Spotlight on profitable growth

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In 2015, the Media & Entertainment industry is likely to generate one of the best EBITDA margins as compared to the leading market indices, driven by rising digital media adoption.

In 2015, the media and entertainment (M&E) industry is expected to outperform several leading, cross-industry stock market indices in terms of profitability. The 11 M&E sectors tracked by EY are expected to show average earnings before interest, taxes, depreciation and amortization (EBITDA) margin of 28%, outperforming companies on leading market indices such as the FTSE 100, the S&P 500, the Sensex, the CAC 40, the DAX 30, and the Nikkei; and second only to the Hang Seng index.

The M&E industry’s EBITDA margins are expected to grow in 2015, as companies prepare to leverage increasing digital media adoption, deliver relevant consumer experiences and continue to expand into emerging markets.

During 2011-2015e, from an EBITDA dollars perspective, interactive media is the fastest growing M&E sector at 17%, driven by mobile monetization and expansion into emerging markets. At 14%, the film and TV production sector is the second-fastest growing sector, due to rising international and digital licensing revenues.
### Sector highlights

<table>
<thead>
<tr>
<th>Cable operators continue to lead EBITDA margins</th>
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<tbody>
<tr>
<td>▶ Cable operator margins continue to be the highest* among all M&amp;E sectors, buoyed by high-margin data and business-to-business (B2B) services. Despite rising programming costs and increasing competition from over-the-top (OTT) services, margins remain stable as a result of higher ARPU from price increases.</td>
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<td>▶ Ongoing consolidation to gain scale and diversification into new services, such as the internet of things, is expected to drive future growth. During the period 2011–2015e, cable operators are expected to grow their EBITDA dollars at a compound annual growth rate (CAGR) of 4%.</td>
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<tr>
<th>Cable networks to benefit from digital licensing and affiliate fee increases</th>
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<td>▶ Digital licensing, contractual growth in affiliate fees and international expansion continue to drive EBITDA dollars for cable networks. At the same time, rising programming costs and declining viewership on linear TV platforms (mainly due to cord cutting or cord shaving), partially offset this growth. Additionally, advertising revenues have been under pressure, further impacting EBITDA.</td>
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<td>▶ In 2015, cable networks’ EBITDA margins are expected to be 36%, the second-highest of all sectors. From 2011–2015e, the EBITDA dollars for the sector are expected to grow by a CAGR of 6%.</td>
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<th>Interactive media see growth from mobile monetization and emerging markets expansion</th>
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<td>▶ Interactive media companies’ EBITDA dollars are expected to grow at a CAGR of 17% — the highest among all M&amp;E sectors — spurred by increasing mobile monetization, targeted product launches for emerging markets and continued growth in online video and programmatic advertising.</td>
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<td>▶ On the other hand, proliferation of lower-priced mobile advertising and a rise in video content costs are likely to result in declining EBITDA margins for the sector. The sector’s EBITDA margins are expected to decline from 36% in 2014 to 34% in 2015.</td>
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<th>Information services continue transition their service on digital platforms</th>
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<td>▶ Information services companies are reporting stable revenues and margins as they increase focus on digital subscriptions; they are transitioning from information reference tools to data analytics and visualization-based decision tools to boost EBITDA dollar performance.</td>
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<td>▶ EBITDA dollars for the sector are expected to grow at 4% CAGR during the period 2011–15e.</td>
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*Note:  Cable operators incur significant capital expenditures and, consequently, high depreciation and amortization (D&A). Cable operators maintain their lead in profitability partly because EBITDA excludes D&A charges.
Sector highlights

- **Electronic gaming companies see increase in mobile gamers and use of multiple monetization models**
  - A combination of an expanding base of mobile gamers, multiple monetization models (such as subscriptions, micro-transactions, accessory sales and downloadable content), continued engagement of console gamers and focus on core franchises will drive EBITDA dollar growth for the electronic gaming sector.
  - From 2011–2015e, electronic game companies’ EBITDA dollars are expected to grow at a CAGR of 7%.

- **Conglomerates continue to benefit from premium content and growing scale**
  - Conglomerates are benefitting from growing value of premium content, increasing scale through international and digital expansion, as well as focus on profitable assets such as cable networks. However, pressure on advertising revenues is impacting EBITDA for those conglomerates that have segments relying on this revenue source.
  - During the period 2011–2015e, conglomerates are expected to grow their EBITDA dollars at a CAGR of 6%.

