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

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Contents

....1

COMMENTARY...**9**

SECTION ONE: US TV SUBSCRIBER, REVENUE & ADVERTISING DECLINE, CORD CUTTER/NEVER & BROADBAND RISE, PROGRAMMING COST DYNAMICS..**13**

Estimated US Households, TV Subscribers, OTT Subscriber Households, Of Which vMVPD OTT Subscriber Households, Cord Cutter/Never Households, Residential Broadband Subscribers, 2020-2024...15

Estimated US TV Subscribers, TV Access Revenue, OTT Access Revenue, Cord Cutter/Never Households, 2021, 2024, 2027 16

Estimated US Broadcast & Cable Network TV Advertising Revenue, Online Broadcast/Cable Network TV Advertising Revenue, Online % of Total, 2020-2024..17

Estimated Programming Sales to US Cable, Satellite, Telco TV Access Providers by Cable Networks and Broadcast Retransmission, 2020-2023...18

Estimated Programming Expenditures by US Cable and Satellite/Telco Access Providers, 2020-2023 18

Estimated Programming Expenditures by AT&T/DirecTV, Charter, Comcast, 2020-2023 19

US Cord Cutter/Nevers: Critical Mass 20

US Cord Cutter/Never Household Model, 2010-2024 20

Estimated US TV Subscribers by Cable and Satellite/Telco TV, 2020-2024...22

Estimated US TV Subscribers by Comcast, Charter, Cox, Altice, AT&T/DirecTV, Dish, Verizon, 2020-2024..22

Estimated US TV Access Revenue by Cable and Satellite/ Telco, and ARPU, 2020-2024 23

Estimated TV Access Revenue by Comcast, Charter, Cox, Altice, AT&T/DirecTV, Dish, 2020-2024...23

Estimated US Residential Internet Subscribers by Cable, Telco, Other Broadband, as Percentage of US Households, Total Revenue, ARPU, 2020-2024...24

Estimated US Residential Broadband Subscribers by Comcast, Charter, Cox, Altice, AT&T, Verizon, Lumen, Frontier, 2020-2024......................25

Estimated Residential Internet Access Revenue by AT&T, Verizon, Lumen, Frontier, Comcast, Charter, Cox, Altice 2020-2024 25

US Advertising Revenue: Anything Is Better than 2020, 2021-2022 Recovery, However Traditional Broadcast & Cable TV Advertising in Long Term Decline, Broadcast & Cable Online TV Advertising Propelled by Free (AVOD/FAST) & Paid OTT, Online Advertising Double Digit Growth..........26

Estimated US Broadcast & Cable Network TV Advertising Revenue, Online Broadcast/Cable Network TV Advertising Revenue, Online % of Total, 2020-2024 27
Estimated US Online Broadcast/Cable Network TV Advertising Revenue, Of Which OTT, % OTT, 2020-2024 27
Estimated US Online Advertising Market Revenue by Google, Meta, Broadcast/Cable Network TV, Other, 2020-2024 28
Estimated US Online Advertising Market Share by Google, Meta, Broadcast/Cable Network TV, Other, 2020-2024 28

