AMPERE
ANALYSIS

What’s hot and what’s not: streaming content strategies in a crowded market

Ampere Analysis

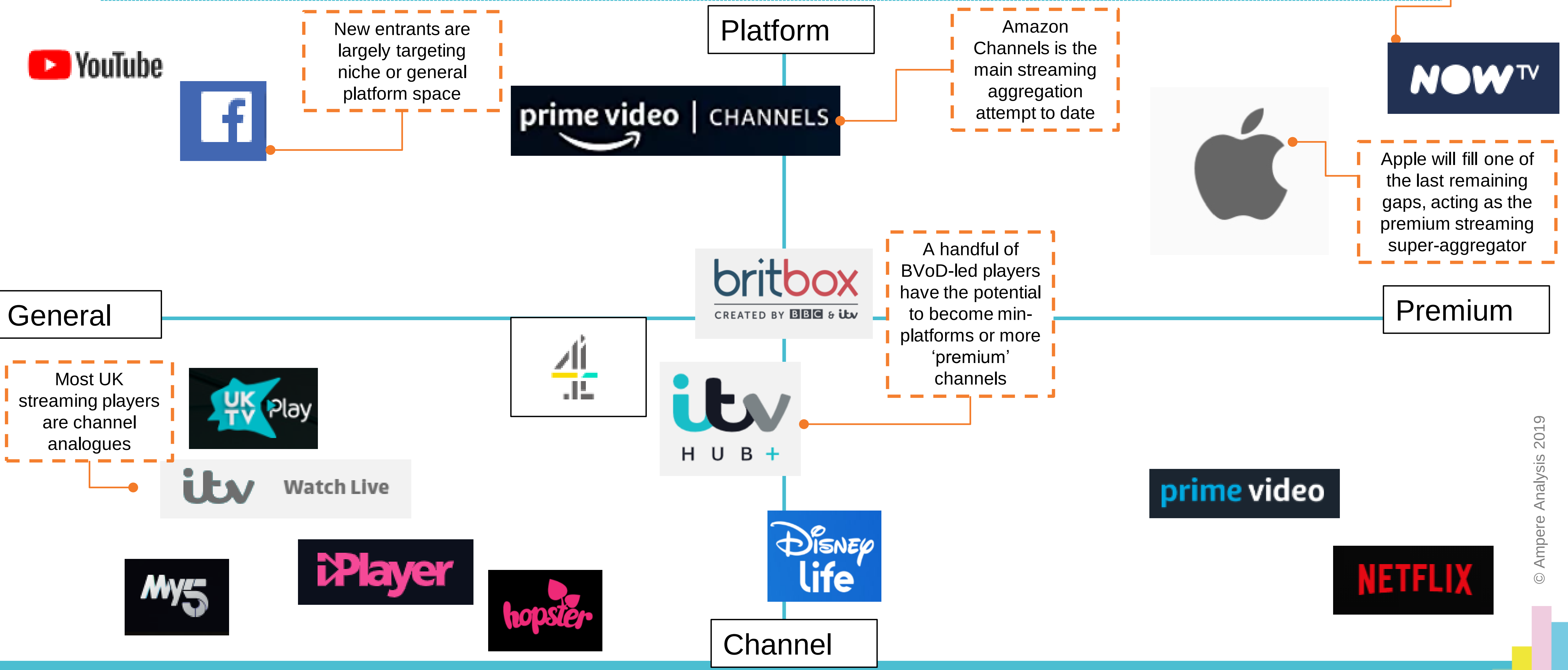
March 2019

Opportunity in disruption

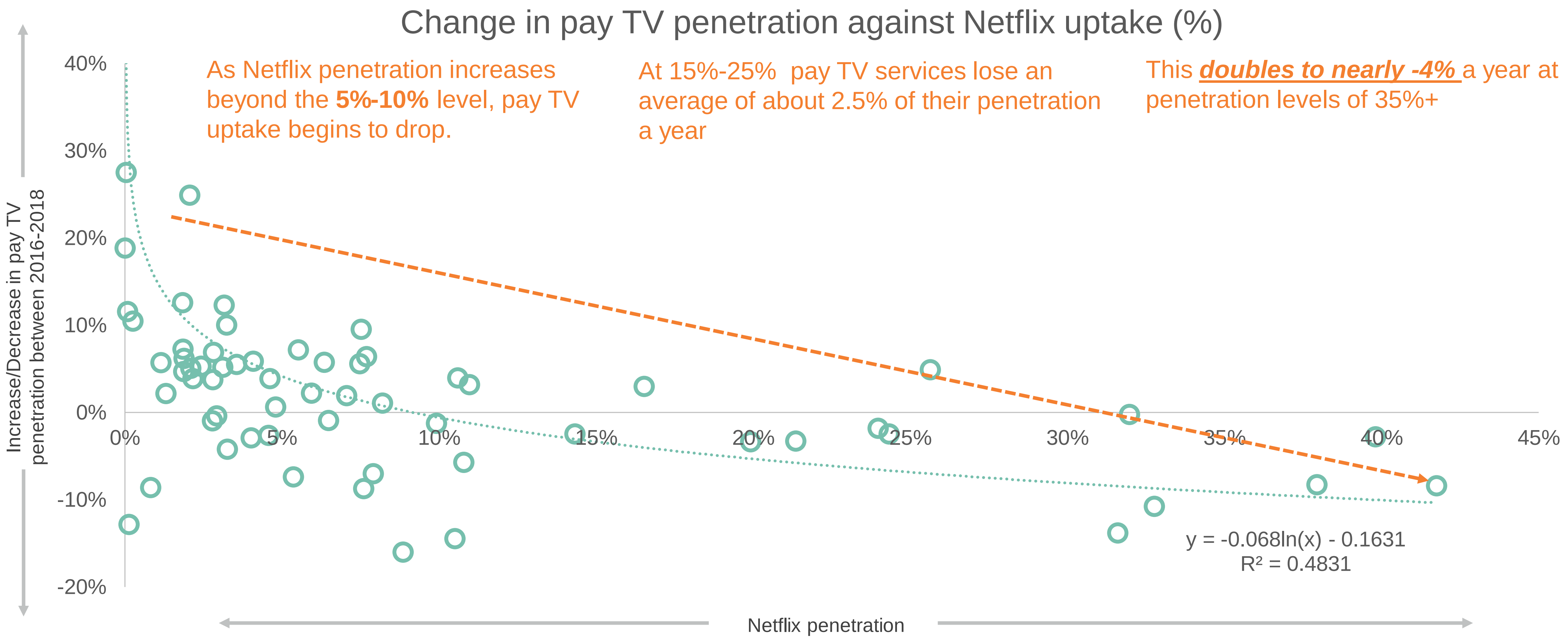
Thought for the day

Fundamentally, we are at a stage in the development of the streaming market where we need to reexamine the concept of the channel and the platform, and how those two concepts interact with one another and with content itself.

Multiple approaches to the streaming challenge



Contrary to the views of many analysts, SVoD is not ‘complementary’ to pay TV



Streaming shift is about chasing growth in a flat market

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The core driver of global AV market growth was subscription OTT – led by Netflix and Amazon

Ad-funded online video continued to grow rapidly – outpacing broadcast TV advertising revenue growth

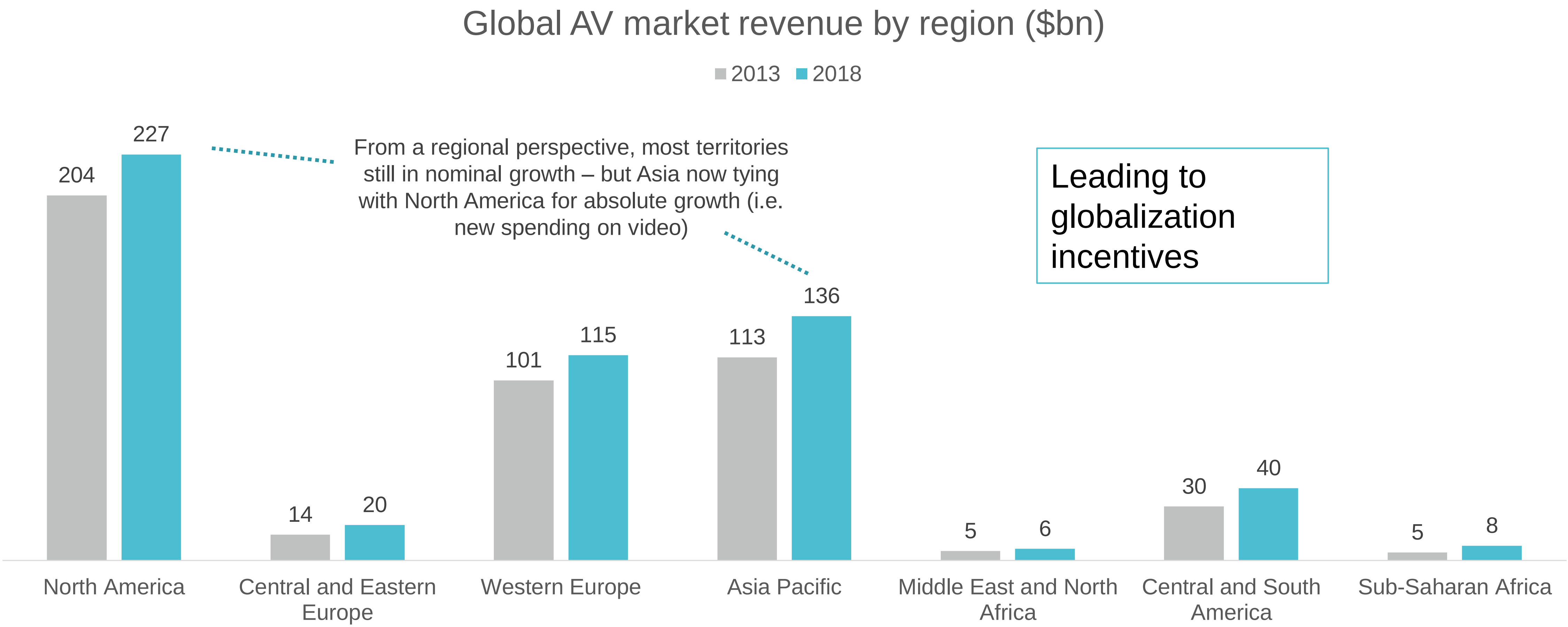
Theatrical still solid, albeit with growth shifting to Asia, and Western revenue driven increasingly by smaller numbers of mega hits

Public TV was flat YoY – growth at below inflation levels.

