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News release

Beyond digital

– What's happening in New Zealand's entertainment and media industry? –

Digital growth in New Zealand's entertainment and media industry continues to offset a flattening growth rate on traditional entertainment and media content, according to PwC's *Global entertainment and media outlook 2015-2019*. Spending on digital content is forecast to continue to grow at 10 per cent year-on-year to 2019, while spending on non-digital content will increase by just 0.13 per cent year-on-year, an improvement on last year's forecasts which predicted an annual decline in non-digital content by an average half a per cent to 2018.

PwC's Digital Strategy and Data Leader Greg Doone says, "For consumers it's all about content experiences. If digital is a simpler way of getting the content they will gravitate towards that. Given the wide variations in consumer tastes for content, the challenge for entertainment and media companies is to blend traditional intuitive approaches with data insights and to maximise the value of the experiences they offer.

"The prize for achieving this is heightened by the fact that the consumer has never been more up for grabs than today. Achieving greater levels of engagement with audiences will mean the advertising dollars will follow."

Advertising growth is primarily digital, driven by mobile, and a fact underlined by internet advertising's position as one of the fastest-growing segments of advertising at an average of 11.2 per cent year-on-year through to 2019, overtaking TV advertising as the biggest share of advertising by 2017.

PwC's outlook forecasts the total entertainment and media industry in New Zealand will grow at an average annual rate of 3.8 per cent to 2019, compared to global growth of 5.1 per cent. Over 32 per cent of all advertising revenues and 16.5 per cent of consumer revenues will be digitally sourced by 2019. Looking across all segments in New Zealand to 2019, overall advertising revenues—will rise at a rate of 1.5 per cent year on year— less than consumer spending at a growth rate of 2.9 per cent year-on-year.

Consumers migrate to new media consumption behaviours

Underlying the trends in entertainment and media spending detailed in the *Outlook* is the migration by New Zealand consumers to new ways of consuming content. One of the clearest shifts is in TV and video consumption, with consumers increasingly demanding high-quality original programming in a flexible, on-demand manner across numerous devices—thus enabling 'binge viewing' and greater convenience.

"Consumers never really regard any distinction between 'digital' and 'non-digital' as relevant. They take on board the proliferation of content and access options enabled by digital, and exploit it to seek more flexibility and freedom in what, when and how they consume.

"It's increasingly clear that New Zealanders see no significant divide between digital and traditional media: what they want is more flexibility, freedom and convenience in when and how they consume their preferred content. Consumers will call the shots more as they seek content experiences that are personally relevant to them," says Mr Doone.

Three actions for success in the evolving industry landscape

Summing up the implications of this year's *Outlook* for the industry, Mr Doone says: "Against a background of shifting infrastructure, New Zealand's entertainment and media companies need to embrace the consumption experience as their critical success factor. What matters is the ability to combine content with a user experience that's differentiated and compelling on the consumer's platform of choice.

"To achieve this blend, companies need to do three things: first, innovate around the product and the user experience; second, develop seamless consumer relationships across distribution channels; and third, put mobile at the centre," concludes Mr Doone.

– ends –

Notes to editors

****See press pack attached for content and further explanation to support the 2015-2019 outlook.**

About PwC Global entertainment and media *outlook 2015-2019*

PwC's 16th annual update of the *Global entertainment and media outlook 2015-2019*, is a comprehensive online source of global analysis for consumer and advertising spend. With like-for-like, five-year historical and five-year forecast data and commentary across 13 industry segments in 54 countries, the *Outlook* makes it easy to compare and contrast consumer and advertising spend data across segments and countries.

Segments covered by the *Outlook*
TV subscription fees, TV advertising, Internet access, Radio, Out-of-home advertising, Video games, Filmed entertainment, Newspaper publishing, Magazine publishing, Business-to-business, Internet advertising, Book publishing and Music.

Digital spending
Digital revenue consists of digital directory advertising; digital professional books; digital trade magazines; consumer, educational and professional e-books, digital consumer magazine circulation revenue; digital trade magazine circulation revenue; electronic home video; fixed broadband and mobile Internet access; wired and mobile Internet advertising; digital newspaper circulation; digital out-of-home advertising; digital recorded music; online TV advertising; digital PC and console gaming and online and mobile gaming.

