Mobile Content – Emerging Business Models and Opportunities

Screen Digest

8th May 2007

Today's agenda

- **Introduction**
  - Ben Keen, Chief Analyst
- **Playing the mobile content game**
  - David MacQueen, Senior Analyst
- **Mobile music – no money?**
  - Dan Cryan, Analyst
- **The mobile content revolution will be televised**
  - Ronan de Renesse, Analyst

Screen Digest Mobile Intelligence

- **Data on 25 countries**
  - Europe, North America, Japan, South Korea
- **Basic Metrics**
  - Subscribers, 3G subscribers, ARPU split by voice, messaging and content
- **Market Share**
  - Provided by mobile operator for subscribers, 3G subscribers and content market
- **Revenues**
  - Blended, prepay and contract ARPU; voice, messaging and content ARPU
- **Mobile Games, Music and TV**
  - Service overviews
  - Historical data and forecasts for downloads, subscribers and revenues

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Playing the mobile content game

Screen Digest
David MacQueen
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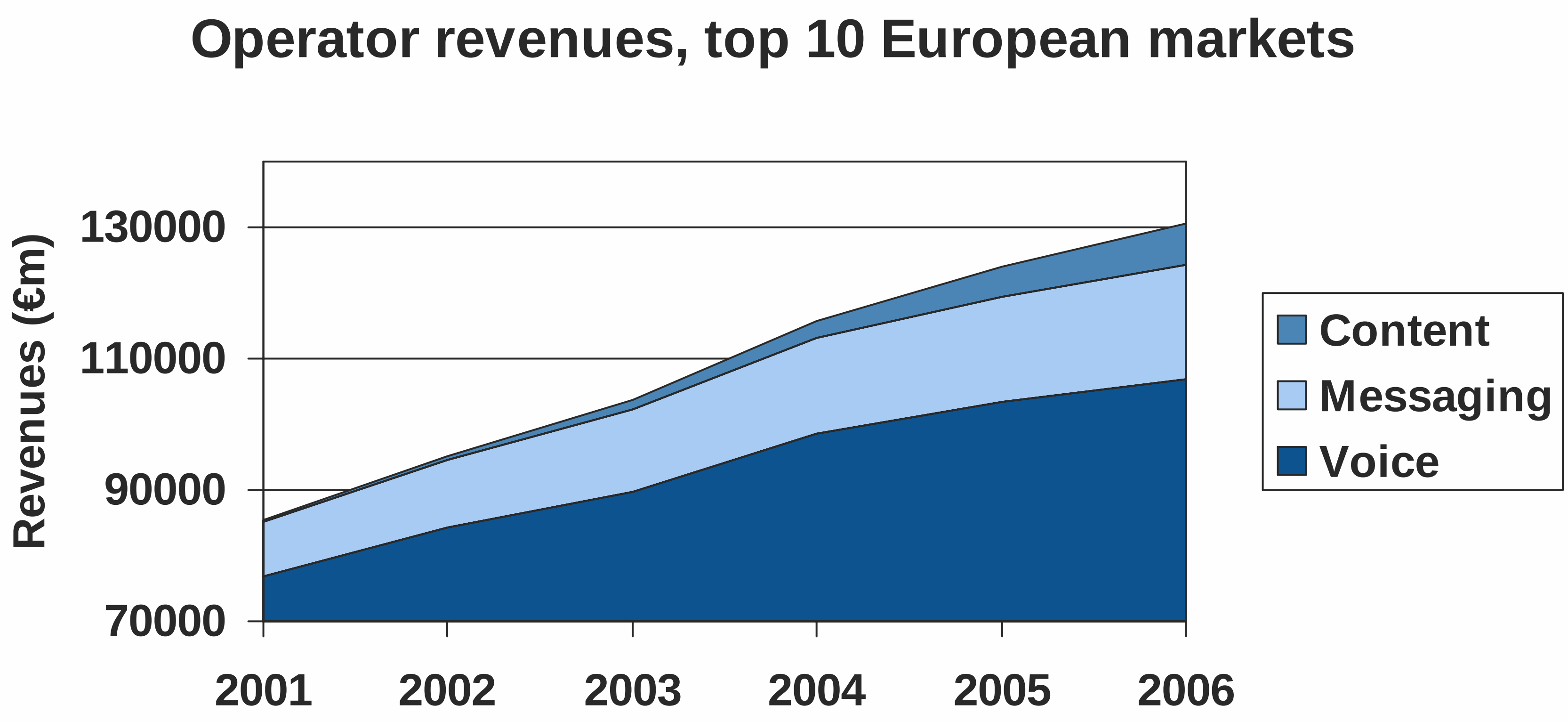
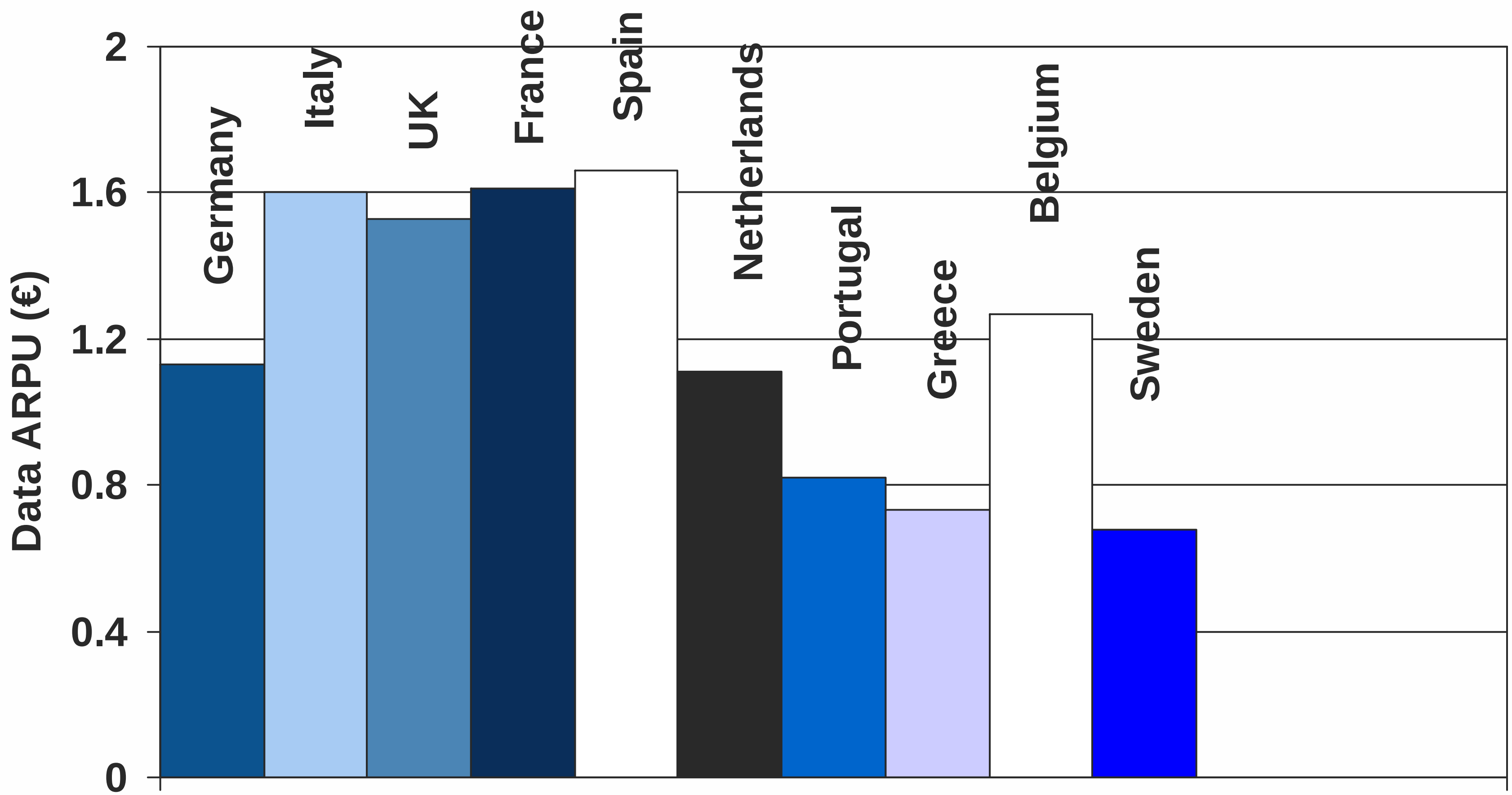
Why is content important to operators?



