

Building a resilient enterprise- Now, Next and Beyond

How is the media and entertainment
sector responding to COVID 19?

April 2020



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"The world is facing the worst economic fallout since the great depression"

- Kristalina Georgieva, IMF Chief

The Covid-19 pandemic and the subsequent lockdown has dealt a severe blow to an already-stressed global economy

The suddenness, spread, and severity of the pandemic across the globe has pushed countries and institutions into uncharted territories

Simultaneous
double digit dip
in global supply and demand

170 countries
to experience negative per capita income growth in 2020-21

200+ countries,
areas or territories with Covid-19 cases

2-3% **contraction** of global GDP

~2500+ government pronouncements to manage the crisis

3 b people
under lockdown or 1/3rd of the world's population

Global unemployment levels at an all time high

Significant decline predicted for global trade in 2020-21

Estimates based on multiple sources: Bloomberg, UNCTAD, WEF, WTO & ILO.

Covid-19 will have significant implications for an already stressed Indian economy

Macroeconomic impact



Significant dip in GDP growth while India continues to be among the fastest growing economies globally



Adverse impact on fiscal deficit due to dual impact of fiscal stimulus and lower revenue collections



Substantial erosion of investor wealth due to flight of foreign capital



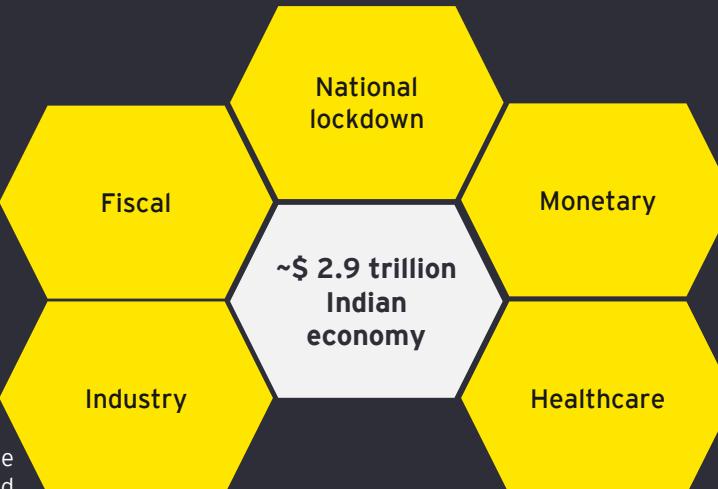
India's response - economic recovery to commence with graded relaxation of lockdown from May 4th

Stringent national lockdown
Stringency Index (100=strictest)



100 95.2 90.5 71.4 66.7

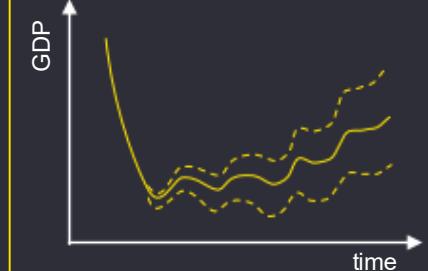
Economic stimulus of INR 1.7 trillion
Food security measures for poor
Direct cash transfers



