Overview – The EU VOD market Facts & Figures

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European Audiovisual Observatory

COUNCIL OF EUROPE
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- ❑ Overview - The EU VOD market in figures - explosive growth over 5 years
- ❑ Focus on SVOD - the fastest growing audiovisual market
- ❑ Films in VOD catalogues & Promotion of films on VOD services

1– Overview– Main points

- Rapid market growth of paid VOD services
  - Launch of new services by traditional and new media players
  - Expansion of international players into the EU, alliances of EU players
  - Rapid consumer adoption & changing expectations/behaviour (ATAWAD)
  - 'Over-the-Top' distribution and use of multiple media devices become generalised with wide-spread broadband
  - ➔ Abundance of content / Scarcity of consumer attention

- VOD market mainly driven by SVOD services as consumer prefer increasingly access to content over ownership

- TVOD market growing and retail (ownership) is overtaking rental in several markets but the rental market is still representing 58% of TVOD market

- However, VOD market still a small segment of the EU audiovisual market and dominated by a few

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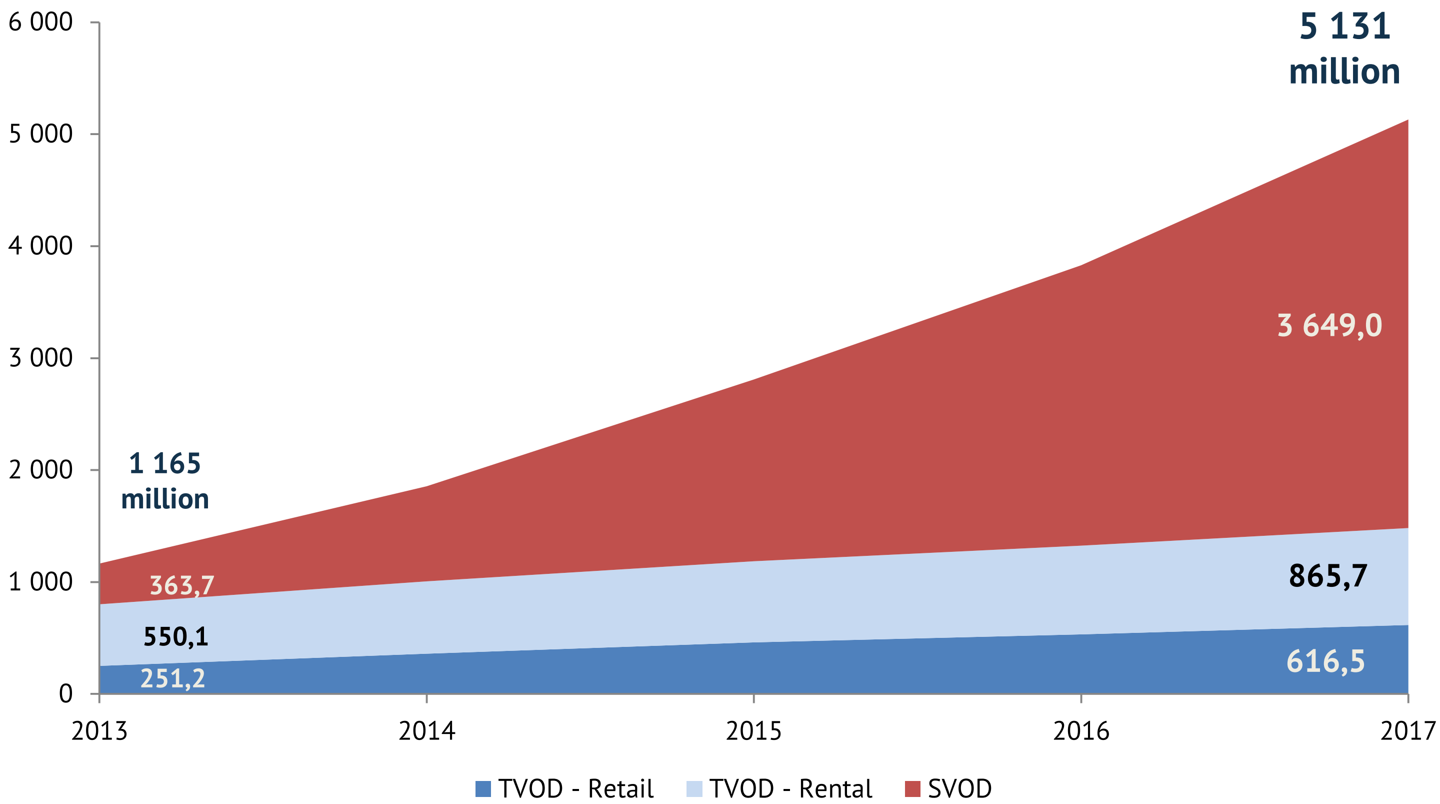
1 – EU VOD market – Rapid growth over the past 5 years - SVOD growth driver

