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Hot Topics in Media & Entertainment

BLOCKCHAIN: Digital Tulips?

In 2017 blockchain project funding from initial coin offerings eclipsed VC funding ($327M through ICOs vs. $295M from VC's)[i]. Using distributed ledger technology, blockchain can dis-intermediate third-party transaction verifiers: Banks, auditors, legal services, brokerages, payment processors and other similar organizations.

The utility of blockchain technology and the potential for it to bring widespread change to the online payment and cyber security ecosystems cannot be overstated. However, hype abounds – particularly as relates to investor activity. Despite some short-term risk related to investor speculation, we believe the technology's strong long-term fundamentals will eventually impact a broad array of industries from finance, to pharmaceuticals, media, and energy.

The FAANGs Munch Away

The reach, user engagement, and financial scale of the largest U.S. digital media platforms – Facebook, Apple, Amazon, Netflix and Google (aka *FAANGs)* – have resulted in ad revenue and subscriber growth far outstripping that of traditional media such as Pay TV. In advertising, digital media spending surpassed TV ad spending in 2015 and is projected to achieve 2x the level of TV spending by 2021. Facebook and Google alone control ~70% of this now massive digital advertising market[ii].

In subscriptions, Netflix, Amazon Prime, and Apple Music have reached subscriber penetration levels that approach that of pay TV (in 2017, already 58% of households have at least one SVOD service)[iii].

As of January 2018, the FAANGs combined enterprise value of $2.7T dwarfs that of all legacy media and telecom companies combined (now less than $1.6T enterprise value)[iv], a function of continued growth expectations, global reach, and often complete vertical integration. To thrive in this environment, traditional media companies are revisiting operating models by combining, globalizing, and seeking scale in components of the value chain such as IP ownership and production.

5G: So Near But Yet So Far

5G has the potential to be 100x faster, have 50x lower latency, and scale to 100x more devices than 4G[v]. The standards and specifications of 5G will likely be finalized by 2020, though pre-standard 5G test deployments in the US has already begun. In 2017, AT&T rolled out fixed wireless 5G broadband to the home in certain test markets, with Verizon following close behind in 2018. 5G mobile networks in Korea are slated to be ready in time for the 2018 Olympics. However, 5G's deployment is fraught with technical hurdles.

A recent study concluded that the need for hyper density of cell sites will delay the time to deploy[vi]. Moreover, the cost of fiber deep programs to provide 5G broadband and backhaul could be $130-$150B. Based on these drags on deployment, 5G may first start to be widely deployed among urban populations not much sooner that 2023.

STBs - Boxed In

The future health of the global set-top-box market is in question. On the one side Kagan predicts the once ubiquitous device market size will decline from $22B today by 10% YoY until 2021. The decline is predicted to be driven by the proliferation of connected TVs enabling cord-cutting and cord-nevers. On the other side, research from Grand View Research claims that the worldwide STB market will double to $46B (by 2027) with the proliferation of 4K TV and innovations to STBs that provide ultra-high-quality resolution.

The different views are predicated on different assumptions for STB's, and by implication, cable companies roll-out of higher speeds and better resolution, among other things. The speed and service enhancements in STB's combined with the increase in household data consumption could keep the STB industry growing, to television's gain. Current roll-outs of DOCSIS 3.1 on STB's offering 10 Gbps down / 1 up and others with 10 Gbps full duplex capabilities are a good start toward continued relevance[vii].

"PEAK" Media

Are we nearing peak media in the US? Multitasking has created 31 hours a day of attention time for the average American, of which roughly half is allocated to tech and media. Digital media (~5.5 hrs.) has surpassed traditional TV consumption (~4.1 hrs.), and is expected to grow even further by 2021. Reflecting how attention is shifting away from TV toward social media and video streaming, video volume on social channels is skyrocketing – with a 30% increase in daily video views from 14B in 4Q16 to 19B views today on Facebook and YouTube. And subscription video streaming also keeps increasing (up approximately 25% in the same period) to 280M subscribers[viii].

Social media and video streaming are not only taking viewers from TV, but they are starting to outspend traditional networks on content. Netflix, Amazon Prime, Apple TV and Hulu combined spent $11.4B on content in 2017 while the traditional networks (ABC, CBS, NBC and Fox spent $13.3B). Next year's budgets might find the streaming services ahead of the networks. Sports rights have yet to shift from the traditional networks, but we believe that move is coming[ix].

More Broadcast Weddings

Elimination of certain cross-ownership restrictions impacting broadcasters will likely lead both to more consolidation of station groups and increased broadcaster profitability, especially for those operating in smaller markets.

The new FCC rules are designed to help broadcasters compete with digital media companies by allowing (1) greater concentration of TV station ownership in local markets, (2) ownership across media including TV, newspaper, and radio, and (3) more flexibility to produce content remotely outside of local markets.

Content Sources:

i. Coindesk, June 2017 Source
ii. Magna Advertising Forecast, 2017
iii. Forbes, December 2017 Source
iv. Capital IQ, Jan 2018
v. Deloitte, July 2017 Source
vi. AT&T Announcement, Feb 2016 Source
vii. Multichannel News, December 2016 Source
viii. Business Insider Intelligence, November 2017
ix. EDGAR Company Fillings, December 2017 Source

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