



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

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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 2023**, (369 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 80 OTT services (over 50 providers), led by Netflix, Disney/Hulu, WBD, Amazon, we estimate 2022 US OTT access revenue grew 26% to \$49.6 billion, and forecast 21% growth in 2023, and 13% in 2025. Although we forecast 2025 US OTT access revenue will well exceed TV access revenue, we project TV ARPU will still be more than twice OTT ARPU.

We forecast Programmers and Independents will continue to essentially split US OTT access revenue. Programmers face a complicated trajectory not only in terms of competition and profitability but balancing linear & OTT programming, advertising, and theatrical distribution.

US OTT household penetration, subscriptions per household, and net OTT subscriptions continue to progressively see more moderate annual growth (subscriptions added/annum we forecast will run on average 2023-2025 at half of 2020-2022); changes in subscription offerings, explored in depth in this Report, have logically followed.

We estimate Broadcast & Cable TV Network Online advertising, propelled by OTT (AVOD, FAST, SVOD), will rise to 23% of 2025 US TV advertising revenue.

We estimate 2022 US Cable, Satellite, Telco TV access revenue declined 6% to \$85.8 billion and forecast a 9% decline in 2023 (ARPU should grow 3%) and 13% in 2025.

We estimate 2022 saw a decline of 7.37 million US TV subscribers, and we forecast a decline of 8.24 million TV subs in 2023; hence US TV subscribers declined by 11% in 2022, and we forecast 14% in 2023 and 16% in 2025.

As illustrated in our US Cord Cutter/ Never Household Model, as of YE2022 we estimate almost 70 million US households (over 53% of HHs) did not have a TV subscription with a Cable, Satellite, or Telco TV access provider, and we forecast a rise to 72% of HHs YE2025.

Extending out forecasts to YE2028 from YE2022, demonstrates a decline of 70% of TV subs and more than 60% of annual TV access revenue, almost a doubling of cord cutter/ never households and more than a two and half times annual OTT access revenue. Net-net traditional TV access is well into becoming a niche product (even if we included vMVPDs in our TV numbers).

As TV access providers are also broadband providers there are benefits to facilitating the rise of OTT. Annual residential broadband revenue has more than doubled over the last decade, while TV access revenue is in its 7th year of decline.

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. Apple, DAZN, Disney+, Discovery+, Fubo, NBCU's hayu impinge on the Canadian TV/OTT model, on the other hand Warner's HBO/Max, Paramount's Showtime, Lionsgate's Starz currently have multiplatform deals with Bell, as does NBCU's Peacock with Corus.

Based on analysis of over 50 OTT services (over 35 providers), led by Netflix, we estimate 2022 Canadian OTT access revenue grew 23% to \$3.3 billion, we forecast X% growth in 2023, and X% in 2025.

Rising Canadian OTT access revenue will continue to mostly benefit non-Canadian players. We forecast Canadian TV Access Providers & Programmers OTT access revenue share will stay in the X% range 2023-2025.

Canadian OTT household penetration, subscriptions per household, and net OTT subscriptions continue to progressively see more moderate annual growth (subscriptions added/annum we forecast will run on average 2023-2025 at a X less than 2020-2022). Further we project 2025 OTT ARPU will still be less than X of 2025 TV ARPU.

We estimate Broadcast, Specialty & Pay TV Network Online advertising will rise to X% of 2025 Canadian TV advertising revenue.

We estimate 2022 Canadian Cable, Satellite, Telco TV access revenue declined 4% to \$X billion and forecast X%/annum declines through 2025 (we project X ARPU growth).

We estimate 2022 saw a decline of 2% of Canadian TV subscribers (X subs), rising we forecast to on average X%/annum declines 2023-2025.

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.

Canadian population/immigration increases we believe are also having (and will have) a positive impact on limiting TV subscriber losses and increasing broadband subscriber gains.

As illustrated in our Canadian Cord Cutter/Never Household Model, as of YE2022 we estimate 6.3 million Canadian households (40% of HHs) did not have a TV subscription with a Cable, Satellite, or Telco TV access provider, and we forecast a rise to X% YE2025.

Canadian TV access providers are also broadband providers and thus also benefit from the rise of OTT. Annual Canadian residential broadband revenue has more than doubled over the last decade, while Canadian TV access revenue is in its 8th year of decline. 2019-2022 have been banner years for Canadian residential broadband subscriber additions, we forecast 2023-2025 will continue to see robust additions (on average at almost a X/ annum).