Analysis on Korean OTT platform and K-content

Jongwon Kim
Global OTT trend check

- Netflix vs Disney+: Disney+ to reach a 200mn subscriber base in 3 years
- Intensifying competition from latecomers (Paramount+, Peacock, etc.)
- Diverse products emerged: Ad solution, FAST, etc.
- Subdued competition based on profitability: Efficient expenditure on content
- Asia region being the biggest battleground (Stagnant US market)
2022 Global OTT net subscriber additions

Latecomers to catch up

2023 1Q Global OTT Subscribers Status

Disney subscribers decline
We estimate our competitors are all losing money, with combined 2022 operating losses, vs. Netflix making annual operating profit.

– from Netflix’s Letter to shareholders

Winter has already come in OTT industry

Media companies’ earnings comparison

- Netflix has resilient profitability in Streaming business (C. 20% level of OPM)
- However, due to net decrease in its subscriber base, its cash flow appears to be volatile, and the company tries to outgrow simple & traditional subscription model
- Disney has a solid IP base underpinned by its OTT platform, but profitability is comparatively lower
- Amid macro slowdown, Global media companies seek to manage profitability in their OTT business at a certain level
Features in Korean OTT platforms

Broadcasting stations / Telecom subscriber base
Spilt/spun off from parent company
Rerun platform for broadcast content + original content

(Similar to ‘Hulu’ in the US)
(Korea) OTT service usage trends

(Korea) OTT service subscriber base comparison
The key to Netflix’s success in Korea

- **Korea content**
  
  - K-content distribution and production drove the market growth, Demand surged in Korean broadcasting content and original content
  
  - **Content type:** 1) Original, 2) Broadcast content, 3) Existing drama content

<table>
<thead>
<tr>
<th>(Units, Won bn)</th>
<th>2016</th>
<th>2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Broadcasting rights purchase</td>
<td>60</td>
<td>700</td>
</tr>
<tr>
<td>Original content production</td>
<td>1</td>
<td>25</td>
</tr>
<tr>
<td>Cash spend in content</td>
<td>W15bn</td>
<td>W800bn</td>
</tr>
</tbody>
</table>

- **Partnering**
  
  - IPTV Partnering driven by mobile carriers with high pay TV subscriber base
  
  - Partnered w/ LG U+, no.3 IPTV player in 2016 → no.1 player SKT in 2020

- **Marketing**
  
  - Rapid growth in subscriber during pandemic driven by investment into original content
  
  - Successfully penetrated in female and people in their 20s and 30s

  “Korean OTT platforms give up on monopoly”
### Differences between Korean and US OTT

<table>
<thead>
<tr>
<th>Korea</th>
<th>US</th>
</tr>
</thead>
<tbody>
<tr>
<td>• No cord cutting (Telco bundle and low paid TV fee)</td>
<td>• Gradual increase in cord cutting</td>
</tr>
<tr>
<td>• IPTV becoming more active in partnering with OTT</td>
<td>• Cable TV to strengthen broadband and connected TV</td>
</tr>
<tr>
<td>• OTTs being complimentary (w/ existing legacy media)</td>
<td>• Content being retrieved from Netflix</td>
</tr>
<tr>
<td>• Partnering with global OTT about original content and co-production</td>
<td>• Content differentiation between OTTs (mutually exclusive)</td>
</tr>
<tr>
<td>• Split/Spun-off from parent co. or in-house studio</td>
<td>• Content being horizontally integrated</td>
</tr>
<tr>
<td>• Partnering with broadcasting stations</td>
<td>• OTT under parent company (no split/spun off)</td>
</tr>
<tr>
<td>• 2.3 OTT services being subscribed per household</td>
<td>• 6.7 OTT services subscribed per HH due to diverse options</td>
</tr>
<tr>
<td>• IPTV being main channel of OTT distribution</td>
<td>• High connected TV penetration, incl SmartTV, Roku (87%)</td>
</tr>
</tbody>
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**Lack of OTT diversity (Delay on ad OTT) / Sluggish expansion in Korea OTT / Content production to benefit**
It is evident that growth in OTT and Pay TV are substitutes, but different relationship observed in Korean market.

