



MA Music Business (Level 7)

MODULE CODE: BMTY7001_LON

TITLE: Economics, Planning and Finance Report

Assignment Task: Students are required to choose an organisation in the creative industries and produce a 5000 word report which includes an analysis of the micro and macro environment of the organisation. Students should then discuss how lean business methods and techniques are applied and/or could be applied in the chosen organisation

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I agree that all work submitted is mine and any work referenced is done to a sufficient standard.

Signed: E IDRIS

Word Count:

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Brief History

Entertainment One Limited is a global independent studio that specialises in the development, acquisition, production, financing, distribution and sales of entertainment content.

The now publicly-traded multinational company was founded in Canada by Darren Throop. eOne began its feet in the music distribution sector with Throop opening Urban Sound Exchange music store in Halifax, Canada in 1991; building up into an independent chain of music stores throughout Canada which he then sold to CD Plus, a music and video retailer and became the Vice President of Operations in 1999. Throop led the company in acquiring several music distribution companies including Records on Wheels (ROW) acquired in the 1970s, Throop became the CEO of ROW Entertainment in 2001; which also saw the diversification of the business model to include home video entertainment. By 2003 ROW became public and acquired Koch Records, at the time one of the largest North American music labels. Which then led to Throop changing the name of the company to Entertainment One. The company began further expansion into the entertainment distribution industry in international film, television and rights ownership in 2007 (Entertainment One, 2017a).

January 2015 saw eOne acquired a significant stake in Mark Gordon Company self-named film studio, increasing the profile in the United States. The production partnership also bringing in new film projects and productions such as 'Steve Jobs' at Universal and 'Arms and the Dudes' at Warner Bros. Attaining exclusive rights to distribute all new content from Mark Gordon Company (Entertainment One, 2015).

Powering a network of world-class creative experts such as Dualtone music company acquired in 2016 as well as the acquisition of indie music label, publishing and management company Last Gang and the UK-based Audio Network, one of the world's largest independent music creators and publication companies for film, advertising, television and digital media; acquired by eOne April 2019 for £179 million. The acquisition of Audio Network saw significant growth in the eOne's presence in the music sector and all general business brands.

The advancement of technologies within Artificial Intelligence could prove to see further advancement in revenue. eOne have shown to be ahead of their time with the acquisition of Secret Location technical company that combines cutting-edge technology with traditional storytelling to create digitally accelerated experiences for the web, mobile, tablet, and new platforms like Virtual Reality (VR) and Augmented Reality (AR) attained by eOne is in 2016.

This Company instrumental to innovations abroad the creative industries. 2014 saw the company reach high revenue from the Television and Film broadcasting industries, employing over 4000 employees in the various entertainment sectors, the company has been able to attain its feet as a 'big dog' in the entertainment industry.

Products

Music

Talent is the eOne's utmost priority putting musicians, writers and composers with production - rated #2 independent record label by Billboard in 2016, eOne's music team discovers, signs and markets great music across genres; talent management - home for building musical brands with eOne Management network of Companies - a collective of high level talent management organizations including Last Gang Management, WRC Management, People's Champ, Hardlivings and Nerve Management; distribution - over 150 artists and 40,000 tracks reside - including artists such the Lumineers, Wu-Tang, The Game, Arkelis, Zakk Wylde and gospel artist JJ Hairston; licensing and publishing - home of Audio Network one of the largest creators and publishers for quality music for film, TV, commercials and trailers globally with eOne's fully equipped music supervision and soundtrack team, the company has potentially been able to cover all ends in creating a global music brand. Acquisition of Audio Network increase their revenue significantly, purchase brought an entrance into the utilization of new markets in music branding in eOne libraries; as Audio Network generates predominant profit from synchronised music fees and publication royalties. Production, Distribution and Acquisition of specialist companies and how that affects the nation. How the Acquisition of Audio Network increased employment rates, widen the companies EU consumers, as the AN is a British-based company. (Consider Interest, Inflation, Employment etc. back up from reports) (Entertainment One, 2017c)

Film & Television

eOne sources and works with partners to premier significant first look and output partnerships with globally recognised film producers attaining interest in industry leaders such as Sierra Pictures, Amblin Partner and MAKEREADY creative talents. Distributing outstanding films from the big screen and beyond.

