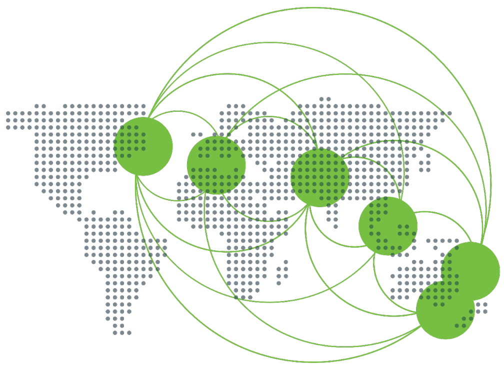
MEDIA INDUSTRY ANALYSIS – AUGUST 2021

TRENDS AND TRANSFORMATION IN THE GLOBAL MEDIA SECTOR

FY18-20



Nice to meet you.

We're Q5 – a global consultancy firm with experience across an array of sectors, including media, retail, infrastructure and public sector. We exist to achieve organisational health for the working world delivered through the craft of 'Art and Science'.

It's the data and analytics you expect, but with the humanity you need to transform.

A 30,000 ft view of what we do.

Setting the direction

Built on rigorous analysis and customer insight, we define a clear direction that is easy to articulate and stands up to scrutiny. Critically, we create alignment from the Board down to the roots of the organisation.

Designing organisations that deliver

We design agile organisations that link your strategy with your ability to execute. We do this at enterprise, business unit and functional levels both locally in Australia and globally.

Making the change happen

Brilliant designs need to be implemented brilliantly. We support you when you need to make change happen, from hands-on programme management to the design and delivery of powerful change interventions.

Developing your organisation

Engaged and motivated people deliver better results. We will enable you to lead and inspire your people, help them understand and connect with the role they play, and drive them to think and behave differently.

Digital transformation means one thing in the media landscape; *create scale to compete.*

As the industry rapidly evolves, keeping up with transformation is not optional, but necessary for survival.

At Q5, we lead transformative change in major firms across the global media sector, collecting the insights required for media organisations to stay ahead of the curve.

As a leader within the media sector, we want you to be first in line to benefit from the data we have collected working with high profile media companies, combined with information published in their publicly available annual reports.

In this report, we cover:

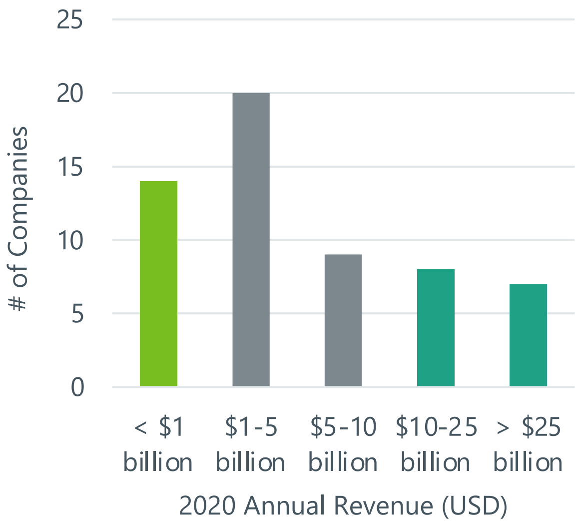
1. Our observations and implications
2. Trends defining the media industry's transformation
3. How we think about some of these challenges

Here's how we did it.

We analysed the financial statements of **58 media businesses, from 15 countries** over the period FY18 – FY20.

To allow comparison, all financials were converted to USD using the average currency exchange for the target year.

Included a mix of business sizes



Headquartered across 15 different countries

Represented four assets' classes (most operating across multiple)

VISION	TV Broadcast	19
	TV Cable	20
	VOD / BVOD	21
	Film	14
AUDIO	Radio (Broadcast)	10
	Digital Audio	8
	Music	8
PUBLISHING	Newspaper & Magazines	16
	Books	9
VIDEO GAMES	Video Games	12
CONGLOMERATE	>3 assets	13
	>1 asset classes	19

Some of the organisations we included in the sample:

Here's what we found.

1 DIVERGENT NARRATIVES OF DECLINE AND GROWTH

Smaller entities' revenue is declining, leading to aggressive cost cutting.

Larger businesses' revenue is growing while digital and new media (e.g. video games) continue to outpace traditional media's growth, which is in steady decline.

2 DIGITAL NATIVES ARE WINNING THE RACE FOR DIGITAL REVENUE

The digital media sector is growing rapidly and is making up a larger share of media revenue.

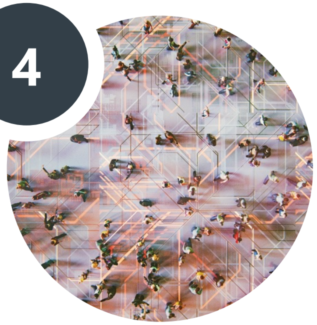
The gap between traditional and digital revenue is closing. But traditional media still accounts for the biggest slice of the pie.

Digital-only players have a **better growth trajectory** than traditional media businesses who are investing in digital.

3 THE SECTOR IS CUTTING COSTS, ESPECIALLY SMALLER FIRMS

The data shows a **1% reduction in overall cost base**, sector-wide and that **55% of businesses reduced their cost base.**

Smaller businesses are cutting the hardest (<$5B) along with traditional media asset owners (e.g., TV, Radio, Newspapers).



4 THE SECTOR IS CONSOLIDATING TO BECOME MULTIMEDIA

Most of the sample own **at least two asset classes** and, unsurprisingly, larger firms own more diverse portfolios.

The **Vision asset class is particularly consolidated** with larger players seeking to own Broadcast TV, Cable, BVOD/VOD and Film to be more competitive in the war for content.

5 COMPANIES ARE LOOKING FOR SUSTAINABLE REVENUE

Across the sector media companies are seeking to create recurring revenue, with subscription-based models **increasing** across the sector (though this data is not widely reported).

Digitisation and growth of subscription models are intrinsically linked, as advertising revenues move online, and tech players are taking much of the spend, requiring media businesses to lean towards alternate revenue streams.

What does this mean for you?

TRADITIONAL MEDIA PLAYERS NEED TO BECOME 'DIGITAL-FIRST' IN THEIR PRODUCT, OPERATIONS AND MINDSET

Whilst digital transformation of traditional media players needs to accelerate to stay relevant, **this must be accompanied by a fundamental shift in mindsets and behaviours**. This requires a rewiring of traditional operating models to adjust to a **new way of doing things** with a **set of incentives** to match.

