

# Spotlight on profitable growth

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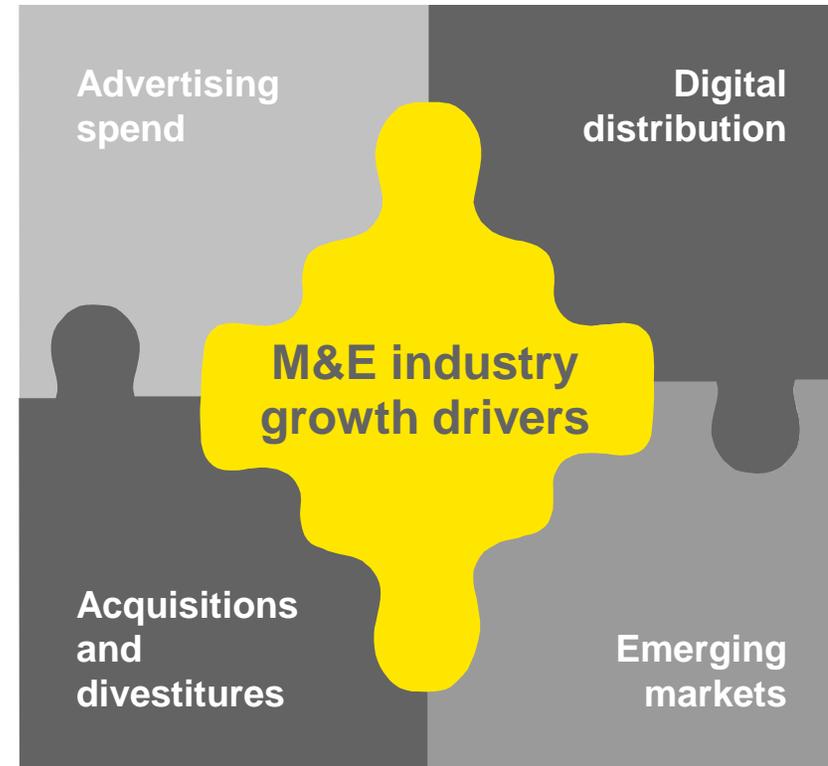


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## In 2014, the Media & Entertainment industry is likely to generate the highest EBITDA\* margins among leading market indices, driven by the proliferation of digital platforms

- ▶ In 2014, the **media and entertainment (M&E) industry is expected to outperform several leading, cross-industry stock market indices in terms of profitability.** The 10 M&E sectors tracked by EY are expected to have an average profit margin of 28%, outperforming leading market indices such as the FTSE 100, the S&P 500, the CAC 40 and the Nikkei.
- ▶ M&E industry **earnings before interest, taxes, depreciation and amortization (EBITDA) increased every year** during the period 2010–2014e, outperforming other market indices' EBITDA margins.
- ▶ The M&E industry's EBITDA margins are expected to grow in 2014, as companies **gain scale in content production and distribution, divest underperforming businesses and continue to benefit from the proliferation of digital platforms.**



\* EBITDA = earnings before interest taxes, depreciation and amortization

# Sector highlights

## Cable operators maintain their lead in EBITDA margins

- ▶ Cable operator margins are expected to remain at around 41% in 2014 — the highest among all M&E sectors — as a result of continued growth in high-margin data and business-to-business (B2B) services. Cable operators incur significant capital expenditures and, consequently, high depreciation and amortization (D&A). Cable operators maintain their lead in this measure partly because EBITDA excludes D&A charges.
- ▶ During the period from 2010–14e, cable operators are expected to grow their EBITDA dollars at a compound annual growth rate (CAGR) of 6%.

## Cable networks continue to see recurring growth in affiliate fees

- ▶ A combination of contractual growth in affiliate fees, international syndication and digital licensing continues to spur EBITDA margin growth for cable networks. The sector is expected to report EBITDA margins of 37% by the end of 2014 — the second highest of all sectors.
- ▶ From 2010–14e, the EBITDA dollars for the sector are expected to grow by a CAGR of 8%.

## Interactive media benefits from improvements in ad-targeting technologies

- ▶ Continued innovation in search advertising (e.g., ad targeting based on time, location or device and image-based search results for products) and growth in online video and programmatic advertising, combined with the growth in premium video subscriptions, are driving the EBITDA dollars of interactive media companies.
- ▶ From 2010–14e, the EBITDA dollars for the sector are expected to grow by a CAGR of 19%, the highest among all M&E sectors.

