

COVID-19

Likely Impact of COVID-19 on the Dutch Media Industry

May 2020



Introduction

We find ourselves in extraordinary times. The COVID-19 pandemic is having a fast and dramatic impact on the way we live our lives – and in turn on businesses and the economy. In the most recent press conference on 6 May 2020, the Dutch Prime Minister announced the gradual easing of restrictions throughout the summer. The prohibition of mass events, such as football matches, concerts, but also B2B and live eSport events, is largely remained until 1 September. A large part of the workforce is now working from home with only limited travel allowed. While the impact of these changes is being felt across every part of the economy, we wanted to highlight the impact on the Dutch Entertainment and Media industry.

There are obviously great uncertainties about how the COVID-19 crisis will develop, including how long the lockdown and specific restrictions will last. Therefore, all views presented here are our current views (early May 2020) of the directional impact on the media sector, with a greater focus on the short-term impact. In parallel, we are working hard, together with our network, to develop a view on the scenarios and countermeasures for the medium and long term.

In this document, we follow the sub-sector structure we usually apply in our annual Entertainment & Media Outlook, and subsequently list a number of key questions to consider in light of recovery choices.

We hope you'll find this publication interesting. Please do let us know if you would like to discuss topics covered in this publication in more detail. For more COVID-19-related insights also refer to <https://www.pwc.nl/nl/themas/covid-19.html>.



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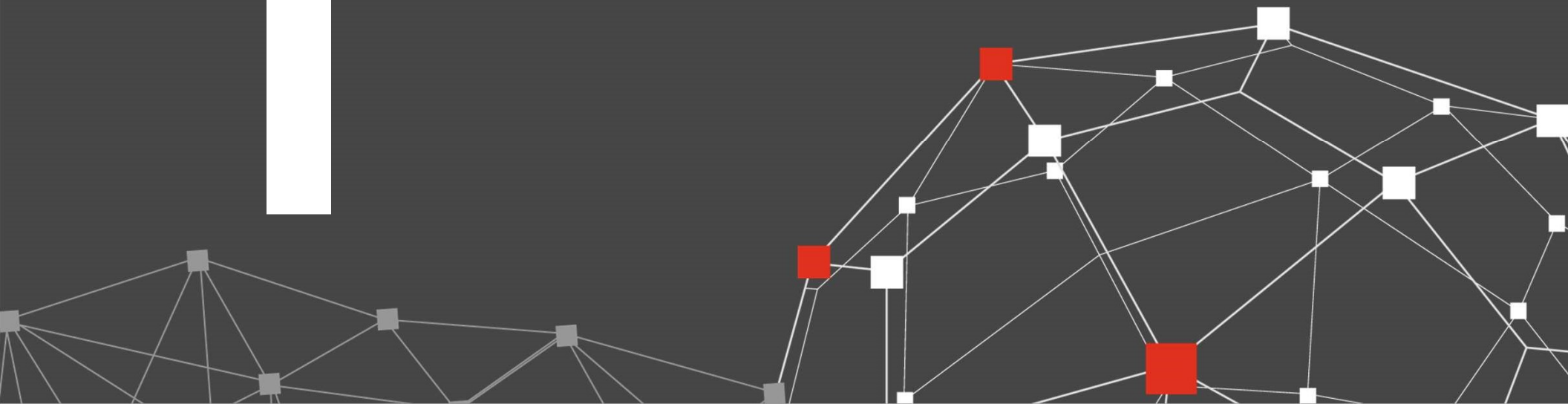


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Summary of key impacts on the media industry



The Dutch media industry is currently facing significant disruption from COVID-19

Summary of key impacts of COVID-19 across the Dutch media industry

- COVID-19 is causing widespread disruption globally, creating both a healthcare crisis and an economic crisis for many countries.
- COVID-19 is resulting in a significant disruption of business operations, including the workforce and supply chains, as well as a dampening of overall consumer demand and business confidence.
- Within the Dutch media and entertainment sector specifically, some of the key challenges are caused by restrictions in travel, movement outside the home, social gatherings in public, cancelled and postponed sport events, and weakening advertiser demand – this is causing significant short-term disruption for many sub-sectors (e.g. cinemas, theatres, content producers, B2B events, OOH advertising, TV advertising).