Overview

Consumer revenues OTT SVOD & TVOD

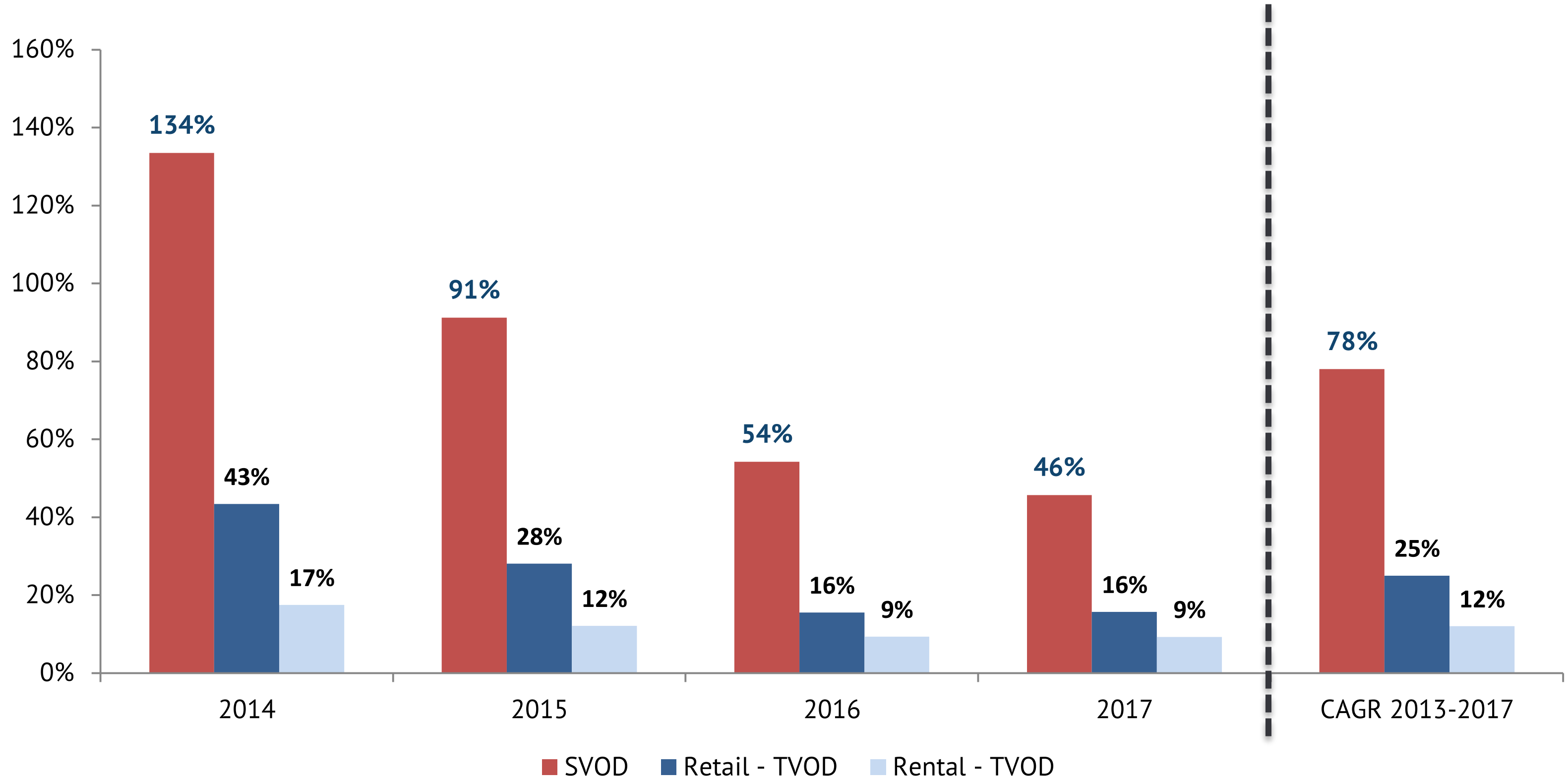
in EUR million



Source: Ampere Analysis

Growth of revenues OTT SVOD & TVOD

in %



Source: Ampere Analysis

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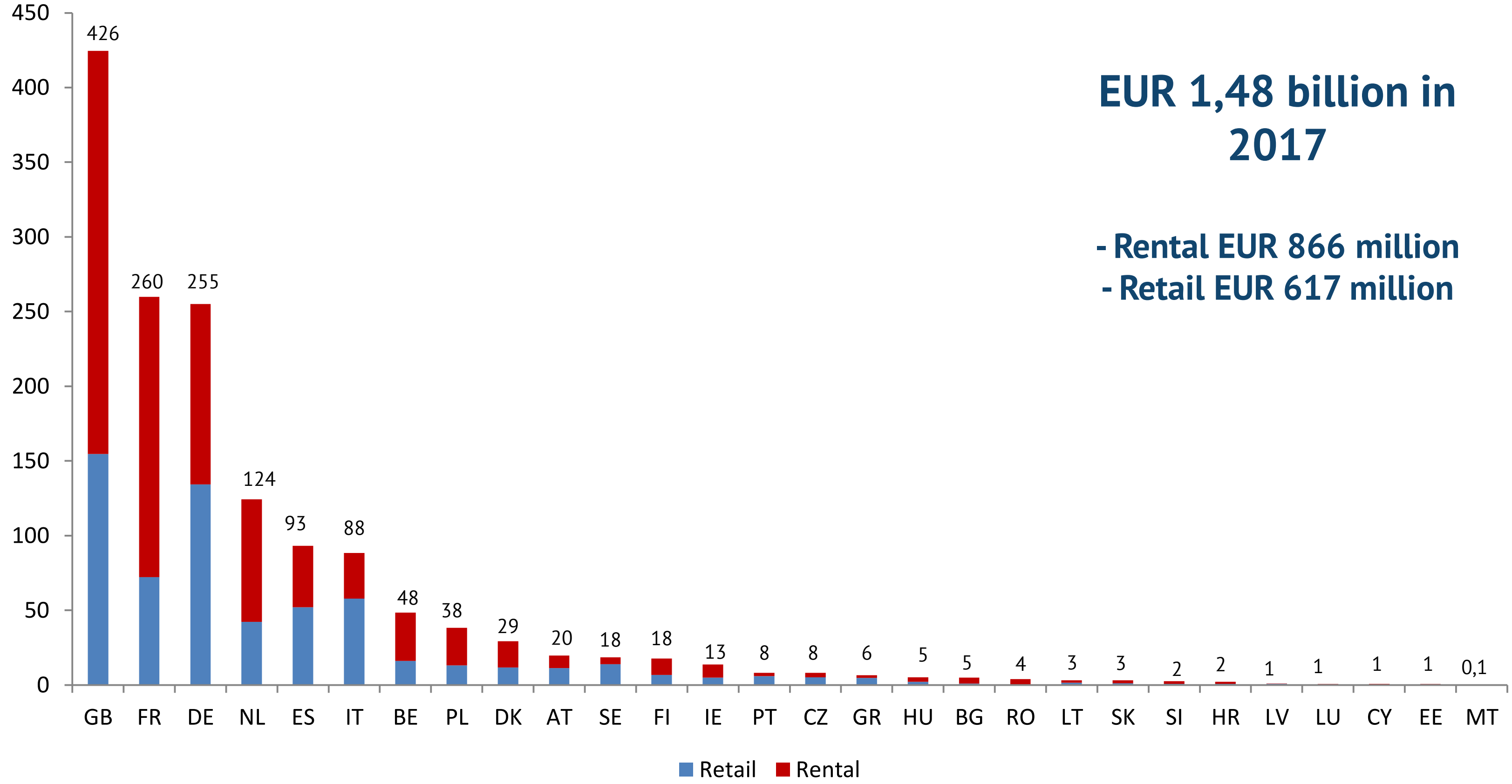
TVOD revenues 2017, retail and rental by country

