



Digital Media

OTT Market Update | Fall 2021

Houlihan Lokey OTT Market Update

Dear Friends and Partners,

With vaccinations on the rise, global markets are beginning to once again find their footing in a post pandemic world. One trend we've been watching closely is how consumer behavior, having evolved drastically during the pandemic while individuals around the world sheltered in place, will impact media companies as the nucleus of daily activities shifts outside the home yet again. What we have found is that, good or bad, the changes to everyday life that arrived alongside the virus are shaping a new Over-the-Top (OTT) landscape that is here to stay.

Over the course of the pandemic, we've watched as consumers transcended the boundaries of their homes by consuming more TV hours than ever before. This increased rate of content consumption spurred new trends within the OTT industry, as consumers accrued more platform subscriptions in pursuit of content variety. As a result, newcomers to the Subscription Video-on-Demand (SVOD) market boomed, as we saw with Disney+'s spectacular catapult to the top alongside other heavyweight competitors. Meanwhile, emerging competition from Advertising-Based Video-on-Demand (AVOD) services garnered significant consumer buy-in—further fragmenting competition in a crowded market. Given the continued changes in the competitive landscape, we expect that M&A activity will continue to flourish amid substantial pressure for OTT providers to differentiate their content portfolios as part of a mounting subscriber retention roadmap.

We hope that this update serves as an asset as you evaluate the new normal within the OTT landscape. As this market continues to evolve, we would be happy to discuss these market developments and look forward to staying in touch with you.

Regards,



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Technology, Media, and Telecom Subverticals Covered

- Adventure Tours
- Advertising Services
- Audio Entertainment
- B2B Events
- Broadcasting
- Casino Gaming
- Digital Content
- Digital Marketing
- Digital Music

- Digital Publishing
- Digital Signage
- E-Gaming
- E-Sports
- Fiber Networks
- Fixed and Mobile Broadband
- Hosting and Data Centers
- Leisure, Entertainment, and Lodging
- Live Entertainment

- Music B2B Services
- Music Recording and Publishing
- Online Casino Technology
- OTT Video
- Out-of-Home Entertainment
- Out-of-Home Advertising
- Podcasting
- Sports Betting
- Sports Leagues, IP, and Content

- Sports Franchises and Venues
- Sports Data and Technology
- Satellite Communications
- Talent Agencies
- Theme Parks
- Video Content and Entertainment
- Video Games
- Wholesale and B2B Telecom Services

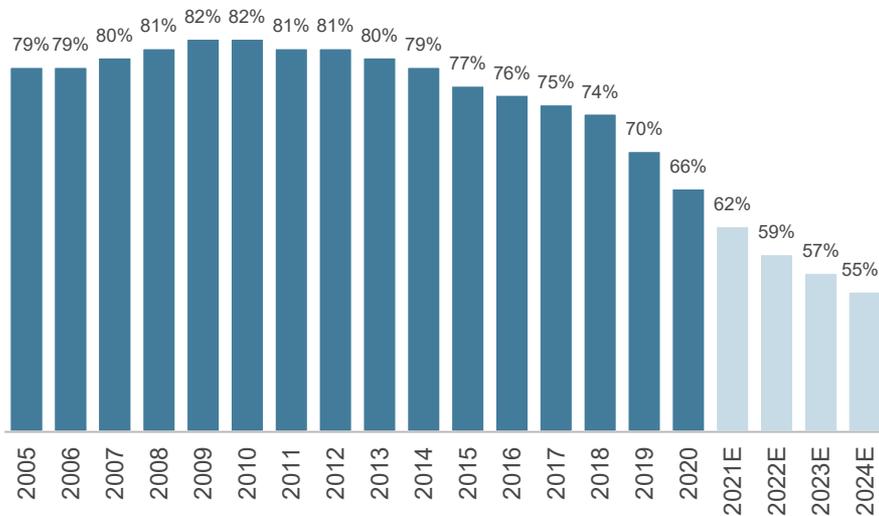
Pay TV Headwinds Continue

Significant declines in pay TV subscribers continue, driven by a plethora of new streaming platform launches and the developing ubiquity of virtual multichannel video programming distributors (vMVPDs).

- Decline in traditional pay TV penetration has rapidly accelerated in U.S. households since peak penetration in 2010.
 - By 2024, only 55% of U.S. households are expected to have pay TV subscriptions.
- Amid an abundance of options, consumers are replacing pay TV subscriptions with a mix of SVOD, AVOD, and vMVPD services to access their favorite content.
- The vMVPD landscape continues to see strong momentum—further eroding the pay TV market—with Hulu Live and YouTube TV capturing the lion’s share of growth in the past two years.
- Premium channels and sports programming may not be able to save pay TV providers from churn amid the rise of vMVPDs that allow consumers to stream programming 24 hours a day while retaining choice channels from their cable packages.

Pay TV Penetration Declines Continue⁽¹⁾

Pay TV Households as % of Total U.S. Households

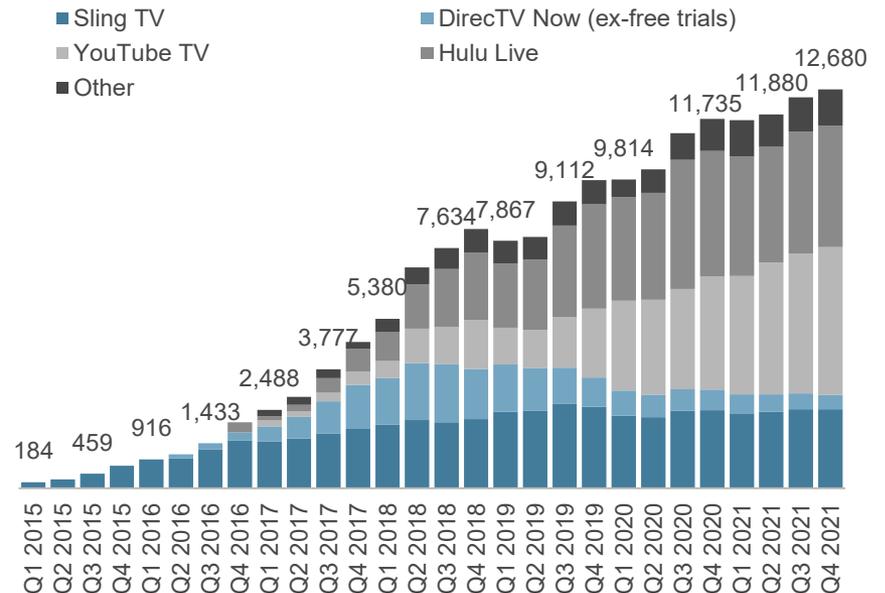


(1) Wall Street research.

