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**New Zealand insights from PwC’s Global entertainment and media outlook 2016-2020**

Press pack: content to support the 2016-2020 outlook news release

13 entertainment and media segments making up PwC’s Global entertainment and media outlook 2016-2020:

**Internet advertising**

New Zealand's total Internet advertising market has witnessed strong growth in the historical period, with revenue more than doubling from 2011, when the market was valued at $338mn, to 2015, when the amount was $828mn. Total Internet advertising revenue will grow at a 13.8% CAGR over the forecast period, rising to $1.58bn by 2020.

More than half (55.8% in 2015) of New Zealand's total Internet advertising revenue is generated by paid search. Google is the leading search engine, responsible for more than 90% of all searches. Advertisers will continue to invest in search engine marketing, with paid search Internet advertising revenue expected to be worth $897mn by 2020.

Mobile Internet advertising only accounts for a small share of the overall Internet advertising pie, but is projected to see strong growth over the next five years, rising from $29mn in 2015 to $161mn in 2020. The mobile market will benefit as an additional 870,000 New Zealanders become mobile Internet subscribers in the same period, coupled with the improved speed of mobile Internet connections.

**Newspaper publishing**

New Zealand's newspaper segment is going through a pronounced and persistent contraction, thanks mostly to a marked deterioration in advertising revenue.

Print circulation is on course to almost halve in the decade to 2020, from an average 619,000 average daily unit circulation print in 2011 to just 321,000 in 2020. Price rises by publishers will ease the resultant slowdown in circulation revenue and, coupled with digital payment schemes, will help cancel out the loss to circulation revenue.

But the disappearance of readers from print is having a big impact. Newspapers' reach has shrunk to one-third of adults, most of them in an older demographic. In 2015, more people were using the Internet than newspapers at breakfast for the first time, according to Roy Morgan Research.

Advertisers are following younger consumers to new online destinations. Internet ad spending in New Zealand has more than doubled in the last five years. But print newspaper advertising revenue has fallen from $573.43mn in 2011 to $410mn in 2015, and is forecast to hit $243mn in 2020.

Digital newspaper advertising revenue represented a healthy 11.2% of total newspaper advertising revenue in 2015, but is growing slowly, which means total newspaper advertising revenue will shed around $29.33mn in each of the years ahead — the driving force behind overall industry decline.

Various industry players are expanding online, with a low willingness among consumers to pay for online content, publishers' key challenge is to convert digital audience appetite into replacement ad income.

Overall, total newspaper industry revenue is forecast to decline from $733mn in 2015 to $585mn in 2020, at a -4.4% CAGR.

## **Internet access**

New Zealand had a fixed broadband penetration rate of 94.7% in 2015. Most of these (69.8%) were in the medium-speed category. The government is migrating to fibre-to-the-home/building (FTTH/B) through the open-access Ultra-Fast Broadband (UFB) network. By end-September 2015, the UFB network passed 815,000 premises and had signed up 133,684 customers. The target is for the UFB network to connect 75% of New Zealand's homes by 2019.

As a result, the number of fixed broadband households is expected to rise at a 1.9% CAGR to 2020, with 47.1% of them being high-speed fixed broadband households. Fixed broadband access revenue will increase from $853mn in 2015 to $1.048bn in 2020.

Areas outside the UFB coverage zone are being targeted by the Rural Broadband Initiative (RBI), based mainly on Vodafone's and Spark's LTE infrastructure along with some fibre. By September 2015, 271,009 homes in remote rural areas were covered. The mobile operators are also focusing on deploying their commercial LTE networks.

LTE will help increase the number of mobile Internet subscribers to 3.6mn by 2020, from 2.7mn in 2015. In terms of mobile Internet connections, 73.5% will be high-speed in 2020, compared with 35.8% in 2015. Mobile Internet access revenue will grow from $679mn to $1.089bn over the same period.

**Radio**

New Zealand's total radio revenue was $281.6mn in 2015, down 2.9% from 2014. Made up of advertising revenue only, the market is forecast to fall fractionally by 2020.

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, while the state-owned broadcaster Radio New Zealand (RZN) operates three stations.

