



Perspectives from the *Global Entertainment
& Media Outlook 2022–2026*

Fault lines and fractures: Innovation and growth in a new competitive landscape

About this report

It is our pleasure to welcome readers to the annual *Global Entertainment & Media Outlook 2022–2026*. Now in its 23rd year, the *Outlook* is the premier source of information, forecasts and insight into the continuing evolution of this compelling and ever-expanding sector.

To use a term that entertainment and media (E&M) consumers may be familiar with, the *Outlook Perspectives Report* is a mashup—in the best sense of the word. Each year, we gather, examine and question a deep collection of proprietary industry data and forecasts. Next, our global team of experts from more than a dozen countries discuss and debate the trends we see in the market, in our client work and in our daily lives. The result is a unique body of intelligence and foresight that companies and investors all over the world can rely on as they plot strategy and action.

The core of the *Outlook* is our comprehensive five-year forecasts of consumer and advertising spending for 14 segments across 52 territories. And this year, as we struggle—not always successfully—to put the disruptions of the COVID-19 pandemic behind us, we have tightened our focus on what lies ahead. In 2021, the E&M industry bounced back from the contraction of 2020 to resume its growth path, with revenues rising a strong 10.4%. We forecast that by 2026, the global E&M industry will approach US\$3tn in revenues.

But the stable overall growth pattern masks an underlying volatility. It is clear that the pandemic accelerated changes in consumer behaviour and digital adoption in ways that will affect future growth trajectories. Some of the sectors that saw immense gains amid the pandemic will not be able to sustain that growth, while others will continue to build from their higher bases. Some formerly niche sectors, such as gaming, will barrel their way into prominence, as other formerly dominant sectors will see their competitive positions erode. This year, the focus of our report is the fault lines and fractures that are opening up between industries and companies, within sectors, and between high-growth and low-growth geographies.

One thing is clear from the data and the forecasts: the vast E&M complex is growing more rapidly than the global economy as a whole. With each passing year, more people around the world are spending more of their time, attention

and money on the complex and increasingly immersive E&M experiences that are available to them.

Our colleagues on the PwC industry team always look forward to collaborating on this report. It offers us the opportunity to share and compare data, develop new insights and forge stronger connections across segments and territories. Each year, the feedback we receive shows that the report helps you do the same. If you'd like to learn more about how our findings and thinking can help your business, contact your local PwC team (see page 22) or reach out to one of us.



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Introduction: Fault lines and fractures

2021 was a year of uncertainty in public health, supply chains and geopolitics. But amid all the uncertainty came a greater clarity about the overall trends of the market, the forces driving growth, and an understanding of the fault lines and fractures forming in consumer behaviours, business models, competitors and regulations.

After falling 2.3% in 2020, total global entertainment and media (E&M) revenue rose a strong 10.4% in 2021, resuming its trend of outpacing global growth. In 2022, the US\$2.5tn global industry is expected to grow 7.3%, and it should notch a 4.6% CAGR through 2026.

But there is a great deal of spikiness underlying the smooth, linear revenue trend. Powerful forces are causing transformation and divergence. Like tectonic plates shifting, these forces have the ability to undermine established positions and create new rifts. But they can also forge vast new pools of revenues. As the world strives to move forward amid the continuing challenge of the COVID-19 pandemic, E&M industries are operating from new baselines. A vision of what the dynamic E&M complex will be like in 2026 is coming into focus—a US\$2.9tn industry that is more digital, more mobile, more pitched at media that attract the young, more evenly distributed around the globe and more dependent on advertising in all its forms.

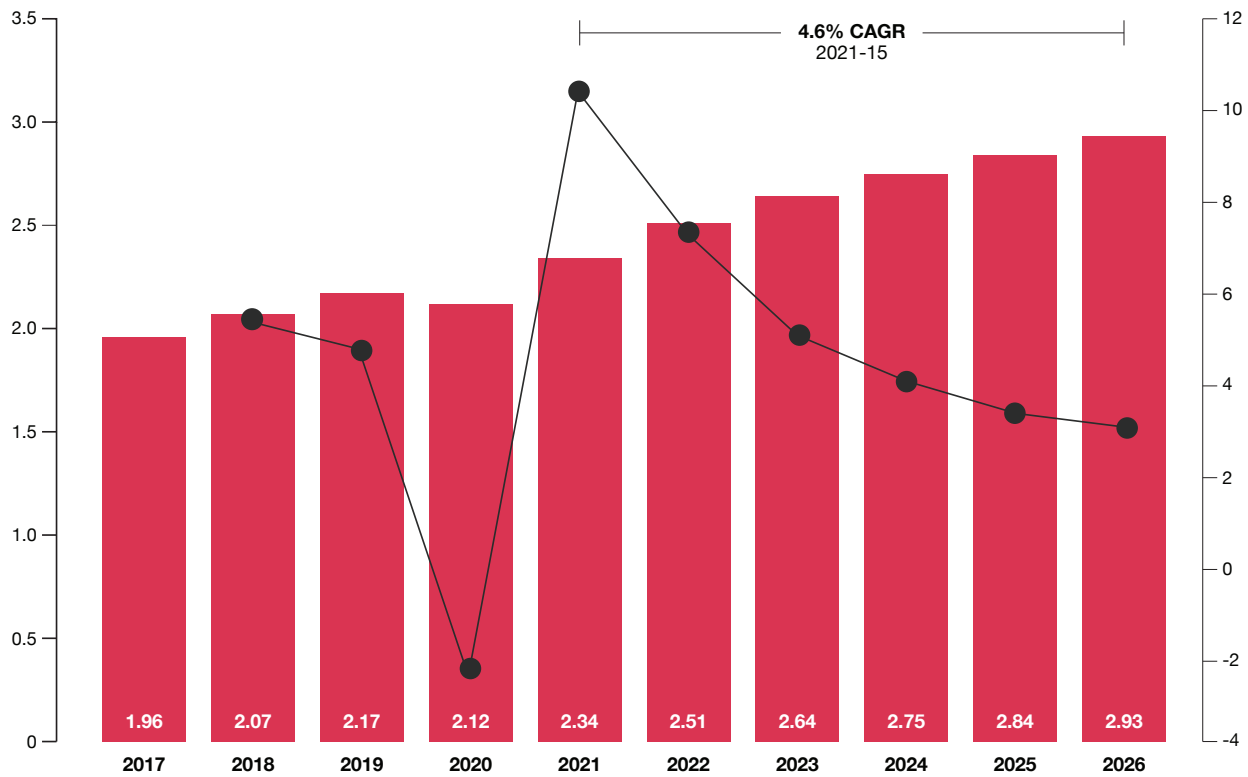
The *Outlook* is a story, at its root, of evolving consumer behaviours—and the advertising dollars that follow those behaviours. As business models shift to meet consumers where they spend their time (and money), several fault lines are opening up. Among those we explore are the fault lines that are developing:

- Between companies and sectors expecting a return to the pre-COVID-19 status quo and those aggressively moving into the future
- Among the behaviours of customers in different demographics, countries and even regions within countries
- Between perceived gatekeepers seeking to protect their markets and gatecrashers bent on upending the status quo
- Between the current wave of digitisation and the next wave of digitisation, notably the metaverse
- Between market-specific regulators and global tech platforms
- Among creators, distribution platforms and consumers

A US\$2.9 trillion market

After a brief decline in 2021, the global E&M industry is poised for strong growth.