Entertainment One is a predominant independent producer of television and film content in the high-end scripted drama and non-scripted reality genres.

Entertainment one have taken pride in being intrinsically part of the process within the entertainment industry working within the development of scripts, the unscripted and upcoming stars to the delivery of high standard produce to screen; producing Drama, Comedy, Factual and Unscripted works and reaching a variety of consumers because of this. eOne also distributes television through a global sales reach the company are able to transmit monumental Television and Film content to leading broadcasters and platforms all around the world such as YouTube (2019).

Creating universal content that has an international appeal.

Production of Religious TV/Films in favours of the majority US potential consumers, known for its religious values specifically within the Christian faith.

Customer Base

Through the company's acquisition of a plethora of entertainment organizations over the years, eOne has naturally been able to Diversify and their customer base attaining with new consumers by attaining the consumers that had patronised those services prior to eOne's acquisition.

Main focus in recent years has shown to improve their reach in the Family & Brands sector of their company, numbers in the past few years have proved to favour this decision also as revenue for eOne's acquired roster of brands such as Peppa Pig - with over 1000 licenses around the world the TV series is a top performing global preschool property, translated into over 40 languages and broadcasted all over the world; PJ Masks, Ben & Holly's Little Kingdom, Cupcake & Dino: General Services. Have proven to be a hit with this demographic ages. When adults 'now parents' are trying to find television content that is appropriate for their young children to view. The content type working as an incentive to keep and maintain consumers. While subscriptions to the pre-school content being efficient to the extent that... This organisation has acquired over 10 subsidiary companies to maintain their mark as one of the biggest and most influential distribution platforms in the world. In 2017 saw eOne venture into a new market launching their first toy products coinciding with this, partnering with a broadcasting company for PJ Masks in Taiwan. This investment saw the increase in revenue in their child and family customer sector and the increase of consumers tuning in to their family and child broadcasting programmes and network. Family & Brands seeing revenue up 20% to £159 million and underlying earnings (EBITDA) up 30% to £97 million. (Entertainment One, 2017g)

It could be suggested that because of eOne's diverse acquisition of products specializations within the entertainment industry would give the organization an upper hand above major competitors; as the acquisition of a thriving company in most cases has also included making the founder the said company president of the sector, to ensure that high-quality content is maintained and potentially surpassed in the companies acquisition, creating a mutually beneficial circumstance.

Major Competitors

Competitors include the likes of AT&T/WarnerMedia, NBCUniversal, Disney/Twenty-First Century Fox.

AT&T/WarnerMedia

Merger of AT&T and Time Warner - HBO, Turner, Warner Bros and Turner Advertising. The conglomerate company aim to deliver the world's best stories and engaging content from talented storytellers and journalists to universal audiences. Bringing an innovative approach to the media and entertainment industry working for consumers, content creators, distributors and advertisers, bridging the gap between premium content and content that connects with the consumer. Bringing in 31 Billion dollars in revenue in 2017 (AT&T, 2019).

Disney

The Walt Disney Company aims to entertain, inform and inspire people around the world through the power of distinctive storytelling, reflecting iconic brands, creative thought and innovative technologies as a premiere entertainment company. Disney also has a Media Network which is a primary unit for the company, containing television networks, channels, associate production and distribution companies across two television divisions Walt Disney Television and ESPN, Launching online streaming services Disney+. Disney also acquired Twenty-First Century Fox in March 2019. (Disney, 2019a, 2019b).

Twenty-First Century Fox

FOX produces and distribute content through some of the globe's leading and most valued brands including: FOX News, FOX Sports, the FOX Network, and the FOX Television Stations. This company empowers a diverse range of creatives to imagine and develop culturally significant content while simultaneously building a company that utilizes, creative thought, operational expertise and strategic thinking (FOX, 2019).

