New French and European film markets

*Digital: a new growth driver for intra-community circulation and export?*

March 2015
Introduction

► Estimate of the potential international market for French films on digital video-on-demand platforms

► Economic sales models applied by rights holders

► Recommendations

► Appendices
Objectives of the study

Objectives

► Analysis of the user habits for VOD and SVOD services

► Estimate of the size of the market attainable by French-initiated films on VOD and SVOD platforms worldwide

► Overview of the sales models practiced by rights holders

► Recommendations

Scope of the study

Selection of countries based on their importance for French film sales and the penetration of VOD/SVOD services
Definitions used

- **SVOD** (Subscription video-on-demand)
- **TVOD** (Transactional video-on-demand)
- **EST** (Electronic Sell-Through)
- **OTT** ("Over-The-Top" method of content distribution via fixed or mobile internet (VOD or SVOD))
Methodology

Market surveys
- Estimates of market size based on consumer spend
  - Europe, Japan: European Audiovisual Observatory, European Video Yearbook 2014
  - China: iResearch, China Online Video Report 2014
  - Brazil: Dataxis Report on VOD, May 2013
- Estimate of the market share of French cinema by region
  - UniFrance study: 2013 results by region

Quantitative analysis
- Total number of films and number of French films on the major VOD/SVOD platforms
  - In the United States: Netflix, Hulu, Amazon, Comcast Xfinity
  - In the UK: Netflix, Amazon

Interviews
- Georges Bermann – Partizan Films
- Vincent Grimond – Wild Bunch
- Alain Rocca – Universcine
- Julien Neutres – CNC
- Jérôme Chung – Under the Milky Way
- Pierre-Alexandre Labelle – Under the Milky Way (United States)
- Karim Ayari – Watchever (Germany)
- Emilie Boucheteil – French Embassy (Germany)
- Peiyi Jiang – Best TV (China)
- Brigitte Veyne – French Embassy (China)
- Noriko Tezuka – Unifrance (Japan)
- Audrey Guibert – French Embassy (Brazil)

Analysis of markets and growth trends
Estimate of the potential market for French films on VOD/SVOD platforms in 2020
Evaluation of export markets and models for export
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A dual “bottom-up” and “top-down” approach to the American market to verify the method and scale

<table>
<thead>
<tr>
<th>Bottom-up</th>
<th>Top-down</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Identification of major platforms</td>
<td>1. Revenue from VOD, SVOD markets</td>
</tr>
<tr>
<td>2. Estimate of the share of French films</td>
<td>2. Budget invested in programming</td>
</tr>
<tr>
<td></td>
<td>5. Estimate of potential French film market</td>
</tr>
<tr>
<td></td>
<td>6. Estimate potential market growth</td>
</tr>
</tbody>
</table>

Estimate of the potential market for French films on VOD/ SVOD platforms in the United States 2014-2020

Extension of the top-down approach to other regions
Outline hypotheses

Analysis of consumer spending, excluding revenues from digital advertising

Estimate of growth by zone, based on market surveys and performance over the past three years

Estimate of spending involving the purchase of content through the analysis of the economic models of several VOD and SVOD platforms: ~ 50%

Estimate of the share of film, based on the analysis of models of VOD platforms (~ 50%) and SVOD (~ 20%)

Estimate of the market share of French films from the average market share of French cinema in theaters by region between 2010 and 2013*: between 0.6% and 5.5%

Source(s): * based on UniFrance Film’s 2013 Report
The potential market for French films on VOD and SVOD platforms in target territories estimated at €41.5 million in 2020

Estimate of the potential market for French films on VOD and SVOD platforms in 2020, in millions of €

Scenario 1: conservative growth hypothesis & average market share of French cinema 2010-2013

Av market share 2010-2013 of French cinema in theaters *

<table>
<thead>
<tr>
<th>Country</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>5.5%</td>
</tr>
<tr>
<td>UK</td>
<td>2.2%</td>
</tr>
<tr>
<td>Italy</td>
<td>5.1%</td>
</tr>
<tr>
<td>Poland</td>
<td>5.1%</td>
</tr>
<tr>
<td>Spain</td>
<td>4.6%</td>
</tr>
<tr>
<td>US</td>
<td>1.4%</td>
</tr>
<tr>
<td>Brazil</td>
<td>1.7%</td>
</tr>
<tr>
<td>Japan</td>
<td>1.5%</td>
</tr>
<tr>
<td>China</td>
<td>0.6%</td>
</tr>
</tbody>
</table>

Sources: EY analysis, UniFrance Film's 2013 Report*

* This presentation, for your sole internal use, is inseparable from the additional context and oral comments that accompanied it.
In 2020, the potential international market for French films on VOD and SVOD platforms could account for around 14% of theatrical receipts

Comparison between the potential market on VOD/SVOD platforms and export receipts from French cinema in these countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Average annual receipts (box-office)</th>
<th>Potential market for French films in 2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>5 million</td>
<td>26 million</td>
</tr>
<tr>
<td>Germany</td>
<td>9.3 million</td>
<td>51 million</td>
</tr>
<tr>
<td>Italy</td>
<td>30 million</td>
<td>1.1 million</td>
</tr>
<tr>
<td>Spain</td>
<td>28 million</td>
<td>0.6 million</td>
</tr>
<tr>
<td>Poland</td>
<td>15.5 million</td>
<td>1.1 million</td>
</tr>
<tr>
<td>US</td>
<td>107 million</td>
<td>8 million</td>
</tr>
<tr>
<td>China</td>
<td>2.5 million</td>
<td>14 million</td>
</tr>
<tr>
<td>Brazil</td>
<td>3.5 million</td>
<td>11 million</td>
</tr>
<tr>
<td>Japan</td>
<td>2.9 million</td>
<td>23 million</td>
</tr>
<tr>
<td>Total</td>
<td>298 million</td>
<td>393 million</td>
</tr>
<tr>
<td>France in 2013</td>
<td>41.5 million</td>
<td>61.3 million</td>
</tr>
</tbody>
</table>

Share of digital/gross theatrical receipts: 14% vs. 16%

Source(s): UniFrance Films, 2010-2013 Reports; EY estimate based on CNC estimate: VOD Observatory; CNC 2010-2013 Reports
According to the most optimistic scenario for the penetration of French cinema in these territories, the potential market could reach €75 million in 2020.