■ Global E&M revenues (US\$tn) ● E&M year-on-year growth (%)



Note: 2021 is the latest available data. 2022–2026 values are forecasts.
Source: PwC's Global Entertainment & Media Outlook 2022–2026, Omdia

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Fractures in a post-pandemic reset

The fractures and fault lines emerging in today's entertainment and media landscape have placed the entire industry on a new footing. The lockdowns associated with COVID-19, of course, led to increased consumer interest in digital content and services, such as exercise programmes, streaming entertainment and online shopping. There's great uncertainty about the extent to which work will return

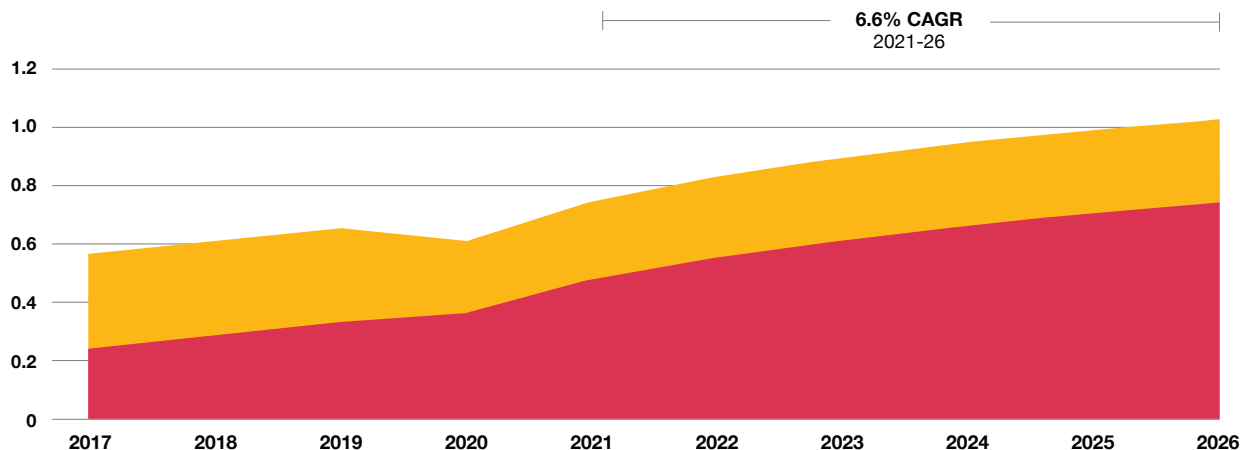
to a mean of in-person or remain at pandemic-era higher levels of remote and hybrid arrangements. But there is no rapid return to the pre-COVID era in consumption and leisure activity. More of such activity is happening online and in digital spaces. That promises expanding opportunities for online retailers and marketers of all shapes and sizes, as social and online video platforms become increasingly shoppable.

A US\$1tn advertising market

Marketers will keep spending more to meet customers where they are—in digital spaces.

Global digital and non-digital E&M advertising revenue (US\$tn)

■ Digital ■ Non-digital

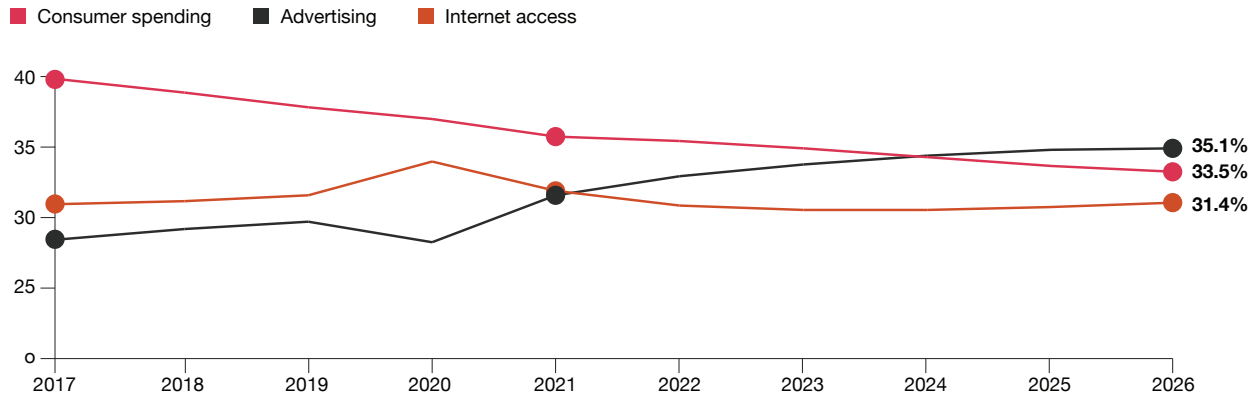


Note: 2021 is the latest available data. 2022–2026 values are forecasts.
Source: PwC's Global Entertainment & Media Outlook 2022–2026, Omdia

A shifting mix

Advertising is poised to become the largest of the three main E&M sectors by 2026.

Share of global E&M spending, %



Note: 2021 is the latest available data. 2022–2026 values are forecasts.
Source: PwC's Global Entertainment & Media Outlook 2022–2026, Omnidia

Players in every sector now face some fundamental questions. Is the boost that their business experienced in the pandemic sustainable, or did it steal growth from the future and push individual platforms and markets to the point of saturation more quickly? If their business experienced a decline during the pandemic, will things turn around, or will they get worse? The *Global Entertainment & Media Outlook 2022–2026* answers these questions and throws into sharp relief the factors defining the landscape of the next US\$100bn industries and sectors. The most fundamental fault line is between (1) those industries that benefited from both COVID-19–induced behavioural trends and the underlying technological and demographic trends and (2) those that are on the wrong side of both.

- After surging in 2020, over-the-top (OTT) video grew an additional 22.8% in 2021, pushing revenue to US\$79.1bn. The pace of OTT revenue growth will moderate; it is expected to grow at a 7.6% CAGR through 2026, when revenue will be US\$114.1bn.
- Video games revenue, which rose 32% between 2019 and 2021, will rise at an 8.4% CAGR through 2026, creating a US\$321bn industry.
- Traditional TV, beset by competition from OTT streaming services, will see global revenue shrink at a -0.8% CAGR, from US\$231bn in 2021 to US\$222.1bn in 2026.
- Cinemas, which are slowly reviving from the COVID shutdowns, won't regain their 2019 revenue total of US\$45.2bn until 2023.

Advertising to the fore

Our analysis organises spending into three broad pillars: consumer spending, internet access and advertising. In 2017, consumer spending dominated, at 40% of total revenue, while advertising accounted for only 29% of total revenues. But in 2022, advertising will pass internet access. In 2026, advertising will be the single largest sector, accounting for nearly 35.1% of all industry revenue.