Path to recovery

Most likely scenario

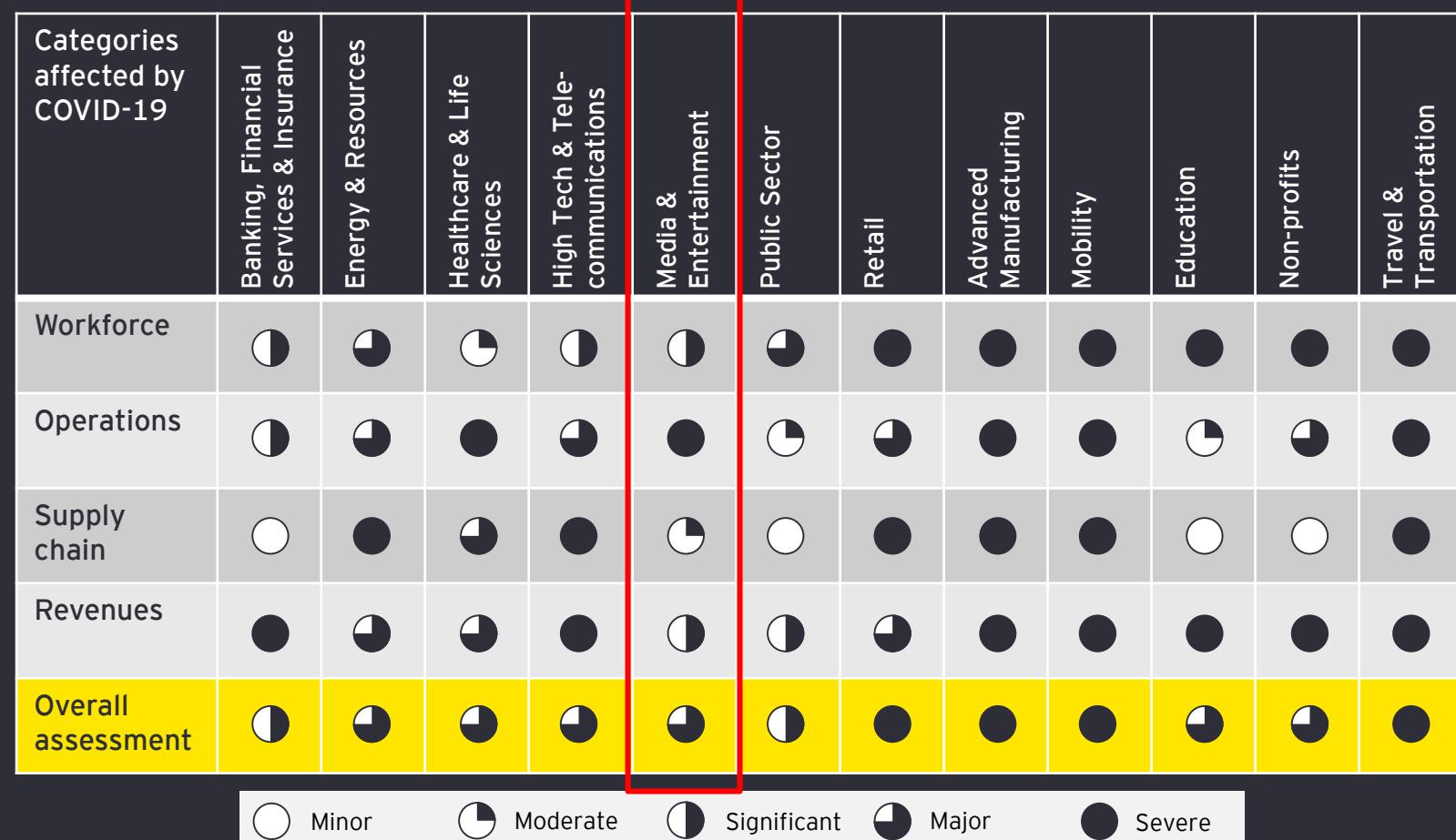
"See-Saw" recovery



- ▶ Deeper and pervasive recession, followed by a slower recovery and likely deflation
- ▶ Higher public deficit levels due to stimulus programs
- ▶ Protracted weak demand and global value chain disruptions
- ▶ Higher capital outflows and currency depreciation

Sectoral impact of the crisis shall vary across industries

M&E faces a unique challenge - increased demand, but lower ad revenues and difficulty to create content