in EUR million



EUR 1,48 billion in 2017

- Rental EUR 866 million
- Retail EUR 617 million

Rental is still the largest part of the TVOD market in 16 EU countries but retail is growing faster and already more popular in several markets – notably in DE, ES, IT, SE, PT and CZ.

However, this does not compensate the losses on the physical video market, from EUR 7,4 billion in 2011 to EUR 4 billion in 2016 or -45,7% in 5 years.

Source: Ampere Analysis

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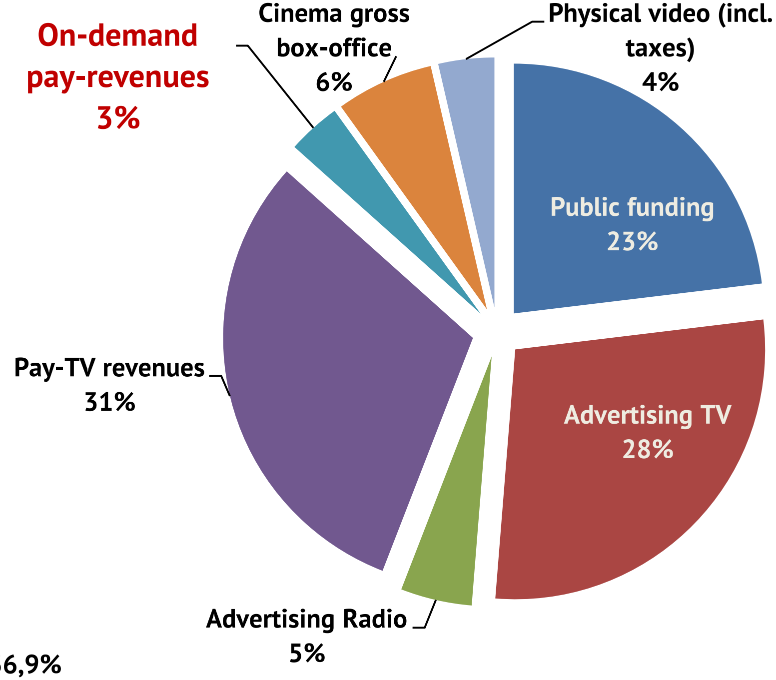
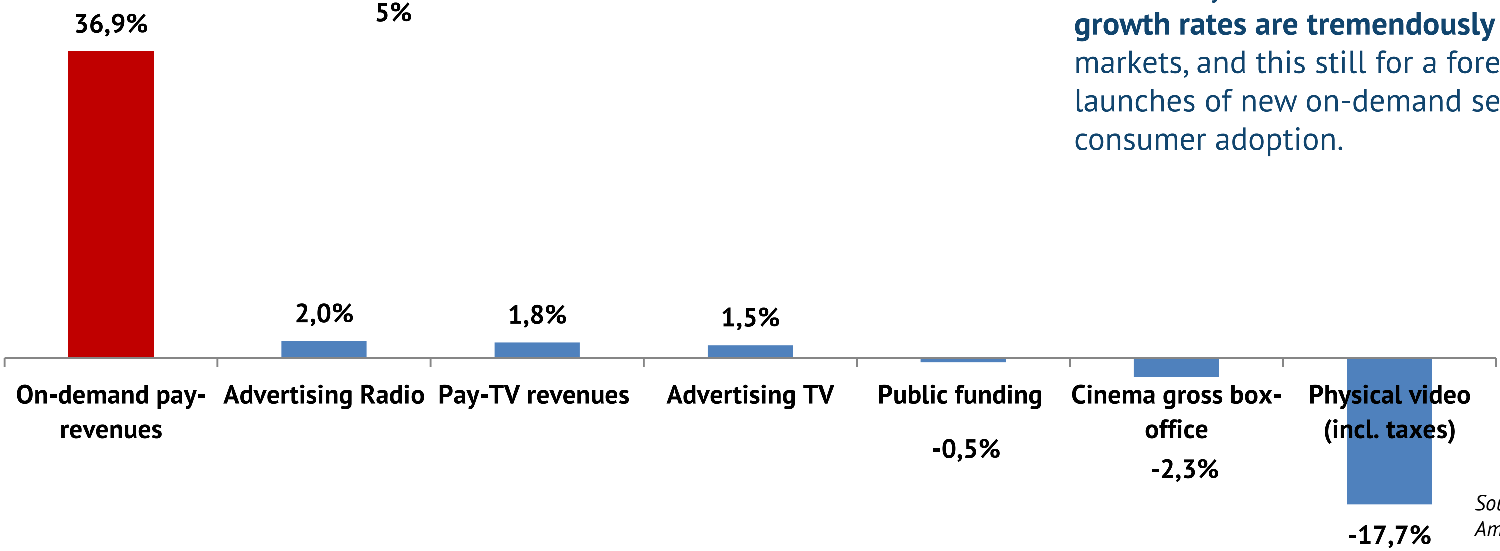
1 – EU VOD market – still a small part of the AV ecosystem (2016) *Overview*



