



**e.tv PRESENTATION:**

**INQUIRY INTO THE SUBSCRIPTION TELEVISION  
BROADCASTING SERVICES**

**ICASA BLOCK C PRESENTATION ROOM**

**10 MAY 2018**

# The Team

- Mr. Andre Van der Veen: Chief Executive Officer
- Mr. Khalik Sherrif: Deputy Chief Executive Officer
- Mr. Mark Rosin: Chief Operations Officer
- Ms. Ziyanda Mngomezulu: GM Group Content Services
- Mr. Norman Munzhelele: Group Head Regulatory Strategy

# Introduction

- eMedia Investments wishes to thank the Authority for the opportunity to participate in the public hearings.
- eMedia Investments supports the Authority's Inquiry into subscription broadcasting services and is of the view that the Inquiry is long over due.
- Our presentation is to focus on providing clarity and emphasis on certain areas we feel the Authority must focus on in its inquiry.

# Objectives of the BA/ECA

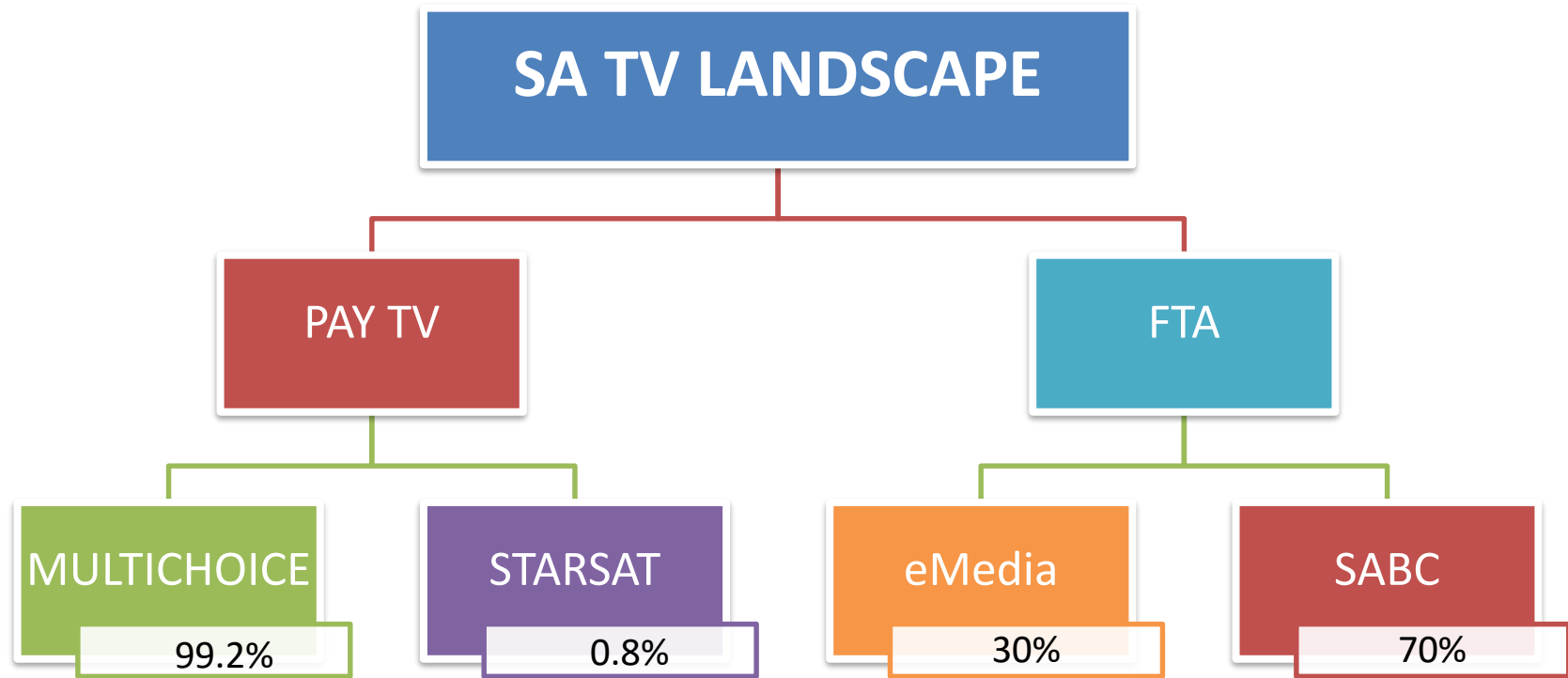
The objective of the Broadcasting Act is to establish and develop a broadcasting policy in SA in the public interest and for that purpose to, amongst other things, ensure fair competition in the broadcast sector (section 2 (h) of the Broadcasting Act)

