

# Filmed entertainment



Original content from media platforms reach a broad audience and is hence a growth driver for the market

The market environment is getting even more competitive; there will be not only winners



Technology is driving not only the digital, but also the physical entertainment experience



## Segment definition

Filmed entertainment is distributed by out-of-home and in-home channels. Out-of-home includes cinemas, i.e. consumer spending at the box office. In-home comprises the home viewing of both physical and online films and shows.

In-home physical includes the purchase or rental of videos, CDs and DVDs at video stores and other rental outlets, as well as DVD-by-mail services.

In-home digital includes on-demand services that offer movies, TV programmes or other premium video content via TV subscription providers (e.g. cable, satellite and telco providers) or over-the-top (OTT)/streaming services (e.g. Hollystar). Digital home video through TV subscription providers comprises spending on video-on-demand (VoD) and pay-per-view (PPV). Digital home video through OTT/services consists of revenues from stand-alone services (e.g. Amazon Prime Video) whose content is accessed via a broadband or wireless internet connection and viewable on a PC, TV, tablet, smartphone or any other capable device that bypasses TV subscription providers.

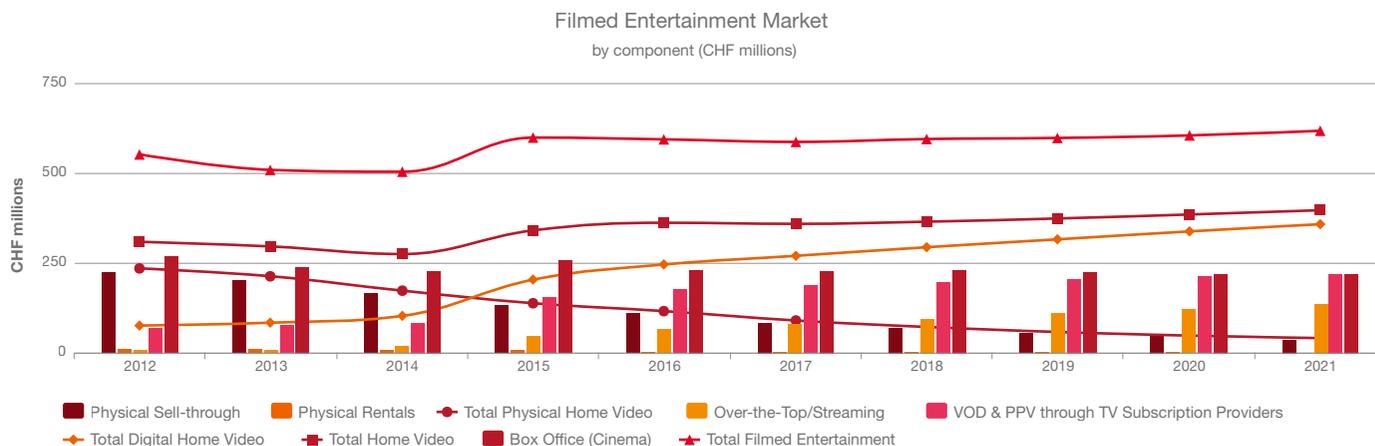
Further, these services are divided into transactional video demand (TVOD) and subscription video on demand (SVOD). TVOD services (e.g. iTunes) deliver filmed entertainment content via the open internet and do not require a subscription. SVOD services (e.g. Netflix) are also delivered over the open internet, but require a subscription.

This segment includes neither music videos or short clips, nor ancillary revenues earned by cinemas, such as sales of snacks, beverages or accessories (e.g. 3D glasses).