The Dutch E&M industry has successfully countered many changes. In recent years, publishers, content producers, broadcasters and ISPs consolidated and started to embrace the opportunities the digital era is bringing. This industry has to join forces, creativity, and its innovative mindset to counter the challenges the '1.5-metre society' will have on content creation, live events, budget constraints and the associated uncertain advertising market.
Casper Scheffer, Media and Entertainment Leader, PwC the Netherlands

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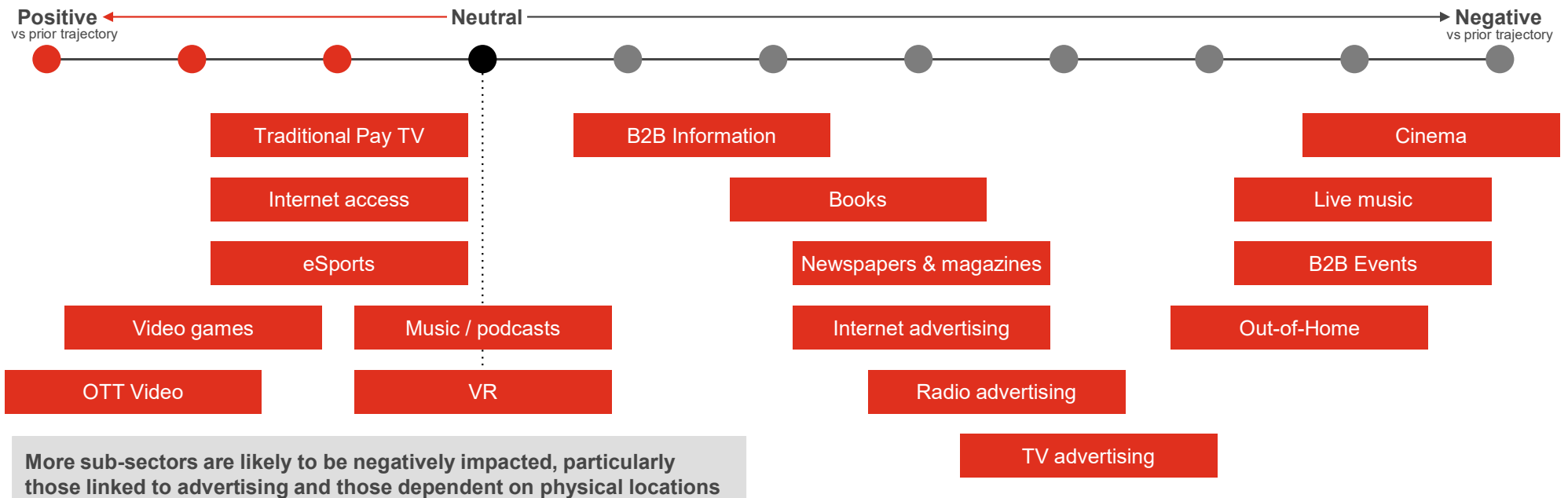
- However, the new 'at home' environments have stimulated demand for other digital entertainment media services (e.g. Video Games, OTT Video), as well as higher levels of demand for internet access.
- There is also likely to be an acceleration of longer-term structural changes, including changing media consumption habits, use of digital platforms, and reduction in traditional physical media and advertising models.
- The media industry has proved highly agile through previous economic and technological cycles, pivoting towards new digital platforms, subscription models, and data-led services.
- And despite the multitude of changes, the media industry remains highly creative, generating compelling and immersive content to engage consumers, and tailor communications to its new environment.
- Although the full effect of the COVID-19 pandemic remains unclear, media fundamentals remain strong, so we expect the larger part of the Dutch media industry to return to growth quickly once movement restrictions are lifted and the economy returns to full capacity.