The two big themes newly evident in our forecast are the increasing digitisation of E&M and the rising dominance of advertising. Advertising, which fell nearly 7% in 2020, grew a stunning 22.6% in 2021—and represented 32.2% of total industry revenues. It is set to grow at a 6.6% CAGR through 2026 on the way to becoming a US\$1tn market. The growth is fed largely by digital. Non-digital advertising, which is barely rising, is expected to decline after 2025. Over the five-year forecast period, global internet advertising revenue will expand at an impressive 9.1% CAGR to reach US\$723.6bn in 2026, at which point 74% of revenue will be mobile. (Mobile video ads alone are set to reach US\$138.9bn in 2026.) By 2026, we expect US internet advertising revenue to be only US\$8.4bn short of total global non-digital advertising revenue.

Why is advertising growing so rapidly? At root, the answer is simple: more consumers are spending more of their time in environments where they can be reached by digital ads and where they can conduct transactions in real time.

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Consumers call the shots

Much of the industry press has focused on the actions and power of the giant companies that have dominated the E&M industries. But it is the choices—perhaps influenced by algorithmic search and recommendation engines—that billions of consumers make about their time, attention and money that are fuelling the transformation, driving trends and, in some instances, widening the fault lines. Coming into view for 2026 is an avid global E&M consumer base that is younger, more digital and more

into streaming and games than the current consumer population. This customer base is also more involved in creating and shaping experiences for others.

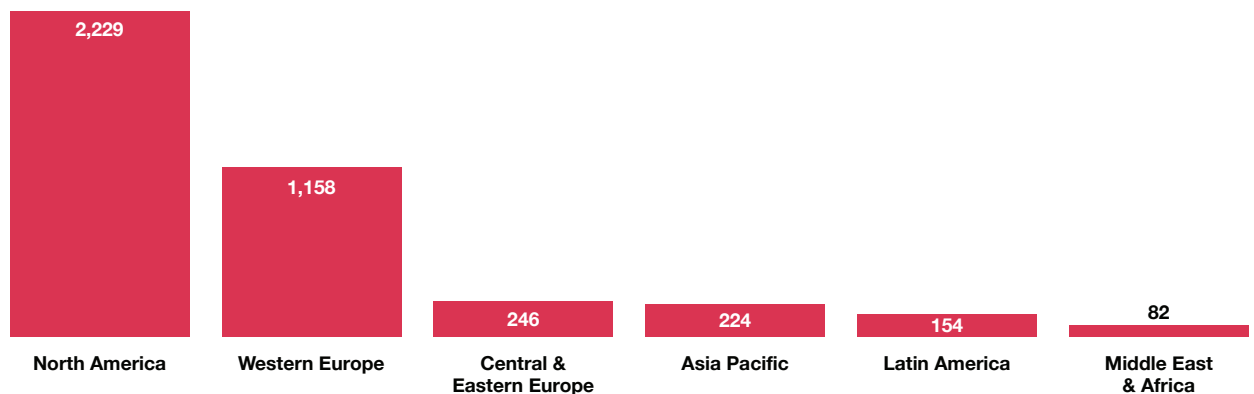
Regional divides

Some of the largest fault lines in the world involve income and access to technology. In 2021, 72.7% of households had fixed broadband internet access, and 60.7% of the population had mobile internet access. That means there are still billions of people in the world who are not yet able to regularly access high-speed internet. At a regional level, North America commands by far the highest E&M spend per capita, at US\$2,229, nearly double Western Europe's US\$1,158. By contrast, Asia-Pacific, which was the largest E&M region by revenue in 2021, has per capita spend of only US\$224. The Middle East and Africa have the lowest per capita E&M spend of any region globally, at US\$82.

Geographic disparities

Established markets command the lion's share of spending.

2021 E&M spending per capita, by region (US\$)

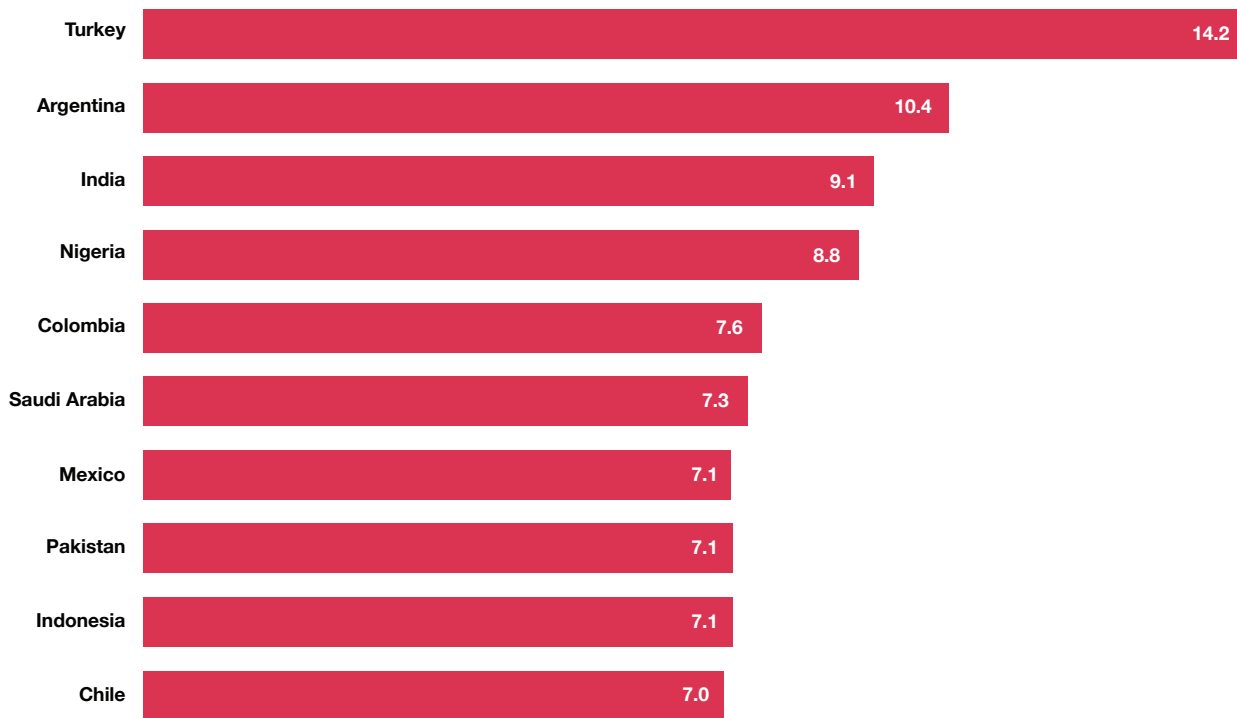


Note: 2021 is the latest available data. 2022–2026 values are forecasts.
Source: PwC's Global Entertainment & Media Outlook 2022–2026, Omdia

Rising consumers

Spending is rising most rapidly in developing countries.

Top ten countries by consumer growth, 2021–26, CAGR, %



Note: 2021 is the latest available data. 2022–2026 values are forecasts.
Source: PwC's Global Entertainment & Media Outlook 2022–2026, Omdia

There have always been variations in the ways different demographics and age groups consumed and engaged with media. But today's differences are more accentuated, as the behavioural shifts ushered in by the pandemic collide with the distinctive expectations and aspirations of the younger generation. The fault lines run through homes, or even one living room. It's commonplace to have four people of different ages from the same family on the same couch, immersed in four different E&M universes, all accessed via different devices. One might be on a games console or a virtual reality (VR) headset having a conversation, another flicking through short videos on a phone, a third streaming a movie on a tablet and a fourth updating her social media page on a laptop.

