

The Battle for the North American (US/Canada) Couch Potato: Online & Traditional TV and Movie Distribution

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Contents

COMMENTARY.....9

SECTION ONE: US TV SUBSCRIBERS, ACCESS REVENUE, PROGRAMMING SPEND VERSUS OTT 12

TV Access Revenue, Broadcast & Cable Network Advertising, Programming & Retransmission Large and Still Growing Despite Rising OTT, Broadband Subscribers & Cord Cutters/Nevers12

 Estimated US Households, TV Subscribers, Cord Cutter/ Never Households, Residential Internet Subscribers, 2015-201813

 Estimated US TV Subscribers by Cable, Satellite, Telco TV, 2015-201913

 Estimated US TV Access Revenue by Cable, Satellite, Telco, and ARPU, 2015-201914

 Estimated TV Revenue by Comcast, Charter, Cox, Altice, DirecTV, Dish, 2015-201914

 Estimated US TV Subscribers by Comcast, Charter, Cox, Altice, DirecTV, Dish, AT&T, Verizon, Frontier, CenturyLink, 2015-201915

 Estimated US Residential High Speed Subscribers by Comcast, Charter, Cox, Altice, AT&T, Verizon, Frontier, CenturyLink, 2015-201915

 Estimated US Residential Internet Subscribers by High Speed Cable, Telco, Other Broadband, and as Percentage of All US Residences, Total Revenue and ARPU, 2015-201916

 Estimated Residential Internet Access Revenue by AT&T, CenturyLink, Frontier, Verizon, Charter, Comcast, Cox, Altice 2015-201916

Cord Cutter/Nevers: Accelerating17

 US Cord Cutter/ Never Household Model, 2008-201917

Bandwidth Caps/Metered Billing/Overage Fees: TV/Internet Access Players' Potential Advantage.....19

OTT Challengers.....21

 Estimated Programming Sales by Cable Networks, Pay/PPV/VOD, Retransmission/Other to US Cable, Satellite, Telco TV Providers, 2015-2018.....22

 Estimated Programming Expenditures by US Cable and Satellite/ Telco TV Providers, 2015-201822

 Estimated Programming Expenditures by AT&T/DirecTV, Charter, Comcast, Dish, 2015-2018.....22

 Estimated US Broadcast & Cable Network TV Advertising Revenue, Online Broadcast/Cable Network TV Advertising Revenue, Online Share of TV Advertising Revenue, 2015-201923

Estimated US OTT Subscribers by Netflix, Amazon Prime, Hulu, CBS All Access, Cinemax, DirecTV Now, HBO Now, Layer3 TV, PS Vue, Showtime, Sling TV, Starz, YouTube, and Fox Soccer 2GO-FuboTV-Ice-MLB.TV-MLS Live-MyOutdoorTV-NBA League Pass-NFL Game Pass-NHL.TV-PGA-WWE, and Acorn-Boomerang-BritBox-Comic-CONtv-Crunchyroll-Dove-History-Noggin-Seeso-True Crime-Walter, and Brown Sugar-CuriosityStream-Docu-Fandor-FilmStruck-Lifetime-Shudder-Sundance-Tribeca-Urban Movie-Warner, 2015-2019.....	24
Estimated US OTT Revenue by Netflix, Amazon Prime, Hulu, CBS All Access, Cinemax, DirecTV Now, HBO Now, Layer3 TV, PS Vue, Showtime, Sling TV, Starz, YouTube, and Fox Soccer 2GO-FuboTV-Ice-MLB.TV-MLS Live-MyOutdoorTV-NBA League Pass-NFL Game Pass-NHL.TV-PGA-WWE, and Acorn-Boomerang-BritBox-Comic-CONtv-Crunchyroll-Dove-History-Noggin-Seeso-True Crime-Walter, and Brown Sugar-CuriosityStream-Docu-Fandor-FilmStruck-Lifetime-Shudder-Sundance-Tribeca-Urban Movie-Warner, 2015-2019.....	25
Estimated US OTT ARPU by Netflix, Amazon Prime, Hulu, CBS All Access, Cinemax, DirecTV Now, HBO Now, Layer3 TV, PS Vue, Showtime, Sling TV, Starz, YouTube, and Fox Soccer 2GO-FuboTV-Ice-MLB.TV-MLS Live-MyOutdoorTV-NBA League Pass-NFL Game Pass-NHL.TV-PGA-WWE, and Acorn-Boomerang-BritBox-Comic-CONtv-Crunchyroll-Dove-History-Noggin-Seeso-True Crime-Walter, and Brown Sugar-CuriosityStream-Docu-Fandor-FilmStruck-Lifetime-Shudder-Sundance-Tribeca-Urban Movie-Warner, 2015-2019.....	26
Estimated Programming Expenditures for the US Market by Netflix, TV Access Providers, and Per Subscriber Spend Netflix Versus TV Access Providers, 2015-2017	27
Estimated Netflix and TV Access Provider Content Costs as a Percentage of Revenue, 2015-2017	27
Estimated Average Hourly Cost of Viewing by US Cable/Satellite/Telco TV Access Provider, Apple iTunes, Amazon Prime, Hulu, Netflix.....	28
Netflix's Global Strategy: Programming Spend, Originals, Price Rises, Margin Compression, US Subscriber Growth Slowing, International Must Lead the Way.....	29
Netflix Financial Model, 2012-2017	29
Estimated Netflix Content Obligations, 2014-2016.....	29
Estimated Netflix Subscribers by US (by Streaming, Streaming-Only, DVD, DVD-Only), Canada Streaming, International Streaming, 2015-2019.....	30
Amazon Prime Video: Domestic & Global Leverage, Netflix's Frenemy	37
Broadcast/Cable Network OTT Programmers: Hulu and CBS All Access.....	41
OTT Channel Bundle, Direct Competition Requires Selection & Price: AT&T's DirecTV Now, Dish's Sling TV, Google's YouTube TV, Layer3 TV, Sony PlayStation Vue.....	44
Pay-TV's Natural OTT Play: HBO Now, Cinemax, Showtime, Starz.....	49