May 2020

The short-term impact varies by sub-sector: most are facing significant challenges, but a few are benefiting

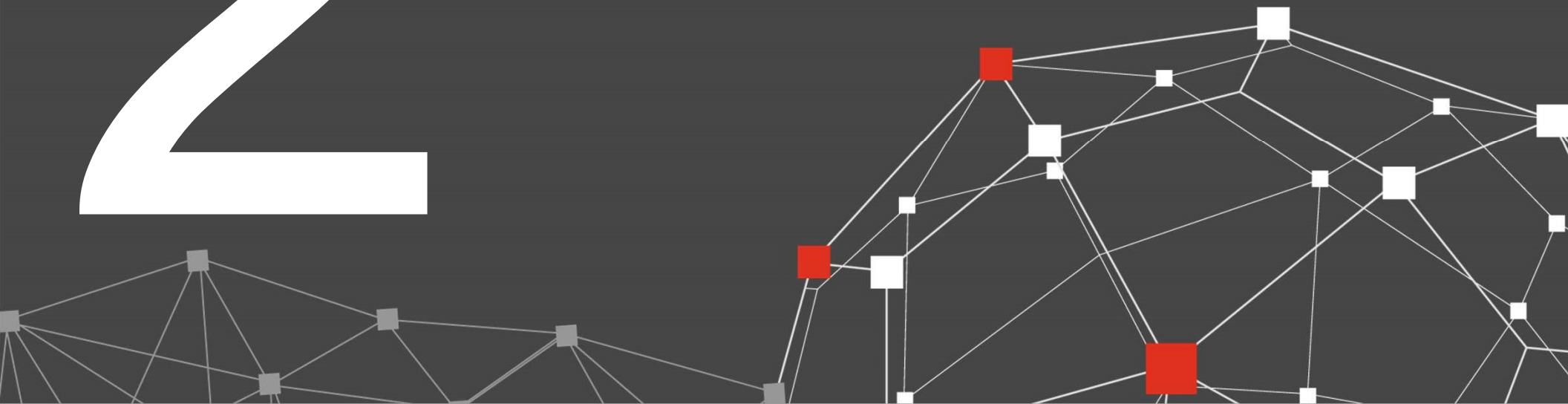
Relative short-term impact of COVID-19 across Dutch media sub-sectors

Note: 'short-term' considered as the current lockdown period plus 1-3 months afterwards



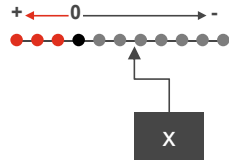
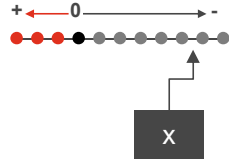
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Key trends across
different sub-sectors



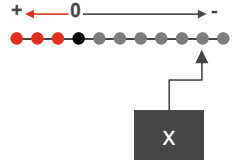
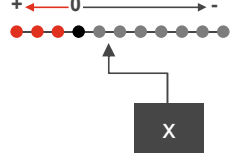
Sub-sector deep-dives

Summary of key impacts/trends by Dutch media sub-sector

| Sub-sector | Key issues/short-term trends | Short-term impact | Long-term trends |
|---------------------------------|---|--|--|
| Newspapers and magazines | <ul style="list-style-type: none"> Subscription is the major revenue stream, which offers some protection. However, significant reduction in overall advertiser demand is negatively impacting revenues. There is likely to be a greater focus on measurable digital channels with high reach (some publishers are well placed), but currently advertisers are careful when linking their advertisements to COVID-19 news. Mediahuis decided to terminate the printed version of Metro, the last Dutch nationwide free newspaper. A decision that is likely to be accelerated due to the impact of COVID-19 on advertising revenues. There is an increased demand for trusted news content (i.e. increase from 9m visitors to Dutch news sites per week to 11m mid-March). An uptake of online subscriptions in the short-term is noted (albeit consumer focus is currently on the latest health news – which is not behind paywalls – rather than other editorial content) |  | <ul style="list-style-type: none"> Potential for structural decline in this segment, as advertising strategies of retailers change, buying habits of consumers change and become increasingly used to digital channels. Opportunity to accelerate more personalized digital advertising, bearing in mind the impact of the ban on third-party cookies. Fully ad-based titles, both on- and offline, will face challenges. |
| Out-of-Home advertising | <ul style="list-style-type: none"> A reduced overall advertiser demand is negatively impacting revenues. In addition, significantly restricted public movements outdoor also limits reach/ effectiveness of OOH ads (e.g. shopping malls, cinemas, transport, roadside) There are potential issues to be resolved, given the many fixed rental contracts with landlords (and payment of business rates on many sites), and the way operators seek to mitigate/share ad revenue losses with other value chain participants. Operators will likely delay new digital upgrade programmes, which will have a knock-on impact on future growth rates. |  | <ul style="list-style-type: none"> The OOH sector is likely to return broadly to historical levels. However, the reduced investment in Digital OOH sites may slow (or delay) some of the future growth rate, coupled with some advertisers moving to (and staying in) mobile channels. |

