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

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Commentary

Now in its 14th year of publication, The Battle for the North American (US/Canada) Couch Potato: OTT and TV (330 pages) contains detailed analysis of offers (including prices & programming), strategy, and 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, US Census.

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

Our forecasts assume the coronavirus will not be as major a disruptive force beyond 2020.

With programmers having jumped in with both feet, and Apple, DAZN, and Quibi joining Netflix & Amazon's spending parade, the OTT arms race has truly begun. We believe Netflix no longer has the same flexibility to raise pricing as frequently as it has in the past. Alternatively, Amazon and Apple have the luxury of expensing OTT programming as an additional operating cost to their core businesses. Amazon has clearly demonstrated its programming commitment to OTT, it remains to be seen if Apple is willing to endure the long-term spending campaign required to become a key OTT player.

Programmers face their own opportunity cost constraints. Hence programmer OTT offers, which have seen Disney & Warner move away from being Netflix & Amazon Prime's (in the US) suppliers respectively, will at least in the short term be tempered by continuing to serve the $235 billion US TV access, advertising, programming space. While Disney+ and ESPN+ quickly exceed their subscriber target forecasts, Hulu which has seen subscriber growth through price discounts and major programming outlays (Hulu spends more on content/sub than either Amazon or Netflix) remains unprofitable and it is unclear what programming supply will look like in the medium-long run.

AT&T/WM is in game of transitions mode, attempting to rapidly convert & grow its HBO subscriber base to HBO Max. CBS All Access & Showtime have seen a very strong OTT subscriber trajectory, we await the new ViacomCBS house of brands OTT product. Comcast/NBCU's Peacock takes a TV Everywhere Plus approach to OTT. We await more Discovery DTC.

Based on 77 OTT services (over 50 providers), led by Netflix, Hulu, Amazon, we estimate US OTT access revenue grew 35% to $22 billion in 2019, we forecast X% growth to $X billion for 2020, and $X billion for 2022. Hence we forecast 2022 OTT access spending will be more than X% of what is spent on TV access, up from 22% in 2019.

We estimate Independents, Programmers, TV Access Providers represented X%, X%, X% of 2019 US OTT access revenue, and forecast X%, X%, X% for 2022; hence Programmers should continue to narrow the revenue gap with Independents.

We forecast US TV subscriber ARPU will be X times US OTT subscriber household ARPU in 2022 down from X times in 2019. 2019 saw US OTT subscriber households surpass US TV households, we forecast average OTT subscriptions will increase to X per OTT household in 2021.

We estimate Broadcast & Cable TV Network Online advertising, driven by OTT, will represent X% of 2020 and X% of 2022 US TV advertising revenue.

Given the accelerating decline in TV subscribers, revenue, and the ongoing programming cost and TV access price increases, TV advertising revenue has also started to decline, traditional TV has never looked so vulnerable.

We estimate 2019 US Cable, Satellite, Telco TV access revenue declined 3% to $100.4 billion and forecast a decline of X% to $X billion in 2020 (hence ARPU should grow X%) and a decline of X% in 2022 to $X billion.

We estimate 2019 saw a decline of 6.358 million US TV subscribers, 2018 a decline of 4.034 million, and we forecast a decline of X million TV subs in 2020 & X million in 2022; hence US TV subscribers declined by 7.1% in 2019, 4.3% in 2018, and we forecast X% in 2020, X% in 2021 and X% in 2022.

As illustrated in our US Cord Cutter/Never Household Model, as of YE2019 we estimate X million US households (36.1% of HHs) did not have a TV subscription with a Cable, Satellite, or Telco TV access provider, up from X million (30.6% of HHs) YE2018, and we forecast X million (X% of HHs) YE2020, and X million (X% of HHs) YE2022. 2019 saw 7.21 million, 2018 5.94 million, and we forecast X million 2020 and X million 2022 cord cutter/never household additions.

Extending out forecasts to YE2025 from YE2019, demonstrates a decline of more than X% of US TV subscribers, over X% of annual TV access revenue, while cord cutter/never households and OTT access revenue more than X, with OTT access revenue X 2025 TV access revenue.

