MEDIA AND ENTERTAINMENT TARIFF IMPACT

2025

AlixPartners

Media & Entertainment Tariff Impact

Point of View on Tariff announcement to productions outside of U.S.

WHAT WE KNOW	WHAT WE DON'T KNOW
The administration announced on May 4 its plans for a 100% tariff on 'any and all' films produced in 'foreign lands'	The precise way this tariff would be put in place The criteria for defining a 'foreign film' under the tariff If the tariff will apply in proportion to U.S. vs. non-U.S. budget spend Whether the tariff will apply to TV shows in addition to movies If the tariff will apply to films produced but not yet released

POTENTIAL MECHANISMS TO IMPLEMENT THIS NEW TARIFF:

A Special sales tax on end purchases:

- The proposed tariff could apply to various revenue streams, including **Movie Tickets, Digital Purchases and Rentals, Streaming Subscriptions, and Physical Assets (DVDs, Blu-ray)**
- Under a sales tax option, content owners and distributors could be required to **disclose the proportion of foreign versus U.S.-based production costs**
- However, significant uncertainty remains regarding the tariff's application: **Will it be proportional to the amount of cost incurred in the U.S. versus outside, or applied to the total value if any production occurs internationally?**
- The transparency of potential price increases driven by this tariff **could generate negative public sentiment from the administration**, mirroring recent reports of companies planning to disclose tariff impacts to consumers

B Special corporate tax:

- An alternative implementation mechanism could involve **a special corporate tax on movie production companies, distributors, and other entities profiting from Movies and TV shows**
- This tax could be **charged to Revenue rather than Net Income**, impacting profitability regardless of a company's financial performance
- This implementation approach could **mitigate the direct impact on the consumer**, as companies would need to strategically determine how much of the cost to pass on based on consumer price elasticity and other factors

ILLUSTRATION OF ESTIMATED TARIFF IMPACT FOR MECHANISM OPTION A

While comprehensive data detailing the percentage of total available content that is fully or partially produced offshore remains limited, the following estimates focus on the Movie Theater industry to illustrate the potential scale of impact:

50% According to a study by research firm PRODPRO[1], on average, for movies with budgets >$40M, **50% of the cost on productions was spent outside the U.S.**

+$7B of the total box office revenue was from **movies with production budgets over $40 million**. Assuming the proposed tariff applies to all revenue from movies using foreign resources, and with a 50% foreign resource ratio, **the tariff impact could be ~$4 billion**

+$5 To accommodate for the new tariff, movie theaters could have to pass through to customers about **$5 USD for each ticket** (~800 Million tickets sold in U.S. in 2024), a **~50% price increase on average movie ticket price[3]**

A price increase of this size would further dampen the outlook of the movie theater industry, already struggling to attract moviegoers (7% decline in # tickets sold from 2024 to 2023)

Sources: 1. ProdPro – Q2 2024 Global Production Report; 2. Box Office Mojo; 3. Digital Entertainment Group; 4. U.K. Screen Alliance; 5. Ampere Analysis; 6. Public Company Annual Reports

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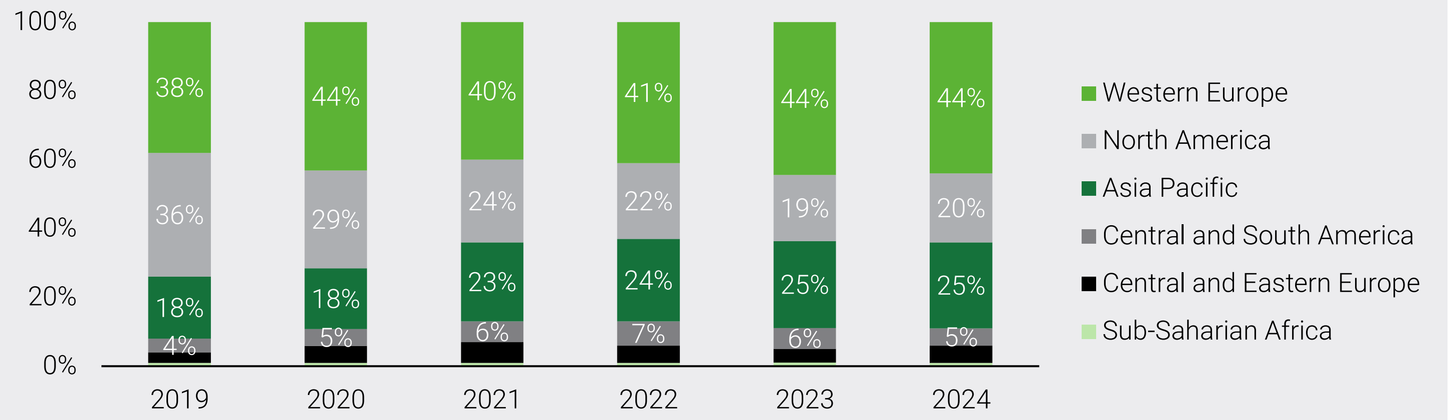
IMPACT TO INDUSTRY PROFITABILITY

Apart from the Movie Theater sub-industry, a tariff such as this could significantly impact **Streaming, Digital Purchases or Rentals, and even physical sales of DVDs and Blu-ray discs**. These segments collectively generated an estimated $40 billion in revenue in 2024.