- **Satellite TV companies focus on consolidation to drive profitability**
  - Amid rising content costs, muted subscriber growth and increasing competition from OTT services, satellite TV companies are consolidating to derive cost synergies and maintain profitability.
  - The sector’s EBITDA dollars are expected to grow at a CAGR of 4% during the period from 2011–2015e.

- **TV broadcasters to benefit from retransmission revenues, digital and international opportunities**
  - TV broadcasters’ EBITDA has been positively impacted by the industry consolidation in the US and EBITDA dollars are expected to benefit from increases in retransmission fees, as well as growth in digital distribution and international syndication. Similar to other sectors, revenue growth may slow as a result of flatter advertising sales.
  - EBITDA dollars for the TV broadcasting sector are expected to grow by a CAGR of 5% during 2011–2015e.
Sector highlights (continued)

**Film studios to see growth from international markets**

- A combination of rising international theatrical revenues, a growing high-margin TV production business and increasing digital and international licensing revenues are driving EBITDA dollar performance for film studios.
- The sector's EBITDA dollars are expected to grow by a CAGR of 14% during 2011–2015e — the second-highest among all M&E sub-sectors after interactive media.

**Consumer publishers' efforts to transition into a multi-platform world are yet to yield significant returns**

- Newspaper and magazine companies continue to face structural declines in print. Digital advertising and subscriptions contribute a relatively smaller percentage to EBITDA dollars and are yet to yield significant returns.
- To protect their margins, publishers are continuing to restructure operations – cutting printing, distribution and editorial costs and reinvesting a part of the resultant savings in digital and marketing operations. EBITDA dollars for the sector are expected to decline by 7% during the period 2011–15e due to increasing competition from digital-only players.

**Music companies see digital streaming services drive EBITDA growth**

- Music companies' EBITDA dollars are expected to grow with the expansion of licensed digital streaming services and continued growth in music publishing. The sector's EBITDA margins are gradually rising, from 10% in 2011 to 13% in 2015e.
- The sector's EBITDA dollars are expected to grow at a CAGR of 9% from 2011–2015e.
In 2015, M&E companies are expected to outperform most of the leading stock market indices in terms of profitability.

**EBITDA margin percentage, * 2011–2015e**

* EBITDA margin percentage is EBITDA dollars divided by revenue dollars.
** 2011–2015e CAGR (EBITDA $) is the compound annual growth rate of EBITDA dollars.
In 2015, interactive media companies are expected to lead in EBITDA dollar growth and cable operators are expected to have the highest margin.

**EBITDA margin percentage,*(2011–2015e)**

* EBITDA margin percentage is EBITDA dollars divided by revenue dollars.
** 2011–2015e CAGR (EBITDA $) is the compound annual growth rate of EBITDA dollars.
Methodology
Study methodology — how we analyze the profitability of the global M&E industry

This study examines the actual EBITDA of the M&E industry for 2011 to 2014 and estimated EBITDA for 2015. Specifically, this analysis measures and compares EBITDA dollar growth (measured as a CAGR) as well as EBITDA margins.

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<th>Key aspects of the analysis</th>
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<td><strong>Geographic and sector coverage</strong></td>
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<td>▶ The study group comprises 112 companies (see Appendix) globally, covering those headquartered in:</td>
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<td>▶ The Americas (53 companies)</td>
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<td>▶ Europe (33 companies)</td>
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<td>▶ Asia-Pacific (25 companies)</td>
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<td>▶ Africa (1 company)</td>
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<td>▶ The analysis looks at <strong>media conglomerates and ten sectors of M&amp;E:</strong></td>
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<tr>
<td>▶ Cable networks</td>
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<td>▶ Consumer publishing</td>
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<td>▶ Electronic games</td>
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<td>▶ TV broadcast</td>
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<td><strong>Company selection criteria</strong></td>
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<td>▶ The study group has been developed based on the following criteria:</td>
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<td>▶ The company is publicly traded.</td>
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<td>▶ The company’s operations are reviewed by an industry analyst, and its results are published in an analyst’s report.</td>
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<td>▶ For fiscal year 2014, the company had a minimum of US$1 billion in annual revenues or, in the case of media conglomerates, a minimum of US$5 billion in annual revenues.</td>
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<td><strong>Other important considerations</strong></td>
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<td>▶ <strong>Data sources:</strong> EY’s EBITDA perspective is based on secondary research, using publicly available data and analyst reports, as well as EY’s own analysis.</td>
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<td>▶ <strong>Inclusion of conglomerates in sector analysis:</strong> In the case of conglomerates, their individual businesses have been included in the sector analyses. As a result, some conglomerates are represented in more than one sector.</td>
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Appendix
EBITDA

