



THE CONVERGENCE RESEARCH GROUP LTD.

CONTENT • ECONOMICS • HIGH-TECH • INTERNET • TELECOM

The Battle for the Canadian Couch Potato: OTT and TV

April 2020

This document contains valuable confidential information of
The Convergence Research Group Limited,
which is licensed for internal review only.

© 2020, The Convergence Research Group Limited.
All rights reserved.

CLIENT CONFIDENTIAL

www.convergenceonline.com

Contents

..... 1

COMMENTARY..... 5

CORONAVIRUS IMPACT ASSESSMENT..... 8

SECTION ONE: CANADIAN TV SUBSCRIBERS, ACCESS & ADVERTISING REVENUE DECLINE AS CORD CUTTER/NEVER & BROADBAND RISE 10

 Estimated Canadian Households, TV Subscribers, OTT Subscriber Households, Cord Cutter / Never Households, Residential Internet Subscribers, 2018-2022 11

 Canadian Broadcast and Specialty / Pay Network TV Advertising Revenue, Online Broadcast / Specialty / Pay Advertising Revenue, Online % of Total, 2018-2022..... 12

 Estimated Programming Expenditure by Private Broadcasters, including Percentage Non-Canadian, Specialty / Pay / PPV / VOD Networks, 2018-2020 13

 Estimated Canadian Cable, Satellite, Telco Programming Expenditure, 2018-2020..... 13

 Canadian Cord Cutter / Nevers: Growing 14

 Canadian Cord Cutter / Never Household Model, 2012-2022 14

 Estimated Canadian TV Subscribers by Cable, Satellite, Telco, 2018-2022 16

 Estimated Canadian TV Subscribers by Bell (by IPTV & Satellite), Cogeco, EastLink, Rogers, SaskTel, Shaw (by Cable & Satellite), Telus, Videotron, 2018-2022..... 16

 Estimated Canadian TV Access Revenue by Cable, Satellite, Telco, and ARPU, 2018-2022 17

 Estimated TV Access Revenue by Bell IPTV, Bell Satellite, Telus, Rogers, Shaw Cable, Shaw Direct, Videotron, Cogeco, EastLink, 2018-2022 17

 Estimated Canadian Residential Internet Subscribers by Cable, Telco, Other Broadband, as a Percentage of Canadian Households, and Total Revenue and ARPU, 2018-2022 18

 Estimated Canadian Residential Broadband Subscribers by Rogers, Shaw, Videotron, Cogeco, Bell, Telus, SaskTel, 2018-2022..... 19

 Estimated Residential Internet Access Revenue by Rogers, Shaw, Videotron, Cogeco, Bell, SaskTel, Telus, 2018-2022..... 19

 Canadian Advertising: Traditional Broadcast Continues to Decline, Specialty Ad / Programming Modest Growth, Online TV Advertising Grows, Online Advertising The Usurper 20

 Estimated Canadian Online Advertising Market Revenue 2018-2022, and by Google, Facebook, Broadcast / Specialty / Pay, Other, 2018-2020 22

Estimated Canadian Online Advertising Market Share by Google, Facebook, Broadcast/Specialty/Pay, Other, 2018-2020.....	22
Canadian Broadcast and Specialty/Pay Network TV Advertising Revenue, Online Broadcast/Specialty/Pay Advertising Revenue, Online % of Total, 2018-2022.....	23

SECTION TWO: ASSESSING 45+ OTT SERVICES (30+ PROVIDERS)24

The Canadian Regulatory Environment: Limits On Vertically Integrated Players’ Competitive Advantage	27
Estimated Canadian Households, TV Subscribers, OTT Subscriber Households, Cord Cutter/Never Households, Residential Internet Subscribers, 2018-2022	32
Estimated Canadian OTT Subscribers, Access Revenue, ARPU by Netflix, Amazon, Crave, Club illico, CBC, Corus, CBS, Disney+, Apple, Quibi, and BeIN Sports Connect Canada-DAZN-GolfTV-MyOutdoorTV-NBA League Pass-NBC Sports Gold-NHL Live-OneSoccer-Sportsnet Now-TSN/RDS Direct, TVA Sports, and Acorn-BritBox-Crunchyroll- Dove-Fandor-Filmatique-Hayu-History-HSuite-Hotstar-IFC-LoveNature-Lumi-MGM-Mubi-OUTtvGO-Shudder-Smithsonian-Sundance Now-SuperChannel, 2018-2022	33
Estimated Canadian OTT Access Revenue and Market Share by Canadian TV Access Providers & Programmers and by Non-Canadian, 2018-2022.....	34
Estimated Canadian OTT Subscriber Households, Average OTT Subscriptions Per OTT Household, TV Subscribers, Household Penetration, ARPU Comparisons, 2018-2022	35
Large US Independent OTT Plays: Netflix, Amazon, Apple, Quibi.....	36
Netflix in Canada: Competition, Price Rises, and Programming Losses Put a Damper on Canadian Subscriber Growth	37
Netflix Financial Model, 2012-2020.....	37
Estimated Netflix Subscribers by US (by Streaming, Streaming-Only, DVD, DVD-Only), Canada Streaming, International Streaming, 2018-2022	38
Estimated Netflix Content Obligations, 2017-2019.....	39
Estimated Programming Expenditures by Netflix, TV Access Providers and Per Subscriber Netflix Versus TV Access Providers, 2018-2020	39
Amazon Prime Video Canada: Programming and Subscriber Growth.....	49
Apple TV+: At What Cost	54
Quibi: What are the Odds	56
US Programmers OTT Plays: CBS, Disney, NBCU, WarnerMedia.....	59
CBS All Access & Showtime: CBS Canada Approach Has Thus Far Been Unlike the US	60
Disney’s Canadian Balancing Act: Disney+ Delivers, Hulu	63
NBCU’s Peacock: A Different Approach in Canada?	67
WarnerMedia in Canada: Anchored by Bell Media.....	70