MEDIA BUSINESSES MUST DIVERSIFY REVENUE STREAMS TO MAINTAIN LONGEVITY

Advertising-only revenue models are becoming significantly challenged, as **big tech companies command the lion's share of digital advertising revenue.**

Diversifying revenue can bolster revenue, with businesses using **subscription models** growing overall revenue (+10% FY18-20), while **advertiser-only businesses have seen revenue declines** (-31% FY18-20).

TRADITIONAL MEDIA'S NEED TO DELIVER CONSISTENT RETURNS COULD PREVENT LONG-TERM AMBITIONS

Many traditional businesses face the paradox of needing to cut costs to deliver a return for shareholders, when they should be investing in digital. By contrast digital-only companies can prioritize revenue growth over return.

This has enabled digital-only businesses to grow revenue by 32% (FY18-20), compared to -7% declines elsewhere.

You need a clear vision and plan that separates investment in new revenue from sustaining traditional profits.

INCREMENTAL COST CUTTING ISN'T A PATHWAY TO SUCCESS

No one ever cut their way to greatness. The observed year-on-year cost reductions can protect in-year profitability, but it isn't sustainable. Substantial transformation with a long-term perspective is required to realign cost to current and future revenue, as well as enable your future value proposition.

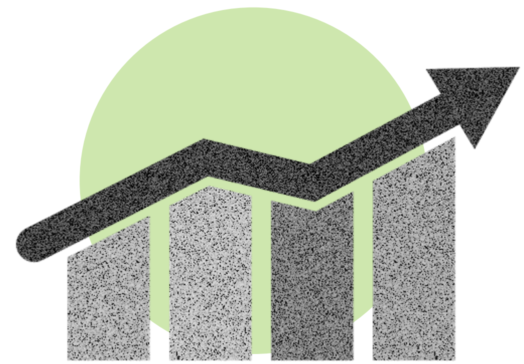
MEDIA BUSINESSES NEED TO CHOOSE WHETHER TO COMPETE ON THEIR OWN PLATFORM OR PARTNER WITH LARGE TECH PLAYERS

Digital platforms' **increased ownership of UX and monetisation of rich user data** sees them leading growth in the sector.

Smaller players are vulnerable to their platform partners and are **forced to compete against conglomerates** via their own platforms.

SCALE

IS REQUIRED TO REMAIN COMPETITIVE



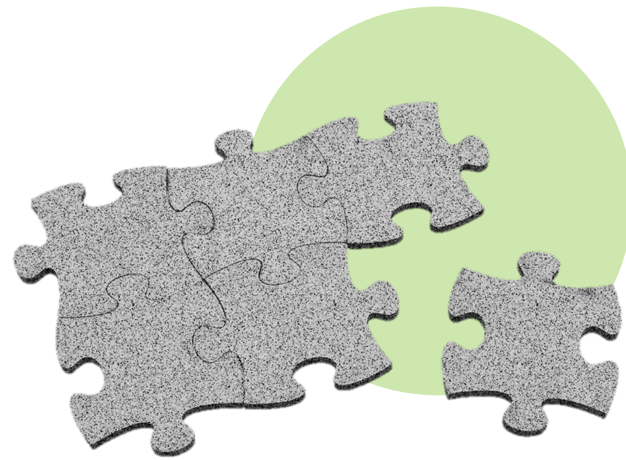
The next evolution in the media sector is entertainment ecosystems that span all aspects of entertainment and **media giants have the scale required** to sell across the ecosystem and to capture and retain subscribers across content mediums. Partnerships offer an avenue for smaller companies to compete.

If businesses cannot create scale, they are likely to fall behind.

CREATING A DIVERSE PORTFOLIO GIVES OPPORTUNITIES TO BUILD BRANDS AND SELL AT SCALE

Operating a diverse portfolio of assets provides the opportunity to create **multi-faceted content** and develop robust brands with **assets that can cross-support each other.** It also enables a proposition of selling an ecosystem that can engage and trace a consumer across channels, thus offering access to a house with many doors.