The primary object of the ECA is to provide for the regulation of electronic communications in South Africa in the public interest and for the purpose to amongst other things,

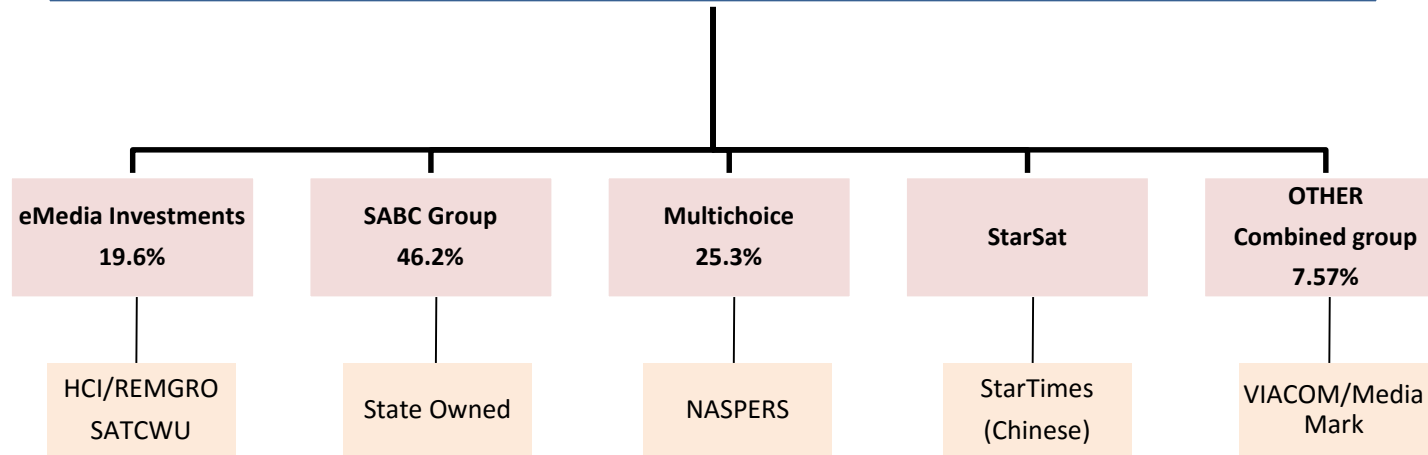
- (f) Promote competition within the ICT sector (in terms of section 2 (f) of the ECA).
- (r) Promote the environment of open, fair, and no-discriminatory access to broadcasting services, electronic communication networks and to electronic communication services.
- (z) Promote stability in the ICT sector

# “Is the playing field level?”

- Our view is that there are structural and legal impediments in the market in South Africa where it becomes evident that result is inequality.
  - Free to Air broadcasters including eMedia are governed by Public Service mandates and oversees licence conditions.
  - Free to Air broadcasters are mainly dependent on advertising revenue.
  - Free to Air broadcaster’s cannot cross subsidize lower priced products.
  - Free to Air broadcasters have substantially less financial resources.



# SA TV AUDIENCE SHARE



# MCA Submission as a basis for our comments

- MCA dominates Pay TV landscape.
- They made a very detailed submission and there are significant inaccuracies, that need to be addressed as a matter of urgency.
- We have limited time to address ICASA and to achieve the most productive outcome, we have based our presentation on the MCA report.