SECTION TWO: ASSESSING OVER 75 OTT SERVICES, OVER 50 PROVIDERS 29

Estimated US Households, TV Subscribers, OTT Subscriber Households, Of Which vMVPD OTT Subscriber Households, Cord Cutter/Never Households, Residential Broadband Subscribers, 2020-2024 33
Estimated US TV Subscribers, TV Access Revenue, OTT Access Revenue, Cord Cutter/Never Households, 2021, 2024, 2027 34
Notes for the US OTT Exhibits (Next 3 Exhibits): 35
Estimated US OTT Subscribers by Amazon Prime, Apple TV+, Discovery+, Disney+, ESPN+, Fubo, HBO, Hulu, Netflix, Paramount, Peacock, Philo, Sling, Starz, YouTube TV, and F1-Flo-H&C-MLB.TV-MTrend-MOTV-NBA Pass/TV-NFL Game Pass-TC, and Acorn-ALLBLK-AMC+-BBC-Boomerang-BritBox-Crime-CrunchyFun-CS-Food-Fox Nation-History-Kocowa-PBS- Sundance-Univision-Viki, and BFI-BrownSugar-Criterion-Epix-Filmatique-Gravitas-Hallmark-IFC-Lifetime-Mubi-Magnolia-Ovid-Pantaya-Scream-Shudder-Topic, 2020-2024 36
Estimated US OTT Access Revenue by Amazon Prime, Apple TV+, Discovery+, Disney+, ESPN+, Fubo, HBO, Hulu, Netflix, Paramount, Peacock, Philo, Sling, Starz, YouTube TV, and F1-Flo-H&C-MLB.TV-MTrend-MOTV-NBA Pass/TV-NFL Game Pass-TC, and Acorn-ALLBLK-AMC+-BBC-Boomerang-BritBox-Crime-CrunchyFun-CS-Food-Fox Nation-History-Kocowa-PBS-Sundance-Univision-Viki, and BFI-BrownSugar-Criterion-Epix-Filmatique-Gravitas-Hallmark-IFC-Lifetime-Magnolia-Mubi-Ovid-Pantaya-Scream-Shudder-Topic, 2020-2024 37
Estimated US OTT ARPU by Amazon Prime, Apple TV+, Discovery+, Disney+, ESPN+, Fubo, HBO, Hulu, Netflix, Paramount, Peacock, Philo, Sling, Starz, YouTube TV, and F1-Flo-H&C-MLB.TV-MTrend-MOTV-NBA Pass/TV-NFL Game Pass-TC, and Acorn-ALLBLK-AMC+-BBC-Boomerang-BritBox-Crime-CrunchyFun-CS-Food-Fox Nation-History-Kocowa-PBS-Sundance-Univision-Viki, and BFI-BrownSugar-Criterion-Epix-Filmatique-Gravitas-Hallmark-IFC-Lifetime-Magnolia-Mubi-Ovid-Pantaya-Scream-Shudder-Topic, 2020-2024 38
Estimated US OTT Subscriber Accounts, 2020-2024 39

Estimated US OTT Access Revenue and Market Share by Independents, Programmers, TV Access Providers, 2020-2024 39
Estimated US OTT Subscriber Households, Average OTT Subscriptions Per OTT Household, TV Subscribers, Household Penetration, ARPU Comparisons, 2020-2024 40
Estimated OTT Programming Expenditures by Amazon, Hulu, Netflix, 2020-2022............40
OTT Independents: Netflix, Amazon, Apple 41
Netflix: Subscriber Additions, Price Rise Pattern, Programming Spend, Advertising? 42
Netflix Financial Model, 2012-2022............42
Estimated Netflix Subscribers by US Streaming, US DVD, US DVD-Only, Canada Streaming, International Streaming, 2020-2024............43
Estimated Netflix Content Obligations, 2019-2021............44
Estimated Programming Expenditures by Netflix, TV Access Providers, and Per Subscriber Spend Netflix Versus TV Access Providers, 2020-2022 44
Estimated Netflix and TV Access Providers Content Costs as a Percentage of Revenue, 2020-2022 44
Amazon Prime: Leverage............59
Apple TV+: From Free To Bundle To… 67
Network Programmers: Disney/Hulu, Paramount, AT&T/Warner/Discovery, Comcast/NBCU, Lionsgate's Starz, Philo 73
Disney's Hulu: Price Rises, Discounts and Sub Growth, Programming, Profitability and Comcast............75
Disney+: Subscriber Growth Moderates............84
Paramount Streamlining and Expanding OTT: Paramount+, Showtime, BET+, Noggin, Pluto TV............89
AT&T/Warner's Game of Transitions Continues: HBO Max, Discovery, CNN+ 96
Discovery+: Balancing With Linear 104
Comcast/NBCU's Peacock: The TV Everywhere Plus of OTT............106
Lionsgate's Starz: Growth Moderates, What's Next 112
A&E/AMC/Discovery/Paramount's Philo: Can It Scale or Co-Exist 113
vMVPD OTT: Dish's Sling TV, FuboTV, and Google's YouTube TV............115
Sports OTT: DAZN, Disney's ESPN+, FloSports, Liberty Media's F1 TV, Horse & Country, MLB.TV, Discovery's Motor Trend OnDemand, Kroenke's MyOutdoorTV, NBA League Pass/TV, NFL Game Pass, Sinclair's Bally Sports & Tennis Channel Plus 121
Niche TV OTT: A&E's Crime Central & History Vault, AMC's ALLBLK, AMC+, Acorn TV & Sundance Now, BBC/ITV's BritBox & BBC Select, Curiosity Stream, Discovery's Food Network Kitchen, First Look Media's Topic, Fox Corp.'s Fox Nation, KBS-MBC-SBS's Kocowa, PBS's PBS Documentaries, Kids, Living & Masterpiece, Sony's Crunchyroll & Funimation, Rakuten's Viki, Warner's Boomerang, Univision Now 127

