

Likely impact of COVID-19 on the UK media industry

April 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. What started with restrictions on travel and group gatherings has extended to forced closures of schools and retail/cinema/leisure outlets. Much of the workforce is now working from home with only limited travel allowed outside. While the impact of these changes is being felt across every part of the economy, we wanted to highlight the impact it is happening on the Entertainment and Media industry.

There are obviously great uncertainties about how the COVID-19 crisis will develop, including how long lockdown will last. Therefore, all views presented here are our best views at this time (early April 2020) of the directional impact on the media sector, with a greater focus on the short term impact.

Each year we publish the Entertainment & Media Outlook, which provides historical and forecast revenue figures for the sector, and we have largely used the sub-sectors in that publication for our sub-sector impact analysis.

We hope you find this publication interesting. Please do let us know if you have any questions, or would like to discuss topics raised in more detail.



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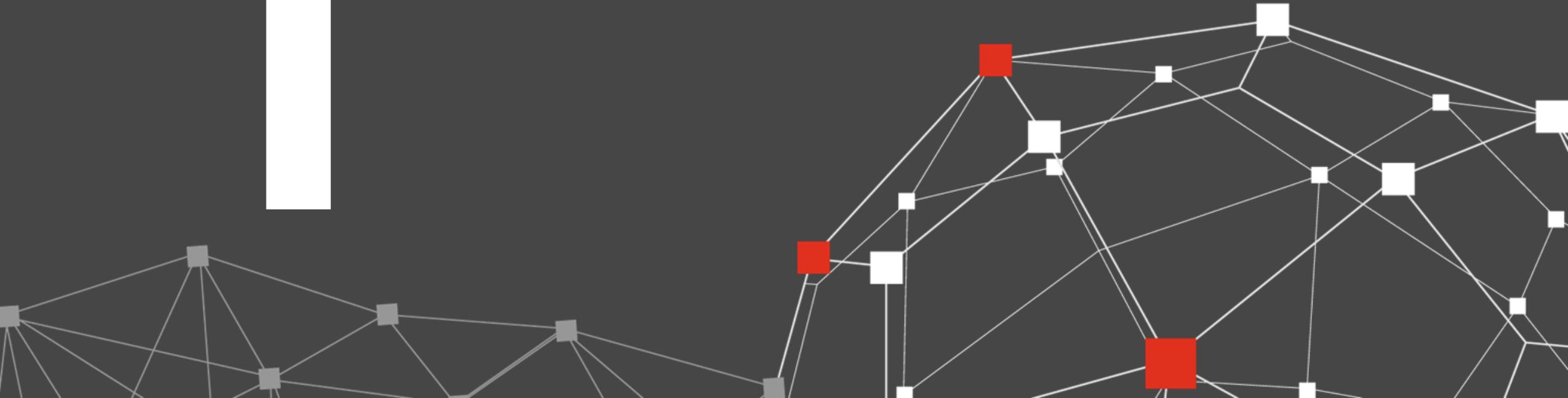


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Summary of key impacts on the media industry



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

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

- COVID-19 is causing widespread disruption globally, creating both a healthcare crisis and an economic crisis for many countries. Although governments are providing emergency support to a number of industries, businesses and individuals, there is likely to be a negative impact on all economies
- This is resulting in significant disruption to business operations, including the workforce and supply chains, as well as a dampening of overall consumer demand and business confidence
- Within the UK media sector specifically, some of the key challenges are due to restrictions on travel, movement outside the home, social gatherings in public and weakening advertiser demand – this is causing significant short-term disruption for many sub-sectors (e.g. Cinemas, B2B events, OOH advertising, TV advertising)



Many companies are grappling with falling advertiser demand and/or the challenge of how to reach consumers when they are staying at home. However, the current environment is playing to the strengths of some E&M propositions and others are finding new ways to engage their consumers. The UK E&M industry has proved its agility in previous economic and technological cycles, and the high levels of creativity and innovation should support the sector through these challenging times.