The one major sector to see decline was the physical (DVD/BD) retail and rental market

Source: Ampere Markets, advertising metrics based on Group M data

With opportunity to capitalise on globalisation and regional growth hotspots

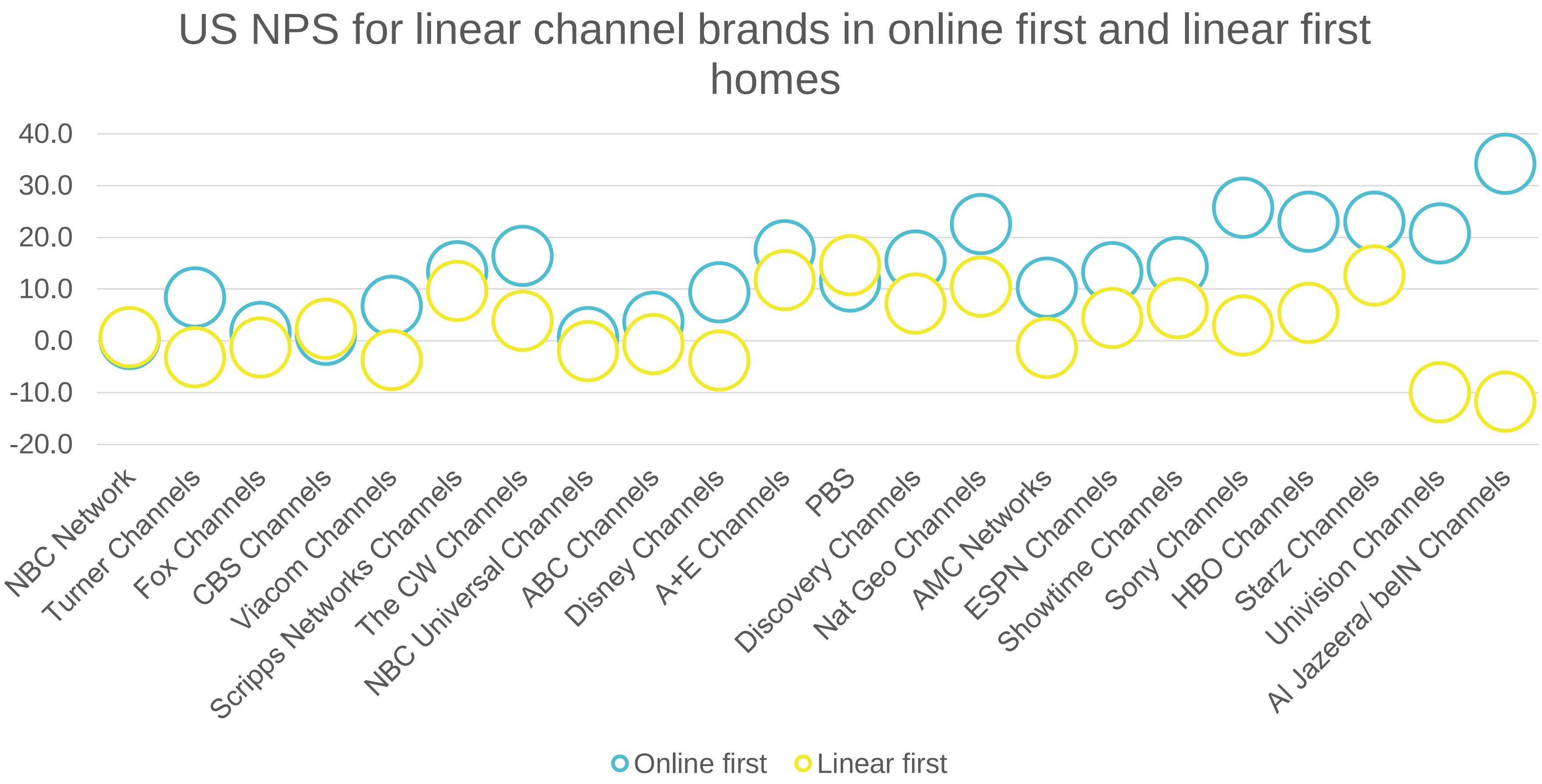


Leading to globalization incentives

Source: Ampere Markets – AV includes all forms of video entertainment (pay TV, commercial TV, public broadcasting, theatrical, home entertainment, OTT video)

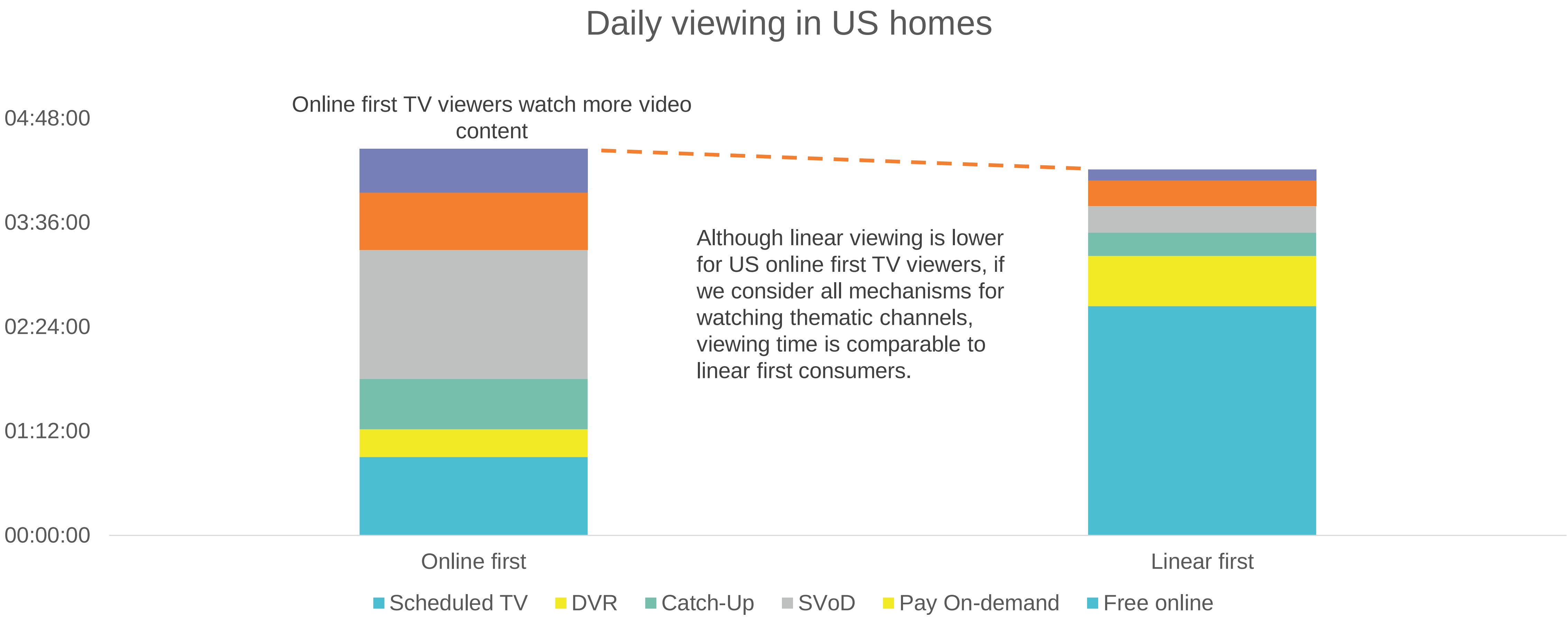
What about the consumer?

US online first viewers are still fans of channel brands



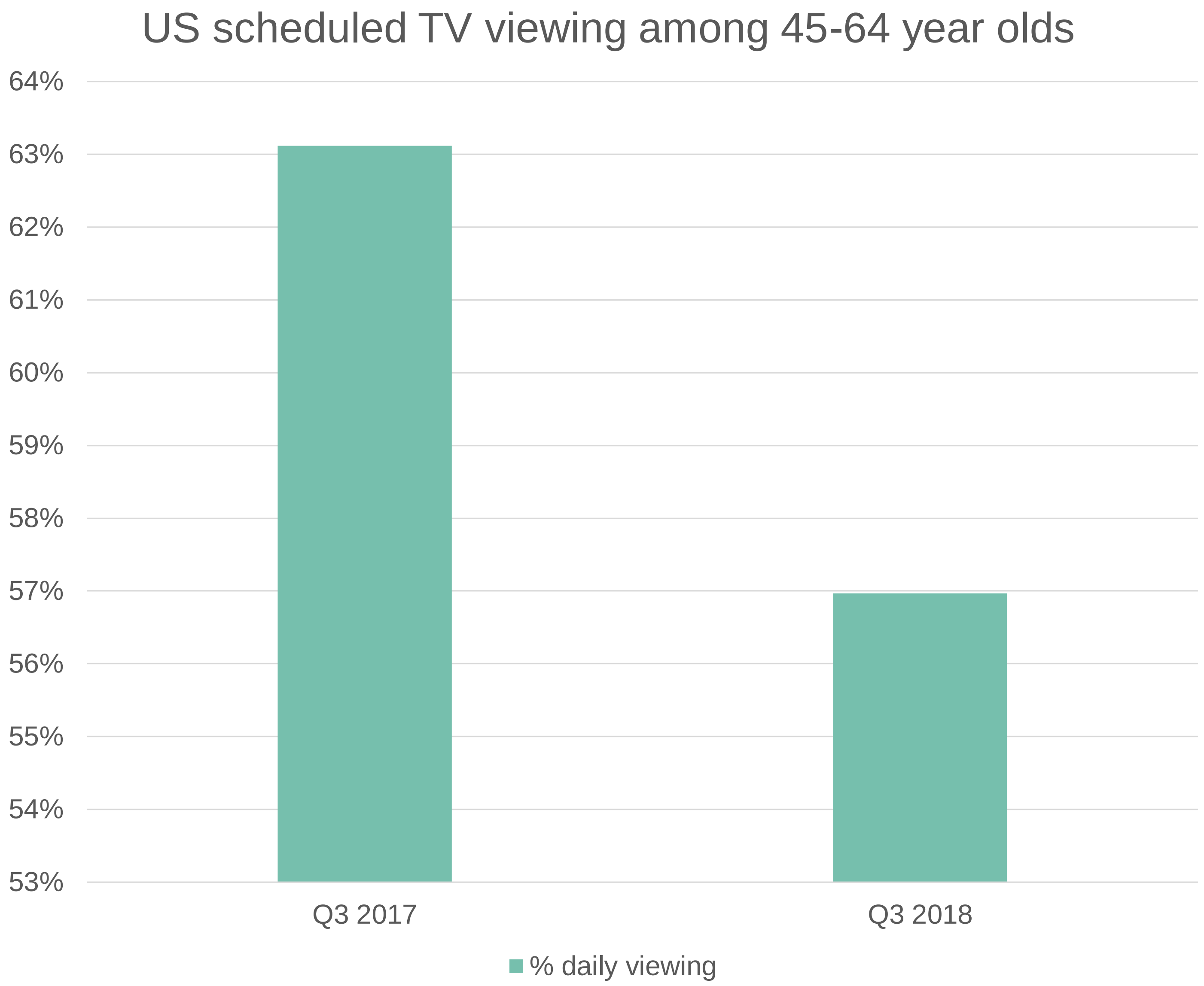
With ‘power’ brands like HBO, ESPN, Starz and Showtime performing particularly well

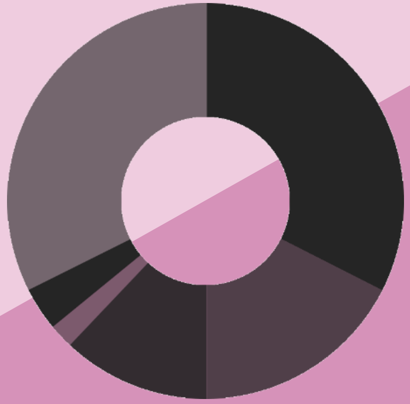
The good news? Online first viewers watch more