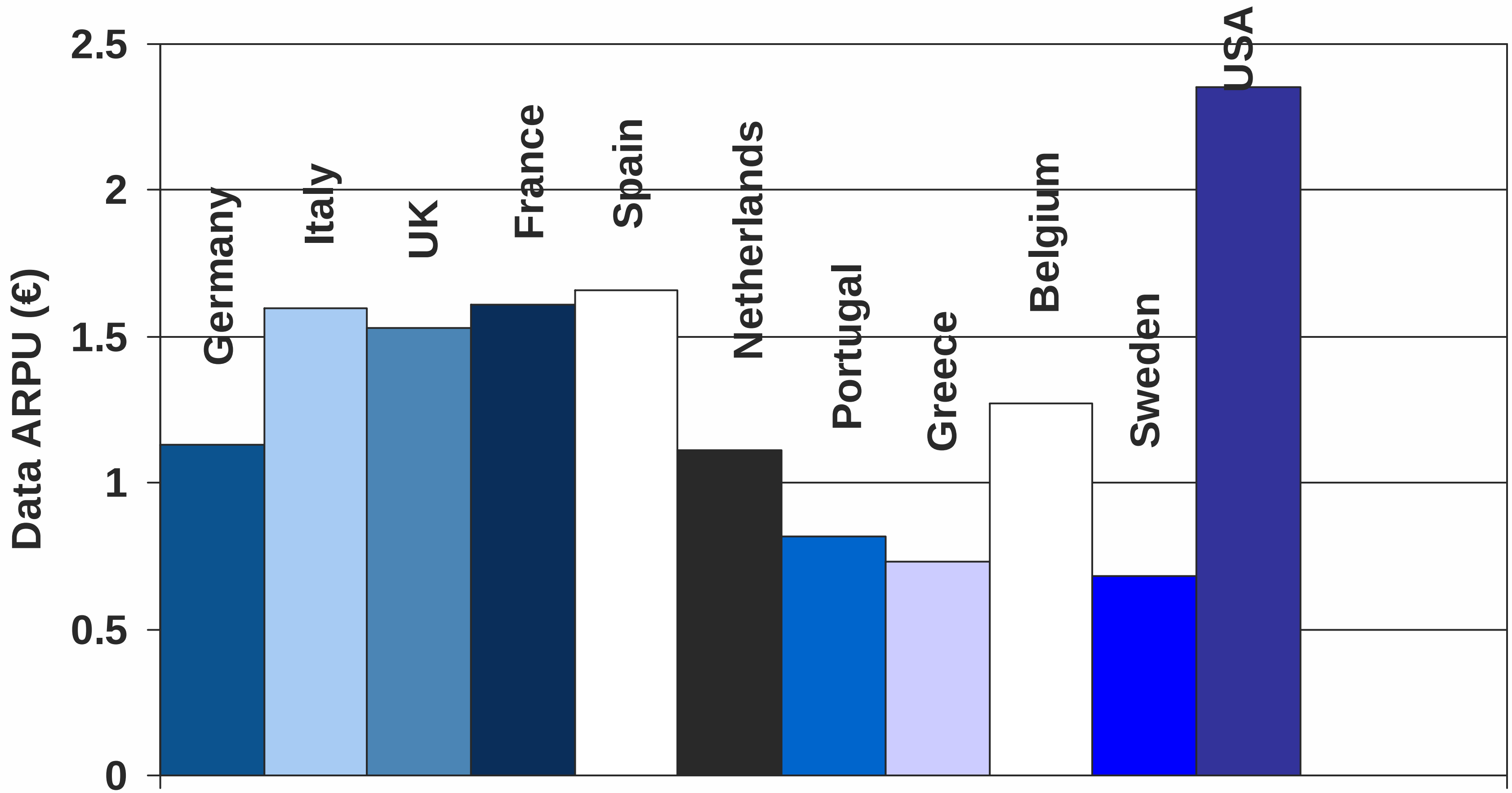
- Growth in messaging and voice revenues slowing
- Content revenues mean linear growth rate continues
- Content worth over €6bn in 2006 across top 10 European markets