Sports OTT: Fox Soccer 2GO, FuboTV, Ice Network, MLB.TV, MLS Live, MyOutdoorTV, NBA League Pass, NFL Game Pass, NHL.TV, PGA Tour Live, WWE Network.....	50
Niche OTT Play: A&E's Lifetime Movie Club and History Vault, AMC's Acorn TV, BritBox, Shudder, Sundance Now, Urban Movie Channel, Bounce TV's Brown Sugar, Channel 4's Walter Presents, CuriosityStream, Cinedigm's CONtv, Docurama, Dove, Discovery's True Crime File, Fandor, Lionsgate's Comic-Con HQ and Tribeca Shortlist, NBCUniversal's Seeso, Otter Media's Crunchyroll, Time Warner's Boomerang, FilmStruck Warner Archive, Viacom Nickelodeon's Noggin	52
OTT From Movie/TV Rental & Sales Market Perspective	56
Estimated US Movie/TV Rental by OTT, Redbox Kiosk, Cable/Satellite/Telco VOD, Online Transactional, Store, Netflix Mail, and US Movie/TV DVD/Blu-ray/Download Sales (including by Download), and US Box Office, 2015-2019	56
Estimated OTT, Redbox Kiosk, Cable/Satellite/Telco VOD, Online Transactional, Store, Netflix Mail Market Share of US Movie/TV Rental Revenue, and Estimated Download Market Share of US Movie/TV DVD/Blu-ray/Download Sales Revenue (including by Download), 2015-2019	57
OTT Dominates Movie/TV Rentals, Redbox Kiosks & Rental Revenue in Secular Decline, Cable/Satellite/ Telco TV VOD Growth Constrained, Online Transactional Modest Market Share, Store & Mail Shells of Their Past...Download Sales	58

SECTION TWO: US TV AND ONLINE ADVERTISING, FREE & AUTHENTICATED ONLINE BROADCAST, CABLE, PAY TV 60

Estimated US Broadcast & Cable Network TV Advertising Revenue, Online Broadcast/Cable Network TV Advertising Revenue, Online Share of TV Advertising Revenue, 2015-2019	61
Estimated US Online Advertising Market Revenue by Google, Facebook, Broadcaster/Cable Network TV, Other, 2015-2019	62
Estimated US Online Advertising Market Share by Google, Facebook, Broadcast/Cable Network TV, Other, 2015-2019	63
Google/YouTube's TV Aspirations, Finally a Go!...Here Comes Facebook.....	64
Amazon, AMC, AT&T/DirecTV, Comcast/NBCU, Discovery, Disney, IAC, Lionsgate, NBCU, RTL, Time Warner, 21 st Century Fox, Verizon, Vivendi's Online Investments	66
Broadcast, Cable, Pay TV Online	67
Online Revenue and Viewing Methodology	67
Estimated Percentage of US Average Weekly Viewers That Watch Free Online Full Episodes by Broadcast Network, Cable Network, and Broadcast/Cable Network Viewership, 2015-2018	68
Estimated US Online TV Advertising Revenue by CBS, Disney/ABC, NBCUniversal, Scripps Networks, Time Warner, 21 st Century Fox, Viacom, 2015-2017	69