Representing in 2016 only **3% of the EUR 111,4 billion audiovisual market in the EU**, on-demand pay services are still relatively small compared to other markets.

BUT the dynamic are on their side as **Year-to-Year growth rates are tremendously superior** to the other AV markets, and this still for a foreseeable future with the launches of new on-demand services and increased consumer adoption.



Source: IHS, Warc, EBU/MIS, OBS, Ampere Analysis

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2. Focus on SVOD - the fastest growing audiovisual market

- SVOD has become an established part of the EU audiovisual ecosystem with rapid growth in consumer revenues and subscribers
- This is launching a race towards **‘direct-to-consumer’ business models** for media players, who have to adapt to consumer expectations

- In the EU at the end of 2017: 183 different SVOD services were available (representing 280 linguistic versions) (OBS - MAVISE stats)
- However, the sector is **dominated by 2 players**, Netflix and Amazon, which together account for **80% of SVOD subscriptions / 75% of revenues**

- Increased investments **in original content** and in **content acquisition** by international players makes competition increasingly harder for smaller national players – **Size matters / Alliances of EU players**
- In the EU, the US phenomenon of **‘cord-cutting’** begins to be visible in several countries; however, traditional pay TV and SVOD services are still rather coexisting than in direct competition (for how long?)

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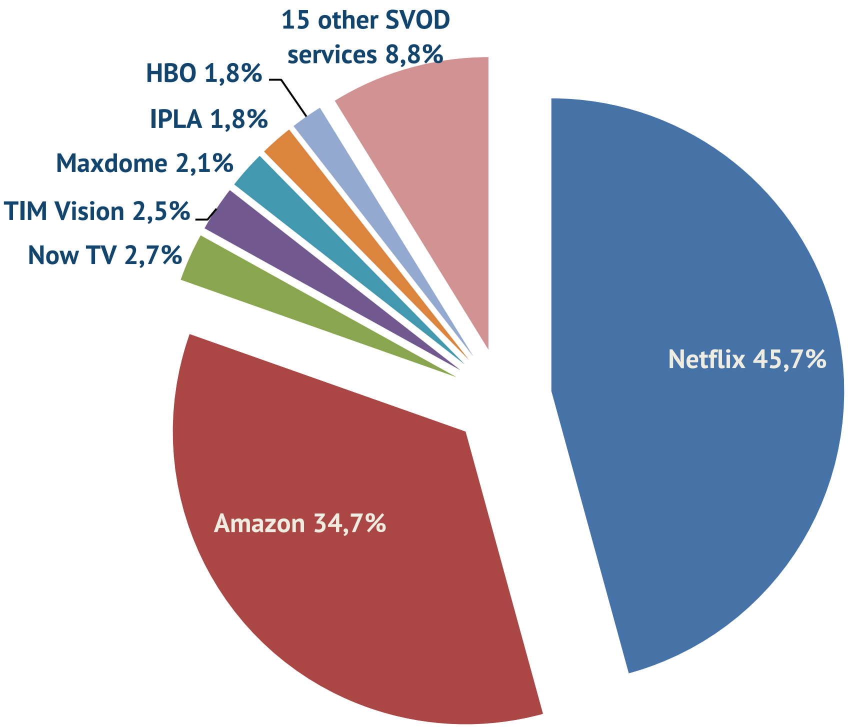
2 - Focus on OTT SVOD – Revenues & Subscribers in 2017 by services