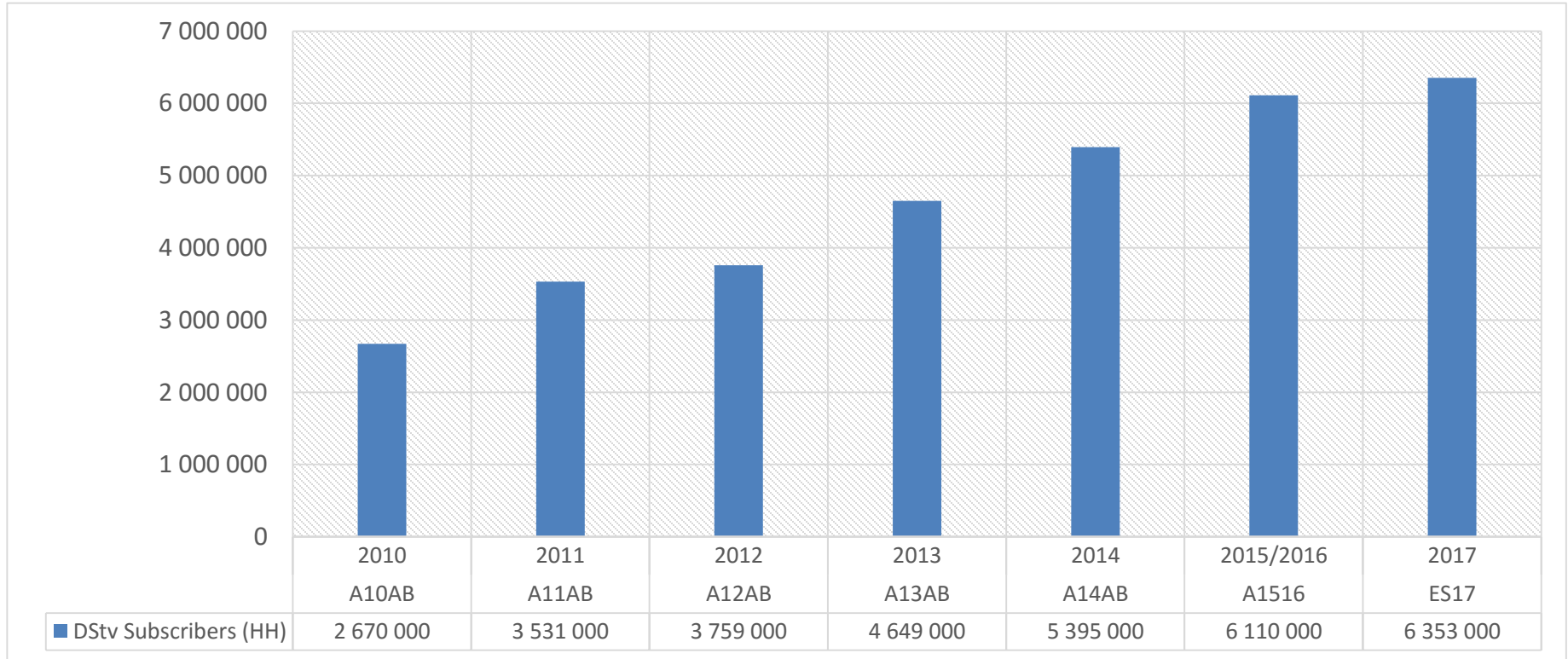
# MCA Submission

- The prevalence of legalistic language is evident throughout the document.
- Our concern is that in the event that ICASA finds or rules against MCA with recommendations that are legitimate and level the playing field, MCA will delay any changes through legal challenges.
- The authority should be alive to the impact a delay would have on the industry. Any delay actually amounts to a victory for MCA.
- eMedia suggests that the authority focus on solutions that are implementable in the short term and not embroil the required changes in long term legal battles.

# “Is MCA really a group in distress and under threat?”

- The submission consistently paints a picture of MCA as a company in distress and under threat.
- The actual financial results of MCA paint a completely different picture. There is no threat to MCA in the near future. All businesses face change and challenges, but the unintended consequences of the pay landscape in South Africa and the inaction of the regulator, have provided MCA with a significant advantage.
- The most immediate and urgent threat is to FTA television in South Africa. Both the SABC and eMedia have been detrimentally affected by the current unequal playing fields and require urgent relief and assistance.
- MCA is far from being a “company in distress.”