For media queries, please contact:
Joanna Garty
Corporate Affairs Manager
Ph (09) 355 8245 or (027) 911 8369 - Email: joanna.k.garty@nz.pwc.com

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New Zealand insights from PwC's Global entertainment and media outlook 2015-2019

Press pack: content to support the 2015-2019 outlook news release

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13 entertainment and media segments making up PwC's Global entertainment and media outlook 2015-2019:

Business to Business:

New Zealand's B2B market was worth $862 million in 2014, rising from $774 million in 2010. Total B2B revenue is forecast to rise to $1,025 million by 2019, a CAGR (compounded annual growth rate) of 3.5%.

Directories are seeing a shift from print to digital as the number of New Zealanders with access to the Internet increases. By 2019, 97% of households will have broadband connection and mobile Internet subscription penetration will be 71.5%, up from 53.5% in 2014.

As a result, print directory advertising revenue is forecast to fall by a CAGR of -4.4% over the next five years. Digital directory advertising is set to overtake print in 2017 and grow by a CAGR of 10.8% over the forecast period. By 2019, 56.0% of total directory advertising revenue will be from digital.

Business information is the second-largest B2B sub-component and will remain largely unchanged over the forecast period, despite New Zealand being ranked second for ease of doing business by the World Bank in 2014. Total business information revenue will be $257 million in 2019, up from $222 million in 2014, a CAGR of 2.9%. Growth is to some extent inhibited by the relatively low forecast CAGR of 4.6% for New Zealand's nominal GDP between 2014 and 2019.

Trade shows revenue is the smallest B2B sub-component and only accounts for around 4% of total B2B revenue, with New Zealand lacking large-scale international exhibitions.

Book publishing

Total books revenue in New Zealand, consisting of consumer, educational and professional books revenue, will be $514 million in 2019, up from $411 million in 2014, a CAGR of 4.6%.

New Zealand's printed book industry remains relatively robust even though our country is at the long end of the supply chain, which makes imported books expensive. E-readers have taken a while to have an impact on our market but industry commentators say e-book sales have "taken off" in the last 12 months and now represent a significant portion of local sales: e-books represented 18% of total consumer books revenue in 2014 and this will rise to 36% by 2019 with consumer books electronic revenue reaching $72 million in 2019.

With the migration to digital, print revenues will decline, as they have in other mature book markets. By 2019, consumer books print/audio revenues will stand at $129 million, down from $141 million in 2014, having fallen at a CAGR of -1.7%.

Magazine publishing

New Zealand's total magazine revenue, comprising total consumer magazine revenue and total trade magazine revenue, will be $621 million by the end of the forecast period, up from $571 million in 2014, a CAGR of 1.7%.

Rising tablet ownership is driving the growth of digital revenue. Digital consumer magazine circulation revenue will grow at a CAGR of 26.3%, rising from $23 million in 2014 to $75 million in 2019, while print consumer magazine circulation revenue will fall by a -1.0% CAGR. There are around 3,000 magazine titles in the New Zealand market with approximately 300 published locally. Remaining titles are imported mainly from the US, Australia and the UK.

Digital consumer magazine advertising revenue will also increase over the forecast period from $44 million in 2014 to $80 million in 2019, a CAGR of 12.9%. Advertising on magazine websites has helped digital consumer magazine advertising revenue to achieve a greater proportion of total consumer magazine advertising revenue, 19% in 2014, than the digital circulation revenue would suggest.

Filmed entertainment

New Zealand's total filmed entertainment revenue will be worth $584 million by 2019, up from $541 million in 2014, a CAGR of 1.5%.

Total cinema revenue will rise due to increases in both admissions and the average ticket price. Box office revenue will reach $219 million by 2019, up from $180 million in 2014, a CAGR of 3.9%, while cinema advertising revenue will rise from $8 million in 2014 to $10 million in 2019, a CAGR of 5.3%.

Bolstered by Netflix's arrival as well as the presence of other strong players, total electronic home video revenue is forecast to rise at a CAGR of 12.7% over the forecast period to reach $150 million in 2019, 26% of total filmed entertainment revenue.