Estimate of the potential market for French films on VOD and SVOD platforms in 2020, in millions of €

Scenario 2: Top-end hypothesis of the share of French cinema (2012)

Share of digital/gross theatrical receipts 25%

in millions

75

19

Total EU selection: €35m

11

2

2

1

US

26

6

4

4

Brazil
China
Japan

Total non-EU selection: €40m

Source: EY analysis

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Cette présentation, à votre seul usage interne, est indissociable des éléments de contexte qui ont permis de l’établir and des commentaires oraux qui l’accompagnent.
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  Economic sales models applied by rights holders

► Recommendations

► Appendices
Value chain of video-on-demand services on the export market

Rights holders
- Producers
  - Vertically-integrated studios: Gaumont, Pathé, EuropaCorp, Studiocanal, Wild Bunch

Exporters
- International sales agents
  - Kinology, Films Distribution
- Vertically-integrated studios
  - Gaumont, Pathé, Wild Bunch

Distributors
- Local distributors
  - Fox, Sony, Lionsgate, IFC Films, Radius, Magnolia, DistribFilms

Distributors
- VOD aggregators
  - Under the Milky Way, Universciné, Film Buff, GoDigital, Cinedigm

Platforms
- VOD/SVOD platforms
  - Netflix, Amazon, iTunes, Hulu, Google TV Operators

TV Operators
Overview of the sales models used by rights holders

<table>
<thead>
<tr>
<th>Model</th>
<th>Economic Model</th>
<th>Key Points</th>
</tr>
</thead>
</table>
| Direct sales | Co-existence of all MG models | - VOD: receipts sharing: ~ 50% of the sale price (on iTunes: 70% for new product + bonus if the film is a success)  
- SVOD: “flat” sales of €3,000-10,000 over a given period (~18 months)  
- SVOD: “Flat fee” sales from €500 for a period of 3 months to 1 year |
| Sales via an aggregator | Increasingly common practice | - VOD: receipts sharing: ~ 50% of the sale price (on iTunes: 70% for new product + bonus if the film is a success)  
- SVOD: “flat” sales of €3,000-10,000 over a given period (~18 months) |
| Indirect sales via a distributor | Dominant practice | - All-rights sale to a distributor: giving value to VOD as part of the overall MG  
- Ex: IFC, Kino Lorber, Cohen  
- MG for “all rights” sale for the rights holder |

- Increased marketing efforts  
- Less control  
- Direct earnings  
- No intermediary  
- Increased marketing efforts  
- Technical constraints  
- Absence of MG  
- Centralization of efforts for referencing and technical support  
- Easier access to platforms  
- Absence of MG  
- Lack of control  
- Delegation of a local operator who knows the market  
- Use of digital as lever for negotiation  
- Delegation of a local operator who knows the market  
- Use of digital as lever for negotiation  
- Delegation of a local operator who knows the market  
- Use of digital as lever for negotiation  
- Delegation of a local operator who knows the market  
- Use of digital as lever for negotiation
Principal findings of interviews

► The industry executives interviewed were reticent about sharing financial data on models used

► There are many sales models, and the approach used by rights holders to export their films is still at the experimental stage

► Revenues from VOD and SVOD are not very significant for French export companies: they account for less than 5% of their export revenue*

► For French cinema, the majority of revenues from digital platforms on the export market comes from VOD uses

► Sales via SVOD are harder and often less financially advantageous

► The efforts of producers and distributors are focused for the moment on the United States and Europe, whilst taking an exploratory approach to the Chinese market

Note: * based on declarations by 11 French sales companies questioned by UniFrance in its report on VOD in September 2014
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► Economic sales models applied by rights holders

Recommendations

► Appendices
Recommendations

1) Drivers to maximize the presence of French and European films on international VOD and SVOD platforms

► Encouraging marketing and promotional efforts for the exploitation of films via VOD and SVOD
  • Supporting marketing initiatives for the referencing of French and European films within the legal offer
  • Encouraging initiatives allowing marketing synergies adapted to each market (e.g. creation of communities on social networks, experiments with simultaneous releases in theaters and on digital platforms)
  • “Creating an event” out of the distribution strategy, by developing agreements between festivals and platforms for exclusive distribution on VOD (ex: Stream Festival on Universciné, Venice Film Festival on IQiYi)

► Studying new models of distribution according to the specifics of each market
  • Build on public-private partnerships, for example, for the distribution of films on free platforms, notably in China where the pay model has not taken off (e.g. sponsoring the catalogue of French films by a French brand)
  • Promoting approved and curated content to sell to platforms which want to have a full offer of French and European films (e.g. India)

► Adapting public aid for export (CNC, the EU’s MEDIA Programme) to better integrate new business models, notably by new operators in the ecosystem
Recommendations

2) Potential of an alternative European platform

► Supporting the creation and development of an international SVOD platform, of European origin, possibly based on existing European operators