Source: Avasant LLC, EY analysis

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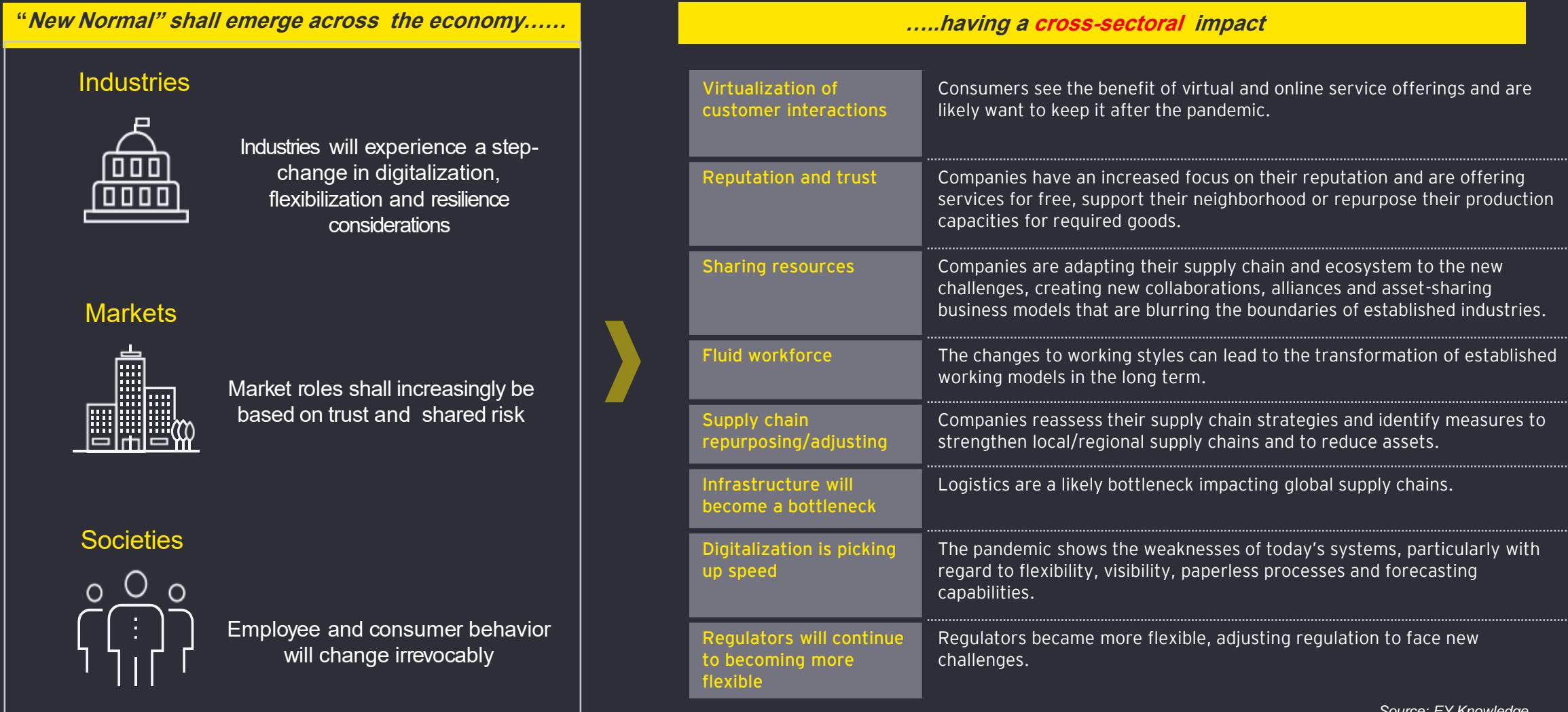
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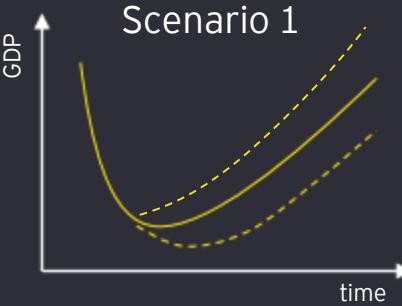
Prolonged “ see- saw “ shaped recovery shall lead to a “New Normal” across sectors



Source: EY Knowledge

Each sector will need to adapt their response

Optimistic scenario:
“V-shaped”