ACQUISITION ALONE ISN'T THE ANSWER – INSTEAD, VALUE IS CREATED THROUGH INTEGRATION



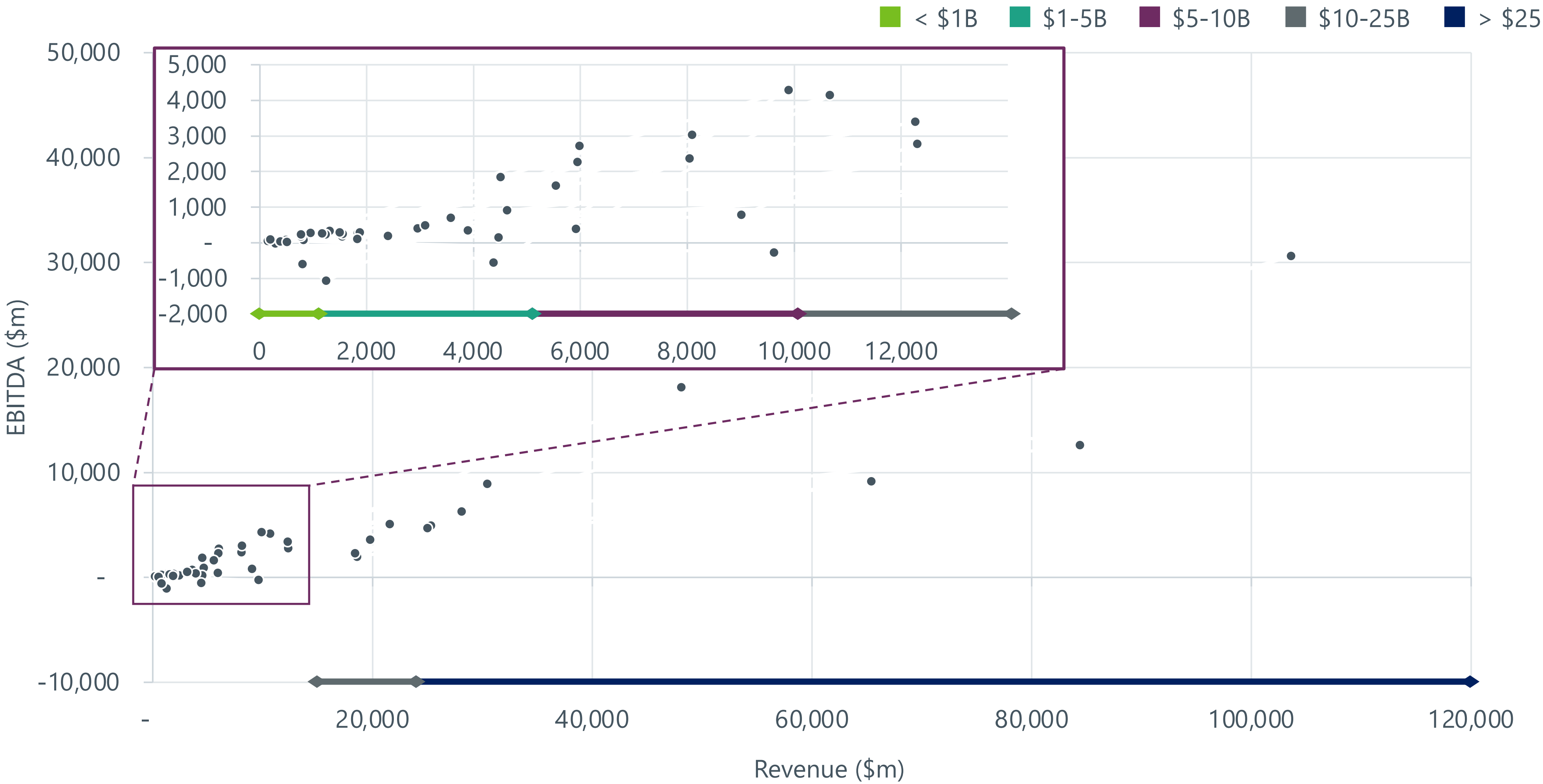
Consolidation creates value by better utilizing assets, while reducing costs through economies of scale. It also helps achieve many of the key success factors that differentiate successful media businesses: e.g., ecosystems, diverse portfolio, cross-supporting assets, diversified revenue. Crucially, it also enables the creation and exploitation of data.

The biggest challenge is managing the complexity of operating what diverse and large businesses entail.

INDUSTRY TRENDS

We have captured a wide spread of different sized businesses in the sample, reflecting current state of the sector

The media organisations sampled ranged in size from $150m to $105B revenue. In order to best enable comparisons for this analysis, the list was divided into five segments:



67% of the sample own more than one media type, with an average of 2.6 mediums per company

Diversification is the norm, typically with adjacent mediums. This is most prevalent within the 'Vision' grouping typically combining traditional TV and Film assets with VOD/BVOD, likely driven by the 'war for content'. Similarly, within 'Audio', 40% of Radio businesses also offer Digital Audio. Exceptions can be seen in Gaming and Newspapers, which tend to be standalone (55% and 50% respectively).

Size is the biggest factor in number of assets

Size	Avg. # Assets	Avg. # Asset class
<$1B	2	1.1
$1-5B	2.5	1.5
$5-10B	1.8	1.3
$10-25B	3.1	1.5
$>$25B	4.7	2.3

The most common combination of assets is across the vision grouping, where almost all companies have more than 1 asset (>90%)

Aligning Radio and Digital Audio, along with news is the second most common grouping

- >40% of sample
- 25-40% of sample
- 10-25% of sample
- <10% of sample

	VISION				AUDIO			PUBLISHING		GAMING
	TV Broadcast	**TV Cable**	**TV VOD/BVOD**	**Film**	**Radio**	**Music**	**Digital Audio**	**Newspaper & Magazines**	**Books**	**Video Games**
TV Broadcast	19									
TV Cable	9	18								
TV VOD/BVOD	11	13	20							
Film	4	8	8	14						
Radio	5	2	4	0	10					
Music	2	3	3	4	0	9				
Digital Audio	2	2	3	2	4	2	8			
Newspaper & Magazines	4	3	7	2	4	3	2	17		
Books	2	4	4	3	1	3	4	6	8	
Video Games	1	3	4	4	0	3	1	1	2	11

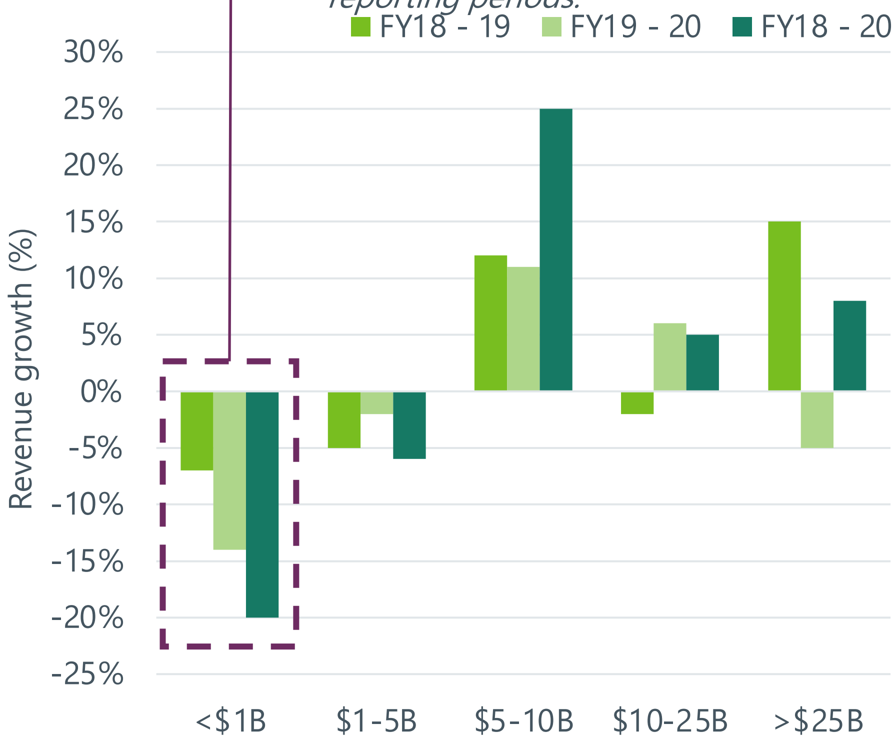
Video Game companies are the most commonly single asset business in the sample (55% of sample)

Smaller players (<$5B) have significant declines in revenue, while large media businesses grow revenue

Businesses below $5B have tended to have significant declines in revenue, particularly those below $1B in revenue who lost 20% of revenue during this period. By contrast, larger businesses (>$5B) have grown their revenue. Businesses who own 'Vision' assets and Video Game companies have been able to grow revenue. Publishing assets have been particularly impacted by declines.

