



The Battle for the Canadian Couch Potato: OTT and TV

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Commentary

Now in its 13th year of publication, **The Battle for the Canadian Couch Potato: OTT and TV** (117 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.

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.