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The Battle for the American/Canadian Couch Potato: OTT and TV

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Contents

Commentary

Since 2003, we have published our Couch Potato Report series every year. **The Battle for the American/Canadian Couch Potato: OTT and TV, March 2024**, (375 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 90 OTT services (over 50 providers), led by Netflix, Disney/Hulu, Amazon, WBD we estimate 2023 US OTT access (subscription) revenue grew 19% to $59.2 billion, and forecast 17% growth in 2024 to $69 billion (matching 2024 US TV access revenue). Based on a number of factors explored in this Report we expect double digit growth rates will sustain through at least 2026.

US OTT household penetration, subscriptions per household, and net OTT subscriptions continue in most cases to see more moderate annual growth. We forecast net paid US OTT subscriptions added per annum will run on average 40% less 2024-2026 than 2021-2023, even with 2024 being a stronger projected year for net subscription additions than 2023. We forecast total US paid OTT subscriptions, which we estimate reached 497 million YE2023, will continue to grow in the single digits (down from pre-2023 double digit growth). Changes in OTT subscription offerings with a focus on advertising, price, profitability, explored in depth in this Report, have logically followed. Based on the 10 largest OTT providers, average US price increase was 11% in 2022 and 2023 and we forecast 2024 will be similar. That being said OTT offers with advertising represent a significant cost savings (on average 45% less) to similar offers without advertising.

We have expanded our online TV advertising segmentation and now cover free ad-supported AVOD (includes FAST) and paid OTT subscription with ads SVOD, by both US Broadcast & Cable TV Network players and Independents. Based on our forecast trajectory, US AVOD and SVOD TV advertising revenue will exceed traditional US TV advertising revenue in X.

We estimate 2023 saw a decline of 7.76 million US Cable, Satellite, Telco TV subscribers, and we forecast a decline of 7.1 million TV subs in 2024; hence US TV subscribers declined by 12% in 2023, and we forecast 13% in 2024 and 15% in 2026.

We estimate 2023 US Cable, Satellite, Telco TV access revenue declined 10% to $77.6 billion and forecast a 11% decline in 2024 (ARPU should grow 2%) and 13% in 2026.

As illustrated in our US Cord Cutter/Never Household Model, as of YE2023 we estimate X million US households (60% of HHs) did not have a TV subscription with a Cable, Satellite, or Telco TV access provider, and we forecast a rise to 75% of HHs YE2026.

Extending out forecasts to YE2029 from YE2023, demonstrates a decline of X% of TV subs and annual TV access revenue, a X% increase in cord cutter/never households and a X of annual OTT access revenue. Net-net traditional TV access is well into becoming a niche product.

As TV access providers are also broadband providers there are benefits to facilitating OTT. Annual residential broadband revenue has more than doubled over the last decade.

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 to remain attractive. Apple, DAZN, Disney+, Discovery+, Fubo, NBCU's hayu, Paramount+ impinge on the Canadian TV/OTT model, alternatively Warner's HBO/Max and Starz currently 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 2023 Canadian OTT access (subscription) revenue grew 14% to $3.73 billion, we forecast 14% growth in 2024 to $4.24 billion. Based on a number of factors explored in this Report we expect double digit growth rates will sustain through at least 2026.

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 2024-2026.

Canadian OTT household penetration, subscriptions per household, and net OTT subscriptions continue to see more moderate annual growth; changes in subscription offerings with a focus on advertising, price, profitability, explored in depth in this Report, have logically followed. Based on the 10 largest OTT providers, average Canadian price increase was 12% in 2022 and 2023 and we forecast 2024 will be similar. That being said OTT offers with advertising represent a significant cost savings (on average 42% less) to similar offers without advertising.

We have expanded our online TV advertising segmentation and now cover free ad-supported AVOD (includes FAST) and paid OTT subscription with ads SVOD, by both Canadian Broadcast & Specialty/Pay TV and Non-Canadian players. Based on our forecast trajectory, Canadian AVOD and SVOD TV advertising revenue will exceed traditional Canadian TV advertising revenue in X. Again, we forecast non-Canadian players will mostly benefit.

We estimate 2023 saw a decline of 2.6% of Canadian Cable, Satellite, Telco TV subscribers (X subs), and forecast increasing declines through 2026. Both Cable and Satellite continue to lose market share to Telco.

We estimate 2023 Canadian Cable, Satellite, Telco TV access revenue declined 3% to $7.2 billion and forecast X%/annum declines through 2026 (we project X ARPU growth).

As illustrated in our Canadian Cord Cutter/Never Household Model, as of YE2023 we estimate X million Canadian households (42% of HHs) did not have a TV subscription with a Cable, Satellite, or Telco TV access provider, and forecast a rise to 50% YE2026.

Canadian TV subscribers and access revenue are currently not seeing as steep a rate of decline as the US, but this could change, 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 maintaining broadband & wireless gains.

Canadian TV access providers are also broadband providers and thus also benefit from OTT. Annual Canadian residential broadband revenue has more than doubled over the last decade. 2019-2023 have been banner years for Canadian residential broadband subscriber additions, we forecast 2024-2026 will continue to see robust additions.