Niche Movie OTT: A&E's Lifetime Movie Club, AMC's IFC Films Unlimited, Shudder, BFI Player Classics, Cinedigm's Screambox, Crown Media's Hallmark Movie Now, E.W. Scripps' Brown Sugar, Filmatique, Gravitas Movies, Janus Films' The Criterion Channel, Magnolia Selects, MGM's Epix Now, Mubi, Ovid, Pantaya 134

SECTION THREE: CANADIAN TV SUBSCRIBER, REVENUE & ADVERTISING DECLINE, CORD CUTTER/NEVER & BROADBAND RISE 138

Estimated Canadian Households, TV Subscribers, OTT Subscriber Households, Cord Cutter/Never Households, Residential Broadband Subscribers, 2020-2024 140

Estimated Canadian Broadcast and Specialty/Pay Network TV Advertising Revenue, Online Broadcast/Specialty/Pay Advertising Revenue, Online % of Total, 2020-2024 141

Estimated Programming Expenditure by Private Broadcasters, including Percentage Non-Canadian, Specialty/Pay/PPV/VOD Networks, 2020-2022 142

Estimated Canadian Cable, Satellite, Telco Programming Expenditure, 2020-2022 142

Canadian Cord Cutter/Nevers: Growing 143

Canadian Cord Cutter/Never Household Model, 2012-2024 143

Estimated Canadian TV Subscribers by Cable, Satellite, Telco, 2020-2024 145

Estimated Canadian TV Subscribers by Bell (by IPTV & Satellite), Cogeco, EastLink, Rogers, SaskTel, Shaw (by Cable & Satellite), Telus, Videotron, 2020-2024 146

Estimated Canadian TV Access Revenue by Cable, Satellite, Telco, and ARPU, 2020-2024 147

Estimated TV Access Revenue by Bell IPTV, Bell Satellite, Telus, Rogers, Shaw Cable, Shaw Direct, Videotron, Cogeco, EastLink, 2020-2024 147

Estimated Canadian Residential Internet Subscribers by Cable, Telco, Other Broadband, as a Percentage of Canadian Households, and Total Revenue and ARPU, 2020-2024 148

Estimated Canadian Residential Broadband Subscribers by Rogers, Shaw, Videotron, Cogeco, Bell, Telus, SaskTel, 2020-2024 149

Estimated Residential Internet Access Revenue by Rogers, Shaw, Videotron, Cogeco, Bell, SaskTel, Telus, 2020-2024 149

Canadian Advertising: Anything Is Better Than 2020, 2021-2022 Recovery, Go Forward Traditional TV Broadcast Advertising and Specialty/Pay Advertising/Programming Modest, Online Advertising Double Digits 150

Estimated Canadian Online Advertising Market Revenue 2019-2023, and by Google, Meta, Broadcast/Specialty/Pay, Other, 2020-2022 ... 152

Estimated Canadian Online Advertising Market Share by Google, Meta, Broadcast/Specialty/Pay, Other, 2020-2022 152

