



The Battle for the North American (US/Canada) Couch Potato: OTT and TV

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Commentary

Now in its 13th year of publication, **The Battle for the North American (US/Canada) Couch Potato: OTT and TV** (290 pages) contains detailed analysis of offers (including prices), strategy, and subscriber / financial performance metrics (including forecasts) by **Company & Market**. In addition to Convergence analysis, sources include company interviews, annual / quarterly reports & presentations, CRTC, Statistics Canada, US Census.

US Commentary (Canadian Commentary follows), please see Table of Contents for what is included in this Report:

The TV-Movie Industry is being reconstructed from the inside and by the outside, as programmers now directly compete against their traditional TV access and independent OTT buyers that rival in terms of content spend.

Traditional TV access subscriptions continue to decline (revenue has started to decline) as subscribers pay higher prices due to ongoing programmer price increases (we project X% for 2019 & 2020), while traditional TV advertising revenue plateaus (we project 2020 revenue will be on par with 2016 revenue).

With ARPU half the traditional TV average, lackluster margins, programming gaps and technical issues, live multichannel OTT provides little counter to category killers Netflix & Amazon that sell at lower price points and essentially without advertising. We believe a number of OTT plays, including large and niche, will fail due to insufficient subscriber traction, cost, and competition.

Meanwhile major programmers continue to accelerate their direct to consumer drive: Notably, Disney and WarnerMedia have moved away from being Netflix & Amazon Prime's (in the US) suppliers respectively and embraced OTT, Hulu spends more on content/sub than either Amazon or Netflix and continues to discount (notably with Spotify), CBS/Showtime's OTT subscriber trajectory has been faster than expected, Discovery has backed & supplied Philo, gone live with Hulu, Sling, YouTube, and will be launching an OTT service with the BBC, NBCU will be launching an OTT service in 2020, and Viacom has backed & supplied Philo and others, acquired Pluto & AwesomenessTV, and is producing for Amazon & Netflix.

Being caught in the programmer versus independent OTT squeeze play hampers TV access provider margins, however as the majority of TV access providers are also Internet providers there are benefits to facilitating the rise of OTT. We estimate 2.85 million US residential broadband subscribers were added in 2018 and revenue grew 7% to \$61.6 billion; we forecast X million additions and \$X billion for 2019, and X million residential subscriber additions in both 2020 & 2021. Residential broadband subs first surpassed TV subs in 2017.

Programmers face their own opportunity cost constraints- hence we expect AT&T/Warner, Comcast/NBCU, & Disney's upcoming OTT offers will be to some degree tempered by continuing to serve the \$240 billion US TV access, advertising, programming space.

Based on 66 OTT providers, led by Netflix, Hulu, Amazon, we estimate US OTT access revenue grew 37% to \$16.3 billion in 2018, forecast \$X billion for 2019, and \$X billion for 2021. We estimate Independents, Programmers, TV Access Providers represented X%, X%, X% of 2018 US OTT access revenue respectively. Even with new OTT offers from Apple, Disney, NBCU, Quibi, Warner, and billions of OTT revenue added, and although US OTT subscriber household trajectory will well surpass US TV households, US TV subscriber ARPU will still be we forecast X times US OTT subscriber household ARPU in 2021.

We estimate Broadcast & Cable TV Network Online advertising (increasingly driven by OTT) will represent X% of 2019 and X% of 2021 US TV advertising revenue.

We estimate 2018 US Cable, Satellite, Telco TV access (not including OTT) revenue declined 3% to \$103.4 billion and forecast \$X billion (hence ARPU should grow X%) for 2019 & \$X billion for 2021.

We estimate 2018 saw a decline of 4.013 million US TV subscribers, 2017 a decline of 3.661 million, and we forecast a decline of X million TV subs for 2019 and X million for 2021; hence the US TV subscriber base will decline X% in 2019, up from X% in 2018, we forecast X% on average for 2020-2021.

