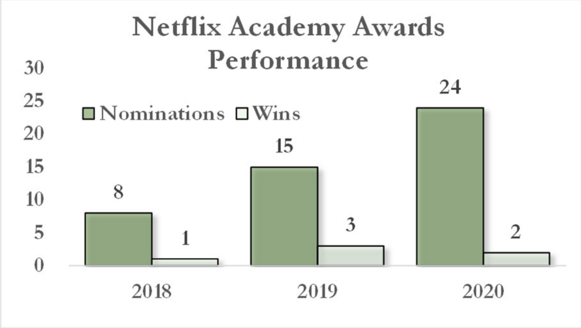
MARCH 6, 2020
OVERVIEW OF RECENT EVENTS

Salem Partners is pleased to present our thoughts on several TMT-related topics that are making headlines.

- **NETFLIX STORMS THE ACADEMY AWARDS:** The last year has seen major changes in the feature film business, notably with Netflix making a major push at the Academy Awards for its tentpole film *The Irishman*. The company has made awards season a priority, and received 24 Oscar nominations, a healthy increase from 15 in 2019 and 8 the year prior. However, it was not to be, and the company took home just two wins as *The Irishman* was completely shut out.



- **DIFFICULT 2020 SHAPING UP FOR THEATRICAL EXHIBITION:** Even before the coronavirus scare, 2020 was shaping up to be a particularly challenging year at the box office as Disney, which won the lion's share box office in 2019 on the back of *Avengers* and *The Lion King*, has a much leaner schedule for 2020. It's unclear if that will mean more air for a broader array of films, or just underperformance for the sector as a whole. Publicly traded companies in the sector had a rough 2019, possibly in anticipation of this, and coronavirus fears in 2020 have made things considerably worse.

	Stock Price Performance	
Company	**2019**	**YTD 2020**
AMC Entertainment	-48.8%	-38.9%
Cineworld	-9.8%	-49.5%
Cinemark	-8.2%	-30.5%
Reading International	-23.3%	-36.2%
The Marcus Corporation	-19.7%	-28.0%

- **MUSIC INDUSTRY ON FIRE:** The RIAA has released its 2019 full year statistics, and it's another banner year for the music business with 13% growth over a very healthy 2018. Growth was led by digital streaming to nobody's surprise, but real eye opener is the surprising stability in the now small physical segment of the business. *We take a deeper look at the details on the music business later in this newsletter.*

- **NETFLIX OFFERS MORE DATA ON SUBSCRIBERS:** Late in 2019 the company revealed more detailed information on subscribers for the first time. In financial filings for the period ended December 31, 2019 it illustrated the historical split of subscribers between US and Canada, EMEA, Latin America and Asia Pacific. The newly disclosed figures illustrate a slowly growing domestic subscriber base and rapid gains elsewhere around the world. *We take a deeper look at the details later in this newsletter.*

- **RATINGS SOUP:** The old, reliable world of ratings is officially out the window. Nextstar, the largest owner of television stations, ditched them completely, Nielsen has started providing information on Netflix ratings, Netflix has revised its own ratings information, and the metrics and numbers are all over the place. As the entire concept becomes more fluid, some are wondering what happens when all of this content locked in streaming platforms can't be objectively measured? *We take a deeper look at the ratings mess later in this newsletter.*

- **MUSIC LAWSUITS PROLIFERATE:** Over the last several years, lawsuits relating to copyright ownership and theft of intellectual property have proliferated, with several high-profile judgments imposed as a result. Some of the largest cases include the $5+ million judgement against Robin Thicke and Pharrell Williams by the Marvin Gaye estate for *Blurred Lines* and the $2.8 million judgement against Katy Perry by Flame for the song *Dark Horse*. Lawyers smell

