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

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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 5.3% ($179 million) of 2016 Canadian TV advertising revenue, and forecast 5.7% 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.