► A positioning that favors auteur films ("cultural – popular"), or even European-made TV series to differentiate itself

► A potential market of around 5% of the global market
  • Estimate of the market share of auteur films by the BFI: 10%
  • Estimate of the market share of films on VOD and SVOD platforms: 45%

Potential market for this platform in 2020

- 20 billion
- 5%*
- €1 billion

Potential share for the “bridge head” European platform

Total VOD/SVOD market in 2020

Source: EY estimate based on the following: share of films 45%/share of “cultural/popular” cinema 10% (BFI)
Applied to UniFrance estimate of 5% revenue from VOD/SVOD from export
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  Analysis of uses of video-on-demand services
  • Methodological notes
For 2013, the market for VOD and SVOD services in the selected territories is estimated at €8.2bn

Estimate of consumer spending for VOD and SVOD services by market in 2013, in millions

- Total: €8,053m
- US: €4,717m
- Total EU: €1,971m
- Brazil (e)*: €146m
- Japan: €248m
- Other EU: €648m
- China (e)*: €972m
- France: €634m
- Germany: €297m
- Italy: €234m
- Spain: €69m
- Poland: €44m
- UK: €234m
- US: €44m
- Total EU: €1,971m

Note:* EY estimate of consumer spend based on revenue and an evaluation of the proportion coming from advertising
Exchange rate as of 31 Dec 2013 €1 = $1.37
In 2020, the worldwide market for VOD and SVOD services is estimated at 20 billion.

**Estimate of consumer spending in markets studied in 2020**

<table>
<thead>
<tr>
<th>Country</th>
<th>Estimate in millions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>13061</td>
</tr>
<tr>
<td>US</td>
<td>6495</td>
</tr>
<tr>
<td>UK</td>
<td>1026</td>
</tr>
<tr>
<td>Germany</td>
<td>752</td>
</tr>
<tr>
<td>Italy</td>
<td>97</td>
</tr>
<tr>
<td>Spain</td>
<td>62</td>
</tr>
<tr>
<td>Poland</td>
<td>92</td>
</tr>
<tr>
<td>China (e)*</td>
<td>2641</td>
</tr>
<tr>
<td>Brazil (e)*</td>
<td>1006</td>
</tr>
<tr>
<td>Japan</td>
<td>889</td>
</tr>
</tbody>
</table>

**Estimate of worldwide consumer spending in 2020**

<table>
<thead>
<tr>
<th>Category</th>
<th>Estimate in billions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>20</td>
</tr>
<tr>
<td>Selected markets studied</td>
<td>13</td>
</tr>
<tr>
<td>Other markets</td>
<td>7</td>
</tr>
</tbody>
</table>

While TV remains the main way to access video content worldwide, mobile terminals have the fastest growth.

### Number of people watching video content worldwide, by platform, in billions (2010, 2014, 2020)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>TV</td>
<td>4.71</td>
<td>4.35</td>
<td>4.07</td>
<td>+2%</td>
<td>+1%</td>
</tr>
<tr>
<td>PC</td>
<td>3.98</td>
<td>4.35</td>
<td>3.98</td>
<td>+15%</td>
<td>+8%</td>
</tr>
<tr>
<td>Laptop</td>
<td>1.43</td>
<td>2.47</td>
<td>3.98</td>
<td>+77%</td>
<td>+12%</td>
</tr>
<tr>
<td>Smartphone</td>
<td>0.79</td>
<td>1.53</td>
<td>1.08</td>
<td>+119%</td>
<td>+16%</td>
</tr>
<tr>
<td>Tablet</td>
<td>0.46</td>
<td>0.90</td>
<td>1.10</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Number of devices used to watch video content

<table>
<thead>
<tr>
<th>Year</th>
<th>2010</th>
<th>2014</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>1.14</td>
<td>1.53</td>
<td>2.13</td>
</tr>
</tbody>
</table>

Source(s): Digital TV Research Multiscreen TV & Video Forecasts 2014
These trends are more pronounced among users of Netflix and Hulu in the United States, who are younger and more connected.

**Breakdown of screening devices among Netflix and Hulu users in the United States in 2013**

- **Computer**: 23% (Netflix), 17% (Hulu)
- **Mobile**: 17% (Netflix), 15% (Hulu)
- **Tablet**: 15% (Netflix), 14% (Hulu)
- **Smart TV**: 17% (Netflix), 14% (Hulu)
- **TV connected via computer**: 16% (Netflix), 15% (Hulu)
- **TV connected via Blu-Ray player**: 15% (Netflix), 13% (Hulu)
- **Wii**: 13% (Netflix), 21% (Hulu)
- **PS3**: 10% (Netflix), 16% (Hulu)
- **XBOX 360**: 12% (Netflix), 14% (Hulu)

**Preponderant characteristics among users of video-on-demand services in the United States**

- 18 – 34 years old
- AB+ (> $100K)
- Has children (60% for SVOD users, 45% for TVOD users)
- Owns several digital devices: smartphone, tablet or game console
- Watches more linear television than non-users of on-demand services

Note: The % is > 100 due to the use of several devices, based on a survey. Source(s): Nielsen Over The Top analysis, July 2013.
The preponderance of digital is increasing in the video services market in the United States, where SVOD now accounts for more than half of the market.