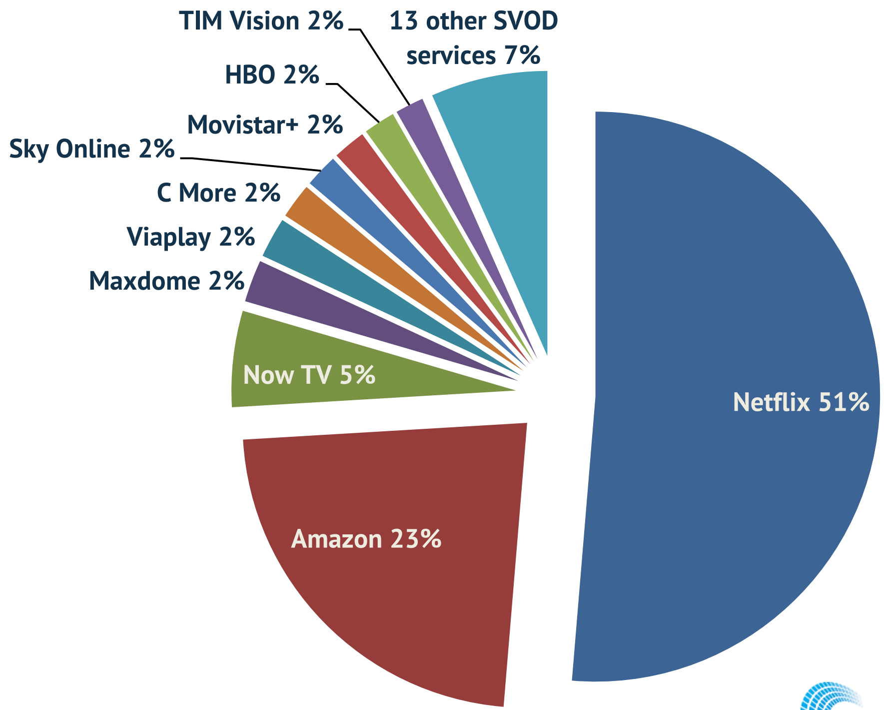
SUBSCRIBERS

- **53,9 million** SVOD subscribers in 2017
- Netflix and Amazon represent 80% of EU SVOD subs



CONSUMER REVENUES

- **EUR 3 649 million** in 2017
- Netflix and Amazon represent 74% of EU SVOD revenues

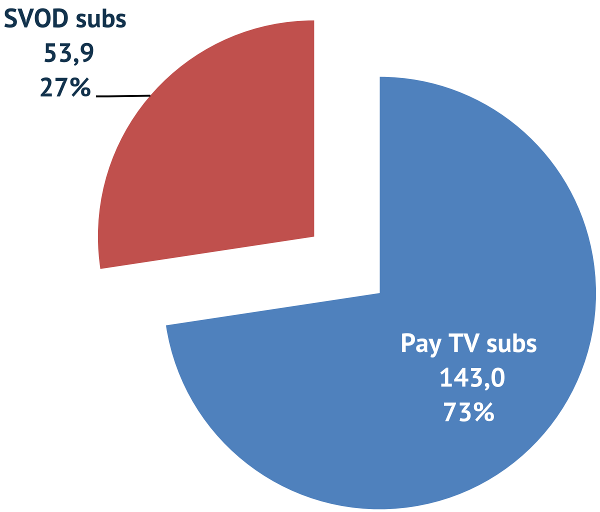


Source: Ampere Analysis

2 – Focus on SVOD – Comparaison with pay TV in 2017 - revenues in EUR million, subs in million

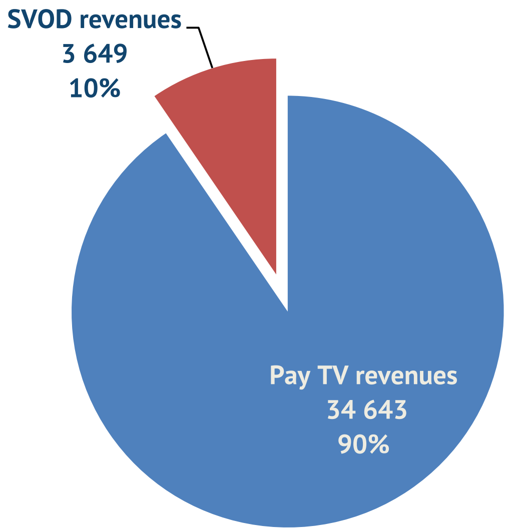
SUBSCRIBERS

196,9 million pay subscriptions in 2017 in the EU
Different dynamics:
➔SVOD subscribers YtY growth **+36,3%** vs pay TV **+1,3%**
SVOD represents 88% of subscribers growth for pay services 2016/2017



CONSUMER REVENUES

EUR 38 291,8 million pay service revenues in 2017 in the EU
Different dynamics:
➔SVOD revenues YtY growth **+45,7%** vs pay TV **+3.1%**
SVOD represents 52% of the growth in subscription revenues 2016/2017



Advantage SVOD?

Sports, live events and exclusive premium content still favor pay TV **BUT** price and scale of larger SVOD players might challenge traditional pay TV services in the near future:

➔Launch of direct-to-consumer services as hedge
➔Integration of major SVOD services on pay TV platforms
➔Loss of pay TV subscribers in DK (-4,9%), IT, GR, LU, SE and NL in 2017

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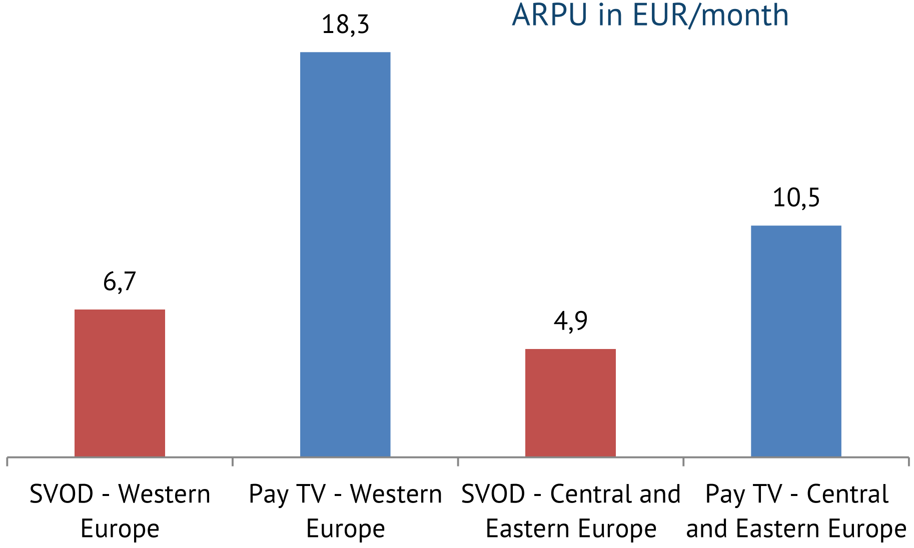
Source: Ampere Analysis