Considerable variation in Europe



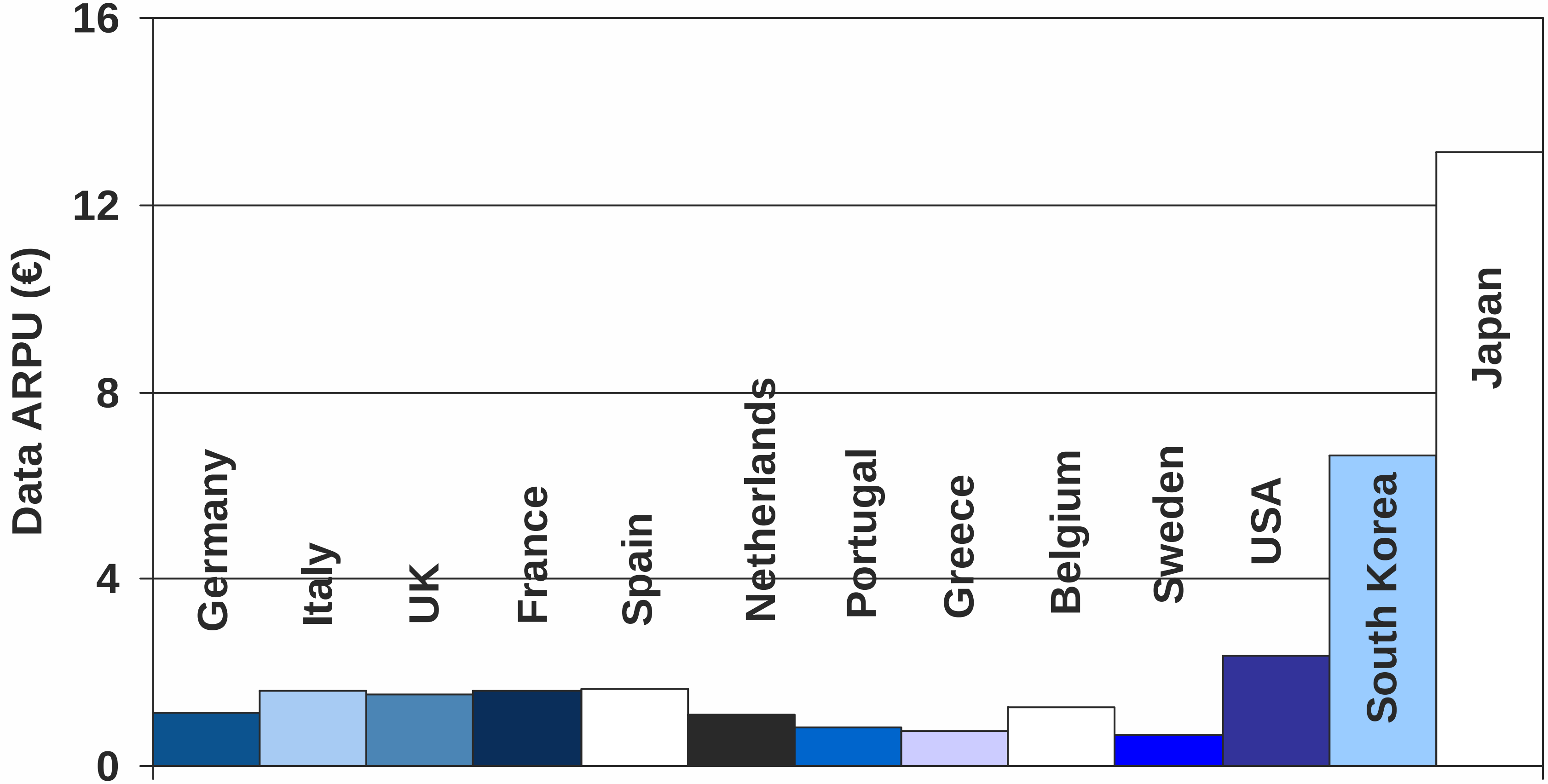
- **Myth that prepay users don’t pay for content**

