

Digital Media Primer

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McCAFFERTY
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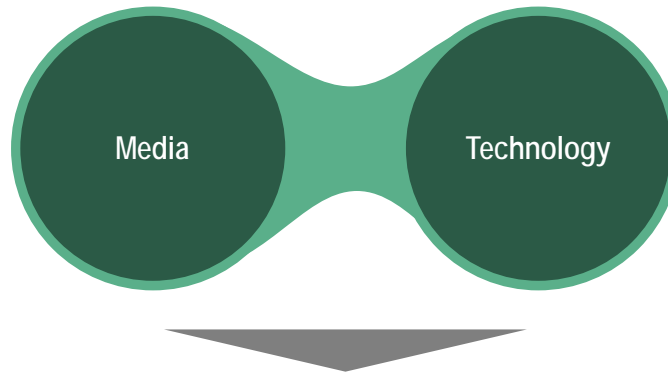
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Section 1

Executive Summary

Executive Summary

Digital Media is at the Convergence of Media and Technology



Executive Summary

Macroeconomic Overview – Strong Economy Supports Digital Media Industry Growth

Overview

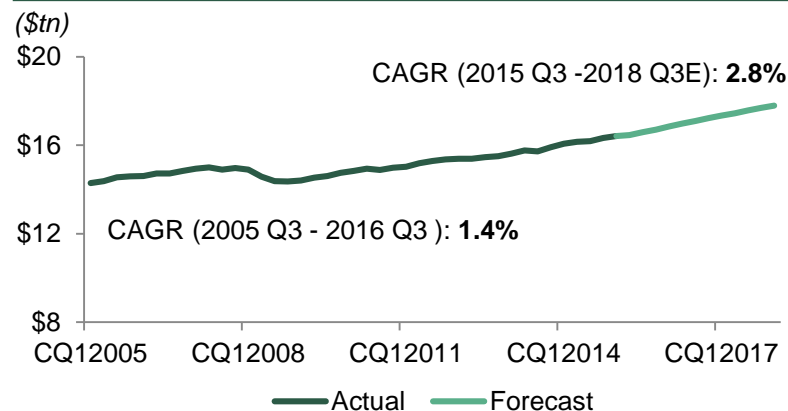
Economic Growth

- ▶ GDP is forecast to grow at 2.8% from 2015 Q3 to 2018 Q3
 - Ad spend is a significant driver to digital media industry growth and is highly correlated to GDP growth
- ▶ Interest rates remain near historic lows as the Federal Reserve desires to encourage business investment activity
- ▶ The media industry has grown faster than the overall economy. From 2005-2014 the media/information sector GDP grew at 3.2% while the overall economy grew at only 1.3%
- ▶ Strong US dollar is good for US consumers but challenging for companies that derive a significant portion of revenues from international markets

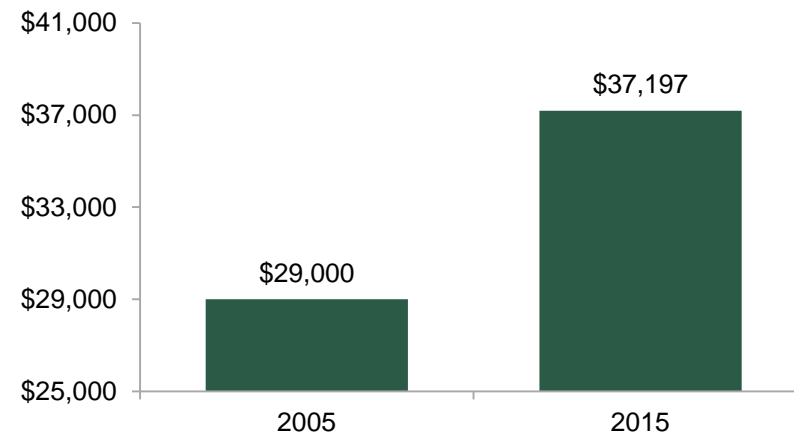
Consumer Themes

- ▶ Consumer spending is increasing. This is being driven by several factors:
 - Low unemployment
 - Low inflation
 - Low energy prices
 - Strong US Dollar
- ▶ Consumer prices for hardware devices such as PCs and televisions has decreased dramatically over the last 10 years. New products tend to fall in price very quickly after release
- ▶ Spending related to Internet access has increased significantly as consumers increasingly access the media through digital channels and consume ever increasing amounts of digital data

US GDP Performance



Consumer Expenditures Per Capita



Executive Summary

Consumer Behavior in the Digital Media Age

Overview

Infrastructure

- ▶ 88.6% of the US population uses the Internet
- ▶ Broadband network speeds continue to increase and average 54.9Mb/s in the US

