

New markets for French and European cinema

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

Summary – March 2015



EY

Building a better
working world

uniFrance films

Promoting French cinema worldwide

Objectives

The objective of this study is to analyze the economic potential for French films on digital VOD and SVOD platforms in selected territories (United States, UK, Germany, Italy, Spain, Poland, Japan, China, Brazil, Africa), and to make recommendations to help structure the market.

To carry out this study, EY has used the following methodology:

- ▶ Market surveys of VOD and SVOD services in the territories studied (analysis of consumer spending).
- ▶ Quantitative analysis carried out on the main VOD and SVOD platforms in the United States and UK.
- ▶ Estimate of the economic potential for French films across all markets.
- ▶ Collecting information and feedback from industry professionals to weigh up the markets and various business models used.

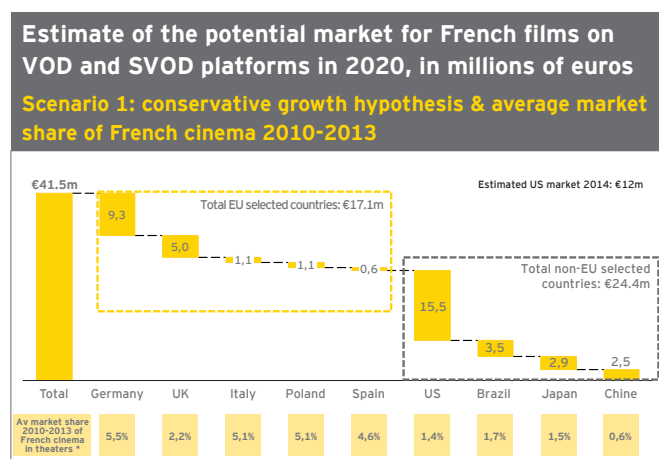


VIDEO ON

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

First scenario with conservative growth hypotheses

In this first scenario, the potential market¹ for French films in 2020 is estimated at €41.5m, with €15.5m (37.5%) in the United States, €17.1m in the European countries analyzed in the study (41%), and €8.9m in China, Brazil and Japan (21.5%).



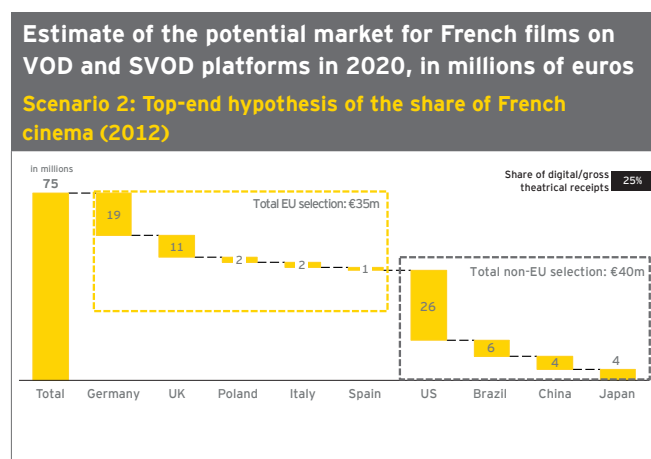
Sources : EY analysis, UniFrance Films 2013 Report*

This estimate is based on several key hypotheses:

- ▶ A proportion of revenues dedicated to the acquisition of contents: 50%;
- ▶ A part dedicated to films: 20% for SVOD operators and 50% for VOD operators;
- ▶ A market share for French cinema comparable to the average market share in theaters from 2010 to 2013.

Second scenario with optimistic growth hypotheses

In a more optimistic estimate of the market, using the hypothesis of a market share for French cinema comparable to that of a very good year like 2012, the international market for VOD and SVOD could reach €75m in 2020 across the territories surveyed.



Source : EY analysis

By way of comparison, in 2013, the revenues from VOD and SVOD of French films in France are estimated at €61m.