BY SIZE

Smaller companies, with less diverse revenue streams, performed notably worse than the average over the three reporting periods.

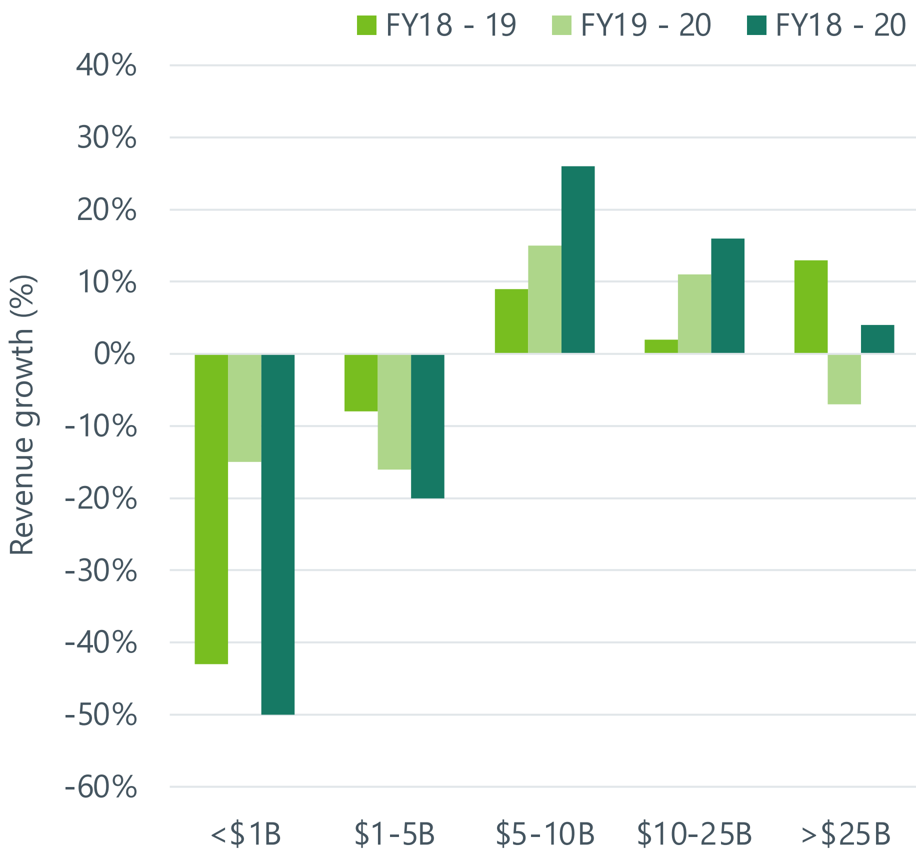


ASSET	REVENUE GROWTH (FY19-20)	REVENUE GROWTH (FY18-20)
VISION		
TV Broadcast	2.4%	-2.3%
TV Cable	1.3%	7.4%
TV VOD/BVOD	-0.1%	1.7%
Film	-13.4%	-14%
AUDIO		
Radio	3.3%	5.0%
Digital Audio	-3.6%	1.2%
Music	3.8%	4.6%
PUBLISHING		
Newspaper & Magazines	-1.4%	6.1%
Books	0.2%	-0.4%
VIDEO GAMES		
Video Games	6.5%	13.5%
ALL SECTOR	**-2.4%**	**-1.2%**

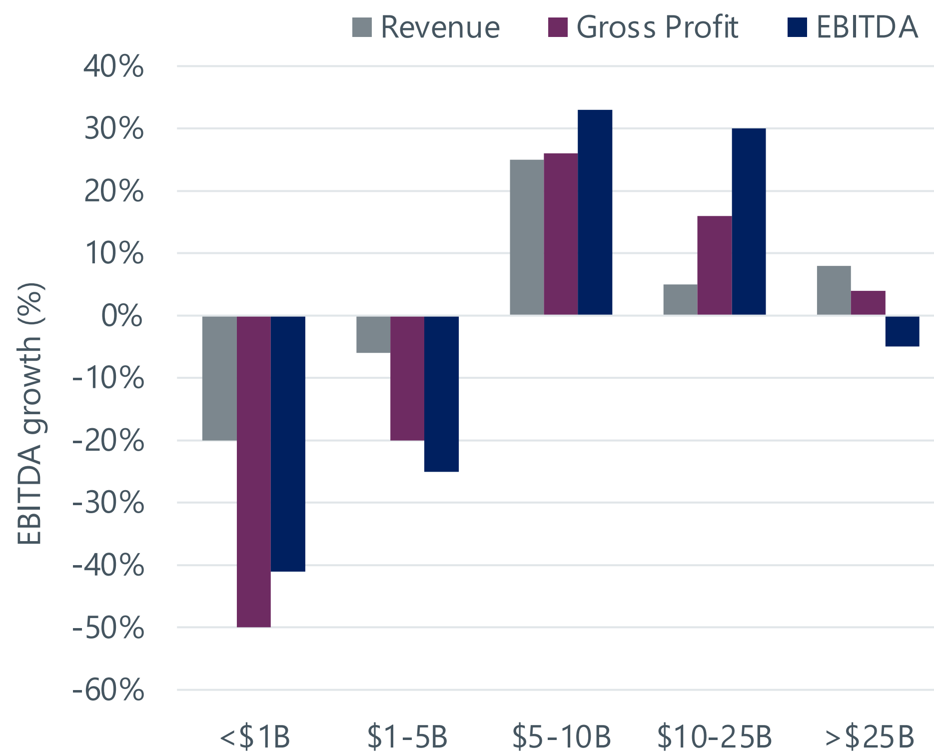
Declining revenue has reduced gross profit and EBITDA in firms below $5B, while the rest of the sector has grown

Gross profit has declined substantially for smaller businesses (<$5B), driven by sharp declines in revenue. This trend is reversed in larger firms (>$5B) who have seen growth in revenue that has supported growth in gross profit and EBITDA.

