Tectonic Shift: How Digitization is changing the Entertainment and Media Landscape

VP Goa Meet 2018: 26th-29th July 2018

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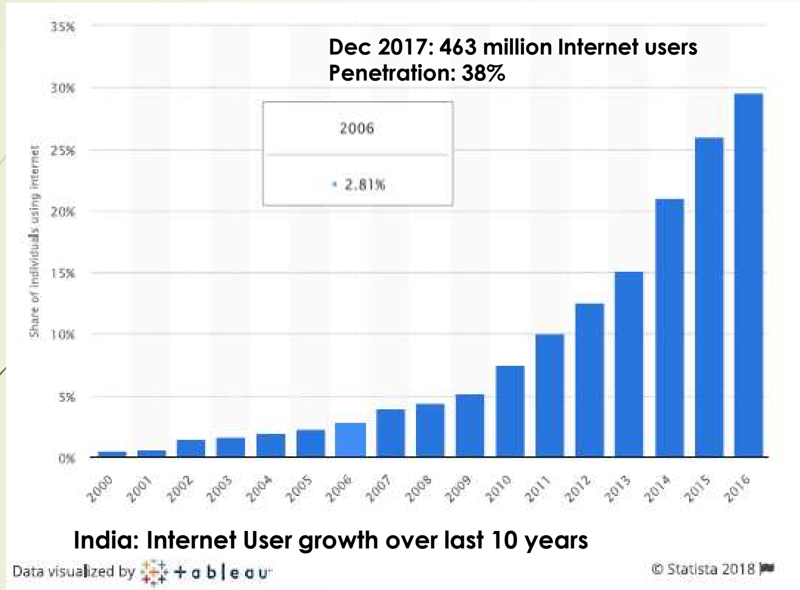
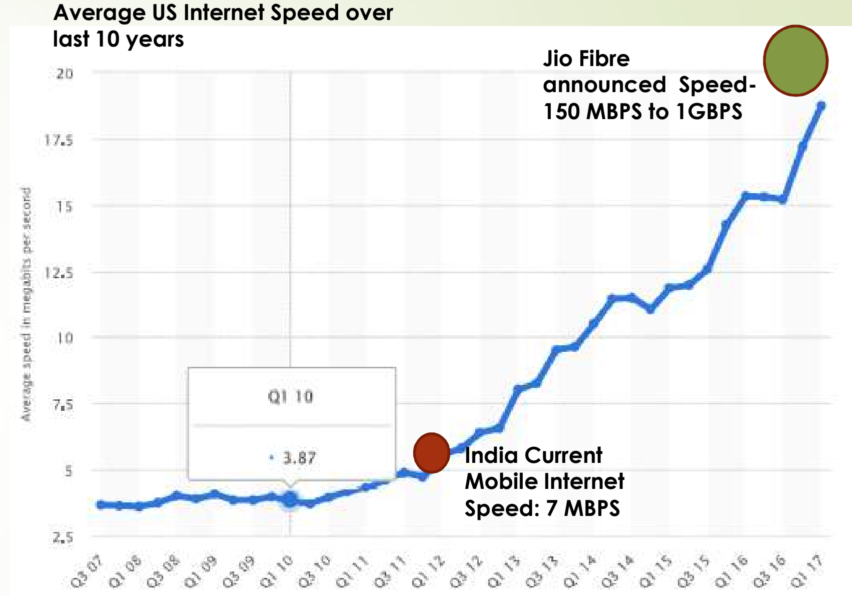
Backdrop: In India- Lollapalooza in play- Critical Mass of users; Increasing internet speed





- Total number of Internet users in India are equivalent to total number of Internet users in USA + UK + France in spite of lower penetration rate of 38%
- In terms of Internet speed, average internet speed is similar to what US had in 2012. However, with launch of Jio Fibre and increasing 4G network penetration, average speed may soon catch up that of US curve and even may surpass it

In addition to Scale and Speed, steep decline in cost of data is fuelling the consumption of digital content

- Even though the cost trajectory of internet consumption has been downward for last many years, disruptive pricing by Jio has accelerated the drop.
- In India, the cost of internet is cheapest across the globe and is significantly lower than that of most of the developed countries even on PPP basis
- Due to the speed scale and affordability, data usage on mobile in India has reached the levels above some of the developed markets like Japan and Italy.
- **Average data usage has increased by 60% from 5.4 GB to 8.9 GB/mobile device**