Estimated US DVR Subscribers by Cable, Satellite, Telco, and as Percentage of Total TV Subscribers, 2015-2019	70
Estimated DVR Subscribers and Penetration by AT&T, Charter, Comcast, DirecTV, Dish, Verizon, 2016 and 2017	70
Broadcast Network TV Online: No Free Viewing Growth, Authentication & Windowing, Hulu-Yahoo No Longer Pivotal	71
Estimated Percentage of US Average Weekly Viewers That Watch Free Online Broadcast Full Episodes by ABC, CBS, Fox, NBC, 2015-2018 ...	71
Cable Network TV Online: Limited Free Viewing & Offerings, Highly Authenticated	73
Estimated Percentage of US Average Weekly Viewers That Watch Free Cable Network Online Full Episodes by AETN, Disney, NBCUniversal, Scripps Networks, Time Warner, Viacom, 2015-2018 ..	73
Pay-TV Online: No Free, Highly Authenticated	76

SECTION THREE: CANADIAN TV SUBSCRIBERS, ACCESS REVENUE, ADVERTISING IN DECLINE...OTT & BROADBAND SUBS/REVENUE, ONLINE ADVERTISING GROW..... 77

Estimated Canadian Households, TV Subscribers, Cord Cutter / Never Households, Residential Internet Subscribers, 2015-2018	78
Canadian Broadcast and Specialty / Pay Network TV Advertising Revenue, Online Broadcast / Specialty / Pay Advertising Revenue, Online Share of Share of TV Advertising Revenue, 2015-2019	79
Estimated Programming Expenditure by Private Broadcasters, Percentage Non-Canadian, Specialty / Pay Networks Programming Expenditure, 2015-2017	80
Estimated Canadian Cable, Satellite, Telco Programming Expenditures to Specialty Network and Pay / PPV / VOD, 2015-2017	80
Estimated Canadian TV Subscribers by Cable, Satellite, Telco, 2015-2019	81
Estimated Canadian TV Subscribers by Bell (by Telco & Satellite), Cogeco, EastLink, MTS, Rogers, SaskTel, Shaw (by Cable & Satellite), Telus, Videotron, 2015-2019	81
Estimated Canadian TV Revenue by Cable, Satellite, Telco, and ARPU, 2015-2019	82
Estimated TV Revenue by Bell Telco, Bell Satellite, Telus, Rogers, Shaw Cable, Shaw Direct, Videotron, Cogeco, EastLink, 2015-2019	82
Estimated Canadian Residential Internet Subscribers by High Speed Cable, Telco, Other Broadband, as a Percentage of All Canadian Residences, and Total Revenue and ARPU, 2015-2019	83
Estimated Canadian Residential High Speed Subscribers by Rogers, Shaw, Videotron, Cogeco, Bell, Telus, MTS, SaskTel, 2015-2019	84
Estimated Residential Internet Access Revenue by Rogers, Shaw, Videotron, Cogeco, Bell, MTS, SaskTel, Telus, 2015-2019	84
Canadian Cord Cutter / Nevers: Accelerating	85
Canadian Cord Cutter / Never Household Model, 2010-2019	85

