Pay TV, SVOD and cord-cutting in the EU

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A presentation of the European Audiovisual Observatory

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COUNCIL OF EUROPE
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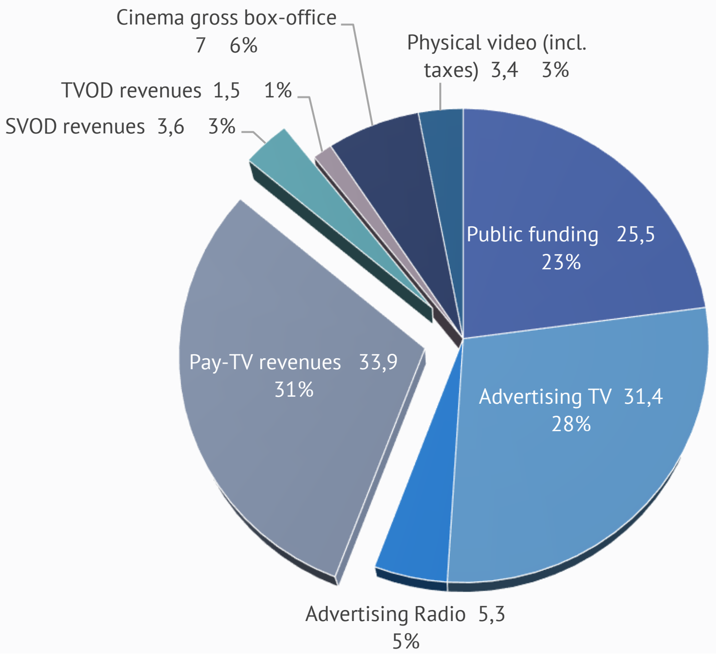
1. Overview of the pay audiovisual service market in the EU

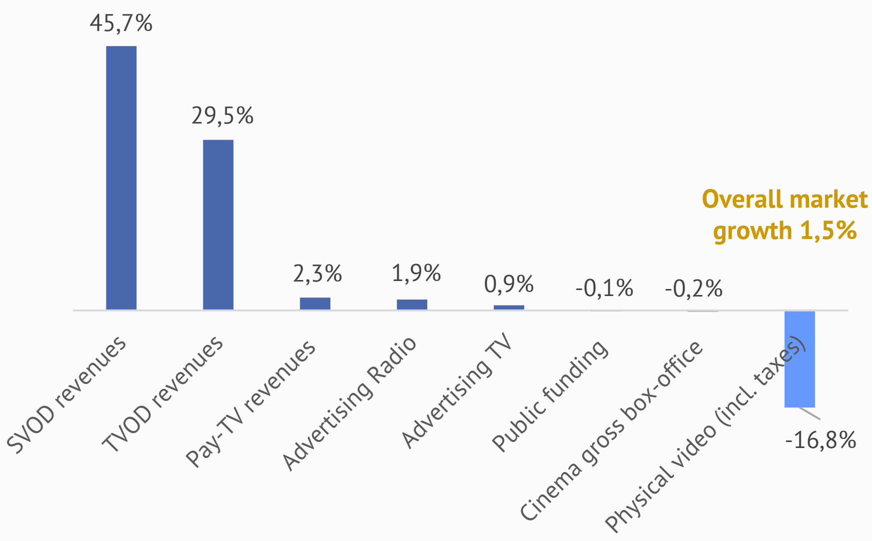
The EU audiovisual market – pay TV largest market, SVOD main growth engine

- Pay TV represents with EUR 33,9 billion the largest market segment - 31% of total market revenues
- However, growth is driven by on-demand services, especially SVOD
- Furthermore, pay TV markets health and importance vary by EU country – pan-EU picture only an average