## Online video und TV services (on demand) in the Swiss market

Business model	OTT service	TV subscription provider*
<b>TVoD Transaction-based Video on Demand</b> User pays per consumed item	iTunes   GooglePlay	Teleclub   Swisscom   Horizon   UPC
<b>SVoD Subscription Video on Demand</b> User pays per consumed item	Netflix   Hollystar	Play   Swisscom   MyPrime   UPC
<b>AD VoD Advertiser-supported Video on Demand</b> User 'pays' by accepting advertising	YouTube   Twitch	–

\* This list is not exhaustive



Analysis by PwC



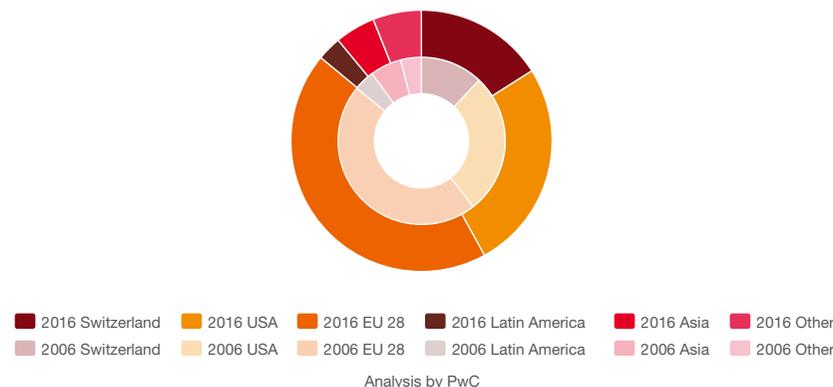
## Business innovation

The agreed cooperation between Bloomberg Media and Twitter is a good example of an innovative business concept which combines the key aspects of being a global platform, offering video streaming technology and providing relevant content.

It was announced that the joint venture will offer the first-ever 24/7 live video streaming for news consumers; the operating start is planned for autumn 2017. By combining the strengths of each company – Bloomberg contributes its media and journalism expertise, Twitter its global reach and user interactivity – a successful news platform is in the process of being built up. The channel is said not simply to rebroadcast content from the existing television operation; live news reports from around the world and videos as well will be provided. By including user-generated content, which will be scrutinised and verified by Bloomberg editors, the audience should be attracted and animated to use this channel actively. This agreement reflects Twitter's ambitions to broadcast even more live content and broaden the entertainment offerings on the platform, while Bloomberg gets the chance to focus on reaching a global audience.

Other media platforms are on a similar track. Snapchat for instance introduced its Discovery feature, where users are shown ads between articles and videos. The company is already collaborating with a wide range of well-known publishers like CNN, The New York Times, Daily Mail and BILD. So a live stream with quality content and up-to-date journalism is a further step towards bringing together news channels, media platforms and the younger generation. Combining relevant content with targeting opportunities for advertisers on a demanded platform is a promising business concept, especially for news channels that are otherwise underrepresented on streaming platforms.

Market Share of Films by Country  
2006 vs. 2016 (in %)



## The Swiss filmed entertainment market

### Market overview

Due to technological advances and modern ways of consuming media, the filmed entertainment sector is changing – the physical as well as the digital channels are affected by this. Last year, the total market declined by 0.7%, representing a loss of about CHF 5 million in absolute numbers. Whilst the in-home digital channel with its OTT segment grew significantly, the cinema segment and physical channel did not contribute positive revenue growth rates last year.

The physical channel is the main culprit here: decreasing revenue numbers are underscoring the persistent downtrend observed in recent years. Since 2012, revenues in the physical channel have diverged in terms of sales and physical rental figures. In 2016,

revenues of CHF 111 million were generated through physical sales of movies, DVDs and at shops or rental outlets, a decrease of about 15% compared to 2015. The rental figures are showing a similar tendency; this segment decreased by more than 30% on revenues of CHF 4 million. This declining trend is mainly due to the fact that more people are using other options to gain access to the latest movies, mostly via digital channels. However, modern high-end formats like 4K UHD Blu-ray attracted buyers and bolstered the physical segment's market position last year, so the total decline was less than expected.