Bandwidth Caps/Metered Billing/Overage Fees: More Ubiquitous and Challenging than the US.....	87
OTT and Other Challenges	89
The Canadian Regulatory Environment: Limits On Vertically Integrated Players' Competitive Advantage	89
Netflix in Canada: Canadian Penetration to Surpass the US.....	95
Estimated Programming Expenditures for Canadian Market, by Netflix, TV Access Providers and Per Subscriber, 2015-2017	95
Estimated Netflix Subscribers by US (by Streaming, Streaming-Only, DVD, DVD-Only), Canada Streaming, International Streaming, 2015-2019.....	95
Netflix Financial Model, 2012-2017.....	96
Estimated Netflix Content Obligations, 2014-2016.....	96
Estimated Canadian OTT Subscribers, Revenue, ARPU by Netflix, CraveTV, Club illico, and BeIN Sports Connect Canada-MLS Live-NBA League Pass-NFL Game Pass-Sportsnet Now, and Adult Swim-CBC News Channel Live Stream-Crunchyroll-Fandor-History Vault-Shudder-Sundance Now-Tou.TV, 2015-2019	97
Estimated Average Hourly Cost of Viewing by Canadian Cable/Satellite/Telco TV Access Provider, Apple iTunes, Netflix, CraveTV	98
Bell's CraveTV & Videotron's Club illico OTT Offers, Shomi No Longer	104
Canadian OTT Sports Plays: BeIN Sports Connect Canada, MLS Live, NBA League Pass, NFL Game Pass, Rogers' Sportsnet Now	107
Canadian OTT Niche Plays: AMC's Shudder and Sundance Now, CBC News Channel Live Stream and ICI Tou.TV, Corus' History Vault, Fandor, Otter Media's Crunchyroll, Turner's Adult Swim.....	108
Amazon Prime Video Enters Canada: Highly Modest Canadian Library	110
OTT From Movie/TV Rental & Sales Market Perspective	115
Estimated Canadian Movie/TV Rental by OTT, Cable/Satellite/Telco VOD, Online Transactional, Store, and Canadian Movie/TV DVD/Blu-ray/Download Sales (including by Download), and Box Office, 2015-2019	115
Estimated OTT, Cable/Satellite/Telco VOD, Online Transactional, Store, Market Share of Canadian Movie/TV Rental Revenue, and Estimated Download Market Share of Canadian Movie/TV DVD/Blu-ray/Download Sales Revenue (including by Download), 2015-2019	116
OTT Dominates Movie/TV Rentals, Cable/Satellite/ Telco TV VOD Growth Constrained, Online Transactional Modest Market Share, Store Shell of its Past...Download Sales	117
SECTION FOUR: CANADIAN TV AND ONLINE ADVERTISING, FREE & AUTHENTICATED ONLINE BROADCAST, SPECIALTY, PAY TV	119
Estimated Canadian Online Advertising Market Revenue 2015-2019, and by Google, Facebook, Yellow Media, Other, 2015-2017	119

Estimated Canadian Online Advertising Market Share by Google, Facebook, Yellow Media, Other, 2015-2017	119
Estimated 2016 Average Monthly Unique Users of Leading Canadian Websites	120
Canadian Broadcast and Specialty/Pay Network TV Advertising Revenue, Online Broadcast/Specialty/Pay Advertising Revenue, Online Share of Share of TV Advertising Revenue, 2015-2019	121
Estimated Canadian, Non-Canadian, and Total Programming Expenditures by Private Broadcasters, & Total Programming Expenditure by Specialty/Pay Networks, 2015-2017	122
Estimated Canadian Cable, Satellite, Telco Programming Expenditures to Specialty Network and Pay/ PPV/VOD, 2015-2017	122
Canadian Advertising: Traditional Broadcast Weak & Specialty Treading Water, How Much Pay Advertising, Online TV Advertising Strong But Small, Online Advertising Twice TV Advertising's Size in 2017	123
Broadcast, Specialty, Pay TV Online	124
Online Revenue and Viewing Methodology	124
Estimated Percentage of Average Canadian Weekly Viewers That Watch Free Online Full Episodes by Broadcast Network, Specialty Network, and Broadcast/Specialty Network Viewership, 2015-2018	125
Estimated Canadian PVR Subscribers by Cable, Satellite, Telco, and as Percentage of Total TV Subs, 2015-2019	126
Estimated PVR Subscribers and Penetration by Bell Satellite TV, Bell Telco TV, Rogers, Shaw Cable, Telus, Videotron, 2016 and 2017	126
Broadcast Network Online TV: Much Free, Limited Viewing Growth, Sizeable Advertising Loads, Authentication	127
Estimated Percentage of Average Canadian Weekly Viewers That Watch Free Online Broadcast Full Episodes by CBC, City, CTV, Global, TVA, 2015-2018	127
Specialty Network Online TV: Limited Free Shows & Viewing Growth, Ad Loads, Authentication	130
Estimated Percentage of Average Canadian Weekly Viewers That Watch Free Online Specialty Full Episodes at Bell Media, Corus/Shaw Websites, 2015-2018	130
Pay-TV Online: Highly Authenticated	134
SECTION FIVE: PROFILES	136
US PROFILES	137
A&E Networks	138
Amazon Prime	139
AMC Networks	143
AT&T/DirecTV	145
CBS	147
Comcast/NBCUniversal	149
Dish/Sling TV	151