There is opportunity for huge growth in the populous developing markets, where masses of young consumers are latching onto emerging trends.

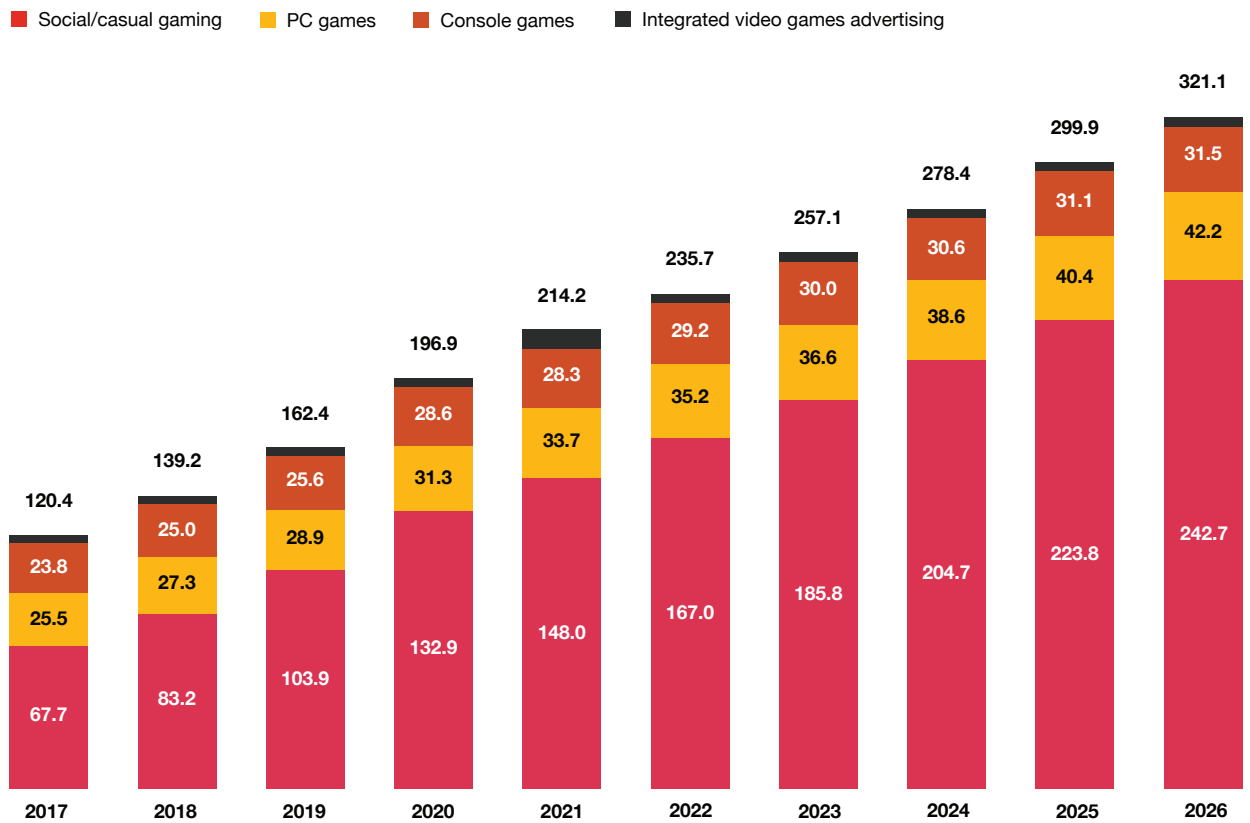
Youth will be served

The fastest-growing country by consumer revenue is Turkey, with a 14.2% CAGR from 2021 through 2026. This rate will be driven by strong growth in video games, music and cinema. At the opposite end of the spectrum, Japan, which has an aging and declining population, will grow at just a 1.4% CAGR through 2026. The top ten countries by CAGR are in Latin America, the Middle East, Asia and Africa, where spending is low but video games and OTT video provide the majority of revenue increase.

Gaming time

Social and casual gaming is fueling a boom in the sector.

Total global video games revenue, by segment (US\$bn)



Note: 2021 is the latest available data. 2022–2026 values are forecasts.

Source: PwC's Global Entertainment & Media Outlook 2022–2026, Omdia

Games increasingly rule

The medium most favoured by the young, video games, is among the sectors experiencing the most significant growth. In 2021, total video games revenue (excluding esports) reached US\$214.2bn, and it will rise at an 8.4% CAGR to US\$321.1bn in 2026. (The sector is one of just three to add more than US\$100bn in revenue to its base over the forecast period; the others are internet advertising and internet access). In 2017, global video games made up a mere 6.1% of total E&M spending. By

2026, they will account for 10.9% as the niche becomes more mainstream. Revenues will be bolstered by rapidly increasing investment in in-app advertising. China and the US accounted for around half of global gaming and esports revenues in 2021. But many of the populous but less wealthy countries have lots of room for growth. Turkey will be the fastest-growing video games market between 2021 and 2026 (with a 24.1% CAGR), followed by Pakistan (21.9%) and India (18.3%). Gaming, with its immersive experiences and virtual items, is also paving the way to the metaverse and the next generation of digital advertising, entertainment and brand experiences.

Fracturing of attention: New mega-platforms emerge

As recently as two decades ago, the E&M industry—and therefore consumers' attention—in each market was dominated by a handful of easily identifiable players that had changed little in many years: broadcasters, film studios, record labels, news organisations, large social media platforms. That previously established order has been decisively ripped apart, as consumers' attention has migrated elsewhere in rapid and unpredictable ways.

Today, apps can come and go very quickly. The audio chat app Clubhouse experienced explosive growth in the first months of the pandemic, notching 34 million downloads, but faded rapidly in 2021. And it is now clear, for the first time, that there seems to be a limit to the growth of juggernaut platforms or apps such as Facebook and Netflix, as they may lose their ability to attract and retain attention in a world of rapidly evolving preferences and shrinking attention spans.

Much of the attention of the young has been diverted towards newer platforms. TikTok's endless and addictive scroll has about 1bn monthly active visitors. Beyond advertising, TikTok has emerged as an immensely powerful music discovery tool. In 2021, more than 175 songs that trended on TikTok ended up charting on the Billboard Hot 100. And 30 songs surpassed 1bn TikTok video views. But teenagers are now spending more time in immersive virtual worlds like Roblox and Fortnite than they are on TikTok.