- EBITDA refers to the earnings of a company before interest, tax, depreciation and amortization.
- It is understood that EBITDA is a non-generally accepted accounting principles (GAAP) financial measurement and that companies report EBITDA differently. Nonetheless, it is a widely available metric for comparison purposes. Accordingly, it is used in this analysis as reported by companies, as well as by research institutions and investment analysts.
- In some rare cases, where companies in our study group did not report EBITDA and EBITDA could not be derived, we have used operating income as a proxy for EBITDA.

Currencies

- All EBITDA dollar CAGR.s are calculated in US dollars. Where necessary, revenue and EBITDA provided in other currencies have been converted into US dollars. The conversion ratio was based on the average exchange rate between each currency and the US dollar for 2011, 2012, 2013 and 2014 and a 180-day average for 2015.

GAAP

- In most cases, financial data was prepared in accordance with US GAAP. In instances where financial data was prepared in accordance with International Financial Reporting Standards or local GAAP, this has not been converted to US GAAP.

Conglomerates

- Conglomerates are considered to be global companies with business activities reported in two or more sectors and leaders who drive innovation across the industry.
## Study group companies

### Conglomerates
- BCE Inc. (Bell Media, Bell Aliant and Bell Wireline segments only)
- CBS Corporation (total company)
- Comcast Corporation (total company)
- Fuji Media Holdings, Inc. (total company)
- Sony Corporation (Pictures and Music segments only)
- The Walt Disney Company (total company)
- Time Warner Inc. (total company)
- Twenty-First Century Fox, Inc. (total company)
- Viacom, Inc. (total company)
- Vivendi S.A. (Canal+ and Universal Music Group segments only)

### Cable operators
- Cablevision Systems Corporation (Cable segment only)
- Charter Communications, Inc. (total company)
- CJ HelloVision Co., Ltd. (total company)
- Cogeco Cable Inc. (total company)
- Comcast Corporation (Cable Communications segment only)
- Kabel Deutschland (total company)
- Liberty Global, Inc. (total company)
- Quebecor Inc. (Telecommunications segment only)
- Rogers Communications Inc. (Cable and Business Solutions segments only)
- Shaw Communications Inc. (Cable and Satellite segment only)
- Time Warner Cable Inc. (total company)
- Virgin Media Inc. (total company for 2011–2013 only)
- Ziggo N.V. (total company for 2011–2014 only)

### Electronic games
- Activision Blizzard, Inc. (total company)
- Bandai Namco Holdings Inc. (Contents segment only)
- DeNA Co., Ltd. (total company)
- Electronic Arts Inc. (total company)
- Gree, Inc. (total company)
- King Digital Entertainment (total company)
- Konami Corp. (Digital Entertainment segment only)
- NetEase.com Inc. (total company)
- Nexon Co., Ltd. (total company)
- Sega Sammy Holdings Inc. (Consumer segment only)
- Square Enix Holdings Co., Ltd. (total company)
- Take-Two Interactive Software, Inc. (total company)
- Ubisoft Entertainment (total company)

### Cable networks
- AMC Networks Inc. (total company)
- CBS Corporation (Cable Networks segment only)
- Comcast Corporation (Cable Networks segment only)
- Discovery Communications, Inc. (total company)
- Scripps Networks Interactive (Lifestyle media segment only)
- Starz (Networks segment only)
- The Walt Disney Company (Media Networks – cable segment only)
- Time Warner Inc. (Cable Networks segment only)
- Twenty-First Century Fox, Inc. (Cable Network Programming segment only)
- Viacom, Inc. (Cable Networks segment only)
- Vivendi S.A. (Canal+ segment only)
Study group companies (continued)