N=2,000

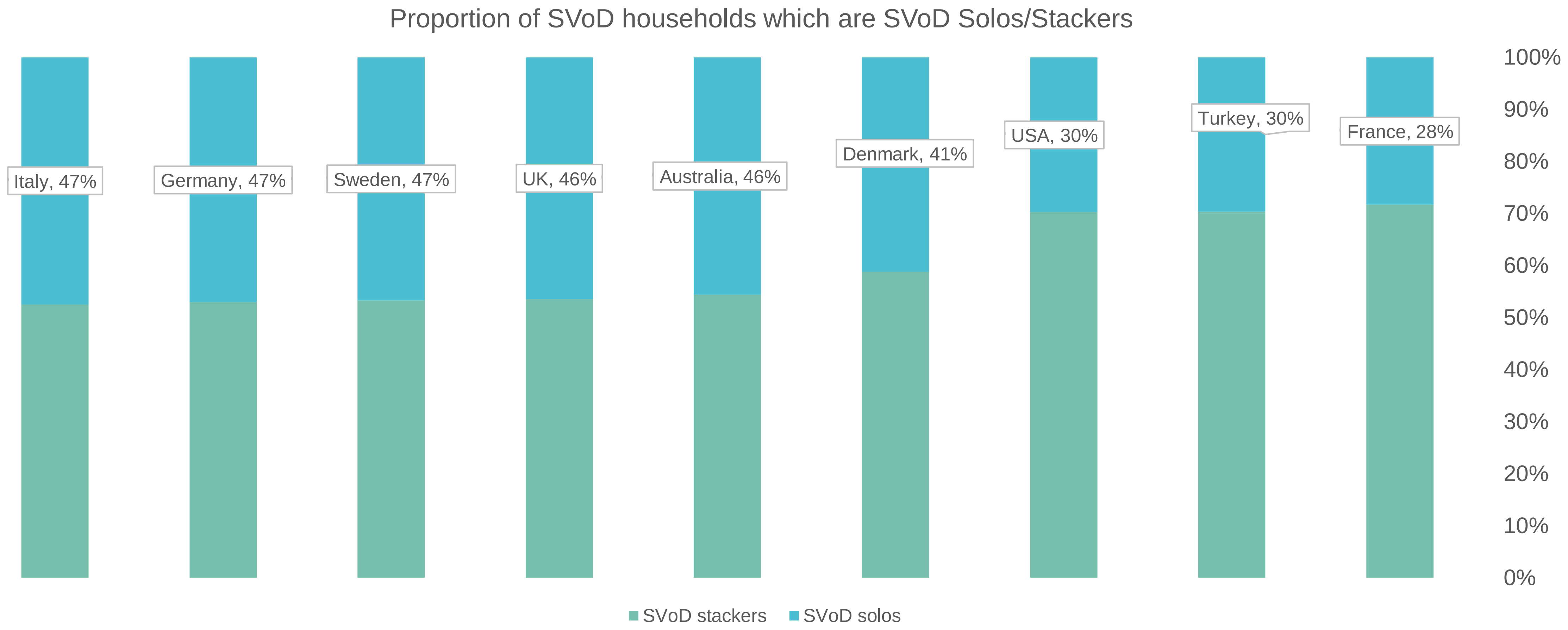
Non-linear behavior is spreading





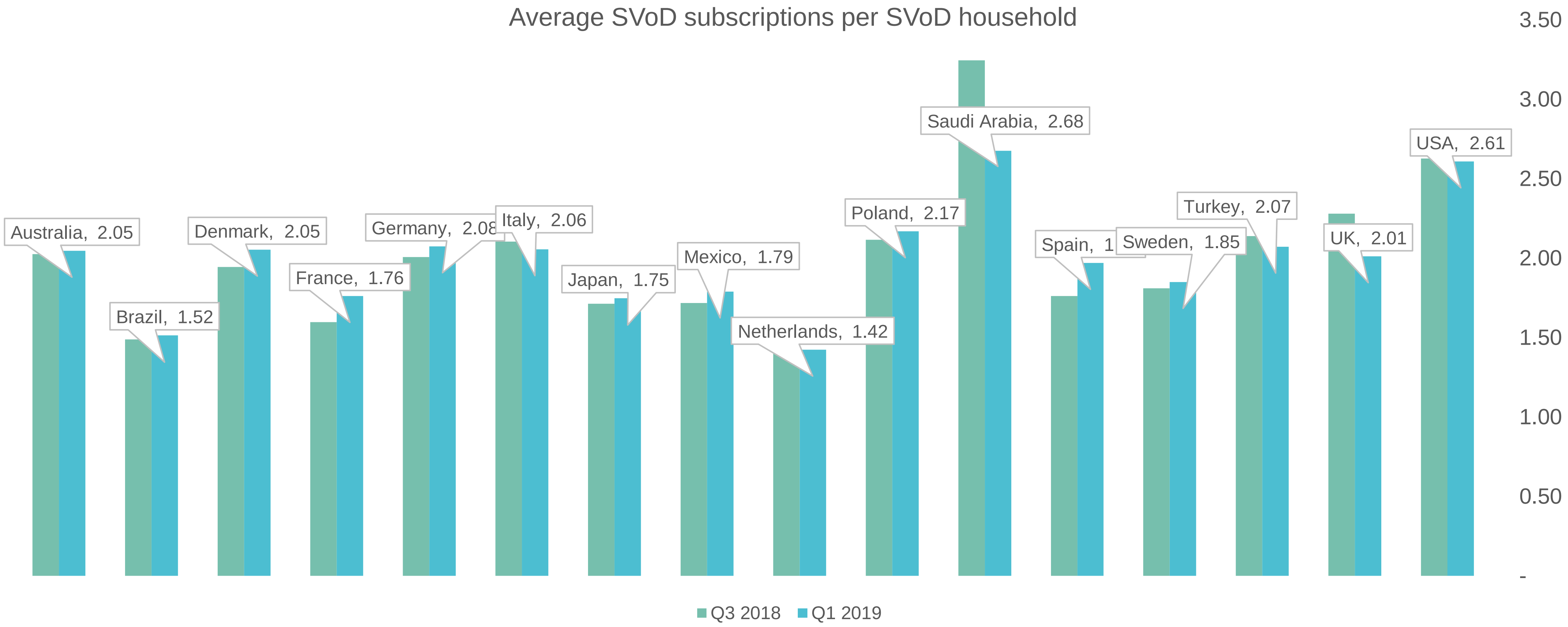
But as most major studios gear up for a direct future…there’s a consumer cloud on the horizon

Majority of markets surveyed have more SVoD stackers than SVoD solos



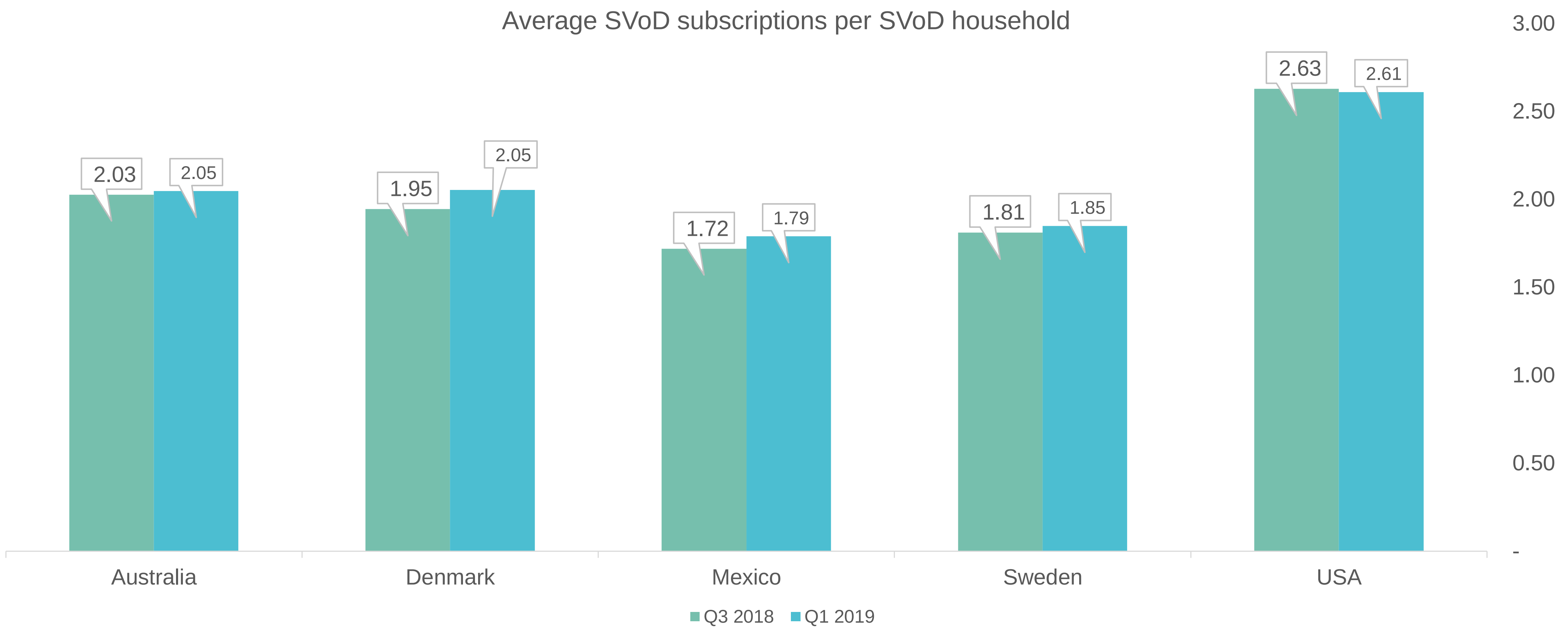
Source: Ampere Consumer – Internet users surveyed in each wave

Driving up average SVoD subscriptions per SVoD household in most markets



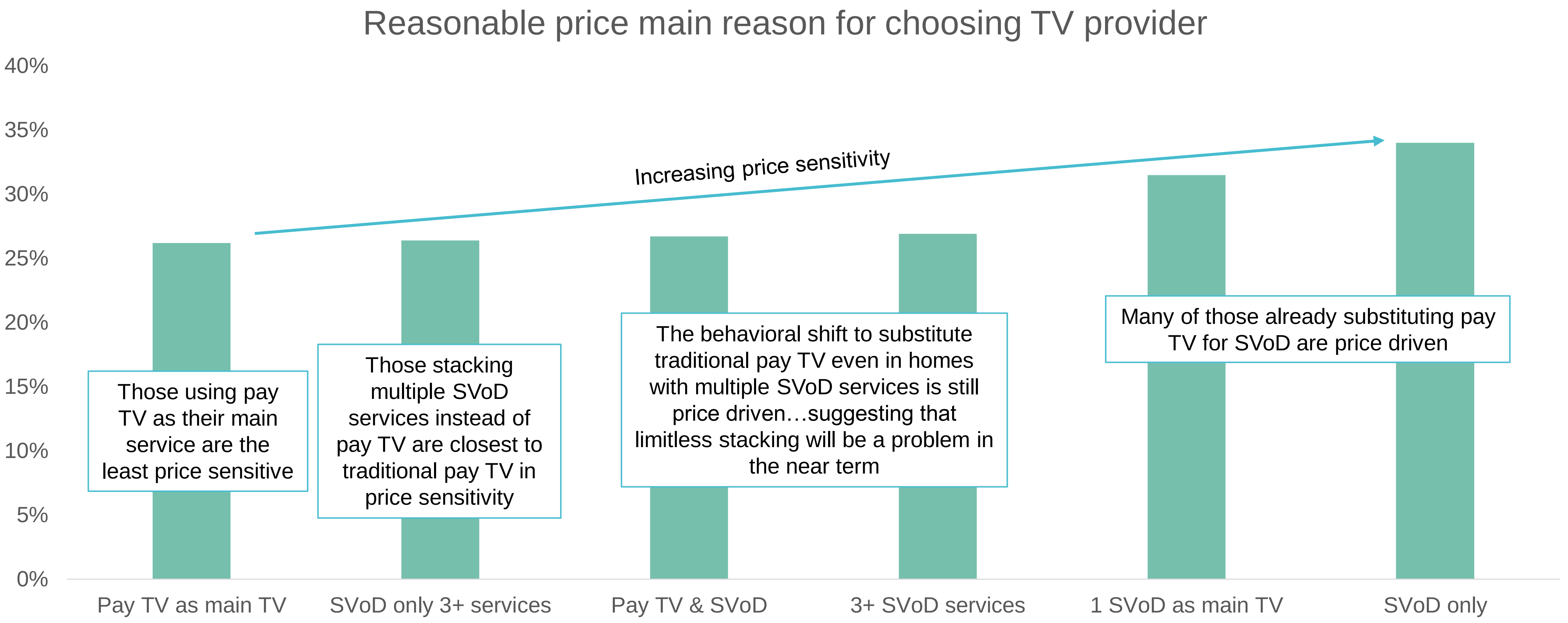
Source: Ampere Consumer – Internet users surveyed in each wave