Google/YouTube.....	153
Hulu.....	155
Netflix.....	157
Scripps Network Interactive	163
Sony	164
Time Warner.....	166
21 st Century Fox	169
Viacom	170
Walt Disney	171
CANADIAN PROFILES.....	173
Amazon Prime Canada.....	174
Bell/Bell Media	178
CBC.....	181
Corus Entertainment.....	182
Netflix Canada	184
Quebecor.....	189
Rogers.....	191

Commentary

Now in its 11th year of publication, **The Battle for the North American (US/Canada) Couch Potato: Online & Traditional TV and Movie Distribution** (192 pages) contains detailed analysis 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:

We estimate 2016 US Cable, Satellite, Telco TV access provider (not including OTT) revenue grew 3% to \$107.3 billion (\$91/mo. ARPU) and forecast \$109.6 billion (\$95/mo. ARPU) for 2017, programming costs continue to grow in the high single digits. In contrast, we estimate US OTT access revenue (based on 47 OTT providers and led by Netflix) grew 32% to \$8.3 billion in 2016 and forecast \$11.2 billion for 2017 and \$14.7 billion for 2018. We estimate OTT will represent 74% of US Movie/TV Rental revenue YE2017, from 65% YE2016.

US TV subscriber losses and cord cutter/never household additions saw a major increase in 2016 as compared to 2015: We estimate 2016 saw a decline of 2.05 million US TV subscribers, 2015 saw a decline of 1.16 million, and forecast a decline of 2.11 million TV subscribers for 2017. As illustrated in our US Cord Cutter/ Never Household Model, 2010 saw the start of the rise in cord cutter/never households. As of YE2016 we estimate 27.2 million US households (22.3% of HHs) did not have a traditional TV subscription with a Cable, Satellite, or Telco TV access provider, up from 24.2 million (20% of HHs) YE2015, and we forecast 30.3 million (24.6% of HHs) YE2017. 2015 saw 2.1 million, 2016 3 million, and we forecast 3.1 million 2017 cord cutter/never household additions.

We estimate US residential broadband subscribers grew to 94.5 million in 2016 and forecast 97.2 million YE2017, hence there will be more residential broadband subscribers than TV subscribers before YE2017. We estimate US residential broadband access revenue at \$51.3 billion 2016 and forecast \$54.7 billion for 2017. Over the last five years Cable has added nine times the residential broadband subscribers the Telcos have.

We estimate Broadcast & Cable Network Online TV advertising represented 4.6% (\$3.64 billion) of 2016 US TV advertising revenue, and forecast 4.9% for 2017.

Based on the full-episode TV shows US Broadcasters & Cable Networks made available online for free in 2016, we estimate that on average 17% of the weekly viewing audience watched on average four episodes per week, 2015 saw 18% and we forecast 16% for 2017. We attribute the decline to the rise of OTT, the DVR, TV Everywhere, and the replacement of Hulu with Yahoo View.

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

We estimate 2016 Canadian Cable, Telco Satellite TV access (not including OTT) revenue declined 1.3% to \$8.97 billion; we forecast \$8.92 & \$8.85 billion for 2017 & 2018. In contrast, we estimate Canadian OTT access revenue (based on 16 OTT providers, not including Amazon, and led by Netflix) grew 35% to \$651 million in 2016, and forecast \$827 million for 2017 & \$972 million for 2018. We forecast OTT will represent 69% of Canadian Movie/TV Rental revenue YE2017, from 61% YE2016.

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. We forecast Canadian residential broadband access revenue will exceed Canadian TV access revenue in 2019; Canadian residential broadband subs surpassed Canadian TV subs in 2015.

We estimate Broadcast, Specialty & Pay Network Online TV advertising represented 5.4% (\$179 million) of 2016 Canadian TV advertising revenue, and forecast 5.8% for 2017.

Based on the full-episode TV shows Canadian Broadcasters & Specialty Networks made available online for free in 2016, we estimate that on average 19% of the weekly viewing audience watched on average four episodes, 2015 saw 19%, and forecast 19% for 2017. We attribute the lack of growth to the rise of OTT, the PVR, TV Everywhere, and online advertising loads.