



Getty Images, Inc.

Company Profile

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COMPANY OVERVIEW

Getty Images (Getty) is a creator and distributor of visual content. The company provides imagery and related services to creative professionals. The company operates 20 offices servicing nearly 100 countries around the world. Getty is headquartered in Seattle, Washington and employs about 1,820 people.

The company recorded revenues of \$733.7 million during the fiscal year ended December 2005, an increase of 17.9% over 2004. The operating profit of the company was \$225.9 million during fiscal year 2005, an increase of 34.3% over 2004. The net profit was \$149.7 million in fiscal year 2005, an increase of 40.4% over 2004.

KEY FACTS

Head Office	Getty Images, Inc. 601 North 34th Street Seattle WA 98103 United States
Phone	+1 206 925 5000
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Web Address	http://www.gettyimages.com
Revenues/turnover (US\$ Mn)	733.7
Financial Year End	December
Employees	1823
SIC Codes	SIC 7389 Business Services, NEC
NAICS Codes	42186, 49111, 51224, 51229, 51421, 52232, 54134, 54135, 54137, 54141, 54142, 54149, 54187, 54189, 54193, 54199, 56179, 56191, 56192, 56199, 71141, 81232, 81299, 313311, 314999, 325998, 514199, 541199, 561421, 561422, 561431, 561439, 561491, 561499, 561591, 561599
New York Ticker	GYI

SWOT ANALYSIS

Getty Images (Getty) is a leading provider of imagery and related products and services. Getty is the largest stock imaging agency in the world today, commanding a dominant 40% share of the global stock photography market. The company's market leadership position has given Getty strong top line growth in the last five years (2001-2005). However, it faces the threat of copyright infringements which may cause serious damage to the company's business.

Strengths	Weaknesses
Industry leader	Weak internal controls
Broad customer base	
Strong top-line growth and cash flow	
Opportunities	Threats
Corporate initiatives	Copyright infringements
Addition of video service	Online operations
International expansion	Highly competitive industry

Strengths

Industry leader

Getty is the industry leader in stock photography. It has acquired the five largest stock photo image collections in the world and consolidated them on to gettyimages.com. Currently, Getty has an estimated 40% share in the stock photography markets and is seven or eight times larger than its next competitor, Corbis (in terms of revenues). The company's website, gettyimages.com serves an average of 2.3 million unique visitors each month with over 2.3 billion thumbnails and 161 million page views. Additionally, Getty frequently receives industry recognition for both its photography and its business accomplishments. The company's leadership has given Getty a strong competitive position with the large advertising and design agencies throughout the US and Europe. While the company's large size enables it to leverage various scale advantages, its leading market standing has positioned it well for future growth.

Broad customer base

The company has a broad customer base in four major categories: creative customers (advertising and design agencies), editorial customers (publishing and media companies), corporate customers (in-house advertising groups and corporate marketing departments) and film customers (film and broadcast production companies). Getty is not dependent on a single customer or a few customers. This insulates the company from segment specific problems and reduces business risk.

Strong top-line growth and cash flow

Getty has recorded strong top-line growth over the past five years. In fiscal 2005, revenues grew by nearly 18% to \$733.7 million. The company's revenues grew at a CAGR of 12.9% in 2001-2005, from \$451 million in 2001. On a five-year average, revenue growth was 13.1% versus industry average of -3%. Getty has significant cash resources and debt capacity to support share repurchase activity and acquisitions. The company recorded strong operating cash flow, which increased from \$45.3 million in 2001 to \$257.3 million in 2005, recording a CAGR of 54.4% during 2001-2005. At the end of fiscal 2005, cash and equivalents of Getty was \$223.1 million, marking a CAGR of 48.3% during the period 2001-2005. The company's strong financial performance has enabled it to fund growth initiatives including acquisitions.

Weaknesses

Low return on assets, investment and equity

Despite high profit margins, Getty Images has generated low returns on its assets (RoA), equity and investments as compared to the industry average. The RoA of the company was 8.6% trailing twelve months (TTM) ending August 2005, whereas average RoA for the industry was 10% for the same period. The return on equity of the company was 11.8%, whereas the industry average was 17.7% (TTM) ending August 2005. The case for return on investment (RoI) too was similar during this period; the company (2005 RoI: 9.7%) had lower figure than the industry average (17.4%). Such low returns indicate that the management of the company has not been effective in investing the resources of the company into profitable avenues in order to generate the desired returns. This puts the company at a competitive disadvantage against players like D&B (RoA: 14%, RoI: 29.9%, RoE: 677.6%) and Equifax (RoA: 14.5%, RoI: 19.9%, RoE: 44.2%), who have better return on assets, equity and investments.