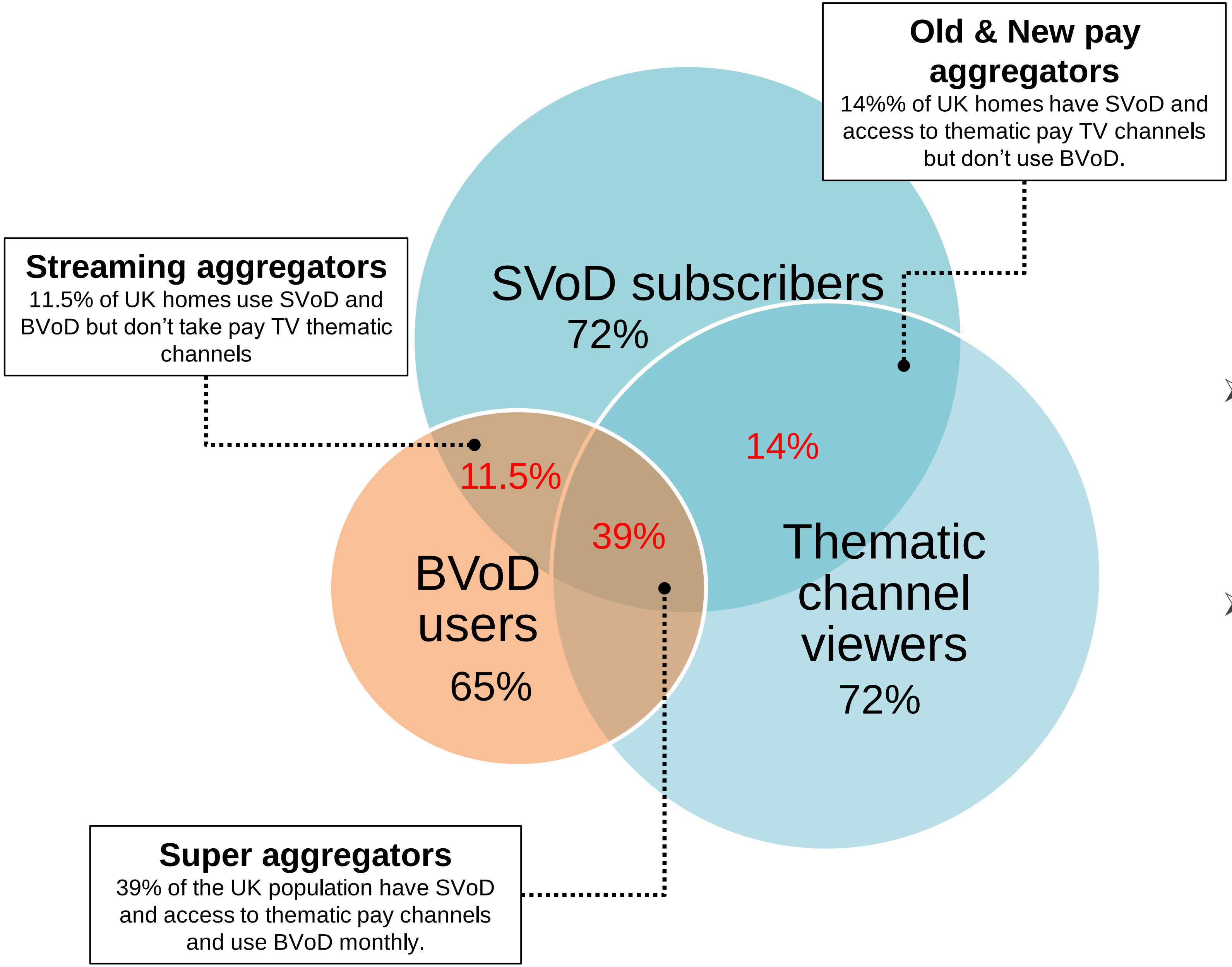
Hidden in that chart is a concerning trend: Big SVoD markets are topping out in terms of stacking



Source: Ampere Consumer – Internet users surveyed in each wave

Price sensitivity still intrinsic to stackers: potential to free up more spend may break ceiling





Ampere Consumer. UK population. Q1 2019. n=2,000

UK aggregators fall into one of three types…

- 39% of the UK population are currently super aggregating linear thematic pay TV with SVoD and regular BVoD usage.

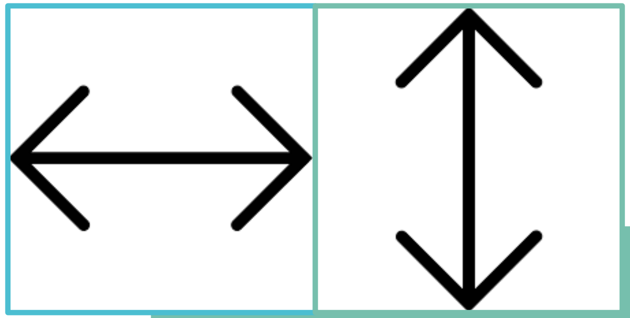
- The more interesting segment when thinking about direct to consumer streaming is actually the 11.5% of the population that are streaming aggregators, foregoing thematic pay TV for a combination of SVoD and regular BVoD streaming access.

Ampere Consumer Q1 2019.

Apple’s super aggregation strategy aims to leverage Apple’s heritage in ease of use

So what’s the content story?

New content verticals are feeding the market for high end production & plugging studio 'hole'



Vertical expansion

- BBC Studios
- ITV Studios
- BetaFilm
- Banijay Rights
- WME Endeavor
- Fremantle Media
- eOne
- CAA
- Netflix…

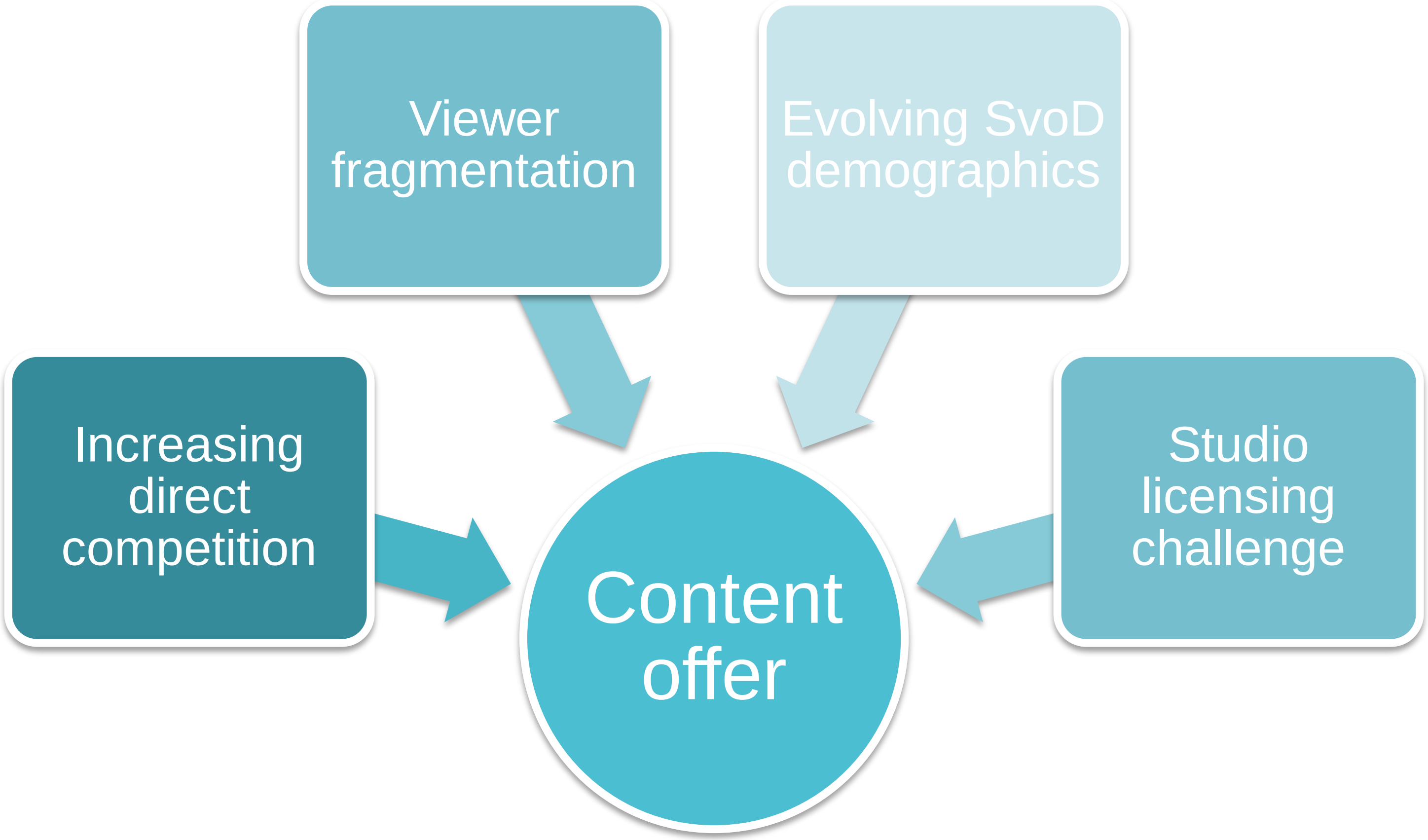
Companies previously focused on one aspect of financing, production or distribution of content are increasingly pushing into adjacent sectors in the value chain to create mini studios able to take content from script to screen and sell on into global markets…

On the periphery are a multitude of 'service' companies from specialized production financiers like Anton Capital or Ingenious Media to new production 'studios' like Blumhouse or Solstice ripe for consolidation.

Pure play content distribution is the casualty of these trends…by extension, this includes pure play provision of content to the end user, opening the door for direct-to-consumer plays that remove the distribution middlemen….