Not only the physical sell and rental revenue stream is affected by technological progress; the cinema industry as well is challenged by modern media consumption behaviour. Fluctuating revenues over the past couple of years elucidates how important blockbusters or sequels of well-known movies are. Whereas in



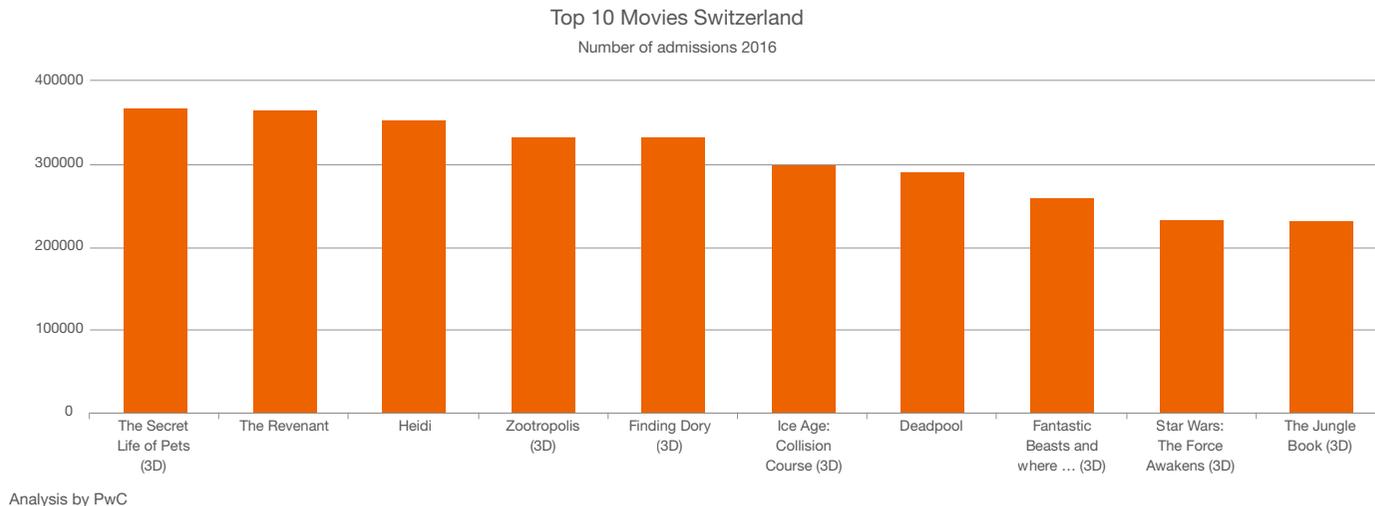


*“The trend away from single-theatre to multiplex cinemas continues. Moviegoers can be offered a broader range of viewing options, and cinema operators can improve their profitability more easily.”*

**René Gerber**  
General Secretary | ProCinema

2015 a remarkable growth rate of almost 13% was recorded, in 2016 revenues fell by 10% to a total box office of CHF 233 million. The fact that only one cinema was opened and 15 screens closed in 2016 reflects last year’s challenges within the market. The movie with the most number of admissions was ‘The Secret Life of Pets (3D)’, followed by ‘The Revenant’ and the Swiss-German co-production ‘Heidi’. The total number of admissions for these three movies exceeded the one million mark, only half compared to the previous year’s top three movie number of admissions of 2.1 million. But there are also notable positive aspects: new, modern cinema screens are planned to open before the year is out, and multiplex cinemas in particular are becoming trendier. As in previous years, demand continued for 3D animated movies, which garnered a market share about 20% of total admissions. Additionally, it should be mentioned that VR has also become more relevant, and potential business models for application in Swiss cinemas are being conceived.