Estimated Canadian Broadcast and Specialty/Pay Network TV Advertising Revenue, Online Broadcast/Specialty/Pay Advertising Revenue, Online % of Total, 2020-2024 153

SECTION FOUR: ASSESSING OVER 55 OTT SERVICES, OVER 35 PROVIDERS 154

The Canadian Regulatory Environment: Limits On Vertically Integrated Players' Competitive Advantage…Amendments to the Broadcasting Act & Sales Tax 157

Estimated Canadian Households, TV Subscribers, OTT Subscriber Households, Cord Cutter/Never Households, Residential Broadband Subscribers, 2020-2024 162

Estimated Canadian OTT Subscribers, Access Revenue, ARPU by Amazon Prime, Apple TV+, CBC, Citytv+, Club illico/Vrai, Corus, Crave, Discovery+, Disney+, Netflix, Paramount+, and BeIN Sports Connect Canada-BR-DAZN-F1-Fubo-GolfTV-H&C-MyOutdoorTV-NBA League Pass-NBC Sports Gold-NHL Live-OneSoccer-Sportsnet-TSN/RDS Direct, TVA Sports, and Acorn-AMC-BBC-BritBox-Crunchyroll-Filmatique-Hayu-History-HSuite-Hotstar-IFC-Love Nature-Lumi-MGM-Mongrel-Mubi-OUTtv-Ovid-PBS-River-Shudder-Smithsonian-Sundance Now-SuperChannel, 2020-2024 163

Estimated Canadian OTT Subscriber Accounts, 2020-2024 165

Estimated Canadian OTT Access Revenue and Market Share by Canadian TV Access Providers & Programmers and by Non-Canadian, 2020-2024....165

Estimated Canadian OTT Subscriber Households, Average OTT Subscriptions Per OTT Household, TV Subscribers, Household Penetration, ARPU Comparisons, 2020-2024 166

US Independents: Netflix, Amazon, Apple 167

Netflix in Canada: Subscriber Additions, Price Rise Pattern, Programming Spend, Advertising? 168

Netflix Financial Model, 2012-2022....168

Estimated Netflix Subscribers by US Streaming, US DVD, US DVD-Only, Canada Streaming, International Streaming, 2020-2024....169

Estimated Netflix Content Obligations, 2019-2021....170

Estimated Programming Expenditures by Netflix, TV Access Providers and Per Subscriber Netflix Versus TV Access Providers, 2020-2022 ..170

Amazon Prime Canada: Subscriber Growth and Price Rise 183

Apple TV+ Canada: From Free To Bundle To… 190

US Network Programmers: Disney, Paramount, NBCU, Warner, Discovery195

Disney in Canada: Subscriber Growth Moderates 196

Paramount in Canada: Paramount+ Limited and Bell's Showtime....201

NBCU in Canada: Corus Goes Peacock 204

Warner's HBO in Canada: Bell Media....205

Discovery in Canada: Discovery+ Enters, Bell Media and Corus Abide 206

Canadian Network Programmers: Bell, CBC, Corus, Quebecor/Videotron, Rogers 209
Bell/Crave's Linear & OTT Strategy: HBO, Showtime, Starz, and More 210
CBC's Gem & ICI Tou.TV: Broadcast & Originals 214
Corus' StackTV and Nick+: Growing 216
Quebecor/Videotron's Club illico and Vrai: Expanding the Offering 217
Rogers' Citytv+: Early Days 218
Canadian Sports OTT: BeIN Sports Connect Canada, Bell's TSN/RDS Direct, DAZN, Discovery's GolfTV, FuboTV, Groupe TVA's TVA Sports direct, Horse & Country, Kroenke's MyOutdoorTV, Liberty Media's F1 TV, Mediapro's OneSoccer, NBA League Pass, NBC Sports Gold, Rogers NHL Live & Sportsnet Now 219
Canadian Niche OTT: A&E's History Vault, Allarco's Super Channel, AMC's Acorn TV, AMC+, IFC Films Unlimited, Shudder & Sundance, APTN's Lumi, BBC/ITV's BritBox & BBC Select, Blue Ant's BBC Earth, Cottage Life, Love Nature & Smithsonian Channel Plus, Disney's Hotstar, Filmatique, Hollywood Suite, NBCU's Hayu, MGM, Mongrel, Mubi, OUTtv, Ovid, PBS Masterpiece, Sony's Crunchyroll, VMedia's RiverTV 226