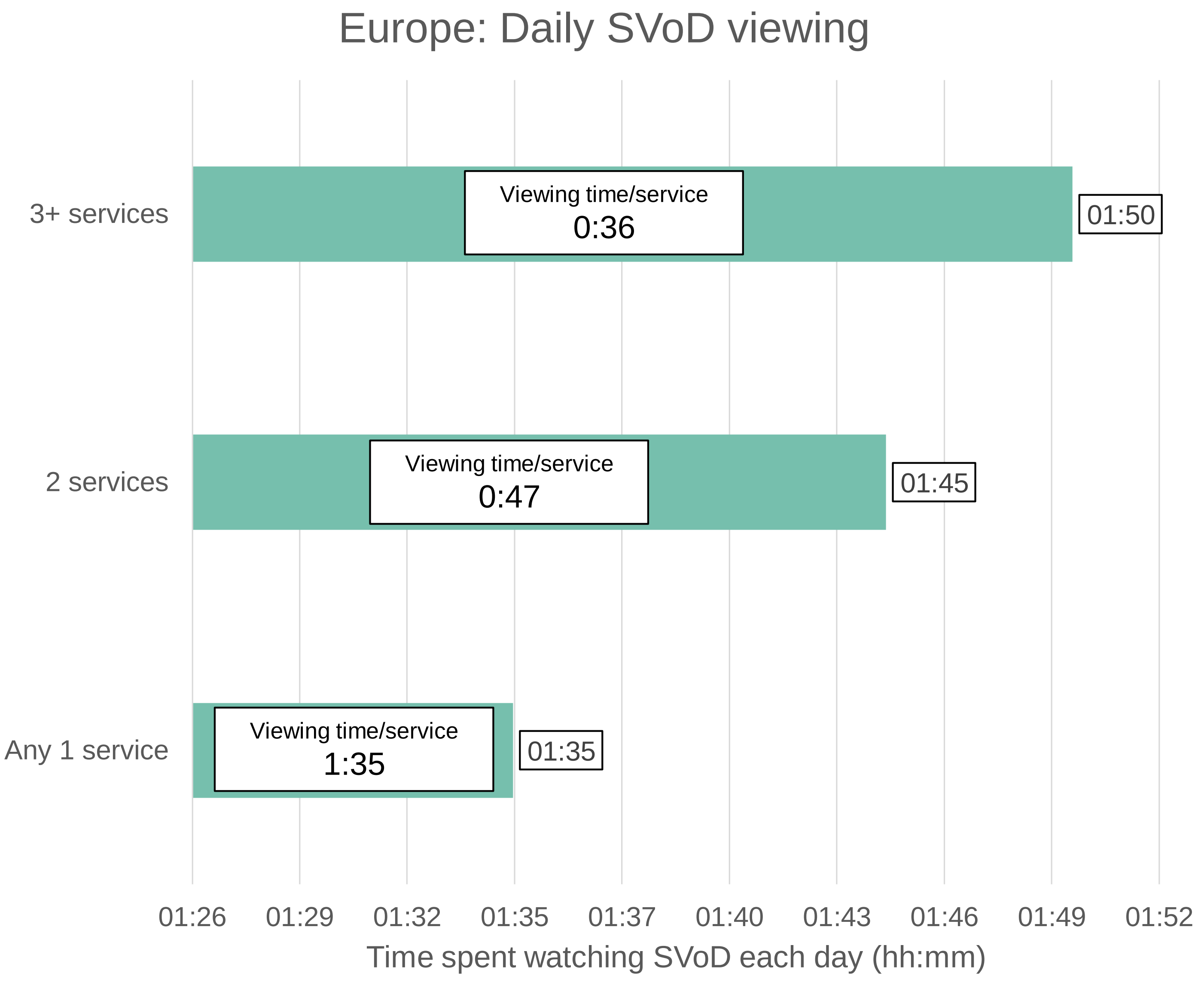
Content becomes the key battleground because in a streaming world, it provides the clearest pathway to differentiation and, in combination with concept of channel/content families, re-secures a drifting audience.

Streaming content strategy is now influenced by a series of evolving pressures



Viewer fragmentation

For streaming players, stacking means that the ‘new’ SVoD services are facing up to an ‘old’ viewing environment



Source: Ampere Consumer. Q3 2018. Based on nine European countries. Base sample: 18,000 homes. Viewing is in SVoD homes watching SVoD in past month. Excludes SVoD homes that did not watch SVoD.

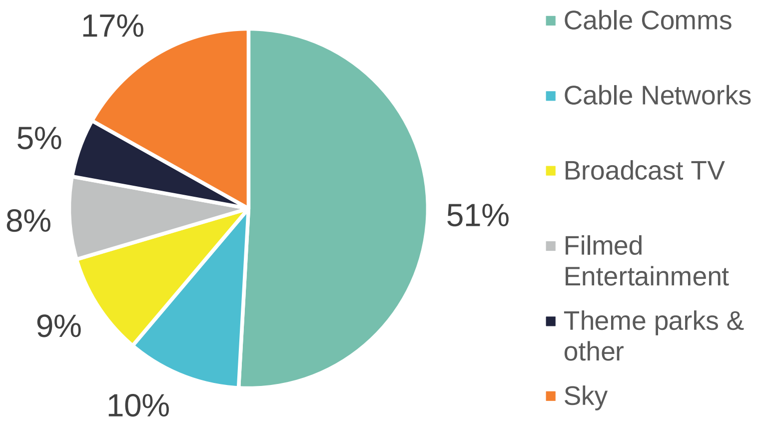
As with the channel business when digital led to proliferation of brands, players in the increasingly crowded SVoD and DTC are now re-embracing the concept of the channel family and niches of scale…acting as a driver for content differentiation

Direct-to-consumer competition

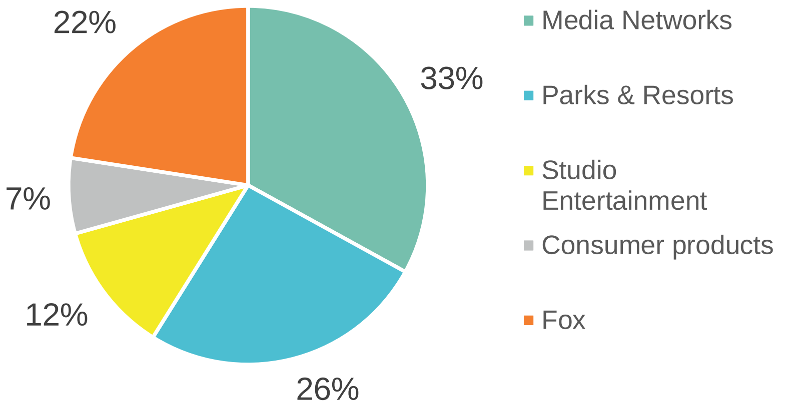
One core aspect of TV's shift is that the potential exists for a change in the power balance between content, distribution and aggregation…meaning there is opportunity for existing players to manage and exploit that as opportunity.

He who pays the piper…..

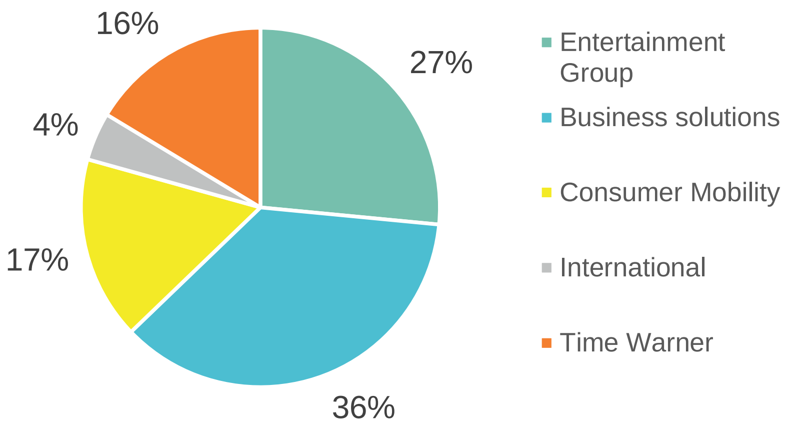
Comcast revenue breakdown 2017



Disney revenue breakdown 2017



AT&T revenue breakdown 2017



Domestic cable-led to international entertainment

Revenue	$85bn	▶	$103bn
% TV*	24%	▶	36%

*TV is excluding domestic cable infrastructure business.

Domestic networks-led to global network

Revenue	$55bn	▶	$84bn
% Networks	42%	▶	54%

*Fox excludes domestic 'Television' revenue segment and share of Sky revenue.

Domestic telco-led to entertainment equal

Revenue	$160bn	▶	$192bn
% Entertainment	32%	▶	43%

Assumes all planned combinations complete as of end 2017. Sky revenue and Fox is for fiscal 2018 (June 2018). Pie shows post-merger revenue split. Tables refer to change pre and post mergers. Logo orders (top down) indicate post merger importance to revenue contribution. Sky revenue converted to $ at $1:0.£78

Convergent evolution: DTC three ways

Content is king mind-set:

Smooth transition of affiliate business to DTC with most comprehensive SVoD offer. Studio, theme park and consumer businesses offer 'live' experience for enhanced direct consumer connection. Channel family concept continues to offer best route to market, particularly to delineate valuable sports brands.

COMCAST

Infrastructure mind-set:

Focus on international platform leverage to side-step into global DTC. Good access to content likely to persist while channel and rights licensing remains important to peers. US cable infrastructure market, offers stable base from which to experiment.

DTC

Telecoms mind-set:

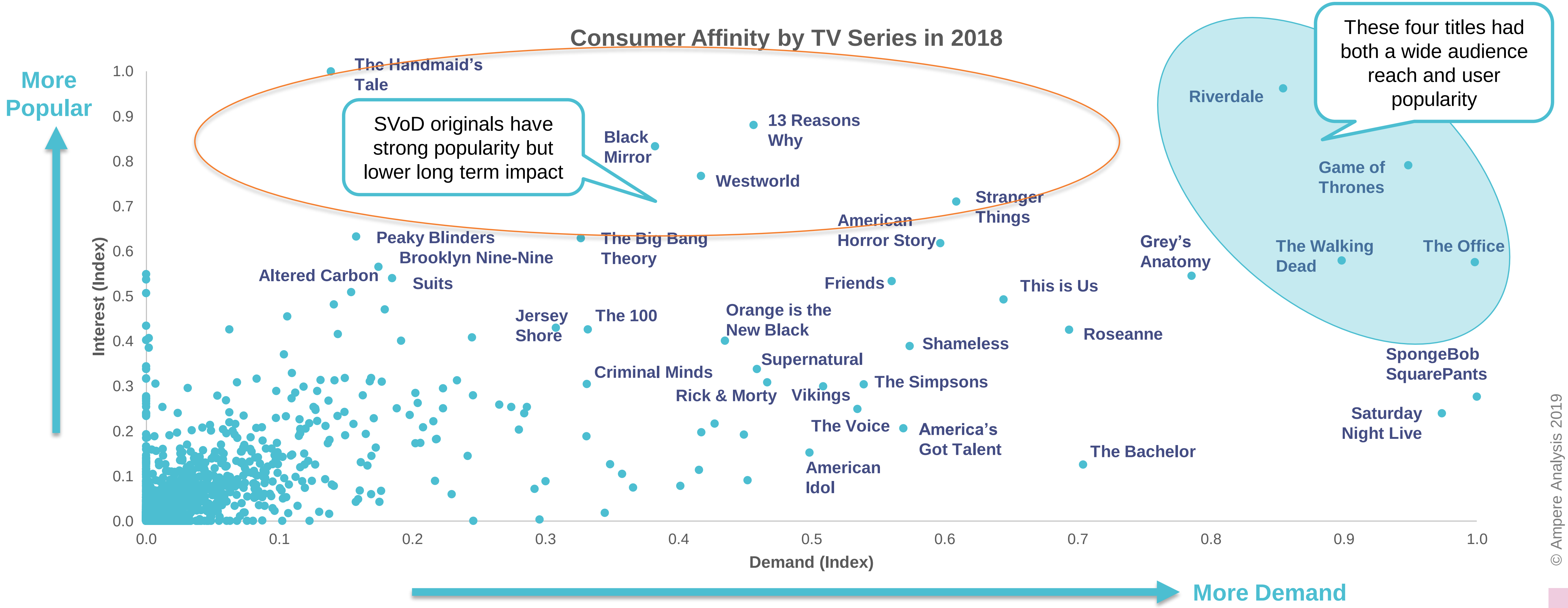
Least international of the three mega-groupings likely to lead to heavy focus on US experimentation, leveraging skinny bundles, TVE, mobile access and other telco/traditional pay TV centric strategies for gradual DTC ingress.