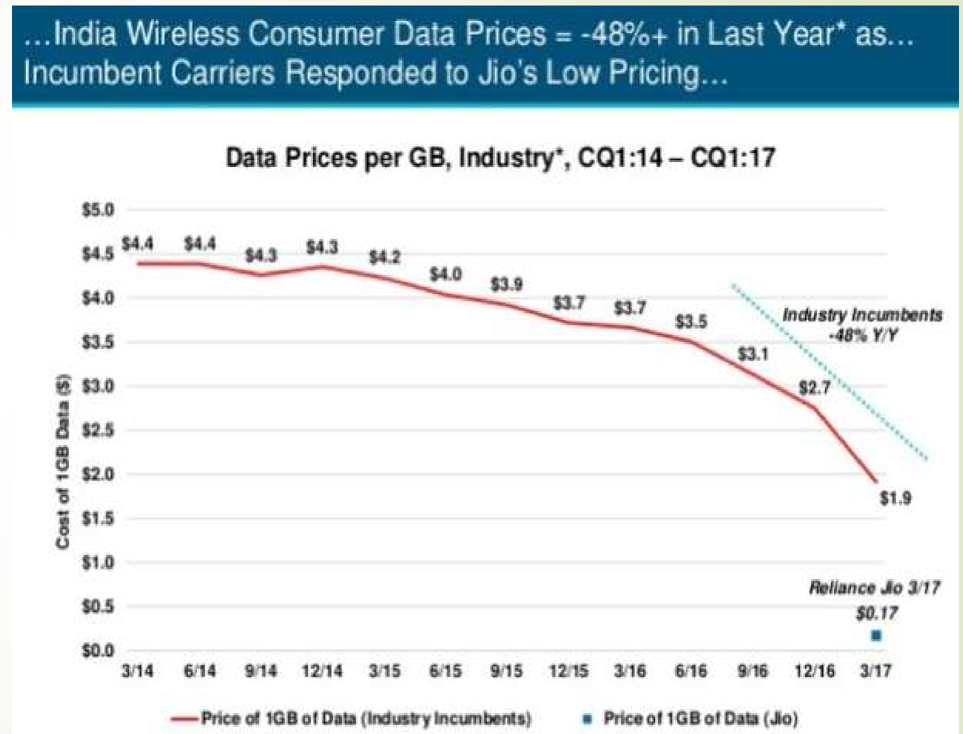
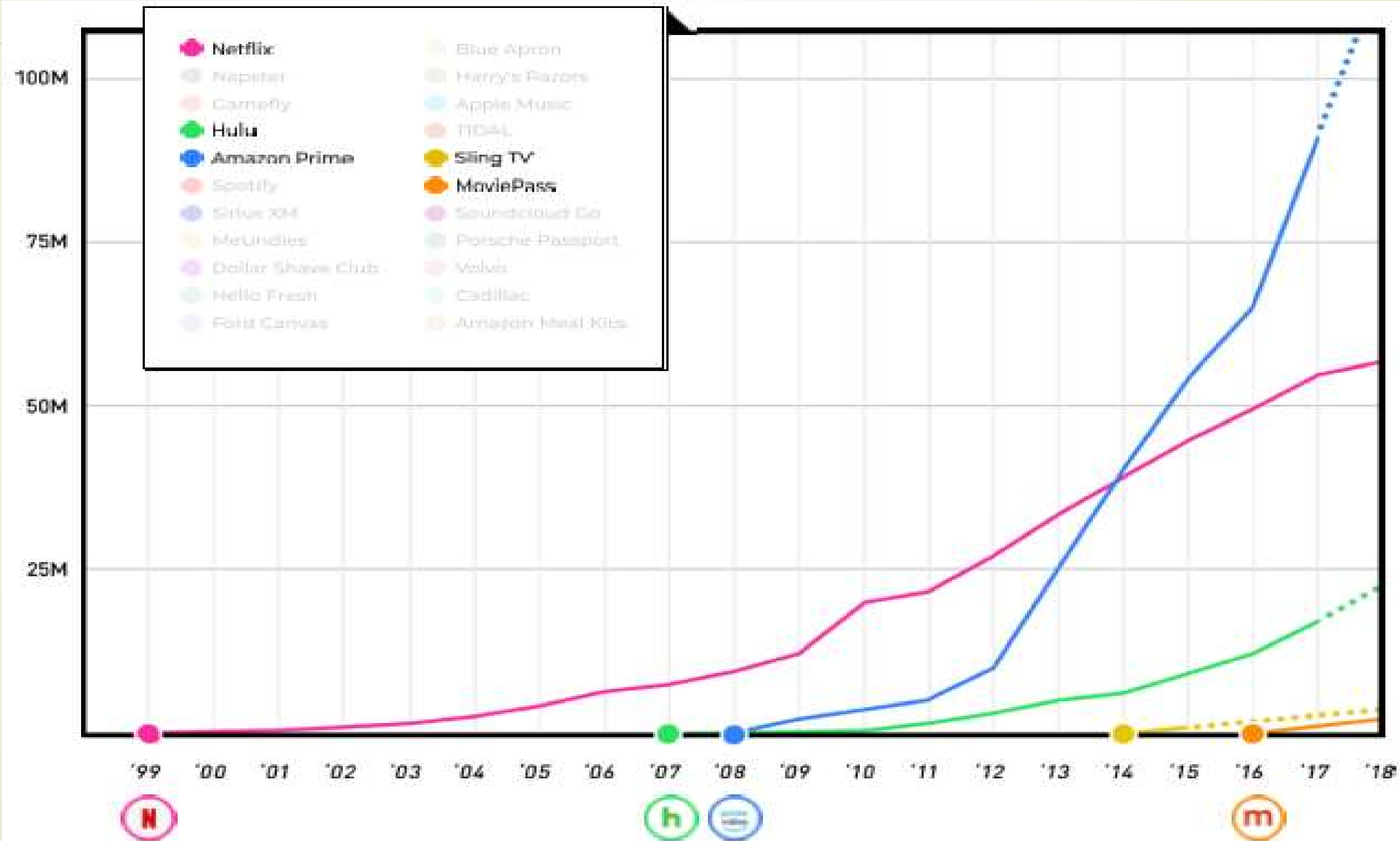


Illustration: How the confluence of scale, speed and affordability of internet will lead to explosive growth in digital media consumption



Backdrop: For the countries which were ahead in Internet penetration and speed, data points over last 10 years, suggest structural shift from traditional to digital across media segments