Privacy in a 'cookieless' world

One of the more prominent fault lines has to do with privacy. A growing number of consumers are choosing to spend more time in places that don't allow tracking. Apple launched the App Tracking Transparency (ATT) framework in April 2021, which mandates that iOS users opt in before their identifier for advertisers (IDFA) can be accessed. More than half of users have since chosen to opt out of tracking through IDFA, which means Apple's ATT has had major impacts on the revenues and operations of iOS advertisers, app publishers and even Apple's big tech peers. In response, the industry is having to adopt new processes, place greater emphasis on first-party data and develop new ad-measurement and targeting technology to maintain the effectiveness of in-app advertising. Google, as part of its Privacy Sandbox initiative, is set to phase out third-party cookies from its Chrome Web browser in the second half of 2023. As money continues to flow into online advertising, it will push marketers to rethink how they run campaigns, target messages and measure results.

4

Businesses navigate the fractures

Until very recently, the market position, capitalisation and growth prospects of the industry's gatekeepers appeared unassailable. Alphabet/Google and Meta/Facebook, along with Amazon, are the main forces in online ads globally. Other persistent contenders include Twitter and Snap; in China, players such as WeChat, Weibo and Tencent are dominant. But fault lines have emerged in this area, too, thanks in part to evolving consumer behaviour, competitor behaviour and disruptions by gatecrashers such as Roblox.

Streaming fractures

The spending power of the global population is growing arithmetically. But the choices people have among streaming services (and the stated goal of E&M companies to sell them) seem to be growing geometrically. The biggest business stories of 2021 included the launch of Peacock, the debut of Paramount Plus and the organic growth of Disney+ (87.6m subscribers and counting). In India, where Disney+Hotstar, Amazon Prime, Netflix and Zee account for most OTT revenues, more than 40 other players are active. Grupo Globo announced an investment of R\$1bn (US\$211m) in Globoplay as part of its Uma Só Globo (Just One Globo) initiative to bring all brands and channels onto its premium platform. In Indonesia's thriving OTT streaming market, the global streaming giants compete with local and regional players such as WeTV (Asian drama), GoPlay (local Indonesian content) and Mola TV (live sports).

Given the seemingly unlimited options arising around the world and the competition for the same limited pool of consumer dollars, something has to give. And in the past year, it has. The OTT video streaming market is still growing in aggregate, at a 7.6% CAGR through 2026. But for the first time, players are confronting the prospect that there may not be enough individual subscriptions to feed their growth ambitions. Netflix announced in April 2022 that it had lost 200,000 subscribers—the first such decline in a decade. Faced with concerns about the potential to attract large numbers of subscribers, Discovery decided to pull the plug on its US\$300m investment in CNN+ just three weeks after its expensive launch.

The market tensions and declining share prices of many of the largest players, coupled with the potential for reduced investments on the part of private equity and venture capital, are likely to change the landscape. The assumption that throwing large sums of money at content creation to feed direct-to-consumer offerings will be enough to produce both massive growth and profit at scale is now in doubt. As a result, questions are arising as to what the next phase of growth will be.

Two of the three highest-grossing films globally in 2021 were Chinese. Blockbusters *The Battle at Lake Changjin* and *Hi, Mom!* each grossed more than US\$800m.

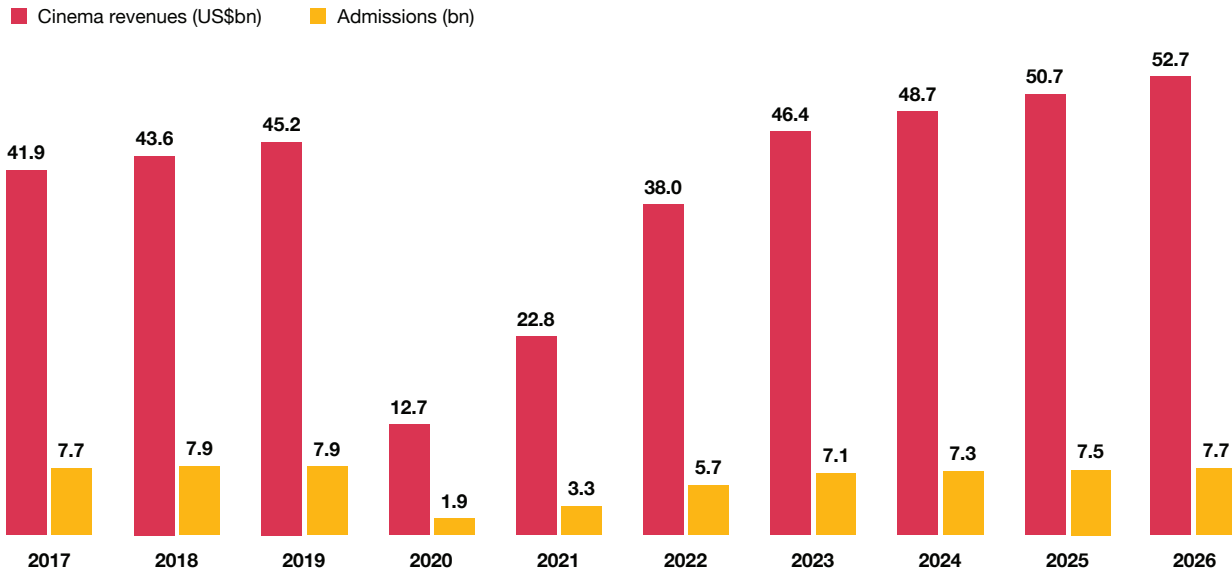
Going local

Distributors are focusing on more local content—and going even more local within national markets. The dramatic recovery in cinema revenues is being fuelled by growth in developing markets like India.

Back in the picture

Cinema revenues will rise to record highs as attendance rebounds.

Total global cinema revenues and admissions



Note: 2021 is the latest available data. 2022–2026 values are forecasts.
Source: PwC's Global Entertainment & Media Outlook 2022–2026, Omdia

Bollywood films in Hindi are facing fierce competition from 'Tollywood' movies—films made in the Telugu language, which is widely spoken in Andhra Pradesh and Telangana. Regional (mostly South Indian) films such as *RRR*; *Pushpa: The Rise*; and *Kolar Gold Fields (KGF): Chapter 2* have been major hits. *RRR*, an action epic with a US\$72m budget, set the record for first-day box office revenues in India when it premiered in March 2022.

In some emerging economies, the focus of E&M growth is shifting to previously underserved cities and regions. As mobile penetration—including 5G service—continues to increase, a huge growth opportunity is appearing outside the major urban centres. In Indonesia, as of late 2021, 5G services were being extended to nine cities. In China, the OTT market is now relatively saturated in the big metropolitan centres, which are mainly located in the East. The principal growth opportunities are in the rural areas and the West, but expanding into these areas is costly for OTT providers given lower levels of connectivity there.

Diversifying revenues

Many of the largest and most sophisticated players have had a relatively simple business model: they have relied on subscriptions, a single stream of revenues. But faced with a decline in organic user growth, Netflix is planning to launch an ad-supported offering this year, which could also allow it to lower the subscription price. What we may see next is a fracture between those players that are able to successfully and profitably diversify revenue streams and those that are not.

Across sectors, in fact, E&M businesses are finding ways to incorporate advertising and e-commerce, which are tightly linked. Revenue always follows attention, and as attention moves to these emerging segments, we are seeing that pattern appear once again.