MAY 28, 2019
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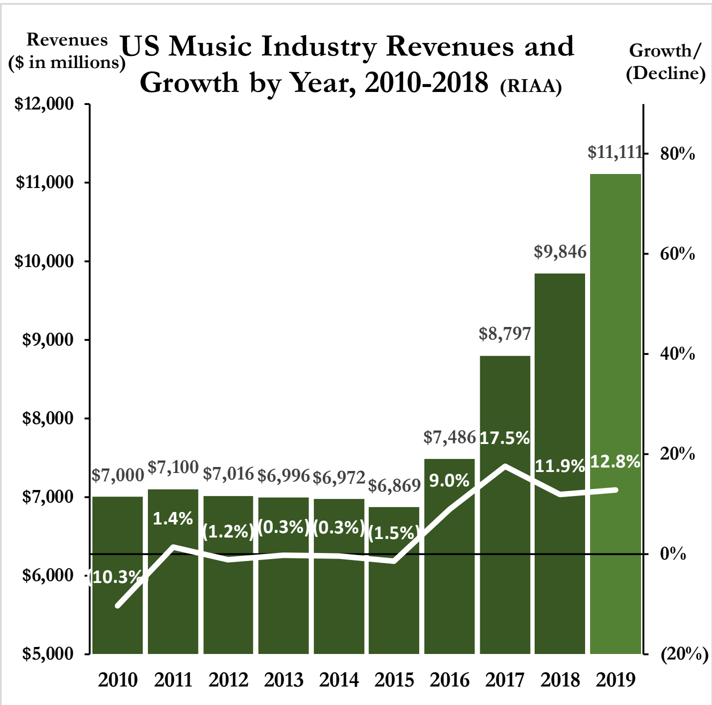
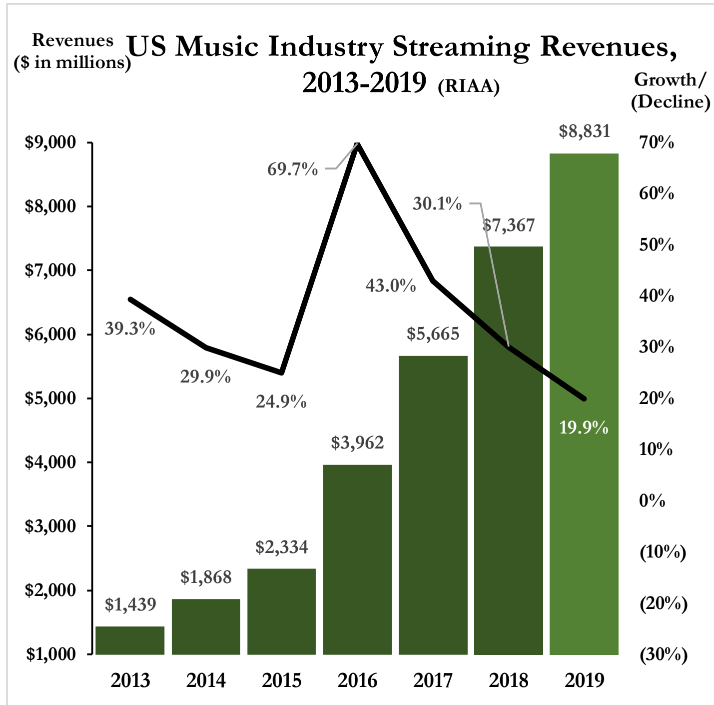
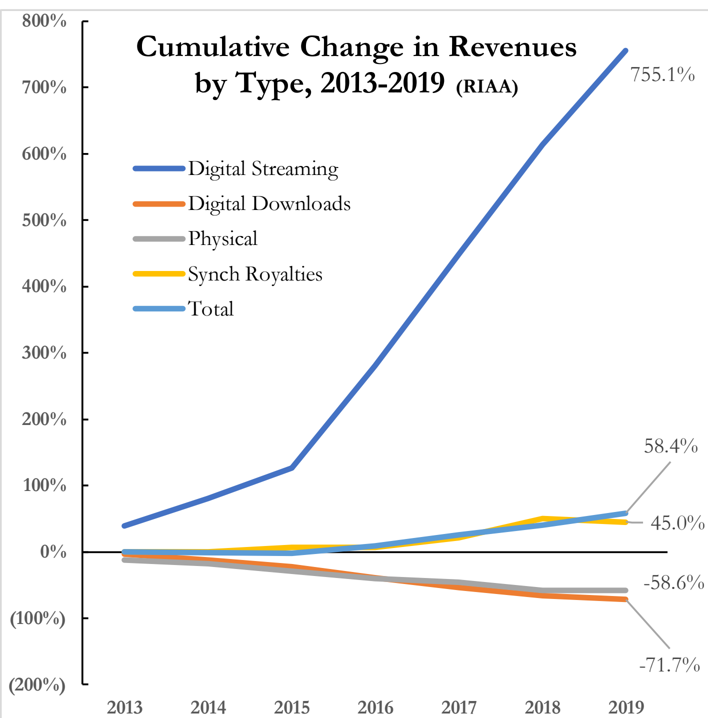
blood (i.e. money), and more litigation is expected, including a pending $100 million lawsuit by the Marvin Gaye estate against Ed Sheeran over the song *Thinking Out Loud*, which is alleged to plagiarize *Let's Get it On.* All eyes are also on the outcome of the current ongoing litigation between Led Zeppelin and the group Spirit over writing credit for *Stairway to Heaven.*