## Electronic gaming companies see growth from the rising number of users on digital platforms

- ▶ A combination of the surging popularity of social and casual games on digital devices and the growth of high-margin digital revenue streams (downloadable content, expansion packs and virtual goods) is driving EBITDA dollar growth of the electronic games sector.
- ▶ From 2010–14e, electronic game companies' EBITDA dollars are expected to grow at a CAGR of 13%, second only to the interactive media sector.

## Conglomerates see growth from premium content and the divestment of underperforming assets

- ▶ Conglomerates have the ability to spend on premium content, which attracts large audiences across platforms and acts as a barrier to entry for smaller players. This, combined with a growing advertising spend and increased consumption of paid digital content, is driving the EBITDA dollar performance of conglomerates. Conglomerates have divested or spun off underperforming businesses, such as publishing, to focus on more profitable assets, such as cable networks.
- ▶ During the period 2010–14e, conglomerates are expected to grow their EBITDA dollars at a CAGR of 8%.

## Sector highlights (continued)

### Satellite TV companies face declining profitability due to rising programming costs

- ▶ As subscriber growth slows, satellite TV companies are maintaining cost controls to boost their EBITDA dollars. However, rising programming costs are likely to affect the sector's profitability — EBITDA margins are expected to decline by almost a percentage point between 2013 and 2014e.
- ▶ The sector's EBITDA dollars are expected to grow at a CAGR of 5% during the period from 2010–14e.

### Publishing and information services continue to see declines from traditional print

- ▶ Newspaper and magazine companies continue to face the head winds of declining advertising and subscription revenues. Their digital revenues, although growing, still contribute only a small portion of total revenues.
- ▶ On the other hand, business information services companies are reporting stable revenues and margins; they are retiring legacy platforms and investing in technology-driven data and visualization tools to boost EBITDA dollar performance.
- ▶ EBITDA dollars for the sector are expected to grow by a CAGR of 1% during the period from 2010–14e.

### TV broadcasters consolidate to generate scale benefits

- ▶ The ability of broadcasters to reach a large (although steadily shrinking) audience continues to be valued by advertisers. Furthermore, consolidation among US broadcasters is expected to help them sustain increases in retransmission fees — a high-margin, recurring revenue stream.
- ▶ EBITDA dollars for the TV broadcasting sector are expected to grow by a CAGR of 7% during 2010–14e.

### Film studios invest in TV production to improve margins

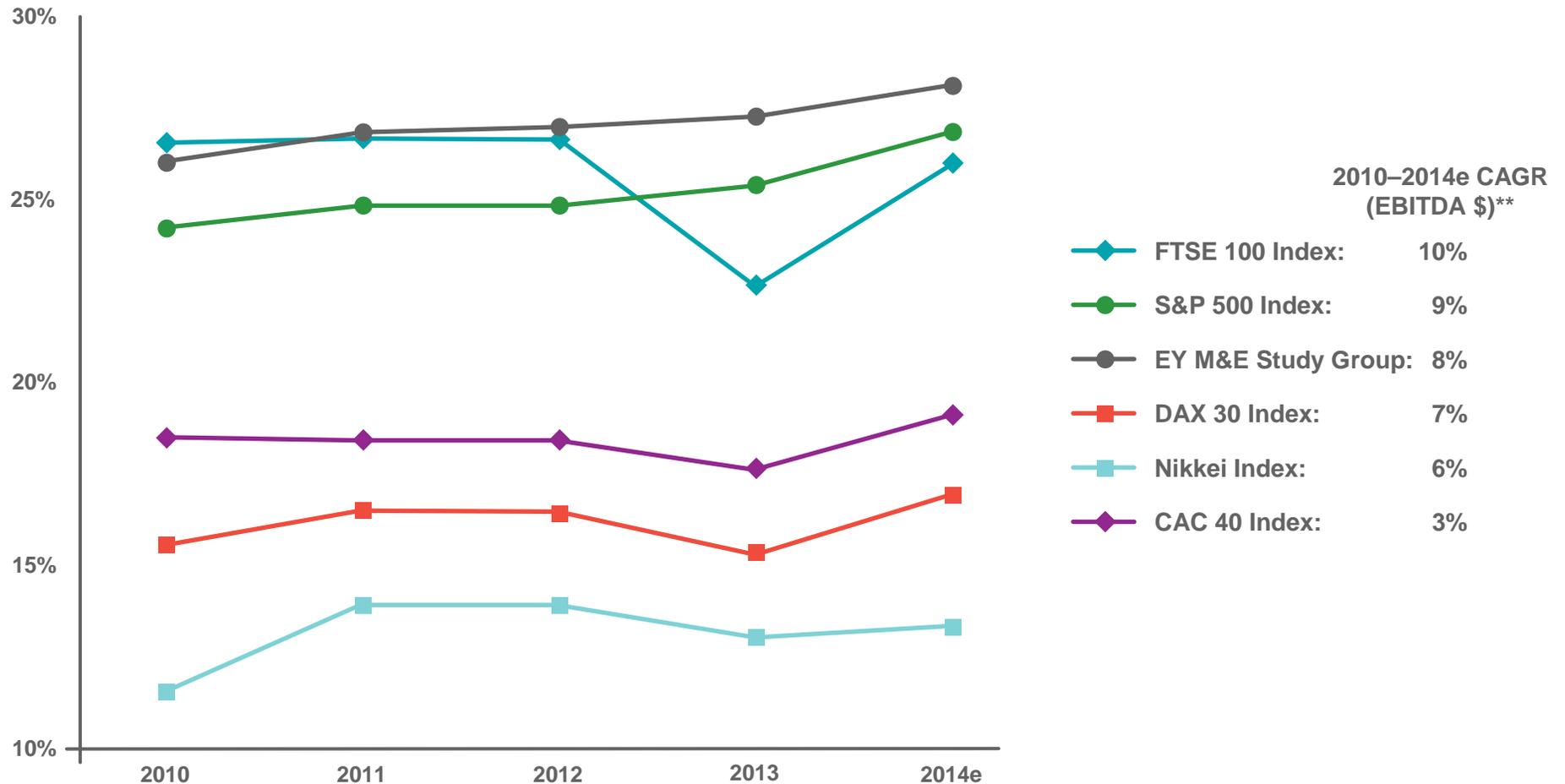
- ▶ Increasing revenues from an array of paid digital platforms is driving studios' EBITDA dollar performance. At the same time, film studios are cutting costs by consolidating their back-end operations, such as information technology (IT) and finance.
- ▶ Going forward, film studios will benefit from increased investments in franchise-based films and higher-margin TV shows. The sector's EBITDA dollars are expected to grow by a CAGR of 4% during the period from 2010–14e.