GROSS PROFIT



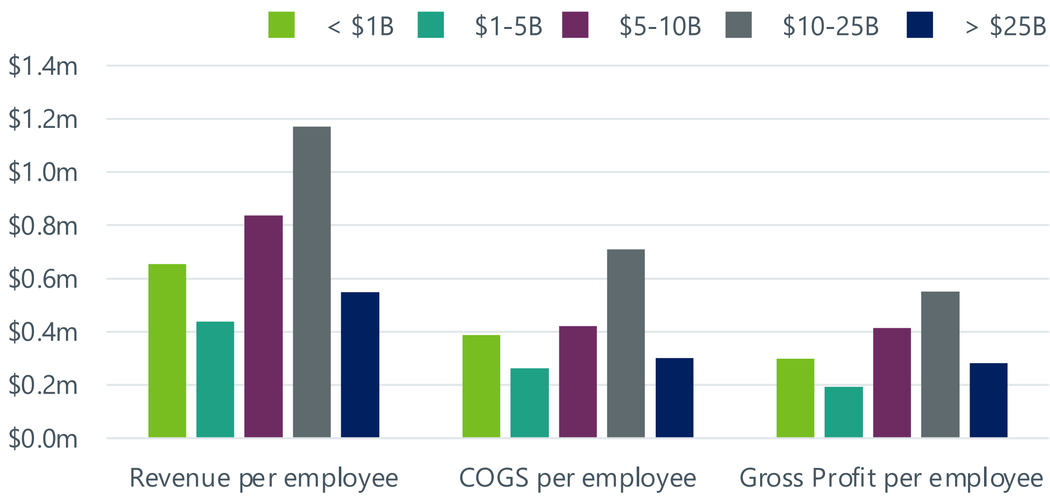
IMPACT OF REVENUE ON GP & EBITDA

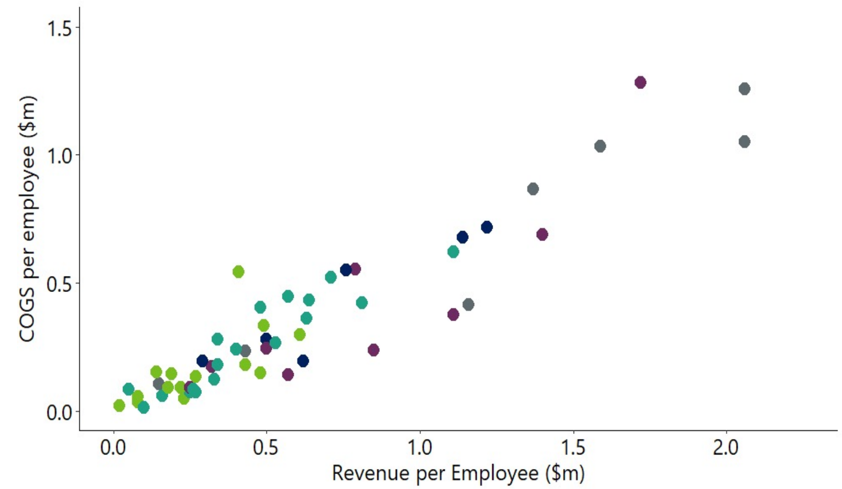


* NOTE: excludes Spotify who experienced a -2015% EBITDA growth FY18 - FY20

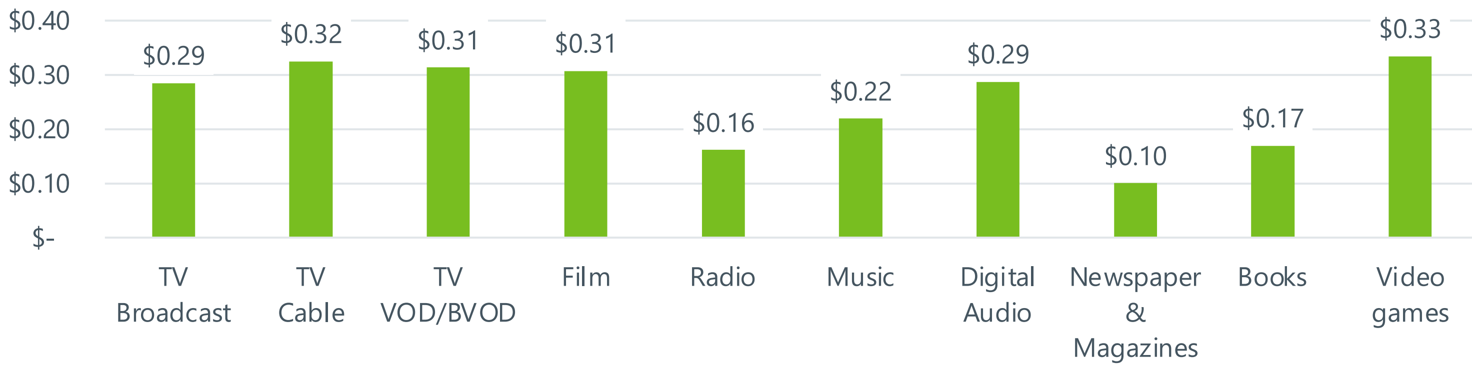
Size and asset type impact revenue and gross profit per employee, although this trend is not consistent

Media businesses in the $5B - $25B range appear to generate more revenue and gross profit per employee. These businesses also tended to have higher COGS (though this still translates to higher Gross Profit). This trend does not translate to the largest media businesses (>$25B) which tend to have lower gross profit to employee ratios, potentially due to a large operational workforce within these businesses.