Decreasing margins of the royalty-free imagery business

The profit margins of the royalty-free imagery business have been declining from the year 2002. The profit margins of this division have declined from 80% in fiscal 2002 to 76% in 2004. In addition, the share of revenues from this division has been increasing in Getty's total revenue base. This is partly attributable to the increase in royalty-free pricing but on a volume basis too, this segment increased its share. This service formed 31% of the revenues in 2003, and it increased to form 33% of the total revenues in 2004. Customers generally pay less per image for royalty-free content, so continued share gains from the lower end product could constrain revenue growth. Also, growing royalty-free collections are likely to come at the cost of the rights-management collections.

Opportunities

Acquisition of Digital Vision

In April 2005, the company acquired London-based Digital Vision, one of the world's leading royalty-free photography businesses, for \$165 million in cash. It is the largest Getty Images has made in five years. This acquisition makes Getty the leading creator and provider of royalty-free imagery worldwide. This acquisition is expected to increase the revenue that Getty Images generates from royalty-free content, and will do so at significantly higher margins due to the Digital Vision's large proportion of wholly-owned content. Acquisition of Digital Vision will also allow Getty to explore innovative offerings such as subscription licensing models and content for emerging broadband-enabled platforms, such as wireless.

Growing entertainment industry in Asia-Pacific

Japan is a dominant entertainment market in Asia-Pacific region, at \$8.3 billion, 54% of total spending. The Japanese entertainment industry is one of the world's largest and most innovative. Despite the culture and language barrier, various forms of Japanese entertainment have become internationally popular. New digital launches are likely to drive multichannel penetration and fuel spending in the future, making Asia-Pacific the fastest-growing entertainment region in the world. Japan is also the second-largest single country advertising market (US is the largest) and has a stock image market size of approximately \$200-300 million. Since the company has made continued efforts to increase its presence in Japan and other Asia Pacific markets, the above mentioned scenario provides immense opportunities for growth and the company is likely to derive large gains by utilizing the potential of these markets.

Positive outlook for the advertising business

The improving economic outlook is driving corporations to increase their advertising spending, leading to an improved outlook for most media companies. The global advertising market in 2004 was boosted by the two key quadrennial events - the US elections and the Olympic Games. The advertising industry grew by about 6% in 2004 and is estimated to grow by 5% in 2005 and 5.6% in 2006. Forecast upgrades for the global market by media buyers this year have been driven by a combination of stronger than expected growth in the US market, and a faster improvement in parts of Europe. 2005 is expected to see the steady disappearance of the 'mass' market, replaced by an ever-growing number of 'micro' markets that cater to the needs of specific groups or individuals. Getty is highly leveraged on the recovery in advertising; it is well-poised to benefit from this growth.

Threats

Copyright infringements

Getty's products and services mainly include images and video clips, which are highly susceptible to copyright infringement. The threat is greater in nations such as China and India, where little control exists over copyrights. Copyright protection is a necessary condition for success in the company's industry and infringements can cause serious damage to the company's business.

Highly competitive industry

The market for visual content and related services is highly competitive. The principal competitive factors include name recognition, company reputation, the quality, relevance, timeliness and diversity of the images in a company's collections, the quality of contributing photographers, filmmakers and other imagery partners under contract with a company, effective use of current and emerging technology and pricing policies and practices. Some of the current and potential competitors of Getty include the other general visual content providers such as Corbis, Jupitermedia, Amana, Alamy, Index Stock Imagery, Photographers Library UK and Masterfile; specialized visual content companies that are well established in their local, content or product-specific market segments such as Reuters Group, the Associated Press, Action Images, MediaVast and ZUMA Press; stock film footage companies such as Corbis Corporation; and commissioned photographers. The industry is fragmented further due to the presence of hundreds of small stock photography and film footage agencies and image content aggregators throughout the world who sell

Systems security risk

Digitization and Internet distribution of Getty's visual content is a key component of its business and growth strategy. As a result, its revenues are dependent on customers' transactions through its website. An important component of e-commerce and online communications is the secure transmission of confidential information. Developments in computer capabilities, viruses, or other events could result in compromises or breaches of the company's systems or those of other websites and networks, jeopardizing proprietary and confidential information belonging to the company or its customers. Such breaches could cause serious interruptions in the company's services, sales or operations. Any well-publicized compromises of the security system or the Internet may reduce customers' desire to transact business over the Internet.

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