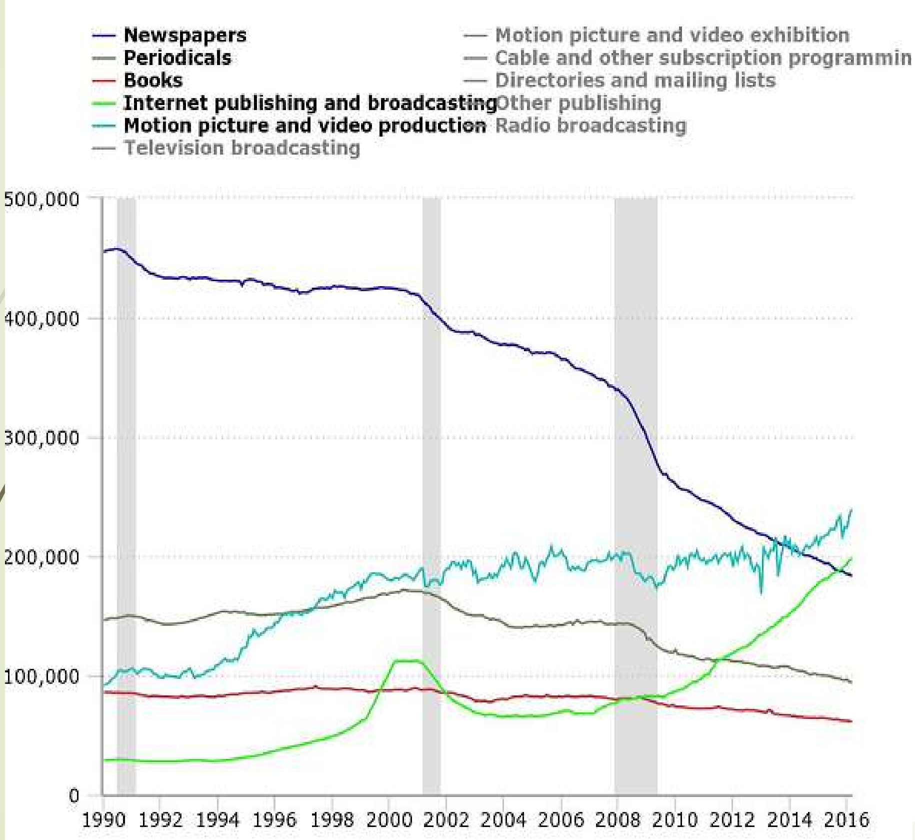
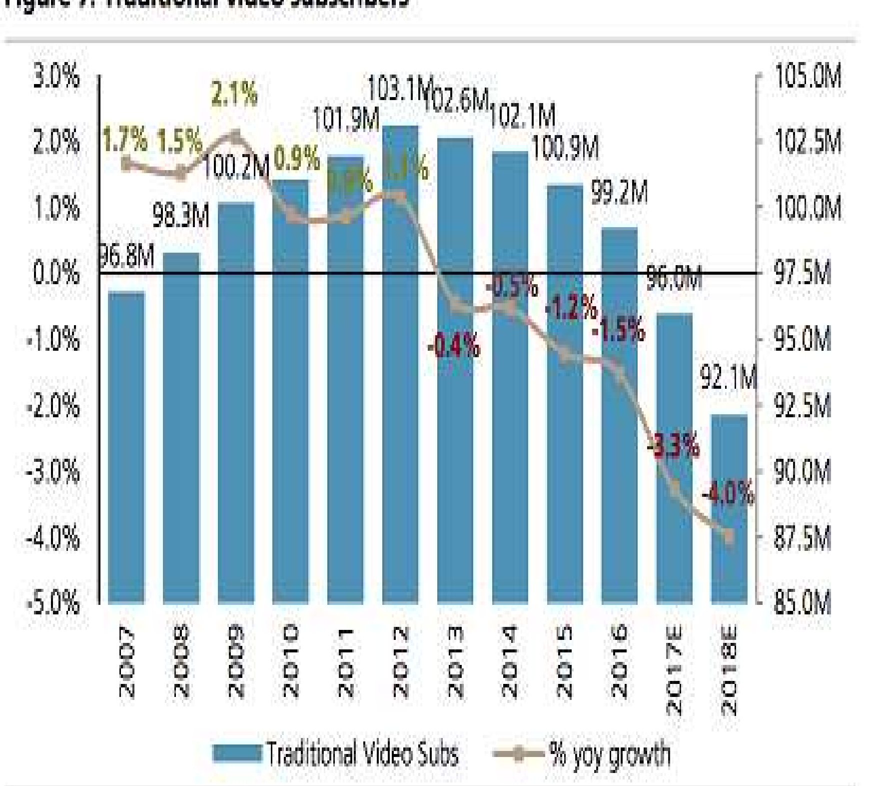
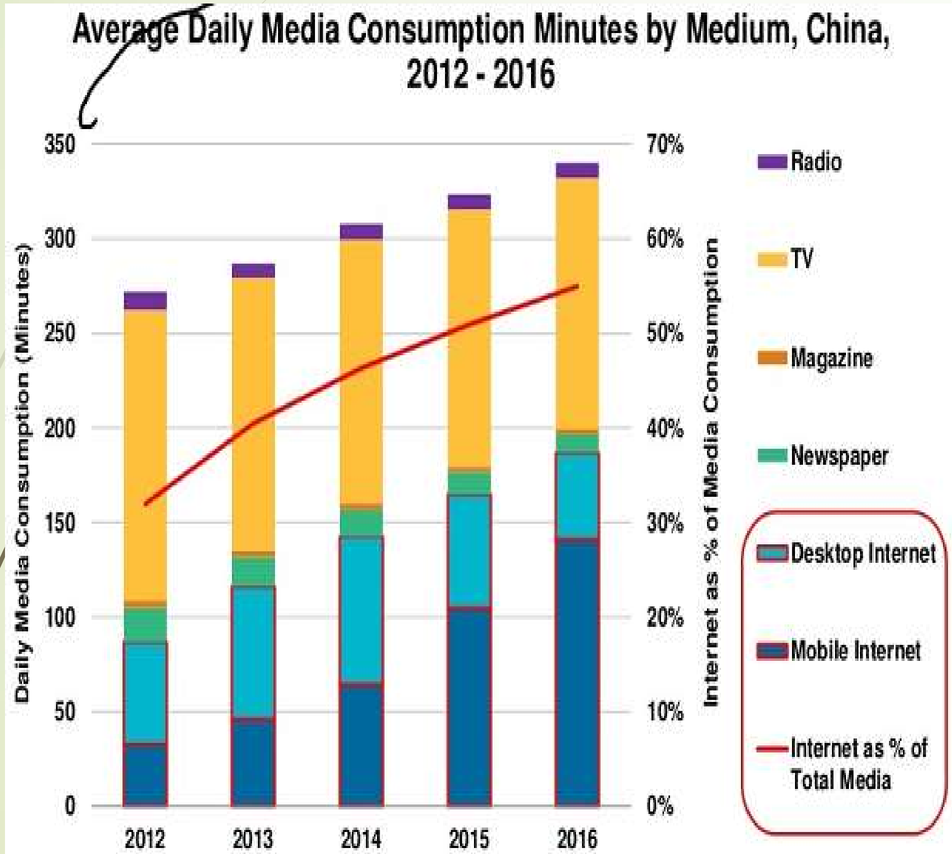
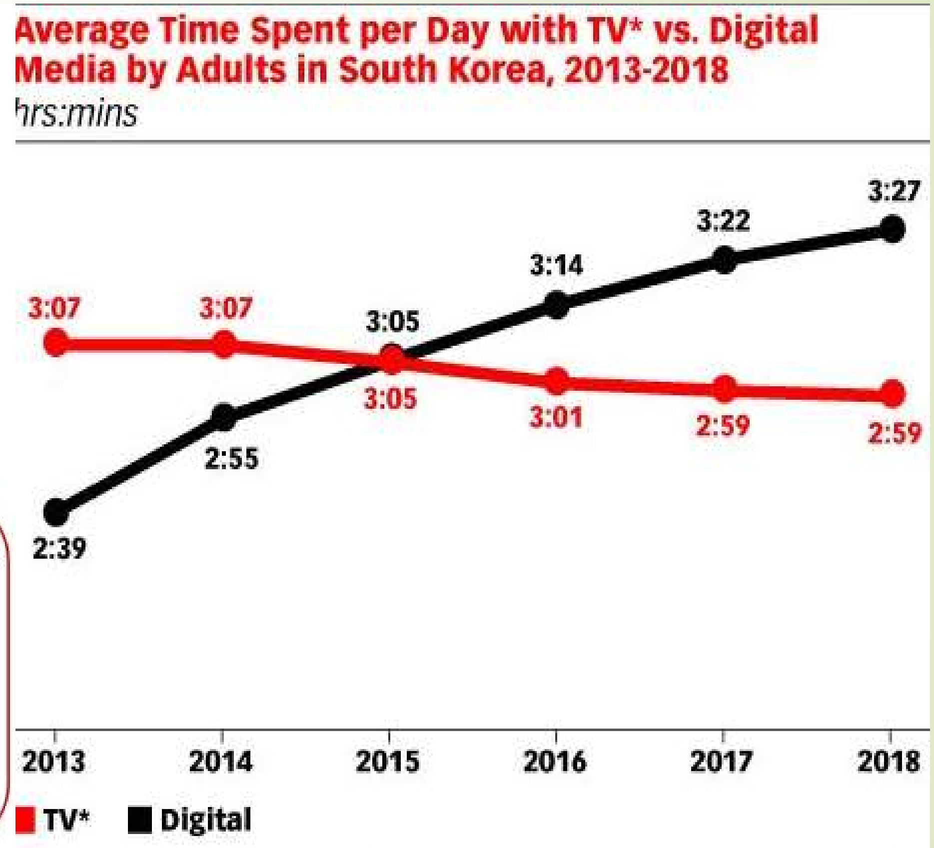