Change in spending on home entertainment in the United States

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>CAGR 2012-2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total digital sales and rentals</td>
<td>13204</td>
<td>13299</td>
<td></td>
</tr>
<tr>
<td>Physical rentals</td>
<td>3807</td>
<td>4717</td>
<td>+24%</td>
</tr>
<tr>
<td>Physical DVD sales</td>
<td>6177</td>
<td>5678</td>
<td>-8%</td>
</tr>
</tbody>
</table>

Note: Exchange rate as of 31 Dec 2013 €1 = $1.37
Source: EY analysis based on DEG Report 2014

Breakdown of digital video services in the United States in 2014

<table>
<thead>
<tr>
<th>Platform Examples</th>
<th>SVOD 53%</th>
<th>TVOD 28%</th>
<th>EST 19%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Netflix, Amazon Prime Instant Video, Hulu Plus, Crackle, Redbox</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>iTunes, Amazon Instant Video, Vimeo, Vudu, Xfinity, Google play</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>iTunes, Amazon, Vudu, Xfinity</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: SVOD* Only includes paying subscribers and does not include SVOD platforms providing others video services
Multiple video-on-demand services in the United States, comprising a wide legal offer

Use of each video-on-demand service in the United States in 2014, based on survey

Source(s): * if a service offers several payment models, the color code refers to the service’s predominant model
Ericsson ConsumerLab TV and Media 2014. Base 1,000 US consumers who watch videos at least once a month
In a country like Spain, where the legal offer is much less developed, the use of illegal systems is proportionally much higher than in the United States.
This growth of digital is driven by SVOD and EST services

Change in spending on video-on-demand services on different services in the United States

in millions of $

Source: DEG Report 2014
For all video-on-demand services, the main drivers of growth and differentiation depend on the catalogue: wide choice, exclusives, pre-launch events

The main drivers of growth for video-on-demand services

► For SVOD
  ► An appetite for the exclusives offered by the major SVOD operators, notably in terms of original content (e.g. flagship series on Netflix)
  ► An attractive price compared to a traditional cable subscription
  ► Great simplicity of use (recommendation, prompting of “binge-watching”)

► For EST and TVOD services, advance distribution negotiable with the studios
  ► EST: availability 2-3 weeks ahead of the DVD release, simultaneously with the theatrical release; e.g. early release for *Star Trek, Into the Darkness*
  ► TVOD: access to film in theaters and on TVOD 2 before the theatrical release (“Mega Ticket”); e.g. Mega-ticket for the film *World War Z*: $50, screening 2 days ahead, digital HD version, merchandising

The 5 leading reasons for subscribing to an SVOD service (US)

According to a survey carried out by GfK in 2014 among 2,700 subscribers

1. Having access to a wide catalogue of films (58%)
2. Having access to a wide catalogue of TV programs (series) (56%)
3. Having access to a catalogue of recent films (41%)
4. Watching several episodes in a row (42%)
5. Watching programs when you want (41%)
SVOD services gain subscribers, at the expense of the traditional pay-TV operators

Number of subscribers for the main pay-TV services in the United States, 2011-2013

Source(s): The Companies and Leichtman Research Group, 2011-2014, sites of the various operators
“Cord-cutting”, the most widespread phenomenon among 18-34 year-olds, stimulates the up-take of SVOD services

The cord-cutting phenomenon benefits SVOD services

- Percentage of US households which are cord-cutters

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2013</th>
<th>+ 13%</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-34 years</td>
<td>4.5%</td>
<td>7.9%</td>
<td></td>
</tr>
<tr>
<td>Homes subscribing to Hulu or Netflix</td>
<td>12.4%</td>
<td>12.7%</td>
<td></td>
</tr>
</tbody>
</table>

Source(s): Experian Marketing Services 2013
Users of SVOD services watch more series

Percentage of TV series of total programming watched on SVOD platforms in 2013

Top 10 most-watched content on SVOD platforms in the United States between Dec 2013 and March 2014

<table>
<thead>
<tr>
<th>Titre</th>
<th>En % de téléchargement</th>
</tr>
</thead>
<tbody>
<tr>
<td>House of Cards</td>
<td>4,6</td>
</tr>
<tr>
<td>Breaking Bad</td>
<td>4,3</td>
</tr>
<tr>
<td>Dexter</td>
<td>3,8</td>
</tr>
<tr>
<td>The Walking Dead</td>
<td>1,9</td>
</tr>
<tr>
<td>Orange is the New Black</td>
<td>1,6</td>
</tr>
<tr>
<td>Family Guy</td>
<td>1,3</td>
</tr>
<tr>
<td>American Horror Story</td>
<td>1,3</td>
</tr>
<tr>
<td>Sons of Anarchy</td>
<td>1,2</td>
</tr>
<tr>
<td>How I met your mother</td>
<td>1,1</td>
</tr>
</tbody>
</table>

This appetite for series and exclusive content is prompting US users to subscribe to several SVOD services

- ¼ of Netflix subscribers in the United States also subscribe to another SVOD service

Note: analysis of habits of 500 US subscribers to Netflix, Hulu Plus and Amazon Prime
Source(s): GfK 2014
In Europe, spending on digital video services is growing but does not yet compensate for the fall in spending on physical video.
While TVOD services have a larger market share, it is SVOD services which are driving growth.