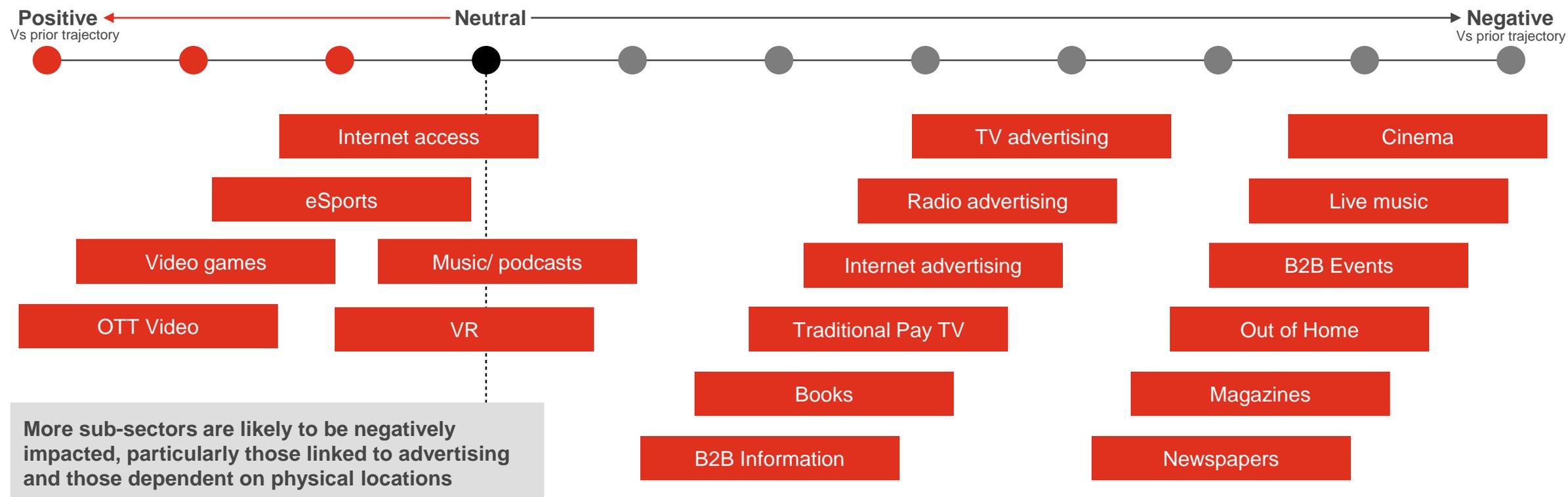
- Mark Maitland, Media and Entertainment Leader, PwC UK

- However, the new 'at home' environments have stimulated heightened demand for other digital entertainment media services (e.g. Video Games, OTT Video), as well as higher levels of demand for internet access/ data requirements
- There is also likely to be an acceleration of longer-term structural changes, including changing consumer 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 UK media industry to return to growth quickly once movement restrictions lift and the economy returns to full capacity

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

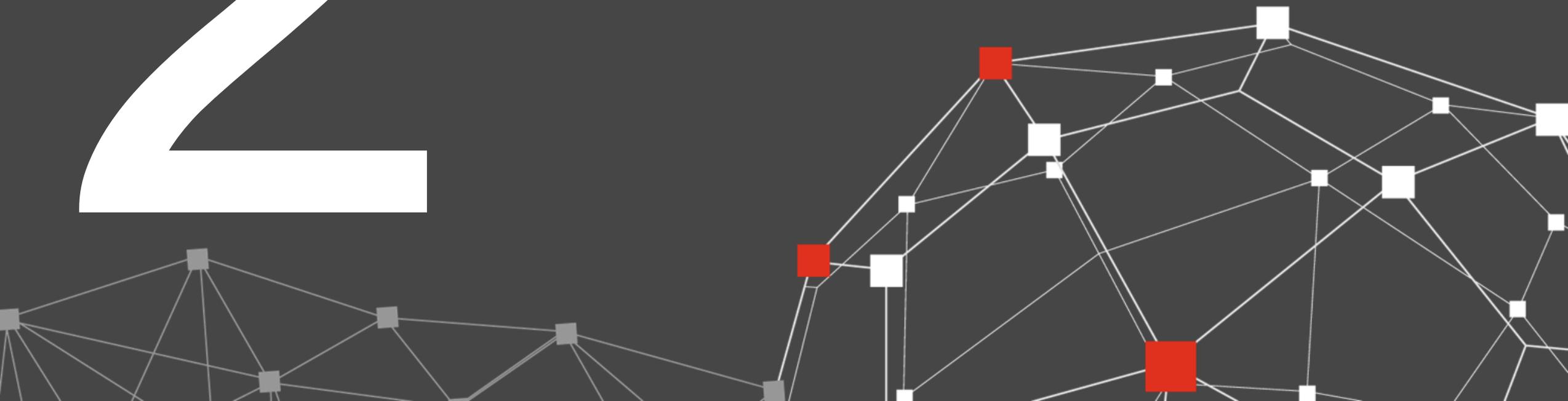
Relative short-term impact of COVID-19 across UK media sub-sectors