As E1 continues in content, partnerships and Industry developments, Content budgets continue to grow (US\$110 billion estimated spend in the US alone for 2019*), creating significant opportunities for producers of high quality content who were unaware of the potential career platform to gain access to it. eOne have been able to achieve M&A activity over the past year is unlike anything we have ever seen by their major competitors such as Disney, Twenty-First Century Fox, AT&T/WarnerMedia. After a century of dominance by the "big six" major studios, technology companies like Netflix, Amazon, Google, and Apple have finally disintermediated the film/television business. Non-media companies continue to surpass the majors, exhibitors and cable operators to go directly to the consumer and have become an unstoppable threat to the current content ecosystem

The demands of the consumers is shifting from the home entertainment systems to digital entertainment, where the desire to have access to their favourite television programmes and films on portable devices has increased significantly. Recent years have shown organisations such as Netflix and Amazon Prime gain more scope in their ability to source high quality content expeditiously in contrast to E1's initial business models of quality content distributed significantly to the cinema, television and broadcasting. eOne has then continued to incorporate early and direct access to premium content, as well as a scale across production and distribution infrastructure, to remain essential for remaining competitive and driving value. The rise of streaming services driving a recovery across the music industry, enabling easy access to front list tracks and the deeper catalogue libraries (2019).

Pricing and Sales Strategy

Entertainment One, gains profits from the distribution of creative products uses salesforce for PayTV, FreeTV, SVOD and AVOD window. However this year the organization sees a decline from the film and television products in sales and profits in the annual year. Revenues of £941 million were down by 9 percent. The decline in the television and film segment was partnered with the growth in the Family & Brands with the strong performance from Peppa Pig and improvements in PJ Masks. eOne strategies to

shift away from film distribution and capitalise on new music distribution acquisition Audio Network and the Family & Brands sector.

The Characteristics of the Market

Entertainment One characterises themselves for attaining the highest quality content, eOne Annual Report 2018 displays the organisation's strategic report which discusses a business model which centred on producing, managing and monetising a portfolio of quality content. In Family & Brands, Television licensing and production, Film, Music supervision, Artist Management (2018).

In eOne's 2015 Annual Report and Accounts, Throop discusses how the organizations Scale; their ability to connect with creative talent to encourage sales in the distribution of creative products within cinema, retail, broadcasting and digitally; remains a critical differentiator in the content markets and as one of the largest independent content companies, E1 can utilize the benefits this critical volume brings to drive the Group's financial performance. As the company's profile has strengthened over the years, they are better equipped to attract and partner with more of the world's best creative talent to produce the best content for distribution across the global networks, which drives an improved financial return for the company (2015, p. 16).

The Family & Brands market (2019) has shown preschool animation Peppa Pig continuing to bring in new consumer interest and maintaining evergreen markets. The organization anticipating significant consumer product roll outs in Asia (particularly China) and Germany to drive additional traction. Additionally Evergreen markets have also been anticipated to grow this year with new clothing licenses coming on-stream and new publishing and clothing lines being released in FY20 for the 15th anniversary of the brand in the UK, this is predicted to bring in more revenue for E1 in the evergreen brand merchandising sector particular within the UK; new content deliveries have helped augment initiatives, with the first of the 117 new episodes under production airing from spring 2019 onwards.

PJ Masks has also seen new content driving continued growth, with the third season now being aired on Disney Junior in North America, reaching other territories during the course of FY20 as well as their fourth season being greenlit and is in pre-production; the continued success of PJ Masks could potentially increasing eOne's global reach and bring further profits for the company. Free to air broadcast from FY20 opens up a new audience segment in existing territories, driving marginal brand awareness and continued consumer launch in China in FY20, following carriage on national CCTV channel new brands and shows. Ricky Zoom, children' animation made its broadcast debut on the Youku platform in China in summer 2019, followed by a global launch in all other territories simultaneously in autumn/winter 2019. The consumer products launch will follow in spring/summer 2020. Comedy shows are also in production, including Alien TV and Ninja Express (2019).

eOne have been able to establish precautions in order to maximise profit and minimize investment risk in the form of the Portfolio approach. To mitigate concentration risk and changing audience tastes E1 have diversified their content investments over a large number of films and television shows, across the vast geographies, genres and media platforms. This approach means that there is likely to be no predominant individual investment risk in its content acquisitions. The Group's content portfolio comprises over 40,000 film and television titles, 4,500 hours of television programming and 45,000 music tracks found in Entertainment One Annual Report (2015, p.16). The diversification of content in this fashion also gives great opportunity to increase E1 employment in the different countries where eOne products are being

distributed; through the utilization of upcoming talented creatives such as scriptwriters, musicians, music & film producers, music supervisors etc; hence giving the company an upper hand in being beneficial to employees and consumers alike.

