

Why Buy When You Can Subscribe?

The Investment Case for the Fount Subscription Economy ETF (SUBS)

The consumer-facing economy may be on the verge of shifting from one based on ownership to one based on usership. Investors looking to gain exposure to this trend may want to consider the Fount Subscription Economy ETF (SUBS). The Fount Subscription Economy ETF (SUBS) seeks to provide investment results that, before fees and expenses, generally correspond to the total return performance of the Fount Subscription Economy Index. The Index was designed to measure the performance of companies engaged in the business of providing subscription services, i.e., companies that sell products or services for recurring subscription revenue.

- What is the subscription economy?
- What type of potential investment opportunity afforded by the subscription economy?
- Why should investors consider the Fount Subscription Economy ETF?



What Is the Subscription Economy?

The way that people buy goods and services may be changing for good. The subscription economy may be the paradigm to which consumers and businesses are shifting. The subscription economy refers to the shift many companies are making toward a business model that involves recurring billing, rather than an outright sale of a product or service.

At the heart of the subscription economy is the idea that customers are happier subscribing to the outcomes they want, when they want them, rather than purchasing a product with the burden of ownership. Thus, the subscription economy may be encapsulated by the move from ownership to usership.

You Can Subscribe to That

Some more popular forms of subscriptions include:

- Video, Digital, & On-Demand Movies
- News
- Software

However, the subscription economy is broadening to include goods and services that historically have not offered these types of pricing options, including:

- Replenishment Services – have a customized grocery basket delivered on a recurring basis
- In-Home Fitness – regular workout routines
- Gaming – access to the newest online games
- Consumables – Shaving clubs, meal prep delivery services, cosmetics, apparel

And many more.

Factors Driving the Shift

Why the gravitation toward subscription-based models? Reasons that may possibly explain this shift include:

- Convenience: Many subscription services are built on the premise of automating some aspect of a customer's life.
- Cost: Many subscription-based products are offered at a discount to their purchase price. Some models may allow consumers to only pay for what they use. Terms often allow for cancellation or modification over time as their needs change. Subscriptions do not require large initial cash outlays.
- Access to the latest and greatest: Often, the latest and greatest product upgrades are automatically available to consumers.

Subscription Economy Growing with More Consumers Demanding Subscriptions

The subscription model is becoming more prevalent as more consumers demand this option.

A recent poll conducted by the Subscribed Institute highlights that consumers are increasingly demanding subscription-based models while eschewing ownership.

In 2020¹:

- 78% of international adults utilized subscription services.
- 75% of international adults believe that in the future, they will subscribe to more services and own less physical stuff.
- On average, global adults holds three subscriptions.
- China leads the world in the subscription economy, with 89% of all adults in the country viewing subscriptions favorably and the average adult having four subscriptions.
- The three categories that consumers were most interested in during 2020 were grocery delivery services, music services, and TV & movies-on-demand.
- More than half of online shoppers subscribe to subscription box services².
- 78% of US households had a subscription streaming service in 2020, up from 52% in 2015³.
- Global subscriptions to online video services surpassed 1.1 billion during 2020, a 26% increase over 2019⁴.

More Companies Providing Subscription-Based Models

To keep up with consumer demand, more companies provide subscription-based options and expect to continue expanding these offerings.

For example:

- 90% of tech companies are embracing consumption (subscription) business models⁵.
- 70% of businesses believe that membership and subscription models hold the key to future commercial growth⁶.
- By 2023, Gartner Group predicts that 75% of organizations selling direct to consumers will offer subscription services⁷.
- By 2022, 53% of all software revenue will be generated from a subscription model⁸.
- By 2023, digitally determined enterprises will make up over 50% of global gross domestic product (GDP)⁹.
- 86% of all digital content revenue will come from subscriptions by 2022¹⁰.

Subscription-Based Models Have Outperformed Traditional Models

Companies that employ subscription-based models, as measured by the Subscription Economy Index (SEI)¹¹ have outperformed traditional business models:

- During 2020, revenues of companies in the SEI, on average, grew 11.6%, while their product-based peers saw revenue decline by 1.6%.
- Revenue of companies in the SEI grew 21% during 2020 versus revenue growth of 3% for the S&P 500.

COVID-19 May Have Accelerated Growth of the Subscription Economy

During the height of the COVID-19 pandemic, many companies which offered subscription services grew as the overall economy shrank. It was reported that from March through May 2020, 4 out of 5 subscription-based companies grew. In particular, video streaming, digital news and media, and e-learning were the top subscription-based company categories to grow.¹²

While the abatement of lockdowns may move consumer activity away from “at home,” we believe that some of the extra demand may become permanent as consumers grow accustomed to the added convenience and benefits of the subscription-based model.

Potentially Large and Growing Market Size

How Large is the Subscription Economy?

Estimates of the size of the subscription economy, and its growth rate, vary widely. Much of this difference may be attributed to how you define a subscription-based model. Subscribing to a video or digital streaming service, news media such as print or digital news, or purchasing a subscription to an office-based software package are usually the typical examples that come to people’s minds.

However, other recurring revenue-based models may also fit the definition of a subscription.

Some examples include:

- A customized basket of groceries delivered to your door on a recurring basis
- Monthly subscription boxes, such as meal prep, shave clubs, apparel, cosmetics
- Fitness and workout routines
- Car subscriptions
- Airlines and other travel

On the low end, Payments Journal put the size of the subscription economy at \$28.4 billion in 2020, a 66% increase over pre-pandemic 2019, and estimates that it will grow 11.7% and 15.2% year-over-year during 2021 and 2022, respectively.¹³

On the high end, below are some estimates of the size of the subscription economy:

- Payvision estimates that the subscription market will reach \$240 billion globally by 2022, experiencing an almost 10% compound annual growth rate (CAGR) since 2018¹⁴.
- UnivDatos estimates that the subscription market will reach \$478 billion by 2025, experiencing a 68% CAGR over the 2019-2025 period¹⁵.