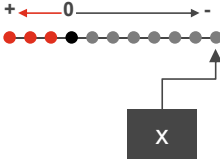
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| B2B Events | <ul style="list-style-type: none"> • Policies that forbid social events of over a hundred people until September and discourage travel, have immediate impact, with large scale closures across the live events industry. • Most businesses have either postponed or cancelled events, or shifted them online (e.g. webinars). Postponements, rather than cancellations, may limit the financial impact as exhibitors/visitors can be retained for these new dates. However, the extension of the ban on mass events until September will cause some cannibalisation of other Q3/Q4 events. As online events are harder to monetise than live events, the shift to online will negatively impact revenues in the short term. • The level of impact on the sector will depend on the length of the lockdown period, and the order/speed in which elements of it are lifted – combined with people’s willingness to travel/attend large scale/international events post lockdown. |  | <ul style="list-style-type: none"> • Switching to video conferences, webinars, webcasts, etc., may replace some smaller face-to-face events going forward. • The key risk for B2B events is that longer-term exhibitor attendee patterns structurally change (e.g. caused by shows shifting their 'slot' in the calendar), reducing revenue growth outlook. |
| B2B Information | <ul style="list-style-type: none"> • In many cases, subscription is the major revenue stream, which offers some stability. Advertising revenues will be impacted in the short-term. • Performance will vary by the end-sector that information is provided into, and how critical information is for business insight, performance, contracting, news, etc. • It will be harder to deliver new subscription sales/upsell, and there is likely to be additional (pricing) pressure on renewals. |  | <ul style="list-style-type: none"> • Over time, the sector generally tracks the overall economic environment, and so will be exposed if decline in GDP is large/longer-term. |

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| Cinema | <ul style="list-style-type: none">• Many cinemas have been closed, following the 1.5-metre rules. Cinemas can reopen on 1 June with a maximum capacity of 30 persons which will increase to 100 by 1 July. However, this planning is subject to the development of the virus. As a result, revenues will continue to be significantly impacted in the short and medium term.• COVID-19 will also have a significant impact on the film slate. The release of numerous films has been postponed, while other films have been released 'straight-to-home' (e.g. via specific platforms such as Picl) in response to the global closure of cinemas. Film production has also been suspended in many countries, which will impact film releases in 2021-22.• As a result of the above, it is not unlikely that there will be delays in new cinema openings and upgrades (e.g. new digital screens, 3D/4D etc.) which may impact future growth rates even further. |  | <ul style="list-style-type: none">• Cinema will only recover when the 1.5-metre rules are fully revoked. However, after that, a full recovery is expected as the rise of OTT has not prevented cinema to grow significantly in the past 5 years.• However, the use of 'straight-to-home' strategies could change the well-established 'film window'-approach, which could impact cinema's exclusive first window. |