# Growth of DStv



# MultiChoice Financial Analysis

	2013	2014	2015	2016	2017
	R'000	R'000	R'000	R'000	R'000
Subscription revenue	16,711,361	19,094,144	21,699,495	23,836,591	26,197,816
- % increase		14.26%	13.64%	9.85%	9.91%
Advertising revenue	2,159,723	2,378,174	2,426,234	2,649,514	2,883,987
- % increase		10.11%	2.02%	9.20%	8.85%
Operating profit	7,014,559	7,956,090	8,816,943	9,337,494	10,160,766
- % increase		13.42%	10.82%	5.90%	8.82%
Net Profit after tax	4,634,175	6,295,719	5,639,035	6,004,877	6,827,779
- % increase/(decrease)		35.85%	-10.43%	6.49%	13.70%
Total Revenue (excluding program revenue)	21,330,917	24,222,545	27,287,975	30,288,909	33,196,997
Advertising revenue as a percentage of above	10.12%	9.82%	8.89%	8.75%	8.69%

# We do agree with MCA on some aspects

- The television industry is undergoing change.
- Increasing segmentation will change business models in future.
  - Technology has enabled segmentation.
  - Customers are and will be able to choose which content they want and how they will view it.
  - Advertising income is more fragmented across these multiple segments and will become more fragmented in the future.
  - Content is the key determinant of success.

# Implication of content being KINGMAKER

- Viewers will migrate to the best content and neither channels nor platforms will experience viewer loyalty.
- The best content will be acquired or produced by the organizations that have the most financial resources.
- The only organization with significant financial resources in South Africa is MCA.
- MCA will continue to dominate the acquisition of content.
- The cost of content is increasing significantly and will become more expensive and determinative of its television success.
- eMedia and SABC are in various stages of financial distress and have limited resources. This is directly related to the unequal playing fields.

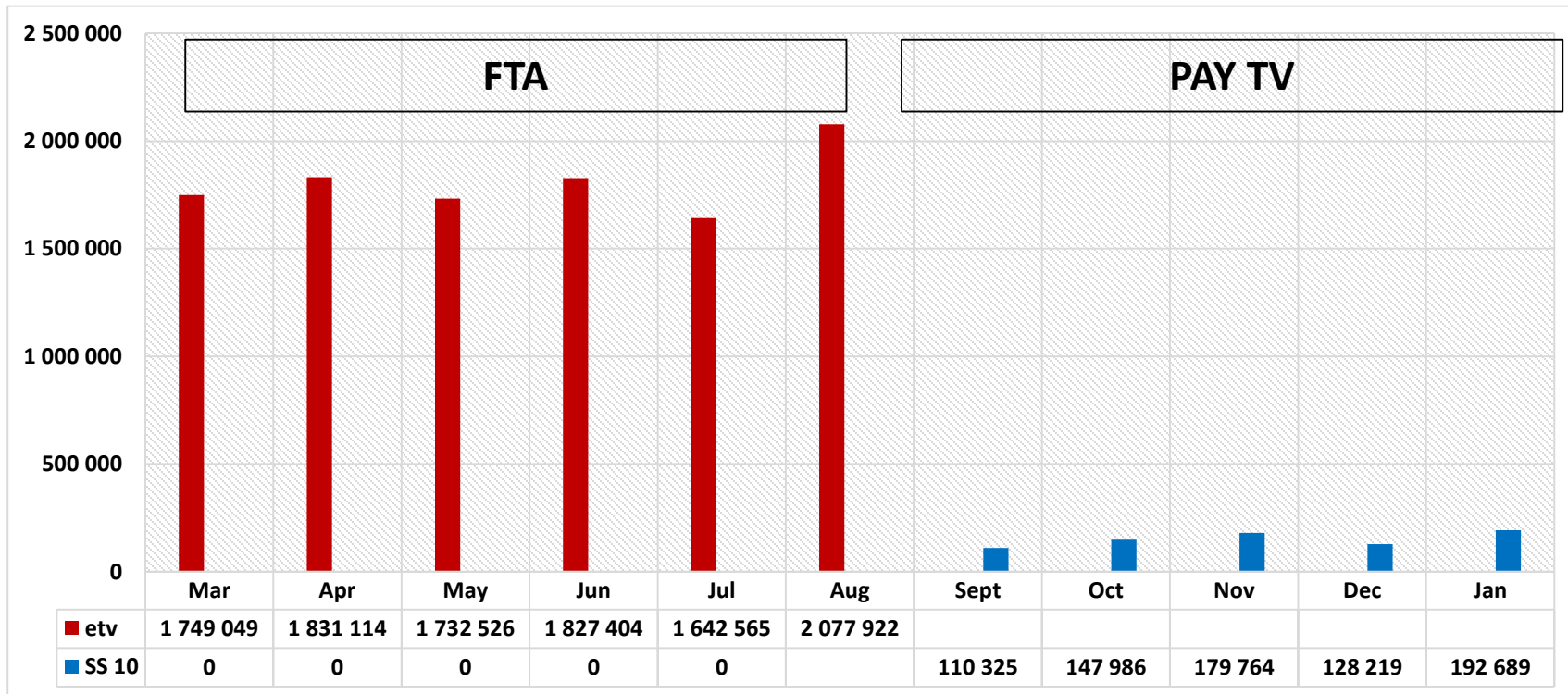
# MCA contends that Premium content is Undefinable