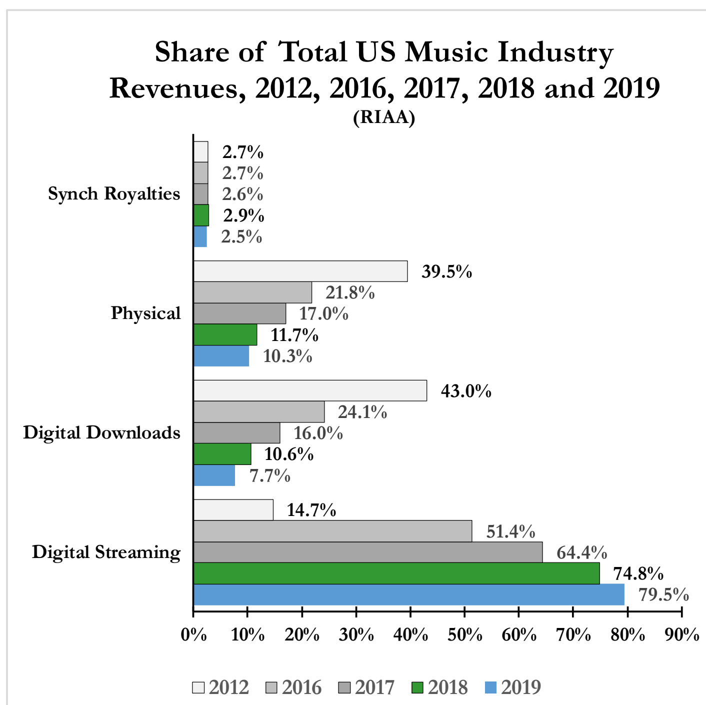
- **DEALS, DEALS AND MORE DEALS:** The last several months have been incredibly active on the deal front, with major transactions in recorded music, music publishing, sports networks, unscripted television, filmed entertainment libraries and just about everything else. *We recap and review some of the more interesting deals in the space later in this newsletter.*

We have written frequently about the music sector, in particular on the transition from slow decline to growth on the back of digital streaming. 2019 data is now available from the RIAA, and it illustrates another fantastic year for the industry, which has almost completely transitioned to streaming. One real surprise is that physical has stabilized at $1.1 billion (a decline of less than 1%) as CD sales declines of 12% have been offset completely by LP/EP revenue growth of 19%. The charts below tell the tale of the tape for 2019 and comparisons with earlier periods.