The next step in TV streaming evolution will focus on the business model

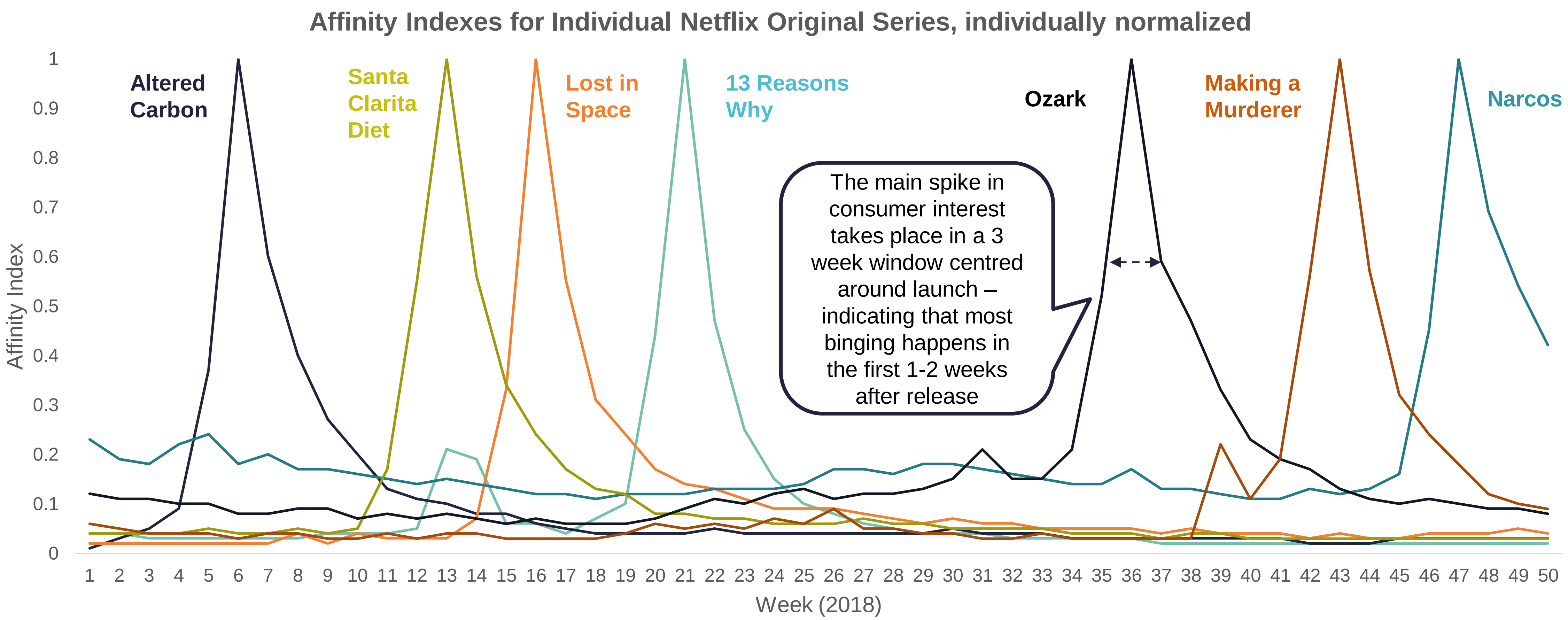
With global dominant players in the SVoD (monthly subscription space) and SVoD stacking topping out or slowing drastically in high penetration markets, plus a raft of new DTC players gearing up for launch, business model diversification (read: *advertising*) is the next logical step.

Licensing challenge

Studio content is still key: Powerful network shows outperform on SVoD



In part because Netflix originals have a short, sharp flash

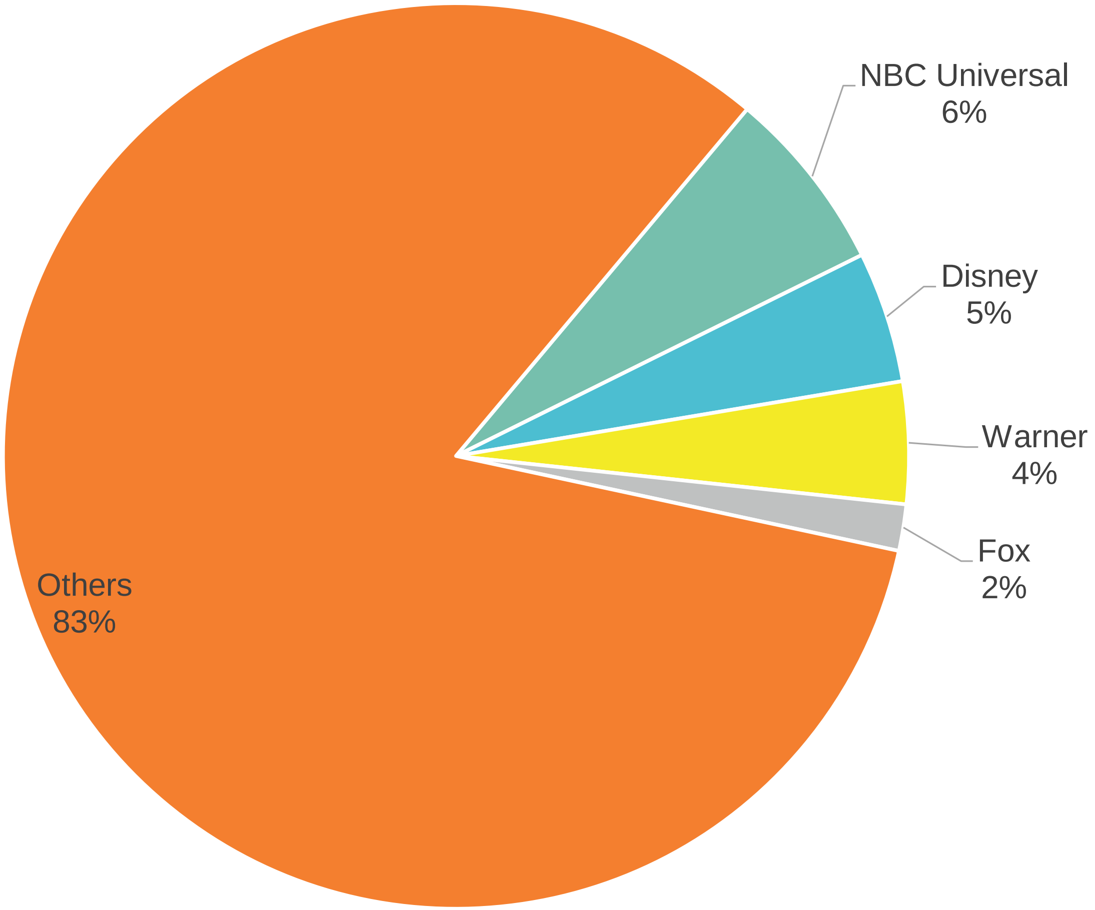


***Note**: In this chart, each TV Show is indexed individually (so each title has a value of 1 in the week of its own peak affinity)*

17% of Netflix's US catalogue is current at risk from studio D2C plans

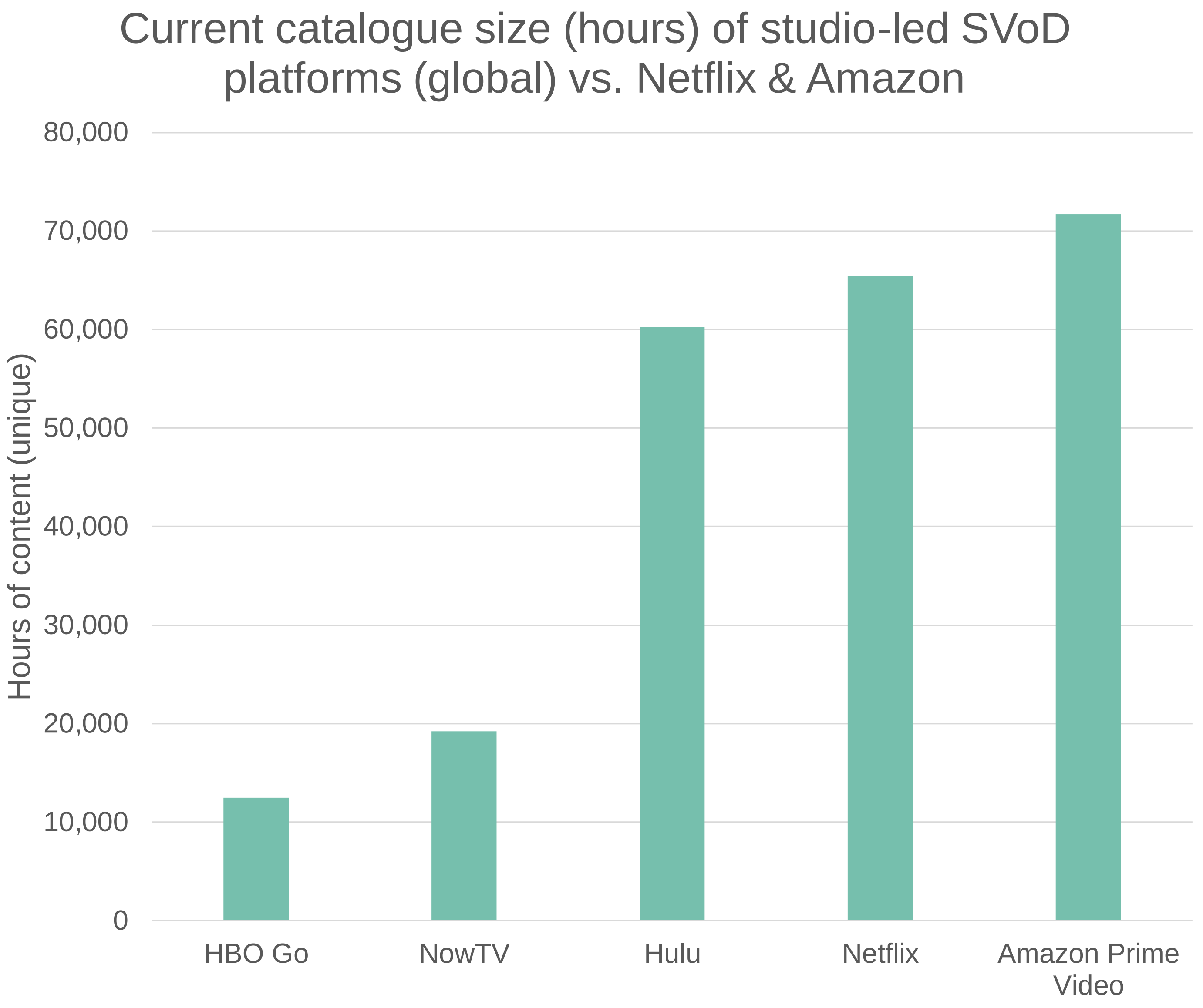
- 17% of Netflix's current catalogue in the USA was originally produced by one of the four (three now that Fox/Disney is consolidated) major Hollywood studios planning direct-to-consumer operations
- This content is potentially at risk, as the studios pull back on licensing and focus instead on bolstering their own services' content offers

