuation of an advance period.

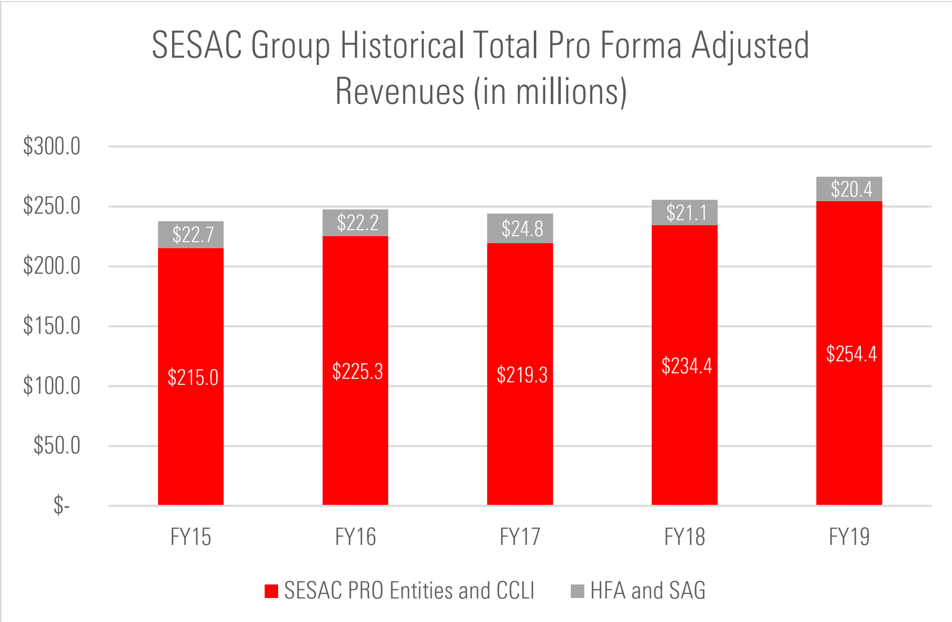
## Appendix C: Additional Industry and Company Information