Figure 7: Traditional video subscribers

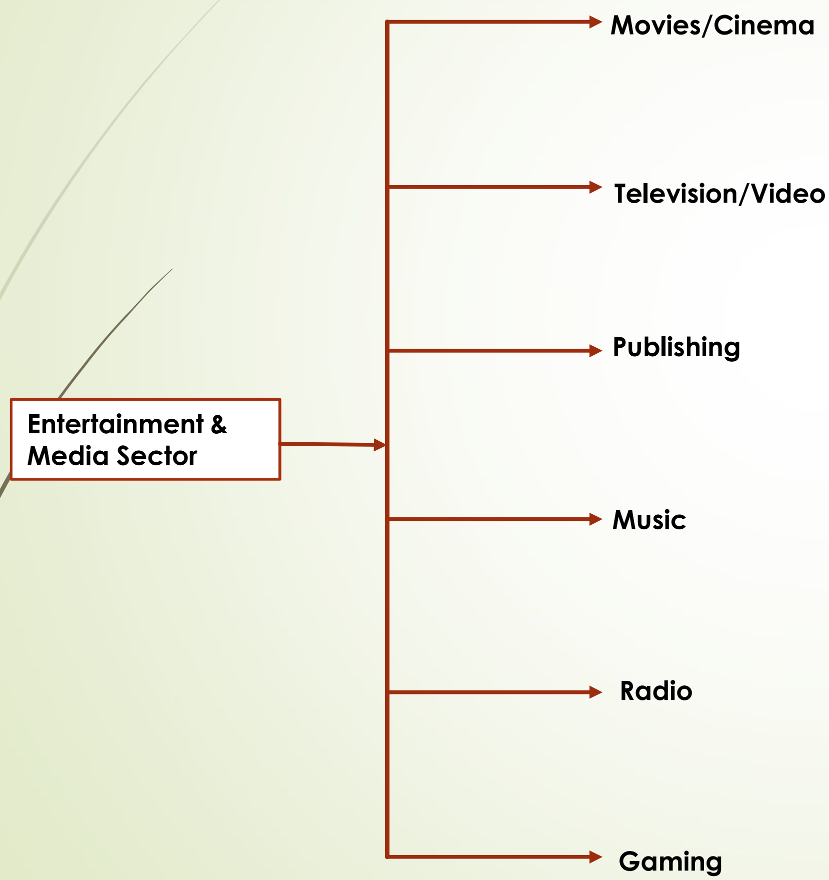


Backdrop: Even within emerging economies the trend towards increasing adoption of digital media is evident. In fact, even in these countries, digital occupies much larger time share than traditional media





Media Industry: Overview: Key segment Industry Size



Movies: Around USD 100 billion – Major growth driver for last 5 years is the OTT platform

Television: Three revenue streams- Subscription/Advertising/Licensing – Facing onslaught from Digital video segment

Video: Non linear in nature; On demand content; Higher level of customization; Different business/revenue models

Publishing: Many sub segments mainly books/magazines/newspapers- All are facing threat from digital onslaught.

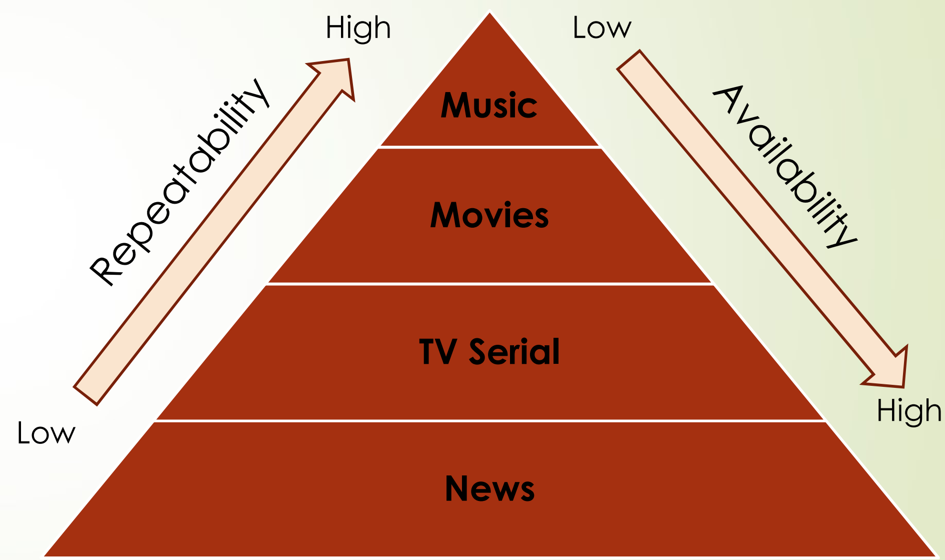
Music: A much smaller segment. Faced significant headwinds in last few years however segment is reviving due to digital streaming growing by leaps and bound

Radio: A smaller segment compared to others. Facing threat from streaming.

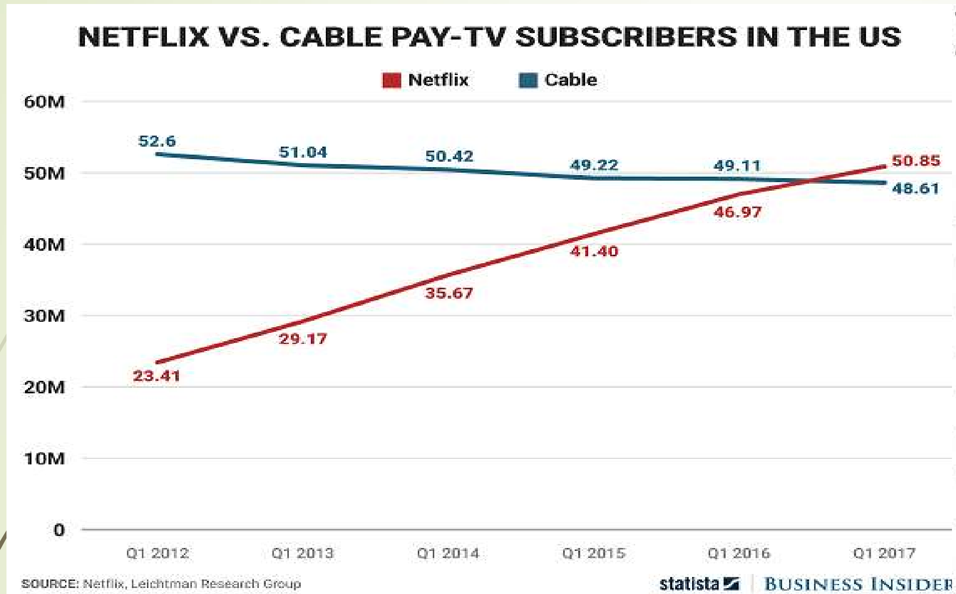
Gaming: The fastest growing segment albeit on the smaller base. VR/AR charting out new vistas for it