Share of available hours



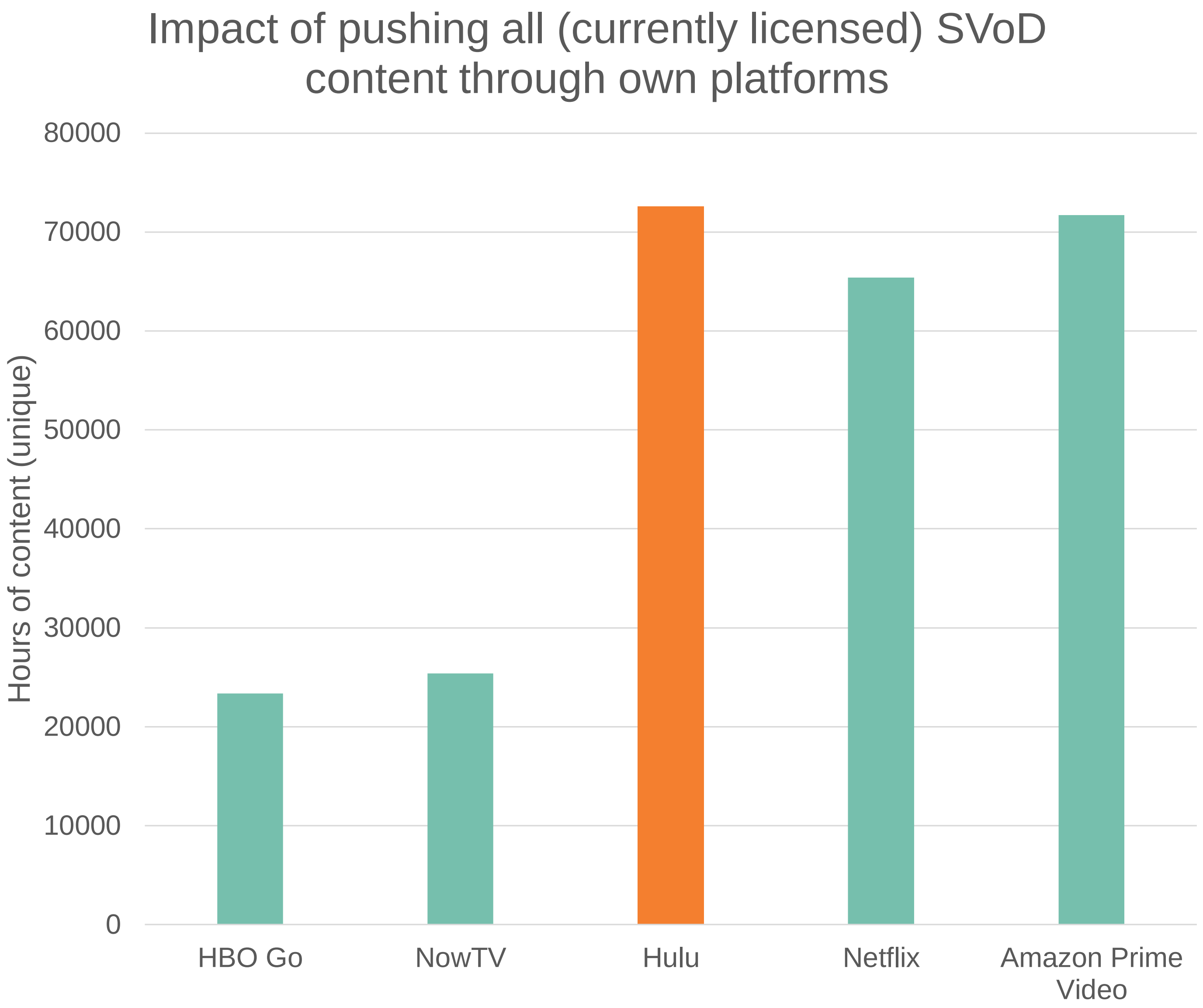
Source: Ampere Analytics

The big three re-alignments: Volume of content in existing SVoD services



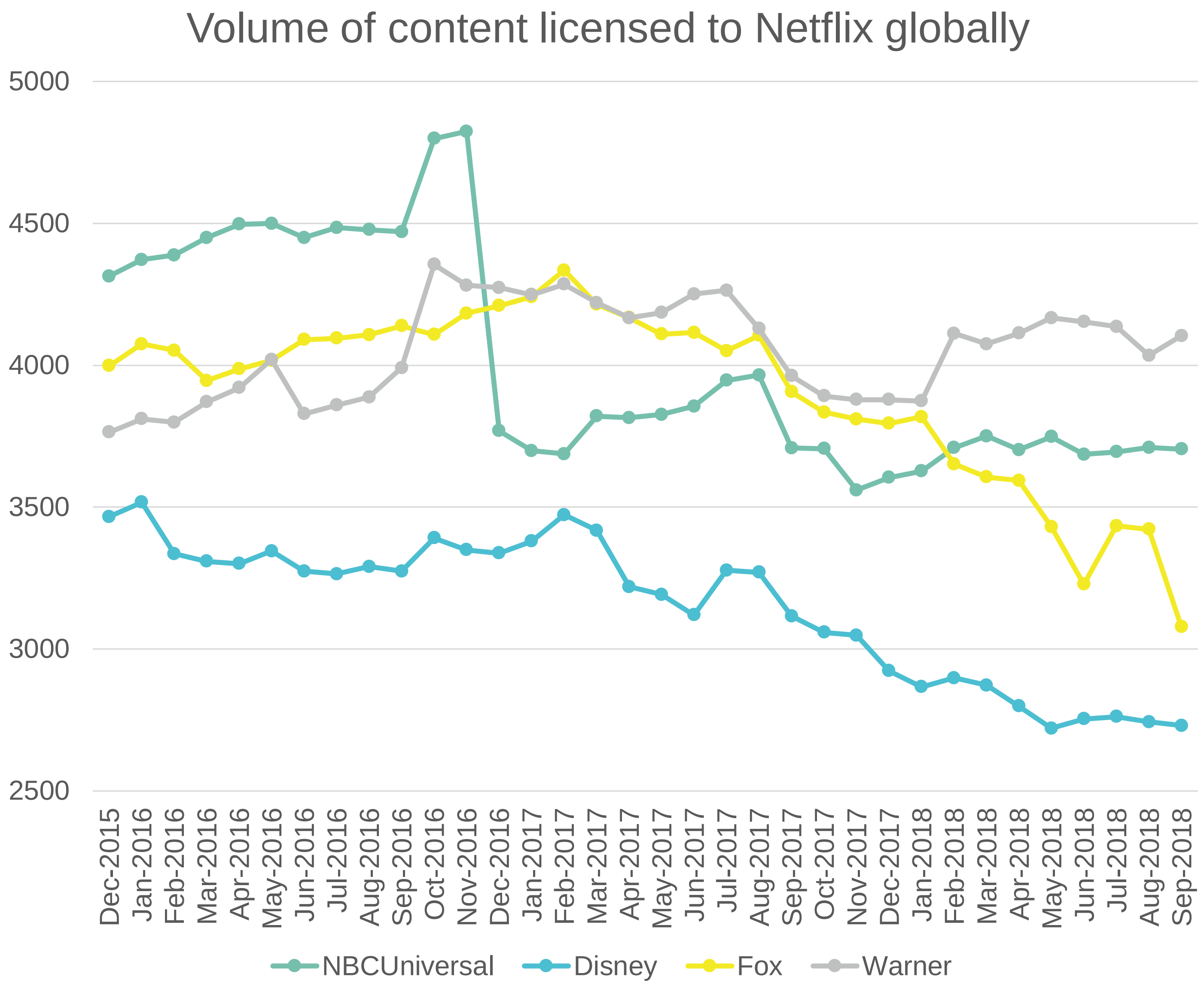
Source: Ampere Analytics. September 2018.

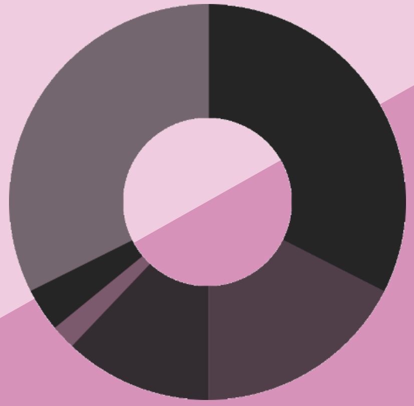
Going all in on own-brand DTC would propel Disney/Fox/Hulu to largest SVoD offer



Source: Ampere Analytics. September 2018. Shows impact of combining HBO Go with Warner externally licensed content; Now TV with NBCUniversal content and Hulu with Disney and Fox.

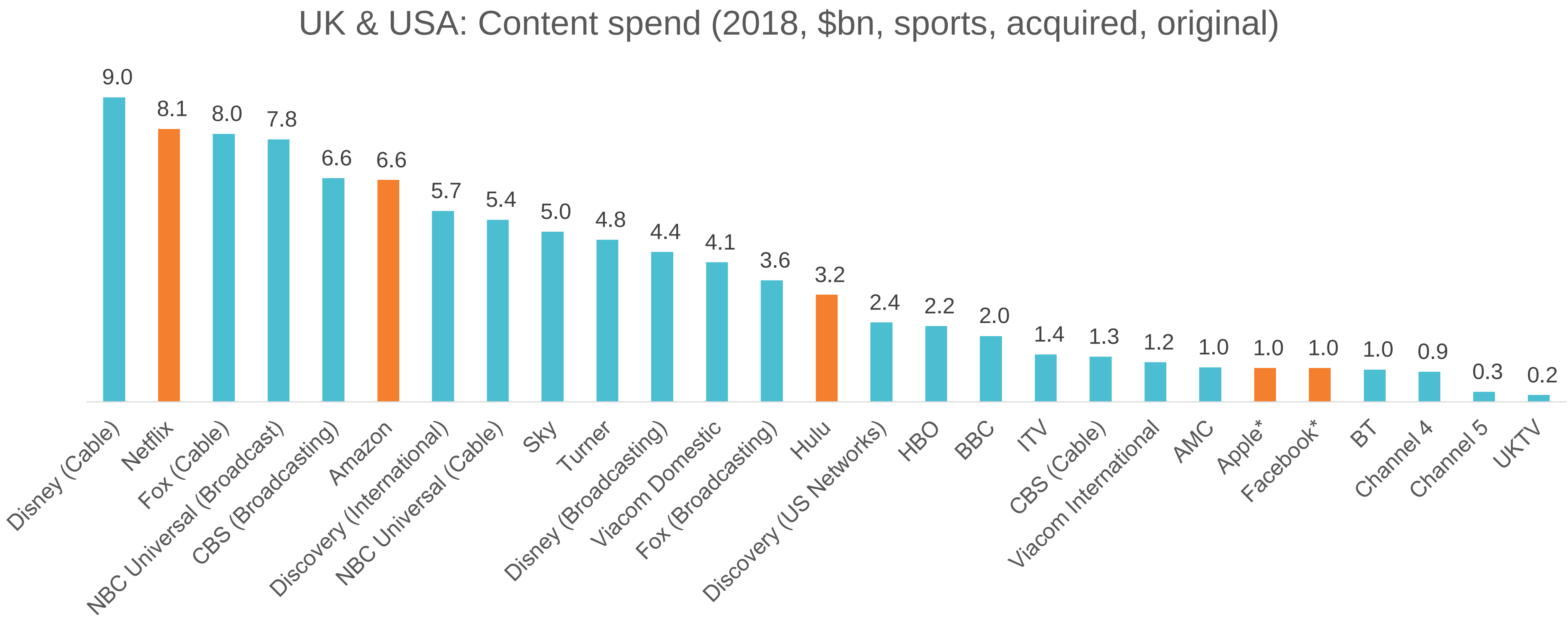
To date, only Disney and Fox have been reducing content on Netflix