Canadian Network Programmers OTT Plays: Bell, CBC, Corus, Quebecor/Videotron	71
Bell/Crave's Linear & OTT Strategy: Locking in HBO, Showtime, Starz, and More.....	72
Quebecor/Videotron's Club illico: Strong Library & Penetration Rate	75
CBC's Gem & ICI Tou.TV: Broadcast & Originals.....	76
Corus Enters the OTT Picture: StackTV and Nickelodeon.....	78
Canadian Sports OTT: BeIN Sports Connect Canada, Bell's TSN/RDS Direct, DAZN, Discovery's GolfTV, Groupe TVA's TVA Sports direct, Kroenke's MyOutdoorTV, NBA League Pass, NBC Sports Gold, OneSoccer, Rogers NHL Live & Sportsnet Now / +.....	79
Canadian Niche OTT: A&E's History Vault, Allarco's Super Channel, AMC's Acorn TV, IFC Films Unlimited, Shudder & Sundance, APTN's Lumi, AT&T/WM's Crunchyroll, BBC/ITV's BritBox, Blue Ant's Love Nature & Smithsonian Channel Plus, Cinedigm's Dove Channel, Disney's Hotstar, Fandor, Filmatique, Hollywood Suite, NBCU's Hayu, MGM, Mubi, OUTtvGO	85
SECTION THREE: PROFILES	91
Amazon Prime Canada.....	92
Apple TV+ Canada.....	97
Bell/Bell Media	100
CBC.....	104
CBS All Access Canada/Viacom.....	106
Corus Entertainment.....	109
DAZN Canada	110
Disney Canada	113
Netflix Canada	118
Quebecor.....	127
Quibi Canada	128
Rogers.....	131

Commentary

Now in its 14th year of publication, **The Battle for the Canadian Couch Potato: OTT and TV** (131 pages) contains detailed analysis of offers (including prices & programming), 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:

Our forecasts assume the coronavirus will not be as major a disruptive force beyond 2020.

Canada is increasingly being impacted by the global OTT war being waged by large American & international programmers and independent OTT providers. Although for US & international programmers Canada is a direct to consumer opportunity as well as an opportunity to sell to Amazon, Apple, DAZN, Netflix, and Quibi, Canadian programmers and linear/OTT providers continue to remain an attractive alternative.

On the one hand, DAZN's procurement of soccer, the new Disney+ offering, Discovery's GolfTV & NBCU's hayu, impinge on the Canadian TV/OTT model, on the other in large part thus far WM's HBO, CBS (2 Star Treks)/Showtime, Lionsgate's Starz have all chosen not to go DTC or sell to independents, instead making long-term deals with Bell for linear & OTT. However as of 2021, Crave loses Seinfeld to Netflix, which picked up 5-year global streaming rights for US\$500 million.

We believe Netflix no longer has the same flexibility to raise pricing as frequently as it has in the past. Alternatively, Amazon and Apple have the luxury of expensing OTT programming as an additional operating cost to their core businesses.

Based on 43 OTT services (over 30 providers), led by Netflix, we estimate Canadian OTT access revenue grew 37% to \$1.53 billion in 2019, we forecast X% growth to \$X billion for 2020, and \$X billion for 2022. Hence we forecast 2022 spending on OTT access will be X% of what is spent on TV access, up from 18% in 2019.

The forecasted X of annual Canadian OTT access revenue will continue to mostly benefit Non-Canadian players. We estimate Canadian TV Access Providers & Programmers represented X% of 2019 OTT access revenue while Non-Canadian players represented X%, and forecast X for 2022.

In 2020 OTT subscriber households will surpass TV subscribers in Canada, however Canadian TV subscriber ARPU will be we forecast X times Canadian OTT subscriber household ARPU, declining to X times in 2022. We forecast average OTT subscriptions per Canadian OTT household will increase to X in 2022.

We estimate Broadcast, Specialty & Pay TV Network Online advertising will represent X% of 2020 and X% of 2022 Canadian TV advertising revenue.

We estimate 2019 Canadian Cable, Telco, Satellite TV access revenue declined 2% to \$8.38 billion & forecast a X% decline to \$X billion (hence ARPU should grow by X%) in 2020 and a X% decline to \$X billion in 2022.

We estimate (Bell & Telus no longer include Telus Satellite TV subscribers) 2019 saw a decline of 283,000 Canadian TV subscribers, 2018 a decline of 262,000 TV subscribers, and we forecast a decline of X in 2020 and X in 2022. Canadian TV subscribers declined/ annum by on average 2.5% in 2018 & 2019, we forecast on average X% / annum decline 2020-2022.

As illustrated in our Canadian Cord Cutter / Never Household Model, as of YE2019 we estimate X million Canadian households (32.5% of HHs) did not have a TV subscription with a Cable, Satellite, or Telco TV access provider, up from X million (30% of HHs) YE2018, and we forecast X million (X% of HHs) YE2020 and X million (X% of HHs) YE2022. 2019 saw 420,000, 2018 400,000, and we forecast X 2020 and X 2022 cord cutter / never household additions.

Canadian TV subscribers and access revenue are currently not seeing as steep a rate of decline as the US but this could change in the medium term- dependent on new, or expanded, OTT offers in Canada.

Although TV access players bear the brunt of the programmer versus independent OTT provider battle, Canadian TV access providers are also broadband providers and thus also benefit from the rise of OTT. 2019 Canadian residential broadband subscriber additions were we estimate the highest additions in over a decade. Canadian residential broadband revenue first exceeded TV revenue in 2018, Canadian residential broadband subs surpassed TV subs in 2015.