OTT_X Workshop Two: Content Valuation and Forecasting

Wednesday, July 17, 2019
11 AM – 12 PM

CINEDIGM

Agenda

Consumers Have Shifted from Traditional Distribution to Digital

- Consumer spending is continuing to change dramatically
- According to the DEG Home Entertainment trends over the past 5 years Physical has declined from $11.8 B in 2013 to $5.8 B in 2018 a -13% CAGR
- Total Digital spending including Electronic Sell Through, Video On Demand, and Subscription Streaming has grown from $6.5 B in 2013 to $17.5 B in 2018 (+22% CAGR)
- Subscription streaming has been the leader in growth with a 32% CAGR over the same time frame (2013-2018) and is expected to continue to grow
    - Original content is a game changer offering consumers high value alternatives and creating competition for studios, independents, and cable & broadcast television
    - Original content production is escalating and creating growing proprietary libraries resulting in greater competition for studios, independents, cable & broadcast television
- There has been an opportunity created in non-exclusivity
    - aVOD expansion in conjunction with cable and TV advertising spends rapidly shifting and growing at the aVOD/OTT level
    - Created multiple distribution options to gain incremental revenue on sVOD and aVOD alike

Subscription Video on Demand (sVOD)

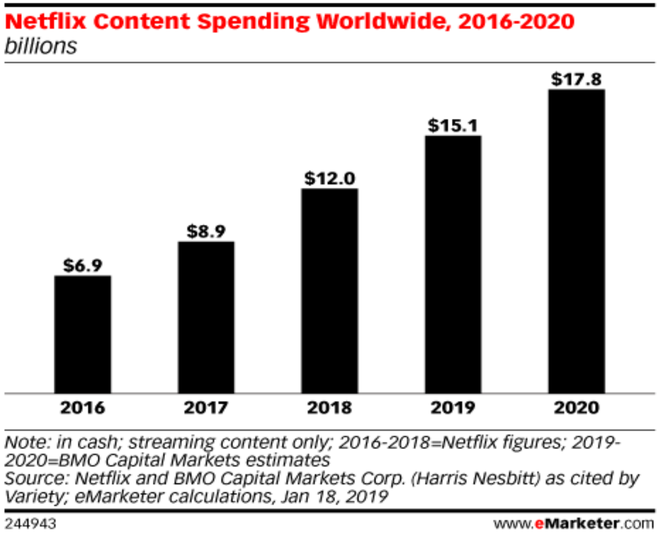
US SVOD Subs by Platform (in thousands)

	Platforms	2018	2019	2024	CAGR
1	Netflix	58,486	62,316	68,336	19%
2	Amazon	50,232	53,928	61,238	20%
3	Hulu *	21,400	25,519	41,595	32%
4	Disney Plus	-	1,000	25,000	na
5	HBO	8,000	10,937	21,068	44%
	Others	18,428	28,575	52,860	48%
	Total	**156,546**	**182,275**	**270,097**	29%
	Top 5	***138,118***	***153,700***	***217,237***	***26%***
	% of Total	*88%*	*84%*	*80%*	

SVOD subscriptions include movies, linear channels and TV episodes - excluding other platforms such as sports services

**Hulu excludes Hulu Live* *Source: Digital TV Research June 2019*

- By 2024 sVOD Subscribers will reach 270M with an annual revenue run rate of ~ $30 billion
- An average US consumer uses roughly 3 services
- Top 5 sVOD platforms Netflix, Amazon, Hulu, Disney Plus, and HBO will have 217M subscribers by 2024, 80% of total subscribers