**Chart 1: Top 3 U.S. PRO Revenue, 2010-2018 (in millions)**



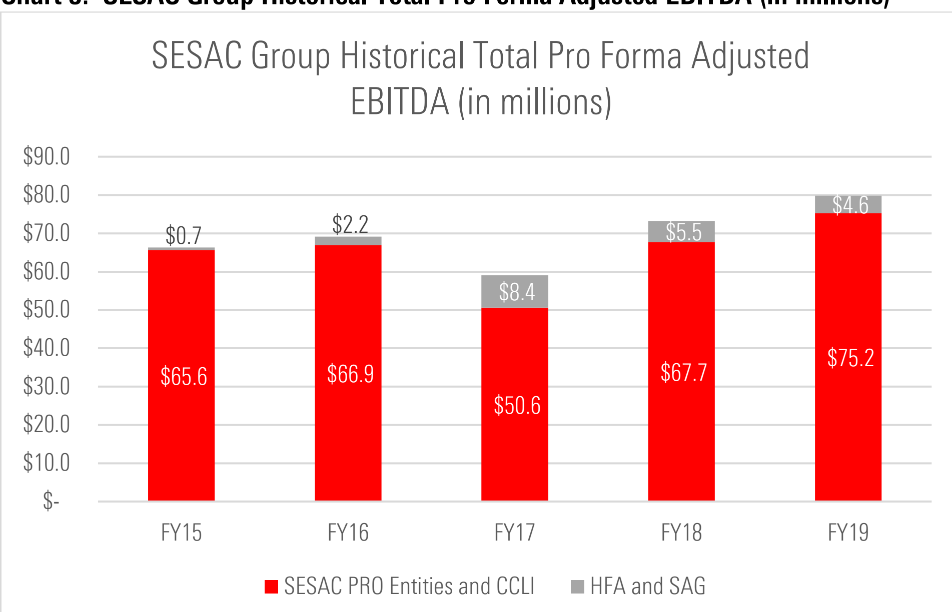

*Source: Preliminary Offering Memorandum

**Chart 2: SESAC Group Historical Total Pro Forma Adjusted Revenues (in millions)**



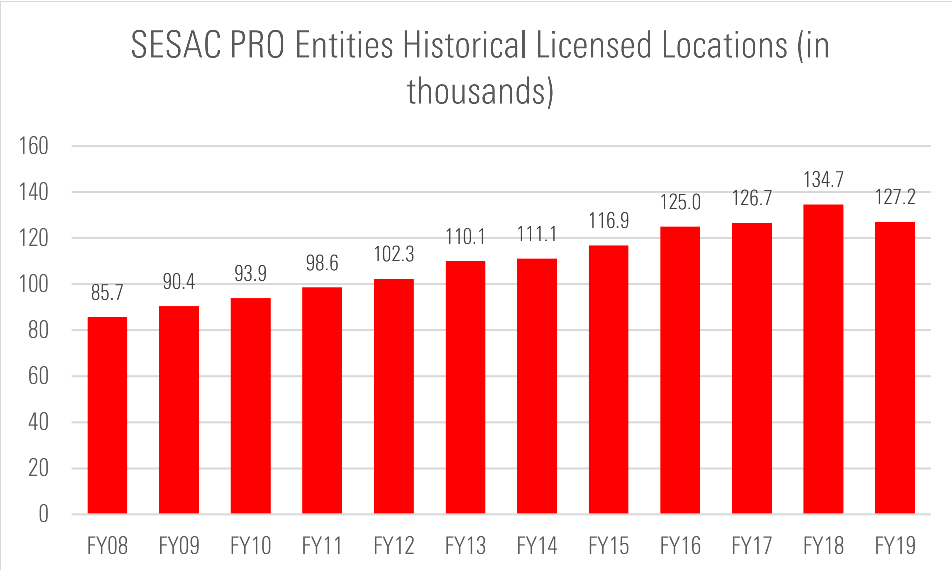

*Source: Preliminary Offering Memorandum

**Chart 3: SESAC Group Historical Total Pro Forma Adjusted EBITDA (in millions)**



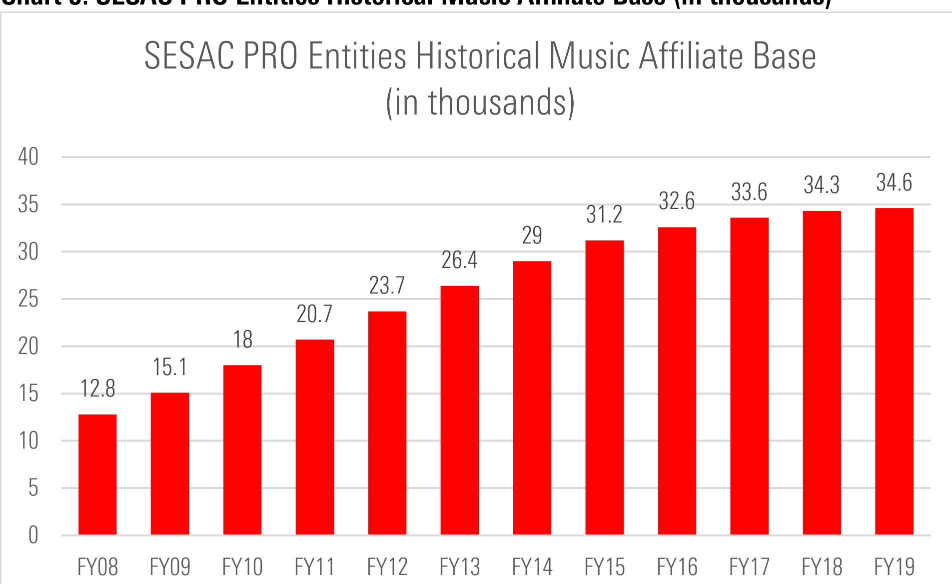

*Source: Preliminary Offering Memorandum

**Chart 4: SESAC PRO Entities Historical Licensed Locations (in thousands)**




*Source: Preliminary Offering Memorandum

**Chart 5: SESAC PRO Entities Historical Music Affiliate Base (in thousands)**




*Source: Preliminary Offering Memorandum

**Table 5: Summary of License Categories**

| Licensee Category | Market Description | Selected Licensees |
|---|---|---|
| Television | • Approximately 1,300 local broadcast television stations<br>• All major television networks<br>• Premium and basic cable networks | • ABC<br>• CBS<br>• Fox<br>• NBC<br>• Tribune Broadcasting<br>• A&E Television<br>• Viacom International<br>• HBO |
| Radio | • Approximately 8,500 commercial and 5,000 non-commercial broadcast radio stations<br>• Satellite radio platforms | • CBS Radio<br>• Citadel Broadcasting<br>• iHeartMedia<br>• Sinclair Broadcasting<br>• SiriusXM |
| Digital | • Digital media platforms for consumption of music | • Apple<br>• Pandora<br>• Spotify |
| General Licensing | • Over 250,000 restaurants, bars, nightclubs, hotels, colleges and universities, retail stores, airlines, churches, schools and organizations that perform worship music | • Hilton Hotels & Resorts<br>• Macy's<br>• Ruby Tuesday<br>• Planet Fitness |

## Appendix D: Morningstar Rating Surveillance

Morningstar will maintain active surveillance of this transaction, which will include detailed reviews on a regular, at least annual, basis. Morningstar's surveillance analysis is focused on the performance of the collateral and developments that may impact future cash flows, valuation and recoveries. We will continue our dialogue with the sponsor and will publish updated ratings on the rated notes if and when necessary.

Any surveillance activities described herein are conditioned on Morningstar's receipt of certain information to enable Morningstar to perform surveillance.

## Appendix E: Morningstar Rating Characteristics

The preliminary ratings provided in this report address the likelihood of the timely receipt of interest by note holders and the ultimate distribution of principal by the Legal Final Payment Date.

The preliminary ratings are based solely on the scope of review enumerated in this report and the information related thereto provided to Morningstar through the arranger website as of the date hereof or as expressly enumerated herein, which we believe to be reliable. Unless otherwise in accordance with Morningstar's policies and procedures, Morningstar does not audit or verify the truth or accuracy of any such information.

These preliminary ratings are not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time by Morningstar. In addition, these ratings do not address: (a) the likelihood or willingness of the parties to the respective documents to meet their contractual obligations or the

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