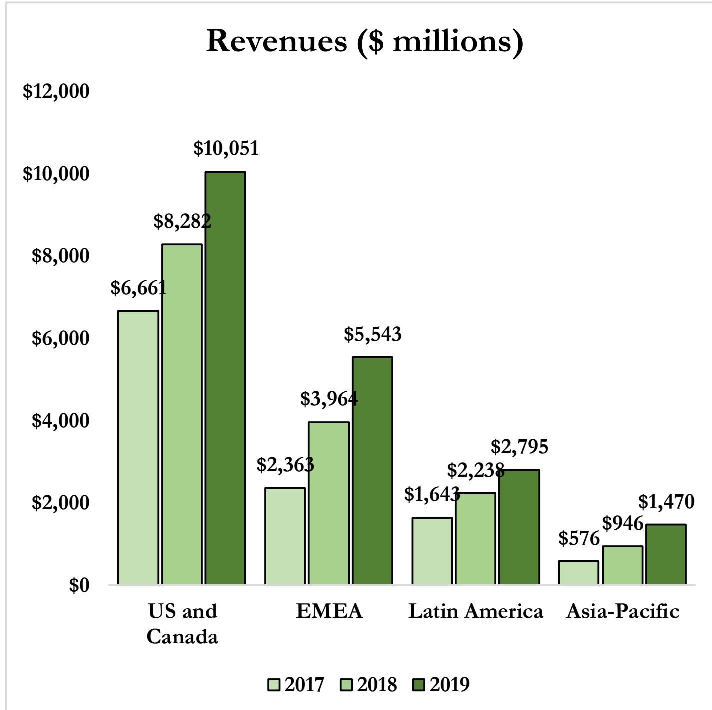


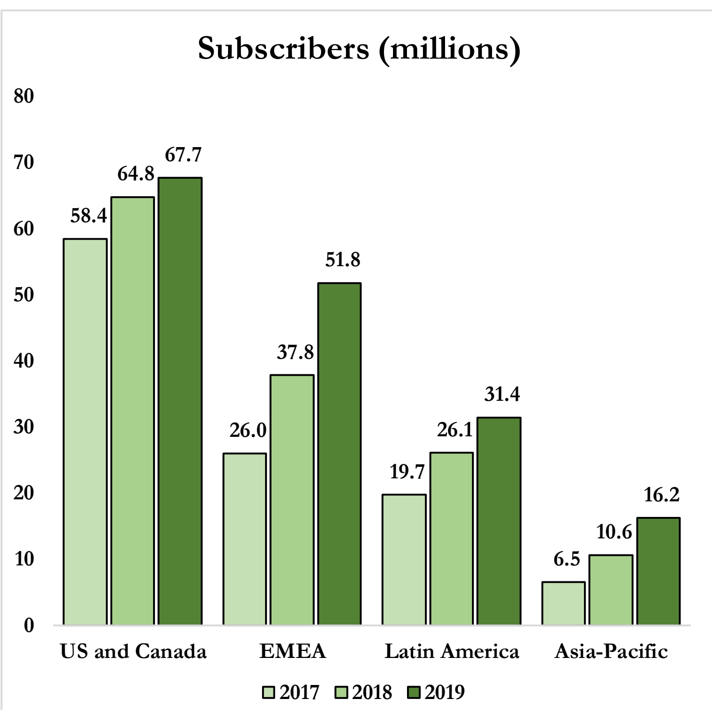
NETFLIX OFFERS MORE DATA ON SUBSCRIBERS

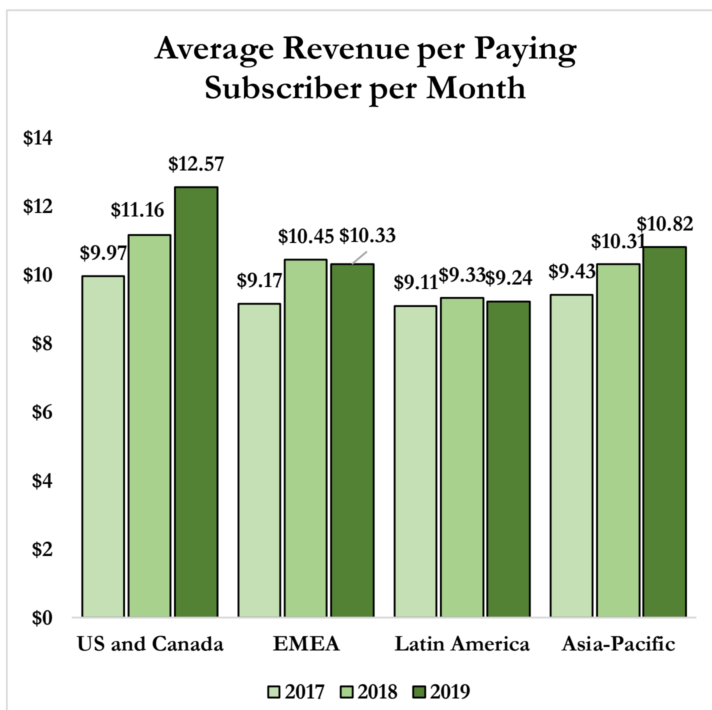
While Netflix has historically been secretive about the specifics of its international subscriber growth, it has been under investor pressure to share significantly more information, likely due to the fact that international has been the growth engine of the business for the last several years. Late in 2019 the company revealed more detailed information on subscribers for the first time. In financial filings for the period ended December 31, 2019 it illustrated the split of subscribers between US and Canada, EMEA, Latin America and Asia Pacific. The newly disclosed figures illustrate a slowly growing domestic subscriber base and rapid gains elsewhere around the world.