Economic Scenarios

Low Severity, Short Term Implications

Digital media, online gaming, content production

Tactical Play, Ensure Minimal Supply Disruptions

Medium Severity, Medium Term to Long Term Implications

TV, radio, print, OOH

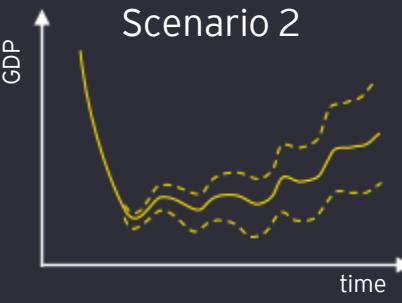
Survive Slow-down and prepare for “New Normal”

High Severity, Long Term Implications

Events, theatrical exhibition

Generate Liquidity through Massive Sell-offs and Cost Reductions

Most likely scenario
“See Saw”



Focus on Growth Agenda and Gain in Market Share

Defend Market Share, Find New Streams of Growth, Adapt Operating Model to New Normal

Plan Diversification, Innovative Operating Models

Pessimistic scenario
“L-shaped”



Invest Heavily in Growth Agenda, Align Cost Structures to New Normal

Defend against Competition & Create Innovative Positions, Re-invent Operating Model

Plan Exit Strategies

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M&E overview

The Media & Entertainment sector is facing unprecedented challenges from the spread of COVID-19. Rapid changes in consumer behavior and consumption, stoppages in content production, cancellation of live events and sports, and cuts in advertising spend, are impacting companies across the ecosystem. Media agencies, many of which were grappling with operational volatility, are struggling to maintain media spend as marketers manage risks and reduce spend rapidly. Publishers and media companies are benefitting from some marketers seeing the opportunity but face advertising revenue losses. Film and TV producers are under pressure to mitigate impact from delayed release schedules, **theatre** closures, and production stoppages.

Companies are currently focused on enterprise resiliency and triaging revenue, but will likely need to turn to rapid cost reduction as business models settle into new norms as business models are not on solid foundation. Bright spots across the industry include digital pure-plays (**such as**, video gaming) and other virtualized production capabilities.

Impact Action	Accelerated consumer shift to digital journeys <ul style="list-style-type: none">▶ Enhance technology and infrastructure to support digital journeys including streaming and commerce▶ Ensure digital sales and service models are as effective as traditional journeys▶ Consider moving content distribution intended for physical venues to digital channels
Impact Action	Marketers cut ad spend and demand agile response times <ul style="list-style-type: none">▶ Accelerate efforts around ad ops and creative production support to enhance responsiveness to marketer needs▶ Proactively conduct brand sentiment analysis and consumer research to offer stronger insights▶ Consider incentives or package bundles to maintain or motivate ad spend, including entertainment or escapism content Rapid transition to virtualized working environments <ul style="list-style-type: none">▶ Leverage collaborative software to maintain productivity and connection with vendors and clients (e.g. Microsoft Teams)▶ Accelerate efforts around self service and inside / virtualized sales▶ Develop models for virtualized customer service rapidly, including potential for augmented reality Disruption or cancellation of content production and launch <ul style="list-style-type: none">▶ Revisit programming schedules to extract value out of back catalog▶ Accelerate releases to enhance consumer engagement▶ Identify partners with virtualized content production capabilities

Client conversations within the sector

Recent developments/What are we hearing from clients?*

“ High priority: ensuring that program / brand loyalty is not lost due to experimentation and loss of connect during the lockdown

“ WFH is possible for certain departments; HR policies require re-alignment

“ Focus is on cash collection

“ Anticipate deeper disruptions if the lockdown extends; we are a business where most costs are fixed

“ Struggling with OTT platform volumes; Potential spike in cybersecurity issues

“ Need for digital revenue streams to kick in has never been higher

“ Need a robust subscription model – cannot always count on advertising

“ The only discussion these days is on cost cutting and saving; restructuring employee compensation

“ How will we get back to content production, when safe distancing will be a worry for some time to come?