(2) Wall Street research.

Cumulative vMVPD Subscribers⁽²⁾

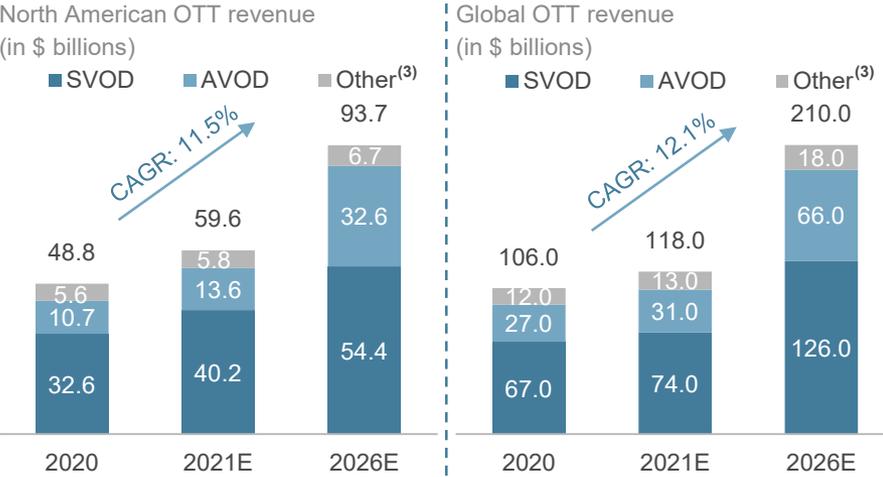
Subscribers in thousands



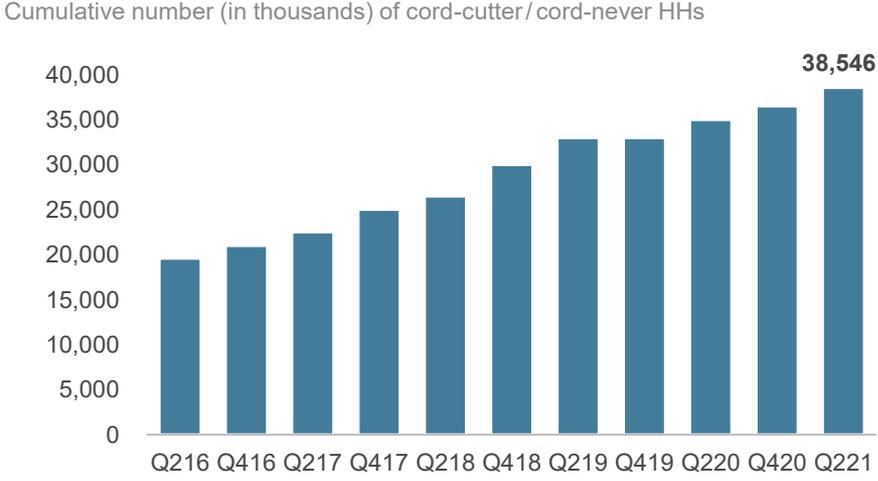
Robust Outlook for OTT

- The OTT market has boomed over the past year, due to the combination of worldwide shelter-in-place orders amid COVID-19 and the proliferation of high-quality OTT offerings from media and tech heavyweights, which has caused consumers to accrue more platform subscriptions and devour more content hours than ever before.
- In North America, the OTT market (including subscriptions, advertising, and pay-per-view) is expected to grow an explosive 22% in 2021, with strength in both SVOD and AVOD. However, with signs of market maturation showing, many analysts expect North American growth to moderate over the next five years (to approximately 10% growth between 2021 and 2026).⁽¹⁾
- The proliferation of SVOD services are starting to weigh on North American consumers (and their wallets), driving demand for AVOD alternatives. In 2021, North American AVOD revenues are expected to grow nearly 27% vs. SVOD's 23% and are expected to exceed SVOD growth over the next five years (19% CAGR vs. 6% CAGR for AVOD and SVOD, respectively).⁽¹⁾
- OTT adoption (and revenue growth) in international markets has lagged the North American OTT market over the past year. Looking ahead, however, we expect to see heavyweight players set their sights on international markets for new audiences and growth. As a result, the OTT market outside of North America is projected to grow from \$58 billion to \$116 billion (a 15% CAGR) between 2021 and 2026.⁽¹⁾
- On the horizon, the population of “cord-nevers” continues to expand, signifying a positive outlook for OTT growth, as many Gen Zers are entering adulthood having never held traditional cable subscriptions, with a preference for content on demand over linear TV.