The EU AV market – revenues of EUR 111,5 billion in 2017



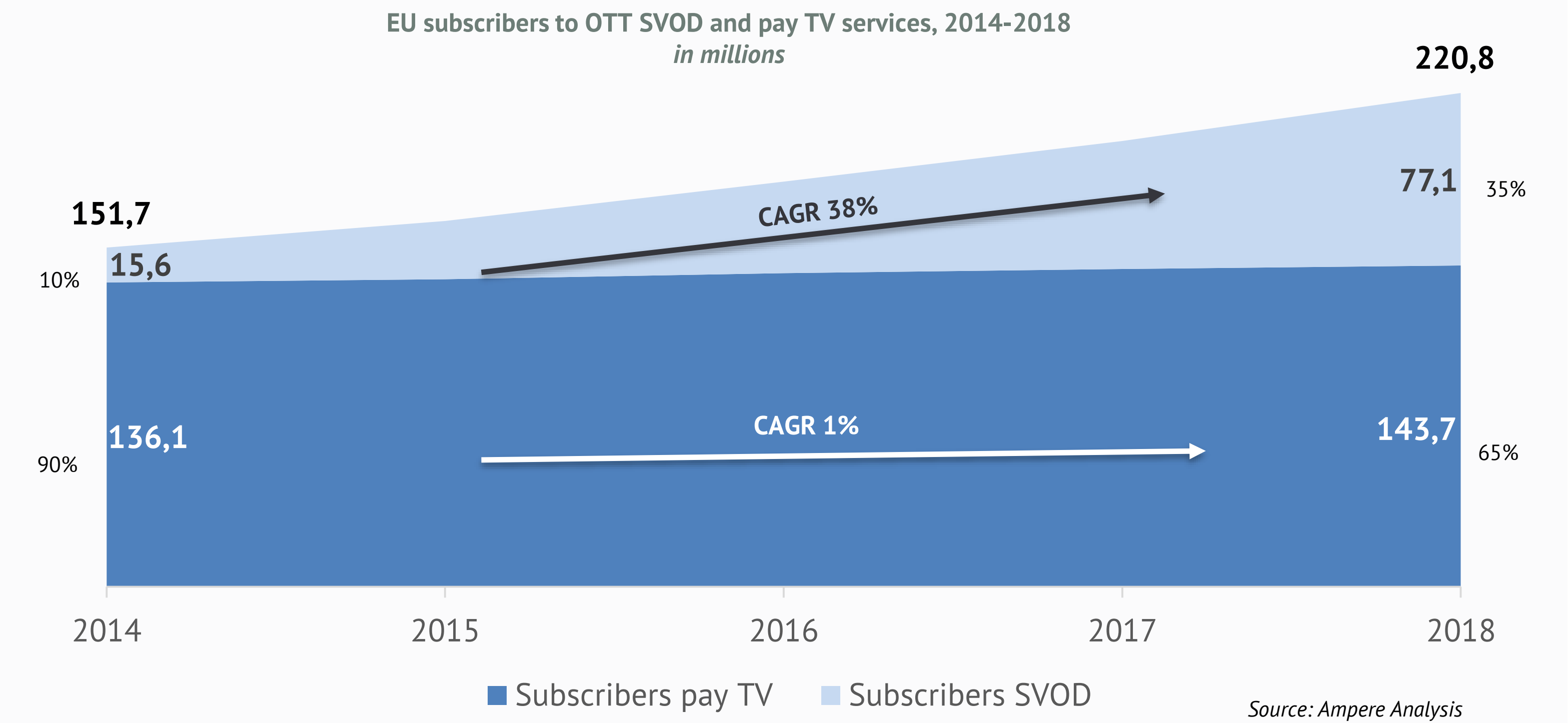
Growth rate of revenues by market segment 2016/17



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

Main growth in pay service subscribers comes from SVOD subscriptions

- Pay TV subscriber base almost twice as large than SVOD in 2018
- But SVOD quickly catching-up - 90% of all net additions the past 5 years to pay services come from SVOD
- In 2018, 35% of all subscribers to pay service come from SVOD (up from 10% in 2014)