“ We can help in skilling MSME and workforce using video platforms during the lockdown, and beyond

Questions EY can help answer

- ▶ How do you get people back into office once the lockdown ends? Which functions can continue to work from home?
- ▶ How do you secure your content supply chain today and design for the future? How to buy content online?
- ▶ How do you pivot to increased digital content consumption? (Radio, Print, TV)
- ▶ How do you enable a shared services program along with compete? (Print; news)
- ▶ How do you manage the risks of social distancing in the long run for events, theatres, etc?
- ▶ How do you decrease reliance on ad revenues?
- ▶ How do you manage a remote workforce and ensure data security?
- ▶ What are the legal and insurance implications that haven't been on your radar?
- ▶ How do you leverage local stimulus programs, get fiscal incentives from government, and unlock stuck tax refunds?

*Source: EY Knowledge client feedback survey.

Impact and outlook for the M&E sector (CY2020)

Global impact on the sector

- ▶ Lowered outlook for 2020
- ▶ Continuing core operations
- ▶ Reviewing investments and divestures
- ▶ Ramping up capacity to address the challenge



Outlook for the sector in India

Ad	Now April 30	Next May 31	After Jun 30
Traditional	-9%	-18%	-26%
Digital	15-20%	5-15%	0-5%
Events	-20%	-35%	-50%
Total	-5%	-13%	-22%

Impact in India

- ▶ Growth in OTT consumption (incl. social media) and online gaming
- ▶ Lowered advertising outlook for 2020
- ▶ Stoppage of content production, sports and events
- ▶ Subscription strain on print, theatre
- ▶ Loss of jobs

Sub	Now April 30	Next May 31	After Jun 30
Print	-10%	-20%	-30%
TV	0%	0%	-5-10%
Film	-10%	-20%	-30%

A SWOT **analysis** for the M&E sector in India



M&E segment specific Covid impact assessment



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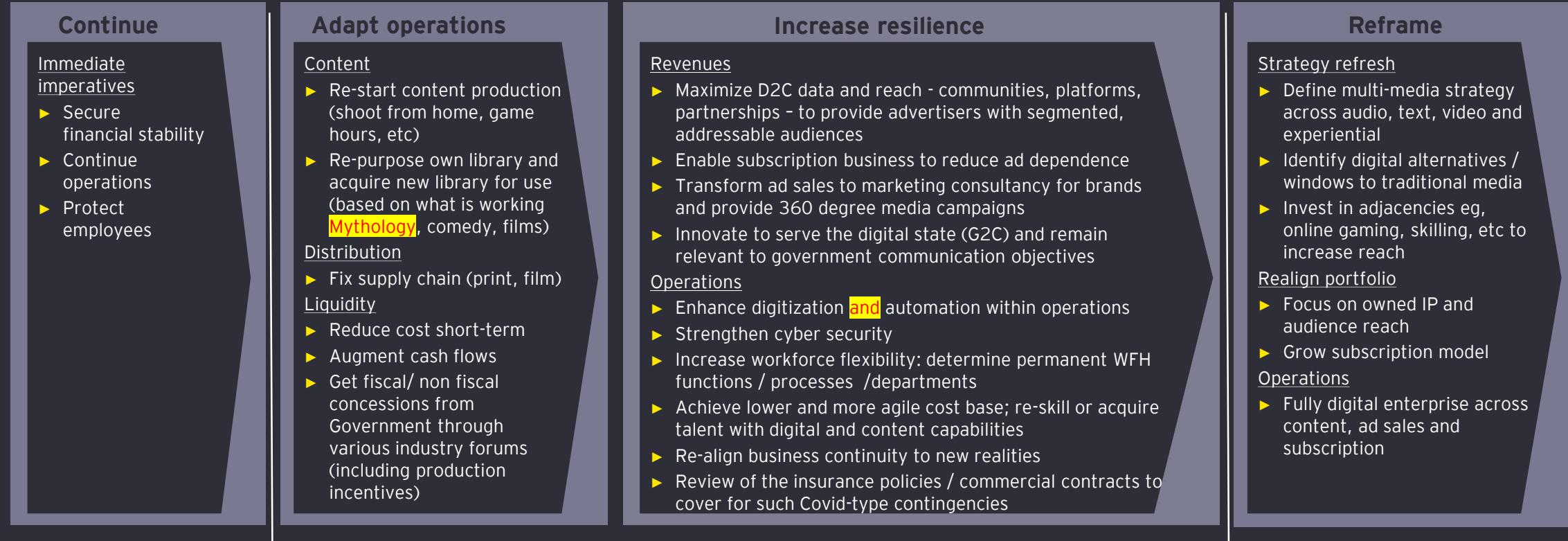
Now, Next, Beyond for M&E - key issues