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| OTT Video | <ul style="list-style-type: none"> • Since measures against COVID-19 were introduced in the Netherlands on 13 March, viewing time of VOD content (e.g. Netflix, Disney+, Videoland, NLZIET) has increased by approximately 30%. • The economics of straight-to-home distribution might be attractive for some film producers/distributors. • OTT will also benefit from a decline in cinema attendances (and some movies that are released directly on OTT platforms), as consumers use OTT as an alternate channel for new film content. Recent studies indicate an increase in digital privacy. | | <ul style="list-style-type: none"> • The current environment may create a step change in usage of OTT platforms - and given they are only c. 7-12 euros a month - they are often a small enough expenditure to maintain/not to cancel. • If the lockdown extends for a longer period, this might impact new content creation. • The recent introduction of OTT platforms in the Dutch market, next to Netflix, may benefit from the timing of the lockdown. |
| Traditional Pay TV | <ul style="list-style-type: none"> • Increased time spent at home increases the demand for TV content. This can have positive effects on Pay-TV providers, both in terms of new customer acquisitions (although penetration rates are already high), as well as cross-selling and upselling to higher tiers. • The reduction in live sports events will likely impact the willingness of customers to sign up for, or extend, sports packages (or providers pausing these packages). | | <ul style="list-style-type: none"> • Net positive impact as a large portion of new customer acquisitions, and cross-sold and upsold customers remain on new/higher tiers after the crisis. |

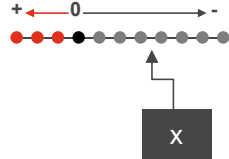
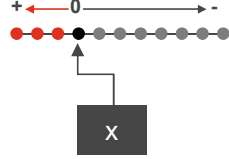
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| TV Advertising | <ul style="list-style-type: none"> Increased time at home will increase TV viewership, and will therefore improve advertising reach. However, advertiser demand will be lower, particularly in hard-hit sectors that are traditionally major advertisers on TV, e.g. travel, leisure and many retail segments. Much of this ad spend won't be replaced by other categories (besides a small offset as a result of government advertising on COVID-19 health advice). The reduced sporting calendar will impact some 'peak' TV advertising events, and with travel restrictions halting much content production, this will mean less new content in due course. The typical peak in even years related to large sport events will not take place this year. | | <ul style="list-style-type: none"> Some medium-term risk around new content, given production has currently halted in many cases. Although the sector is likely to bounce back strongly once normal economic conditions resume, there may have been some advertiser shift out of this category and into alternative digital channels. |
| Live music | <ul style="list-style-type: none"> Many cultural organisations have been closed, following the 1.5-metre rules, which resulted in cancellation of live music venues. Concert halls and music venues can reopen on 1 June with a maximum capacity of 30 persons, and increase the capacity to 100 persons by the 1 July. However, this planning will only be met if the coronavirus remains controlled. This impacts all revenue streams, including the festival season, which is a key driver of overall industry revenues. Although smaller live events can be streamed digitally (social media, radio, etc.), the revenue opportunities are significantly lower. | | <ul style="list-style-type: none"> The experience of live music events are difficult to replicate, and as such we anticipate these to return to historical levels. Willingness of insurers to cover live events may influence the ability of organisers to plan large-scale events. |

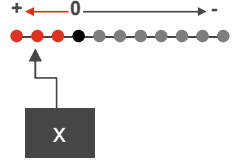
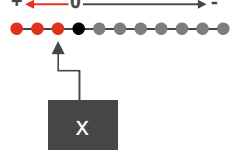
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| Radio advertising | <ul style="list-style-type: none"> Overall radio consumption has grown as result of COVID-19. A decline in listening at work and while travelling, is more than offset by an increased consumption from home. Programming can largely continue from home which supports continuity of service. Growth in radio consumption is strongest for news-related channels. Ad revenues have gone down since the start of COVID-19. This is driven by an overall declining demand for advertising as well as the improved effectivity of advertising in reaching a targeted audience (GRP). |  | <ul style="list-style-type: none"> Short-term negative impact, but this will likely revert to longer-term historical trends. |
| Music and podcasts | <ul style="list-style-type: none"> No significant change in time spent on streaming services vs. non-COVID-19-related trends. There is a shift towards special interest content such as cooking, wellness and meditation. Decline in advertising revenues in line with the overall advertising market, which has a relatively small impact on total music and podcast revenues. Spend on digital recorded music is likely to remain relatively robust, but may be impacted in time if there are continued delays to tours (which often drive new album/single releases). Some 'solo' music production can be done remotely, but 'bands' will likely find this more challenging. |  | <ul style="list-style-type: none"> It is unlikely to see significant change from historical trends. Overall revenue impacts are likely to be broadly neutral. There may be some changes/impacts to distribution of revenue across the industry. In this respect, royalties from digital platforms are a key focus area in light of artists' lost revenues from live events. |