*“Content is evolving and the terms ‘premium’, ‘must have’ and ‘essential’ do not provide a basis for relevant market definitions.” Page 151 (Pr 286-287)*

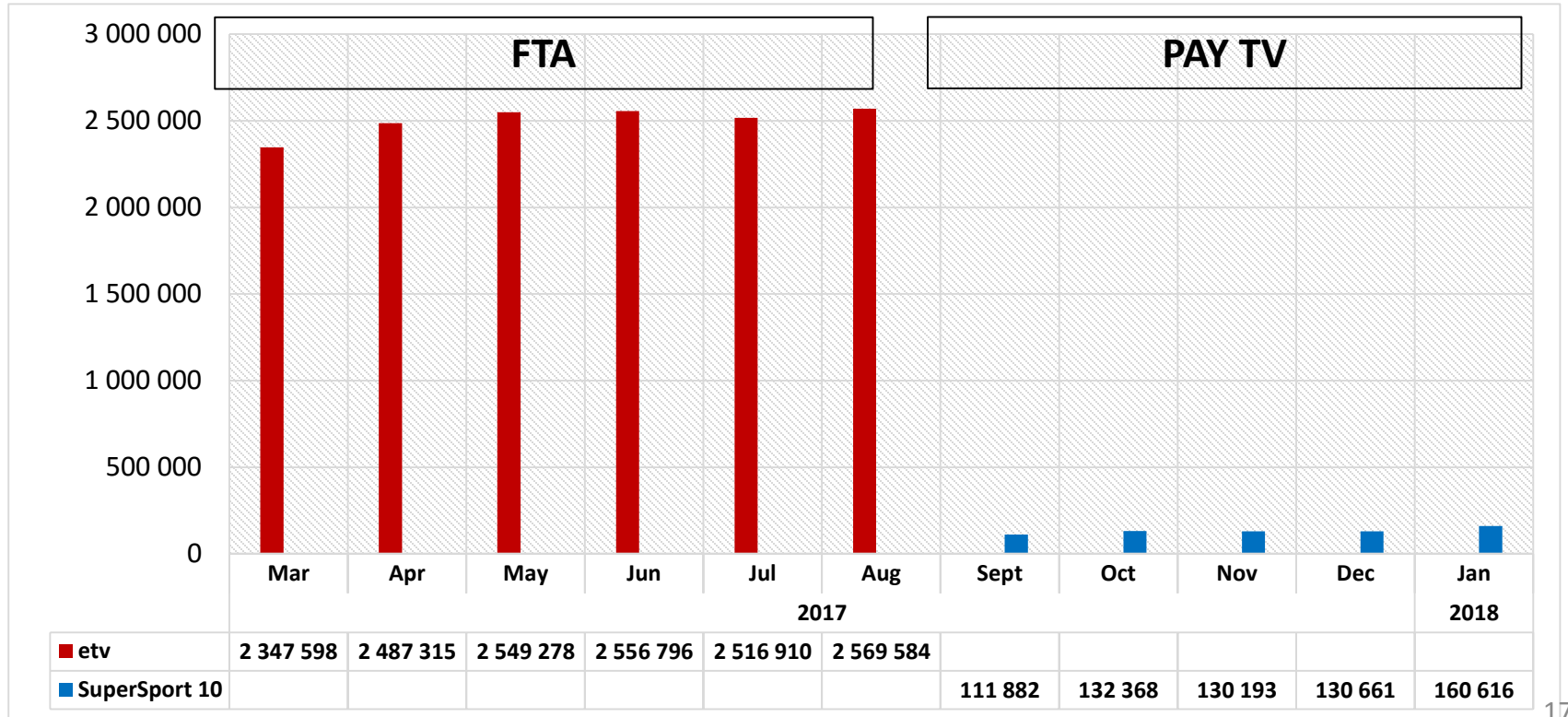
- eMedia disagrees.
- To illustrate the point eMedia will use WWE and UEFA as an example.
- WWE is premium content to eMedia.
- Importantly this “must have” and “premium” content is now only available to affluent viewers that can afford pay TV.
- After 10 years of having this content we were significantly outbid by MCA. We cannot find similar programmes that will result in the same viewership patterns as we achieved with WWE.