US around double European average



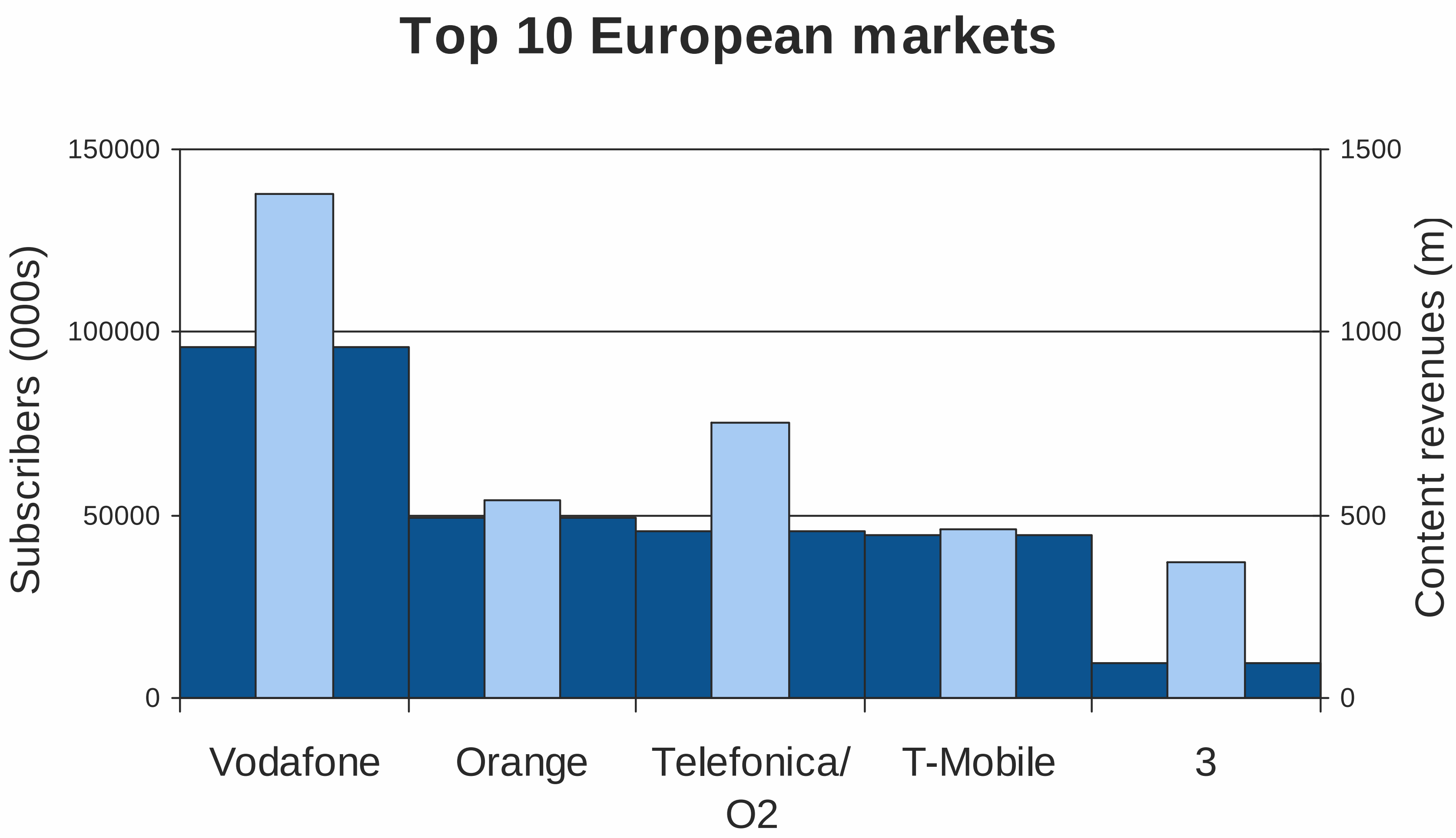
- Operator promotion of content; little off portal
- Flat rate data common

Far East dwarfs Western markets



- **Most mature markets**
- **The future for Western markets?**

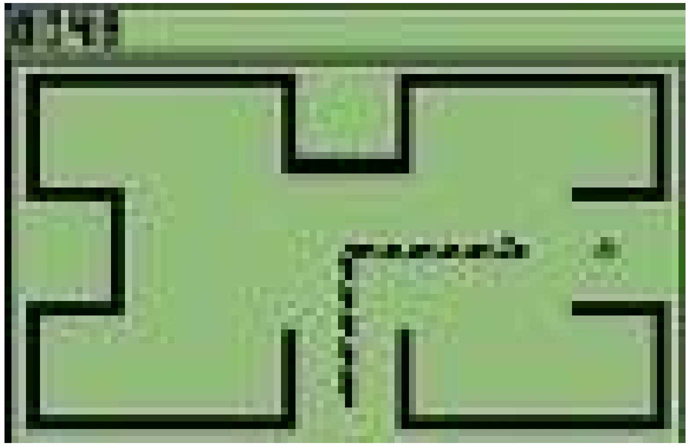
Not all operators are created equal



What do Vodafone and 3 have in common?

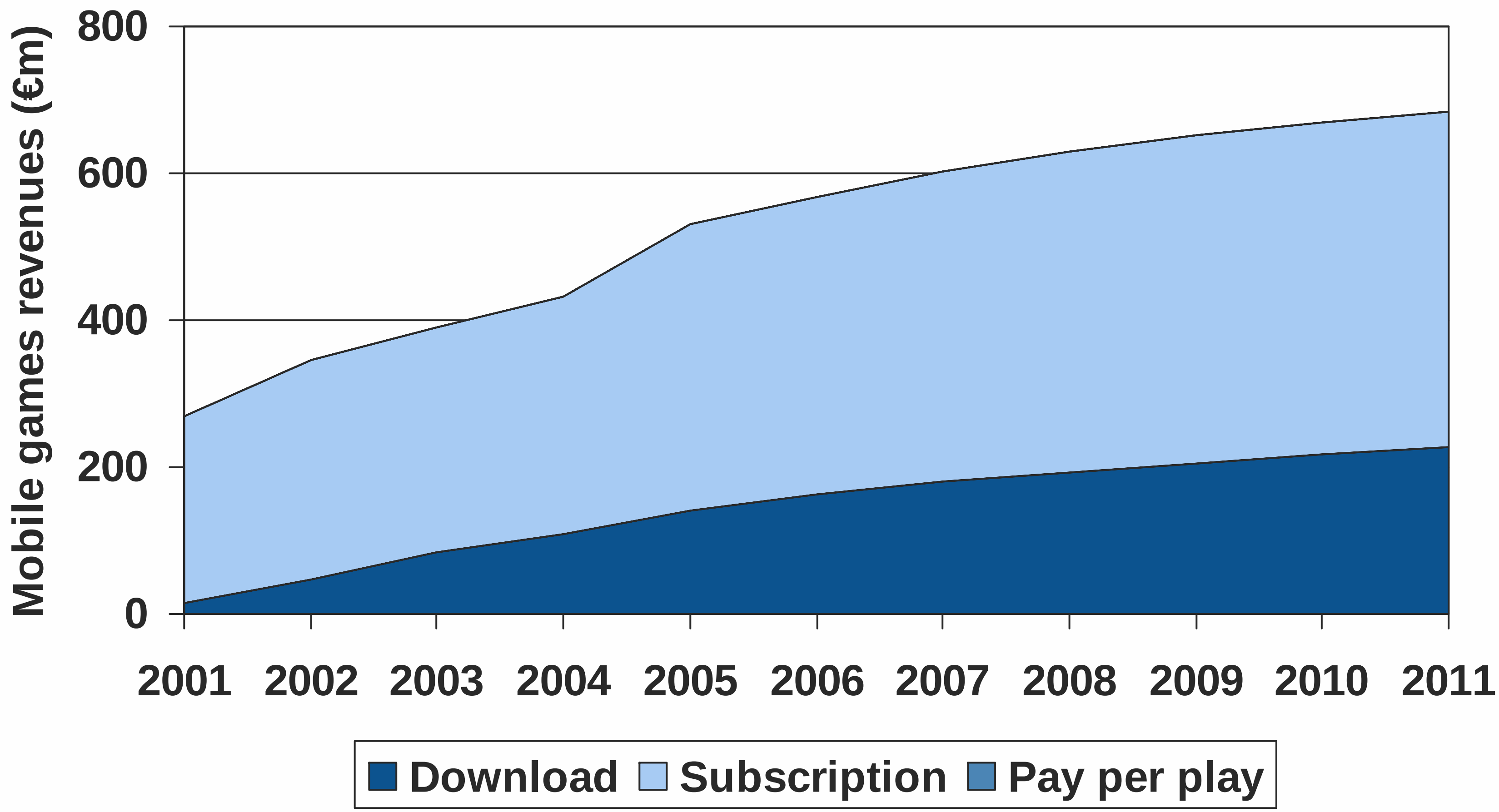
- Both operators routinely offer free content
  - **Users become accustomed to buying content in a risk-free transaction**
- Both early to offer more advanced content such as TV
- Both advertise content to users
  - **Other operators typically only advertise on price of voice/text**
- Vodafone typically strike deals with premium content suppliers such as Sky for TV and EA for games
- 3 typically looks for content which is current or fits in with current trends – not always big name brands
- Most other operators do not have such an obvious content strategy