Macro Environment

When looking at the background of E1 and how it has evolved and maintained its inherent business models, it is important to consider the external factors that entertainment organisations such as this would have to take into account in order to be able to come to a suggested resolution or accommodate thought in the choices that an organisation makes. Studying the business environment as a whole, the study of production, employment, prices and policies on a global scale and understanding how these factors may affect the running of the organisation.

The findings above help to identify the predominance of E1 animated products in the Asian market and could further suggest the Hasbros', toy production company, recent buy of Entertainment One could buttress opportunity costs occurring with the organization utilizing the consumer roll up attained by products in this sector and promote a continued business relationship between Canada, where E1's headquarters are located and China.

Finance

The Revenue for this year has increased by 28% to £158.5 million due to continued strong performance across significant brands underlying EBITDA up 37% to £97.0 million, margin up 390 basis points to 61.2% reflecting the increase in the higher margin AVOD and SVOD revenues Peppa Pig – Strong revenue growth across a broader base. China consumer product roll out more measured in FY19, with broader L&M launch in FY20. Two Peppa Pig World of Play centres opened in Shanghai and Dallas during the second half of the year and PJ Masks - Family & Brands continue to deliver strong growth in revenue and underlying EBITDA • Revenues up 39% to £59.5 million, with retail sales up by 10% to US\$1.15 billion as brand traction continues to build • Season 2 was launched on Disney Junior during the year and continues to drive consumer engagement. The brand is now the second biggest pre-school toy property in the US and the third biggest in the UK • Initially launched in China on SVOD but is now also carried on the nationwide CCTV network New brands – poised to launch Ricky Zoom, our next global brand, in summer 2019 • Cupcake & Dino: General Services delivered to Netflix during the year, the first of our new comedy brands • Strong development pipeline

This year has seen Strong Growth in underlying EBITDA in the FY19 with the underlying EBITDA up 21% to £198 million significantly more than FY18's £164 million. Revenue reduced by 9% to £941 million (FY18: £1,029 million) which reflected the companies change in film strategy. Family & Brands continue to deliver strong growth in revenue, up by 28% to £159 million and EBITDA up 37% to £97 million; while retail sales up 6% to US\$2.5 billion (FY18: US\$2.4 billion), broader consumer roll out of our brands still to come. Increased mix of high margin AVOD and SVOD platform revenues Film, Television & Music earnings mix

rebalancing towards television and music activities. Underlying EBITDA up 9% to £115 million (FY18: £106 million), with margins up 300 basis points to 14.6%. Revenues at £789 million (FY18: £911 million) largely attributable to the decline across the home entertainment market. Integration of Film and Television Divisions completed, on track to deliver £13-15 million annualised cost savings by end of FY20; £6 million through FY19. Transition in film activities now largely complete, with a smaller slate of high quality, more focused titles going forward: financial benefits being realised. Exciting content pipeline across the film, television (over 60 funded projects in development) and music businesses Acquisitions during the year of Sierra/Affinity and Whizz Kid, and Audio Network following the year end secure additional creative and management talent as well as global content rights Increase in independent valuation of the content library from US\$1.7 billion to US\$2.0 billion Year end net debt: Group EBITDA leverage of 1.7x, slightly better than previous guidance (Entertainment One, 2019).

Industry developments. Content viewership is moving away from traditional models towards SVOD, but the traditional broadcasters remain the best route for mass-market properties. Shelf space availability at retail a key challenge for new brands. Established, proven retail brands benefit in this risk-averse environment. Brand awareness remains critical for the online retail platforms Key drivers for Family & Brands. China is emerging as a top-tier kids market to rival the US; Peppa Pig's success continues to drive growth. The experiential entertainment industry is becoming an increasingly important driver: additional Peppa Pig World of Play sites identified by partner. Flight to quality – premium, well-supported brands are safer bets. Strong product pipeline of new shows creates a portfolio of properties, supporting existing brands. Further diversification of revenue streams, e.g. live shows managed through an in-house team (Entertainment One, 2019).

eOne's movement into London's Alternative Investment Market (AIM) in a 2million dollar initial public offering (IPO) in 2007(2017a).

