THE CONVERGENCE RESEARCH GROUP LTD.

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The Battle for the Canadian Couch Potato: Bundling, Television Internet, Telephone, Wireless

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Commentary

Now in its 15th year of publication, The Battle for the Canadian Couch Potato: Bundling, TV, Internet, Telephone, Wireless (147 pages) contains analysis of product offers (including price comparisons), strategy, and subscriber/financial performance metrics **by Company & Market**. In addition to Convergence analysis, sources include company interviews, annual/quarterly reports & presentations, CRTC, Innovation & Statistics Canada. **Commentary, please see Table of Contents for what is included in this Report:**

We estimate 2016 Canadian Cable, Telco Satellite TV access provider (not including OTT) revenue declined 1.3% to $8.97 billion; we forecast $8.92 & $8.85 billion for 2017 & 2018 and that residential broadband access revenue will exceed TV access revenue in 2019. We forecast higher TV ARPU growth 2017-2019 than 2016. We forecast Cable, Telco, Satellite will have 56.4%, 26.3%, 17.3% of Canadian TV subs YE2017, from 57.6%, 24.2%, 18.2% YE2016; Telco TV additions continue to mature. YE2016 we estimate 65% of TV subs had PVR, 84% HD.

Canadian TV subscriber decline and cord cutter/never household additions are accelerating: We estimate 2016 saw a decline of 220,000 Canadian TV subs, 2015 a decline of 190,000 TV subs, and we forecast a decline of 247,000 for 2017. Hence Canada's TV subscriber base is declining by 2% per annum, for 2019 we forecast a 3% drop. As illustrated in our Canadian Cord Cutter/Never Household Model, 2012 saw the start of the rise in cord cutter/never households. As of YE2016 we estimate 3.8 million Canadian households (26% of HHs) did not have a traditional TV subscription with a Cable, Satellite, or Telco TV access provider, up from 3.43 million (23.8% of HHs) YE2015, and forecast 4.18 million (28.4% of HHs) YE2017. 2015 saw 333,000, 2016 saw 362,000 and we forecast 388,000 2017 cord cutter/never household additions.

2016 Canadian residential broadband sub additions were we estimate 409,000 & revenue grew 9% to $7.48 billion; we forecast 381,000 and 8% for 2017. Cable matched Telco on annual residential broadband additions in 2016, whereas 2013-2015 Telcos were adding on average twice the annual subscribers. We forecast similar Cable & Telco annual additions through 2019.

Canadian residential wireline telephone lines declined we estimate 6% in 2016 and we forecast 6% for 2017. 2016 Telco residential wireline telephone line loss was 7.5%, whereas Cable residential wireline telephone line loss was 3%. We estimate Cable represented 42% of residential wireline telephone subs YE2016 and we forecast 43% for YE2017.

Almost 1 million wireless subscribers were added in 2016 (2012 was the last year Canada added over 1 million wireless subscribers) and wireless service revenue grew 6%, we forecast 900,000 & 5% for 2017. We forecast Canadian wireless new entrants (EastLink, Shaw, Videotron) will have 7.3% of the market YE2017, up from 6.6% year-end 2016. We forecast 2017 Canadian wireless service (weighted) ARPU will grow 1.7%, 2016 saw 2.4% growth. We forecast Canadian wireless subscriber smartphone penetration at 79% YE2017 up from 76% YE2016. Canadian wireless-only households annual additions continue to be significant; we estimate Canadian wireless-only households at 37% YE2016 and forecast 42% YE2017 and 49% for YE2019.