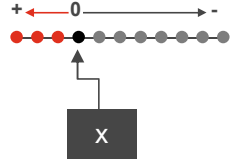
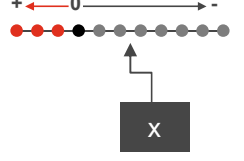
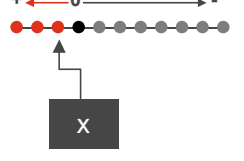
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| Video games | <ul style="list-style-type: none"> Increased time at home, for both kids and adults, will likely drive higher spending on video games. Scarce products are sold above retail prices on second-hand platforms, such as Marktplaats. During the prior recession, spend on video games remained broadly flat (in which period there were no new console releases either). A large portion of game development can now be done remotely, and digital distribution will support sales during this period. If disruption continues for a longer period of time, there may be (i) some slow-down in game development, (ii) some production issues on new console shipments, and (iii) a postponement of the release of new consoles from Sony and Microsoft (scheduled for Christmas). However, there is already a very large installed base, and a wide range of game content to play/download, with much more digital distribution supporting continued activity. |  | <ul style="list-style-type: none"> Some new gamers may continue playing for a period of time (albeit will likely be lower value) Given the limited disruption of the video games market at the moment, we would expect the sector to continue following historical growth trends. |
| eSports | <ul style="list-style-type: none"> Closure of major sporting events has led to alternative eSport formats gaining visibility, and more brands exploring this as an alternative revenue model to offset challenges in other parts of their business. Sponsorship revenues increase as many brands are accelerating their move into eSports (e.g. Nike sponsors League of Legend teams, and Louis Vuitton created a travel case for the League of Legends World Championship trophy). |  | <ul style="list-style-type: none"> The current environment provides some stimulus/acceleration for investment in the sector (e.g. BMW expects eSports will be their biggest footprint in the long-term) |

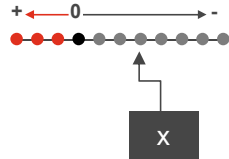
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| Virtual reality | <ul style="list-style-type: none"> Some consumers may be willing to invest more in new/immersive content as a form of entertainment while at home. However, it is likely that some 'R&D' spend will be delayed during the current environment, and so new technology/content releases may be lower than previously expected. |  | <ul style="list-style-type: none"> If new investment slows over a period of time, then it may impact future revenue growth. |
| Books | <ul style="list-style-type: none"> Certain subject areas are in higher demand (e.g. education, hobbies, science) driving new purchases. These additional sales are mainly picked up by online warehouses rather than local bookstores. According to CPNB, online book sales surpass sales via bookstores for the first time in history. |  | <ul style="list-style-type: none"> Neutral overall impact, and it is unlikely to see significant change from historical trends up to this point. |
| Internet access | <ul style="list-style-type: none"> There is an increased demand for personal internet access (mobile and fixed), because people are working from home, kids are home from school, and OTT platforms are used more intensively. This may lead to some consumers purchasing higher data speed packages/bundles to cope with multiple devices, streaming, etc. However, KPN has doubled the mobile internet volume caps free of charge, and T-Mobile has removed all data caps for its customers. These measures are important to maintain fast internet access for the nation during the lockdown period, but may harm revenues. VodafoneZiggo did not change its data caps. |  | <ul style="list-style-type: none"> In the longer term, this is likely to create a step change in both mobile and fixed consumer data requirements, and act as a driver for ISPs to improve networks, for example by investing in FTTP to realise revenue opportunity. |