Consumption

- ▶ Total media consumption has increased as more content is available for consumption than ever
- ▶ Consumption patterns have shifted
 - Mobile is the fastest growing category (smartphones and tablets)
 - Internet (PC) consumption has peaked
 - Print (newspapers and magazines) has seen significant declines

New Service and Business Models

- ▶ Streaming has emerged as a new and growing service for consumers to access content
- ▶ User generated content through social media and other platforms has expanded the types of content available
- ▶ Subscription is increasingly replacing purchased-media models

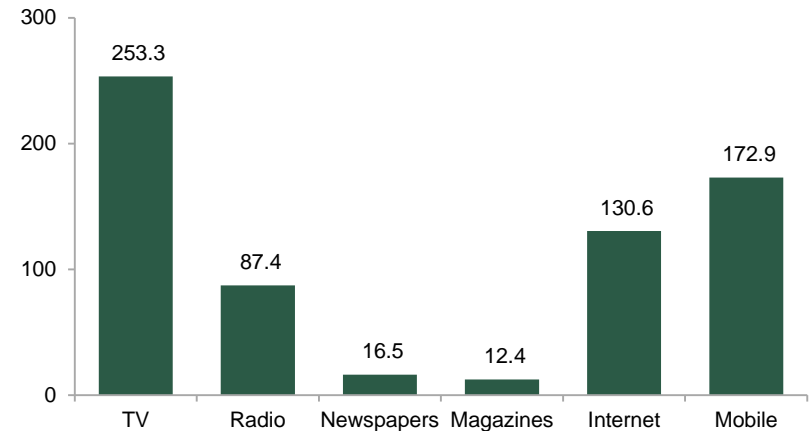


NETFLIX

YouTube

US Daily Media Consumption (2015)

Time Spent Per Day (minutes)



Digital Media Consumption Devices



PC



Smartphones



Tablets



Game Console



Smart TV



Wearables

Executive Summary

Digital Media Market

Overview

Ad Spend and Time Spent

- ▶ Ad spend is usually proportional to consumer media consumption by channel
 - Mobile is currently not receiving ad spend in proportion to consumer time spent. It is expected that mobile ad spend will increase in the future
 - Internet and mobile growth in ad spend has mostly occurred from re-allocation of print spend by advertisers

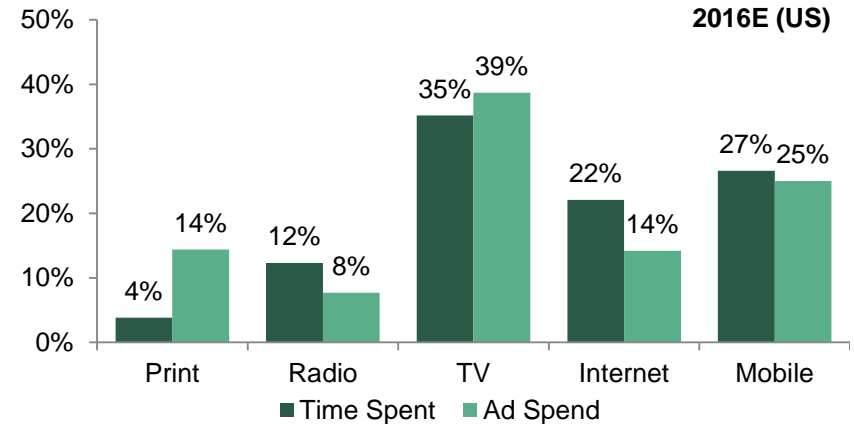
Digital Media Ad Spend

- ▶ In 2015, digital ad spend accounted for 33% of all ad spend, however, by 2020 this figure is expected to increase to 47%
- ▶ Mobile, and Video are expected to be the fastest growing categories for digital ad spend
 - US Mobile expected to reach \$86.8bn by 2020
 - US Video expected to reach \$17.9bn by 2020
- ▶ Google and Facebook have been the largest beneficiaries of digital media ad spend
 - Google Ad revenues: \$79.4bn (2016)⁽¹⁾
 - Facebook Ad revenues \$26.9bn (2016)⁽¹⁾