Change in spending on video-on-demand for various services in Europe

- **TVOD**
  - 2009-2013: +21.8%

- **SVOD**
  - 2009-2013: +125.8%

- **EST**
  - 2009-2013: +24.1%

Source(s): International Video Federation 2014 - European Video Yearbook 2014 via IHS
The UK, the biggest video market in Europe, is well down the road towards digital transformation

Change in spending on home entertainment in the UK

<table>
<thead>
<tr>
<th>Year</th>
<th>Physical DVD sales</th>
<th>Total digital sales and rentals</th>
<th>Physical rentals</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>1 903</td>
<td>2 619</td>
<td>273</td>
</tr>
<tr>
<td>2013</td>
<td>1 693</td>
<td>2 501</td>
<td>174</td>
</tr>
</tbody>
</table>

Source(s): BVA Yearbook 2014; International Video Federation 2014 - European Video Yearbook 2014

Breakdown of video-on-demand services in 2013

<table>
<thead>
<tr>
<th>Platform</th>
<th>Market Share (%)</th>
<th>Via TV, 33%: Sky, Virgin, BT</th>
<th>Via OTT, 67%: iTunes, Xbox, Sony Entertainment Network, Google Play</th>
<th>LOVEFiLM (48.5% mkt share on SVOD in 2013)</th>
<th>Netflix (45.1% mkt share)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Main platforms</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

634 million

CAGR 2012 - 2013

-4.5%

+ 43%

- 36%

- 11%

634 million

TVOD 38%

SVOD 37%

EST 25%
As in the United States, the main driver for growth in SVOD services is the breadth of the catalogue

Characteristics of the user of SVOD services in the UK

- Despite platforms putting the emphasis on TV series, movies remain the principal reason motivating subscriptions
- SVOD is no longer a niche phenomenon
  - 22% of over-18s say they subscribe to an SVOD service
  - 34% of 18-34 year-olds say they subscribe to an SVOD service
- A desire for “catalogue” series
  - In the top 10 most-watched series in the UK in 2013 were three “old” series: Prison Break, 24, Heroes

The 5 leading reasons for subscribing to an SVOD service (UK)

According to a survey carried out by GfK in 2014 among 2,700 subscribers

1. Having access to a wide catalogue of films (66%)
2. Having access to a wide catalogue of TV programs (series) (50%)
3. Having access to a catalogue of recent films (47%)
4. Watching programs when you want (40%)
5. Watching several episodes in a row (32%)

Source(s): SVOD Content Consumption, GfK 2014
Germany, the second-biggest video market in Europe, recording strong growth in digital, still mainly driven by TVOD

Change in spending on home entertainment in Germany

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total digital sales and rentals</td>
<td>1,791</td>
<td>1,916</td>
</tr>
<tr>
<td>Physical rentals</td>
<td>193</td>
<td>297</td>
</tr>
<tr>
<td>Physical DVD sales</td>
<td>1,362</td>
<td>1,394</td>
</tr>
</tbody>
</table>

CAGR 2012 - 2013: 6.9%

Breakdown of video-on-demand services in 2013

- **TVOD** 57%
- **EST** 28%
- **SVOD** 15%

<table>
<thead>
<tr>
<th>Principal platforms</th>
<th>Maxdome (27%)</th>
<th>iTunes (26%)</th>
<th>T-Home Videoload (19%)</th>
<th>Sky (10%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Maxdome</td>
<td>iTunes</td>
<td>T-Home Videoload</td>
<td>Sky</td>
</tr>
<tr>
<td></td>
<td>(27%)</td>
<td>(26%)</td>
<td>(19%)</td>
<td>(10%)</td>
</tr>
<tr>
<td>297 million</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source(s): International Video Federation 2014 - European Video Yearbook 2014
In Italy, growth in digital is almost zero in a crisis-hit economy

Change in spending on home entertainment in Italy

<table>
<thead>
<tr>
<th>in millions</th>
<th>Total digital sales and rentals</th>
<th>Physical rentals</th>
<th>Physical DVD sales</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>281</td>
<td>74</td>
<td>216</td>
</tr>
<tr>
<td>2012</td>
<td>240</td>
<td>52</td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>216</td>
<td>46</td>
<td></td>
</tr>
</tbody>
</table>

-11.6% CAGR 2011 - 2013

Main platforms

- **TVOD**: Mediaset Premium Play, Sky on Demand, Chili TV, Cubovision, iTunes, MediaWorld, Blockbuster on Demand
- **SVOD**: Cubovision, Mediaset Infinity
- **EST**: iTunes, Xbox Video, Playstation Store, Chili TV

In Spain, the growth of digital has been muted in a country strongly affected by recession and the high level of piracy.

**Change in spending on home entertainment in Spain**

- **Total digital sales and rentals**: 295 in 2011, 260 in 2012, 225 in 2013, CAGR 2011-2013: -12.7%
- **Physical rentals**: 77 in 2011, 61 in 2012, 44 in 2013, CAGR 2011-2013: +14.7%
- **Physical DVD sales**: 185 in 2011, 164 in 2012, 140 in 2013, CAGR 2011-2013: -13.1%

**Main platforms**

- **VOD, TVOD & EST**
  - Nubeox (Planeta), Yomvi (Canal+), ONO videoclub, Movistar TV (Telefonica), Jazztel, iTunes
- **SVOD**
  - Wuaki.tv (Rakuten), Youzee, Netflix

The Polish market is weak in terms of value but represents major potential for growth, notably via OTT services.

Change in spending on home entertainment in Poland

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>CAGR 2011 - 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total digitals sales and rentals</td>
<td>78</td>
<td>86</td>
<td>91</td>
<td>+8.3%</td>
</tr>
<tr>
<td>Physical rentals</td>
<td>2</td>
<td>2</td>
<td>2</td>
<td>-8.2%</td>
</tr>
<tr>
<td>Physical DVD sales</td>
<td>53</td>
<td>51</td>
<td>46</td>
<td>-7%</td>
</tr>
</tbody>
</table>

CAGR: Compound Annual Growth Rate

Main platforms

- **VOD**
  - Cineman
  - Ipla
  - Iplex
  - Orange TV
  - Kinoplex
  - Strefa VOD
  - Onet (TVN)

- **SVOD**
  - Onet (TVN), IplaFILM, AXN Now

Although TVOD services via television still account for 80% of the offers, OTT services saw growth of 106.3% in 2013 over 2012, for total revenue of 8.69 million in 2013.

