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The Battle for the North American (US/Canada) Couch Potato: OTT, TV, Online

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Commentary

Now in its 12th year of publication, The Battle for the North American (US/Canada) Couch Potato: OTT, TV, Online (271 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:

The gloves are off. The TV-Movie Industry is being reconstructed from the inside and by the outside, as programmers now directly compete against their traditional TV access and independent OTT buyers that rival in terms of content spend. Amazon, Apple, DAZN, Facebook, Google and Netflix all have the money muscle to finance their own productions or outbid on programming including major sporting franchises. We expect especially for the US market going forward fewer content deals between programmers and independent OTT providers: 2017 saw Disney choose not to renew with Netflix and embrace OTT, HBO not renew with Amazon in the US, Hulu (which is spending more on content on a per US subscriber basis than Amazon or Netflix) continue to bolster its offerings & more directly compete against TV access providers, and A+E, AMC, Discovery, Scripps back & supply Philo.

The traditional TV ecosystem does not show decline 'yet' except for TV subscribers. TV access players continue to raise prices (ARPU is growing but we forecast TV access revenue decline going forward), and programmers have kept up increases in programming fees & advertising rates but this architecture can not last in the long-run: TV access providers OTT offers (and skinny TV offers) add subscribers but at far lower ARPU, while large independent OTT providers, which also sell at low price points and often without advertising, have heavily boosted their own production for a number of reasons, including reducing their reliance on programmers. Programmers have read the writing on the wall and have already gone, or are in process of going direct to consumer, again at competitive price points.

We estimate US OTT access revenue (based on 55 OTT providers led by Netflix) grew 41% to $11.9 billion in 2017, forecast $16.6 billion for 2018, and $27.6 billion for 2020. We estimate Independents, Programmers, TV Access Providers represented 64%, 29%, 7% of US OTT access revenue respectively in 2017 and forecast 54%, 34%, 12% for 2020.

We estimate 2017 US Cable, Satellite, Telco TV access (not including OTT) revenue grew 1% to $107.6 billion ($94.30/mo. ARPU), and forecast $107.4 billion (97.90/mo. ARPU) for 2018.

We forecast US OTT subscriber households will far surpass TV subscribers in 2020, however US TV subscriber ARPU will be 4 times US OTT subscriber household ARPU down from 6 times in 2017.

We estimate 2017 saw a decline of 3.66 million US TV subscribers, 2016 a decline of 2.2 million, and we forecast a decline of 3.72 million TV subs for 2018; hence the US TV sub base is declining in the 4%/annum range.

As illustrated in our US Cord Cutter/Never Household Model, 2010 saw the start of the rise in cord cutter/never households. As of YE2017 we estimate 32.13 million US households (26.1% of HHs) did not have a traditional TV subscription with a Cable, Satellite, or Telco TV access provider, up from 27.56 million (22.6% of HHs) YE2016, and we forecast 36.76 million (29.6% of HHs) YE2018. 2016 saw 3.16 million, 2017 4.57 million, and we forecast 4.63 million 2018 cord cutter/never household additions.

2017 saw US residential broadband subscribers surpass US TV subscribers growing to 96.95 million. We estimate 2.33 million US residential broadband subs were added in 2017 (2.66 million in 2016) and revenue grew 7% to $56.8 million; we forecast 2.57 million additions and 6% growth to $60.5 billion for 2018.

We estimate Broadcast & Cable Network Online TV advertising represented 5.2% of 2017 US TV advertising revenue, we forecast 5.6% for 2018.

We estimate OTT will represent 90% of US movie/TV rental revenue in 2020, while download movie/TV sales will represent almost half of US DVD/Blu-ray/download movie/TV sales.

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

Although there are less than half the OTT plays in Canada as there are in the US, Canada is far from immune from the global OTT war being waged by large American programmers and independent OTT providers. Going forward if Amazon, DAZN, and Netflix (not to mention the possibility of Apple, Facebook or Google entering the Canadian market) are willing to spend heftily on programming, there may be room for them to outbid Bell Media, Corus or Rogers in obtaining programming despite not having a traditional TV platform. Even if Amazon, DAZN, or Netflix are not successful, this dynamic can only benefit US (and other) programmers in terms of upping prices on deals with Canadian players.

Further, with CBS All Access entering the Canadian market (and Disney OTT perhaps entering in the near future), CBS functions as both supplier and competitor to Canadian programmers/TV access providers, the question also becomes how much CBS content will Canadian programmers/TV access providers, Amazon, or Netflix be able to obtain? CBS All Access being in Canada gives CBS more leverage in negotiating with Canadian programmers, as well as Amazon & Netflix- especially when it comes to original content.

On the one hand US programmers do not want Canadian programmers/TV access providers to sink too quickly given the revenue that comes from programming sales to them, on the other there is a direct to consumer opportunity as well as an opportunity to sell to Amazon, Netflix, etc.

In the end it comes down to maximizing revenue/margin. HBO, Showtime & Starz chose not to go direct instead making deals with Bell Media.

We estimate Canadian OTT access revenue (based on 24 OTT providers led by Netflix, we have not assigned revenue to Amazon Prime which did not increase price with the recent addition of video in Canada) grew 29% to $872 million in 2017, and forecast $1.11 billion for 2018, and $1.58 billion for 2020. We forecast in 2020 there will be more OTT subscriber households than TV subscribers in Canada.

We estimate 2017 Canadian Cable, Telco Satellite TV access (not including OTT) revenue declined 2% to $8.74 billion & forecast a 1% decline to $8.64 billion for 2018.

We estimate 2017 saw a decline of 216,000 Canadian TV subscribers, 2016 a decline of 225,000 TV subscribers, and we forecast a decline of 267,000 for 2018. Canada's TV subscriber base declined by 1.9%/annum 2016-2017, we forecast 2.6%/annum on average 2018-2020. Telco TV additions have started to mature (Cable & Satellite have not added subscribers since 2010), we forecast 2018-2020 will see fewer Telco TV additions accelerating Canadian TV subscriber declines and cord cutter/never household additions.

As illustrated in our Canadian Cord Cutter/Never Household Model, 2012 saw the start of the rise in cord cutter/never households. As of YE2017 we estimate 4.14 million Canadian households (28.1% of HHs) did not have a traditional TV subscription with a Cable, Satellite, or Telco TV access provider, up from 3.78 million (25.9% of HHs) YE2016, and forecast 4.55 million (30.5% of HHs) YE2018. 2016 saw 366,000, 2017 357,000 and we forecast 406,000 2018 cord cutter/never household additions.

2017 Canadian residential broadband subscriber additions were we estimate 422,000 (the largest annual additions since 2009) & revenue grew 8% to $8.06 billion; we forecast 370,000 and $8.7 billion for 2018- exceeding 2018 Canadian TV access revenue. Canadian residential broadband subscribers surpassed Canadian TV subs in 2015.

We estimate Broadcast, Specialty & Pay Network Online TV advertising represented 5.6% of 2017 Canadian TV advertising revenue, and forecast 6.3% for 2018.

We estimate OTT will represent 83% of Canadian movie/TV rental revenue in 2020, while download movie/TV sales will represent almost half of Canadian DVD/Blu-ray/download movie/TV sales.