At present, the digital channel (including OTT technology) is recording the fastest growth rate in the filmed entertainment sector. Driven by the market entry of Netflix in 2014 and improved streaming offers or flat rate packages from TV providers, the market figures are rising rapidly. Last year’s OTT revenues are estimated to be around CHF 67 million, a further increase of about 36% versus 2015. Nevertheless, local companies are facing



challenges, since younger people in particular prefer watching media content on international platforms such as Netflix, YouTube or Facebook. Swisscom and UPC have established their own SVOD offerings, but Netflix has better customer appeal than the operators’ SVOD offerings and is growing overproportionally. Teleboy, Apple TV and Hollystar (which was recently bought by Sky Deutschland) are trying not to lose market share, and, with Amazon Prime Video, another international competitor entered the market last December. Hence, this market segment is getting more diverse and competitive, so customers have to be targeted and convinced proactively. The marketing campaign from Netflix

to sell subscriptions on the ticket machines of SBB at Swiss railway stations is an appropriate example.

The cinema landscape in Switzerland consisted of 563 screens in total at the end of last year, many of which are owned by Kitag, Pathé or Arena Cinemas. Especially the fact that almost 50% of the total Swiss cinema admissions are generated in only three different cantons (Zurich, Bern and Vaud) underscores how important the location is, besides the total number of owned cinemas, when it comes to splitting the licensing costs for movies.



Within the TV subscription market there are two established companies leading the segment, Swisscom and UPC. Both offer a full package of TV channels as well as VoD services. Swisscom managed to grow in terms of customer numbers and revenues: the number of people with Swisscom TV access increased by more than 10%. As in previous years, UPC faced difficulties and lost further customers.

The OTT streaming market in Switzerland is dominated by a handful of companies, but Netflix and Hollystar are the major players with the highest number of customers. However, it can be expected that Netflix's current customer base is significantly larger compared to its local competitor. Compared to last year, the estimated number of people using Netflix in Switzerland has risen by more than 20%. Amazon Prime Video just recently joined the market. Its ambition for further growth and a larger market share poses a challenge for the companies within the segment and will give further boost to the streaming market.

### Principal drivers

#### **Original content tailored to the customer base is boosting growth**

Content will be the main driver of the market's future development. Since it is increasingly difficult to lure people in front of the screen, offering the right content is the key to success. International platforms like Netflix are producing an increasing amount of proprietary content, which is the key to success in enlarging their user base. In 2016, Netflix's original series accounted for five of the top ten most-searched TV shows globally. This represents a risk factor which is difficult to handle on the part of the cinema business, as this filmed content is not released in theatres before going online. To protect the cinema industry and support the film business, the prestigious Cannes Film Festival as of 2018 will exclude from their nomination process those movies and series that are only available via online channels.



#### **Sport broadcasting is a key offering**

Sport remains one of the most attractive and wanted entertainment products, which is why TV broadcasters as well as social media platforms are buying the related broadcasting rights in effort to differentiate themselves. An attractive entertainment portfolio combined with the ability to provide it in an individualised and technologically modern way promotes customer experience, which in turn represents a key driver for a company's growth in the years ahead.

#### **Market environment is getting even more competitive**

The third market driver or, as it were, disruptor within the filmed entertainment segment is the increased competition posed by new market entries or service offers via the internet. Due to



*“Since entertainment is growing and investments have to be monetised, the free content model sponsored by advertisement as well as the subscription model are continue to grow. Both models are supplementary and promoting the filmed entertainment market growth.”*

