



**MEDIA & ENTERTAINMENT INDUSTRY RESPONSE TO CHALLENGES POSED BY THE
PANDEMIC AND DIGITALIZATION
STRONG RECOVERY IN 9M 2021 FOLLOWING A DIFFICULT 2020
STREAMING PLATFORMS CONTINUE TO GROW
TRADITIONAL TV SLOWING**

In a sector where size matters, dominated by the US players and with the ongoing expansion of global platforms, the European market suffers from excessive fragmentation

Milan, 2 February 2022

The **Mediobanca Research Area** has presented the new version of its **Media & Entertainment Report, with analysis of the sector at global and Italian level**. The report analyses the 2018-21 performances of the leading Italian media and entertainment groups and the 21 leading sector players worldwide, **11** of which are based in the **United States, 7 in Europe** and one each in **Japan, Mexico and South Africa**. The report also contains a **comparison between the largest public television broadcasters in Europe**. The full presentation is available for download from: www.areastudimediobanca.com.

The leading international M&E players

In the first nine months of 2021, the leading international Media & Entertainment companies posted revenues up 13.7% on the same period in 2020, the only exception being Sony Picture (which reported a 3.6% reduction). The strong growth in streaming services continued, with revenues up 25.8% (now representing some 18% of the aggregate turnover, up from 16% in 2020); advertising income also increased (by 19.7%), as did income from theme parks (up 47.4%, but still with only a limited contribution to aggregate revenues), while the recovery posted by traditional pay TV services was kept to 3.6%, results which confirm that access to media contents is increasingly on-demand and fragmented.

In terms of **industrial profitability**, the Ebit margin rose to 16.8% in the first nine months of 2021, up 0.7 p.p. on 2020. Of the eight players with above sector average profitability, as many as seven are from the United States, the top three being **Univision** with an Ebit margin of 28.3% (albeit down 4.5 p.p. on last year), **Fox** with 26.5% (down 3.8 p.p.), and **AMC Networks** with 26.2% (up 1.3 p.p.). In the same period the Ebit margin posted by **MediaForEurope** was up 8.7 p.p., the best performance of all the international operators, to reach 13.8%, the highest level among European broadcasters.

The leading international companies reported substantial **growth in audiences**, subscribers to streaming platforms especially (which rose by 26% between September 2021 and September 2020). The top three companies in terms of the number of subscribers are Netflix (214 million), followed by Disney (179 million) and Warner Media (69 million).

The pandemic has accelerated the speed of change in spectator behaviour, which has been ongoing for some time, especially in the digital native bracket, **who are increasingly attracted by user models based on the concept of "whenever, wherever and on any device"**. For the traditional TV broadcasters it therefore is imperative to expand their digital offering in order to meet their spectators' emerging preferences.

In 2020, the **aggregate turnover** of the 21 leading **international private-sector operators** amounted to **€271.1bn** (down 7.6% on 2019), some 85% of which was generated by the US-based operators, six of which were included in the top ten ranking by revenues. The top non-US company is Vivendi, ranking seventh pro forma with revenues of €8.7bn, while of the other European companies, RTL Group ranked ninth (€6bn), followed by ProSiebenSat.1 (which came in eleventh, with €4bn). The MFE group (which



ranked fifteenth, with €2.6bn in revenues), has acquired stakes in the German company's voting rights in stages to reach 23.9% overall, an investment that could lead to the future creation of a **pan-European group** in the entertainment and media contents industry.

In the 2018-20 three-year period, the revenues posted by the giant private-sector television broadcasters decreased on average by 2.8%, with the ongoing growth by the streaming platforms offsetting the slowdown in traditional TV services, which have been hit among other things by the cancellation and/or rescheduling of sporting events during the first half of 2020. The performance of Netflix was particularly impressive, delivering a **CAGR of +25.8%**, with only four other broadcasters reporting growth in the same period. All other operators posted reductions, double-digit in the case of MFE (down 11.7%) and Sony Picture (down 12.3%).

The Italian radio and television broadcasting sector in 2020¹

In 2020, the downward trend in revenues posted by the Italian radio and television broadcasting sector continued, with aggregate turnover decreasing to **€8.1bn** (down 6.6% on 2019), a reduction equal to **0.5% of Italian GDP**. All segments were affected: revenues from radio broadcasting were down 22.7% (€0.5bn in 2020), those from free-to-air TV down 7.2% (€4.4bn), and those from pay TV down 2.3% (€3.2bn). The latter item reflects different performances, with traditional pay TV also declining (down 8.5%), while streaming subscriptions posted double-digit growth (up 42.5%), and now account for 8.3% of the aggregate sector revenues (up 2.9 p.p. on 2019). **Licence fee revenues** are also down (by 4.1%), with the number of public service subscribers basically flat at end-2018 levels; although a resurgence of RAI licence fee avoiders is likely from 2023 if the current method of collection (the licence fee in Italy is paid as part of consumers' electricity bills) is abolished, as seems to be implied by the commitments made by Italy in order to be able to access the PNRR funds.