Japan, the world’s second-biggest video market after the United States, is slow to embrace the transition to digital

### Change in spending on home entertainment in Japan

<table>
<thead>
<tr>
<th></th>
<th>2012</th>
<th>2013</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total digital sales and rentals</td>
<td>3,909</td>
<td>3,744</td>
<td>-4.2%</td>
</tr>
<tr>
<td>Physical rentals</td>
<td>1,971</td>
<td>1,906</td>
<td>-3.3%</td>
</tr>
<tr>
<td>Physical DVD sales</td>
<td>1,686</td>
<td>1,590</td>
<td>-5.7%</td>
</tr>
</tbody>
</table>

**CAGR 2012 - 2013**
- SVOD: -1.3%
- VOD TVOD & EST: -3.3%

### Main platforms

- **SVOD**
  - TBS, Hikari TV, Hulu, Netflix, J:COM on demand, d Video, Bee TV, Uula

- **VOD TVOD & EST**
  - TBS, Amazon instant Video, Hikari TV, J:COM on demand, iTunes

Source(s): International Video Federation 2014 – European Video Yearbook 2014; OTT Landscape in Japan, Kazu Shimura, January 2014
Revenues from online video services in China soar to reach 5.2 billion in 2017

Change in revenue in online video services in China

Free video services, mainly financed by advertising

- 45% of revenues from online video came from advertising receipts in 2014
- This proportion is expected to reach 72.5% in 2017

Estimate of growth in consumer spend on video content, in millions

<table>
<thead>
<tr>
<th>Year</th>
<th>2014e</th>
<th>2017e</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>1366</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>1419</td>
<td></td>
</tr>
</tbody>
</table>

Note: exchange rate used 1 CNY = €0.13
Does not include revenues from telecoms operators from pay-TV
Source(s): iResearch, China Online Video Report 2014
The most widely used video services platforms in China in 2014 were the free video platforms.

Number of monthly users of Chinese video services in January 2014

<table>
<thead>
<tr>
<th>Service</th>
<th>Monthly Users (in million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IQiYi / Youku</td>
<td>94</td>
</tr>
<tr>
<td>PPStream</td>
<td>84</td>
</tr>
<tr>
<td>Sohu</td>
<td>29</td>
</tr>
<tr>
<td>PPTV</td>
<td>29</td>
</tr>
<tr>
<td>QQ</td>
<td>19</td>
</tr>
<tr>
<td>LetvFunshion</td>
<td>19</td>
</tr>
<tr>
<td>Letv</td>
<td>8</td>
</tr>
</tbody>
</table>

Some free video services are starting to develop a pay offer

- Development of initiatives towards the production of own content and paying VOD services
  - IQiYi (founded in April 2010 by Baidu), launched IQiYi Motion Pictures in 2014 (acquisition, production, distribution of films)
  - IQiYi cooperates with the Venice Film Festival for streaming of festival films online
  - YoukuTudou signed a cooperation agreement with StudioCanal in 2014 for online distribution of more than 50 films in its catalogue
  - Tencent (QQ) is developing its pay platform Hollywood 360 and has signed deals with HBO, Universal, Miramar, Lionsgate and Disney

- Main factors slowing development
  - Censorship and quotas imposed by the state
  - The high level of piracy and the wish to access content for free

Source(s): iResearch; Gigaom “Baidu’s Idiyi overtakes Youku as China’s most popular video service”, March 2014
Consumers of audiovisual content in China mainly access video content for free via mobile

<table>
<thead>
<tr>
<th>An increase in consumption of audiovisual content</th>
</tr>
</thead>
<tbody>
<tr>
<td>▶ 632 million internet users in China in 2014 (+1.1% over 2013)</td>
</tr>
<tr>
<td>▶ 83.4% access internet via their cell phone</td>
</tr>
<tr>
<td>▶ The number of hours of weekly access to internet is 25.9h</td>
</tr>
</tbody>
</table>

### Search behaviors of Chinese internet video users in 2013

<table>
<thead>
<tr>
<th>Method</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Via the client software of the host website</td>
<td>39%</td>
</tr>
<tr>
<td>Via a search on the host website</td>
<td>35%</td>
</tr>
<tr>
<td>Via a search through a search engine</td>
<td>22%</td>
</tr>
</tbody>
</table>

### Consumer habits that tend towards the free model

<table>
<thead>
<tr>
<th>Habit</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Only 11.7% of internet video users have paid at least once to watch a video</td>
<td></td>
</tr>
</tbody>
</table>

#### Habits of internet video users having already paid for content

<table>
<thead>
<tr>
<th>Habit</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Achètent des vidéos</td>
<td>71%</td>
</tr>
<tr>
<td>Ont un abonnement mensuel</td>
<td>17%</td>
</tr>
<tr>
<td>Ont un abonnement annuel</td>
<td>7%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>The two main reasons for payment are access to more video content (for 51.7% of users) and the inability to find the same video as free content (for 40.7% of users)</td>
<td></td>
</tr>
</tbody>
</table>

Source(s): CNNIC 2013
Series and films make up the most-watched content on online video platforms

Number of monthly unique visitors for each type of online video content (January 2012 – March 2014)

- Around 1,200 TV series were available on the main online video sites in 2013
- Drama and romantic series were the most popular, followed by comedies

An appetite for TV series

Note: sample of 400,000 homes, measurement of consumption habits over the long term
Source(s): iVideoTracker, May 2014.
Brazil, which accounts for half of the total Latin American market, expects to see revenue from video-on-demand services boom by 2017.