**Eric Grignon**

Chief Executive Officer | Hollystar



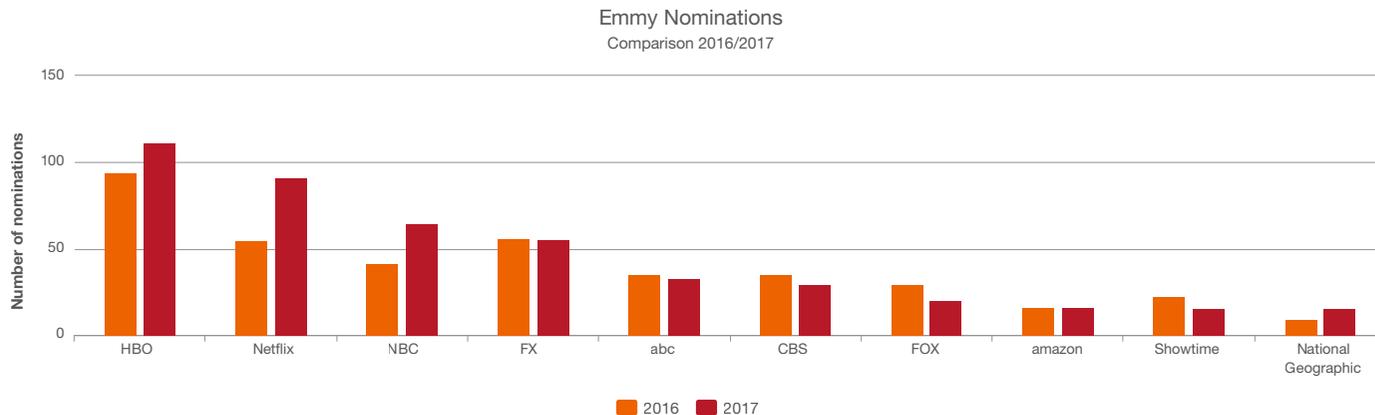


*“The market in Switzerland is under development and the competition is becoming more globally. Investing in content, improving the user experience, and achieving economies of scale are crucial to being successful in the long run.”*

**Eric Grignon**  
Chief Executive Officer | Hollystar

the fact that people are making increasingly use of more digital channels for media consumption, it is becoming even more difficult for cinema distributors to finance expensive licence fees for blockbusters. Cinemas with latest technological standards and an attractive programme are more likely to be profitable, but unless they achieve economies of scale, it will become even more difficult for them to compete. Serving niche markets can be profitable, though: due to the modest market size, the big players are elsewhere on the field.

Nevertheless, successful companies like Netflix are also facing challenges and must compete with local TV providers, other digital platforms like YouTube, Red or Apple, which announced it will spend \$1 billion for original television series and films over the next year. Besides that, the booming E-Sports sector and its streaming will grow further and compete for users. In Switzerland, Amazon is already collaborating with Twitch, the leading video platform for gamers, which boasts a customer base



Analysis by PwC

in the millions. And in addition to all of that, the illegal streaming option and piracy remain serious issues for the entire industry.

### **Advanced technology improves the entertainment experience**

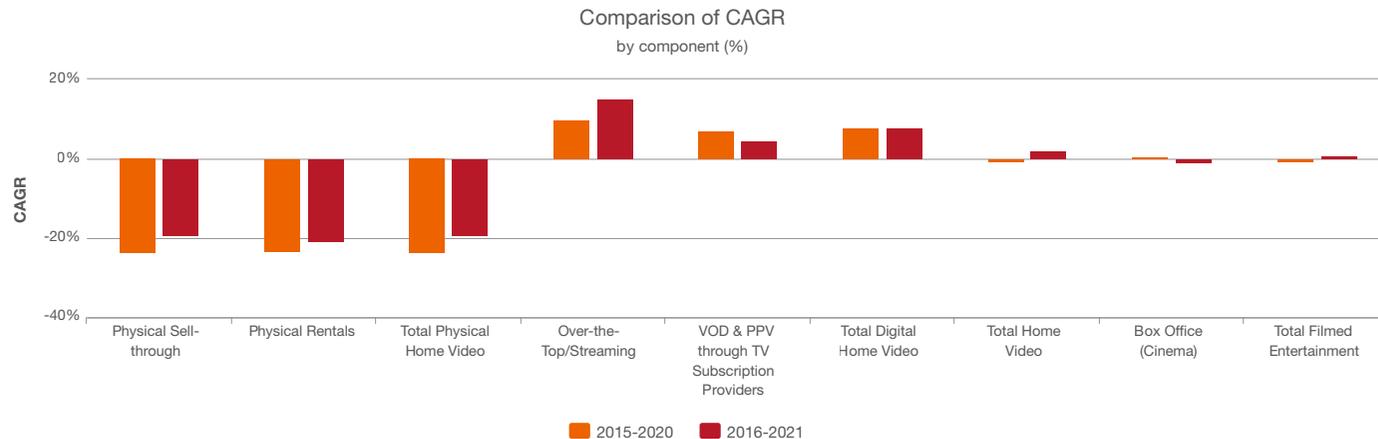
Last but not least, technical improvements and the integration of these advancements are driving the market, since they affect in equal measure both the physical and digital channels. Offering the best picture quality remains a competitive advantage for physical media because streaming services cannot yet offer it – advancements like 4K UHD Blu-ray represent the benchmark for quality excellence at the moment. By offering the latest audio as well as visual technology standards, cinema remains a unique experience for its visitors.