Rapid Growth Expected

The subscription economy has experienced rapid growth over the past decade and is expected to continue to grow rapidly as the evidence below highlights:

- Payments Journal also estimates that the industry will experience a compound annual growth rate (CAGR) of 71% for the 2018-2022 period.
- Consulting firm EY estimates that companies employing consumption-based models, such as subscriptions, grew at an 18% CAGR over the seven years ending 12/31/19¹⁶
- Veza Digital estimates that the subscription-based economy grew a cumulative 350% between 2012-2019¹⁷

While estimates vary based on definition, it appears that subscription-based companies have experienced rapid growth and are expected to continue growing rapidly as the consumers appear to be shifting from ownership to usership.

How May Investors Gain Exposure to the Subscription Economy?

The Fount Subscription Economy ETF

We believe that the Fount Subscription Economy ETF may provide investors with an attractive vehicle to gain exposure to the companies embracing a subscription-based model.

Investment Process

- Using standard industry classification systems and keywords, the index which underlies the ETF identifies sectors of the economy that are likely to offer subscription services.
- The index forecasts the 1 year forward revenue from subscription services by using a proprietary artificial intelligence algorithm.
- Only companies that are expected to derive more than 50% of their revenues from subscriptions are included in the index.
- Additional size and liquidity constraints are applied to ensure liquidity and tradability.
- The index employs a modified market capitalization by subscription service-related revenue.
- The top 50 securities by modified market cap are selected for inclusion in the index, and weighted by the market cap
- The index is rebalanced annually.

Why Consider Investing in SUBS?

- The fund aims to provide focused exposure to companies that may be positioned to benefit from the expected growth in the subscription economy.
- The fund looks to hold companies in the subscription economy that are expected to have the greatest growth potential.
- The fund looks to hold companies that may be considered best-in-class subscription economy companies from around the world.

Where SUBS May Fit in Your Portfolio?

- Equity Exposure – The fund may be appropriate for a portion of your portfolio's equity allocation.
- Thematic Exposure – With its focus on the subscription economy, the fund may be appropriate for a portion of your portfolio's thematic exposure.
- Growth Exposure – With its focus on a segment of the economy that is expected to grow faster than average, the fund may be appropriate for your portfolio's allocation to growth.

We believe that the way that individuals consume products and services has changed to a model that emphasizes subscriptions over ownership. We also expect this shift will continue and intensify in the future. Thus, companies that are well-positioned to exploit this trend may outperform those that stick with the old ownership-based models.

The Fount Subscription Economy ETF may provide individuals with an attractive vehicle to gain exposure to the subscription economy.

¹ The End of Ownership, Subscribed Institute, 2020

² Petic, Yelena, The Rise of Subscription-Based Marketing Services, Veza Digital, 5/6/21

³ Over Three-Quarters of US Households Subscribe to a Streaming Service, FierceVideo, 4/31/20

⁴ The Subscription Economy Index: March 2021, Zuora, March 2021

⁵ Ownership or Consumption? How Will It Strengthen Your Business?, EY, 4/3/20

⁶ How to Make Money From Membership Economics, Global Banking & Finance, 4/23/19

⁷ Top 10 Trends in Digital Commerce, Gartner Group, 10/3/19

⁸ Petic, Yelena, The Rise of Subscription-Based Marketing Services, Veza Digital, 5/6/21

⁹ Zuora and Stripe Partner to Accelerate the Growth of the Subscription Economy, Zuora press release, 12/8/20

¹⁰ Must-Know Trends for Success in the \$240 Billion+ Subscription Economy, Payvision, 2/26/20

¹¹ Created and published by Zuora

¹² Subscription Impact Report: Covid-19 Edition, Zuora, May 2020

¹³ The Subscription Economy Accelerates, Payments Journal, 1/11/21

¹⁴ Must-Know Trends for Success in the \$240 Billion+ Subscription Economy, Payvision, 2/26/20

¹⁵ Global Subscription E-Commerce Market, UnivDatos, 8/20/20

¹⁶ Ownership or Consumption? How Will It Strengthen Your Business?, EY, 4/3/20

¹⁷ Petic, Yelena, The Rise of Subscription-Based Marketing Services, Veza Digital, 5/6/21

Carefully consider the Fund's investment objectives, risk factors, charges and expenses before investing. This and additional information can be found in the Fund's full or summary prospectus, which may be obtained by visiting www.fountetfs.com. Read it carefully before investing or sending money.

Risk Disclosures:

Investing involves risk, including possible loss of principal. There is no guarantee the Fund will achieve its stated investment objectives. In addition to the normal risks associated with investing, international investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from social, economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. The Fund's concentration in an industry or sector can increase the impact of, and potential losses associated with, the risks from investing in those industries/sectors. The Fund is non-diversified. The Fund is new and has a limited operating history for investors to evaluate. New and smaller funds may not attract sufficient assets to achieve investment and trading efficiencies. In addition to the normal risks associated with investing, investments in smaller companies typically exhibit higher volatility.

Exchange Traded Concepts, LLC serves as the investment advisor to the Fund. The Fund is distributed by SEI Investments Distribution Co (SIDCO). SIDCO is not affiliated with Exchange Traded Concepts, LLC. or Fount ETFs.