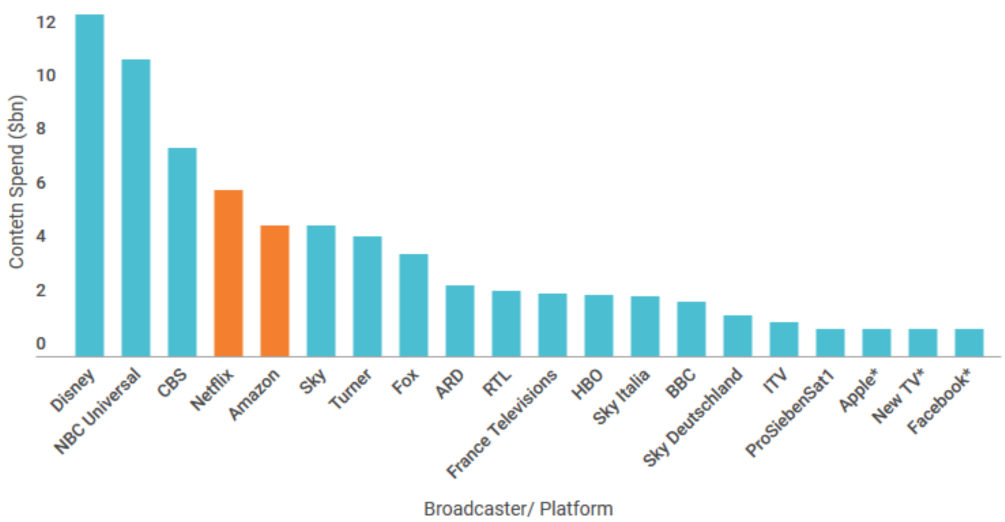
2 – Focus on SVOD – Evolution - Content spend by major players

ARPU

- SVOD and direct-to-consumer business have much lower revenues per user
- The challenge will be for traditional services to **continue to finance content** while earning less per subscriber in new business models
- The need for size and presence in several markets **OR** to distribute original content wider
  ➔ Collaborations, coproductions and alliances



Spend on content ($bn) for major broadcasters and platforms in 2017



Source: Ampere Analytics, as of June 2018

*These are all speculative spend amounts based on press disclosures

CONTENT SPEND

- Netflix spent USD 6,2 billion and Amazon USD 4,9 billion in 2017 on original and acquired content
- This compares to USD 4,8 billion for Sky, USD 2,2 billion for Sky Italia and USD 1,5 for Sky Germany
- With new mega deals for content creators in the 100s of million dollars and the rising costs of premium content, traditional players will be challenged