Source: Ampere Analysis

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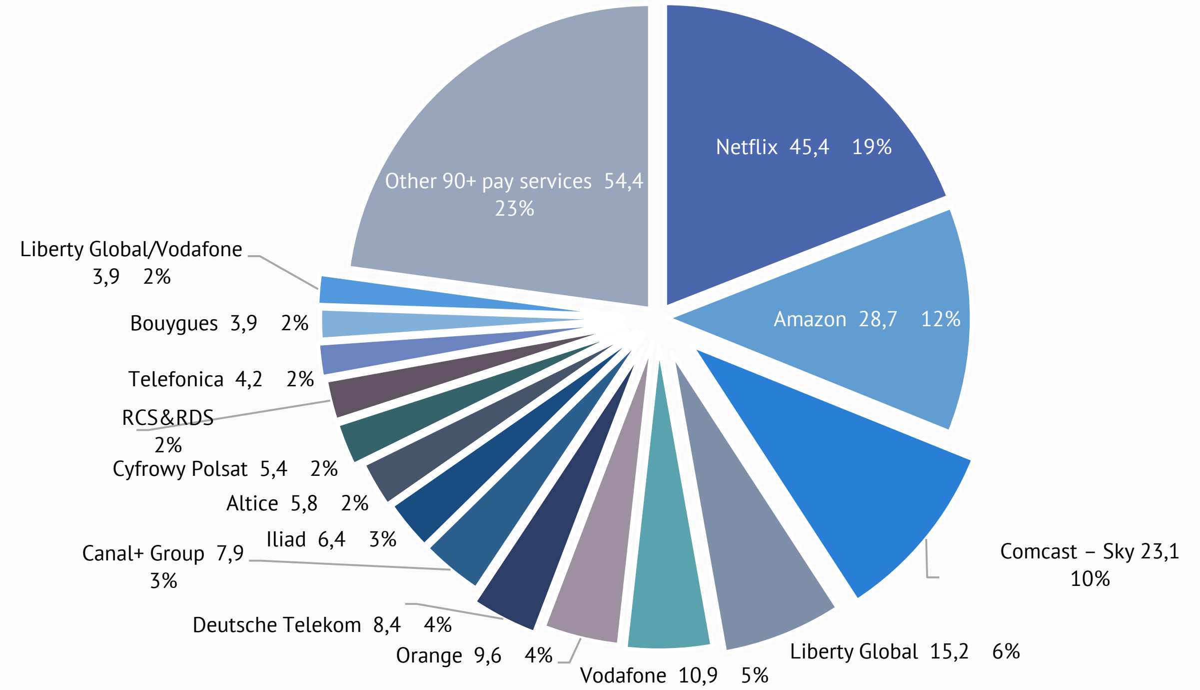
Concentration of subscribers – a few players dominate the EU pay service market

- 14 companies represent 77% of all subscribers to pay services – capital-intensive ➔ **Need of scale**
- Pay TV – 5 companies have 45% of all pay TV subscribers (Comcast, Liberty Global, Vodafone, Orange, Deutsche Telekom)
- SVOD - Netflix and Amazon 78% of all SVOD subscribers, already 31% of all pay services subscribers after 5 years of EU market entry

Subscribers to pay TV and SVOD services in the EU by company in 2019, in million of subs and % of total



Source: Ampere Analysis

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Only 2 pan-European SVOD services, several multi-country pay TV groups

Mapping of the multi-country pay TV operators* by presence in Europe | 2017
2 pan-European SVOD services – Netflix and Amazon

SVOD

prime video

Pay TV services (with SVOD services for most)