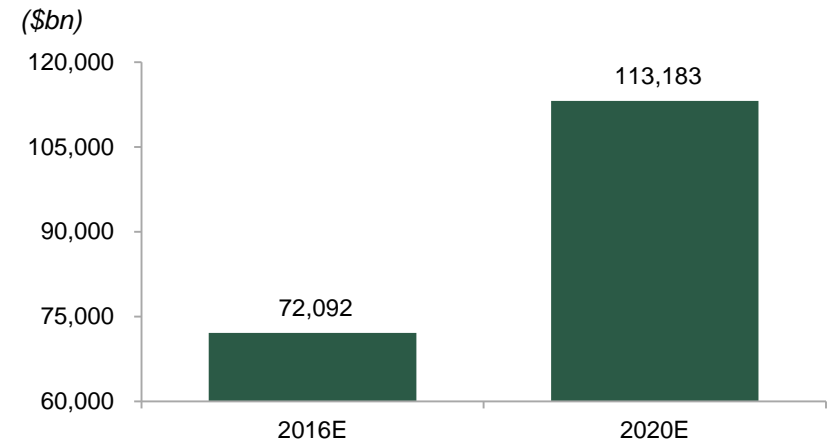
Global Context

- ▶ US is leading the shift to digital media and is the largest market
- ▶ Significant growth opportunity exists in international markets

Ad Spending vs. Consumer Time Spent by Media



Digital Ad Spend (US)



Executive Summary

Digital Media Capital Markets

Overview

Themes

- ▶ Media and Technology companies are both investing into digital media companies
- ▶ Companies that are seen as attractive investment/acquisition candidates usually exhibit some combination of the following characteristics
 - Platforms with growing user bases and quality content
 - Platforms with monetization capabilities
 - Platforms with wide digital distribution
 - Platforms with strong proprietary technology

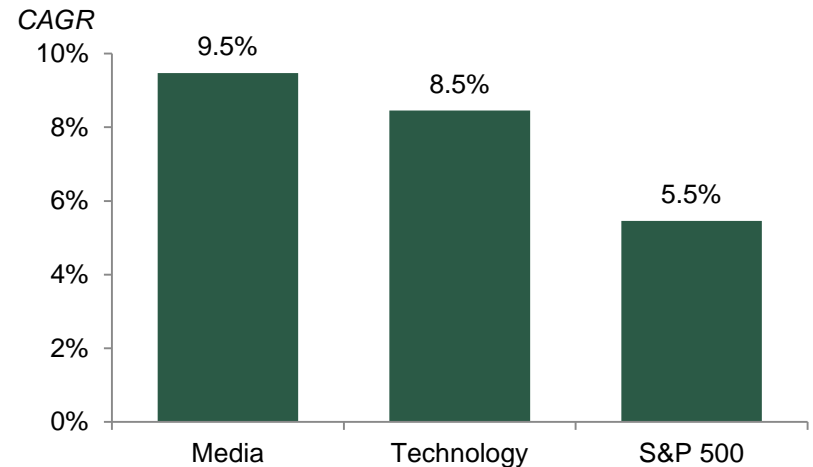
Valuation

- ▶ Companies with positive EBITDA and strong growth are trading at high multiples
- ▶ Valuation for companies without strong KPIs or positive EBITDA varies considerably depending revenues and expected growth potential

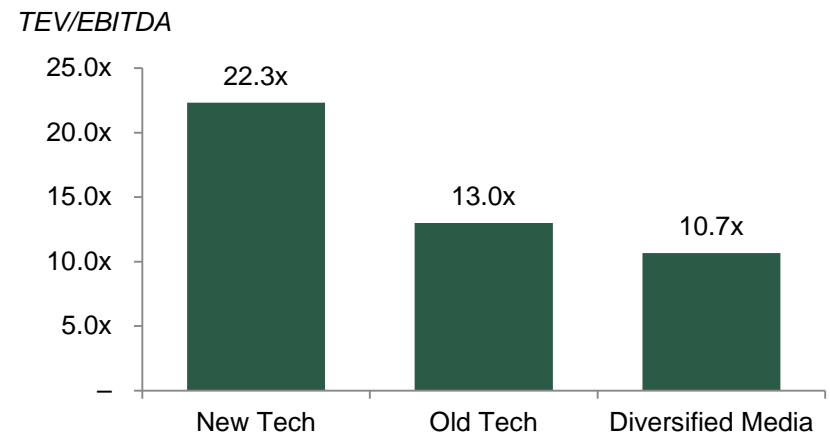
Market Performance

- ▶ Over the last 10 years the media and technology sectors have outperformed the overall market
- ▶ Technology stocks now represent 25% of the S&P 500 market capitalization. This is up from 16% in 2006

Market Returns: Media and Technology (2006-2016)



Market Valuations: Media and Technology⁽²⁾



Source: Capital IQ

(1) Based on market data as of April 25, 2017 (2) Old Tech refers to older technology companies that tend to be more hardware focused (e.g. IBM) while new tech focuses on newer technology companies that tend to be more software focused (Facebook)

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