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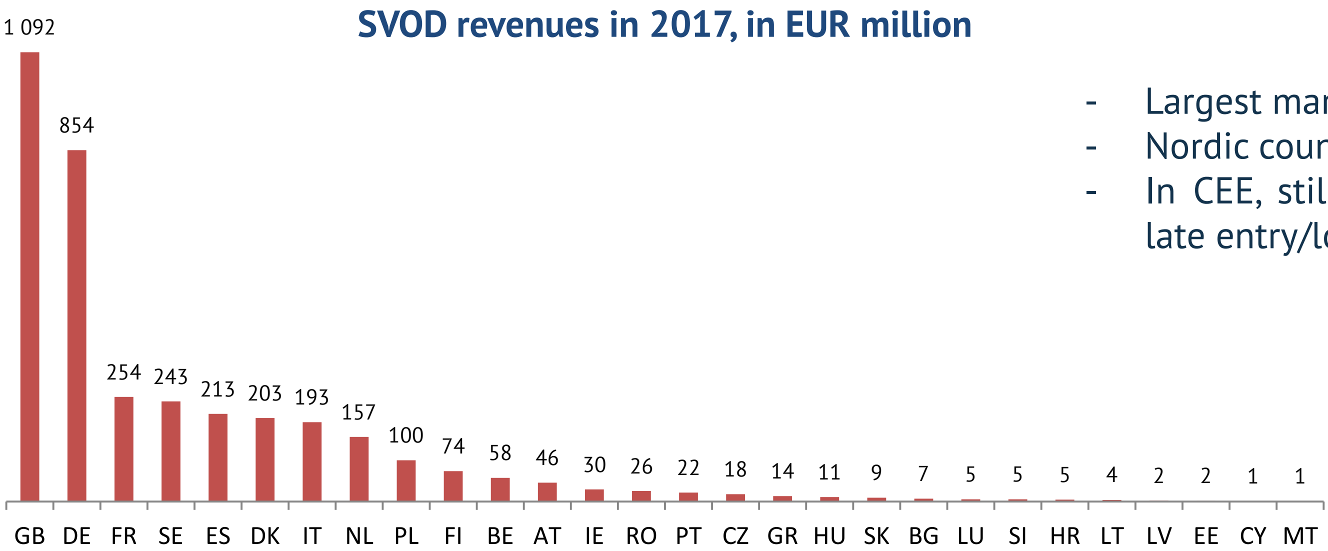
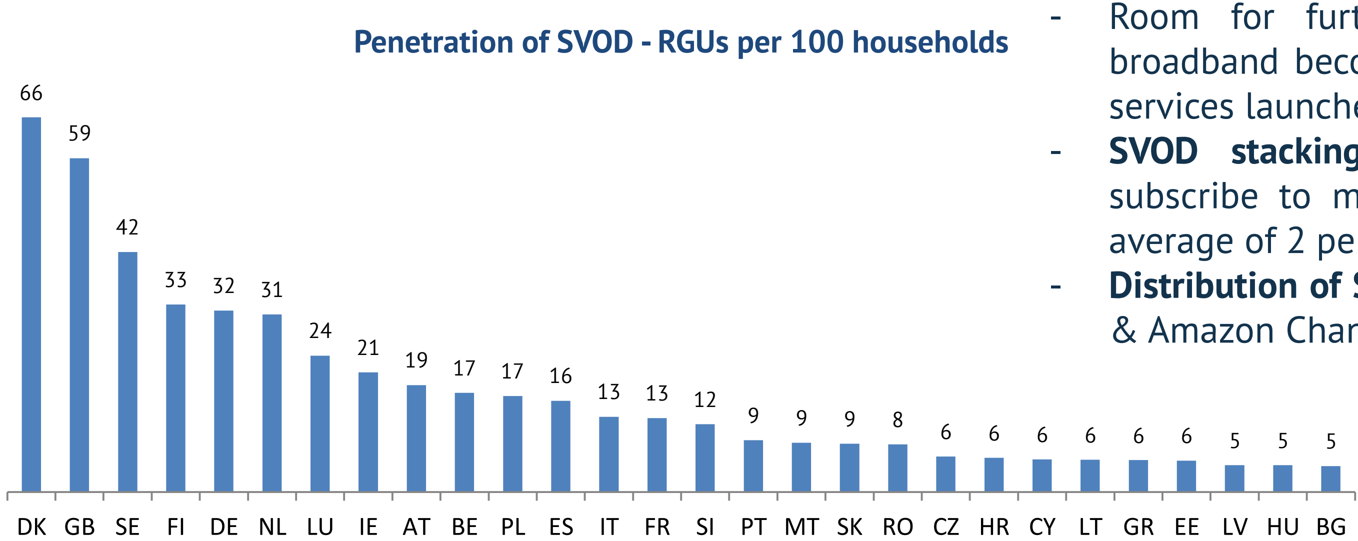
Source: Ampere Analysis

2 – Focus on SVOD – Benchmark - the SVOD market by country in 2017



Revenues

- Largest markets generate the most revenues
- Nordic countries early adopters and quick growth
- In CEE, still modest revenues and penetration – late entry/localisation of services?



Penetration

- Room for further growth in all markets as broadband becomes commodity + new and niche services launches
- **SVOD stacking** – SVOD consumers start to subscribe to more than 1 SVOD service, global average of 2 per HH
- **Distribution of SVOD services** on pay TV platforms & Amazon Channel could grow this trend

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3. Films in VOD catalogues
and
Promotion of films on VOD services

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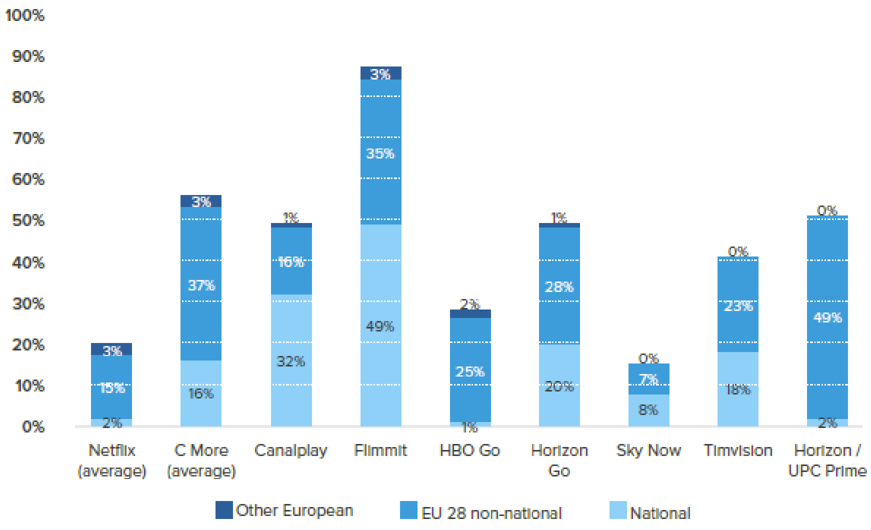
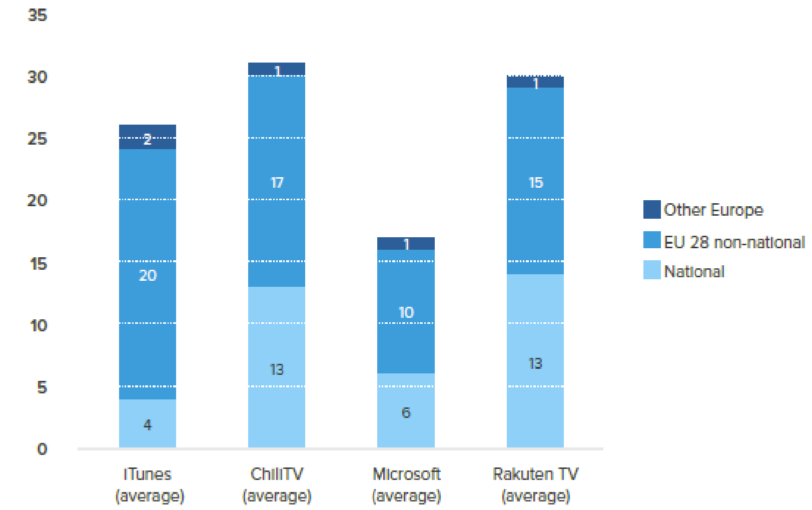
3 – Films in VOD catalogues – Importance of catalogue data collection *Overview*

