

READING THE WORLD

VOLUME 1, ISSUE 1

MARCH 31, 2004

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APPLE: BECOMES THE FUTURE OF MUSIC

Apple (NYSE:AAPL) and the power of the iPod and iTunes has been greatly underestimated. Apple's iPod already owns 31% of the MP3 player market in units sold and 55% of the market in revenues. In fact, Yahoo's shopping reports put the iPod in the 4 top positions for all MP3 players. This is especially impressive when one understands that Apple has only had the PC version out since November of 2003.

Apple's iTunes online store already has 75% of the downloaded music market. This is before AOL made iTunes available online and before Hewlett-Packard started shipping every PC pre-loaded with the iTunes music software.

iPod is the only MP3 player that can play iTunes downloaded music. The bet to make is on whether or not iTunes will be the market leader in downloaded music. The fact that a customer

would lose all of their music by leaving Apple makes switching costs extremely high.

Why does any of this matter? The distribution of music has changed. In the past, distribution was the bottleneck controlled by the music companies. Not any more! Downloaded music is clearly the future, and iTunes has already established itself as the market leader.

An artist can go directly to iTunes and cut out the middlemen record companies. Why would an established artist renew a contract with a record company if they could reach fans directly on the internet? With sites like Garageband.com, amateur artists can also have their music distributed online with help from experts in the recording industry. New artists can reach a large audience

through iTunes' millions of customers where they can be featured, listened to, promoted and sold.

This is yet another example of tech savvy entrepreneurs eroding margins by changing the rules of distribution. Think Amazon, eBay, Priceline and Dealtime! Steve Jobs and others are doing the same with music.

Could it be only the beginning? Is the movie industry next?



SPECIAL POINTS OF INTEREST:



Record companies are history as technology allows for production and distribution of music to be inexpensive.

- Apple as a computer company is worth \$20-23 per share
- As a music entertainment company Apple is worth much more
- Jobs is stimulating the purchase of more music, 2.5M downloads each week
- Expect iTunes certificates to be the hot item next Christmas

GEN-X (BORN 1961-81) TOPPLES THE MUSIC INDUSTRY

Napster, started by a 19 year old, crippled the record industry. They could not have anticipated the 50 million customers Napster gained in just two years. The record companies, however, were able to shut Napster down in the courts.

Then came Kazaa. It was founded by a 30 year old from Sweden. The RIAA could not stop this international company in the courts. They resorted to prosecuting 14-year-old users.

It is obvious the game is over, and the record compa-

nies can't stop the inevitable. Generation X's extraordinary ability to invent and use tools that destroy distribution is unprecedented.

Downloaded music will dominate!