These charts illustrate additional information about each geographic segment, including subscribers, revenues and average revenue per subscriber (ARPU). While US and Canada subscriber growth has slowed, revenue has continued to grow quickly as prices have increased. Subscriber growth is the driver for the rest of the world, as average monthly subscriber revenues are more stable.

While the explosive launch of Disney+ earlier this year has been on the minds of investors, thus far Netflix has indicated that it sees the impact as minimal.







Once upon a time, ratings were easy. Everything was measured by Nielsen, and advertisers had a simple, straightforward way to understand how many people were watching their programming at any given time. That system held up from its introduction in the 1950's to (nearly) today. True, there were clearly flaws in the system and blind spots where advertisers had to use alternative ways to measure views, but overall it worked fine for half a century. That has started to fragment in significant ways due to the way consumers view content and the way advertisers and content platforms want to pay or be paid for it.

While consumers at one time watched linear television as it was broadcast (hard to believe I know), this changed significantly with the advent of DVR time shifting technology, which was captured in longer and longer ratings periods such as "Live +3" and "Live +7" that were designed to measure viewers who would automatically record programming and watch it up to a week later. Today however, this seems quaint, as consumers increasingly viewing content live, recorded on DVR, streamed on mobile, laptop and desktop, and maybe all at the same time. In addition, with the flood of original television content, measuring views for programs that exclusively reside on streaming platforms became a problem. Each platform had a habit of taking its own viewpoint (always favorable to itself) on what a "view" was and leaking only selective information.

The world is changing, with Nielsen launching a ratings tool for Netflix in late 2017 utilizing audio recognition software in approximately 45,000 homes. Later the company expanded to other major SVOD services amid interest in the ratings data from all of the major studio content creators, clearly starved for information on the popularity of their content (and streaming originals). Accurate ratings data is a crucial tool in negotiating for licensing fees…how can a licensee know what their content is worth when they have no ratings data and the potential licensee knows exactly who has watched it and for how long?

In early 2019 Nextstar, the largest television station in the US, ditched the old system completely and moved to a "cost per impression" model with advertisers. Utilizing measurement firm ComScore, the company is seeking to integrate viewers of the linear television channels as well as mobile and digital views.

For the major SVOD platforms, it's been a rocky road as well, with Netflix's initial claims that its original film *Bird Box* reached an audience of 26 million viewers being met with raised eyebrows and skepticism as the definition of a "view" was unclear. However, this was generally confirmed by Nielsen using a more detailed methodology over a period of days and measuring "viewer minutes" to indicate how many viewers had watched the entire program. Early in 2020 Netflix announced that it was changing its viewership metrics to count a single "view" as two minutes, rather than its prior metric of 70%

of a program. The company indicated that this is expected to boost viewership numbers by about 35%, and brings the view definition closer to that used by other players like BBC iPlayer and YouTube.

One major issue presenting itself, and maybe the first of many, is the impact of proprietary and unclear ratings metrics and the lack of third-party measurement data on guild residuals. While existing streaming residuals formulas were always going to be an area of intense focus given the explosion of the streaming space, the ratings issues are turning it into a nightmare. The current residuals formulas are based on the size of the platform rather than actual views or minutes watched, but without accurate or reliable data, shifting to a view-based system is seen as impossible. Other participants in the space are split on the issue, arguing that views are relevant for AVOD purposes, but that SVOD platforms may place a high value on something with relatively fewer views for other reasons such as marketing or prestige.

Several high-profile transactions in the TMT sector have been announced or closed in the last quarter, including:

- **Viacom/CBS Merger Completed:** In December the long-awaited merger between Viacom and CBS was completed, reuniting the businesses that had been split apart years ago. While both were owned and controlled by Sheri Redstone's National Amusements, the merged ViacomCBS is now run as a single entity rather than the corporate fiefdoms of different executive teams. The company has since struggled out of the gate with weak earnings.