Growing OTT Market⁽¹⁾



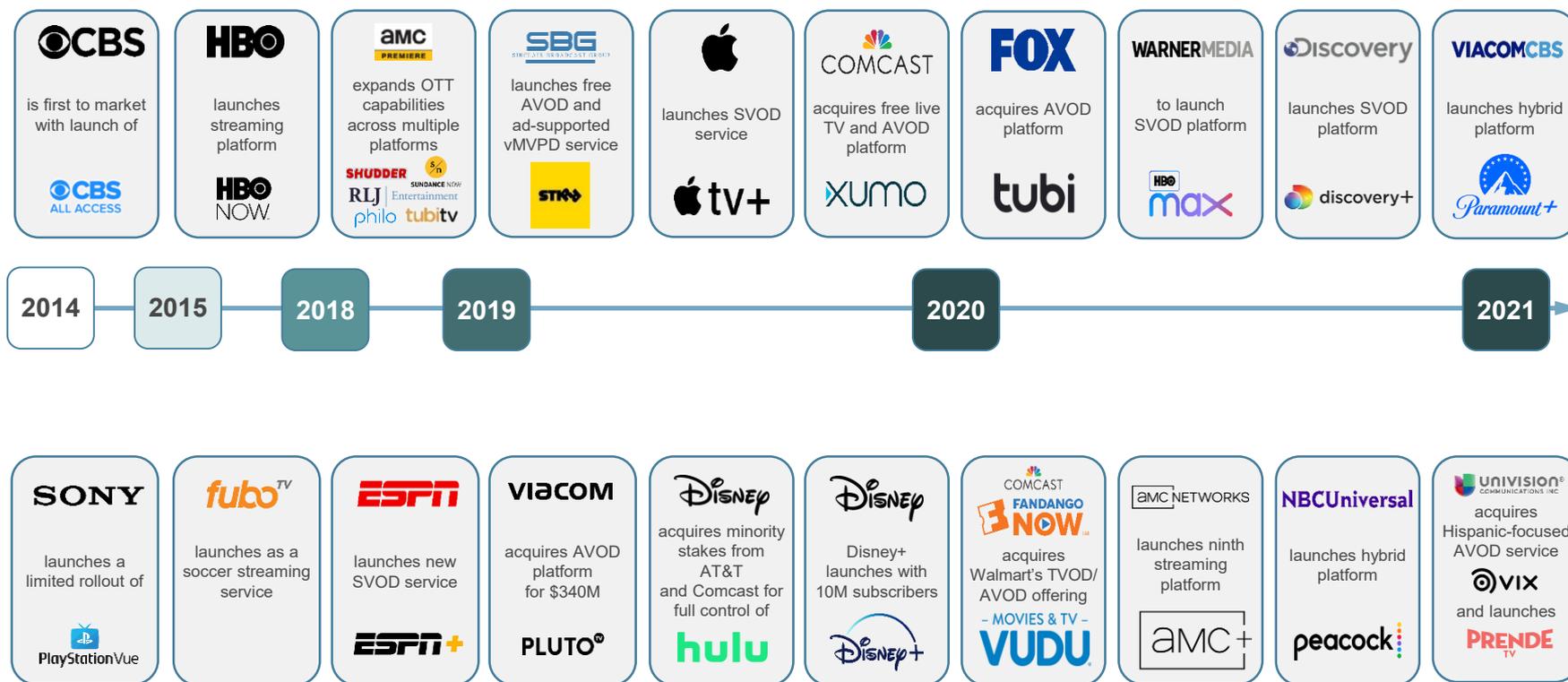
Cord-Cutters and Cord-Nevers Continue to Rise⁽²⁾



⁽¹⁾ Digital TV Research, May 2021; ⁽²⁾ MoffettNathanson, September 2021; ⁽³⁾ Other includes DTO and rental.

OTT/Direct to Consumer Is a Top Strategic Priority for All Major Media and Tech Companies

Significant pressure to scale direct-to-consumer offerings is resulting in heavy investments in OTT platforms, both organically and through M&A.



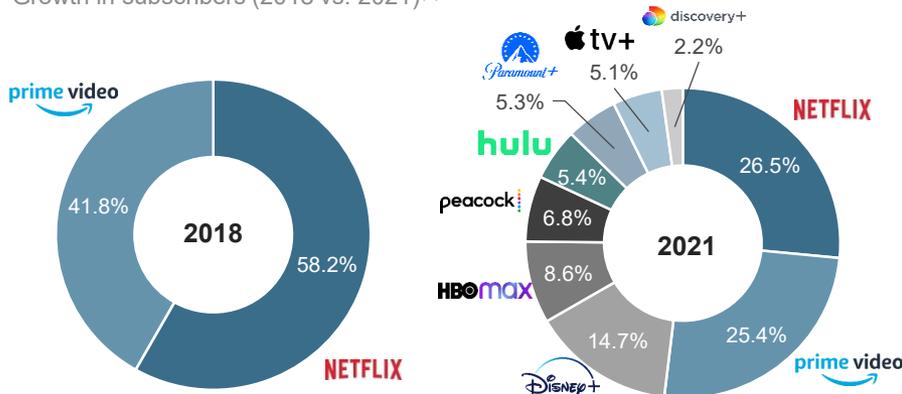
Battle for Subscribers Continues

The customer acquisition war is intensifying across the SVOD market, with new entrants proving that quality content wins market share.

- Over the past three years, the SVOD landscape has transformed from a head-to-head competition between Netflix and Amazon Prime to a multiparty battle between media and technology heavyweights—many of whom are investing heavily in their direct-to-consumer/OTT platforms in a fight to win subscribers.
- Netflix, once the dominant player in SVOD but now running neck and neck with Amazon Prime, is at risk of losing its top spot if current growth rates persist (Netflix's subscriber growth was only ~8% YoY vs. ~33% for Amazon Prime). Meanwhile, Disney+ has quickly emerged as a very serious competitor, grabbing nearly 15% market share following an explosive launch and subscriber growth of nearly 250% YoY.
- In addition, newer SVOD platforms such as Apple TV, Paramount +, and HBO Max, while still meaningfully smaller than the big three (Netflix, Amazon Prime, and Disney+), are investing heavily in their services and are gaining momentum with soaring subscriber growth in 2021 (~300%, ~160%, and 86%, respectively).
- Over the next few years, we expect the streaming wars (and the battle for subscribers) to intensify among the large players and platforms, driving demand for premium content and IP portfolios and, in turn, the need for further industry consolidation.

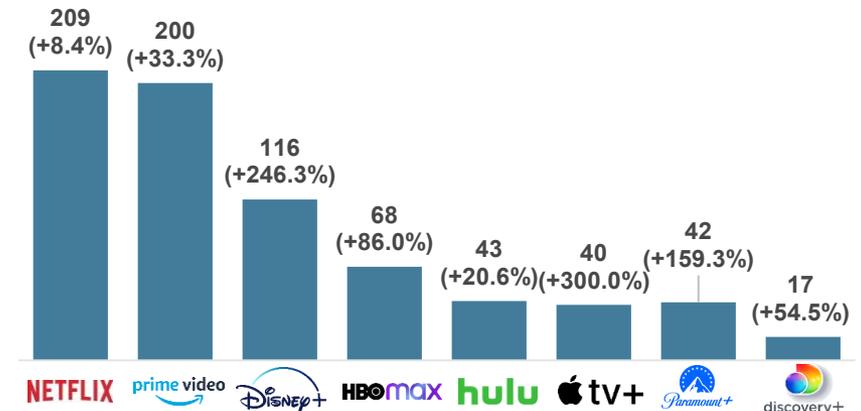
Growing Market Size and Market Share⁽¹⁾

Growth in subscribers (2018 vs. 2021)⁽²⁾



Top Subscription Services in the World⁽²⁾

Global subscribers in millions – YTD 2021 (annual growth rate)