Ref: Global pay TV growth forecast
## Status quo of Korea content studio

<table>
<thead>
<tr>
<th>Vertically integrated studio</th>
<th>Independent studio</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Type</strong></td>
<td></td>
</tr>
<tr>
<td>• Studio Dragon (CJ ENM, Tving), StudioS (SBS, Wavve)</td>
<td>A-Story, Samhwha Networks, Chorokbaem Media</td>
</tr>
<tr>
<td>• Contentree Joongang (JTBC, Tving)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Business expansion</strong></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>• Global expansion in the US and Japan through M&amp;A</td>
<td></td>
</tr>
<tr>
<td>• Studio Dragon (Fifth Season), Contentree Joongang (Wiip)</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>Channel</strong></th>
<th></th>
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</thead>
<tbody>
<tr>
<td>Captive Channel, In-house OTT, Global OTT</td>
<td>Outsourcing, OTT platforms</td>
</tr>
<tr>
<td>• Global OTT distribution portion reaching 50%: Studio Dragon</td>
<td></td>
</tr>
<tr>
<td>• Diversified global OTT: Netflix→Disney+, Amazon, Apple TV+</td>
<td></td>
</tr>
<tr>
<td>• Small amount of existing library content sold to China market</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th><strong>IP ownership</strong></th>
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</tr>
</thead>
<tbody>
<tr>
<td>• No IP ownership for original content outsourcing</td>
<td>No IP ownership</td>
</tr>
<tr>
<td>• IP ownership for In-house broadcast content + OTT content investment share</td>
<td>(but contracts allowing IP ownership to some degree increasing)</td>
</tr>
</tbody>
</table>

**Expansion leveraging inorganic growth from Global OTT M&A**
Korea media content studio: no. of companies, employees, and revenue (2012~2021)

Threefold growth since Netflix foray into Korea

Content production by genre

Production highly skewed to Drama

Total Won 4.5tr (as of 2021)
Status quo of Korea OTT-Studio market

**OTT Platforms**

- Operating losses continue more than 10 years (expect Disney+ to turn around within 5 years, in our view)
- Financial support from parent broadcasting station as a cost center ➔ failed to build own value as an OTT (Sharing popular content with Netflix)
- Revenue below 10% level to its existing media business revenue
- Not meaningful result yet from their overseas expansion

** Studios**

- Non-captive (towards Global OTT) revenue keeps rising
- Reinvest proceeds to in-house OTT original content
- China market with high growth potential, but unopened
- Loss could widen due to the biz expansion (Merger, debt, etc.)
- Loss-making its US studio
Opportunity in K-content production - 1

<table>
<thead>
<tr>
<th>Position</th>
<th>Country</th>
<th>Annual Average</th>
<th>First Quarter</th>
<th>Second Quarter</th>
<th>Third Quarter</th>
<th>Fourth Quarter</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>United States</td>
<td>59.92%</td>
<td>63.18%</td>
<td>54.84%</td>
<td>62.60%</td>
<td>59.05%</td>
</tr>
<tr>
<td>2</td>
<td>South Korea</td>
<td>6.63%</td>
<td>4.49%</td>
<td>4.57%</td>
<td>5.47%</td>
<td>11.98%</td>
</tr>
<tr>
<td>3</td>
<td>United Kingdom</td>
<td>4.11%</td>
<td>6.28%</td>
<td>4.52%</td>
<td>2.72%</td>
<td>2.90%</td>
</tr>
<tr>
<td>4</td>
<td>Spain</td>
<td>3.90%</td>
<td>2.64%</td>
<td>5.15%</td>
<td>4.72%</td>
<td>3.10%</td>
</tr>
<tr>
<td>5</td>
<td>France</td>
<td>3.29%</td>
<td>4.45%</td>
<td>2.97%</td>
<td>3.59%</td>
<td>2.15%</td>
</tr>
<tr>
<td>6</td>
<td>Colombia</td>
<td>3.04%</td>
<td>2.29%</td>
<td>2.54%</td>
<td>3.83%</td>
<td>3.51%</td>
</tr>
<tr>
<td>7</td>
<td>Mexico</td>
<td>2.33%</td>
<td>1.52%</td>
<td>5.30%</td>
<td>0.88%</td>
<td>1.60%</td>
</tr>
<tr>
<td>8</td>
<td>Japan</td>
<td>2.30%</td>
<td>1.46%</td>
<td>3.14%</td>
<td>2.58%</td>
<td>2%</td>
</tr>
<tr>
<td>9</td>
<td>India</td>
<td>1.59%</td>
<td>2.12%</td>
<td>1.08%</td>
<td>1.31%</td>
<td>1.84%</td>
</tr>
<tr>
<td>10</td>
<td>Canada</td>
<td>1.43%</td>
<td>0.37%</td>
<td>2.56%</td>
<td>1.23%</td>
<td>1.54%</td>
</tr>
</tbody>
</table>