- **ViacomCBS (Finally) Acquires Stake in Miramax:** It seems like just last newsletter that we announced that this deal was dead, but maybe not for long. In late December it was announced that the newly merged ViacomCBS had acquired a 49% stake in Miramax for $375 million. The transaction was structured as an advance payment of $150 million and a commitment to invest $225 million in new Miramax feature film and television productions over the next five years. In addition, Paramount will become the exclusive distributor of the Miramax library with have a first-look agreement regarding all new content based on Miramax properties.

- **Sony Acquires AT&T's 42% Stake in Game Show Network:** Who says cable network deals are dead? Sony acquired 42% of Game Show Network from AT&T in a deal valued at just over $500 billion, comprised of $380 million from the sale of the stake and dividends of $130 million. This transaction is seen by analysts as one of many to be undertaken by AT&T to streamline operations and reduce the company's significant debt load.

- **ICM Sells Minority Stake:** ICM Partners, which was launched seven years ago when management bought out 80% owners Rizvi Traverse, announced that it was the latest Hollywood talent agency to secure an investment from institutional financiers. The New York-based private equity firm Crestview Partners invested $150 million for a reported one third interest in the company. Private equity interest in talent agencies has grown in recent years, with TPG invested in CAA, Silver Lake invested in Endeavor and Investcorp invested in UTA.

- **Hasbro Acquisition of Entertainment One Closes:** Hasbro completed the acquisition of Entertainment One in late December for $3.8 billion. Hasbro announced that former E1 president and CEO will report to Hasbro Chairman and CEO Brian Goldner. Olivier Dumont, formerly the president of family and brands, and Steve Bertram, formerly the president of film and television, are joining Hasbro and are expected to have a major impact on the company.

- **Comcast Acquires Streamer Xumo:** In February Comcast announced the acquisition of Xumo LLC, once of a handful of ad-supported video on demand (AVOD) platforms, along with Pluto, Tubi and others. Xumo is available as an AVOD platform on Roku and smart TVs, and also provides white label services for third parties to run their own AVOD channels. Also in February, rumors surfaced that Fox was in talks to acquire AVOD platform Tubi for $500 million. The intense interest in the space and rapid consolidation speaks to the explosive revenue growth and profitability of the AVOD business.

- **Spotify Acquires The Ringer:** Few companies have been able to ride the podcast wave as well as Bill Simmons' platform The Ringer. In February Spotify announced that it was acquiring the company for $141 million, with another $55 million in potential earn-out payments. This is the latest in a string of podcasting acquisitions for Spotify, including Gimlet Media, Anchor and Parcast. This sale represents and incredible turnaround for Simmons, who left ESPN in 2016 to launch The Ringer and immediately had his high-profile launch series *Any Given Wednesday* cancelled by HBO.

SALEM PARTNERS' TECHNOLOGY, MEDIA AND TELECOM (TMT) PRACTICE

Founded in 1997, Salem Partners is a boutique investment bank and wealth management firm based in Los Angeles, California. It is firmly dedicated to servicing clients in the technology media and telecom (TMT) industry. We provide our clients with a full suite of investment banking and valuation services, including buy and sell-side mergers and acquisitions, capital raising advisory and financial and valuation opinions.

Salem Partners' industry experience and domain expertise provides us with a deep understanding of the values, risks and financing possibilities connected with the industry. We are constantly in contact with key industry participants, including operating companies and strategic and financial investors, and have detailed current knowledge of how buyers and sellers view assets and businesses within the industry. We have a comprehensive knowledge base on the key trends in the TMT industry and how those impact participants around the world.

Since the firm's inception, Salem Partners has completed hundreds of financial and strategic advisory assignments in the TMT space, including advising on more than 40 mergers and acquisitions and financing transactions. Salem Partners also provides valuation and strategic consulting services to clients, including companies, banks, financial and strategic investors and others. Our valuation work is used for a wide variety of purposes, including transaction due diligence, credit facilities, tax, estate planning and support for portfolio valuations.

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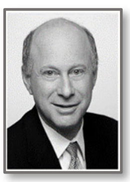

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