### Music companies see highest EBITDA CAGR in more than six years, driven by growth in licensed digital services

- ▶ The expansion of licensed digital subscription and streaming services, as well as the continued growth in music publishing, is driving positive music sector revenue and EBITDA dollar performance. The sector's EBITDA dollars are expected to grow by a CAGR of 8% — the highest in more than six years — from 2010–14e.
- ▶ Further EBITDA dollar growth will come from rising smartphone and tablet penetration in emerging markets. However, the growth will depend on the availability of bandwidth, a robust payment infrastructure and strong piracy laws.

# In 2014, M&E companies are expected to outperform leading stock market indices in terms of profitability

EBITDA margin percentage,\* 2010–2014e

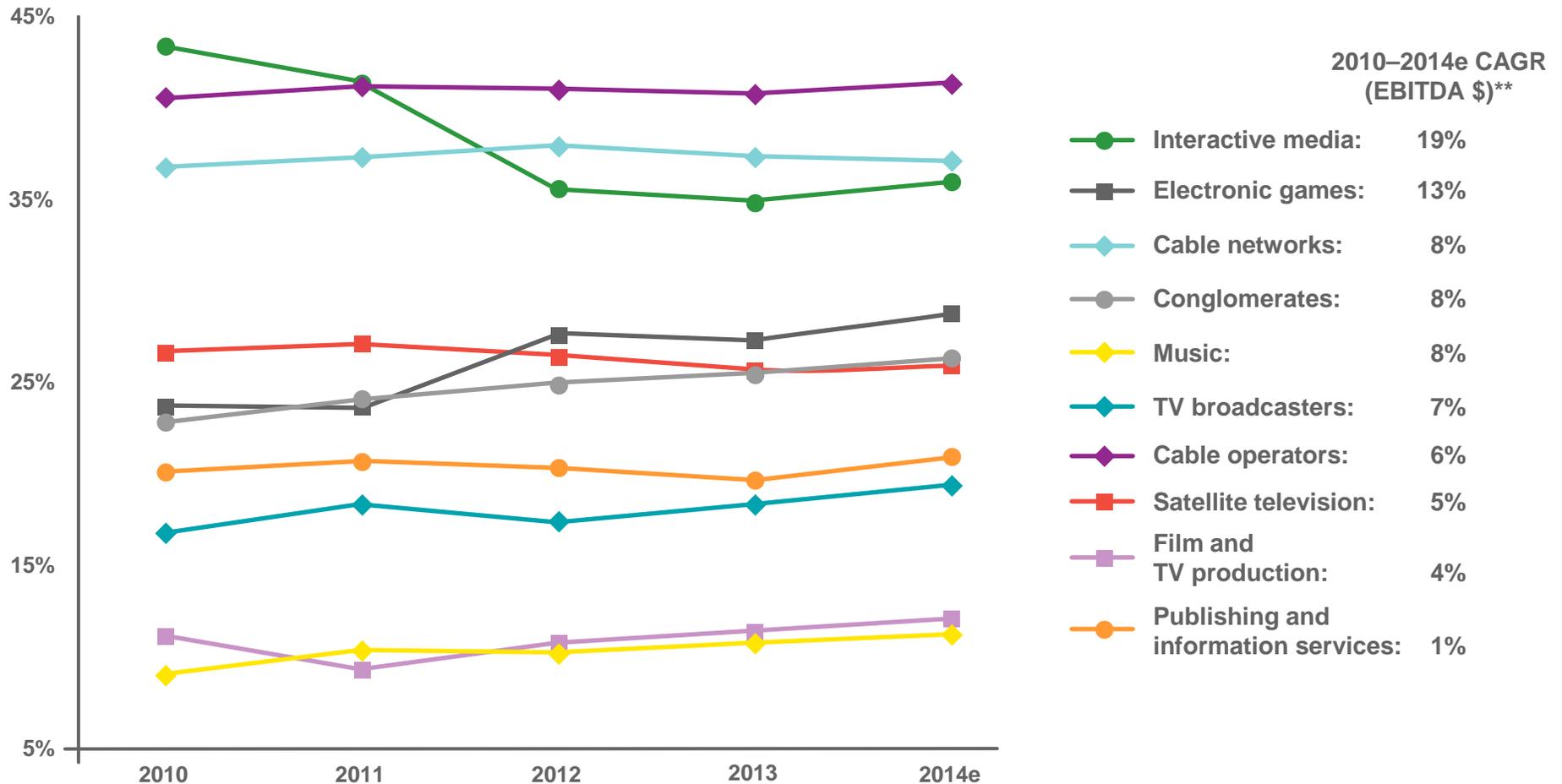


\* EBITDA margin percentage is EBITDA dollars divided by revenue dollars.

\*\* 2010–14e CAGR (EBITDA \$) is the compound annual growth rate of EBITDA dollars.

# In 2014, interactive media companies are expected to lead in EBITDA dollar growth and cable operators are expected to have the highest margin

EBITDA margin percentage,\* 2010–2014e



\* EBITDA margin percentage is EBITDA dollars divided by revenue dollars.  
 \*\* 2010–14e CAGR (EBITDA \$) is the compound annual growth rate of EBITDA dollars.

A photograph of a concert scene. In the foreground, a person's hand holds a smartphone up to take a picture of a stage. The stage is illuminated with bright purple spotlights, creating a dramatic atmosphere. The background shows a crowd of people, mostly in silhouette, watching the performance. A yellow banner is overlaid on the left side of the image.