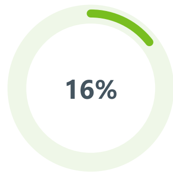




Gross Profit per employee varies considerably by asset class with 'Vision' business and Gaming having the highest, while Publishing and Radio delivering the lowest GP per employee

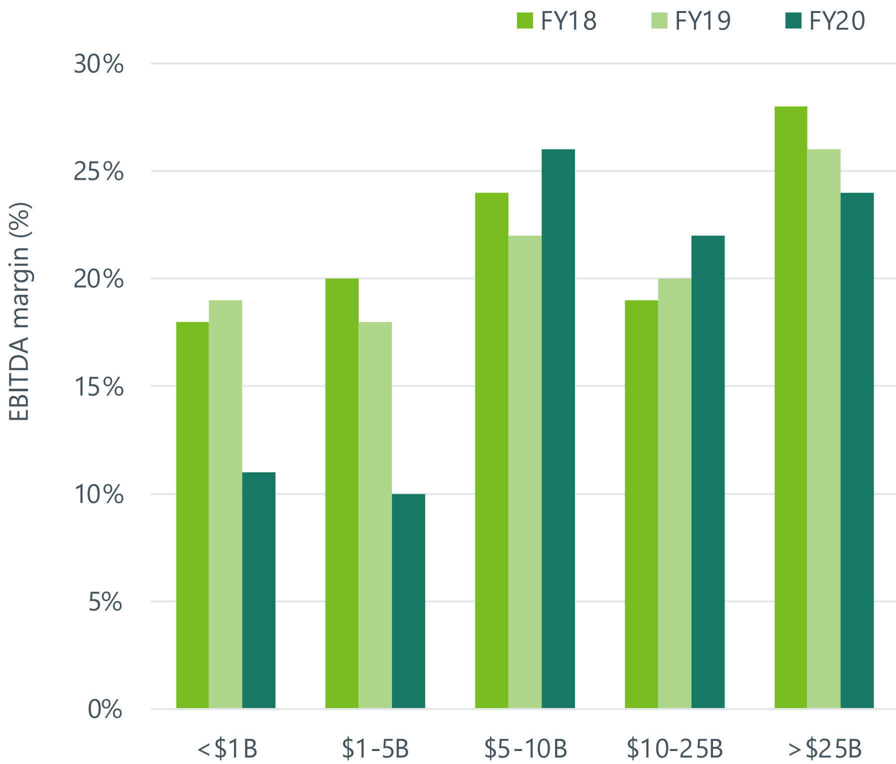


EBITDA margin has fallen substantially across the sector, particularly in businesses below $5B



Avg. EBITDA margin across the sample (FY20)

EBITDA MARGIN BY SIZE OF BUSINESS



In 2020 EBITDA margin fell substantially in businesses below $5B in revenue. By comparison, larger businesses have been able to maintain their margin. EBITDA margin fell across much of the sector, with substantial falls in traditional media assets such as Newspapers, TV Broadcast and Film. Video Games by comparison experienced growing margins across the period.

ASSET	AVG. EBITDA MARGIN (FY20)	AVG. EBITDA GROWTH (FY18-20)
VISION		
TV Broadcast	22%	-10%
TV Cable	24%	9%
TV VOD/BVOD	21%	4%
Film	2%	-36%
AUDIO		
Radio	20%	4%
Digital Audio	15%	-39%*
Music	11%	-14%*
PUBLISHING		
Newspaper & Magazines	13%	-9%
Books	13%	-2%
VIDEO GAMES		
Video Games	25%	19%
ALL SECTOR	**16%**	**-7.5%***

* NOTE: excludes Spotify who experienced a -2015% EBITDA growth FY18 - FY20

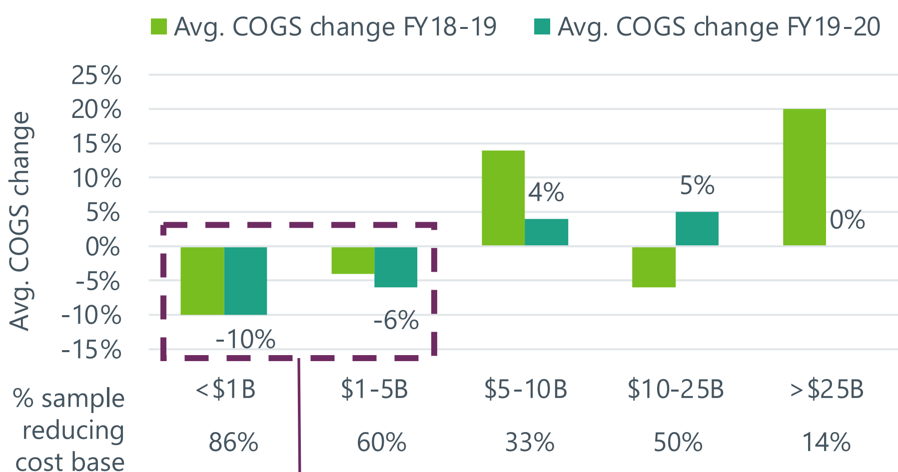
Most of the sector has continued to cut costs to maintain their EBITDA profile, esp. businesses below $5B

of media companies reduced cost base (FY18-20)

OF THE BUSINESSES THAT HAVE CUT COSTS:

Revenues have declined by 23% → COGS have reduced by 26% → To deliver an 11% EBITDA margin (FY20)

COST REDUCTION BY SIZE



Businesses below $5B have had to cut their cost base significantly to maintain their EBITDA profile

Across the sector most businesses are still reducing their overall cost base to adjust to declines in revenue. Cost reduction is prevalent across the sample, most prominently in companies with revenues below $5B. Examination of the sample also indicates that one driver of this change is traditional media businesses shifting towards a digital model (68% of this segment of the sample made cuts FY18-20).

ASSET	AVG. COGS CHANGE (FY19-20)*	AVG. COGS CHANGE (FY18-19)*	% SAMPLE CUTTING COST BASE (FY18-20)
VISION			
TV Broadcast	-2%	-3%	58%
TV Cable	3%	13%	40%
TV VOD/ BVOD	-3%	1%	57%
Film	-8%	-10%	57%
AUDIO			
Radio	-5%	4%	60%
Digital Audio	3%	9%	50%
Music	6%	8%	25%
PUBLISHING			
Newspaper & Magazines	-7%	-10%	75%
Books	0%	-0%	67%
VIDEO GAMES			
Video Games	2%	13%	33%

* NOTE: includes global CPI change (Source IMF, Advanced Economies)