In addition, international receipts from French films in theaters accounted for an average of €298m between 2010 and 2013.

In our first scenario, the international market for VOD and SVOD would account for almost 15% of the current export market. In the second, it would reach 25%.

¹ On the American market, we have estimated the potential market for French films on VOD/SVOD platforms based on a dual bottom-up and top-down approach. The comparison of the approaches on this market allowed us to verify our outline hypotheses and to extrapolate the top-down approach for the other territories.

The VOD and SVOD markets in the territories analyzed

The total market for video-on-demand services in the territories analyzed amounts to €7.8bn in 2013.

The United States account for more than half of this, with a market worth some \$4.7bn. The share of digital distribution now outstrips physical video, an indication that the shift to digital is already well advanced. Since 2012, SVOD services have been driving growth in video-on-demand, reaching a market share of 53% in the first half of 2014. Legal offers such as Netflix, Amazon Prime, Hulu and Xfinity have succeeded in attracting customers through their wide catalogues of films and series, their capacity to generate exclusive content, and a service accessible on multiple devices (TV, mobile, game console, tablet, PC).

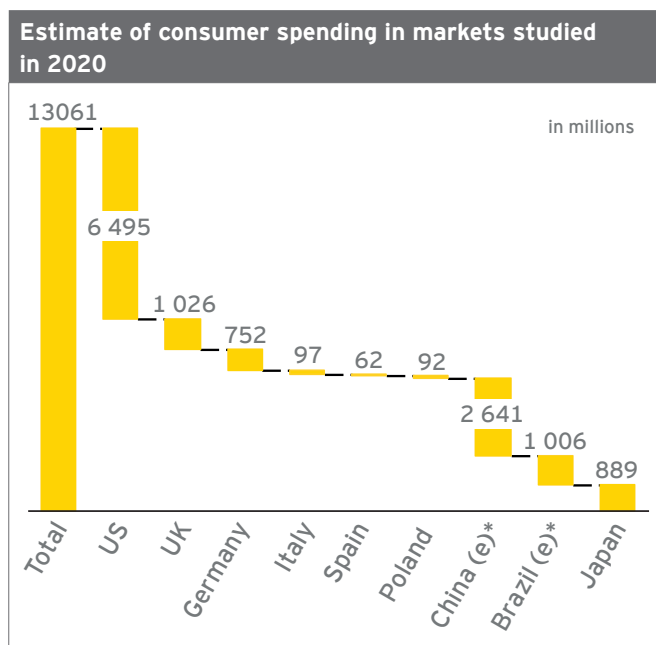
In Europe, while the proportion of digital video services have increased significantly (43% growth in 2013 over 2012), the market for physical video remains far bigger in terms of value (€1.9bn for digital video compared to €6.5bn for physical video). Numerous local VOD and SVOD platforms exist in each European country, operating in competition

with international platforms like iTunes, Amazon and Netflix, which also have local strategies. Within the nascent market for digital services, VOD conserves a major market share but has seen its growth stagnate, whereas SVOD services are developing rapidly with annual growth of 126% from 2009 to 2013. This trend is strongest in the UK, where SVOD has a market share of 37% of total digital services, and to a lesser extent in Germany, where its share is 15%.