Mobile games – the 'daddy' of mobile content

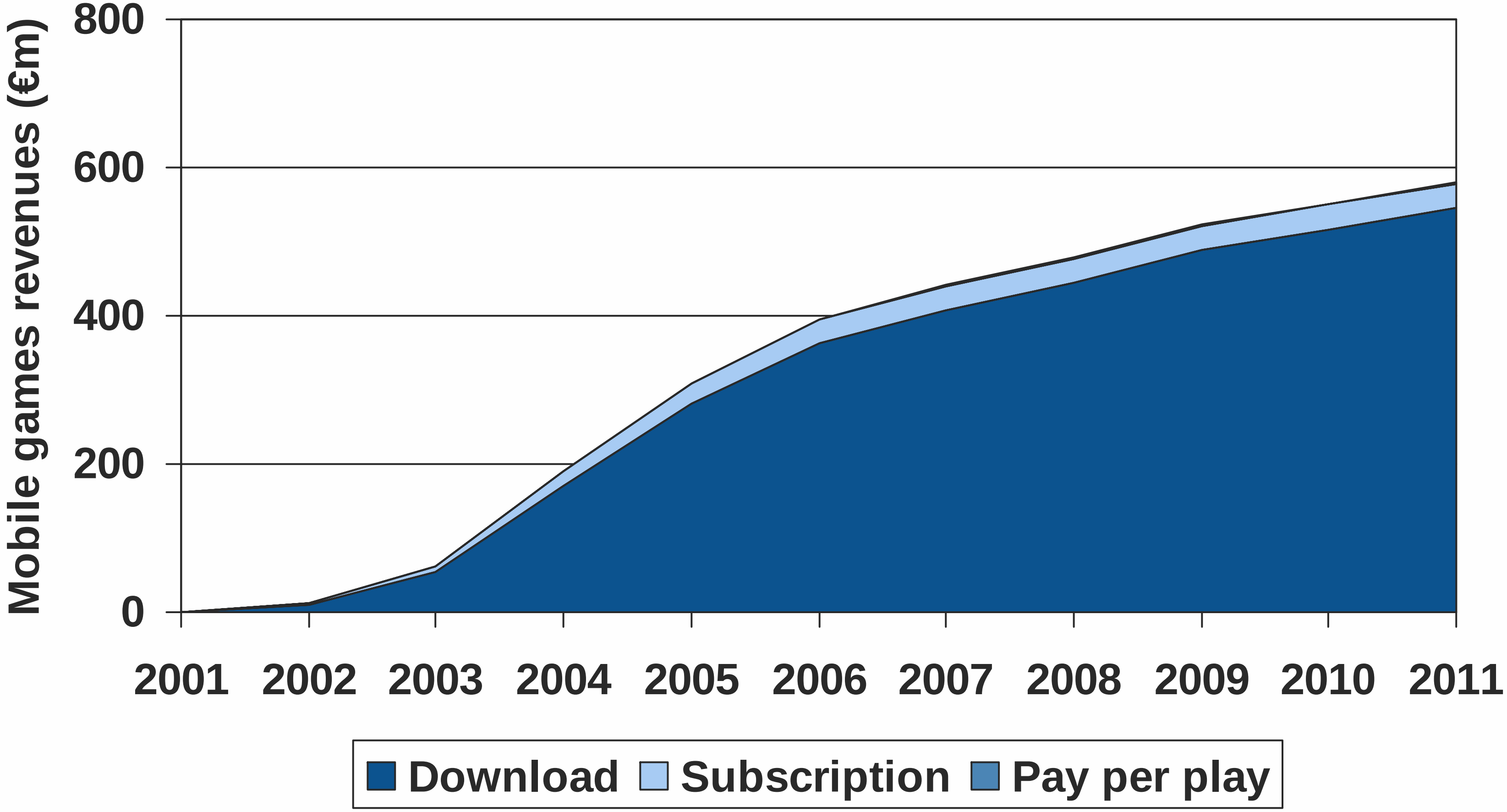


- **Snake appears in 1997, predating ringtones by 2 years**
- **Games is the most mature content category**
- **What can we learn from the development of this market?**
- **How will this impact other content types?**