SECTION FIVE: PROFILES 233

US PROFILES 234

A&E Networks 235
Amazon Prime 236
AMC Networks 245
Apple TV+ 247
AT&T/Warner Bros. Discovery 252
Comcast/NBCUniversal 264
Dish/Sling TV 271
Fox Corp. 273
Google/YouTube 274
Lionsgate/Starz 276
Netflix 278
Paramount 292
Walt Disney/Hulu 299

CANADIAN PROFILES 316

Amazon Prime Canada 317
Apple TV+ Canada 324
Bell/Bell Media 330
CBC 334
Corus Entertainment 336
DAZN Canada 338
Disney Canada 340
Netflix Canada 345

Paramount Canada....357
Quebecor....360
Rogers....362

Commentary

Since 2003, we have published our Couch Potato Report series every year. **The Battle for the North American (US/Canada) Couch Potato: OTT and TV, May 2022**, (363 pages), contains detailed analysis of offers (including prices & programming), deals & rights, strategy, 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:

Based on analysis of over 75 OTT services (over 50 providers), led by Netflix, Disney/Hulu, Amazon Prime, Warner Bros. Discovery, we estimate 2021 US OTT access revenue grew 37% to $39.4 billion, and forecast 28% growth to $50.7 billion in 2022, $X billion in 2023 and $X billion in 2024. We forecast 2024 spending on OTT access will be X% of what is spent on TV access, up from X% in 2021, however we project TV ARPU will still be X times OTT ARPU.

Programmers continue to take revenue market share and we forecast will represent X% of 2022 US OTT access revenue versus X% for Independents and X% for TV Access Providers, and X%, X%, X% respectively in 2024. Major programmers face a complicated trajectory not only in terms of competition and profitability but balancing linear & OTT programming, advertising, and theatrical distribution. Though in decline, traditional US TV access (which despite perennial price rises is steadily losing margin), advertising, and programming is still a $220 billion business.

We project 2022-2024 annual US OTT household penetration, subscriptions per household, and net OTT subscriptions added will each progressively see more moderate growth (we forecast 80 million additional US subscriptions in 2022 and 50 million in 2024).

We estimate Broadcast & Cable TV Network Online advertising, propelled by OTT (AVOD, FAST, SVOD), will represent X% of 2022 rising to X% of 2024 US TV advertising revenue.

We estimate 2021 US Cable, Satellite, Telco TV access revenue declined 4% to $91 billion and forecast a decline of 6% to $X billion in 2022 (hence ARPU should grow X%), with decline increasing to X% in 2024 to $X billion.

We estimate 2021 saw a decline of 6.47 million US TV subscribers, 2020 a decline of 6.49 million, and we forecast a decline of 7 million TV subs in 2022, X million in 2023, and X million in 2024; hence US TV subscribers declined by X% in 2021, up from X% in 2020, and we forecast decline will rise to X% in 2022, X% in 2023 and X% in 2024.

As illustrated in our US Cord Cutter/Never Household Model, as of YE2021 we estimate X million US households (47% of HHs) did not have a TV subscription with a Cable, Satellite, or Telco TV access provider, up from X million (42% of HHs) YE2020, and we forecast a rise to X million (53% of HHs) YE2022, X million (X% of HHs) YE2023, and X million (X% of HHs) YE2024. 2021 saw X million, 2020 X million, and we forecast X million 2022, X million 2023 and X million 2024 cord cutter/never household additions.