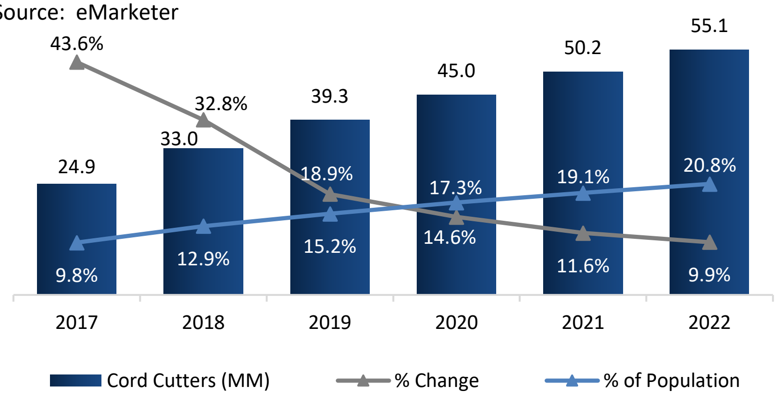
- Netflix is projected to spend $15 billion on content in 2019, Amazon is estimated to spend $6 billion
- Non-sports programming content spend among major Hollywood studios, CBS, Hulu, and Discovery are estimated to spend north of $55M
- Growth of original content among sVOD operators, producers, and talent has created greater competition for studios and independents
- Getting on an sVOD platform or starting an sVOD platform requires large capital investments

The ongoing shift from linear television to digital video viewing has provided lift for both subscription video on demand ("sVOD") and more recently, advertising video on demand ("aVOD") services. "Cord Cutting" itself has mostly shifted household content spend from Pay TV providers to sVOD services, leading consumers to adopt aVOD services, Nielsen estimates 68% of US households have a Connected TV

Growing aVOD user base paired with impressive ad viewership, with completion rates expected to fuel aVOD ad spend. Currently US TV advertisers spend over $70 billion annually

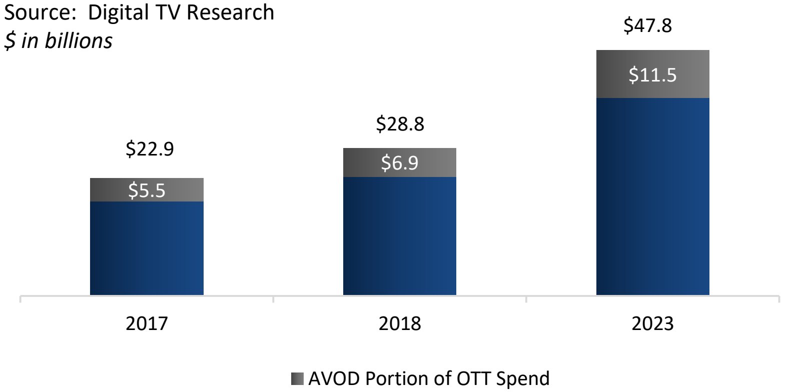
As Consumers Increase Cord Cutting Activity…

Source: eMarketer



…Total OTT & AVOD Spend Experiences Rapid Growth

Source: Digital TV Research
$ in billions

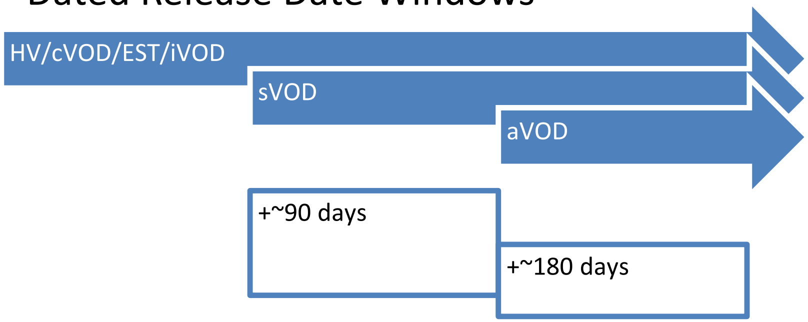


Windowing Strategies

- Getting the Windowing release strategy right is essential to maximizing revenue & profits in our dynamic digital ecosystem
- The shift from HV to high growth digital release mediums areas such as sVOD and aVOD has caused distributers to adjust their windowing strategies
- Netflix / Amazon Prime investment in original productions
- Major studios creating proprietary services
  - Locking in homegrown properties exclusively to their services
- Economics changing significantly for independent content where the large advance sVOD deals are not as common