**Film and TV production**
- Comcast Corporation (NBCU-Film segment only)
- Entertainment One Ltd. (total company)
- Lions Gate Entertainment Corp. (total company)
- Sony Corporation (Pictures segment only)
- The Walt Disney Company (Studio Entertainment segment only)
- Time Warner Inc. (Warner Bros. segment only)
- Twenty-First Century Fox, Inc. (Filmed Entertainment segment only)
- Viacom, Inc. (Entertainment segment only)

**Interactive media**
- AOL Inc. (total company)
- Baidu, Inc. (total company)
- CyberAgent, Inc. (Internet Advertising Business and Ameba Business segments only)
- Facebook, Inc. (total company)
- TEGNA, Inc. (Digital segment only)
- Google Inc. (total company)
- IAC/InterActiveCorp (total company)
- LinkedIn Corporation (total company)
- Netflix, Inc. (total company)
- Naver Corporation (total company)
- Sohu.com Inc. (total company)
- Tencent Holdings Limited (total company)
- Twitter, Inc. (total company)
- Yandex N.V. (total company)
- Yahoo! Inc. (total company)
- Yahoo Japan Corporation (total company)

**Consumer publishing**
- Arnoldo Mondadori Editore SpA (total company)
- Axel Springer AG (total company)
- CBS Corporation (Publishing segment only)
- Daily Mail and General Trust plc (total company)
- Fairfax Media Ltd. (total company)
- Gannett Co., Inc. (Publishing segment only - 2011-2013; Total company - 2014-2015E)
- Lagardère SCA (total company)
- Meredith Corporation (National Media segment only)
- News Corporation (all segments, except Cable Network Programming)
- Pearson plc (total company)
- RCS MediaGroup S.p.A. (total company)
- Sanoma (total company)
- Schibsted ASA (total company)
- The New York Times Company (total company)
- Time Inc. (total company)
- Torstar Corporation (total company)
- Tribune Publishing Company (total company)
- Trinity Mirror plc (total company)

**Information services**
- GfK AG (total company)
- IHS Inc. (total company)
- Informa Plc (total company)
- Intuit Inc (total company)
- Ipsos SA (total company)
- Nielsen NV (total company)
- RELX Group (total company)
Study group companies (continued)

Information services (continued)
- The Dun & Bradstreet Corp. (total company)
- The McGraw-Hill Companies, Inc. (total company)
- Thomson Reuters Corporation (total company)
- Verisk Analytics (total company)
- Wolters Kluwer NV (total company)

Music
- Live Nation Entertainment, Inc. (total company)
- Sony Corporation (Music segment only)
- Vivendi S.A. (Universal Music Group segment only)

Satellite TV
- DISH Network Corporation (total company)
- Eutelsat Communications S.A. (total company)
- Naspers Limited (Pay TV segment only)
- SES S.A. (total company)
- Sky Deutschland AG (total company, 2011–2012 only)
- SKY Perfect JSAT Holdings Inc. (total company)
- Sky plc (total company)
- The DIRECTV Group, Inc. (DIRECTV US and DIRECTV LA segments only)
- Twenty-First Century Fox, Inc. (Direct Broadcast Satellite Television segment only)

TV broadcast
- Atresmedia Corporacion de Medios de Comunicacion (total company)
- CBS Corporation (Entertainment and Local Broadcasting segments only)
- Comcast Corporation (NBCU-Broadcast segment only)
- TEGNA, Inc. (Broadcasting segment only)
- Grupo Televisa, S.A.B. (total company)
- ITV plc (total company)
- Mediaset S.p.A (total company)
- Métropole Télévision S.A. (total company)
- Modern Times Group MTG AB (total company)
- Nine Entertainment Co. Holdings Ltd. (total company)
- Nippon Television Network Corporation (total company)
- ProSiebenSat.1 Media AG (total company)
- RTL Group S.A. (total company)
- Seven West Media (Television segment only)
- Sinclair Broadcast (total company)
- Télévision Francaise 1 S.A. — TF1 (total company)
- The Walt Disney Company (Media Networks — Broadcasting segment only)
- Tokyo Broadcasting System Holdings, Inc. (total company)
- TV Asahi Corporation (total company)
- TV Tokyo Holdings (total company)
- Twenty-First Century Fox (Television segment only)
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