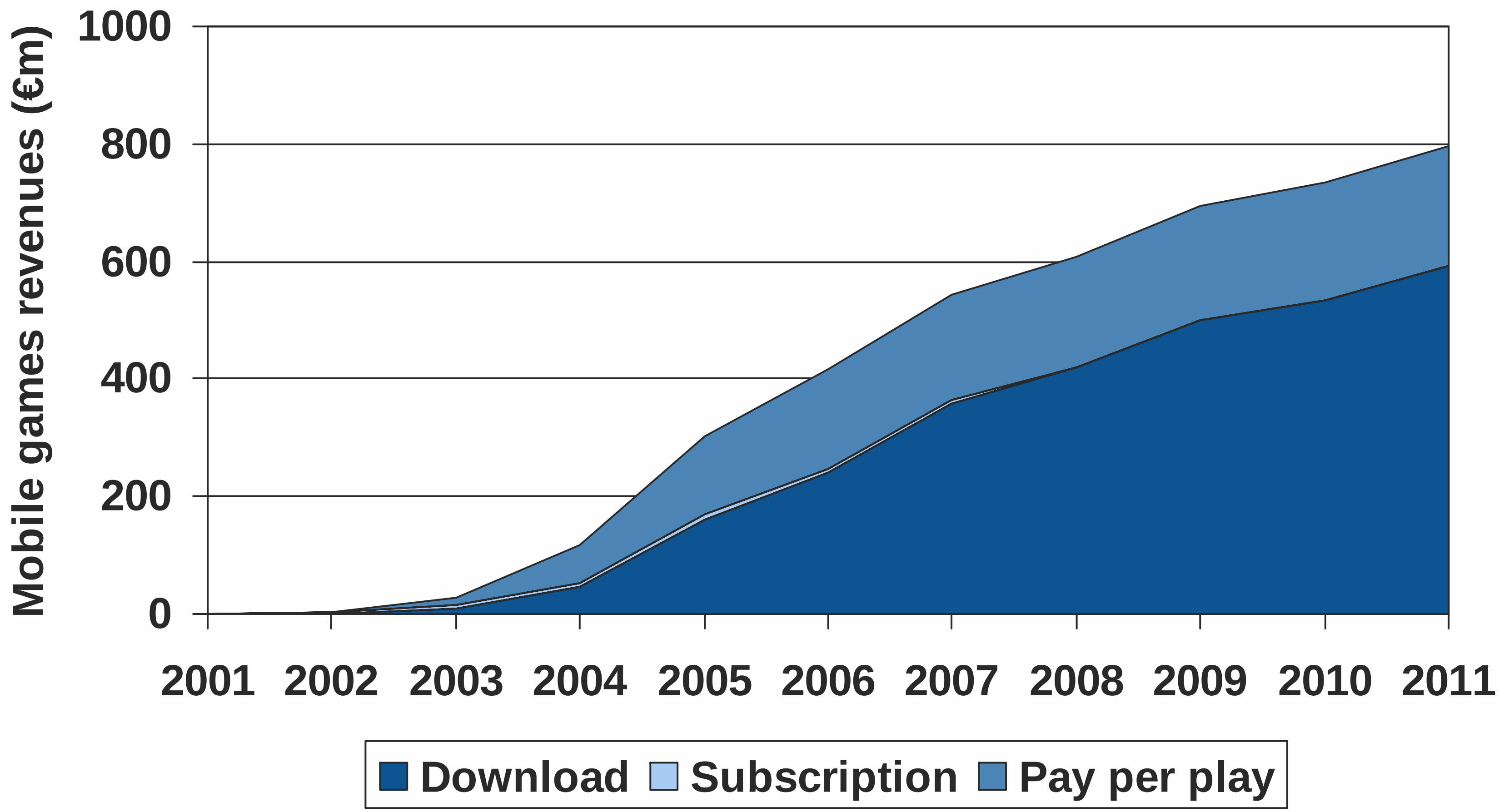
Japan and South Korea mature



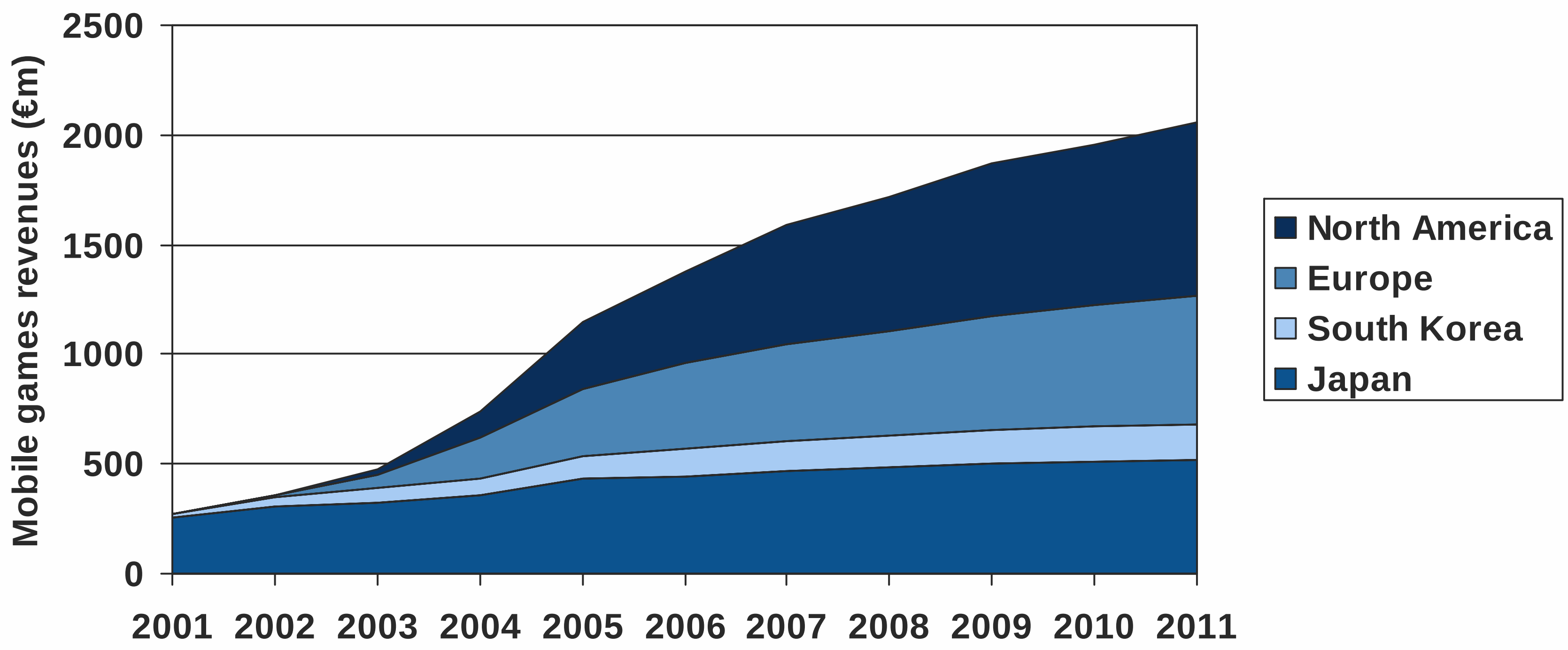
Europe reaching ‘tipping point’