Extending out forecasts to YE2027 from YE2021, demonstrates a decline of more than X% of TV subs, close to X of annual TV access revenue, a X of cord cutter/never households and more than a X in OTT access revenue. At current run-rate OTT access revenue will exceed TV access revenue in X. By YE2027 under X% of US homes will be traditional TV subscribers down from X% YE2024 and X% currently.

As TV access providers are also broadband providers there are also benefits to facilitating the rise of OTT. Although 2021 residential broadband subscriber gains were lower than 2020, 2021 gains were still substantial and we forecast 2022-2024 will see higher annual gains than 2021. Annual residential broadband revenue has more than doubled over the last decade, while TV access revenue is in its 7th year of decline, and residential broadband subscribers surpassed traditional TV subscribers in 2017. We forecast 2022 residential broadband revenue will be on par with 2022 TV access revenue.

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

Canada is increasingly being impacted by the OTT war being waged by global, mainly US programmers and independent OTT providers. Although for programmers, Canada is a direct to consumer opportunity as well as an opportunity to sell to Amazon, Apple, DAZN, Fubo, Netflix, Canadian programmers and linear/OTT providers continue, at least in the short-medium run, to remain attractive. DAZN, Disney+, Discovery+ & GolfTV, Fubo, NBCU's hayu impinge on the Canadian TV/OTT model, on the other hand Warner's HBO, Paramount's 4 Star Treks/Showtime, Lionsgate's Starz have multiplatform deals with Bell, as does NBCU's Peacock with Corus.

Based on analysis of over 55 OTT services (over 35 providers), led by Netflix, we estimate 2021 Canadian OTT access revenue grew 30% to $2.7 billion, we forecast 26% growth to $3.4 billion in 2022, $X billion in 2023 and $X billion in 2024. Rising Canadian OTT access revenue will continue to mostly benefit non-Canadian players. We estimate Canadian TV Access Providers & Programmers represented just X% of 2021 OTT, we forecast X% for 2024.

We forecast 2024 spending on OTT access will be X% of what is spent on TV access, up from X% in 2021, however we project TV ARPU will still be X times OTT ARPU.

We project 2022-2024 annual Canadian OTT household penetration, subscriptions per household, and net OTT subscriptions added will each progressively see more moderate growth (we project X million additional Canadian subscriptions in 2022 and X million in 2024).

We estimate Broadcast, Specialty & Pay TV Network Online advertising will represent X% of 2022 rising to X% of 2024 Canadian TV advertising revenue.

We estimate 2021 Canadian Cable, Telco, Satellite TV access revenue declined 3% to $7.86 billion and forecast a X% decline to $X billion in 2022 (hence ARPU should grow X%) and a X% decline in both 2023 and 2024.

We estimate 2021 saw a decline of 305,000 Canadian TV subscribers, 2020 a decline of 336,000 TV subscribers, and we forecast further declines of 316,000 in 2022, X in 2023, and X in 2024. Canadian TV subscribers declined by X% in 2021, X% in 2020, and we forecast X% in 2022, X% in 2023, and X% in 2024.

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.

As illustrated in our Canadian Cord Cutter/Never Household Model, as of YE2021 we estimate X million Canadian households (38% of HHs) did not have a TV subscription with a Cable, Satellite, or Telco TV access provider, up from X million (35% of HHs) YE2020, and we forecast a rise to X million (X% of HHs) YE2022, X million (X% of HHs) YE2023, and X million (X% of HHs) YE2024. 2021 saw X, 2020 X, and we forecast X 2022, X 2023, and X 2024 cord cutter/never household additions.

Canadian TV access providers are also broadband providers and thus also benefit from the rise of OTT. 2021, 2020 and 2019 have been banner years for Canadian residential broadband subscriber additions, with 2008 and prior being the last time Canada saw better additions. We forecast 2022-2024 will continue to see robust additions. Annual Canadian residential broadband revenue has more than doubled over the last decade, while Canadian TV access revenue is in its 7th year of decline. Canadian residential broadband revenue first exceeded TV revenue in 2018, Canadian residential broadband subs surpassed TV subs in 2015, and at current run-rate Canadian residential broadband ARPU should match TV ARPU by YE2022.