Digital is at the heart of the broadcasters' growth strategies. NZME, for example, announced in September 2015 that it would integrate its press, digital and radio news teams into one operation to better serve the fast-growing mobile audience. This may also boost NZME's listenership among the 25-54-year-old demographic, where MediaWorks is the leading radio network. There is also a growing focus on capturing the older demographic. MediaWorks launched a new station, Magic, in April 2015 aimed at targeting the 50-69 age group.

The New Zealand Radio Broadcasters Association announced in July 2015 that GfK would be the new provider of the commercial radio survey, taking over from TNS. Industry players requested more regular research as well as changes to methodology so that radio data can be compared with other media nationwide.

Advances in radio measurement will likely boost radio advertising revenue. Advertisers will receive more accurate information about consumers and be more inclined to spend money on the medium. This is one important measure to secure long-term growth in the traditional radio industry. Alternative forms of audio entertainment like Internet radio and podcasts that can be accessed from smartphones are already posing a threat to traditional radio broadcasters. Internet radio services include iHeartRadio and Pandora. Pandora for example, reported in June 2015 that globally it had more than 79.4mn “active” users.

State-owned broadcaster and telecoms company Kordia has been running Digital Audio Broadcasting (DAB) tests in Auckland and Wellington since 2006, delivering a mix of DAB and DAB+. But the government has no plan at the moment to implement a DAB network, due to limited demand from commercial broadcasters.

**Video games**

New Zealand's total video games revenue was $184mn in 2015, up from $158mn in 2011. The figure is forecast to grow by a 5.4% CAGR to reach $240mn in 2020.

As in most developed video games markets, gaming revenue in New Zealand is comprised mostly of revenues from traditional gaming, which stood at $117mn in 2015 and will rise to $150mn in 2020, at a 5.0% CAGR. Digital sell-through revenues and an increase in online/microtransaction revenues will drive this growth. Digital distribution increases the range of games available in the country, while online/microtransaction revenues will be driven by growth in subscription services like PlayStation Plus and Xbox Live, as well as an increase in sales of in-game items.

**Book publishing**

Total books revenue in New Zealand, consisting of consumer, educational and professional books revenue, will be $557mn in 2020, up from $441mn in 2015, rising at a 4.7% CAGR.

From 1 October 2016 a 15% goods and sales tax will be applied to the sale of e-books from foreign retailers. The New Zealand government has discussed the possibility of extending this tax to all online orders from foreign retailers. This tax is expected to have a small impact on the number of e-books sold but not on the overall consumer spend.

Consumer books electronic revenue will rise from $39.59mn in 2015 to $76mn in 2020, growing at a 13.8% CAGR over the next five years as such methods of reading continue to see take-up.

**Magazine publishing**

New Zealand's total magazine revenue, comprising total consumer magazine revenue and total trade magazine revenue, will be $511mn by 2020, up from $492mn in 2015, representing a CAGR of 0.7%.

Tablet ownership continues to rise in New Zealand, which is helping the sales of digital editions. Digital consumer magazine circulation revenue will grow at a 12.2% CAGR between 2015 and 2020, rising from $36mn in 2015 to $64mn in 2020, while print consumer magazine circulation revenue will fall at a -0.7% CAGR. This contraction is less severe than that seen in the likes of Western Europe because magazine readership remains high in New Zealand, although a number of prominent titles have seen readerships decline in 2015. Digital consumer magazine advertising revenue will also increase over the forecast period from $33mn in 2015 to $55mn in 2020, at a 10.2% CAGR, although print consumer magazine advertising revenue is set to fall from $129mn in 2015 to $96.79mn in 2020, decreasing at a -5.3% CAGR.

Universal Magazines extended the Grand Designs TV brand to the magazine market in 2015, with the publisher launching Grand Designs New Zealand, the TV programme of which launched in October 2015 in New Zealand.

**Cinema**

Cinema attendance in New Zealand has remained steady in spite of increasing competition from online platforms and alternative ways of accessing filmed entertainment.

Local production has been, at least temporarily, put in the shade. The 2015 top 20 was entirely dominated by big-budget US studio fare.

Box office revenue was up to a new high of $199mn in 2015. It is predicted to keep rising to 2020 at a 2.1% CAGR, with admissions also rising from 2015's 15.3mn to 16.5mn in 2020.