<table>
<thead>
<tr>
<th>Change in revenue from video-on-demand services in Latin America (2013 – 2017)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Latin America</strong></td>
</tr>
<tr>
<td>3,161</td>
</tr>
<tr>
<td>533</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Main platforms</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>VOD TVOD &amp; EST</strong></td>
</tr>
<tr>
<td>Telecine Play, Muu, Net Now, Netmovies, Saraiva Digital Filmes, Canal Brasil, + Combate</td>
</tr>
<tr>
<td><strong>SVOD</strong></td>
</tr>
<tr>
<td>Net Now, Netmovies, Globo TV, Netflix, Crackle, Porta Curtas</td>
</tr>
</tbody>
</table>

**Main factors slowing development:**
- **Prevalence of piracy**
  In response to this threat, certain platforms (financed by advertising) have chosen to offer free content (e.g. Crackle)
- **Access to broadband still limited**
  Only 20% of the 42 million internet users in Brazil have sufficient bandwidth to watch videos via streaming (>800kb/s)

**Estimate of the number of subscriptions**

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Latin America</th>
<th>Brazil</th>
<th>Estimate of the number of subscriptions*</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>4.2 M</td>
<td>266</td>
<td></td>
</tr>
<tr>
<td>2017e</td>
<td>13 M</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* a VOD or SVOD service, free or paying

Note: data in US$ converted at the exchange rate as of 31 Dec 2013, €1 = $1.37
Source(s): Datasix, May 2013
In Africa, the most promising markets for video-on-demand services are those with the highest rate of internet connection

There is a major challenge in terms of transforming spending linked to physical piracy (through the purchase of pirate DVD) into legal spending on VOD platforms.

Source(s): Business Monitor International 2014; Balancing Act Report “VOD and Africa” 2014; Attali report on La Francophonie
Contents

► Introduction

► Estimate of the potential international market for French films on digital video-on-demand platforms

► Economic sales models applied by rights holders

► Recommendations

► Appendices
  • Analysis of uses of video-on-demand services
  • Methodological notes
### Bottom-up approach in the United States

#### 1. Identification of the major platforms
- Distinction of 3 markets: SVOD, VOD, EST
- Hypotheses on market share of the main platforms
  - Netflix, Amazon Prime Instant Video, Hulu Plus: 90% SVOD market (EY estimate)
  - iTunes, Amazon Instant Video, Comcast Xfinity: 42% VOD & EST market (source: NPD 2013)

#### 2. Estimate of the share of French films
- Screening of catalogue titles on main platforms
  - Netflix, Amazon Prime Instant Video, Hulu Plus, Amazon Instant video, Comcast, iTunes
- Number of French films on these platforms
  - Estimate of market share for French films
- Overall estimate of the size of the market based on the platforms’ shares

#### 3. Estimate of the market attainable by French films
- Estimate of the Minimum Guarantee and share of operators using the MG model
  - SVOD hypothesis: €5,000/film/year and proportion of new films: 40%
  - VOD hypothesis: €10,000/film/year and proportion of new films: 60%

#### 4. Estimate of growth in the attainable market by 2020
- Growth hypothesis of the catalogue
  - 5% up to 2020, EY estimate based on trends observed by the main operators between 2012 and 2014
- Growth hypothesis for the proportion of French film
  - Hypothesis identical from 2014 to 2020
## Breakdown - estimate of market share of French films on platforms (2014)

<table>
<thead>
<tr>
<th>Platform</th>
<th>Number of films</th>
<th>Number of French films</th>
<th>Market share of French films</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NETFLIX</strong></td>
<td>6,500</td>
<td>160</td>
<td>2%</td>
</tr>
<tr>
<td><strong>HULU PLUS</strong></td>
<td>4,000</td>
<td>182</td>
<td>5%</td>
</tr>
<tr>
<td><strong>iTUNES</strong></td>
<td>17,150</td>
<td>510</td>
<td>3%</td>
</tr>
<tr>
<td><strong>AMAZON PRIME Instant Video</strong></td>
<td>15,363</td>
<td>40</td>
<td>0.3%</td>
</tr>
<tr>
<td><strong>AMAZON Instant Video</strong></td>
<td>78,620</td>
<td>180</td>
<td>0.2%</td>
</tr>
<tr>
<td><strong>COMCAST Xfinity</strong></td>
<td>12,000</td>
<td>40</td>
<td>0.3%</td>
</tr>
<tr>
<td><strong>French cinema in theaters</strong></td>
<td></td>
<td></td>
<td>0.6% in 2013</td>
</tr>
</tbody>
</table>
Breakdown - estimate of French films on platforms

- **Connection on US platforms**
  - Netflix, Amazon Prime, Amazon Instant Watch, Hulu Plus, iTunes, Comcast

- **Estimate of the number of titles**

- **Estimate of the number of films vs TV series**
  - Use of the ratio 1 series = 2.3 seasons, and 1 season = 15.8 episodes based on Netflix catalogue information 2011 (source: EY)

- **Number of French films**
  - Number of French films in the “foreign” catalogue
  - Number of French films responding to a search using the key word “French film”

- **Market share of French films**
  - Ratio of French films/number of films
Top-down approach in the United States

1. Revenue from VOD, SVOD, EST markets
   - Estimate of total market in 2013: $5.8 billion
     - SVOD: $3.8 billion/ VOD $2.1 billion
     - Source: DEG 2014