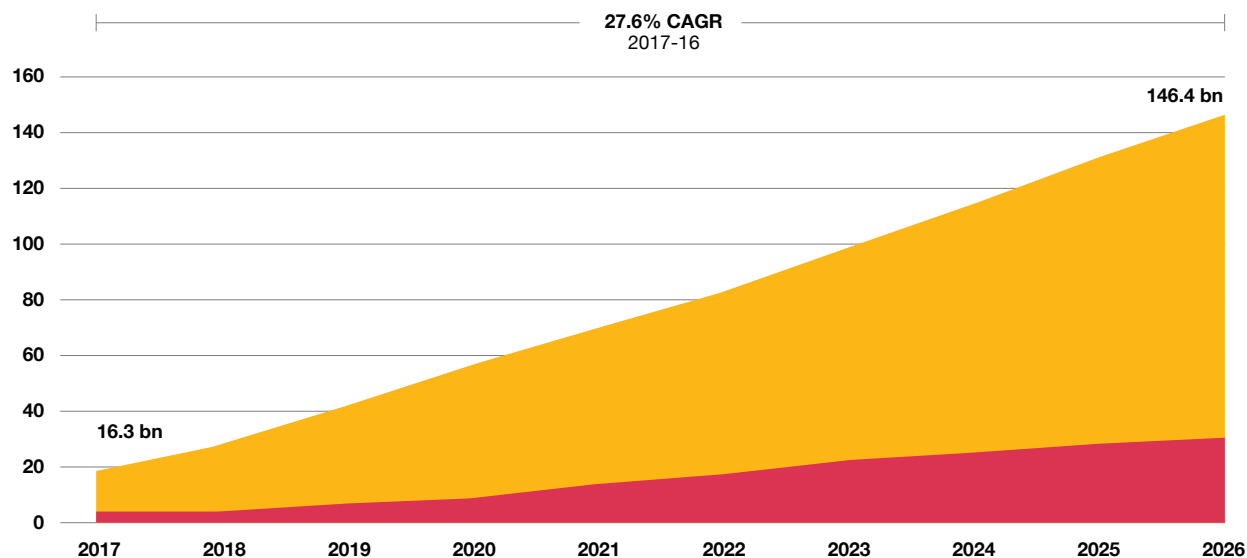
New platforms

Advertising on connected television and in games is turning into a significant market.

In-app games and connected TV advertising revenue (US\$bn)

■ Connected TV advertising (20 countries only)

■ In-app games advertising



Note: 2021 is the latest available data. 2022–2026 values are forecasts.
Source: PwC's Global Entertainment & Media Outlook 2022–2026, Omdia

This year's *Outlook* is the first edition of the report to measure in-app games advertising. Its scale and continued growth potential are plain to see. This metric topped US\$54bn in 2021 and will exceed US\$100bn by 2025.

Shoppable ads

The rapid rise of e-commerce, spurred by the ongoing pandemic, has also raised the importance of tying advertising investment to purchases and, as a result, shoppable advertising units. NBCUniversal, for instance, has developed NBCU Checkout, which allows viewers to purchase products without leaving its video player. In 2021, Alphabet's YouTube announced 'brand extensions,' a new ad type for connected TV devices, which are the platform's fastest-growing screen in terms of watch time. Brand extensions allow viewers to use TV remotes to send a notification to their smartphone containing a link to a product being advertised on the screen. Meta has also discussed the medium-term growth opportunities for on-site conversion through ads aimed at lead generation and shop ads, which direct users to a brand's digital storefront on Facebook or Instagram.

In another example of the blurring of the lines between media and commerce, some of the largest e-commerce platforms have become major forces in advertising. These are the new malls, places where people go with the intention of shopping, not entertaining themselves. And because of their size and power, they now have the ability to monetise audiences with search and promotions. Amazon and Walmart are selling advertisements on their platforms, growing into truly large advertising businesses in their own right. Amazon's advertising revenue in 2021 rose to US\$31bn. In China—and increasingly elsewhere—advertising dollars are going to e-commerce on short videos.

Business strategies are continuing to be reshaped so that companies can meet the consumers of 2026 where they will be living, hanging out and shopping. Given the expected increase in time spent in 3D experiences, we are likely to see greater investment in e-commerce in gaming environments and the metaverse, with brands such as Nike and Gucci not only offering branded virtual items for purchase but also offering the opportunity to order physical goods.

5

Deals reshape the industry

Entertainment and media had a banner year for mergers and acquisitions (M&A) in 2021, with deals totalling US\$142bn, compared with just US\$17bn in 2020. Deal volume was also sharply higher than in the previous year. Alongside traditional M&A, the industry's roster of deals now includes an increasingly rich mix of transactions, whether venture capital and private equity investments, special-purpose

acquisition companies (SPACs) or an individual making a US\$44bn bid for a global platform. Recent deals reflect the fault lines in the marketplace and among consumers; deals are driven by growth opportunities.

Divestments and consolidation

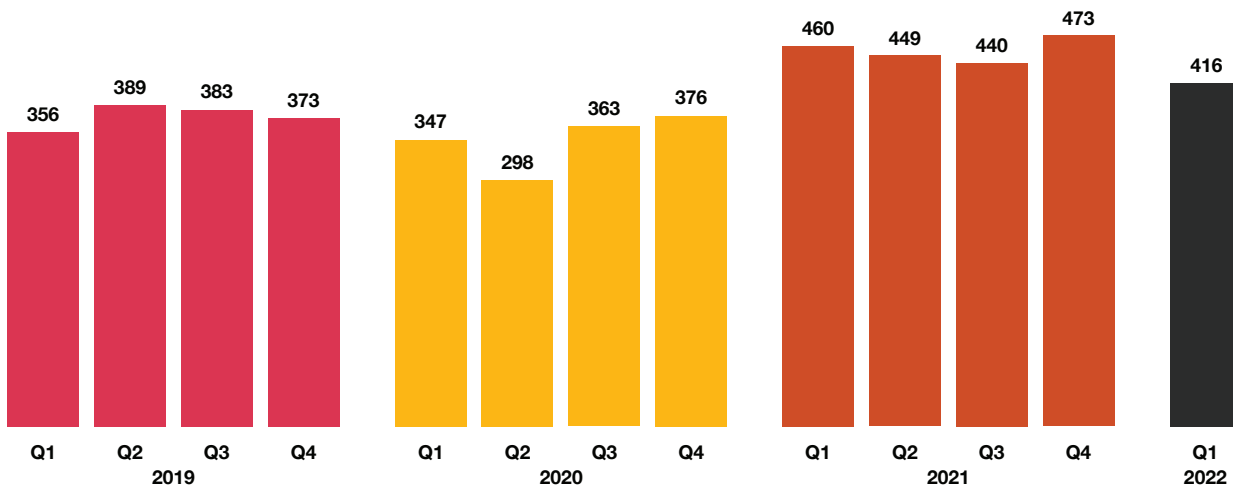
In the US, the most notable large deal was an unwinding of one of the giant consolidation deals of previous years, in this case a telecom company buying media companies. In 2018, AT&T bought Time Warner for US\$85bn. But in May 2021, AT&T agreed to combine its WarnerMedia business

Robust deal flow

The volume of E&M transactions has remained at a persistently high level.