The local industry has been buoyed for many years by The Lord of the Rings and Hobbit cycles. But with the Avatar sequels as well as several other international films shooting in the country, New Zealand is maintaining its reputation for affordability and technical excellence.

**Out-of-home advertising**

New Zealand's total out-of-home (OOH) advertising revenue was $85mn in 2015. The market is forecast to grow by a 3.7% CAGR and will see total OOH advertising revenue of $102mn in 2020.

As in neighbouring Australia, the main players in the New Zealand OOH market are APN Outdoor and Clear Channel. Several smaller Australia-based OOH providers such as Ooh!Media also operate in New Zealand.

Digital OOH (DOOH) advertising revenue stood at $30mn in 2015. Over the forecast period DOOH advertising revenue is forecast to grow by a CAGR of 15.4% and reach $63mn in 2020, accounting for 61.1% of total OOH advertising revenue. APN Outdoor's construction of the country's largest digital billboard at Auckland Airport in 2014 was a notable milestone for DOOH in New Zealand.

New Zealand's smartphone penetration is high. The country is a leading exponent of the use of near-field communication (NFC) technology in DOOH. New Zealand was included in Sydney-based provider Eye's launch of a landmark 8,300-site multinational NFC-enabled DOOH network in 2012. This provides advertisers with the opportunity to create interactive elements, engaging with consumers directly via games, coupons or entertainment.

The launch of an NFC payments scheme, Semble, by two New Zealand banks in 2015 will provide a further boost, potentially allowing DOOH installations to act directly as points of sale.

**Business-to-business**

New Zealand's B2B market was worth $901mn in 2015 and is forecast to rise to $1.064bn by 2020, at a CAGR of 3.4%.

Directories is the largest sub-sector, with $325mn in total directory advertising revenue in 2015. A downturn in print directory advertising revenue will be offset by digital, resulting in a CAGR of 1.3% over the forecast period, and by 2020 digital directory advertising revenue will account for 58.2% of total directory advertising revenue.

Digital B2B advertising is seeing strong growth across all sub-categories. Advertisers are increasingly shifting their budgets online as digital advertising offer a much greater degree of targeting, as well as transparency with respect to engagement and sell-through rates, than traditional print formats. Digital advertising is also becoming more mainstream, as an increasing number of New Zealanders are connected to the Internet, either via PCs at home or from mobile devices.

Business information is the second-largest B2B sub-component and will grow at a CAGR of 2.8% from $327mn in 2015 to $272mn in 2020.

Trade shows is the smallest B2B category, accounting for just 4.0% of total B2B revenue in 2015. Because New Zealand lacks large-scale international exhibitions, this segment is growing from a low base, which makes it the most rapidly expanding B2B revenue stream in the country with a CAGR of 7.1% over the forecast period. One driver behind this growth is new investments in exhibition centres. In December 2015 work started on the construction of the New Zealand International Convention Centre, a project due for completion in early 2019.

**Music**

New Zealand's music market was worth $205mn in 2015, down from $225.9mn in 2011. Total music revenue is forecast to reach $223mn in 2020, rising at a 1.7% CAGR.

New Zealand's recorded music market has much in common with Australia. The community of recording artists is enjoying great success in English-speaking markets and across Europe, with the likes of Lorde, Gin Wigmore, Ladyhawke, Broods, The Naked and Famous, and Kimbra among the recent success stories. The recorded music business is on an upswing, thanks largely to the impact of streaming music services. In the space of five years, during which time Spotify, Apple Music, Tidal and many others have opened in New Zealand, digital music streaming revenue has grown from less than $1.5mn in 2011 to $34mn in 2015 and the figure should grow to $89mn in 2020. The business for digital downloads, however, is declining and by 2020 digital music downloading revenue will account for only 11% of total digital recorded music revenue. Physical recorded music revenue accounted for $66mn in 2011, a figure that fell to $28mn in 2015 and should recede further to just $10.6mn in 2020.

Total recorded music revenue was measured at $91mn in 2015. By 2020 that sum is predicted to grow to $111mn, which is $15mn greater than the total from ten years earlier.