# 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 2010 to 2013 and estimated EBITDA for 2014. Specifically, this analysis measures and compares EBITDA dollar growth (measured as a CAGR) as well as EBITDA margins.

## Key aspects of the analysis

### Geographic and sector coverage

- ▶ The study group comprises **106 companies** (see Appendix) globally, covering those headquartered in:
  - ▶ The Americas (47 companies)
  - ▶ Europe (35 companies)
  - ▶ Asia-Pacific (23 companies)
  - ▶ Africa (1 company)
- ▶ The analysis looks at **conglomerates and nine sectors of M&E:**
  - ▶ Cable networks
  - ▶ Cable operators
  - ▶ Electronic games
  - ▶ Film and TV production
  - ▶ Interactive media
  - ▶ Music
  - ▶ Publishing and information services
  - ▶ Satellite operators
  - ▶ TV broadcasters

### Company selection criteria

- ▶ The study group has been developed based on the following criteria:
  - ▶ The company is publicly traded.
  - ▶ The company's operations are reviewed by an industry analyst, and its results are published in an analyst's report.
  - ▶ For fiscal year 2013, 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.

### Other important considerations

- ▶ **Data sources:** EY's EBITDA perspective is based on secondary research, using publicly available data and analyst reports, as well as EY's own analysis.
- ▶ **Inclusion of conglomerates in sector analysis:** In the case of conglomerates, their individual businesses have been included in the sector analyses. As a result, businesses of some conglomerates are represented in more than one sector.