K-content gaining world-wide traction and increasing demand in K-content from OTTs (excl. Netflix)

- Netflix’s investment into K-content (US$2.5bn in 4 yrs) continues: 45% level of that of UK
  → Capturing opportunities in Korean and global simultaneously
  Increase in series drama (production cost per episode increase)

- K-content become essential to capture Asian market, which is a target region for OTTs
  → K-content consumption now reaching high level of 25~30% in Asia OTT

Source: Flixpatrol

K-content demand ranked top 2 (vs UK no.3)
Expect only 2% YoY increase in 2023 (vs. 10% in 2022)

Subdued content investment means Selective K-content production and purchase would increase

- Continuous production in sequel, reboot content
- Reliance on Fandom-based IP such as Game IP (e.g., Nintendo Super Mario)
- High preferences for K-content which has diverse story-telling with low cost
- Growing demand from diverse OTT platforms such as Amazon Prime Video, Apple TV+, Paramount+, etc.

→ Apple TV+: The Big Door Prize (Original), Existing library content sales increase
Opportunity in K-content production - 3

Korean OTT to build a distributor network through global expansion

- Wavve: acquired 40% shares in LA-based streaming provider, ‘KOCOWA’ in 2022
- Tving: entered into Japan and Taiwan market in 2023 (partnering with Naver Line)
  
  Raised US$70mn from Paramount
  
  Produced 7 original drama contents targeting overseas market
Opportunity in K-content production - 4

Expansion into global content studio

- CJ ENM: acquired Endeavor Content (Nov.2021 / rebranded as a ‘Fifth Seasons’) established Studio Japan (Partnering with Naver Line)
- Naver: built integrated webtoon platform after the acquisition of North America no.1 webtoon platform, ‘Wattpad’
High IP potential in Korea

‘Well-made’ content production with powerful storyline

- In-house IP: Webtoon, Web novel, etc. → IP expansion underpinned by Korea/global webtoon platform
- Scaling up in production industry and improved capabilities of SME studio → Systemization in IP/writer/production
- Post-production technology meets global standard (SFX/VFX, etc.)

Excellent capabilities, but content studio need to benefit more

Competition with global OTT

- Diverse content through IP - Drama, Entertainment, anime
- Ramp-up in global usage
- Expand IP to make use of competition

Actively leverage OTT platforms, Globalization of Korean OTT needed

Opportunity in rear industry

Building rear industry ecosystem to fully monetize its IPs (Post-Covid 19)

Collaboration/Partnership

- Tourism
- Beauty
- Fashion
- F&B

Tourism, Beauty, Fashion, F&B
• K-Webtoon’s excellency

Original content highlighted underpinned by diverse story and genre: over 100 productions
→ 19 webtoon-based Korean drama productions in 2022

Accelerated global expansion:
- Naver webtoon: Foray into US/JP/EU market
- Kakao: Establishment of its US subsidiary (Tapas Ent.)
- IP diversification into Webtoon, Web novel platforms
Strategic direction of K-content production

Leveraging OTT platforms
- Production base for global/Korean OTT
- Penetration into new market i.e., China
- Morea headroom in production cost
- However, limited upside due to maturing OTT market

IP differentiation
- Building story universe:
  - Discovering/Partnering external IPs
  - Advancement in franchise IP
  - Case study on IP-based OSMU business

Expansion into global studio
- Cost control of acquired companies
- Meaningful track record