The digital music services that operate in Australia also do so in New Zealand. The heads of the major music companies in Australia also have duties in New Zealand and some of the major tours to Australia also route into New Zealand. Auckland's 12,000-capacity Vector Arena is a regular destination on Australasian touring itineraries, while Christchurch, Wellington and Dunedin have hosted concerts by international stars in recent years.

**TV advertising**

Despite consistent economic growth, New Zealand's total TV advertising revenue suffered a decline in 2014. But this setback was minor and growth of 1.9% in 2015 saw revenues reach $613mn. Stronger expansion at a 4.0% CAGR will produce a new peak of $748mn in 2020.

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. Terrestrial TV advertising revenue continues to dominate, taking 76.4% of total TV advertising revenue in 2020. While this is down slightly on 2015 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 $541mn in 2020.

Public broadcaster Television New Zealand (TVNZ) competes with commercial broadcaster MediaWorks and Sky in the terrestrial market. Sky reported advertising revenues of $69.5mn in the 2015 financial year, down 1.4% on the previous year. This represented around 7.5% of the company's total revenues for the year. Pay-TV advertising revenue increased 4.6% to $45.2mn in the 2015 financial year.

Increasing competition in the online video sector will have a knock-on effect on online TV advertising revenues. The main broadcasters offer catch-up services while Sky offers TV everywhere across a range of devices and stand-alone over-the-top (OTT) services such as Netflix are gaining traction. Netflix does not carry advertising but it is helping to stimulate the video on demand (VOD) segment and change viewing habits, with increasing numbers of households shifting towards second-screen viewing on smartphones and tablets. Some 44% of the population had a tablet by end-2015 and this will reach 64% in 2020. Online TV advertising revenues were just $19mn in 2015 but by 2020 they will have reached $45mn — some 6.0% of the wider TV advertising market.

**TV and Video**

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. Total TV and video revenue is forecast to rise at a 3.0% CAGR to $1.3bn in 2020, from $1.1bn in 2015.

Subscription TV households of 868,000 in 2015 represented pay-TV penetration of 58.5%, and this will rise to 72.3% in 2020, with 1.1mn subscriptions. The dominant satellite sector has peaked, however, and will not experience any growth over the forecast period, even if it will still account for the bulk of subscriptions in 2020. IPTV households will see the strongest growth, expanding from just 20,000 in 2015 to 177,000 in 2020.

Sky Network TV has struggled to maintain subscriber numbers over the past year, with 851,561 subscriptions at mid-2015 down from a high of 865,055 a year earlier. This has not yet had an impact on revenues, which rose slightly on the two previous years. The majority of revenues (82% in FY15) are attributable to residential satellite subscriptions, while wholesale and corporate subscriptions accounted for another 7.7%. With a near monopoly of the pay-TV market and an increasing range of premium packages and products such as multiroom and HD to sell, ARPU continues to rise.

Sky announced in October 2015 that 2016 profits are likely to fall 11%. This was put down to increased costs in delivering new services like Neon, FanPass and Sky On-Demand. Sky is also making a major outlay over the next three years to replace its old digital decoders with new My Sky decoders.

Sky owns Igloo, a low-cost pay-DTT option launched in late 2012, having bought TVNZ's remaining stake.

The home video market is for now led by physical home video revenue, producing $262.5mn in 2015. As with all markets around the world, this figure is expected to decline to $200mn by 2020.

Netflix's official launch in New Zealand in March 2015 has brought strong competition to the electronic home video segment. The service could be set for a price hike, however, with the Government adding a tax on sales of digital services by foreign companies in October 2015. The so-called “Netflix tax” also includes potential fines for consumers using virtual private networks (VPNs) to pretend their computer is overseas when buying online services.

Sky Network TV has already had some success with its Sky Go app and developed a Netflix-style SVOD service called Neon. This launched, after delays, in February 2015, offering several exclusive series, although it was missing some premium content from HBO that Sky airs on its main pay-TV channels.

Sky has also launched Fan Pass, a sports platform aimed at non-Sky subscribers and priced so as not to undermine Sky's main sports package. Spark offers an OTT service called Lightbox, while VideoEzy's on-demand service has launched and Coliseum Sports offering TVNZ has positioned itself for possible VOD services.

From a low base, electronic home video revenue is forecast to see a 16.5% CAGR to 2020, rising from $45.46mn in 2015 to $95mn in 2020.