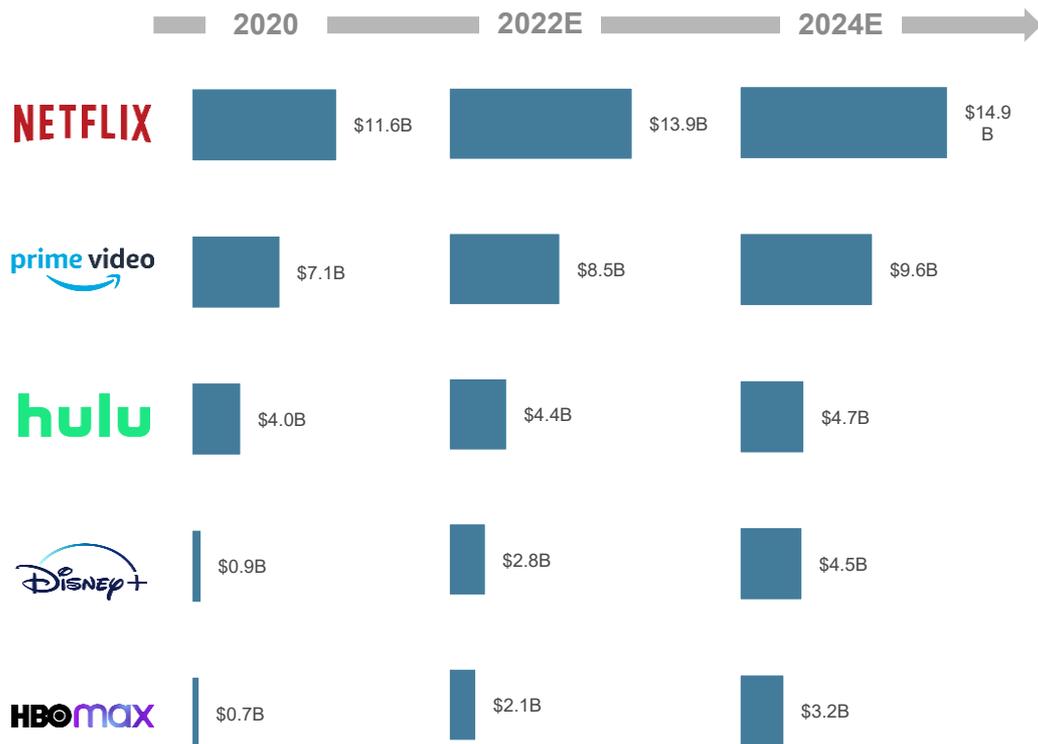


(1) MoffetNathanson.

(2) Netflix Q2 '21 10-Q, Amazon Q1 '21 Earnings Call, Disney Q2 '21 10-Q, HBO Max AT&T Q1 '21 10-Q, Apple+ Statista, June 2021.

Competition Driving Content Spend to Record Levels

Premium content is the key to subscriber loyalty, pushing the boundaries of content budgets across the SVOD landscape.

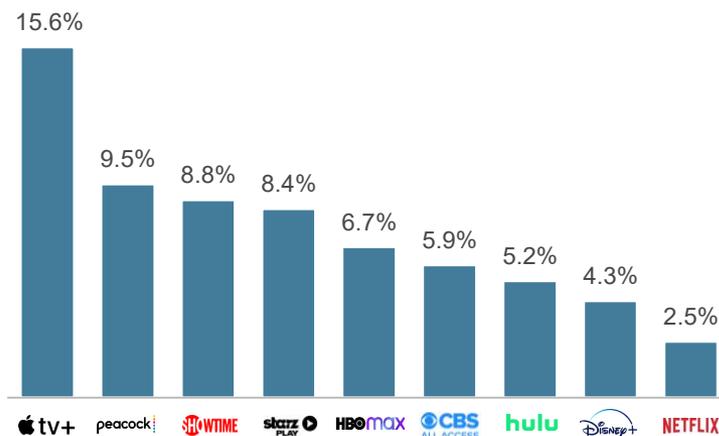


Total Content Spend for Selected Companies



Subscriber Churn Driven by Limited Content⁽¹⁾

U.S. monthly churn rate, Q4 2020



- Market leaders are investing heavily in premium IP/content in an effort to win over subscribers and minimize churn.
- Platforms with the large content catalogs (such as Netflix and Disney+) are experiencing far lower churn than newer platforms, such as AppleTV and Peacock+, which launched with smaller initial collections of premium, original content and IP.

Source: SNL Kagan.

(1) MoffettNathanson; excludes involuntary churn; Hulu SVOD only; Apple TV+ excluding free trials; Peacock excluding free tier.

Note: Figures are representative of programming amortization expense for selected companies. Additional entity spend available: Apple invested \$6 billion in Apple TV+ in 2019; meanwhile, ViacomCBS (Paramount's parent) spent \$15 billion on content including sports rights in 2020.

Continued M&A Activity to Expand IP, Distribution, and Scale

Market activity among key OTT players is expected to rise in 2021 and beyond, with many media companies looking for content engines or to establish direct-to-consumer offerings through M&A.

Notable M&A Transactions

Acquirer: 

Target:



- **Announced Date:** May 26, 2021
- **Transaction Size:** \$8.5 Billion
- Amazon is expected to leverage MGM's filmmaking history and catalog of 4,000 films and 17,000 TV shows to help bolster Amazon Studios, its film and TV division.
- The financial value behind this deal is the treasure trove of IP in the catalog that Amazon plans to develop with MGM's team.
- The deal emphasizes Amazon's willingness to spend deeply to win over subscribers, committing billions toward licensing content and developing original programming.
- Amazon has long been willing to make investments on video content as a strategy to buoy Prime memberships, which has surpassed 200 million globally.

WarnerMedia



- **Announced Date:** May 17, 2021
- **Transaction Size:** \$43 Billion
- The deal reflects a desire to be one of the key players in the OTT space, going head-to-head against Netflix and Disney.
- The partners announced that the new company will compete globally in the direct-to-consumer business, bringing content directly to subscribers across its portfolio, including HBO Max and the recently launched Discovery+.
- It will combine WarnerMedia's storied content library of popular and valuable IP with Discovery's global footprint, trove of local-language content, and deep regional expertise.
- The new company will be able to invest in original content and enhance the programming options across its global linear pay TV and broadcast channels.