Global E&M M&A volumes (number of deals)

■ 2019 ■ 2020 ■ 2021 ■ 2022



Note: Volumes are based on officially announced transactions, excluding rumoured and withdrawn transactions, as provided by Refinitiv as of 31 March 2021 and as accessed on 2 April 2022. Certain adjustments have been made to the source information to align with PwC's industry mapping.
Source: Refinitiv, PwC analysis

with Discovery to create a new streaming giant better able to compete with the likes of Netflix and Disney+. The closure of the deal in mid-2022 marks a significant event in both the US and the global media landscape, intensifying the level of competition. Both AT&T and Verizon have also sold off digital advertising and advertising technology assets to help cover the cost of building out their 5G infrastructure.

It's no surprise that dealmakers seeking to capture the future audiences were focused on games. In April 2022, Microsoft completed its purchase of games developer Activision Blizzard, the company behind such franchises as *Call of Duty*, *World of Warcraft* and *Overwatch*. The US\$68.7bn deal, the largest in the history of video games, will enable Microsoft to tap into a community of 400m monthly active players. Sony acquired five video games studios in 2021, including Bluepoint and Valkyrie Entertainment, and in early 2022 it announced the US\$3.6bn acquisition of Bungie, the developer of *Halo* and *Destiny*, and Haven Studios, which helped develop *Assassin's Creed*.

In rapidly growing markets, some consolidation in more traditional areas was evident. The strong rebound in cinema revenues in India has triggered a scramble to bulk up. In March 2022, cinema operators PVR and Inox Leisure announced they would merge to create India's largest multiplex chain, with a network of 1,500-plus screens branded PVR-INOX. Also in March 2022, Zee, a powerhouse in regional channels, and Sony Pictures Networks India combined to create India's second-largest entertainment network by revenue, just behind Disney. If approved, the merged entity will have 75 TV channels, two video streaming services, two film studios, a digital content studio and large libraries of programming and music.

Sources of capital

The capital for these deals comes from many places. Beyond the traditional large-cap players is substantial—and increasing—activity across a diverse range of capital sources, including private equity, venture capital and SPACs. In 2021, Anghami, an Arabic competitor to Spotify, became the first Middle East tech company to be listed outside the region via a SPAC when it joined Nasdaq. Although SPAC activity has declined from its peak levels, private equity and venture capital will continue to provide significant capital to fund promising opportunities.

Youth may be served in today's E&M culture, but the elderly can get paid. Digital music streaming is expanding apace, with global revenues projected to grow from US\$24.5bn in 2021 to US\$36.8bn in 2026. With a strong move underway to mine value from current or older content, music rights have become a valuable, in-demand asset. Longtime artists with vast catalogues have found themselves sitting on gold mines. Universal Music Group invested US\$420m in catalogues in 2021, on top of the US\$1bn it spent in the previous year. In early 2022, the company bought the catalogues of veteran artists Neil Diamond (age 81) and Sting (70). Headline deals for Sony Music Entertainment included picking up the rights to music by both Bob Dylan (81) and Bruce Springsteen (72). BMG has acquired music rights from a number of groups and artists, among them ZZ Top, Mötley Crüe and Tina Turner (82).

Volatility in the financial markets and rising interest rates may put a damper on deal activity in the short term. But it is clear that companies will continue to use M&A as a strategy to transform their organisations so that they can vault the fault lines. And as has been seen with Elon Musk's offer to purchase Twitter, some large financial players and vast pools of capital from unexpected sources may be deployed in the E&M sector.

Old songs, new revenues: Music catalogue sales

Artist	Acquirer	Amount	Date
Justin Timberlake	Hipgnosis Songs Capital	US\$100mn	May 2022 (announced)
Sting	Universal Music	US\$300mn	March 2022
Bruce Springsteen	Sony Music	US\$550mn	December 2021
Paul Simon	Sony Music	US\$250mn	March 2021
Stevie Nicks	Primary Wave	US\$100mn	December 2020

6

The next new thing

The next big technology paradigm shift has the potential to create a new fault line between the current digital/virtual world and the next one. The concept of the metaverse, coined in a 1992 sci-fi novel, has been gaining steam in the broad computing complex for several years. But it vaulted into public consciousness in October 2021, when Facebook rebranded itself as Meta. Though the term itself is still evolving, the metaverse can be simply defined as the convergence of physical and virtual worlds. In metaverses, users can access immersive virtual experiences, through a VR headset or other connecting device, and attend a soccer game on the other side of the world. They can remotely see and shake hands with other fans, join in cheers and change their position in the stadium to see the action from different vantage points.

Such applications are already available today. In the not-too-distant future, the metaverse could be a stunningly realistic world where individuals and organisations sell goods and services, sign and enforce contracts, recruit and train workers, and interact with customers and communities. For businesses—especially entertainment and media organisations—the implications of this immersive, persistent and decentralised digital world are enormous. There is the possibility of creating digital identities that consumers and organisations can fully own, setting new rules for governance and creating more immersive digital experiences that capture attention and, ultimately, revenues. (Read more about our take on the metaverse.)

How big is the market opportunity in the metaverse? One obvious starting place—but just a starting place—is the market for VR, which is one of the smaller segments tracked by the *Outlook*. Buoyed by the success of Meta's Quest VR system in particular, global spending on VR rose by 36.5% in 2021 to US\$2.6bn and is projected to increase at a 24.1% CAGR between 2021 and 2026 to reach US\$7.6bn. The global active installed base of stand-alone and tethered VR headsets is projected to grow from 21.6m in 2021 to 65.9m in 2026. Every three days, a new app is listed in the Quest app store.

Because the metaverse is an evolution that may profoundly change how businesses and consumers interact with products, services and each other, its potential financial and economic value goes far beyond VR. In time, many or all of the revenues associated with video games, live music performances, advertising and even e-commerce could migrate into the metaverse. Citibank has forecast that the metaverse represents an opportunity of between US\$8tn and US\$13tn through 2030.

The precise path of growth is uncertain. What is certain is that companies large and small, and even governments, around the world are investing to create new experiences. In April 2022, Sony and Kirkbi, the holding company for the Lego Group, invested a combined US\$2bn in *Fortnite* developer Epic Games, aimed at funding Epic's building of a gaming metaverse. English Premier League champion Manchester City FC entered a three-year deal with Sony that will see a virtual Etihad Stadium constructed in the metaverse. The Swiss start-up collectID raised US\$3.5m to build up its metaverse platform, allowing users to take their clothes and accessories into the metaverse. The Dubai Virtual Assets Regulatory Authority has set up a metaverse-based headquarters.

NFTs: Putting more power in the hands of creators

The metaverse concept has become intertwined with another buzzy phenomenon known as non-fungible tokens (NFTs). NFTs are unique sets of data created, recorded and stored on a blockchain—a distributed ledger—representing ownership of a unique and non-interchangeable digital asset. These digital assets can either be integrated into a virtual digital environment such as the metaverse or can stand alone.

NFTs with embedded smart contracts put power and control over the assets and related rights back into the hands of creators. The blockchain-enabled and automated smart contracts that underpin NFTs offer huge opportunities both for operational simplification and for building deeper trust with consumers and talent by systematically allocating revenue or royalty back to the artist or creator, for example.