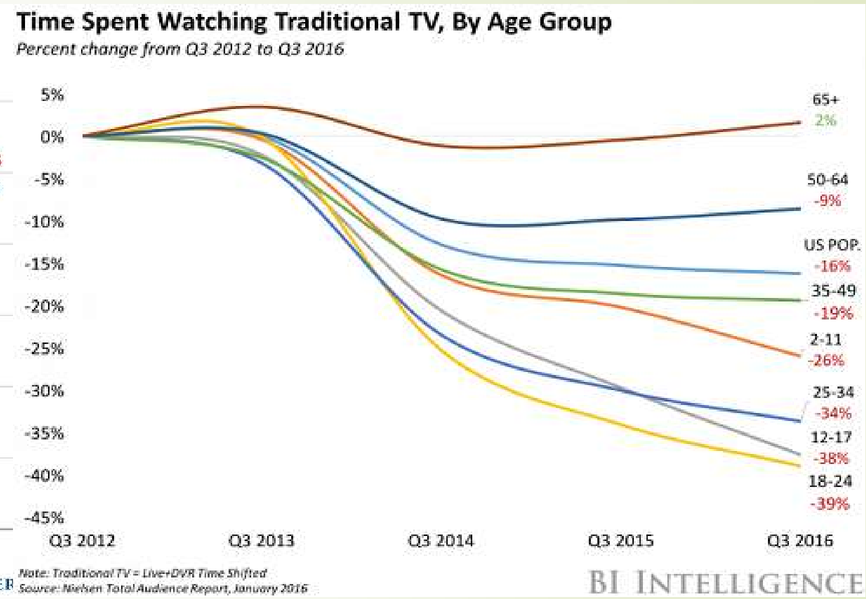
Content IP: Value Pyramid

- Music and Movies sits at the top of the pyramid in terms of repeat viewing and availability
- Music has the highest repeat value while good/popular music is scarce. Possible to listen to favourite songs 100s of time in a life time
- Movies sits below music in terms of repeat viewing. Good movies are watched multiple times during one's life time
- Movies produced in 2017:148
  TV series produced in 2017:487



TV &Video segment: In USA (and most other markets) Digital video is challenging linear TV model successfully





- In 2017, for the first time, the number of Netflix subscribers overtook that of cable pay TV marking a tipping point in the TV/video industry dynamics
- At the same time, there is clear acceleration (of free fall!!) among younger generation in movement away from the traditional TV

Digital Video Business: How it is dislodging the incumbent

- Different business models
  - Subscription based Video on Demand
    - Players: Netflix; Hulu; Amazon prime (US and world except Hulu); Youku, Tencent Video, iQIYI (China); Viu, CatchPlay, Iflix (South east asia); Hotstar, ALT Balaji
  - Advertisement support: Youtube; AOL On;Yahoo Screen; Crackle
  - Live TV: Youtube TV, Sling TV, Direct TV Now
  - Some players have structured business model based on combination of AVoD and SVoD especially in value conscious markets

Distinct value proposition/strength of digital video

- Anywhere anytime viewing -Power of choice shifts to consumer
- Personalization and customization: Ability to aggregate needs of customers across much wider geography
- Cost effectiveness: Much better value proposition than pay TV in developed countries

Television broadcasting Value chain: Boundaries are blurring, Roles are getting merged among the old value chain participants

Linear TV Model: Value chain

Content Creators → Broadcaster → Distributors → Consumers

- **Content Creators** — **Production Houses** Produces movies/series
- **Broadcaster** — **TV networks:** Aggregate content and packages based on consumer need
- **Distributors** — **Satellite/Cable TV operators**: Provides last mile connectivity to customers
- **Consumers** — Content availability is Bound by common minimum need of consumers within physical network/Geography

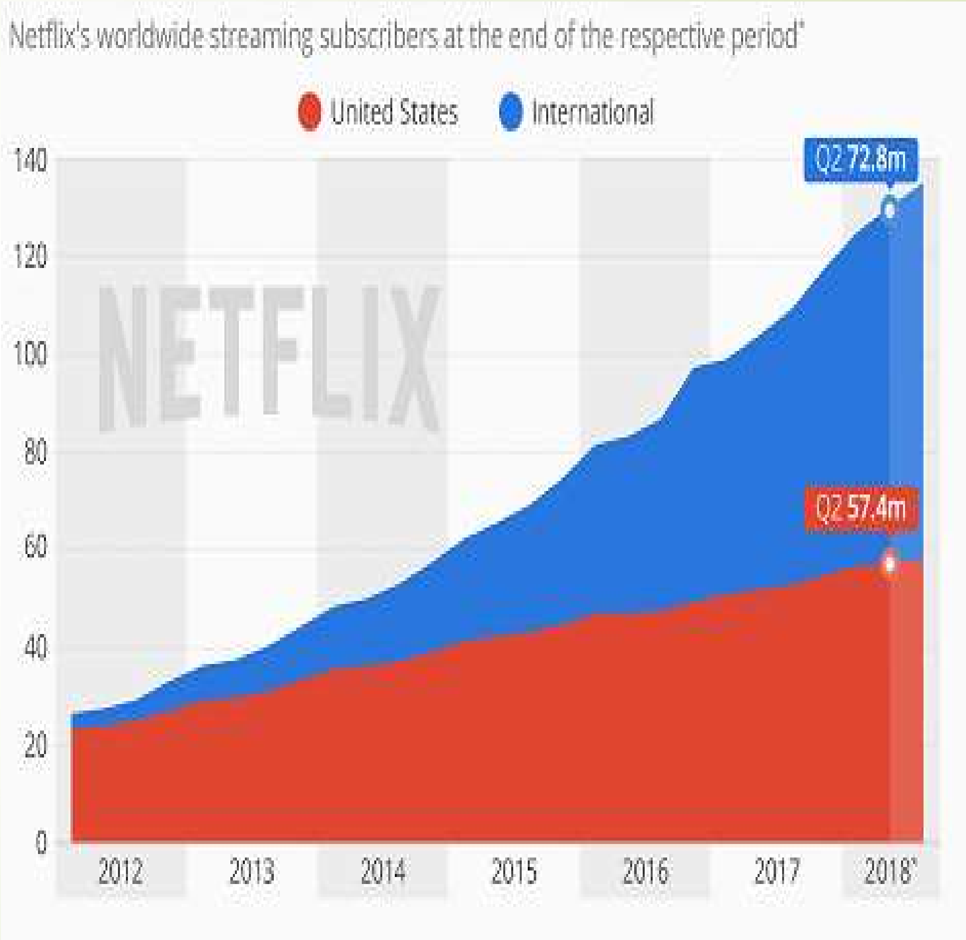
Digital Video Value Chain

Content Creators → Platforms → Consumers

- **Content Creators** — **Production Houses** Produces movies/series makers
- **Platforms** — Netflix/Amazon Prime/Hulu: Produces/Aggregates content and distributes through platform
- **Consumers** — Content is made available to heterogeneous need of consumers by creating subset of consumers with similar need across geographies