- The Value of non-exclusivity
  - Without having to wait for exclusive sVOD windows to close, now distributers can be more flexible where and when content is released
- Old 3, 6, 12-month holdbacks are no longer the optimal strategy to maximize revenue
  - This applies to NR and Catalog decision making
- If there is no significant sVOD licensing opportunity for a property it is making more sense to get it distributed on various aVOD and OTT based distribution channels

Dated Release Date Windows



Valuing Content Profitability

- With exclusive sVOD dollars and opportunities shrinking there are benefits to having non-exclusivity
- The economics of sVOD and long-term distribution are either Advance driven or Revenue Share driven
  - Advances lock in your profits for multiple years while forgoing revenue upside potential
  - Revenue share structures will allow content owners to benefit from the high growth in non-exclusive sVOD and aVOD opportunities as these windows are becoming interchangeable
- OTT Ventures in Direct to Consumer Apps / Subscription Services
  - Over the first few years of the cord cutting movement many studios and content owners went down the road of building DTC sVOD services; many of which were not profitable and end up closing down
  - Lack of understanding on the time and cost to build
    - Infrastructure, marketing, and delivery costs, lack of understanding time needed to acquire and aggregate content were not accurately forecasted
    - Sony Crackle for example was purchased in 2006 for $65m and since then high internal costs, high capital investment spend has led to selling platform to Chicken Soup For The Soul in 2019

- Due to lack of historical data on OTT platforms most of the focus on valuations and revenue forecasting revolves around projecting MAUs for channel potential
- Brand/Content fit in the OTT ecosystem
  - Does the library/brand have enough high-quality content that it can carry it's own channel?
  - Can the potential revenue support significant capital investment to launch new sVOD channels?
  - Can it support aVOD-only level channels with enough volume and turnover to keep users active and growing?

sVOD Channel Modeling

$$\boldsymbol{Monthly\ sVOD\ Revenue} = \boxed{\boldsymbol{Monthly\ Subs}} \times \boldsymbol{Subscription\ Price}$$

$$\boldsymbol{Monthly\ Subscribers} = \boldsymbol{Begin\ Subs} + \boldsymbol{Increased\ Subs}\ - \boldsymbol{Churned\ Subs}$$

sVOD Monthly Average Subscribers #

- Monthly Growth Rate: Monthly new subscribers acquired
- Monthly Churn Rate: While new users keep joining in the channel, some users might quit from the service in the month

Subscription Price $ per sub

- Appropriate price set based on the willingness of customers to pay, the specialty of the content library and the competitors' offering

$$Monthly\ Ad\ Revenue = \boxed{Monthly\ Ad\ Impressions} \times CPM/1{,}000$$

$$Monthly\ Ad\ Impressions = MAU \times Viewing\ Minutes\ \times Ads\ Displayed\ per\ Min$$

Content

Enough basic content hours and regular refresh are important drivers of the active user base and user growth rate

- Genre / Talent: identify the target audience and market position of the new channel
- Length of the Content: different devices require different content length
  - *e.g. long-form content for Connected TV*
- Minimum Hours of Content: need to meet the minimum requirement of content hours to establish a standalone channel
- Content Refresh Rate: to maintain and grow the active users by either licensing new titles or expanding the library

MAU x Viewing Minutes

- Monthly Active Users: # of users watching the channel in a month
- Monthly Growth Rate: monthly new users added
- Monthly Viewing Minutes per User: the longer time the viewers watch the channel, the more ads would be displayed

Ads Displayed # per Minute = Ad Request x Ad Fill Rate

- Ad Request: the number of ad units that requested ads
  - *e.g. 2 ad requests in every 10 minutes*
- Fill Rate: (Ad requests that returned ads / total ad requests) * 100

CPM

- CPM: Direct sales or Third-party programmatic advertising

Q & A