Lean Business Methods and Techniques

Cutting out waste in management without compromising on product quality. About doing the biggest to the smallest part of an organisation well to reduce cost. Waste include over-production, waiting time, stocks and defects a new film production not being received as well as analysis anticipated however unlike other companies that have a materialistic management if the consumers receptiveness to a product, entertainment companies would need to adapt their methods in how they identify the areas in the business that need to be worked upon to create an idea lean business model, such as consumer commentaries on film trailers, how many streams a new artists single receives and so one. Throop and his teams have successfully over the years been able to anticipate the needs of the people to anticipate their choices and work to create, acquire and distribute content to bring a significant profiting to eOne. Although there have been instances where notable losses have been identified the company have consistently been able to combat with strategies and plans to continue to distribute high-quality content to their consumers.

Appendices

Five Year Financial Summary

[More Information](#)

In £m, unless otherwise stated	2015	2016	2017	2018 Restated ⁵	2019
Revenue	785.8	802.7	1,082.7	1029.0	941.2
Underlying EBITDA ¹	107.3	129.1	160.2	163.6	197.6
Reported profit before tax	44.0	47.9	35.9	64.9	36.8
Adjusted profit before tax ²	88.8	104.1	129.9	130.2	155.9
Reported diluted earnings/(loss) per share (pence)	12.5 ³	9.6	2.7	12.0	2.5
Adjusted diluted earnings per share (pence) ²	20.8 ³	19.4	20.0	19.3	25.0
Adjusted net debt ⁴	224.9	180.8	187.4	314.5	341.5
Investment in acquired content rights	166.3	121.4	181.4	144.5	121.9
Investment in productions	114.4	97.1	226.5	297.4	258.7
Notes					

Table 1: Entertainment One - Five Year Financial Summary

CONSOLIDATED BALANCE SHEET

at 31 March 2019

	Note	31 March 2019 £m	Restated ¹ 31 March 2018 £m	Restated ¹ 31 March 2017 £m
ASSETS				
Non-current assets				
Goodwill	13	397.2	375.2	406.9
Other intangible assets	14	219.9	248.9	302.9
Interest in joint ventures	30	1.2	1.0	1.1
Investment in productions	15	259.8	206.1	200.1
Property, plant and equipment	16	12.9	10.6	11.9
Trade and other receivables	19	46.9	77.0	60.9
Deferred tax assets	10	37.5	34.3	35.2
Total non-current assets		975.4	953.1	1,019.0
Current assets				
Inventories	17	11.7	39.6	48.6
Investment in acquired content rights	18	254.0	248.0	265.5
Trade and other receivables	19	548.4	439.4	424.5
Cash and cash equivalents	20	107.4	119.2	133.4
Current tax assets		0.8	3.5	1.5
Financial instruments	25, 26	4.1	1.9	10.6
Total current assets		926.4	851.6	884.1
Total assets		1,901.8	1,804.7	1,903.1
LIABILITIES				
Non-current liabilities				
Interest-bearing loans and borrowings	23	392.2	375.2	276.6
Production financing	24	110.2	86.7	91.2
Other payables	21	15.6	28.0	35.4
Provisions	22	0.4	0.4	1.5
Deferred tax liabilities	10	32.5	33.0	52.2
Total non-current liabilities		550.9	523.3	456.9
Current liabilities				
Interest-bearing loans and borrowings	23	0.9	0.4	0.5
Production financing	24	85.7	90.1	104.8
Trade and other payables	21	529.3	501.4	542.7
Provisions	22	4.2	5.9	30.6
Current tax liabilities		12.6	14.8	32.8
Financial instruments	25, 26	3.5	2.7	15.4
Total current liabilities		636.2	615.3	726.8
Total liabilities		1,187.1	1,138.6	1,183.7
Net assets		714.7	666.1	719.4
EQUITY				
Stated capital	32	610.6	594.6	503.8
Other reserves	32	(11.4)	(23.6)	(22.7)
Currency translation reserve		62.7	29.8	80.0
Retained earnings		15.3	19.0	75.7
Equity attributable to owners of the Company		677.2	619.8	636.8
Non-controlling interests	31	37.5	46.3	82.6
Total equity		714.7	666.1	719.4
Total liabilities and equity		1,901.8	1,804.7	1,903.1

1. See Note 1 'Prior period restatements' for details.

These consolidated financial statements were approved by the Board of Directors on 20 May 2019.

Joseph Sparacio

Director

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