Further growth expected in North America



North America to be biggest market from 2009



- **New markets will add to growth**
  - China, India and South America key territories
  - BUT significantly lower price points

Different business models in different regions

- **Subscription largely in Japan**
  - Mis-sold subscription services often cited as a reason for lack of popularity elsewhere
  - i-mode has not been popular outside Japan
- **Pay per download popular in Europe, North America and South Korea**
- **Pay per play (rental) popular in US, services launching in Europe**
  - Pay per week/month options very like subscription, but on a per title basis rather than subscription to service

Who are the main players in the game?

Typical revenue shares (Operator/publisher)

Europe: 50/50

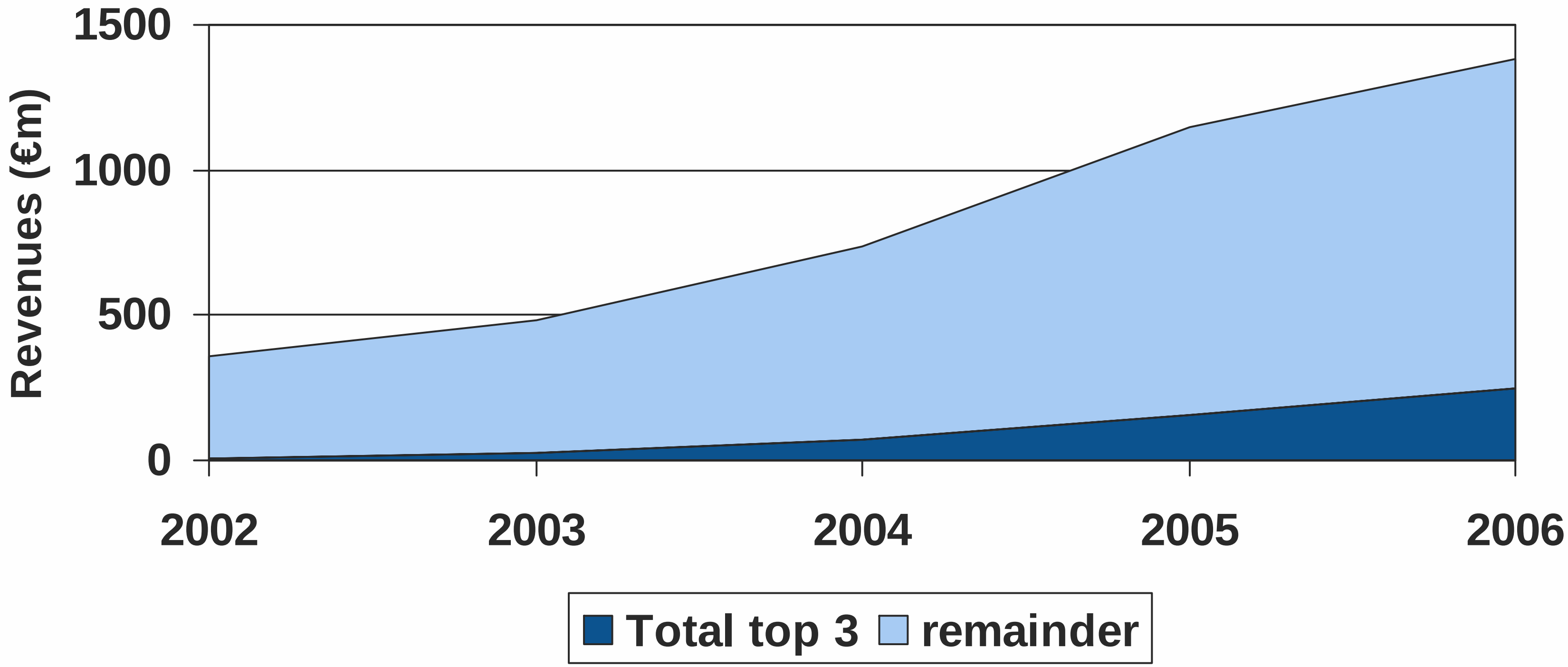
North America: 30/70

Japan: 9/91

Often up front payment and/or revenue shares from publisher revenues

Typically 10% from publisher revenues

A gap is opening up

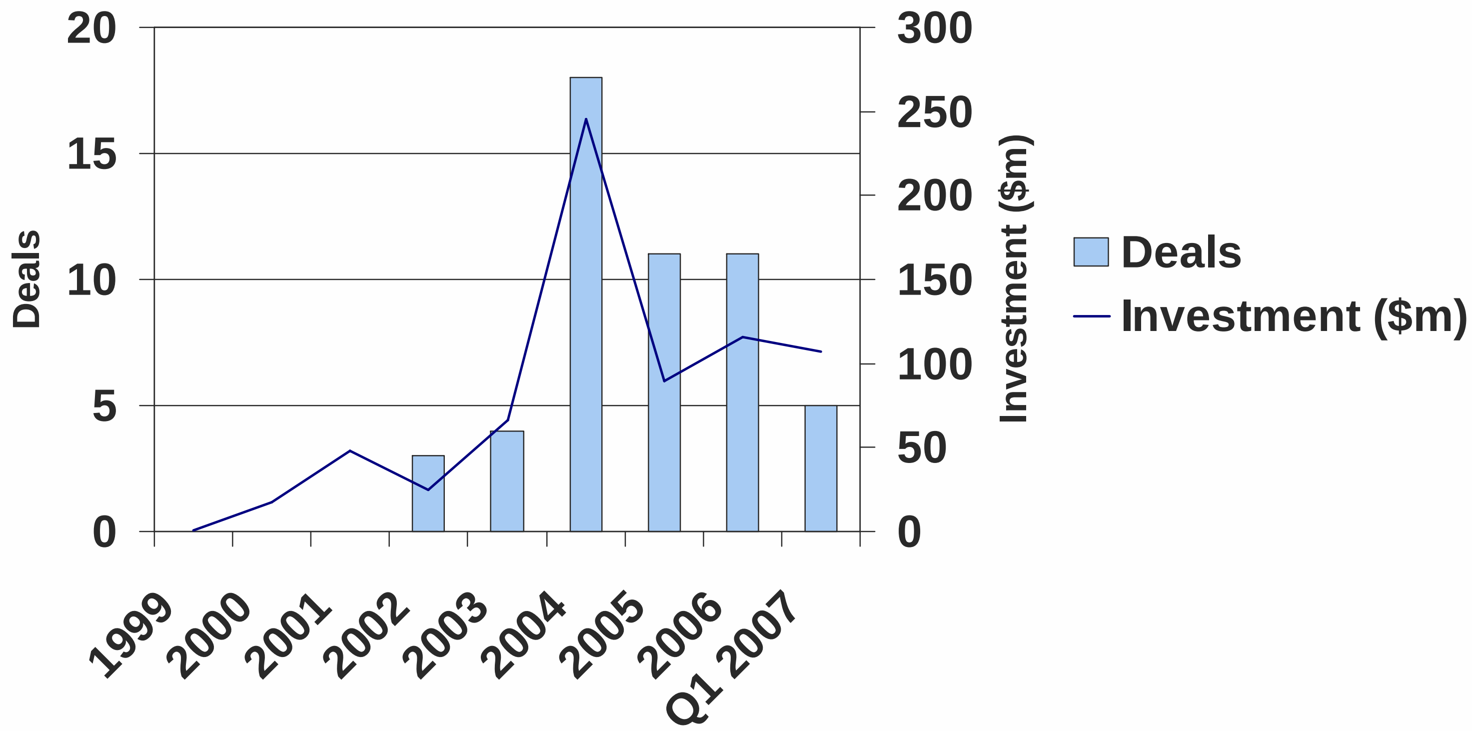


- Top tier publishers taking a larger market share
- Top 3: EA, Gameloft, Glu

Why is this happening?

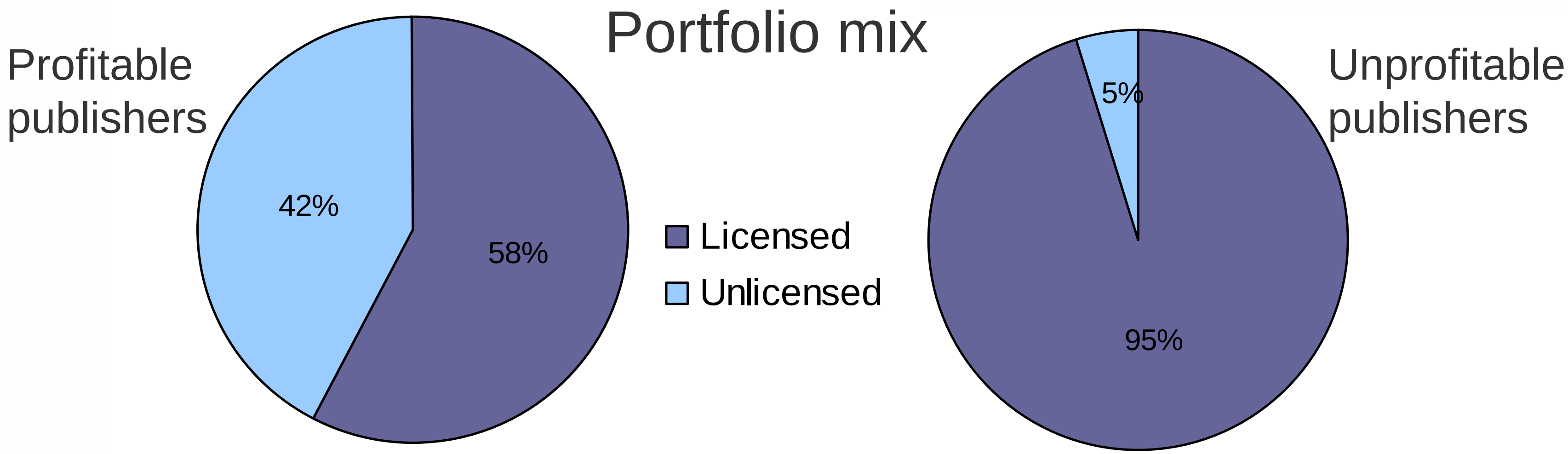
- **Operators focus on smaller number of higher quality relationships**
- **Slowing growth leads to increased consolidation and more M&A activity**
- **All of this means market leaders continue to capture a larger market share**
- **Life will become more difficult for smaller publishers**

Investment activity peaked in 04, on rise again