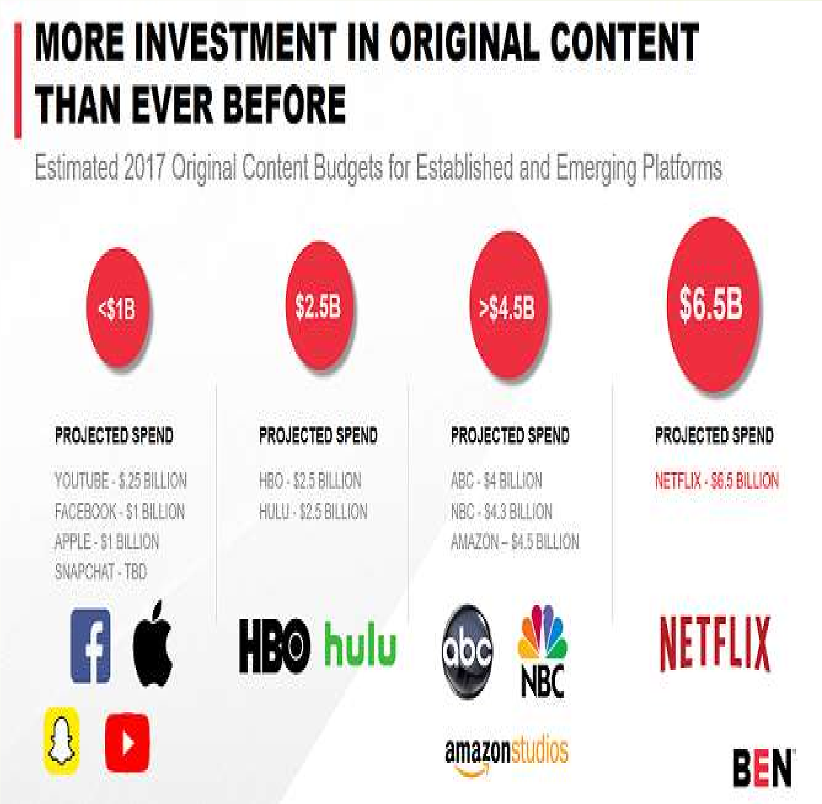
Case Study of Netflix: Snowball or House of Cards?

- Founded in 1997 by Marc Randolph and Reed Hastings with idea of renting DVD/CD by mail
- Initial subscriber addition was slow but took off post 2001. Brought IPO in 2002, and turned profitable for first time in 2003 (USD 6.5 million on revenue base of USD 272 million)
- It's trajectory changed with introduction of streaming services in US in 2007. Within 5 years, streaming subscriber base in US went to 27 million.
- Path breaking ideas that changed fortune
  - Using AWS platform instead of reinventing the wheel
  - Extreme personalization of content based on underlying analytics
  - Original content production/distribution



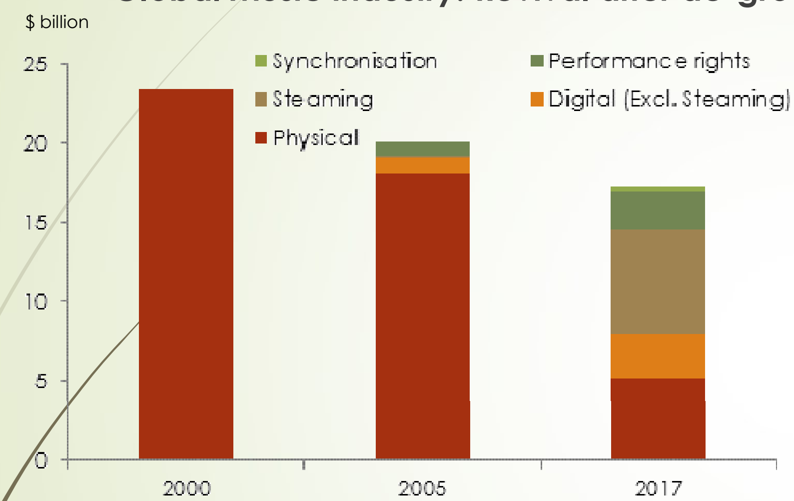
Case Study of Netflix: Snowball or House of cards?

- 4 year topline CAGR: 28%; 2017:USD 11.69 Bn
- 4 Year net income CAGR: 50%: USD 550 Mn
- 4 year Cumulative OCF: - 3.89 Bn
- LT Debt: USD 6.5 bn; Current Liabilities for Content: USD 5.5 Bn
- Total content budget for Netflix in 2017 was significantly higher than traditional media players. In fact, cumulative content acquisition by digital media players surpassed that of traditional media significantly
- It is spending substantial part of its subscription revenue on content acquisition, that attracts more subscribers and hence increases its revenue. Subscriber growth in last 6 years is 35%+

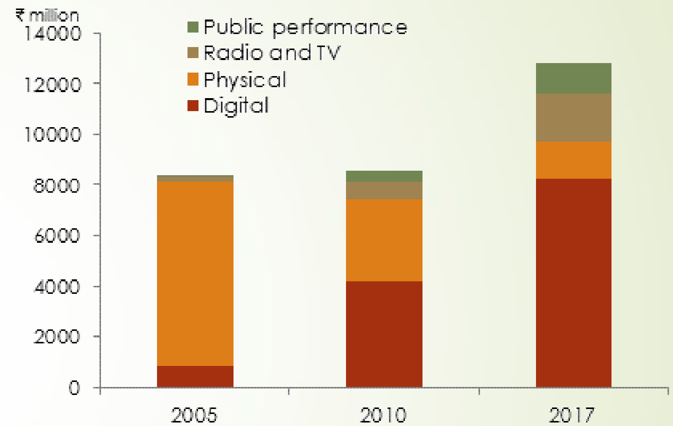


Music: Streaming is not only taking over physical media but it is helping industry grow and may probably instrumental in bringing down the piracy

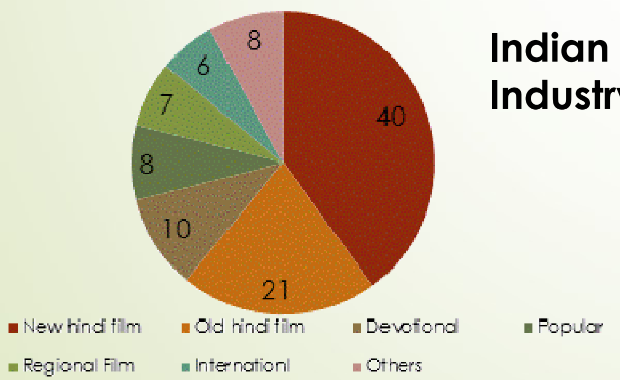
Global Music industry: Revival after de-growth