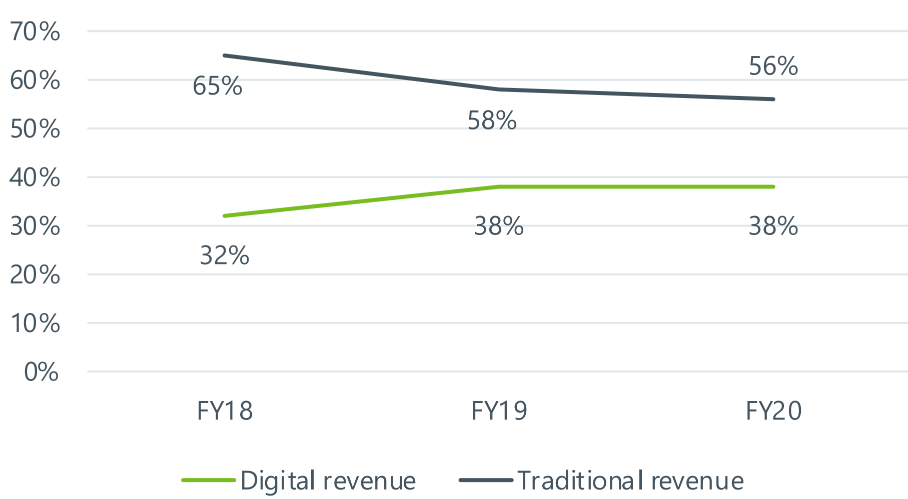
Media is continuing the trend towards digitisation…

Of the businesses that publicly report digital revenue, there is a clear trend of digital revenues growing absolutely and as a proportion of total revenue. However, across the sector most revenue is still delivered from traditional revenue streams, though the gap has closed considerably between FY19 and FY20.

53%

of the sample reported digital revenue segmentation

DIGITAL REVENUE IS GROWING IN THE SECTOR WHILE TRADITIONAL REVENUE CONSISTENTLY DECLINES

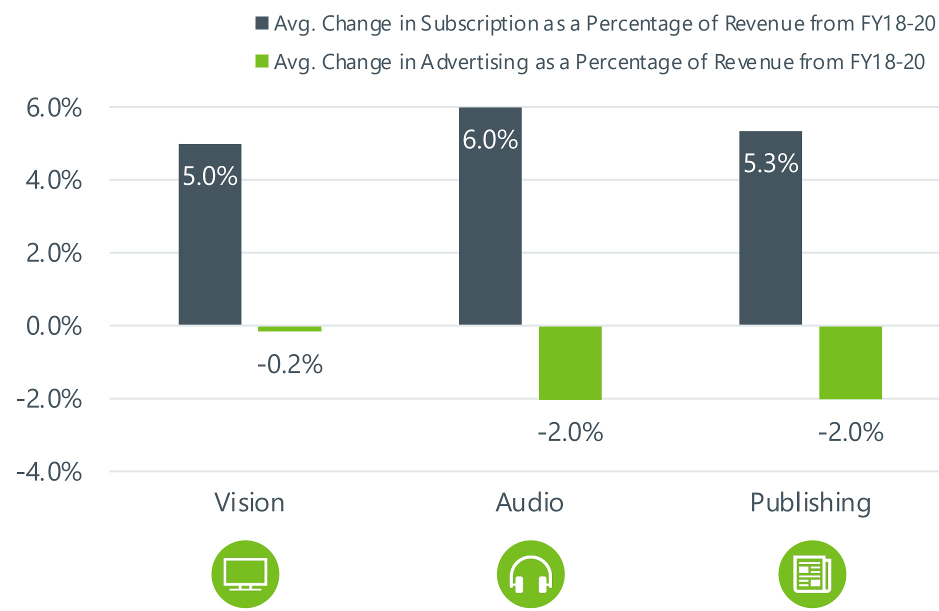


…alongside an ongoing decline in advertising revenue

Advertising revenue as a percentage of total revenue has declined over the past three years whilst subscription revenue has increased its share of total revenue by at least 5%. A very small proportion of organisations report subscription and advertising revenue, however, which may mask some of the overarching trends.

30%

of the sample reported subscription and advertising revenue



How we think about these challenges

How Q5 think about some of these challenges

The media space continues to be dynamic with some businesses experiencing significant growth, while others have experienced considerable revenue challenges. Overall, we see four key groupings of media businesses who each have a different transformation agenda.

1

Companies facing declining revenues who need to cut their cost base

Make strategic cuts while planning growth by understanding the 'True Economics' of your business

2

Large, complex businesses with multiple brands and channels

Integrating and 'rewiring' the business to make the most of your content assets and sales capability

3

Traditional media businesses seeking to transform into a digital business

Rethink your customer, operating model, capability and culture to create a digital enabled business

4

Rapidly growing digital businesses struggling to keep up with their growth

Developing a program to mature and scale the business for sustainable growth

Over the next four pages we will present our perspective of the key elements of these challenges and potential solutions, based on our experience in the sector. We will also present a case study giving you a sense of the support we have provided and results we have achieved with our clients.

1) Make strategic cuts while planning growth by understanding the 'True Economics' of your business

THE CHALLENGE WE SEE

The analysis presents a view of many media businesses continuing to cut costs as revenues fall to sustain an acceptable EBITDA profile. While necessary in the short-term, these businesses may unwittingly pass a point of no return where cuts have gone beyond what can be sustained operationally.

No company can realistically succeed by simply cutting to greatness. Most traditional media businesses have long since gotten rid of obvious inefficiencies in the existing model and are well versed in cutting unprofitable products.

RESOLVING THIS CHALLENGE

Facing the headwinds that most traditional media businesses are experiencing, there is a need to take a long-term perspective against short-term realities, with a view of fundamentally rethinking the business over five years. This means a root-and-branch examination of the business from market conditions, consumer trends, products, capability, operating model, operational activity and resourcing. Using this vantage point can understand the 'True Economics' of the business today and into the next five years with a strategic view of where to invest, where to cut and non-negotiables to transform the business.

UNDERSTANDING THE TRUE ECONOMICS OF A NEWSPAPER BUSINESS

CONTEXT	Our client is a major, global news brand who experienced significant declines in revenue year-on-year, resulting in regular cost reduction and a shrinking newsroom. While they had grown the audience of their digital product digital revenues didn't offset losses.			
HOW WE HELPED	Analysis of product performance and audience	Benchmarked activity against cost vs value/impact	Scenario modeling of revenue and cost over time	Supported op. model design and realignment of resource
OUTCOMES	**Defined strategic position of business** including opportunities for growth and savings	**Defined strategy,** size of prize and opportunities to increase digital revenues by 40%	**Identified savings** for reinvestment (12% of total editorial spend)	**Designed 'Newsroom of the Future'** to deliver strategic objectives

2) Integrating and 'rewiring' the business to make the most of your content assets and sales capability

THE CHALLENGE WE SEE

For many businesses in the analysis, growth and acquisition have led to an increasingly complex business, spanning multiple mediums and brands. Three challenges facing these business are (1) complexity leads to fragmentation with siloes developing to manage the business at the expense of collaboration; (2) the size and scale of the business makes progress on strategic priorities nearly impossible as execution becomes harder to deploy; (3) larger voices swamp the needs of smaller components. In each of these instances the outcome is these entities fail to make effective use of the assets across the portfolio and customers suffer.