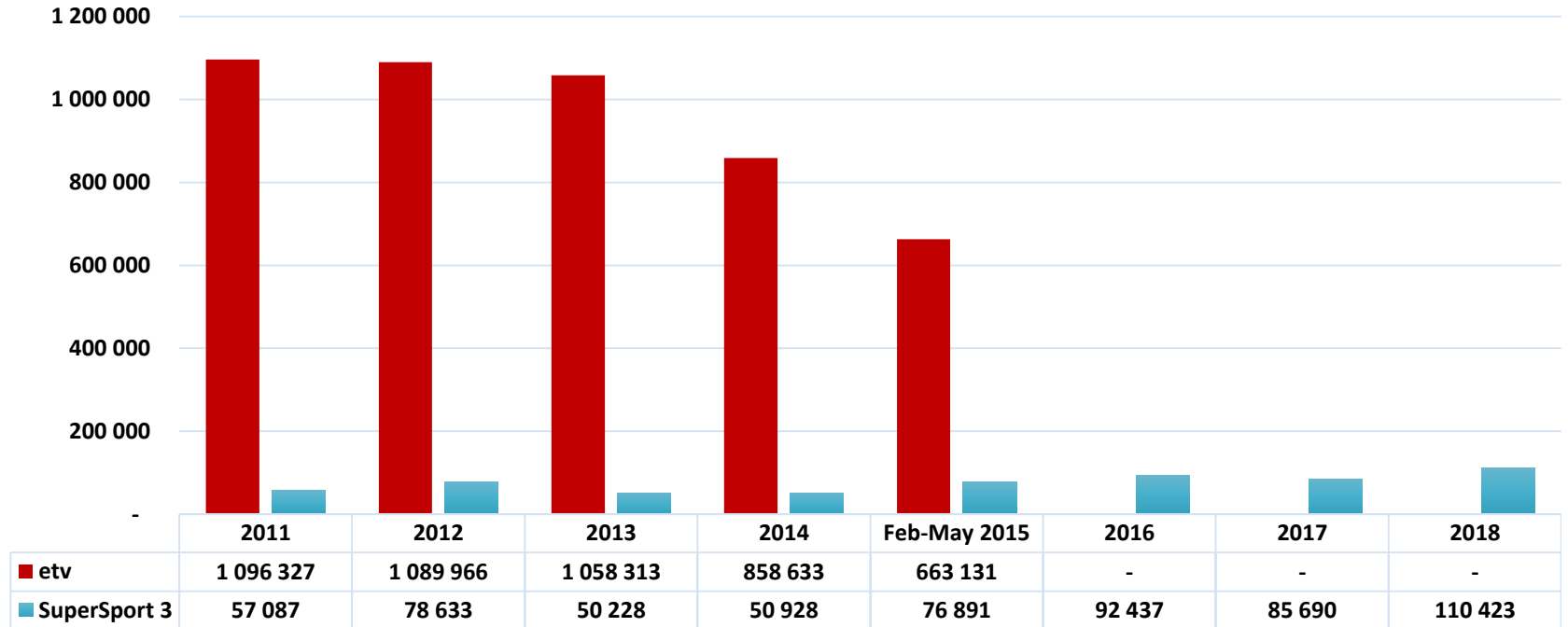
# WWE Smackdown







# UEFA



# Is Sport really available to FTA operators?

*“FTA TV also broadcasts popular sports events that go beyond those which are listed. FTA TV benefits in terms of advertising revenue...” Page 108 (Pr 191.2)*

- Sport is dominated by MCA.
- Free-to-air cannot afford bidding for rights. Our only funding model is advertising and we will not be able to recoup the costs.
- In MCA’s submission, mention is made of a collaboration with SABC Sport, in which SABC Sport pays for the rights of broadcast but there is no mention made of eMedia procuring sport from MCA.
- It is evident through the SABC’s submission that the SABC is incurring huge financial losses, running into billions, from these sport broadcasts.
- Ironically the SABC is subsidizing MCA by procuring sport at a loss from MCA.

# Are Blockbuster Movies not premium content?

*“The impact of 1<sup>st</sup>, 2<sup>nd</sup> and 3<sup>rd</sup> window rights.”*

- Traditionally 1<sup>st</sup> window rights mainly available and taken up by Pay TV because of the exorbitant cost. Free to Air broadcasters dependent only on ad income cannot afford to bid for 1<sup>st</sup> window right.
- 1<sup>st</sup> window rights have now been globally accepted to be Pay TV rights.
- The revenue potential of any content, be it movies or series in the 1<sup>st</sup> window compared to the 2<sup>nd</sup> or 3<sup>rd</sup> window, is incomparable.
- With the increase in social media usage and audiences commenting about movies and programmes the ability to generate new interest in such programmes is difficult and curtails the potential of income for FTA broadcasters in the 2<sup>nd</sup> or 3<sup>rd</sup> window.