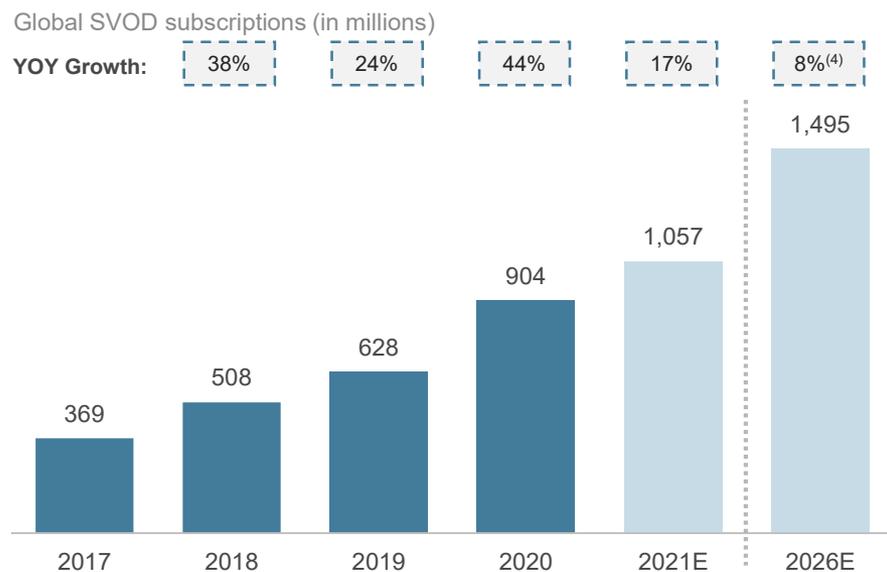


- **Announced Date:** June 22, 2021
- **Transaction Size:** NA
- The proposed merger of RTL Nederland and Talpa Network assets will create a strong Dutch cross-media group across TV, streaming, radio, print, and digital.
- This indicates clear ambition to expand Videoland, the leading Dutch streaming service with one million paying subscribers.
- The combined Dutch entity is estimated to spend more than \$475 million in annual content budgets and generate revenues north of \$1 billion.
- The goal is to create "local language champions" that will produce content for their home markets and achieve greater scale in the streaming wars.
- Value creation for both shareholders through significant synergies, estimated between €100 million–€120 million annually.

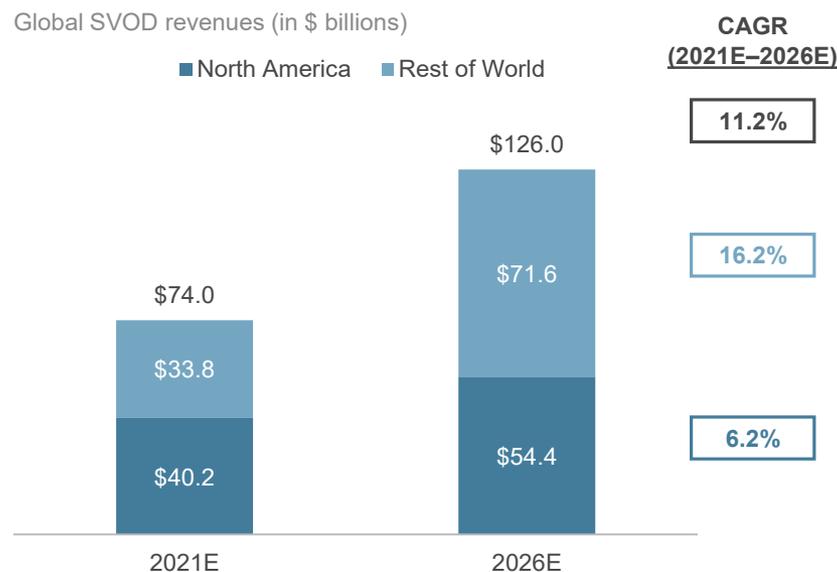
OTT Platforms Target International Markets for Growth

- As the SVOD market in North America matures (and competition continues to heat up), big media and technology giants are increasingly focused on international markets to find new audiences and growth.
 - Global SVOD subscriptions are estimated to grow rapidly over the next five years, from just over one billion in 2021 to nearly 1.5 billion by 2026, while SVOD revenues outside of North America are expected to grow from 33.8 billion to 71.6 billion (~16% CAGR) vs. ~6% in North America.
 - Revenue growth will partially hinge on the ability to grow subscribers in territories with considerably lower ARPU, such as in Asia-Pacific and Latin America where ARPU in certain markets can be as low as 50% of that in the U.S. and Canada.
- Disney+ is leading the charge as international subscribers represent 67%+ of its subscriber base as of Q2 '21, providing a benchmark for OTT heavyweights' international focus.
- Netflix is expected to have a revenue mix percentage of 66% international vs. 34% North America by 2025, compared to 56% and 44%, respectively, in 2020.⁽³⁾

Rapid Global SVOD Subscriber Growth...⁽¹⁾



... Fuels Future Growth in SVOD Revenue⁽²⁾



(1) Wall Street research; (2) Digital TV Research; (3) MoffettNathanson; Disney subs include Disney+ and Hotstar; (4) Represents '21-'26 CAGR.

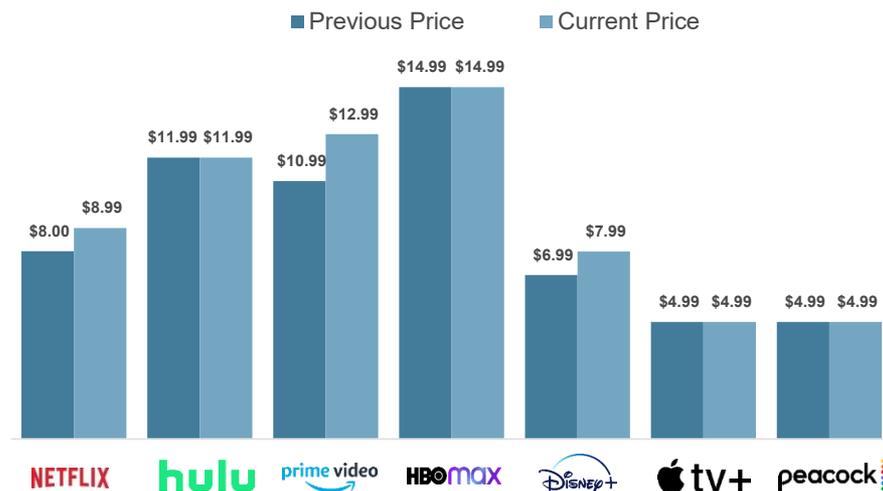
Subscription Fatigue: How Many Subscriptions Are Too Many?