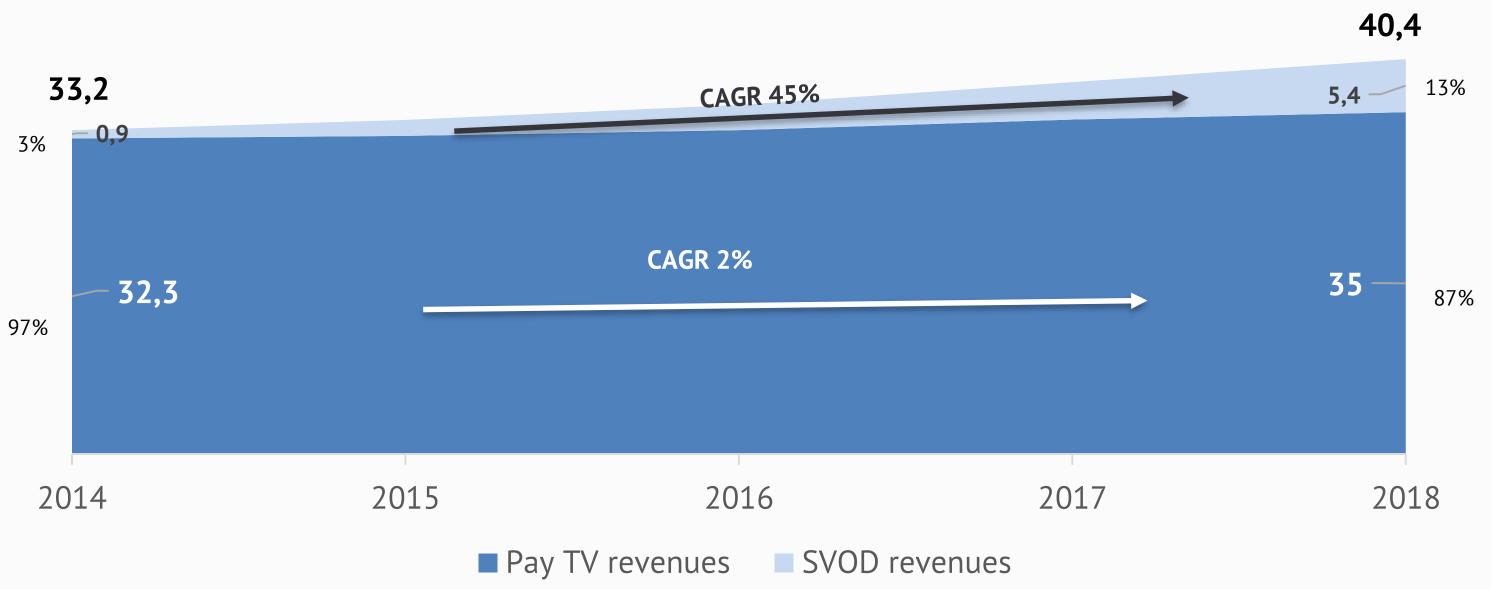
- Liberty Global
- Deutsche Telekom
- Modern Time Group
- Telia Sonera
- M7 Group
- A1 Telekom Austria Group
- Comcast
- Orange
- Telenor
- Vodafone
- United Group
- Altice
- TDC
- RCS & RDS
- Go
- East Capital Explorer
- Teracom
- Vivendi

*Pay-TV operators within the scope of the report for which Ampere data was available. Each operator registered subscriptions in at least two of the countries covered by the scope and each country of presence contributed with at least 20% to the overall group subscriptions.
The analysis does not take into account the acquisition of Liberty Global assets by Vodafone, nor the acquisition of M7 Group assets by Vivendi. These acquisitions projects were not completed by the time this report was published.

Higher cost of pay TV translates into a major proportion of pay revenues

- Pay TV services generate more than 3x more ARPU (average revenue per user) than SVOD services in Western Europe (23€ and 7€) and almost twice in CEE (6,2€ and 3,7€) ➔more expensive for subscribers
- Lower revenues for pay TV services in the future as subscribers become more price-sensitive and SVOD offers increase resulting in cord-cutting?
- Shift in business strategies ➔ Launch of direct-to-consumer streaming services by pay TV players

EU revenues of OTT SVOD and pay TV services, 2014-2018
in EUR billions



Source: Ampere Analysis

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2. Cord-cutting in Northern Europe
Main stats

Cord-cutting primarily depends on local market conditions

- Due to a convergence of factors, both pay-TV and SVOD uptakes and market shares paint a very different picture from one country to another as well as from one player to another. This is the result of a strong granularity of pay AV services market strategies.
- 3 main types of pay-TV market strategies each common to a group of countries that share similar characteristics
- Cord-cutting taking place in Northern Europe – Focus on Denmark, Sweden and the United Kingdom

Main pay TV strategies in the view of SVOD expansion in Europe

	The uptake race	The share of wallet quest	The premiumisation phase
Services	✓ Premium pay-TV ✓ High SVOD market share	✓ Premium pay-TV ✓ High SVOD market share	✓ Pay-TV in premiumisation phase ✓ Low SVOD market share
Markets	✓ More developed countries ✓ Mainly Western & Southern Europe ✓ High pay TV ARPU ✓ Relatively low pay-TV penetration	✓ More developed countries ✓ Mainly Northern Europe ✓ High pay TV ARPU ✓ Relatively high pay-TV penetration	✓ Less dev. & transition countries ✓ Mainly Central & Eastern Europe ✓ Low pay TV ARPU ✓ High and low pay-TV penetration
Strategy	✓ Pay-TV operators capitalizing on the relatively low pay-TV penetration rate by boosting adoption at the expense of ARPU	✓ Pay-TV operators eye the high end customers by prioritizing ARPU over base erosion	✓ Pay-TV operators being able to concentrate on upselling as well as on expanding the uptake without putting pressure on ARPU
	Moderate pay TV growth	**Cord-cutting**	**High pay TV growth**