Note: 'short-term' considered as the current lockdown period plus 1-3 months afterwards, allowing time for consumers and businesses to return to more normal levels of movement/activity



Key trends across different sub-sectors

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Sub-sector deep-dives

Summary of key impacts/ trends by UK 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"> Reduced advertiser demand overall, negatively impacting revenues. Likely to be a greater focus on measurable digital channels with high reach (some publishers are well placed) Reduced print circulation (due to difficulties with print distribution, and consumers restricted in visiting physical retail outlets – particularly travel retail outlets for magazines), impacts both circulation revenue and – indirectly – advertising revenue (given lower reach) Increased demand for trusted news content, which may support uptake of online subscriptions in the short-term (albeit consumer focus is currently on latest health news – which is not behind paywalls – rather than other editorial content) 		<ul style="list-style-type: none"> Potential for more rapid structural decline in this segment, as retailers' strategies change, consumers lose regular buying habits, and become increasingly dependent on digital channels Closure of specific titles would also reduce content and ad inventory
Out of Home advertising	<ul style="list-style-type: none"> Reduced advertiser demand overall, negatively impacting revenues In addition, significantly restricted public movements outdoor also limits reach/ effectiveness of OOH ads (e.g. airports, shopping malls, cinemas, transport, roadside) Potential issues to be resolved given many fixed rental contracts with landlords (and payment of business rates on many sites), and how 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 for future growth rates 		<ul style="list-style-type: none"> Despite a short-term impact, 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 on reducing social gatherings and travel have meant immediate impact with large scale closures across the events industry. Most events businesses have stopped events in March / April / May. Many are however being postponed to Sept-Nov, rather than cancelled, which may limit the impact • Many exhibitors / visitors will be retained for these new dates (assuming that large gatherings and travel can happen by then), but there are cost implications as well as calendar crowding for exhibitors, visitors and venues – plus a risk of cannibalisation of some other Q3/Q4 events • Level of impact on the sector will depend on the length of 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 - but these are harder to monetise currently • The key risk 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 protection. 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 subs 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

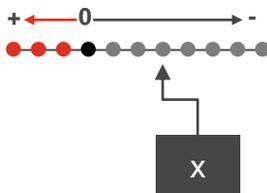
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Cinema	<ul style="list-style-type: none"> Cinemas have been closed from the early in the lockdown period (by government decree) which has impacted all cinema all revenue streams Already, some filming production delays mean films are released later than planned (both this year's slate, but also next year's slate), delaying box office revenues (although with cinemas closed, these delays are now a positive) With so many people at home, some producers are using 'straight-to-home' or 'accelerated to home' distribution for previously planned cinema releases (e.g. Trolls World Tour, Military Wives) There may be delays to cinema upgrades (e.g. new digital screens, 3D/4D etc.) which may impact future growth rates 		<ul style="list-style-type: none"> Use of 'straight to home' strategies could change the well established 'film window' approach, which could impact cinema's exclusive first window Consumer price sensitivity for cinema outing vs alternative in-home models might become more entrenched
OTT Video	<ul style="list-style-type: none"> The large increase in time at home should be a positive driver for uptake of OTT services, supported by the timely launch of the Disney + subscription service The economics of straight to home distribution might be attractive for some film producers/ distributors OTT will also benefit from decline in cinema attendances (and some movies coming direct to OTT) as consumers use OTT as alternate channel for new film content However, some consumers facing financial difficulty will be more price sensitive/ less likely to take multiple TV content packages/ platforms 		<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.£5-10/month they are a often a small enough expenditure to maintain/ not to cancel If lockdown extends longer term, this might impact new content creation