*“Currently, VR technology in the Swiss film industry has not really been commercialised yet. But there are plans to integrate it into the cinema business on a larger scale. However – at present – to a lesser extent in the cinema hall itself.”*

**René Gerber**  
General Secretary | ProCinema





Analysis by PwC

The ongoing success of the digital channel goes hand in hand with technological improvements and relies on further progress in this area – an improved quality of streaming, combined with even more mobile device users and better broadband connections, will propel the growth rate of digitalised services. Switzerland, with its highly developed broadband infrastructure, represents a perfect environment for this.

### Market growth

The market for physical content, sell-through and renting is on the decline: revenues in this segment will decrease by a CAGR of about -19% through 2021, which overall equates to revenues of less than 40 million a year. But since there should still be decent demand for products like Blue-rays in the near future, a stagnation of this downtrend will occur as time passes.

The cinema market was faced with several challenges in 2016 and as a result declined by 10%. Since Netflix and other digital platforms have put pressure on this industry by creating more

and more proprietary content, double-digit growth rates will be even more difficult to achieve. Seasonal fluctuations due to major sport events, the variety of other leisure time activities, and the dependency on blockbuster quality will lead to ups and downs; a CAGR of -1% is estimated over the next five years. It should be noted that cinema advertising remains an important revenue stream.

The digital home video channel is making good headway in the industry: over the projected time frame, average annual growth of 15% is a realistic scenario, and revenues will more than double by 2021. Not only local companies like Swisscom and UPC, but also global players like Netflix and Amazon are competing for market share in Switzerland, so the logical consequences are likely to be improved service for customers and even more arguments for consuming filmed entertainment via digital channels. Once major platforms like Facebook or YouTube broaden their filmed entertainment offerings, the competition will be even more intense.