Core themes

NOW

NEXT

BEYOND



Now, Next, Beyond for M&E - key actions

Enterprise focus areas	M&E point of view	Actions	Now	Next	Beyond
Ad revenue	Revenue and sales leaders will have to identify plans to mitigate risks from potential cuts in ad spend and changing consumption patterns		<ul style="list-style-type: none"> ▶ Create revenue scenarios to understand impact to financial outcomes ▶ Ensure billing and collection operations continue despite shift to digital workforce 	<ul style="list-style-type: none"> ▶ Incentivise ad continuity ▶ Conduct research for key ad segments to provide customized packages ▶ Provide ad packages calibrated to the gradual geographical lift of the lockdown ▶ Reorient ad products and capabilities to build targeted offerings for marketers 	<ul style="list-style-type: none"> ▶ Build in interactive and other products to provide advertisers with end consumer data and partner with them to enable transactions and trial
Content and supply chain	The content supply chain will be disrupted, as production ceases and large events are cancelled		<ul style="list-style-type: none"> ▶ Re-purpose library ▶ Acquire library content to retain loyal customers 	<ul style="list-style-type: none"> ▶ Build a secure back-to-shoot program to enable resumption of content production 	<ul style="list-style-type: none"> ▶ Refresh global content library with international releases ▶ Develop data-enhanced digital supply chain to speed strategic content purchase and launch decisions
Audience and reach	Brand loyalty could reduce as fresh content dries up and consumers start spending more time on other platforms		<ul style="list-style-type: none"> ▶ Enable shoot-from-home / UGC / PUGC solutions to generate fresh content ▶ Enable gaming hours using third party platforms to engage directly with consumer 	<ul style="list-style-type: none"> ▶ Continue to invest in OTT platforms to take advantage of changing media consumption patterns 	
Talent and workforce	Traditionally in-person working arrangements are rapidly transitioning to digitally enabled remote environments.		<ul style="list-style-type: none"> ▶ Deploy employee communications and training programs to support employees in transitioning to remote working environments ▶ Assess organizational impacts from WFH Models 	<ul style="list-style-type: none"> ▶ Redesign sales and support models to ensure the organization is right-sized to meet customer demand ▶ Ensure appropriate design of incentives and culture to maintain talent and skills ▶ Build a process to manage work-from-office 	<ul style="list-style-type: none"> ▶ Consider real estate cost reduction strategies, with a focus on utilizing purpose-built spaces
Technology	<ul style="list-style-type: none"> ▶ Light-touch methods needed to work with customers, suppliers and employees ▶ Global reach through technology solutions 		<ul style="list-style-type: none"> ▶ Leverage collaboration software to maintain productivity ▶ Prepare network infrastructure for increased loads 	<ul style="list-style-type: none"> ▶ Accelerate long-term digital transformation efforts ▶ Integrate ad-ops systems and processes to enable remote execution 	<ul style="list-style-type: none"> ▶ Platform-ize and enable "self-service" models for ad sales, content procurement, content syndication, subscription management, employee self-care, etc

Now (immediate three months): Responding to the crisis as clients focus on business continuity and crisis planning

Next (three to six months): Managing a restricted business, leading through ongoing business disruption

Beyond (six months and more): Bouncing back from the challenges, building a resilient enterprise, reframe the future, transform to succeed