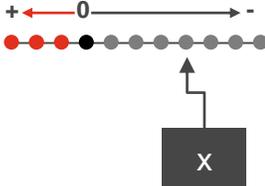
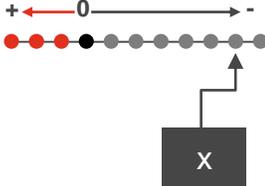
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Traditional Pay TV	<ul style="list-style-type: none">Increased time at home may increase demand for TV content (however in the UK many people will already have a Pay TV subscription package, so the upsell opportunity to alternative content packages – such as kids – may be more relevant)The reduction in live sports will likely impact new sign-ups, with many existing customers likely to turn off sports packages temporarily (or providers pausing these packages). TV companies may seek refunds from sports rights owners depending on the extent of delay/ cancellation causedCustomers facing more financial challenges will likely become more pricing sensitive at renewals		<ul style="list-style-type: none">Pricing pressure should ease when sports return to the screen and the economy improvesGrowth in OTT platforms (e.g. for film content, or more flexible content options) may drive a structural shift away from pay TV platforms

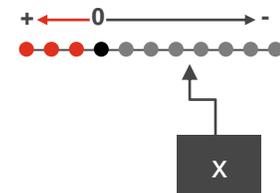
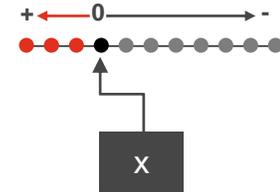
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TV Advertising	<ul style="list-style-type: none"> Increased time at home will almost certainly increase TV viewership, and improving advertising reach/ effectiveness However, advertiser demand will be lower, particularly in hard-hit sectors that are traditionally major advertisers on TV e.g. travel and leisure, betting, and many retail segments. Much of this ad spend won't be replaced by other categories (albeit a small offset from govt 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, in time this will mean less new content Part of increased TV viewership is also focused on 'news' or public service broadcasters (where ad funded models are less prevalent) 		<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"> Government policies on reducing social gatherings included closures for live music venues (impacting all revenue streams) The total impact on the sector will partly depend on how long government measures last, with the summer 'outdoor' live music season a key driver of overall industry revenues Although some 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 more difficult to replicate, and as such, we would anticipate these to return to historical levels (once people are comfortable with large scale events)

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Radio advertising	<ul style="list-style-type: none"> Radio will see some significant benefit from audiences at home, but offset by less car travel and office/retail work Some audience increases are for news/ alerts (partly on ad-free public service broadcast radio stations) Programming can largely continue from home which supports continuity of service Ad revenues impacted by overall weaker advertiser demand, particularly from local advertisers (with a small offset from govt advertising on Covid-19 health advice) 		<ul style="list-style-type: none"> Short-term impact, but will then likely revert to longer-term historical trends
Music and podcasts	<ul style="list-style-type: none"> It is currently unclear if there will be a significant change in spend on streaming services e.g. Spotify. Consumers will have more time, but less people are commuting to work, and will be choosing vs other 'in home' entertainment. Increased usage will be a driver of growth/ retention, but this may not translate into new subscribers There is likely to be some demand for longer/ immersive content e.g. podcasts, albeit this is a small component of sector revenue today 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"> Unlikely to see significant change from historical trends up to this point Overall revenue impacts are likely to be broadly neutral. There may be some changes/ impacts to distribution of revenue across the industry, with royalties from digital platforms a key focus area in light of artists' lost revenues from live events