2. Budget invested in programming
   - SVOD hypothesis: 50% (EY estimate)
   - VOD & EST hypothesis: 50% (EY estimate)

3. Budget invested in films
   - Hypothesis of the proportion of films in the catalogue
     - SVOD hypothesis: 20%
     - VOD hypothesis: 75%

4. Market share of French films
   - Hypothesis of market share of French cinema in the United States
     - Hypothesis: using the average market share of French cinema in theaters over the past four years (source: UniFrance)

5. Estimated potential market
   - Market share of French films multiplied by the budget invested in films

6. Estimated growth in potential market
   - Hypothesis of total market growth (source: Digital TV 2014)
   - Hypothesis of growth of market share of French cinema
     - Hypothesis identical from 2014 to 2020
Penetration of French films on SVOD services in the UK

<table>
<thead>
<tr>
<th></th>
<th>Mkt share in SVOD sector</th>
<th>Number of films</th>
<th>% of films*</th>
<th>Number of French films</th>
<th>Share of French films</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>NETFLIX</strong></td>
<td>45.1%</td>
<td>2,344</td>
<td>14%</td>
<td>31</td>
<td>1.32%</td>
</tr>
<tr>
<td><strong>AMAZON PRIME</strong></td>
<td>48.5%</td>
<td>2,660</td>
<td>42%</td>
<td>107</td>
<td>4%</td>
</tr>
<tr>
<td><strong>LOVEFILM</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Note: the % of films is calculated on the total number of titles counting all the episodes of a series
Survey of the appetite for “European” cinema
Penetration of European films in catalogues

Study in the EU on the representation of European films in catalogues

- **Objective:** to analyze the presence of European films in the catalogues of the main VOD/SVOD platforms in European countries
- **Methodology:**
  - Constitution of a sample of 50 European films:
    - 25 “box-office” films, commercial hits (BB)
    - 25 award-winning films or those acclaimed by critics (EFA)
    - Films released between 1988 and 2012
  - Identification of 5 VOD/SVOD platforms by country and comparison of each national iTunes
  - Analysis of catalogues for the period July – September 2013
- **Limitations of the study:**
  - Using a sample of films does not represent the whole market
  - Selection of platforms and countries does not represent the whole of the European market

Main results

- The European catalogue is richer on iTunes than on national platforms

<table>
<thead>
<tr>
<th>Country</th>
<th>Average national platforms</th>
<th>National iTunes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>36 %</td>
<td>72 %</td>
</tr>
<tr>
<td>France</td>
<td>20 %</td>
<td>60 %</td>
</tr>
<tr>
<td>Poland</td>
<td>13 % 10 %</td>
<td>40 %</td>
</tr>
<tr>
<td>Italy</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source(s): On-demand Audiovisual Markets in the European Union

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Cette présentation, à votre seul usage interne, est indissociable des éléments de contexte qui ont permis de l’établir and des commentaires oraux qui l’accompagnent.
**Survey of the appetite for “European” cinema**

**Study in the EU on the TV audience in Europe**

<table>
<thead>
<tr>
<th>Interest in possible marketing initiatives to boost European cinema</th>
<th>Main results</th>
</tr>
</thead>
<tbody>
<tr>
<td>More promotion of European films on television</td>
<td>An audience that is broadly interested in possible marketing initiatives in favor of European cinema</td>
</tr>
<tr>
<td>36% “interested”</td>
<td>Preponderant characteristics among people most interested by the development of European initiatives</td>
</tr>
<tr>
<td>18% “very interested”</td>
<td>16 – 25 years old</td>
</tr>
<tr>
<td>54%</td>
<td>A majority of women</td>
</tr>
<tr>
<td>An online database providing detailed information on European films</td>
<td>Higher level of education</td>
</tr>
<tr>
<td>34% “interested”</td>
<td>People with higher incomes are less interested by these initiatives</td>
</tr>
<tr>
<td>16% “very interested”</td>
<td>49%</td>
</tr>
<tr>
<td>50%</td>
<td></td>
</tr>
<tr>
<td>More online promotion for European cinema</td>
<td></td>
</tr>
<tr>
<td>34% “interested”</td>
<td></td>
</tr>
<tr>
<td>15% “very interested”</td>
<td></td>
</tr>
<tr>
<td>49%</td>
<td></td>
</tr>
<tr>
<td>European Cinema Week in theaters</td>
<td></td>
</tr>
<tr>
<td>31% “interested”</td>
<td></td>
</tr>
<tr>
<td>18% “very interested”</td>
<td></td>
</tr>
<tr>
<td>49%</td>
<td></td>
</tr>
<tr>
<td>Greater visibility for the European festival (European Film Awards)</td>
<td></td>
</tr>
<tr>
<td>33% “interested”</td>
<td></td>
</tr>
<tr>
<td>14% “very interested”</td>
<td></td>
</tr>
<tr>
<td>47%</td>
<td></td>
</tr>
<tr>
<td>A European cinema channel on YouTube</td>
<td></td>
</tr>
<tr>
<td>32% “interested”</td>
<td></td>
</tr>
<tr>
<td>13% “very interested”</td>
<td></td>
</tr>
<tr>
<td>45%</td>
<td></td>
</tr>
<tr>
<td>A transnational VOD platform for European cinema</td>
<td></td>
</tr>
<tr>
<td>34% “interested”</td>
<td></td>
</tr>
<tr>
<td>8% “very interested”</td>
<td></td>
</tr>
<tr>
<td>42%</td>
<td></td>
</tr>
</tbody>
</table>

Note: survey carried out among the 97% who said they watch films out of a sample of 4,608 Europeans/ “European” film defined as a film that is seen outside its country of origin
Source(s): A profile of current and future audiovisual audience – European Commission - 2012
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