THE CONVERGENCE RESEARCH GROUP LTD.

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The Battle for the Canadian Couch Potato: OTT and TV

March 2024

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Commentary

Since 2003, we have published our Couch Potato Report series every year. **The Battle for the Canadian Couch Potato: OTT and TV, March 2024**, (153 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.

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.