# Appendix



# Study definitions and concepts

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## EBITDA



- ▶ EBITDA refers to the earnings of a company before interest, tax, and 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 CAGRs 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 rate between each currency and the US dollar for 2010 to 2013 and a 64-day average for 2014.

## 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

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

## Electronic games

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

## Cable operators

- ▶ Cablevision Systems Corporation (Telecommunications segment only)
- ▶ Charter Communications, Inc. (total company)
- ▶ Cogeco Cable Inc. (total company)
- ▶ Comcast Corporation (Cable Communications segment only)
- ▶ Kabel Deutschland (total company)
- ▶ Liberty Global, Inc. (total company)
- ▶ Numericable Group SA (total company)
- ▶ Rogers Communications Inc. (Cable/Telecom/Retail segment only)
- ▶ Shaw Communications Inc. (Cable segment only)
- ▶ Telenet Group Holding NV (total company)
- ▶ Time Warner Cable Inc. (total company)
- ▶ Virgin Media Inc. (total company for 2010–13 only)
- ▶ Quebecor Inc. (Telecommunications segment only)
- ▶ Ziggo NV (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 (total company for 2010, Networks segment for 2011–14e)
- ▶ 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 television production

- ▶ Comcast Corporation (NBCU-Film segment only)
- ▶ 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)
- ▶ Facebook, Inc. (total company)
- ▶ 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)
- ▶ Yahoo! Inc. (total company)
- ▶ Yahoo Japan Corporation (total company)

## Music

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

## Publishing and information services

- ▶ 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. (Total Newspapers segment only)
- ▶ GfK AG (total company)
- ▶ Gruppo Editoriale L'Espresso Spa (total company)
- ▶ Informa Plc (total company)
- ▶ Intuit Inc. (total company)
- ▶ Ipsos SA (total company)
- ▶ Lagardère SCA (total company)
- ▶ Mecom Group plc (total company)
- ▶ Meredith Corporation (National Media segment only)
- ▶ News Corporation (All segments, except Cable Network Programming)
- ▶ Nielsen BV (total company)
- ▶ Pearson plc (total company)
- ▶ RCS MediaGroup S.p.A. (total company)
- ▶ Reed Elsevier PLC (total company)
- ▶ Sanoma (total company)
- ▶ Schibsted ASA (total company)
- ▶ The Dun & Bradstreet Corp. (total company)
- ▶ The McGraw-Hill Companies, Inc. (total company)
- ▶ The New York Times Company (total company)
- ▶ Thomson Reuters Corporation (total company)
- ▶ Time Inc. (total company)
- ▶ Torstar Corporation (total company)
- ▶ Trinity Mirror plc (total company)
- ▶ Verisk Analytics (total company)
- ▶ Wolters Kluwer NV (total company)

# Study group companies (continued)

## Satellite operators

- ▶ British Sky Broadcasting Group plc (total company)
- ▶ DISH Network Corporation (total company)
- ▶ Eutelsat Communications S.A. (total company)
- ▶ Naspers Limited (pay TV segment only)
- ▶ The DIRECTV Group, Inc. (DIRECTV US and DIRECTV LA segments only)
- ▶ Twenty-First Century Fox Inc. (Direct Broadcast Satellite Television segment only, includes Sky Deutschland AG, 2013 and 2014e)
- ▶ SES S.A. (total company)
- ▶ Sky Deutschland AG (total company, 2010-2012 only)
- ▶ SKY Perfect JSAT Holdings Inc. (total company)

## Television broadcast

- ▶ Atresmedia Corporacion de Medios de Comunicacion (total company)
- ▶ CBS Corporation (Entertainment and Local Broadcasting segments only)
- ▶ Comcast Corp (NBCU-Broadcast segment only)
- ▶ Grupo Televisa, S.A.B. (total company)
- ▶ ITV plc (total company)
- ▶ Mediaset S.p.A (total company)
- ▶ Métropole Télévision (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)
- ▶ Sinclair Broadcast (total company)
- ▶ Télévision Française 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 Inc. (Television segment only)

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In an industry synonymous with creativity and innovation, the bar for business excellence is set high. You need to embrace new technology, develop new distribution models and satisfy the demands of a voracious and outspoken consumer. At the same time, it's important to manage costs, exceed stakeholder expectations and comply with new regulations. There's always another challenge just around the corner. EY's Global Media & Entertainment Center can help. We bring together a high-performance, worldwide team of media and entertainment professionals with deep technical experience in providing assurance, tax, transaction and advisory services to the industry's leaders. Our network of professionals collaborates and shares knowledge around the world, to provide exceptional client service and leverage our leading market share position to provide you with actionable information, quickly and reliably.

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