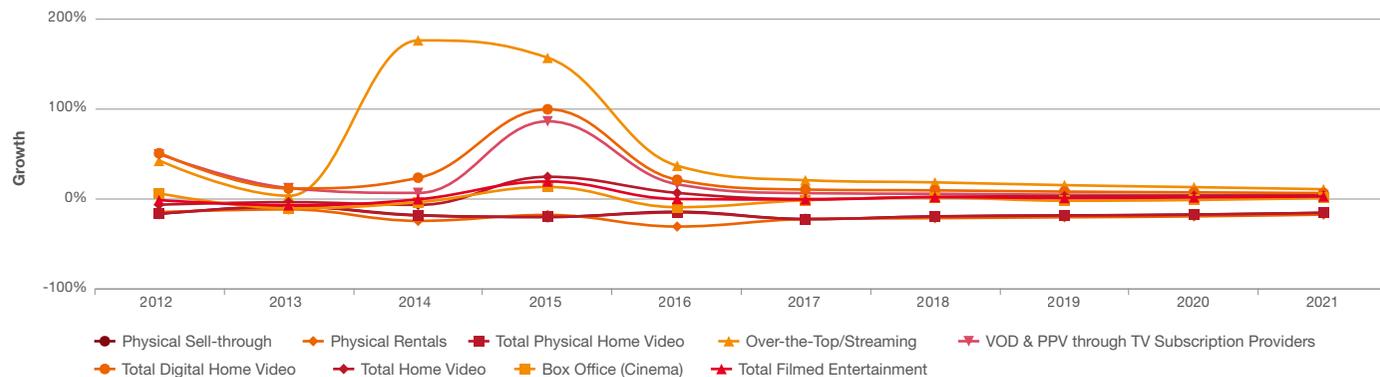


*“The cinema business definitely has a future. However, it needs to position itself even better as a social meeting place by selling the cinema experience as a special experience that is clearly different than home cinema. It must be at the top of people’s minds as a leisure time activity.”*

**René Gerber**  
General Secretary | ProCinema

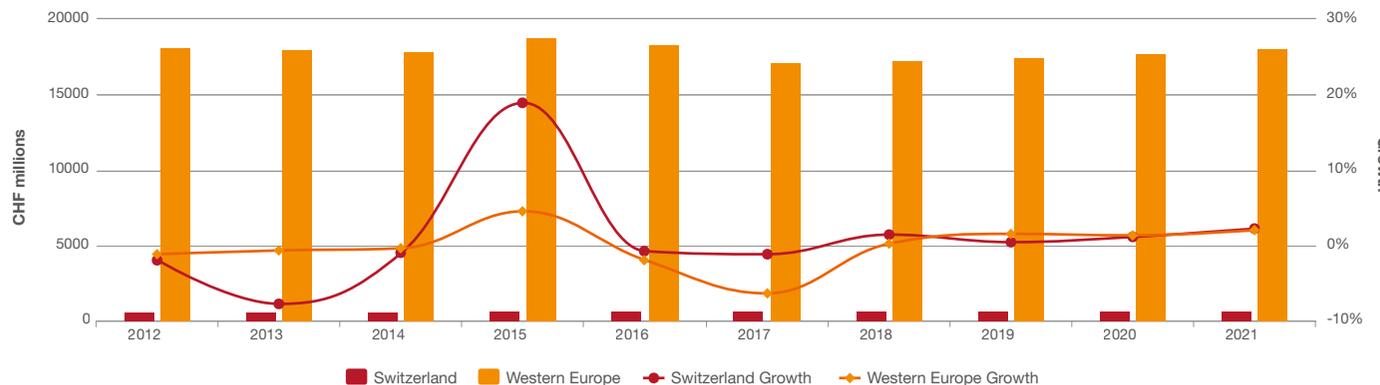


Filmed Entertainment Market Growth  
by component (%)



Analysis by PwC

Filmed Entertainment Market Comparison  
Switzerland and Western Europe (CHF millions)



Analysis by PwC

## Comparison to Western Europe

Like in all Western European markets, the physical home video market is decreasing constantly and will continue to shrink over the next years. Double-digit negative rates will be no exception, with countries like Germany, UK and Norway showing significant drops. However, this negative impact will be cushioned by a constant increase in revenues in the digital domain across all of Europe, especially from the new leading-edge entertainment offers via internet. The availability of services like Netflix, Amazon and local OTT providers, as well as their increasing customer numbers, are going to propel the growth. Public investments in broadband improvement, along with the official abolition of roaming surcharges for mobile data usage within the EU, are very beneficial for the triumphant procession of streaming on all different kinds of digital device.

For the cinema markets in Western Europe, positive CAGRs are forecasted through 2021, even though there will be some national differences. Especially in Spain, Italy and Ireland, cinema is gaining relevancy again, as reflected in the rising revenues and admissions. France remains a benchmark market for the cinema industry. Germany, the Netherlands and Austria recorded lower revenues in this segment last year, but a further decline is not expected. On the whole, the cinema market should grow steadily (despite some ups and downs) throughout the period in all European countries.