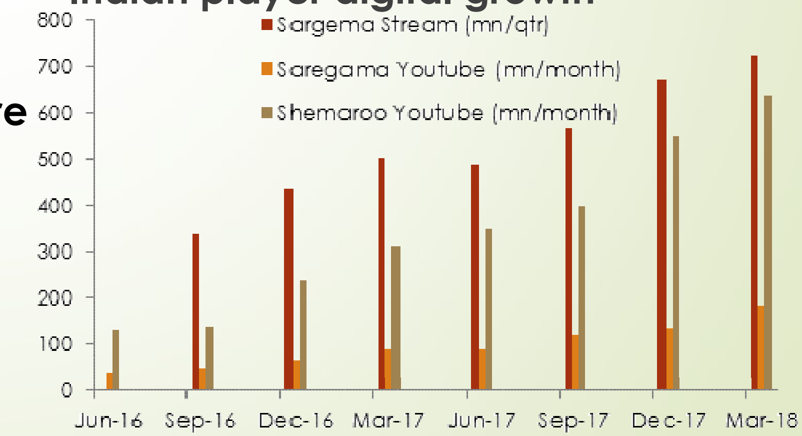
Indian Music industry: Following Global footstep



Indian Music Industry by Genre



Indian player digital growth



Music industry Value chain

Old Value chain

Content Creators → Content owner → Distributors → Consumers

Content Creators

Artists
Singer
Lyrist
Composer

Content owner

Music companies/ Film producers
Buys content rights and packages based on consumer need

Distributors

Channels
Music stores
Music Channels
Radio

Consumers

Except of purchase of hardware content was supported by advertisement

Digital Value Chain

Content Creators/ Owners → Platforms → Consumers

Content Creators/ Owners

Artists/ Producers/Music companies

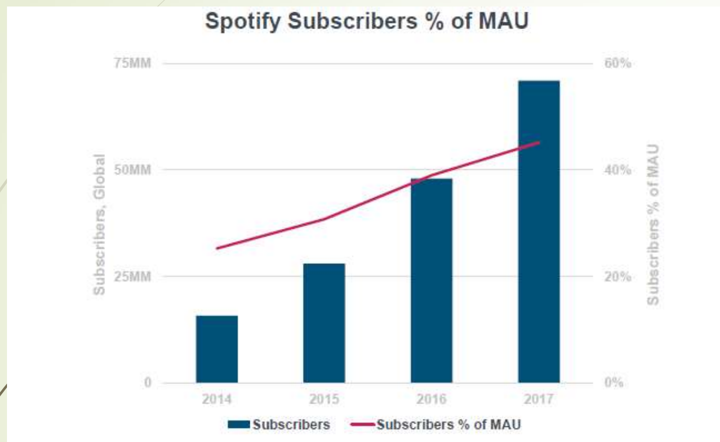
Platforms

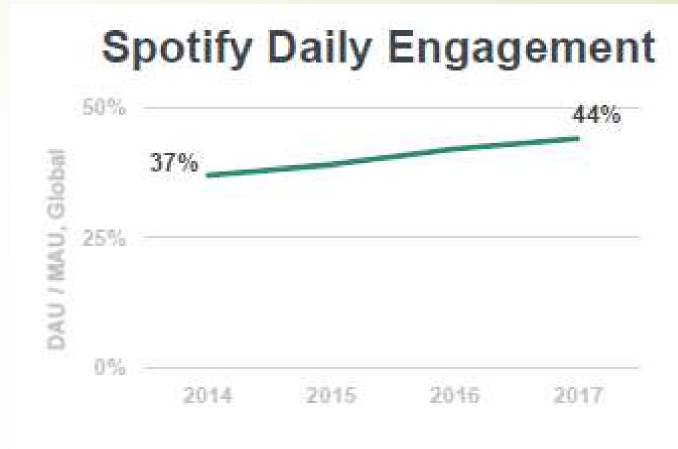
YouTube/Amazon Prime/Ganna/ Saavn/Hungama/ ITunes

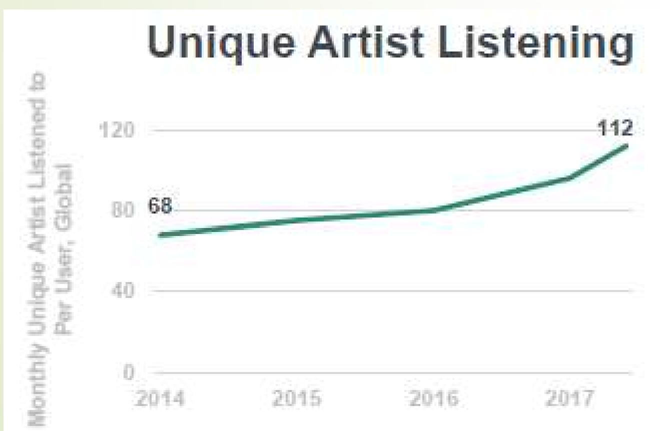
Consumers

Over period, advertisement model would be replaced with subscription with changing demographic and per capita income

Case Study: Spotify







Spotify: Highlights

- Global music industry revival in growth rate since last 3 years is attributed to increased sales of streaming industry, Spotify is the largest player and contributor
- Spotify is still making operating loss (USD 400 mn in 2007), paid 70% revenue to industry as royalties
- Scale is critical to success of streaming business, 1 billion streaming typically gets around USD 7 mn revenue for the big labels of which nearly USD 1 mn being shared with artists
- In 2017, Spotify accounted for 17% revenue USD 5 billion revenue of Record labels and growing and same give leverage to Spotify
- Data analytics with ability to make stars via its playlists and algorithm recommendation would be key to future. It has more than 2 billion playlist, including those created by Spotify, 20% of streaming is attributed to Spotify own generated playlist.
- Song listeners data sharing may be used as barter for reduction in royalty
- Over long period, with data, Spotify may put challenge to record companies. Already successfully negotiated downward royalty with Vivendi from 55% to 52% of revenue.