Total electronic home video through-TV-subscription revenue will rise by a CAGR of 5.4% between 2014 and 2019 to reach $65 million. However, the total electronic home video OTT/streaming revenue will rise much faster, at a CAGR of 21.4%, to reach $85 million in 2019. It will exceed the subscription revenue in 2017.

Physical home video is the one area that will decline throughout the forecast period. Total physical home video revenue will fall by a 5.4% CAGR over the next five years to $205 million in 2019, down from $271 million in 2014. Both physical home video – sell-through and physical home video – rentals revenues will decline – the former by-3.3% CAGR and the latter by -9.3% CAGR.

Internet access

New Zealand had a high fixed broadband penetration rate of 93.5% in 2014, equating to 1.4 million households. At June 2014, 88% of connections were based on DSL. The Government is committed to migrating to fibre to the home/building (FTTH/B) via the Ultra-Fast Broadband (UFB) network, which it is building in partnership with four 'Local Fibre Companies'. By end September 2014, the UFB network passed 536,000 households (over one third of the total) and had signed up 55,000 customers. The Government aims to increase the coverage target for the network from 75% to 80% of New Zealand's homes by 2020.

UFB network deployment will help increase the number of fixed broadband households to 1.5 million at end 2019, while fixed broadband access revenue will increase from $777 million in 2014 to $982 million in 2019.

The mobile Internet access market has been boosted by the launch of LTE services in 2013 by Telecom NZ (which re-branded to 'Spark' since August 2014) and Vodafone. In 2014, both operators also launched LTE using digital-dividend spectrum in the 700MHz band, and a third operator, 2degrees, launched LTE in June 2014, beginning in Auckland.

LTE will help increase the number of mobile Internet subscribers to 3.4 million by 2019 (71.5% penetration rate), from 2.4 million in 2014. Mobile Internet revenue will grow from $556 million to $1,050 million over the same period.

Internet advertising

New Zealand's total Internet advertising revenue saw 10.8% year-on-year growth in 2014, reaching $435 million. Total Internet advertising revenue will grow by a CAGR of 11.2% over the forecast period and by 2019, the market will be worth $737 million.

Paid search, display and classified have broadly similar shares of New Zealand's total Internet advertising market, with paid search Internet advertising revenue accounting for the largest share at 32.4% in 2014. Google is the leading search engine, responsible for around 94% of all searches. Paid search will retain the largest revenue share throughout the period.

Mobile is the fastest-growing Internet advertising revenue sub-component, with an expected CAGR of 26.5% between 2014 and 2019. Mobile Internet advertising revenue will more than triple over the time period as mobile Internet penetration is set to reach 71.5% by 2019. But despite the fast growth, mobile will only account for 4.4% of total Internet advertising revenue in 2019.

Newspaper publishing

Although New Zealand papers are forecast to lose average daily unit circulation print at a -7.4% CAGR to 2019, cover price increases are expected to hold total newspaper circulation revenue decline to a -2.2% CAGR.

However, the publishers' other key revenue stream is not faring so well. Their advertising take is in pronounced and ongoing shrinkage, expected to fall from $489 million in 2014 to $317 million in 2019, at a -8.3% CAGR. Where total newspaper advertising revenue represented nearly 70% of total newspaper revenue in 2010, it is expected to fall to just 57.4% by 2019.

Print newspaper reach has fallen in New Zealand. To follow consumers, advertisers are putting more money into the Internet, TV and radio at the expense of printed media. With just 8% of total newspaper revenue here coming from digital channels, they must work hard to hold on to old customers and develop new income streams.

Paid digital access has not been implemented in New Zealand as prevalently as publishers in Australia. Both of the major local newspaper publishers have been talking for some time about introducing a digital subscription model. NZME, owner of the New Zealand Herald, engaged consultants to advise on a digital subscriptions model and is considering a launch in 2015.

A Victoria University study showed only 0.5% of consumers would definitely pay for a New Zealand news site. Willingness rose to 12.5% if offered the prospect of bundled music, TV and movie access, suggesting adding value is the key to growing subscriber income.

Out-of-home advertising

New Zealand's total out-of-home (OOH) advertising revenue was $73 million in 2014. The market is forecast to grow by a CAGR of 2.8% and will see total OOH advertising revenue of $83 million in 2019.