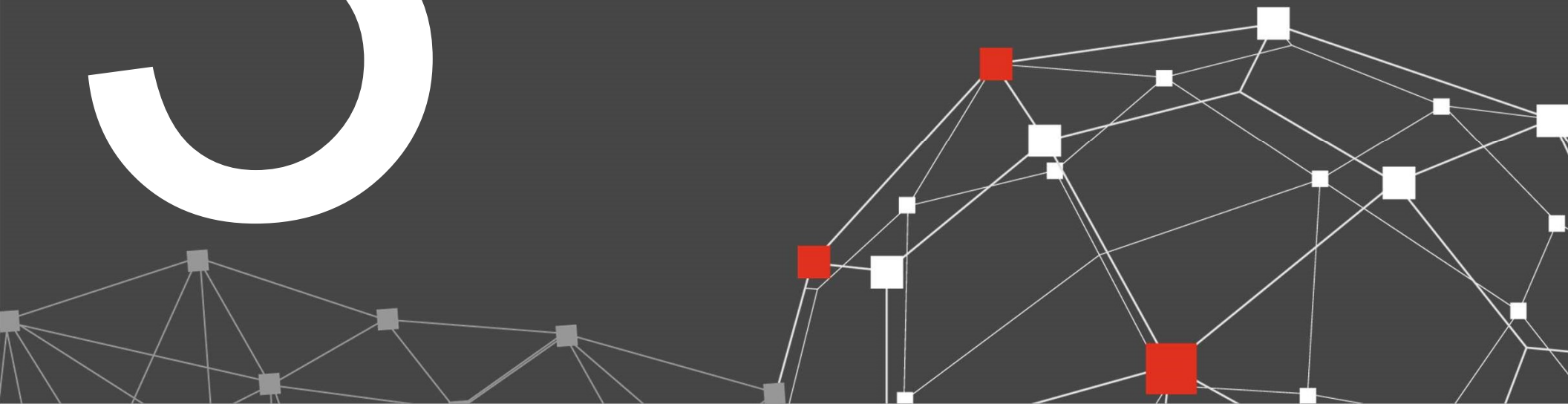
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|-----------------------------|--|---|--|
| Internet advertising | <ul style="list-style-type: none"> • Consumers are likely to spend even more time online (across all age demographics). • There is likely to be a slowdown in internet advertising, given the overall advertising demand is weakened, although digital is likely to perform better than traditional advertising channels, due to the ability to be more targeted and measurable (and increased time spent online). • Some search and social media are impacted by a drop in demand from SME advertisers, and from large advertising sectors (e.g. travel and leisure). • An uptick in ecommerce is benefiting the ad platforms which support those ecosystems. • The additional pressure on Internet advertising takes place in an era where all eyes are on the impact of the announced ban on third-party cookies. Publishers in particular, need to accelerate the search for alternative revenue streams. |  | <ul style="list-style-type: none"> • Some short-term negative impact, but there is likely to be a strong bounce-back, reverting to longer-term revenue trends. • Some structural benefits from an uplift in ecommerce, offset by at least mid-term risks related to the tourism and travel industry. |

3

Key questions to consider



Key questions to consider

In light of recovery choices, a strategy to the 'New Normal' must be planned



Customers

- How can we monetize consumer engagement?
- How do we keep consumer attention?
- How long will the increase in media and entertainment consumption persist?
- How can we improve consumer experience?
- What is the new value of entertainment and media?



Operations

- What will content development and production look like in the 'New Normal'?
- Have theatrical windows shuttered temporarily or permanently?
- How can the media supply chain become more efficient?
- How will talent deals be impacted?
- Are we ready for the new 'office' environment?



Offers/Pricing

- Can we move beyond the two-tier model: ad-supported vs subscriptions?
- Is there a new model for customer profitability to consider?
- What is the retention plan for the new consumers/traffic that we have acquired?
- How can we proactively manage the sharing of accounts/passwords?



Product

- What development products should be restarted? Sold? Cancelled?
- How much of the scheduled portfolio should be released? When? How?
- What is the role of UGC and audience interactivity in future content offerings?
- Can we build better engagement analytics into digital products and experiences?