Being caught in the programmer versus independent OTT squeeze play hampers TV access provider revenue & margins, however as TV access providers are also Internet providers there are also benefits to facilitating the rise of OTT. Annual residential broadband revenue has more than doubled over the last decade & we forecast 2022 residential broadband access revenue will X with 2022 TV access revenue. Residential broadband subs surpassed TV subs in 2017.

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

Our forecasts assume the coronavirus will not be as major a disruptive force beyond 2020.

Canada is increasingly being impacted by the global OTT war being waged by large American & international programmers and independent OTT providers. Although for US & international programmers Canada is a direct to consumer opportunity as well as an opportunity to sell to Amazon, Apple, DAZN, Netflix, and Quibi, Canadian programmers and linear/OTT providers continue to remain an attractive alternative.

On the one hand, DAZN's procurement of soccer, the new Disney+ offering, Discovery's GolfTV & NBCU's hayu, impinge on the Canadian TV/OTT model, on the other in large part thus far WM's HBO, CBS (2 Star Treks)/Showtime, Lionsgate's Starz have all chosen not to go DTC or sell to independents, instead making long-term deals with Bell for linear & OTT. However as of 2021, Crave loses Seinfeld to Netflix, which picked up 5-year global streaming rights for US$500 million.

We believe Netflix no longer has the same flexibility to raise pricing as frequently as it has in the past. Alternatively, Amazon and Apple have the luxury of expensing OTT programming as an additional operating cost to their core businesses.

Based on 43 OTT services (over 30 providers), led by Netflix, we estimate Canadian OTT access revenue grew 37% to $1.53 billion in 2019, we forecast X% growth to $X billion for 2020, and $X billion for 2022. Hence we forecast 2022 spending on OTT access will be X% of what is spent on TV access, up from 18% in 2019.

The forecasted X of annual Canadian OTT access revenue will continue to mostly benefit Non-Canadian players. We estimate Canadian TV Access Providers & Programmers represented X% of 2019 OTT access revenue while Non-Canadian players represented X%, and forecast X for 2022.

In 2020 OTT subscriber households will surpass TV subscribers in Canada, however Canadian TV subscriber ARPU will be we forecast X times Canadian OTT subscriber household ARPU, declining to X times in 2022. We forecast average OTT subscriptions per Canadian OTT household will increase to X in 2022.

We estimate Broadcast, Specialty & Pay TV Network Online advertising will represent X% of 2020 and X% of 2022 Canadian TV advertising revenue.

We estimate 2019 Canadian Cable, Telco, Satellite TV access revenue declined 2% to $8.38 billion & forecast a X% decline to $X billion (hence ARPU should grow by X%) in 2020 and a X% decline to $X billion in 2022.

We estimate (Bell & Telus no longer include Telus Satellite TV subscribers) 2019 saw a decline of 283,000 Canadian TV subscribers, 2018 a decline of 262,000 TV subscribers, and we forecast a decline of X in 2020 and X in 2022. Canadian TV subscribers declined/annum by on average 2.5% in 2018 & 2019, we forecast on average X%/annum decline 2020-2022.

As illustrated in our Canadian Cord Cutter/Never Household Model, as of YE2019 we estimate X million Canadian households (32.5% of HHs) did not have a TV subscription with a Cable, Satellite, or Telco TV access provider, up from X million (30% of HHs) YE2018, and we forecast X million (X% of HHs) YE2020 and X million (X% of HHs) YE2022. 2019 saw 420,000, 2018 400,000, and we forecast X 2020 and X 2022 cord cutter/never household additions.

Canadian TV subscribers and access revenue are currently not seeing as steep a rate of decline as the US but this could change in the medium term- dependent on new, or expanded, OTT offers in Canada.

Although TV access players bear the brunt of the programmer versus independent OTT provider battle, Canadian TV access providers are also broadband providers and thus also benefit from the rise of OTT. 2019 Canadian residential broadband subscriber additions were we estimate the highest additions in over a decade. Canadian residential broadband revenue first exceeded TV revenue in 2018, Canadian residential broadband subs surpassed TV subs in 2015.