We have a developed OOH advertising market benefitting from an affluent population and an economy which has performed relatively strongly since 2011. The market has seen a significant shake-up in recent years with APN News & Media selling 52% of APN Outdoor, the country's leading OOH advertiser, to Quadrant Private Equity in 2013. It sold the remaining 48% stake to Quadrant in 2014.

Digital OOH (DOOH) advertising revenue stood at $17 million in 2014. Over the forecast period DOOH advertising revenue is forecast to grow by a CAGR of 6.5% and reach $23 million in 2019, accounting for 27.4% of total OOH advertising revenue. The market continued to expand in 2014 with the launch of Clear Channel's Connect DOOH in June, and APN Outdoor announcing plans in October to erect the country's largest digital billboard in Auckland Airport.

New Zealand's smartphone penetration is high at 65.2% in 2014 and there is also a newly launched near-field communications (NFC) payments scheme here which will provide advertisers with the opportunity not only to engage with consumers directly via games, coupons or entertainment, but also to become a point of sale, fuelling DOOH advertising revenue.

Radio

New Zealand's total radio revenue was $257 million in 2014, up 2.6% from 2013. Advertising revenue accounts for the entire radio market and only a modest CAGR of 1.5% is forecast between 2014 and 2019, when the market reaches $277 million.

The two largest commercial radio networks in New Zealand are Mediaworks Radio and New Zealand Media and Entertainment (NZME). They operate ten and seven stations, respectively. It is estimated that the two companies cover 85% of the audience share. The state-owned broadcaster Radio New Zealand (RZN) operates three stations.

New Zealand is the only country in the world outside Australia and the US that has access to the Internet radio service Pandora. Pandora NZ reported 255,000 registered users by October 2014, boosting online radio advertising revenue. Pandora also began selling advertising to New Zealand businesses in March 2014.

State-owned broadcast and telecoms company Kordia has been running DAB tests in Auckland and Wellington since 2006, delivering a mix of DAB and DAB+. It is expected that DAB+ will be chosen as the standard for when DAB is rolled out more widely.

Music

New Zealand's music market was worth $179 million in 2014, down from $188 million from the previous year and $209 million in 2010. Total music revenue is forecast to diminish by a CAGR of -1.1% to reach $170 million in 2019.

New Zealand's recorded music market has many similarities to Australia. Total recorded music revenue dipped to $67 million in 2014, down from $90 million in 2010. Digital recorded music revenue surpassed physical in 2013. As elsewhere, physical recorded music revenue is expected to fall sharply in the years ahead, but the expected gains from digital recorded music revenue are not going to be enough to make up the difference: by 2019, digital recorded music revenue is forecast to reach $44 million, up from $39 million in 2014, while physical recorded music revenue will be just $18 million, down from $28 million in 2014. As a result, total recorded music revenue will fall from $67 million in 2014 to $62 million in 2019, a CAGR of -1.4%.

The digital music services that operate in Australia also do so in New Zealand and the heads of the major music companies in Australia also have duties in New Zealand.

New Zealand's proximity to Australia has helped create opportunities for the wider music industry. All the major tours to Australia now also have a New Zealand connection. Auckland's 12,000-capacity world-standard Vector

Arena has played a role in this and the live music scene in Christchurch is recovering well following the 2011 earthquakes. Ed Sheeran, the Black Keys and Ricky Martin played the Horncastle Arena (formerly the CBS Canterbury Arena), while Dunedin hosted Rod Stewart for the first time in April (at Forsyth Barr Stadium).

New Zealand artists, like those from Australia, are enjoying international success. Lorde's breakthrough is well reported, but the likes of Broods, The Naked and Famous, Ladyhawke, Kimbra, Gin Wigmore and Marlon Williams have enhanced our country's reputation as a music hotbed.

TV advertising

Total TV advertising revenue rose 2.9% in 2014 to reach $497 million, and further growth at a 3.3% CAGR means that this will reach a new peak of $584 million in 2019.

Broadcasting in New Zealand is largely self-regulated and there is no legal obligation governing the amount of TV airtime that can be dedicated to advertising. As a result, there is a large amount of flexibility for broadcasters. But the sector has adopted its own principles and practices, which means that 12.5 minutes per hour – plus two minutes for channel or programme promotions – is considered acceptable.