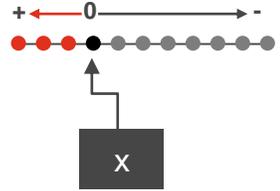
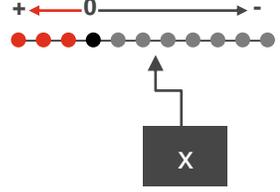
Sub-sector deep-dives

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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 (e.g. digital/ PC/ mobile games that can be downloaded) During 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, and (ii) some supply chain issues on new console shipments. 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 limited disruption to video games at the moment, we would expect sector continue following historical growth trends
eSports	<ul style="list-style-type: none"> Closure of major sporting events has led to alternative esport formats gaining some visibility (e.g. Formula One eSports), and more brands exploring this as an alternative revenue model to offset challenges in other parts of their business On the negative side, some advertising/ sponsorship deals may also soften in this period. And some eSports (e.g. ePL) cancelled their 'physical' events, albeit the majority of events are now streamed online 		<ul style="list-style-type: none"> Although advertising deals may soften, the current environment may provide some stimulus/ acceleration for investment in the sector (which remains nascent today)

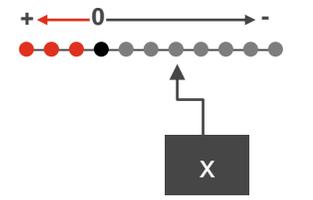
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Virtual reality	<ul style="list-style-type: none"> Some consumers may be willing to invest more in new/ immersive content as form of entertainment whilst at home However, it is likely that some 'R&D' spend will be delayed during the current environment, 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. However, there is likely to be a slowdown in the publishing of new books The retail channel will be impacted by store closures in light of government restrictions on movements. This may be partly compensated by ecommerce purchases (albeit non-essential logistics may be more strained in the current environment) 		<ul style="list-style-type: none"> Neutral overall impact, and unlikely to see significant change from historical trends up to this point

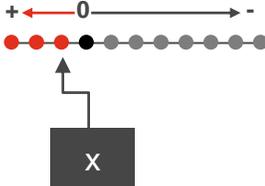
Sub-sector deep-dives

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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) supporting ad effectiveness• There is likely to be a slowdown given overall advertising demand is weakened, although digital is likely to fare better than traditional advertising channels due to ability to be more targeted and measurable (and increased time spent online)• Some search and social media will be impacted by drop off in demand from SME advertisers, and from large advertising sectors (e.g. travel and leisure, betting, etc.)• There may be some benefit from uptick in ecommerce, benefiting the ad platforms which support those ecosystems• Media costs will reduce (given higher volume of people online/ on social media platforms), which may change expectations of ad buyers going forward and partially suppress future growth		<ul style="list-style-type: none">• Some short-term negative impact, but likely to be strong bounce back, and revert to longer-term revenue trends. Some structural benefits from uplift in ecommerce and some share gain from traditional channels