Now, Next, Beyond for M&E - **key actions** (contd)

Enterprise focus areas	M&E point of view	Actions	Now	Next	Beyond
Cybersecurity	<ul style="list-style-type: none"> ▶ Improve flexible and remote working capabilities ▶ Ensure information security 	<ul style="list-style-type: none"> ▶ Manage disruption and infrastructure limitations ▶ Security of mobile working 	<ul style="list-style-type: none"> ▶ Identify departments, teams and processes which can WFH permanently, if required ▶ Improve security, performance and capabilities for continued mobile working 	<ul style="list-style-type: none"> ▶ Implement advanced data analytics and AI to ensure high levels of security 	
Regulatory compliance and controls	<ul style="list-style-type: none"> ▶ M&E has been classified as an essential service, permitted to operate during the lockdown, but with several rules and guidelines issued by regulators 	<ul style="list-style-type: none"> ▶ Identify all applicable rules relating to operations, social distancing, reporting, etc ▶ Redefine work-from-office guidelines to comply with the requirements 			
Insurance and contractual compliance	<ul style="list-style-type: none"> ▶ Cancelled events and venue closures may require filing insurance claims or re-negotiating contracts 	<ul style="list-style-type: none"> ▶ Understand insurance coverage and prepare to file claims, if applicable ▶ Understand contractual impact on revenues, reach and costs; determine strategies to re-negotiate contracts 	<ul style="list-style-type: none"> ▶ Update insurance coverage and contract clauses to provide cover for similar events in the future 		
Government & public policy	<ul style="list-style-type: none"> ▶ Governments launching stimulus packages 	<ul style="list-style-type: none"> ▶ Monitor and apply for local stimulus packages 	<ul style="list-style-type: none"> ▶ Leverage stimulus packages ▶ Tax alleviation 	<ul style="list-style-type: none"> ▶ Manage "back to normal" ▶ Prepare to repay public support, if applicable 	
Financial and investor	<ul style="list-style-type: none"> ▶ Impacts from cuts in ad spend, cancelled events, and delayed content production will <p>Refer Appendix 3 – Format to be used for the three phases – Now, Next and Beyond</p>	<ul style="list-style-type: none"> ▶ Refresh forecasts and long-term plans to account for revenue and cost impacts ▶ Engage with auditors to determine impact on going concern, receivables, etc (Refer Appendix 1) 	<ul style="list-style-type: none"> ▶ Consider rapid cost optimization or operating model design efforts to enhance margins ▶ Consider fast action on investment and M&A Opportunities 	<ul style="list-style-type: none"> ▶ Continue focus on long-term transformation efforts 	

Now (immediate three months): Responding to the crisis as clients focus on business continuity and crisis planning

Next (three to six months): Managing a restricted business, leading through ongoing business disruption

Beyond (six months and more): Bouncing back from the challenges, building a resilient enterprise, reframe the resilient enterprise