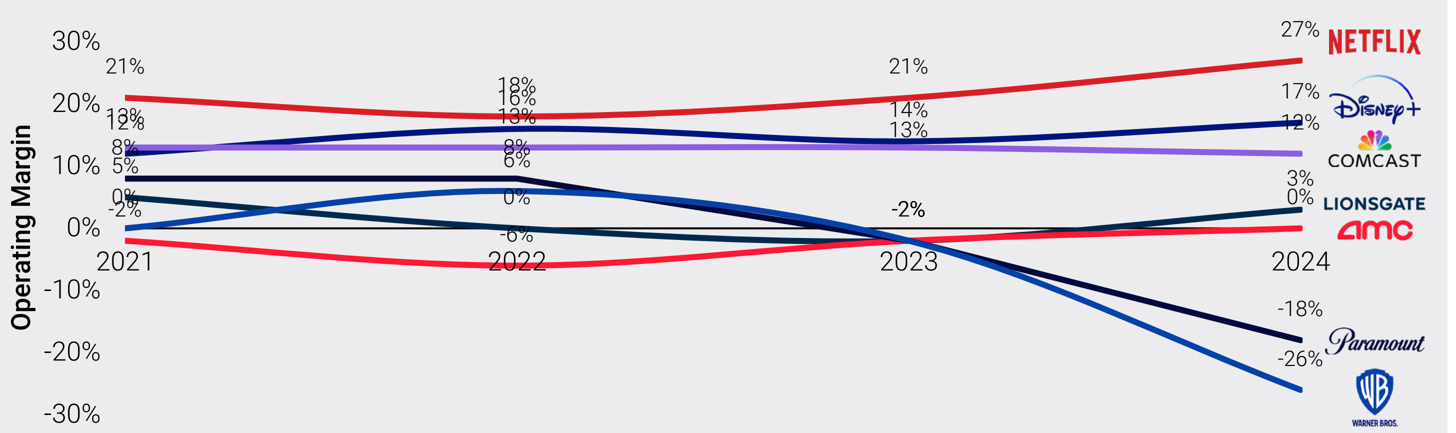
While feature films constitute a significant portion of production, television shows represent an even larger segment. Although the direct impact of the proposed tariffs on television production remains uncertain, there has been a notable trend of TV show production moving away from North America since 2019, with North American production declining from 36% of the total in 2019 to just 20% in 2024. Should these tariffs extend to television content, global streaming services could face substantial repercussions.

FIGURE 1: % OF TITLES, BY PRODUCTION REGION[5]



On average, productions solely based on U.S. may be 25 to 30% more costly based on tax incentives and currency arbitrage alone[4]. This tariff could place further pressure on the profit margins of production and distribution companies with generally low or negative relative operating margins.

FIGURE 2: EVOLUTION OF OPERATING PROFITS FOR CONTENT PRODUCTION OR DISTRIBUTION COMPANIES, 2021–2024[6]



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MITIGATION ACTIONS AND ADVERSE CONSEQUENCES TO MOVIE AND TV INDUSTRY:

A Virtual Production Adoption

Companies may decide to shift more productions to virtual environments which, while reducing location costs, may compromise the authenticity and creative spark derived from real-world settings.

B Increased AI Content Generation

Companies may accelerate the use of AI for scripts, visuals, and even actors, which may carry the risk of unoriginal content and potential job displacement for human creative professionals. This could lead to another set of actor/screen writer strikes. .

C Domestic Labor Cost Pressures

Cost constraints may require decreased salaries for cast and crew working on US-based productions, potentially resulting in lower talent quality, reduced morale and, once again, strikes that halt the production of new content.

D Expand Use of Low-Cost Locations for Indirect Labor Categories

Companies may reduce costs by increasing reliance on remote & virtual collaboration for indirect production labor categories. However, dispersed teams could impede effective communication & the spontaneous creativity often found in on-set interactions.

HOW ALIXPARTNERS CAN HELP

Identifying potential tariff exposure and mitigation actions

- **Establish a Tariff War Room:** Proactively monitor new developments and drive timely decisions and actions related to potential tariffs
- **Quantify Total Tariff Exposure:** Identify and assess potential impact
- **Formulate Short- and Long-Term Mitigation Strategies:** Develop a comprehensive list of potential actions to minimize tariff impact

1

Pricing strategy

- **Assess Potential Pricing Increases:** Determine the full range of potential price increases based on the calculated tariff impact
- **Conduct Consumer Elasticity and Competitive Benchmarking:** Analyze consumer price sensitivity and competitor pricing strategies to identify the optimal tariff pass-through scenario

2

Liquidity Management

- **Proactively Develop Cost Reduction and Cash Flow Mitigation Plans:** In anticipation of potential cost increases and margin pressure, formulate strategies to reduce expenditures and safeguard cash flow

3

Sources: 1. ProdPro – Q2 2024 Global Production Report; 2. Box Office Mojo; 3. Digital Entertainment Group; 4. U.K. Screen Alliance; 5. Ampere Analysis; 6. Public Company Annual Reports