# MCA believe that the expansion of Pay TV is possible

- Other than MCA no other Pay TV licensee in SA has been successful.
- MultiChoice has concluded exclusive deals for programming rights making the barrier to entry very high.
- MCA's economic dominance means that the other licensees will have to have significant financial resources to begin to compete. Telkom Media is a good example.
- By MCA's own submission new Pay TV operators have sought to target the lower and middle income market. These markets are now covered by MCA and impede new entrants.

Premium	LSM 9-10
Compact Plus	LSM 8
Compact	LSM 5-7
Family	LSM 4-7
Select	LSM 4-7
Access	LSM 4-5
EasyView	LSM 4-5

- Threat of MCA further expanding its offering and dominating the entire industry makes it difficult for any other operator to enter the market or survive.

# The real facts about OpenView

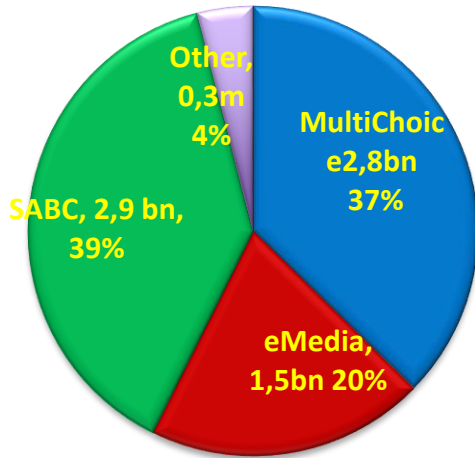
*“FTA digital satellite DTH service, OpenView, which has been particularly successful, recently surpassing 1 million STB sales...” Pr 11(P25)*

- Significant losses have been incurred.
- In a segmented market, eMedia has no choice but to secure its own survival by embarking on the OpenView project.
- As OpenView’s only source of income is advertising revenue, OpenView cannot compete at the same levels as MultiChoice.
- With limited advertising income, its growth will be constrained by MCA’s dominance of the content market and further increases MCA’s share of the advertising market.