Indian Music Steaming players

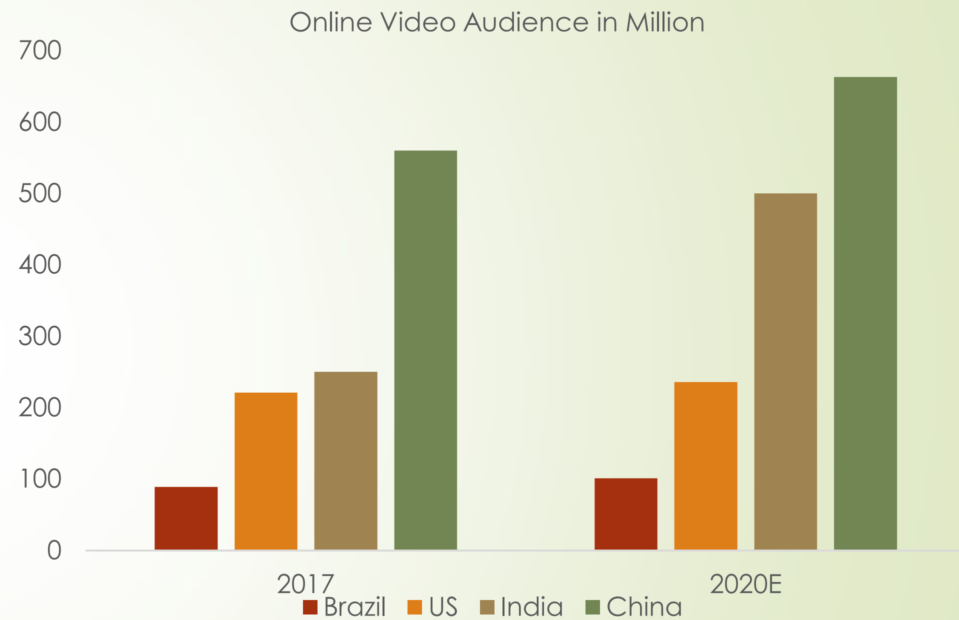
	Amazon Prime	Google	Apple	Gaana	Saavn	Wynk	Hungama
Library	40 mn songs	40 mn songs	45 mn songs	30 mn songs	36 mn songs	2.6 mn songs	30 mn songs
Promoter	Amazon	Google	Apple	Times group/ Tancent	Reliance Jio/Tiger Global/Bertelsmann	Airtel	Rakesh Jhunjhunwala
Download Sub. Cost per month	Merged with Prime	99	120	99	99	99-120	99
Streaming	n.a.	n.a.	n.a.	Free	Free	Free	Free
User	Global	Global	Global	60 mn (Apr 2018)	22 mn (Apr 2018)	50 mn (Mar 2017)	50 mn (Mar 2017)

Indian Music Industry: Way Forward

- Significantly different from Global industry on two counts
  - Film music contribute major revenue as against global market in India
  - Artist get generally one time fees and dispute with music companies on remuneration
- Increasing digitalization would be shifting bargaining power from music companies to artists, as appearing in global market
- Music companies (like Saregama, T Series, Yashraj Music) needs to consolidated to face dual pressure. On cost side, they are expected to provide for 10-15% of movie production cost (as music right fees) which is going up at higher inflation, while limited negotiation power with streaming companies (as explained by Spotify case) and artist
- Non-Film music and artist may have better fortune due to emerging trends in the industry

Indian TV/Video Industry: How the landscape is evolving

Segment	CY 2017	CY 2018	CY 2020	CAGR %
TV	660	734	862	9.8
Print	303	331	369	5.7
Film Entertainment	156	166	192	11.9
Digital media	**119**	**151**	**224**	**24.9**
Online gaming	**30**	**40**	**68**	**27.5**
Animation & VFX	67	80	114	20.4
Music	13	14	18	10.6
Radio	26	28	34	8.6



- Digital media and online gaming are the fastest growing segment of the media Industry in India and are likely to grow at 25% in next few years
- India's online video audience is higher than Brazil and US and is likely to double from that of 250 million to 500 million in 3 years representing the fastest growing large online video market in the world

India: Video On Demand Landscape – Multiple players emerging but no clear winner yet

- In India total SVoD market currently stands at RS 2000 crore and likely to grow at 23-25% over next few years
- All major players are struggling to convert the active user base into paid users. Conversion rate ranges from 1% to 8% at best.
- One of the major impediments to conversion is that unlike other countries, in India monthly linear TV subscription cost is substantially less and hence economics does not work in SVoD provider's favour (in US Cable TV monthly cost is USD 60-80, while SVoD service cost around USD 10/Month)
- In India, vernacular/hindi content is critical to achieve scale and hence significant investment in new content creation by international players is required

Player	Revenue Model	Active Subs (lakhs)	Parent Firm	Monthly charges	% of Paying subs
Hotstar	Hybrid	75	Star India	USD 3	3-5%
Voot	Advertise	22	Viacom 18	Free	NA
Amazon Prime	Subscription	11	Amazon	< USD 2	100%
Sony Liv	Hybrid	5	Sony TV	< USD 1	0-1%
Netflix	Subscription	5	Netflix	< USD 8	6-8%
ALT Balaji	Hybrid	1	Balaji Telefilms	< USD 3	NA
Eros Now	Hybrid	10	Eros Media	< USD 5	8-10%

Listed players universe in India: How they stack up in changing landscape

Content Creators: They produce content and hence have IP of the content with them.

Balaji Telefilms, Eros, Shri Ashtvinayak: All of them are attractively placed in value chain to gain from the shift. However, comfort level in terms of corporate governance/capital allocation remains a challenge.

Content Aggregators: They do not produce content but acquire IP of the content for limited time/perpetually and down sell that to broadcasters/platforms.

Shemaroo: Reasonably well placed as they hold large basket of content. All platforms will require catalogue to create critical mass for consumption while original/new content is used to lure the consumer to platform. Risk: Eventually content aggregator's role may get challenged/merged in platforms

Broadcasters: Produces/aggregates content for broadcasting it to consumers

Zee TV; Sun TV; TV18: Broadly, their business model is under threat over longer term unless they are agile enough to transition to SVoD (like Star TV to Hotstar). Large pool of content IP, captive subscriber base is their strength and hence it can be leveraged upon to create a new ecosystem/revenue model that places them well for future

Content Distributors: Provides last mile connectivity to consumer through satellite/cable

Hathway, Den networks, Dish TV, Siti Cable: Worst affected in value chain and may find it difficult to return to growth path as internet penetration grow and speed increases

Key Takeaway/Insights on changing dynamics in media industry:

Behaviour/Habits

- Consumer want to control what/where/when they consume content- personalization and customization is key differentiator
- People prefer access as compared to ownership: A clear trend is emerging and gaining momentum

Industry Dynamics:

- Disintermediation: The industry is getting disintermediated across value chain. New value chain is much shorter as compared to traditional one. Content creators are placed most favourably in value chain
- Democratization of content creation: Number of monetization avenue, open access to these avenues and need for quality/differentiated content is leading to democratization of content creation
- Value for niche content is emerging: Unlike in linear TV model, new model can aggregate demand for niche content across geography and provide critical mass to make it economical

Business model:

- Most of the business models are burning cash in order to get scale, with the assumption that in future companies can grow revenue with much slower growth in content cost, turning them cash positive
- Accounting profit may not reflect the economic reality in most cases: Cost of content is getting amortized over 4 years (for Netflix) even if the content is perpetual and can get monetized over much longer time