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Premium pay TV countries are more prone to cord-cutting

- In the EU, on average subs to pay TV grew by 1,1% from 2017 to 2018

- 6 EU countries lost pay TV subs: Sweden (-7,3%), Denmark (-7,1%), Lithuania (-3,3%), Greece (-1,1%), the UK (-0,6%), the Netherlands (-0,2%)
- Outside of economic reasons (GR, LT), in 4 countries pay TV services experienced cord-cutting due to an increased competition by SVOD services, all situated in Northern Europe

- Common factors: High broadband penetration, high pay TV penetration, high pay TV ARPU and high SVOD penetration and stronger national SVOD players (Viaplay/C More in the Nordics, Sky in the UK) in addition to pan-European ones (Netflix, Amazon, HBO Nordics)

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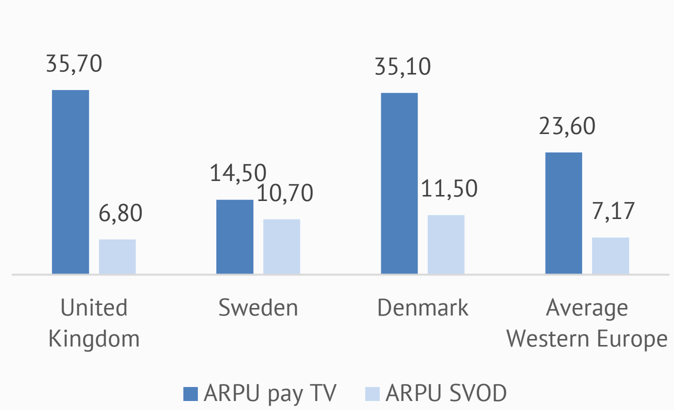
High costs of pay TV services and high penetration of pay TV and SVOD are common factors...

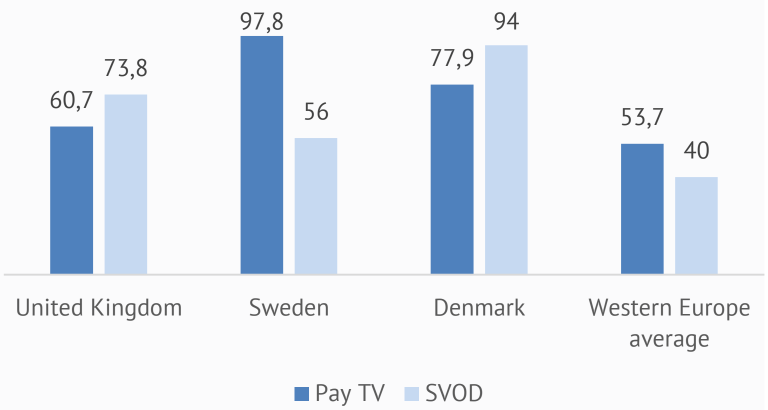
- 2 main factors of cord-cutting: high costs of pay TV services for consumers and high penetration of pay TV in households, with a quick uptake of SVOD services

- Consumers switch to SVOD services for many reasons (large choice of content, ATAWAD viewing, ease of use...), price being one of the main factors