Analogue terrestrial TV signals were switched off in December 2013, providing new opportunities for advertisers due to the increasing range of thematic channels on the digital terrestrial TV (DTT) platform and the ability to target more niche market segments. This will ensure terrestrial TV advertising revenue continues to dominate, taking 81.9% of total TV advertising revenue in 2019. While this is down slightly on 2014 as multichannel TV advertising revenue expands at a slightly faster rate, terrestrial TV advertising revenue will still pass pre-recession levels to reach a new high of $478 million in 2019.

Public broadcaster Television New Zealand (TVNZ) competes with commercial broadcaster Mediaworks and Sky in the terrestrial market. Sky's acquisition of Prime TV in 2006 brought the pay-TV operator into the terrestrial sector. Mediaworks and TVNZ have called on the Government to force Sky to relinquish control of Prime, or at least prevent it from bidding on certain sporting events due to its wider market dominance.

Mediaworks has merged its sales teams across its TV, Radio and Digital divisions in an attempt to open up new commercial opportunities for its clients such as cross-platform advertising.

TV subscriptions

New Zealand is a small TV market with a dominant subscription TV operator (Sky Network Television), a single cable TV operator (formerly Telstra Saturn, now owned by Vodafone) and free-to-air (FTA) multichannel TV on digital terrestrial TV (DTT) and satellite from Freeview NZ. The number of subscription TV households will rise from 915,000 at the end of 2014 to 1.2 million at the end of 2019, a CAGR of 5.4%. This expansion will boost TV subscription revenue from $693 million in 2014 to $902 million in 2019, a CAGR of 5.4%.

Sky Network TV has a virtual monopoly on the subscription TV market, with Vodafone's InHome cable service estimated to have only 49,000 subscribers. Cable lacks geographical coverage while IPTV remains a nascent service.

Sky Network TV reached 865,055 subscribers by mid-2014, up from 855,898 a year earlier. Sky takes around 77% of subscription TV subscribers directly but also supplies most of the remaining market via wholesale agreements. Some 81.5% of Sky's revenue comes from residential satellite subscriptions, while advertising accounts for just 8.2%, underscoring the importance of sustained net growth and upselling customers to premium products such as multiroom and HD.

Sky also owns Igloo, a low-cost pay DTT option launched in late 2012, having purchased TVNZ's remaining stake. Sky announced in its annual results that the service had 8,760 paying subscribers.

TelstraClear's Christchurch and Wellington cable TV network Telstra Saturn – which is largely a rebroadcast of Sky TV – has been rebranded by new owner Vodafone as part of its Vodafone TV offerings. Those offerings include a platform that delivers content over the new Ultra Fast Broadband network, but again the content supplier will be Sky. Vodafone has said its agreement with Sky does not prevent it from seeking content from other providers, but that it has no intention to do so.

Competition is increasing from a number or recent or soon-to-be launched services. These include Spark's over-the-top (OTT) service Lightbox, VideoEzy's ondemand service, an expanded Coliseum Sports offering, TVNZ positioning itself for possible paid content via its on demand service and Freeview is due to announce a hybrid broadband/broadcasting arrangement in 2015.

Sky is developing a Netflix clone, Neon, although there have been a number of delays to its launch, and Netflix launched in New Zealand in early 2015.

Video games

New Zealand's total video games revenue was $170 million in 2014, up from $154 million in 2010. The figure is forecast to grow by a CAGR of 5.1% to reach $218 million in 2019.

Traditional gaming revenue makes up the majority of the market at 64.0% of total video games revenue in 2014. This will fall to 61.7% by 2019 as more consumers switch to mobile gaming and the free-to-play model on consoles and PCs. It should be noted that non-AAA game releases in New Zealand often occur later than in the rest of the world, which may encourage consumers to order from other territories, artificially shrinking the market.

Social/casual gaming revenue will continue to rise in New Zealand as the population increasingly engages with mobile gaming and gaming on social networks. Social/casual gaming revenue will rise from $48 million in 2014 to $60 million in 2019, a CAGR of 4.6%.