Subscription fatigue is driving consumers to AVOD services in an effort to optimize access to diverse premium content while limiting monthly recurring costs.

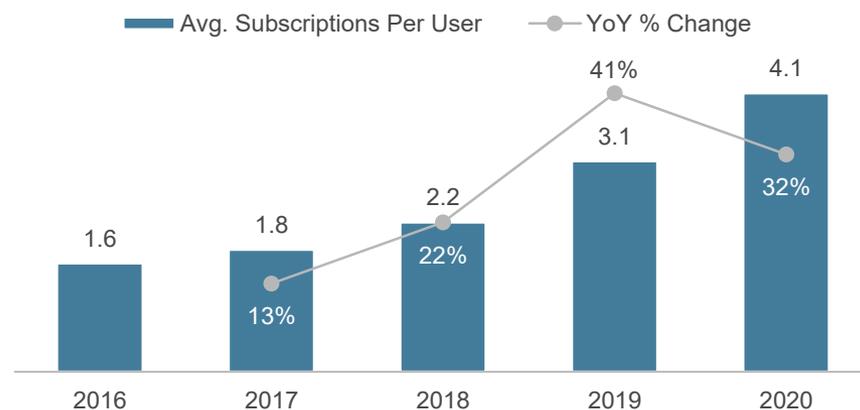
- The average consumer in 2021 has 4.5 paid streaming subscriptions, nearly double the average in 2018.⁽¹⁾
- As of September 2021, U.S. consumers were spending \$55 per month on video subscriptions, up 45% from the pre-COVID-19 \$38 average⁽²⁾ and surpassing the previous U.S. consumer's willingness-to-spend survey response of \$45 for paid subscription OTT services.⁽³⁾
- In response to SVOD services raising their prices to counter increasing content acquisition and production costs, AVOD options are becoming more popular, as showcased by the 200% increase in share of time spent from May 2020 to May 2021.

SVOD Pricing Landscape

Subscription prices for base ad-free subscription

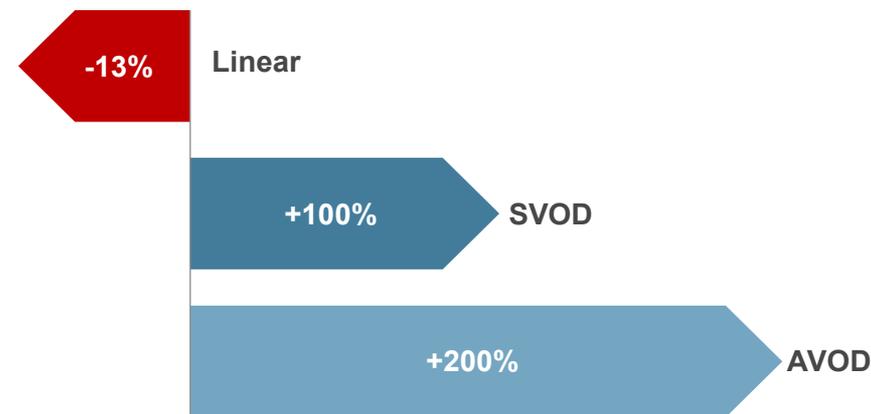


Number of Paid Video Streaming Services Per User⁽¹⁾



Change in Share of Time Spent⁽⁴⁾

From May 2020 to May 2021



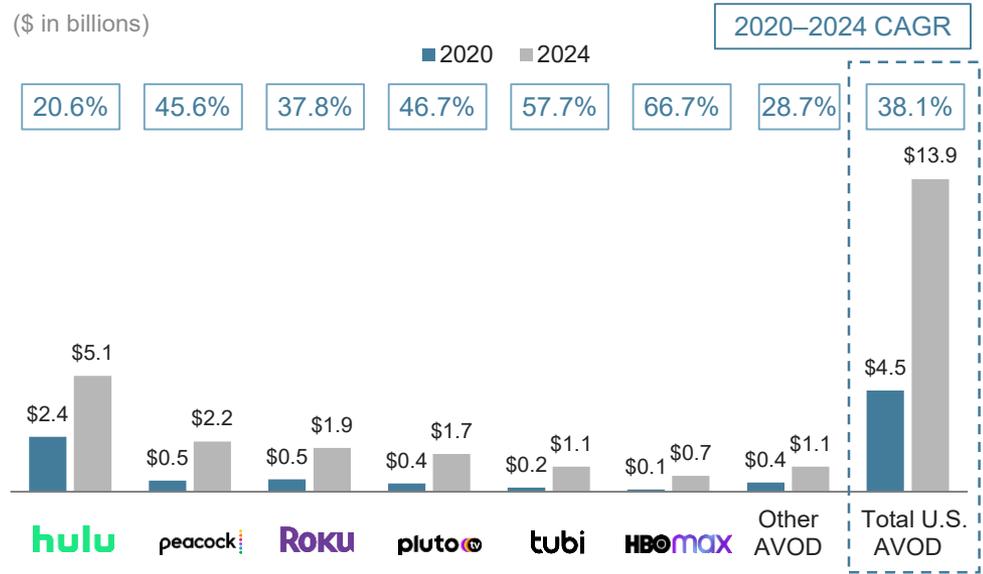
(1) J.D. Power Survey, August 2021; (2) J.D. Power Survey, December 2020; (3) Strategy Analytics, 2019; (4) TVision: The CTV Advertising Report, June 2021.

Global AVOD Market on the Rise Driven by Secular Tailwinds

- As pandemic-era behaviors calcify, the proliferation of SVOD services is weighing on North American consumers (and their wallets), driving demand for compelling digital content alternatives like AVOD.
- From 2020 to 2021, consumer adoption of AVOD services grew dramatically from 34% of consumers in February 2020 to 58% in February 2021.⁽¹⁾
- We expect to see an acceleration in AVOD adoption/growth over the next several years, with North American AVOD revenues expected to grow nearly 27% in 2021 (vs. 23% for SVOD). Within the U.S., AVOD is expected to grow at a whopping ~38% CAGR between 2020 and 2024.

