THE CONVERGENCE RESEARCH GROUP LTD.
CONTENT • ECONOMICS • HIGH-TECH • INTERNET • TELECOM

The Battle for the Canadian Couch Potato: OTT, TV, Online

April 2018

www.convergenceonline.com

Contents

Commentary

Now in its 12th year of publication, The Battle for the Canadian Couch Potato: OTT, TV, Online (119 pages) contains detailed analysis by **Company & Market**. In addition to Convergence analysis, sources include company interviews, annual/quarterly reports & presentations, CRTC, Statistics Canada. **Please see Table of Contents for what is included in this Report.**

Although there are less than half the OTT plays in Canada as there are in the US, Canada is far from immune from the global OTT war being waged by large American programmers and independent OTT providers. Going forward if Amazon, DAZN, and Netflix (not to mention the possibility of Apple, Facebook or Google entering the Canadian market) are willing to spend heftily on programming, there may be room for them to outbid Bell Media, Corus or Rogers in obtaining programming despite not having a traditional TV platform. Even if Amazon, DAZN, or Netflix are not successful, this dynamic can only benefit US (and other) programmers in terms of upping prices on deals with Canadian players.

Further, with CBS All Access entering the Canadian market (and Disney OTT perhaps entering in the near future), CBS functions as both supplier and competitor to Canadian programmers/TV access providers, the question also becomes how much CBS content will Canadian programmers/TV access providers, Amazon, or Netflix be able to obtain? CBS All Access being in Canada gives CBS more leverage in negotiating with Canadian programmers, as well as Amazon & Netflix-especially when it comes to original content.

On the one hand US programmers do not want Canadian programmers/TV access providers to sink too quickly given the revenue that comes from programming sales to them, on the other there is a direct to consumer opportunity as well as an opportunity to sell to Amazon, Netflix, etc.

In the end it comes down to maximizing revenue/margin. HBO, Showtime & Starz chose not to go direct instead making deals with Bell Media.

We estimate Canadian OTT access revenue (based on 24 OTT providers led by Netflix, we have not assigned revenue to Amazon Prime which did not increase price with the recent addition of video in Canada) grew 29% to $872 million in 2017, and forecast $1.11 billion for 2018, and $1.58 billion for 2020. We forecast in 2020 there will be more OTT subscriber households than TV subscribers in Canada.

We estimate 2017 Canadian Cable, Telco Satellite TV access (not including OTT) revenue declined 2% to $8.74 billion & forecast a 1% decline to $8.64 billion for 2018.

We estimate 2017 saw a decline of 216,000 Canadian TV subscribers, 2016 a decline of 225,000 TV subscribers, and we forecast a decline of 267,000 for 2018. Canada's TV subscriber base declined by 1.9%/annum 2016-2017, we forecast 2.6%/annum on average 2018-2020. Telco TV additions have started to mature (Cable & Satellite have not added subscribers since 2010), we forecast 2018-2020 will see fewer Telco TV additions accelerating Canadian TV subscriber declines and cord cutter/never household additions.

As illustrated in our Canadian Cord Cutter/Never Household Model, 2012 saw the start of the rise in cord cutter/never households. As of YE2017 we estimate 4.14 million Canadian households (28.1% of HHs) did not have a traditional TV subscription with a Cable, Satellite, or Telco TV access provider, up from 3.78 million (25.9% of HHs) YE2016, and forecast 4.55 million (30.5% of HHs) YE2018. 2016 saw 366,000, 2017 357,000 and we forecast 406,000 2018 cord cutter/never household additions.

2017 Canadian residential broadband subscriber additions were we estimate 422,000 (the largest annual additions since 2009) & revenue grew 8% to $8.06 billion; we forecast 370,000 and $8.7 billion for 2018- exceeding 2018 Canadian TV access revenue. Canadian residential broadband subs surpassed Canadian TV subs in 2015.

We estimate Broadcast, Specialty & Pay Network Online TV advertising represented 5.6% of 2017 Canadian TV advertising revenue, and forecast 6.3% for 2018.

We estimate OTT will represent 83% of Canadian movie/TV rental revenue in 2020, while download movie/TV sales will represent almost half of Canadian DVD/Blu-ray/download movie/TV sales.