- **Around 50 deals and over $700m invested in Western markets**
- **Peak in 2004 (start of 'hockey stick' growth)**
- **2007 a 'busy' year so far (growth slowed to 14%)**

Acquiring IP is a typical publisher strategy



- **Licensing IP clearly affects profitability**
- **Competition through brands has not been a successful strategy, particularly for smaller publishers**
- **Quality and scale becoming more important**

Publishers under pressure despite content revenue growth

- **Can publishers increase profitability?**
  - IP affects profitability
  - Fragmentation decreases profitability
  - Will 3D adversely affect profitability?
- **So if content ARPU has strong growth, why not games?**
  - Promotion of other content types
  - Limited deck space
  - You can't treat games in isolation
- **Limited audience**
  - It's been 5% for years
  - After 10 years of mobile games the audience has reached a cap
- **Is the challenge to increase ARPU from existing players?**

The challenge is to prove us wrong

- **Our forecasts are based on the existing market and what we feel is likely to change**
- **So if the current business models are not enough, what can make the market grow?**
  - Not 3G
  - Search
  - Simplicity
  - Service not product – subscription and PPP

What can we learn from games?

- **Can we expect this to happen to all content types?**
- **Can music and TV attract a bigger audience?**
- **Will that audience pay?**
- **How much will they pay?**

Thank you

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