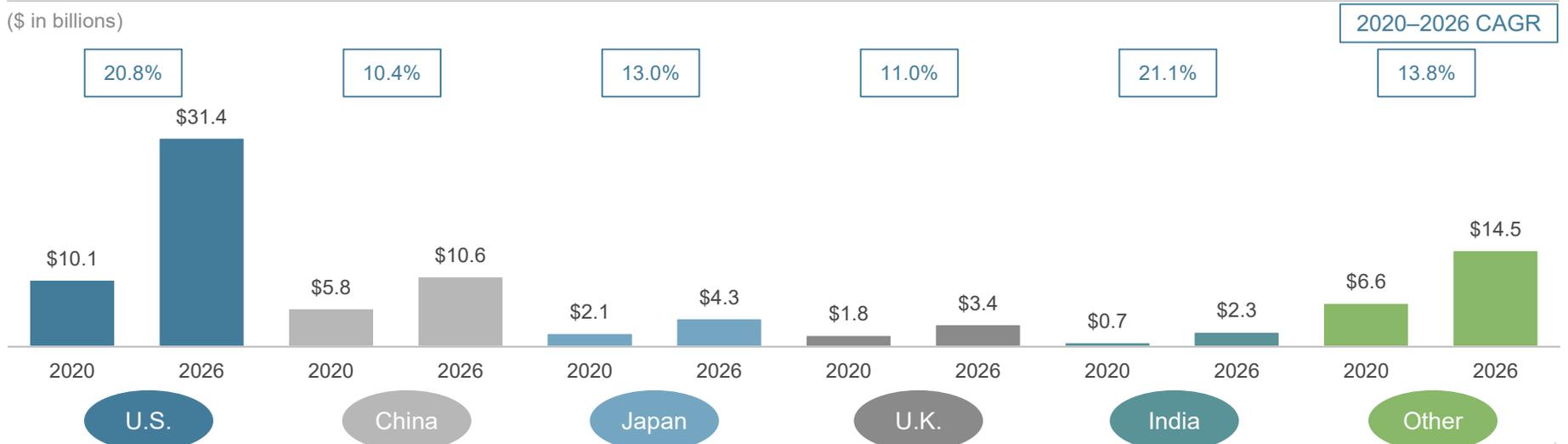
AVOD Market Size⁽²⁾

(\$ in billions)



Global AVOD Spend⁽³⁾

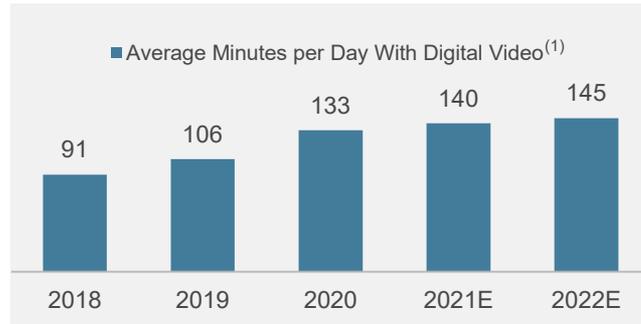
(\$ in billions)



(1) Marketing Dive; (2) MoffettNathanson; (3) Digital TV Research.

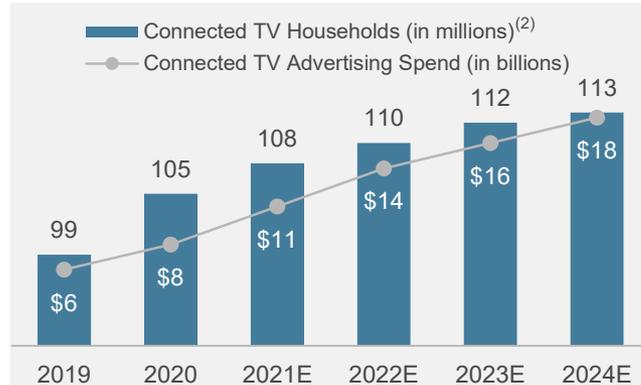
The AVOD Future Is Looking Bright

AVOD platforms are gaining steam and are at a critical inflection point as they look to prove their value proposition to both consumers and advertisers.



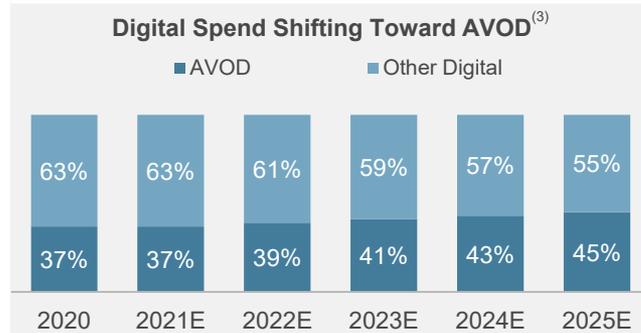
AVOD Is Capturing a Larger Share of Consumers' Attention

- In 2021, more than 58% of U.S. households used ad-supported streaming services, up 70% from 2020.⁽¹⁾
- Today, the average U.S. consumer watches 140 minutes of digital video per day, a large portion of which is ad-supported video.



Connected TV Is Leading Transition of Advertising Dollars to OTT Platforms

- Connected TV households surpassed 100 million in the U.S. in 2020, driving advertisers to allocate ad spend to OTT platforms vs. linear TV.
- As compared to advertising on linear TV, advertisers on OTT platforms can leverage more sophisticated targeting strategies, resulting in a higher ROI for their marketing campaigns.



U.S. Digital Advertising Spend Will Reach ~\$70.0 Billion by 2025

- AVOD is estimated to be the fastest growing segment within U.S. digital advertising spend.
- Continued cord-cutting has resulted in a rise in AVOD migration, with a rapid rise in consumption of free ad-supported content.

(1) eMarketer, March 2021; (2) Wall Street research; (3) Cinedigm.

Notable Recent Transactions

M&A activity remains strong across the sector as OTT platforms rely on inorganic strategies to expand features and content libraries.