→ Share of national, EU 28 non-national and other European films in SVOD catalogues (November-December 2017)



Source: European Audiovisual Observatory

→ Share of EU films in the catalogues of pan-European TVOD services (November-December 2017)



Source: European Audiovisual Observatory

SVOD – 37 catalogues

- On average, **20% of EU films** in SVOD catalogues with big differences:
  - Netflix on average 17% of EU films and Sky Now TV 15%
  - Flimmit 84% of EU films, C More 53% and TIMvision 41%

- **National films** represent on average 2% in Netflix' catalogues, 18% for TIMvision and 49% for Flimmit

Netflix ➔ **Impact of national film production:** The highest share of national films is found in the 5 biggest film producing countries

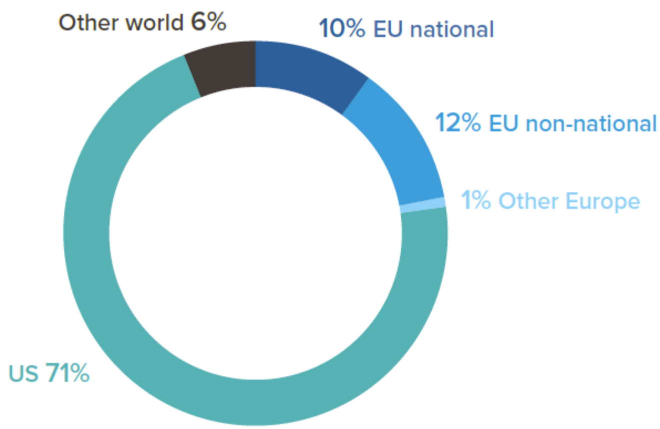
TVOD – 47 catalogues

- Between **17% and 30% of EU films** in catalogues
  - Rakuten and ChiliTV shared almost same proportions of EU films and weight of national films among EU films (45% and 48%)➔**Adapt catalogues to national markets**
  - iTunes and Microsoft, 24% and 16% of EU films, weight of national films among EU films respectively 16% and 37% ➔Circulation of the same EU titles for iTunes, adaption to national markets for Microsoft

- Strong **variation of catalogue size** for a same service between country catalogues
- US titles circulated better among catalogues of a same service

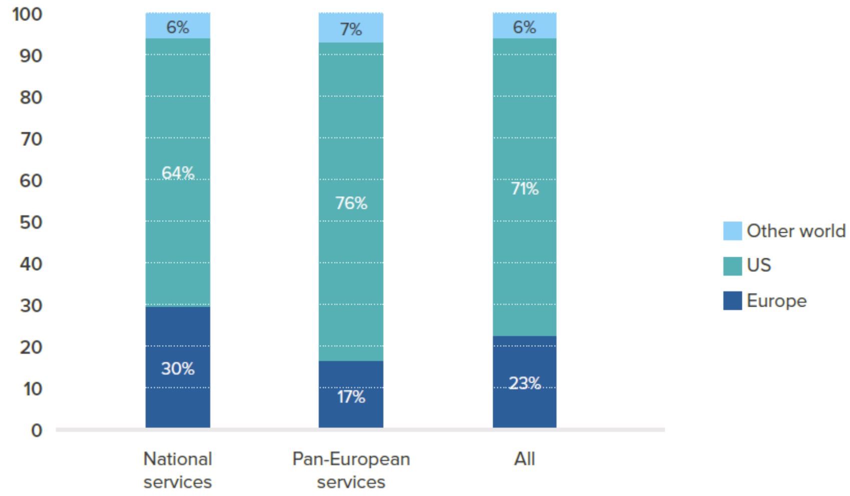
3 – Promotion of films on VOD homepages *Overview*

→ Breakdown of promotional spots by origin of content (2017)



Source: European Audiovisual Observatory for the European Commission

→ Origin of films promoted by national and pan-European TVOD services (2017)



Source: European Audiovisual Observatory for the European Commission

- 39 TVOD services in 5 EU countries (BE, FR, DE, NL, GB)
- October 2017 ➔260 different films promoted on average
- **68% were recent films** produced in 2016/2017 and they represented 90% of promotional spots
- **10 most promoted films** accounted on average for **32% of all available spots** (27% in BE to 41% in GB)
- **23%** of promotional **spots for EU films** (34% in FR to 13% in GB) / 71% for US films
- **Majority of EU promotional spots** for **national films in FR, GB and DE** and for **EU non-national in BE and NL**
- Significant **differences between national players who promote more EU films** (30%) than pan-European service (17%).
- BUT also iTunes allocated 30% of promotional spots to EU films whereas Xbox Live only 4%

More information:

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