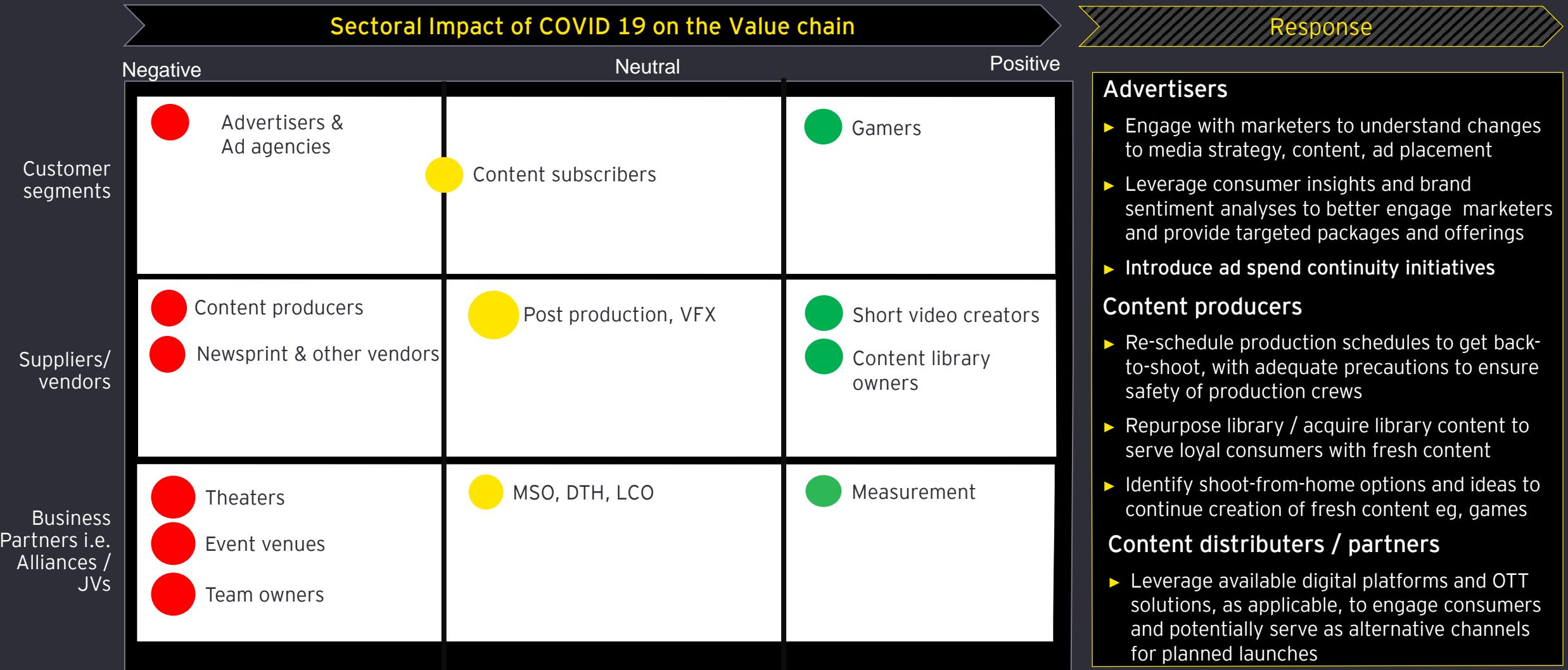
Building a resilient enterprise - Now, Next and Beyond



Appendix 1: Key accounting issues M&E companies would need to address

Going concern	Goodwill, intangible assets, investments in subsidiaries and others	Estimate of credit loss (provision for doubtful debts)	Recoverability of advances given	Treatment of rent concessions
<ul style="list-style-type: none">► Increased judgement for going concern assessment, specially for high cash burn companies, high leverage, significant loss of revenue / market	<ul style="list-style-type: none">► Impairment assessment consequent to drop in cashflows and possible loss of market / customers	<ul style="list-style-type: none">► Given the significant drop in cashflows of customers	<ul style="list-style-type: none">► For content production due to production suspension	<ul style="list-style-type: none">► Resulting from rebates from lessors

Appendix 2: Covid-19 impact on M&E value chain such as, customers , vendors and business partners



Appendix 3: Let us navigate through this crisis

Illustrative C-Suite sectoral response worksheet

Enterprise focus areas	Enterprise Owner	Priorities across Now and Next Horizon			Priorities across Beyond Horizon					
		Supply Chain Continuity	Sales continuity	Cost cutting	Digital Customer access (D2C)	Platformization & self-service	Workforce flexibility	Cost Structure flexibility	Digitalization & Automation	Re-engineering of Supply Chain
 Ad & subscription revenue	CEO COO Ad									
 Content	CEO COO CMO									
 Audience & reach	COO CMO Sub									
 Talent & workforce	CHRO									
 Financial & investor	CFO									
 Technology & cyber security	CIO CTO									
 Insurance & contract compliance	CRO CFO									
 Regulatory	CRO CHRO									

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EYIN2005-040

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