(\$ in millions)

Notable M&A Transactions											
Company											
Date	Aug. '21	June '21	May '21	May '21	May '21	Apr. '21	Apr. '21	Feb. '21	Jan. '21	Dec. '20	Aug. '20
Acquirer											
Valuation	--	--	\$8,450.0	\$43,000	\$693.0	--	\$164.8	--	--	\$1,175.0	\$330.0
EV/ Revenue	--	--	4.9x	1.4x	--	--	--	--	--	--	9.4x

Notable Financing Transactions							
Company							
Date	Apr. '21	Apr. '21	Apr. '21	Jan. '21	Aug. '20	Apr. '20	June 19
Investor	Keyeast, F&F Partners, Com2us, KTB Network, KDDI Open Innovation Fund, Mirae Asset Venture Investment, SL Investment, Hancom Investment, Yuanta Securities Korea, Capital One	Coatue, Accel, Andreessen Horowitz, Cobalt, Dragoner	Valor Equity Partners	Undisclosed Investors	Hush Holding Co., Highline Capital, Zweig-Dimenna Associates, Cipayo LTD, Individual Investors	Sony Corp. America	Bertelsmann Digital Media Investments, Causeway Media Partners, DCM Ventures, Discovery, Fertitta Capital, WWE
Investment	\$13.4	\$105.0	\$25.0	\$22.5	\$43.1	\$400.0	\$47.0
Valuation	--	>\$1,000	\$275.0	\$306.0	\$1,017.3	\$7,632.1	--

Public Market Valuations

After materially outperforming the broader market for many months (benefiting from a material COVID-19 bump), pure-play public OTT platforms' market valuations have come down to earth due to concerns about the sustainability of growth in an increasingly competitive and post COVID-19 world.

Public OTT Platforms vs. S&P 500



Source: S&P Capital IQ.
Note: Stock price last updated on October 11, 2021.
OTT Platforms represents the average change in price of Netflix, Roku, fuboTV, Gaia, and Chicken Soup for the Soul.

Expertise at the Nexus of Digital Media, OTT, and Entertainment

Houlihan Lokey professionals have unparalleled experience in advising media companies across a wide range of transactions.



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has acquired



supported by the successful placement of a senior secured credit facility

Buyside Advisor & Placement Agent



has been acquired by



Sellside Advisor

Mediabox, LLC

has acquired



and



Buyside Advisor



has successfully completed the spin-off of



Houlihan Lokey provided financial opinions to the Board of Directors of both Twenty-First Century Fox and Fox Corporation.

Financial Opinion



has been acquired by



Sellside Advisor



Valuation of a film library for collateral lending purposes in connection with Sound Point Capital Management's acquisition of Relativity Media.



Collateral Valuation



has been acquired by



Sellside Advisor



has sold substantially all its assets through a \$363 asset sale

Secured Lender Advisor



\$28 million financing led by



Financial Advisor



We rendered a valuation opinion for financial reporting purposes to MGM regarding its intangible assets including the MGM film and television library

Financial Opinion



a portfolio company of



has been acquired by



Sellside Advisor

SCREEN MEDIA

has been acquired by



Sellside Advisor



has sold substantially all its assets, pursuant to Section 363 of the U.S. Bankruptcy Code, to



Company Advisor



has been acquired by



Sellside Advisor

How Houlihan Lokey Can Help

Our firm is extremely well equipped to help our clients navigate critical milestones of the corporate lifecycle. We respond quickly to challenging situations and are constantly helping clients to analyze, structure, negotiate, and execute the best possible solutions from both a strategic and a financial perspective.

What We Offer

Corporate Finance	
1	Mergers and Acquisitions
2	Capital Markets
	Private Funds Advisory
	Board Advisory Services
Financial Restructuring	
	Company Advisory
	Financial Restructuring
	Distressed M&A
	Liability Management
	Creditor Advisory
Financial and Valuation Advisory	
	Portfolio Valuation and Fund Advisory
	Transaction Opinions
	Corporate Valuation Advisory Services
	Transaction Advisory Services
	Real Estate Valuation and Advisory
	Dispute Resolution Consulting

Mergers and Acquisitions
 We are widely recognized as a leading M&A advisor to the middle market in general and the TMT sector in particular. Our deep expertise across the sector, knowledge of the strategic landscape, and long-standing relationships with all relevant strategic and financial buyers make us the M&A advisor of choice for strategic transactions in the digital media industry.

Equity Financing
 We have a market-leading private capital markets platform focused on the placement of solution-oriented capital for a wide range of financing needs. We have differentiated investor relationships and access to the key decision-makers, allowing us to run a bespoke, high-touch, confidential, and efficient process.

Why We're Different

- ✓ Deep Digital Media Industry Expertise
- ✓ Strong Relationships With the Most Relevant Buyers
- ✓ Solution-Oriented Capital Markets Platform
- ✓ Dominant in Special Situations and Restructuring
- ✓ Senior-Level Commitment and Dedication
- ✓ Superior Work Product/Technical Abilities
- ✓ Creativity, Imagination, Tenacity, and Positivity

HLI
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Houlihan Lokey is the trusted advisor to more top decision-makers than any other independent global investment bank

- **1,500+** Employees
- **\$1+ Billion** of Revenue
- **23** Locations Globally
- **\$6+ Billion** Market Cap



2020 TMT Investment Bank of the Year

Corporate Finance

2020 M&A Advisory Rankings All U.S. Transactions

Advisor	Deals
1 Houlihan Lokey	210
2 Goldman Sachs & Co	172
3 JP Morgan	132
4 Evercore Partners	126
5 Morgan Stanley	123

Source: Refinitiv (formerly known as Thomson Reuters)

Financial Restructuring

2020 Global Distressed Debt & Bankruptcy Restructuring Rankings

Advisor	Deals
1 Houlihan Lokey	106
2 PJT Partners Inc	63
3 Lazard	50
4 Rothschild & Co	46
5 Moelis & Co	39

Source: Refinitiv (formerly known as Thomson Reuters)

Financial and Valuation Advisory

2001 to 2020 U.S. M&A Fairness Advisory Rankings

Advisor	Deals
1 Houlihan Lokey	869
2 Duff & Phelps	696
3 JP Morgan	625
4 Piper Sandler & Co	495
5 Stout	446

Refinitiv (formerly known as Thomson Reuters). Announced or completed transactions.

TMT

2018 to 2020 M&A Advisory Rankings U.S. Technology, Media, Entertainment & Telecom Transactions Under \$5 Billion*

Advisor	Deals
1 Houlihan Lokey	133
2 Goldman Sachs & Co	123
3 Raymond James Financial Inc	110
3 Morgan Stanley	110
5 JP Morgan	108

Source: Refinitiv (formerly known as Thomson Reuters)
*Includes acquired firm transactions.

No. 1 U.S. M&A Advisor

Top 5 Global M&A Advisor

Leading Capital Markets Advisor

No. 1 Global Restructuring Advisor

1,400+ Transactions Completed Valued at More Than \$3.0 Trillion Collectively

No. 1 Global M&A Fairness Opinion Advisor Over the Past 20 Years

1,000+ Annual Valuation Engagements

No. 1 U.S. TMT Practice

43 Completed Transactions in 2020

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