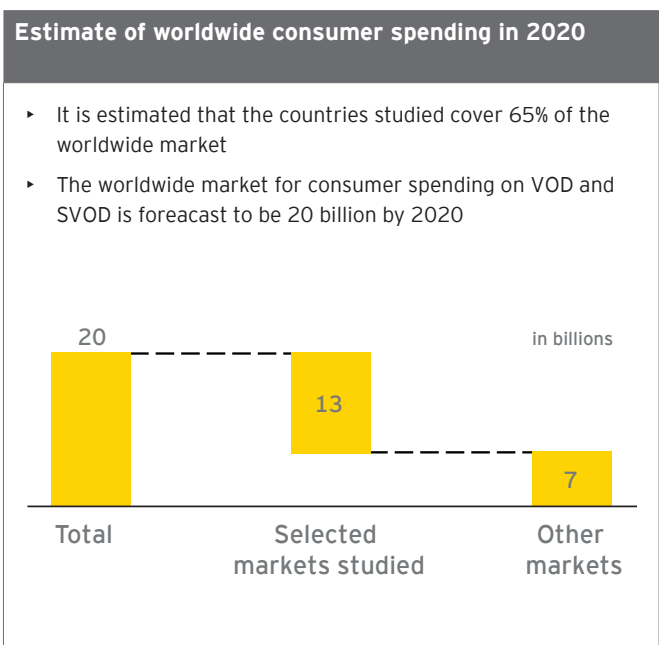
Online video services are booming in China, but the share occupied by VOD and SVOD services on these video platforms is hard to estimate. The trend is for free screening of content on platforms financed by advertising revenues.

In Brazil and in Africa, one can also note a rapid up-take in advertising-funded VOD and SVOD platforms, showing content for free.

In 2020, the potential of the market in the territories studied is €13bn (two-thirds of the global market), which gives an estimate of the worldwide market at €20bn.



Source(s) : EY estimates based on data from the International Video Federation 2014 - European Video Yearbook 2014, DEG entertainment 2014, iResearch 2014*





Business models used by rights holders

Three major models emerge from our analysis of the sector and the interviews conducted:

1. Indirect sales via a local distributor

Actually, it is the dominant model. The distributor acquires the VOD and SVOD as part of an “all rights” deal with the rights holder. These rights are integrated into the minimum guarantee paid by the distributor.

2. Sales via an aggregator

This involves a sale via an intermediary between rights holders and platforms, who handles negotiation with local platforms and manages the aggregation of content and marketing materials for the producer.

3. Direct sales to platforms

Direct sale is a “direct” negotiation with platforms. It requires an additional commercial investment. This is a minority practice, but is all the same used by most exporters. Direct sales mainly involve “big” films, which are self-driven and don’t need a marketing intermediary to sell. As for financial significance, the terms and conditions used by platforms are:

- For VOD, a share of receipts of around 50% of the sales price (even 70% with certain operators for brand new films);
- For SVOD, a flat fee of €3,000-10,000 for a period of 12-18 months (but this can start at €500 for a less attractive film and/or a shorter period).

The approach used by rights holders to export their films is still at an experimental stage. Revenues from VOD and SVOD are not very significant for French sales companies: they account for less than 5% of their earnings from export. The majority of these revenues come from sales via VOD. Efforts by producers and distributors are concentrated for the moment on the United States and Europe, whilst adopting an exploratory approach on the Chinese market.