NFTs have become a global phenomenon. In February 2021, somebody was willing to pay US\$69m for an NFT granting the owner the rights to display a digital image by the artist Beeple. While the frequency of such giant transactions may decline, there will be an accelerating volume of smaller transactions as NFT use cases evolve and NFTs are used in day-to-day interactions. According to the Block, trading volume across the major NFT exchanges has amounted to more than US\$55bn in the past 12 months. (This figure may include wash trading—transactions in which the same party is on both sides of the transaction.)

To date, much of the attention around NFTs has focused on digital art and collectibles. The sports industry has quickly embraced the collectibles or memorabilia use case for NFTs. Thousands of sports NFTs are bought and sold on platforms such as OpenSea, and quarterback Tom Brady's NFT startup, Autograph, raised US\$170m in Series B funding in January 2022. In February 2022, Southeast Asia's first physical NFT art gallery opened in Bali. In Japan, NFTs have been launched for traditional Japanese anime animations.

Like other markets in their early stages, the market for NFTs has been hampered by the volatility and scepticism that typically accompany the rise of a speculative and unregulated activity. But the industry is rapidly moving on from specialising in collectibles to becoming an accretive factor for the E&M industry. NFTs encourage greater utility and engagement, and provide creators with a more effective way to communicate directly with their most passionate fans—and to monetise their creations. Musicians have been using NFTs to sell, for example, a unique version of a single album or gig tickets or exclusive bonus tracks and to receive systematic royalty streams from any downstream transaction involving the artist's tunes. Further, if fans contribute to the funding of the creation of a music NFT by an artist, they may share a return in the future success and sales of that music, creating a uniquely engaged fan base. That is to say, NFTs offer consumers the ability to be owners—and to be treated as such by content creators and distributors.

7

Regulation and trust

The original premise and promise of the big platforms and digital world were that they would be seamless, global and frictionless, with the interests of the individual taking centre stage. As E&M consumption, content and interactions become increasingly digital, data becomes ever more central as the currency and raw material for consumer experiences. The treatment and protection of personal and commercial data are now also driving a wedge between consumers and providers, and in turn between regulators and the regulated. Overlay these fault lines with issues of geopolitics and national economic and cultural self-interest, and the regulation picture will only grow more complex through 2026. Regulatory action, which always follows consumer behaviour and adaptation, continues to struggle to keep up.

Global regulators engage

In recent years, the big tech companies have gained significant market share, value and control over data. In response, regulators around the world are placing them under pressure, examining their business practices with the aim of boosting consumer protection and market fairness. A 2021 study by the Pew Research Center found that 68% of Americans believe these firms have too much power and influence in the economy.

In the US, President Joe Biden's administration is pursuing antitrust actions via the Federal Trade Commission, and in early 2022 the Senate Judiciary Committee approved legislation banning the tech giants from favouring their own offerings over those of competitors on their networks. The EU has enacted the Digital Markets Act and the Digital Services Act in an attempt to protect consumers and create a more level playing field.

Australia made world headlines with its News Media and Digital Platforms Mandatory Bargaining Code in 2021, mandating that global tech players should pay for news content that is hosted by or linked to on their digital platforms. A year later, it's been reported that Google has 19 content deals with news organisations and Facebook has 11. In Indonesia, the government is looking to follow Australia in imposing similar rules.

In China, the world's largest video gaming market, worries over the risks of young people becoming addicted have prompted the Chinese government to ban people under 18 from playing online games on weekdays and to limit their weekend gaming to a maximum of three hours. For nine months between July 2021 and April 2022, China suspended the issuing of video games licenses.

Tensions arise as regulation serves policy

Although most of these regulatory initiatives are undertaken by individual countries, the fact that the companies involved are global means that the impacts are international—and that the regulations can become a form of proxy for policy. China's strict rules have kept at bay foreign platforms wishing to operate within the country. Russia blocked Facebook during its invasion of Ukraine. And tensions have also arisen between apparent allies: in 2021, the US warned the EU against pursuing protectionist regulatory policies that solely target US companies. In February 2022, the Indian government, which has banned TikTok since 2020, banned a further 54 Chinese apps—including the popular *Garena Free Fire*—from being used in the country, taking the total number of apps banned to 273. The basis for the bans is that the apps pose a threat to users' privacy.

Further fault lines may emerge over the regulation of NFTs and cryptocurrencies, which is currently something of a grey area. Biden recently signed an executive order outlining a whole-of-government approach to digital assets. The order validates the notion that assets such as NFTs and cryptocurrencies, including stablecoins, are too big to ignore and that the US must foster innovation so it doesn't lose a competitive edge. As with the regulation of big tech, it's going to remain difficult to separate crypto regulation from national interests.



Conclusion: Strategic balance

As we look ahead to 2023 and beyond, the E&M industry will strive to maintain its balance in a landscape riven by fault lines and fractures. But the overall growth path is both clear and strong. Over time, the increasing availability of compelling E&M content, services and experiences will attract a greater share of consumers' attention.

For consumers, this remains very much a golden age, in which a vast array of content, services and experiences is available at price points they can afford. For businesses, however, intense competition and continual disruption remain the order of the day. That means strategy can't remain static. The data clearly shows that the mix of revenues and spending is changing rapidly. And as the fault lines continue to proliferate and widen, it will be easy to end up on the wrong side of disruption.

An understanding of the forces that are creating the fractures in our world should inform the creation of strategy. It has become clear that there is no easy solution to maintain a durable model for profitable growth in the coming years. The industry's barriers to entry are too low, and the pace of innovation and change too high, for any one player to sustain competitive differentiation simply by operating as it has for the past five years. In sectors with sharply diverging growth paths in different countries, operating on a global basis now requires matching pricing models to purchasing power and saturation levels, often on a market-by-market basis. And, looking ahead, all participants who seek to thrive in 2026 will need an 'and' strategy that goes beyond their core: great content *and* multiple revenue streams *and* ties to broader commerce plays *and* compelling immersive experiences.

The challenges are substantial—but so, too, are the rewards for those able to meet consumers where they will be.

Methodology and definitions

Historical data collection

All the forecasts have been built by starting with the collection of historical data from a variety of sources. A baseline of accurate and comprehensive historic data is collected in the first instance from publicly available information, including from trade associations and government agencies. When this data is used directly, these sources are cited accordingly. In addition to this, interviews with relevant associations, regulators and leading players have been conducted to gather insights and estimates not available in the public domain. When this information is collected, it is used as part of the calculations, and the sources are proprietary.

Forecasting methods

All forecasts are prepared as part of a collaborative, integrated process involving both quantitative and qualitative analysis. The forecasts are the result of a rigorous process of scoping, market mapping, data collection, statistical modelling and validation. All data, charts and graphs, unless stated otherwise, in this publication are taken from the *Global Entertainment & Media Outlook 2022–2026*.

Definitions

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- Cinema
- Data consumption
- Internet access
- Internet advertising
- Music, radio and podcasts
- Newspapers and consumer magazines
- OTT video
- Out-of-home advertising
- Traditional TV and home video
- TV advertising
- Video games and esports
- Virtual reality

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