Distribution

- How can we improve the user experience?
- Will there be a return to previous numbers for stadiums, concert venues, theaters and cinemas?
- What role will physical products play in the 'New Normal'?



Digitisation

- Does the technology exist to support the experience that we want to deliver? Does it work at scale?
- With whom should we work / partner to achieve the necessary digital acumen?



Upskilling

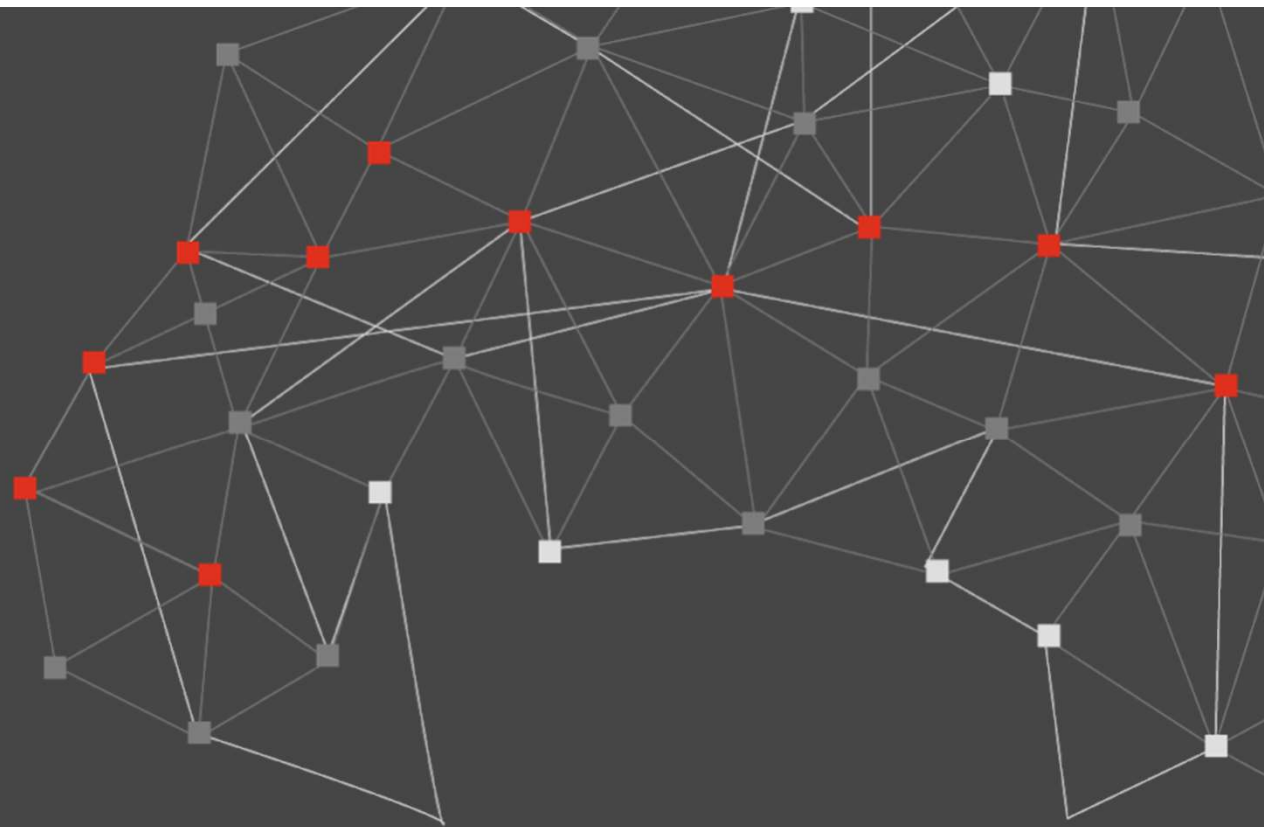
- Can our people successfully create and navigate the 'New Normal'?
- How do we bring employees up to speed?



Health/Safety

- How do we keep people safe/healthy?
- What protections has the government enabled?
- What new operating procedures are required?

Thank you



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