The leading players in Italian TV in 2020, with a look ahead to 2021

In 2020 the eight leading Italian Media & Entertainment companies saw their revenues fall by 8.8% versus 2019, as a result of **lower advertising income** (down 13.5%) and content distribution income (down 10.3%). Pay TV services also saw their revenues fall but by less so, down just 2%.

The Italian market remains concentrated, with the three leading Italian broadcasters (Sky, RAI and Mediaset) holding more than 80% of the national television sector. In terms of revenues Sky ranks first with a top line of €2.8bn, followed by RAI with €2.5bn, and Mediaset with €1.8bn. All traditional operators posted reductions, the smallest being by La7 (down 2.5% on 2019) and RAI (down 5.4%). The exponential growth by online platforms continued in 2020, on the back of the performance of **Netflix** which already has more than four million subscribers (almost three times the number recorded in 2018). These figures have allowed Netflix, which is a S-Vod (Subscription Video on Demand) operator, to generate an estimated turnover of around €300m in Italy in 2020 (up 70% on 2019 and up 160% on 2018), which is projected to reach €450m in 2021.

In 2020 widespread reductions in headcount were reported, versus 2019 (down 1.7%, or 362 employees) and versus 2018 (down 2.5%, or 547 employees). Only La7 and Sky increased their employment levels in both periods.

The aggregate **Ebit margin** was down 5.2% in 2020, 4.8 p.p. worse than in 2018, but the trend was bucked by **Mediaset** (up 4.3 p.p.), **Walt Disney** (up 3.7 p.p.) and **RAI** (up 1.1 p.p.). **Discovery** (12.8%) and **Walt Disney** (10.4%) continue to stand out for their profitability.

For FY 2021, the aggregate revenues of the leading Italian sector operators is expected to grow by 8%, on the back of the recovery in advertising income and further acceleration by streaming services which will leverage on the completion of the second-generation digital transition (switch-off) process (expected in January 2023). Here too, though, Italy will have to make up the gap currently existing

¹ Agcom data compiled by the Mediobanca Research Area.



versus the other leading European countries in terms of coverage of broadband VHCN (Very High Capacity Networks).

As the maximum available expense per subscriber is reached, viewers are likely to start looking for free content by diversifying the media sources used by them. In the future, therefore, it is likely that subscriptions to the main S-Vod players will start to slow, and the importance of A-Vod (Advertising video on demand) propositions will increase, to the benefit of traditional sector operators (such as RaiPlay and Mediaset Infinity), facilitating the entry of new players (Pluto TV has been on air since end-October 2021), and promoting the launch of new product offerings that combine S-Vod, A-Vod and T-Vod (Transactional video on demand) business models. As streaming propositions multiply, **the importance of content hubs** such as SkyQ and TimVision **will grow**, which offer users a content guide service as well.

Audience shares in Italy

In 2020 Italian viewers spent an average of around six hours in front of the television (compared with four hours in 2019), but the highs recorded during the pandemic reduced in part in 2021. The leading players continue to account for 87% of the audience share on an average day, with the digital platforms gradually expanding against a widespread contraction of themed channels. The age of the viewing public continues to increase (from an average of 56 years in 2018 to 58 years in 2021), with the new media consumption rationale causing increasing swathes of the general public to migrate from standard television to on-demand content. RAI is still the most popular Italian broadcaster, with an audience share of 36% on an average day in 2021, followed by Mediaset (31.9%), Discovery (7.4%), Sky (6.2%), La7 (3.7%) and ViacomCBS (1.9%).

In the radio broadcasting segment, the Mediaset group confirmed its leadership position with its five broadcasters accounting for almost one-fifth of the market (18.4% audience share in an average quarter of an hour in 2021), followed by the GEDI group and RAI (both with 11.3%).

The European public television market and the licence fee

The German public radio and television broadcaster reported the highest turnover in Europe at €8.5bn, three times the top line posted by the Italian incumbent (€2.5bn). The **United Kingdom** ranked second (with €6.7bn) and **France** third (with €3.6bn). In 2020 Italy posted the highest reduction in revenues (down 5.4% on 2019), followed by Germany and France, whose total income reduced by 1.9% and 2.8% respectively. By contrast, Spain and the United Kingdom posted increases (of 1.3% and 1.2% versus 2019 respectively).

Italy (with RAI) stood out in terms of **industrial profitability**: in 2020 the Ebit margin recorded by the public broadcaster was 3.8% (1.1 p.p. higher than in 2019), lower only than the 6.6% reported by the BBC in the United Kingdom, while the French and Spanish public broadcaster were both in negative territory (-1% and -3.5% respectively).

As for the **licence fee: Italy has the lowest licence** of all the leading European countries, lower even than the European average (€0.25 per subscriber per day, compared with a European average of €0.34). Public television is much more expensive for German taxpayers (€0.58 per day), for the British (€0.48) and for the French (€0.38). In 2021 just €77.2 of the €90 (86%) paid by each subscriber is collected by the RAI, which too is below the European average (89.5%). While the viewing public has been basically stable since 2018, the number of single-month users of the RaiPlay platform continues to increase (8.8 million at year-end 2021, versus 4.9 million in 2018).

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