RESOLVING THIS CHALLENGE

The start point in such situation is to unequivocally reorient from a position of attempting to resolve the complex internal challenges to instead begin and end with your customers. By starting with your customer, you can determine what is the right proposition within each market and develop a service model that delivers for them. This perspective makes the decisions on how to organise the business simpler and targeted to effectively meet this need. This lens will also help to determine what activities and capabilities need to be held locally, versus the aspects of the business that can be effectively centralised.

SETTING A NEW DIRECTION FOR A GLOBAL RECORD LABEL

CONTEXT	Our client was a multinational entertainment and record label company who were looking to devise a new strategy fit for the ever-changing market landscape, where companies such as Spotify and Apple Music were becoming more powerful.			
HOW WE HELPED	A rigorous and flexible revenue and cost model was constructed based on current financial and people data.	We defined 8 key strategic opportunities over the next year, including the steps required for delivery and investment requirements.	Compared against the first model, this provided an outlook of the potential impact of each opportunity over the next 3-5 years.	Each opportunity and delivery was built up in close communication with the CEO and CTO to help narrow down on which opportunities to prioritise and present to the Board of Directors.
OUTCOMES	**An in-depth overview of potential strategic scenarios** and the impact of each were completely understood	**Enabled prioritisation of core strategic initiatives** and the steps required for each delivery	**A clear and in-depth board pack was produced** to effectively request investment for the strategic roadmap	Client was provided a **fully utilisable cost model to help map future opportunities** and their impact on cost and revenue.

3) Rethink your customer, operating model, capability and culture to create a digital enabled business

THE CHALLENGE WE SEE

Media has always been dynamic, but the shifts presented by digital have demanded rapid transformation beyond all expectations. Traditional media businesses have been faced with a conundrum of how to protect declining traditional revenue streams, while growing new capabilities and offers to gain new revenue streams in the face of digital-native challengers. Underlying all of this is a very real clash of cultures, capabilities and narratives between the guardians of the traditional business who make the majority of the revenue, and 'digital upstarts' who often represent the future of the industry but underdeliver revenue today.

RESOLVING THIS CHALLENGE

We typically challenge these businesses to first reexamine their purpose then rethink what needs to change in the business to deliver this in a 'transformed' world. Practically this means asking them to design for five years from now, rather than the needs of today. Often this perspective brings an optimistic opportunity to rethink how you do business and how you serve customers. Capability and culture are often the hardest barriers to overcome, underscoring a transitional journey where multiple smaller transformations are needed to reach the digital ambition.

RETHINKING RADIO FOR A DIGITAL WORLD

CONTEXT	Q5 were engaged by our client, a traditional radio business, to mature and operationalise their strategy to develop a digital audio business that would keep them relevant as radio consumption declined and realise the opportunities of digital audio.				
HOW WE HELPED	Analysis of market and consumer changes	Defined customer needs and unique proposition	Designed an integrated audio operating model	Mapped capability and culture requirements	Created a 5-year roadmap with success measures
OUTCOMES	**Aligned the executive** on the challenge, opportunity and need to change	**Implemented new model** to deliver both traditional and digital audio products	**Gained Board support** for an ambitious change with a clear business case for investment	**Established new capabilities to support digital** including Data & Analytics	

4) Developing a program to mature and scale the business for sustainable growth

Q5

THE CHALLENGE WE SEE

While many in the sector have experienced failing revenues, some have grown strongly. In particular, many digital-only media companies have significantly grown their revenue. This growth has also come with growing cost bases, often loading on resourcing to support growth ambitions and growing operations. A substantial challenge that many of these businesses face is rapidly maturing the business, in line with their size without losing the magic that has made them so successful. Without this maturation these businesses organisational architecture can crumble under the weight of a business bigger than the foundations.

RESOLVING THIS CHALLENGE

In our experience, the areas that typically lag the growth trajectory are leadership, enabling functions and governance. This means building functions that are nascent or at times non-existent like Finance, HR and public relations. There is often a need to develop the leadership team, many of whom are founders who now need to lead in a bigger business with more complexity, which often requires a different leadership dynamic and governance model. More broadly these businesses often need to redesign their model to enable a more scalable, cost-effective model to deliver return to shareholders.

MATURING HR AT A GAMING SUCCESS STORY

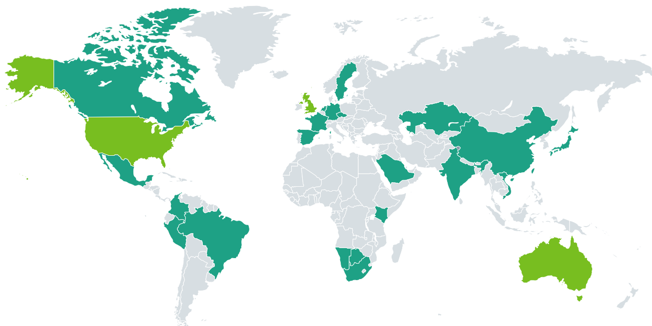
CONTEXT	Our client is one of the worlds largest games companies, which in less than 15 years had gone from a fledgling business to a multi-billion dollar business. HR capability emerged as a key challenge, with Q5 being engaged to redesign their global HR function.				
HOW WE HELPED	Defined HR vision and KPIs aligned to service needs	Redesigned HR processes around the HR lifecycle	Designed a fit-for-purpose HR operating model	Defined HR structure and leadership roles	Establish a prioritised HR maturation program
OUTCOMES	**Stood-up a fit-for-purpose HR function** to meet business needs	**Improved operational efficiency** through 60 new HR processes	**Greater role clarity** with resourcing to match operating needs	**Clear maturation roadmap** to support ongoing optimisation	

Since we've been around, we've been around.

We work with business leaders, CEOs, Chairs and through to broader leadership teams. We work with all sectors, from Media to Financial Services to Retail, Infrastructure and the Public Sector.

We’d be happy to discuss further with you.

With offices in Australia, UK, US and Hong Kong, our team of 250 work as one global team delivering projects with over 150 organisations every year. If any of these themes and observations resonate with you, do let us know.



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