Recommendations

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

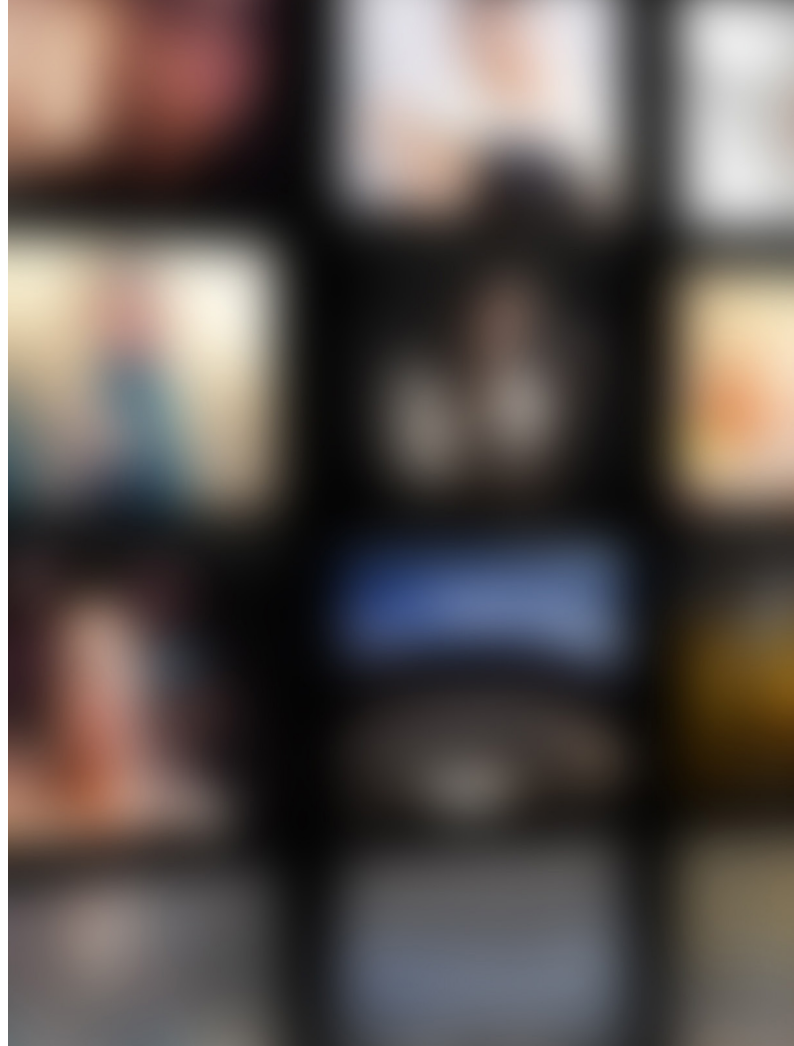
Encouraging marketing and promotional efforts for the sale of films on VOD/SVOD

- ▶ Supporting marketing initiatives for the referencing of French and European films as part of the legal offer.
- ▶ Promoting initiatives that will enable marketing synergies adapted to each market (e.g. the creation of communities on social networks, trials with simultaneous releases in theaters and on digital platforms).
- ▶ “Creating an event” as part of the distribution strategy, by developing agreements between festivals and platforms for exclusive VOD distribution (e.g. Stream Festival on Universciné, Venice Film Festival on IQiYi).

Studying new distribution models according to the specificities of each market

- ▶ Building on public-private partnerships, for example for the distribution of films on free platforms, especially in China where the pay model is struggling to take hold (e.g. sponsoring the catalogue of French films by a French brand).
- ▶ Promoting approved and curated content to sell it to platforms which want to have a complete 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 driven by the new operators in the ecosystem



2. Potential for an alternative European platform

- ▶ Support the creation and the 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 TV series, of European origin to differentiate itself
- ▶ A potential market of around 5% of the worldwide market of €20bn, in other words potential revenue of €1bn

All these drivers could ultimately contribute to developing access to a legal offer for a growing number of users on a global scale.



Acknowledgments

We would like to thank the experts consulted as part of this report for their contributions:

- ▶ **Sylvie Forbin**
Senior Vice-President, Public and European Affairs, Vivendi
- ▶ **Marie Sellier**
Head of Public Corporate Affairs & Intellectual Property, Vivendi
- ▶ **Georges Bermann**
Partizan Films
- ▶ **Vincent Grimond**
Wild Bunch
- ▶ **Alain Rocca**
Universciné
- ▶ **Julien Neutres**
CNC
- ▶ **Jérôme Chung**
Under the Milky Way
- ▶ **Pierre-Alexandre Labelle**
Under the Milky Way (US)
- ▶ **Karim Ayari**
Watchever (Germany)
- ▶ **Emilie Boucheteil**
Audiovisual Attaché, French Embassy (Germany)
- ▶ **Peiyi Jiang**
Best TV (China)
- ▶ **Brigitte Veyne**
Audiovisual Attaché, French Embassy (China)
- ▶ **Noriko Tezuka**
Unifrance Film Tokyo (Japan)
- ▶ **Audrey Guibert**
Audiovisual Attaché, French Embassy (Brazil)

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