As illustrated in our US Cord Cutter/ Never Household Model, 2010 saw the start of the rise in cord cutter/ never households. As of YE2018 we estimate X million US households (30% of HHs) did not have a traditional TV subscription with a Cable, Satellite, or Telco TV access provider, up from X million (26.2% of HHs) YE2017, and we forecast X million (X% of HHs) YE2019, and X million (X% of HHs) YE2021. 2017 saw 4.57 million, 2018 4.92 million, and we forecast X million 2019 and X million 2021 cord cutter/ never household additions.

Canadian Commentary, please see Table of Contents for what is included in this Report:

Although Canada currently has less than half the OTT plays of the US, Canadian programmers/ TV access providers are increasingly exposed to the global OTT war being waged by large American programmers and independent OTT providers.

American programmer direct to consumer OTT plays have started to impact with CBS All Access going direct and not selling select series to Canadian distributors, NBCU's hayu up against its' linear Canadian distributors, and Discovery's launch of GolfTV OTT in Canada. We expect more entries as programmers expand their OTT platforms globally.

Simultaneously, Canadian programmers/ TV access providers face independents' Amazon, DAZN, & Netflix (as well as Apple, Facebook, Google, Quibi) rising content spend, putting pressure on traditional TV and in certain cases providing US & international programmers more leverage in Canadian negotiations.

On the one hand, US & international programmers do not want Canadian programmers/ TV access providers to sink too quickly given the revenue that comes from programming sales (HBO, Showtime & Starz chose not to go direct instead making deals with Bell Media), on the other there is a direct to consumer opportunity as well as an opportunity to sell to Amazon, DAZN, Netflix, etc.

Based on 28 OTT providers led by Netflix (we have not assigned revenue to Amazon Prime which did not increase price with its addition of video in Canada) we estimate Canadian OTT access revenue grew 33% to \$1.12 billion in 2018, and forecast \$X billion for 2019, and \$X billion for 2021. We estimate Canadian TV Access Providers & Programmers represented X% of 2018 OTT access revenue while Non-Canadian players represented X%.

We forecast by YE2020 there will be more OTT subscriber households than TV subscribers in Canada, however even with new OTT offers from Apple & Quibi, the inclusion of Amazon, and hundreds of millions of OTT revenue added, Canadian TV subscriber ARPU will still be we forecast X times Canadian OTT subscriber household ARPU in 2020.

We estimate 2018 Canadian Cable, Telco Satellite TV access (not including OTT) revenue declined 2% to \$8.58 billion & forecast \$X billion (hence ARPU should grow X%) for 2019 and \$X billion for 2021.

We estimate Broadcast, Specialty & Pay TV Network Online advertising will represent X% of 2019 and X% of 2021 Canadian TV advertising revenue.

We estimate 2018 saw a decline of 204,000 Canadian TV subscribers, 2017 a decline of 210,000 TV subscribers, and we forecast a decline of X for 2019 and X for 2021. Canada's TV subscriber base has been declining by 2% / annum since 2015, we forecast X% / annum for 2020-2021. We forecast the TV subscriber decline acceleration will come from less Telco additions (Cable & Satellite have not added TV subs since 2010).

As illustrated in our Canadian Cord Cutter / Never Household Model, 2012 saw the start of the rise in cord cutter / never households. As of YE2018 we estimate X million Canadian households (30% of HHs) did not have a traditional TV subscription with a Cable, Satellite, or Telco TV access provider, up from X million (27.9% of HHs) YE2017, and forecast X million (X% of HHs) YE2019 and X million (X% of HHs) YE2021. 2017 saw 351,000, 2018 346,000 and we forecast X 2019 and X 2021 cord cutter / never household additions.

2018 Canadian residential broadband subscriber additions were we estimate 387,000 and revenue grew 8% to \$8.68 billion (higher than Canadian TV access revenue), we forecast X additions and \$X billion for 2019; we forecast just over X/annum additions 2020-2021. Canadian residential broadband subs first surpassed Canadian TV subs in 2015.