ARPU pay TV and SVOD in 2018, ***in EUR***



Penetration of pay TV and SVOD services 2018, ***in % of households***



Source: Ampere Analysis

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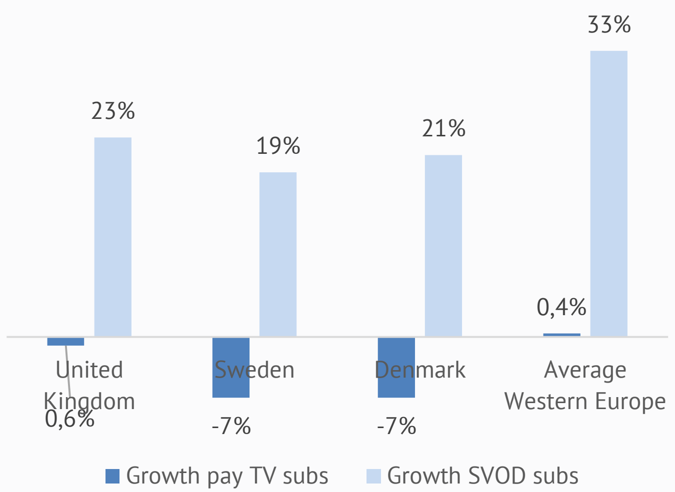
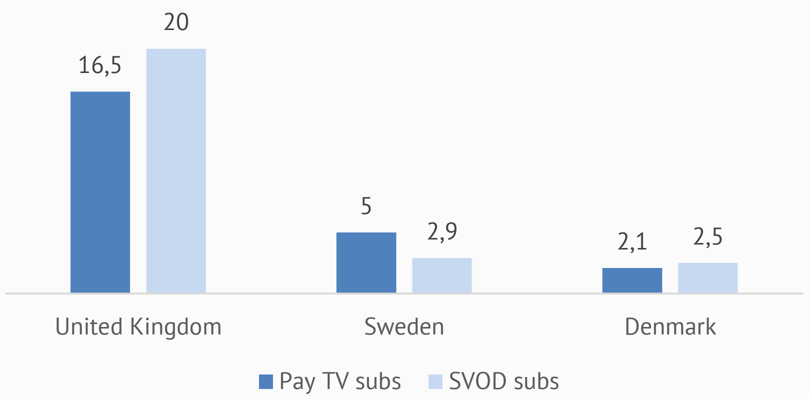
...resulting in a decrease of pay TV and a large increase in SVOD subs

- 2 out of the 3 countries have more SVOD subs than pay TV subs in 2018
- SVOD markets mature have a below average increase of subscribers
- SVOD service stacking – consumers often subscribe to more than one SVOD service

2017-18 growth rate of pay TV and SVOD subscribers, ***in %***



Subscribers to pay TV and SVOD in 2018, ***in million of subscribers***



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Source: Ampere Analysis

3. Outlook – pay TV and SVOD services

From competitors to partners towards a direct-to-consumer streaming future…

- In 2019, most pay TV providers have already launched their own OTT SVOD service (Sky's NowTV, Canal Séries, Telefonica's Movistar+, Deutsche Telekom's MagentaTV, NENT's Viaplay) and offer Over-the-top television services, copying SVOD services' direct-to-consumer strategy

- Pay TV providers also distribute their former SVOD competitors (several distribution deals between Netflix/Amazon and pay TV providers across the EU) as consumer preferences have shifted – Need of large choice

- Risk of losing relevance for premium linear pay TV channels in face of the competition with streaming services (importance of premium sport rights, major live events)

..which should ensure pay TV relevance in the immediate future

- On a pan-European level, the number of pay TV subscribers will moderately increase for the coming 5 years
- Pay TV revenues will increase at a much quicker rate on a pan-European level due to upselling of services resulting in a higher Average Revenue per User
- Only five countries (Denmark, Italy, Netherlands, Sweden and the United Kingdom) will see their pay TV subscribers base decrease ➔Cord-cutting limited in the EU in the medium term

Pay TV and SVOD services, a complex relationship

Compete for subscribers media spend ➔ Competitors

- Competition of pay TV channels and SVOD services for premium content to attract and retain subscribers
- Limited media spend by consumers + arbitration of expense allocation by consumers (fear of **cord-cutting**)

Pay TV services collaborate with SVOD services ➔Frenemies

- Trend of co-productions of expensive, premium content (*The Spy* Orange/Netflix, *Britannia* Amazon/Sky)
- Licensing revenues provided by SVOD services for original content, an increasing important revenue source for premium and pay TV channels and larger distribution opportunity
- Do not (yet?) compete on major sport rights, live events

Pay TV services distribute TV channels AND offer access to OTT services ➔ Partners

- Pay TV services and SVOD services mutually benefit from each other
- Pay TV services more attractive to consumers by distributing OTT SVOD services (Netflix and Amazon reached several distribution agreements with pay TV providers – Orange, Telefonica, Deutsche Telekom, Altice, Vodafone, Sky, Canal+, Liberty Global…)
- SVOD services benefit from a larger distribution and direct presence on TV screen

More information:

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