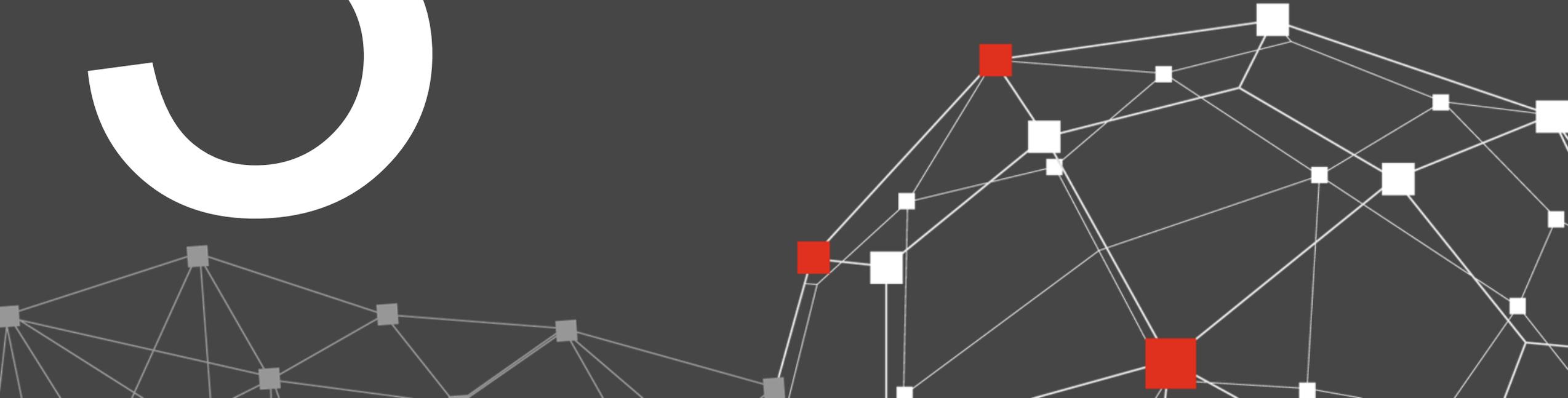
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Summary of key impacts/ trends by UK media sub-sector

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Internet access	<ul style="list-style-type: none">Increased demand for personal internet access (mobile and fixed) whilst working from home, kids home from school, and use of OTT platforms. This may lead to some consumers purchasing higher data speed packages/ bundles to cope with multiple devices, streaming, etc.However, the sector has agreed to remove data caps on fixed broadband services, and support and protect vulnerable customers (e.g. Those struggling to pay their bill). Both these measures are important to maintain fast internet access for the nation during the lockdown period, but may harm revenues		<ul style="list-style-type: none">Longer-term, this is likely to create a step-change in consumer data requirements, and act as a driver for ISPs to improve networks e.g. investment in FTTP to realise the revenue opportunity

3

Potential
mid- to long- term
industry changes



The industry is likely to see the acceleration of a number of structural changes in consumer/business behaviours

Examples of potential mid- to long- term UK media industry changes

Apps and digital ecosystems as primary channel

1

- Acceleration of user trends from offline to browser to apps, and the battleground for brands to be one of the top-10 apps installed on smartphones' home page
- Growth in app-based ecommerce transactions/ content consumption, also driving the supporting ecosystem (app download ads, app stores, payments, fulfilment)

Film industry release windows and distribution

2

- Some film studios may seek to adjust release window strategies, as part of targeting new OTT distribution platforms and 'straight to home' channels
- Change in consumer preferences towards 'in home' consumption (e.g. OTT viewing), further supported by perceived value for money, and in-home technology improvements

Virtual vs physical interactions in B2C and B2B

3

- Prevalence and increasing familiarity with new video communication apps/platforms for engaging with audiences (e.g. Zoom, House Party), and potential for new revenue models
- Potential for some audiences to re-prioritise the need to attend some industry events/ meetings, vs alternative (or complementary) channels for interacting personally/ more flexibly

Beyond this, a number of other industry trends are likely to become more prominent over the coming years

Summary of other key themes and trends in the UK media sector



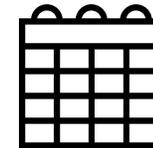
Increased online/mobile usage among younger and older generations across a range of apps, devices and platforms



The importance of **brand communications**, demonstrating the right tone of message, its **values and trustworthiness** to consumers



Recognition of the **key role played by Public Service Broadcasters** during critical situations, supporting the dissemination of up to date news and information



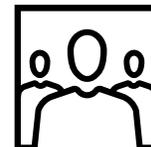
Resumption and timing of new sporting and political calendars will impact advertising opportunities across key markets/ platforms (and TV subscriptions)



Battleground for immersive and engaging screen content continues (e.g. Netflix vs Fortnite) as viewers have capacity to stream multiple services