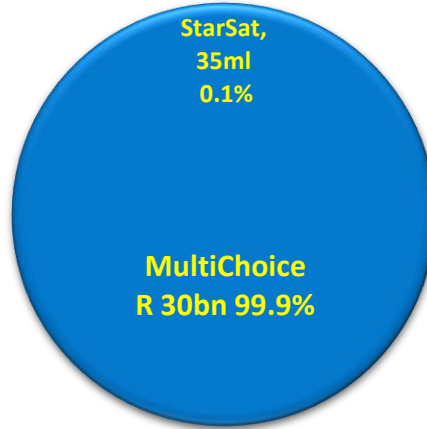
# MCA has an unfair share of Advertising Revenue

Net Advertising Revenue in South Africa	R7,4 Billion
MCA Advertising Income as per financials	R2.8 Billion
MCA Advertising Share of Income	37.8% share
Percentage Share available for rest of market	62.2%
Rest of market incumbents	SABC, eMedia, Viacom, Discovery, Starsat, FOX, Universal, Community TV

# Sources of Income



■ MultiChoice ■ eMedia ■ SABC ■ Other



■ MultiChoice ■ StarSat



■ License Fees

## Ad Revenue

## Subscription Revenue

## Licence Revenue

MultiChoice	:	R2.8bn	+	R30bn	+	R0	=	R32.8bn
eMedia	:	R1.5bn	+	R0	+	R0	=	R1.5bn
SABC	:	R2.9bn	+	R0	+	R0.847bn	=	R3.747bn <sup>24</sup>



# The Pay TV Advertising Gap

Section 60(4) of the ECA provides that :

Subscription broadcasting services may draw their revenues from subscriptions, advertising and sponsorships, however, in no event may advertising or sponsorship, or a combination thereof, be the largest source of annual revenue.

- Based on the previous slide, Sources of Income, it is noticeable that even if MCA took no advertising out of the market it would still be a very profitable business.
- To demonstrate the illogical nature of the provision... If MultiChoice took all the advertising revenue it would still not be in contravention of the Section 60(4) of the ECA.
- To retain the current provision is illogical and will always be ineffectual.

# MCA is portraying OTT as the monster in room

- The OTT challenge maybe formidable in name and in the future but its impact is not felt in the industry.
- OTT is not big in South Africa. MCA's Showmax by their own admission is not very successful.
- Other OTT platforms started in South Africa have failed.
- The OTT players maybe “monsters” but they are on the horizon.
- The gorilla in room is actually MultiChoice and ICASA must focus on this rather than any speculative future threat.

# Conclusion

- eMedia proposes two solutions that will benefit free to air and provide fairer competition in the broadcast industry as a whole.
- The solutions will assist the SABC and reduce its reliance on state funding.
- Proposal 1
  - eMedia proposes advertising revenue income stream for MultiChoice be capped at R1bn per annum.
  - Discounting of the inventory to achieve the benchmark should not be allowed as MultiChoice with its bouquet of +100 channels has huge surplus inventory.
  - The currency of television advertising has been devalued by MultiChoice by virtue of its oversupply of advertising inventory.

# Conclusion

## Proposal 2

- Hoarded rights, especially sports rights, should be made available to FTA broadcasters on a cost effective basis.
- FTA broadcasters should compensate by paying Multichoice 50% of the advertising revenue earned in the broadcast of these programmes.
- FTA broadcasters cannot afford huge license fees, especially for sports rights and our suggestion for sharing the hoarded rights will benefit pay TV as well as free-to-air whilst not exposing free-to-air operators to undue and reckless financial risk.

# Conclusion

- eMedia believes that our recommendations can be implemented expeditiously while ICASA considers or evaluates longer term proposals. In addition, we believe that our proposals carry no legal risk and should be divorced from changes which may be subjected to legal challenges.
- The expeditious implementation of these proposals will significantly improve the ability of free-to-air operators to compete in an unequal landscape and provide much needed stability to the industry as a whole. It will further enable free-to-air operators to provide improved content to a much broader South African population, thereby fulfilling its public broadcast mandate.

**Thank you.**