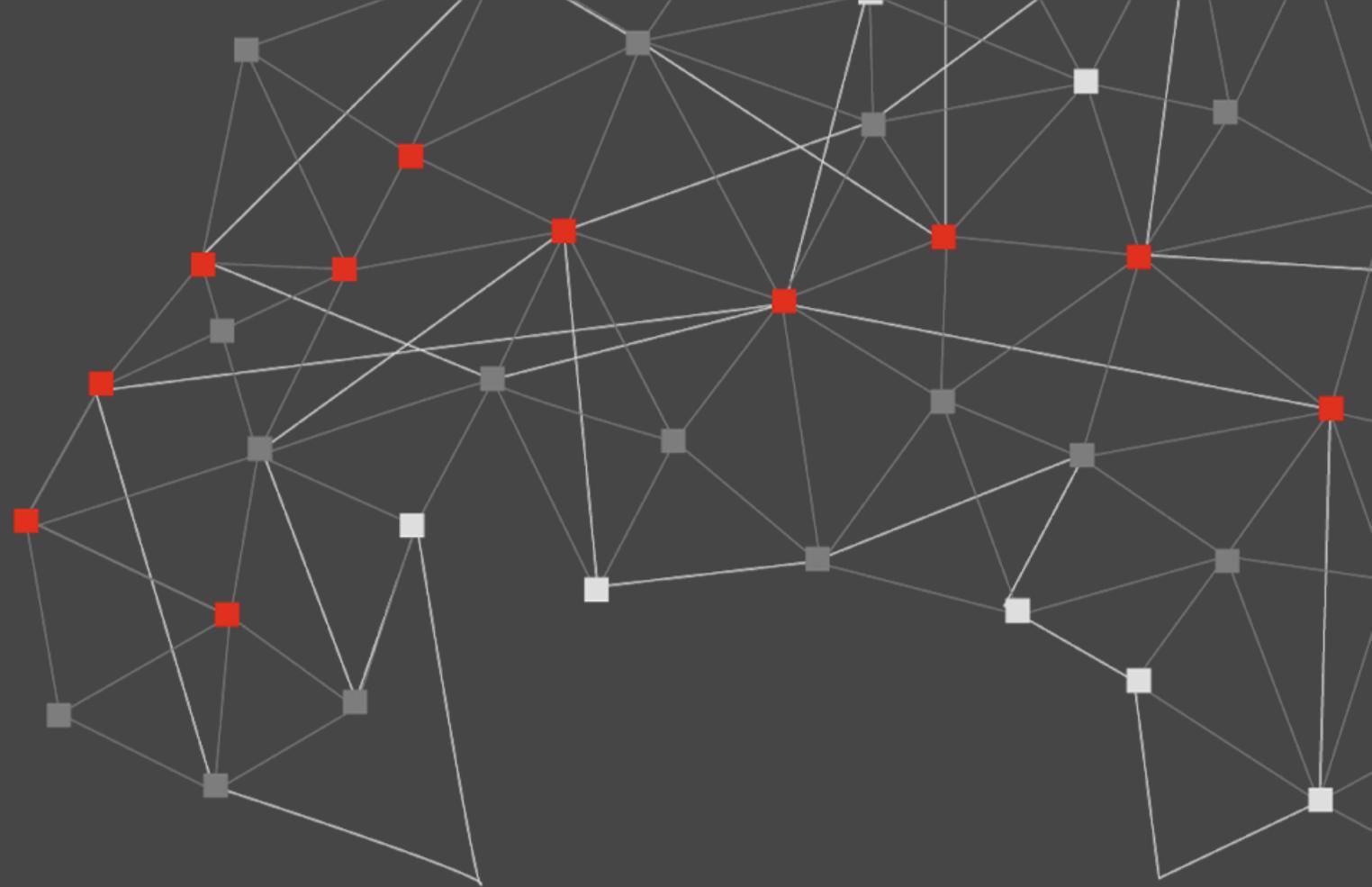


M&A opportunities as companies exit markets/ seek support, and some companies seek to pivot towards new growth areas/ business models



Ongoing regulatory reviews of privacy, and digital identity (given many measures in place at moment), and ensuring a sustainable media and advertising ecosystem for all participants

Thank you



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