Content strategies for a crowded market

OTT players are now outspending many incumbent broadcast groups

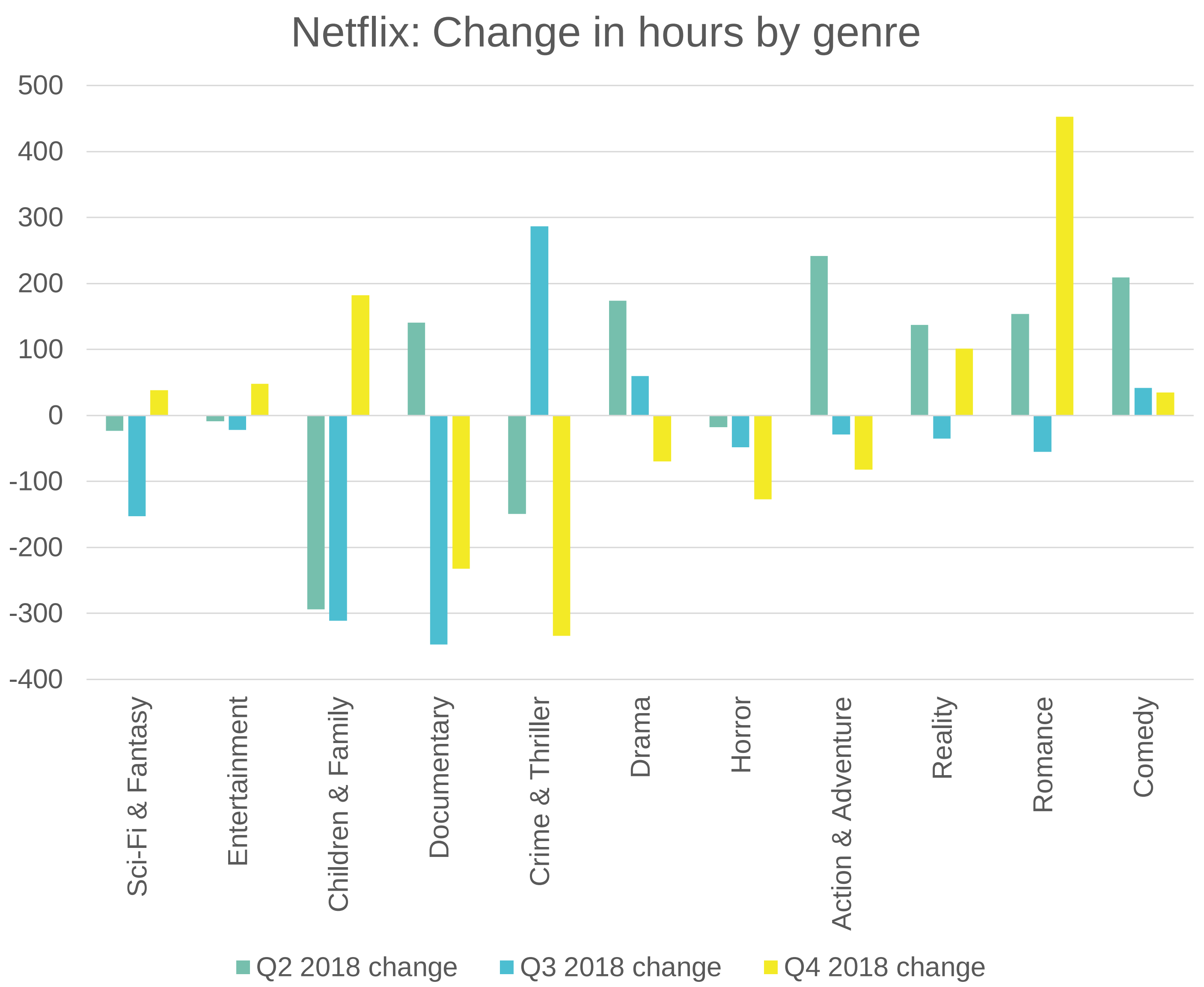


Source: Company reports, Ampere estimates – Sky, BBC, ITV, etc. – UK only. * Apple, Facebook commitments for 2019. Figures are provided on a P&L basis.

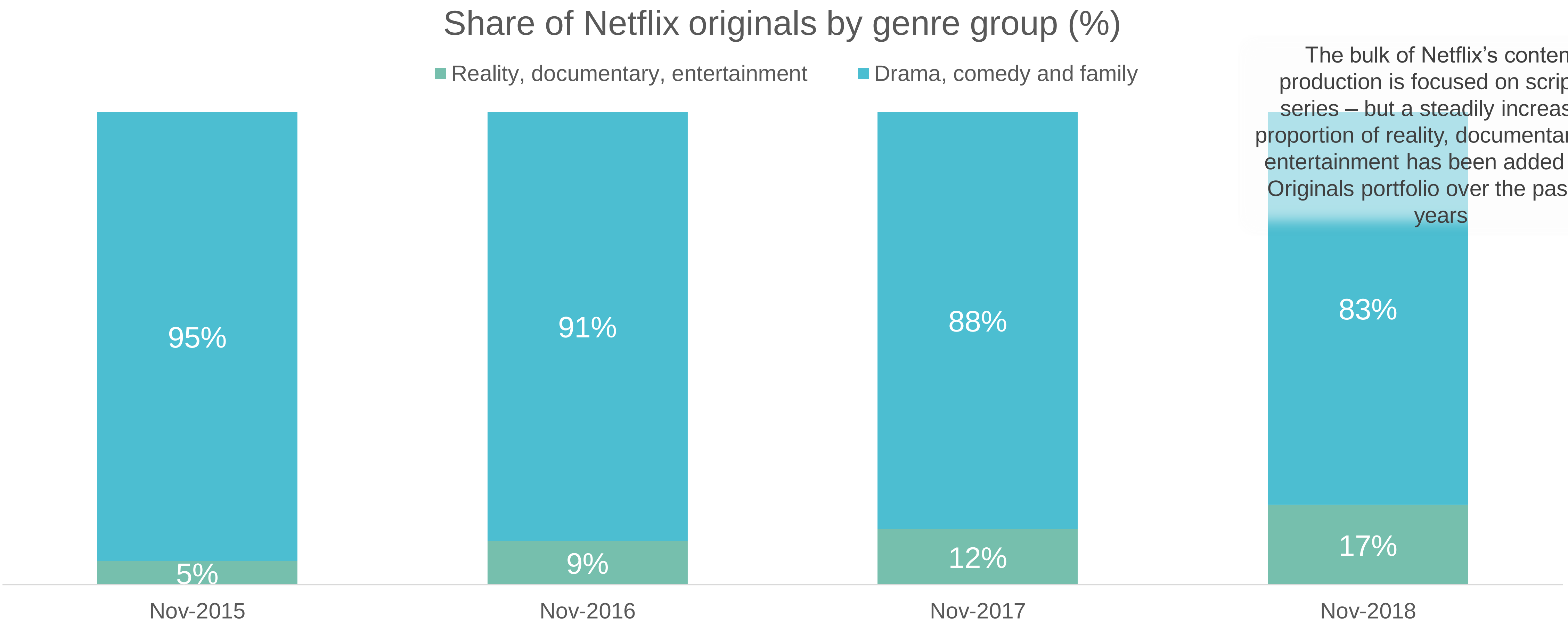
The genre shift in Netflix's recent content shows the challenge

- Netflix has been playing catch-up trying to replace kids content pulled off by the majors…after several quarters of decline, it has begun to reverse that trend with a combination of acquisition and original production.

- Reality has been a strong growth area across the SVoD landscape as a whole, while some of the early millennial-favourite genre categories are flat or in decline as Netflix looks to service its diverging user base.



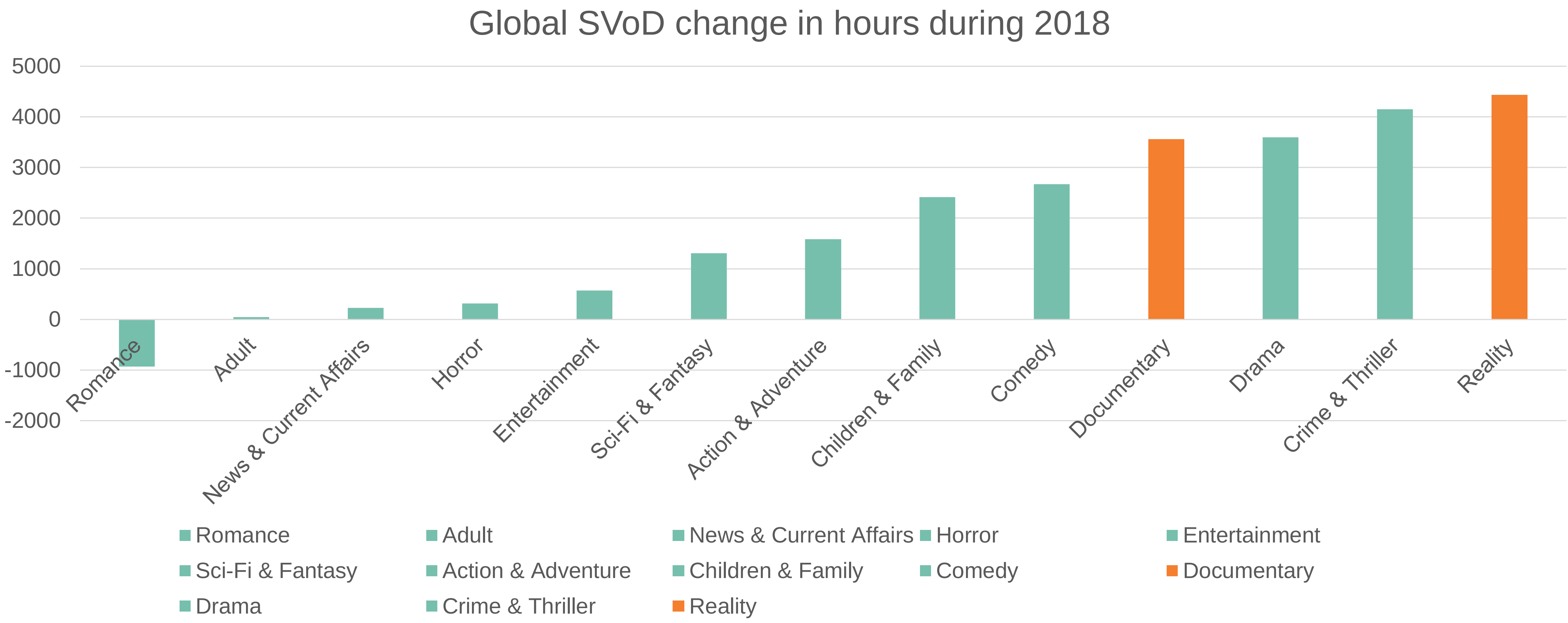
Reality, light entertainment and factual now account for nearly 1/5th of Netflix's originals



The bulk of Netflix's content production is focused on scripted series – but a steadily increasing proportion of reality, documentary and entertainment has been added to its Originals portfolio over the past few years

Source: Ampere Analytics

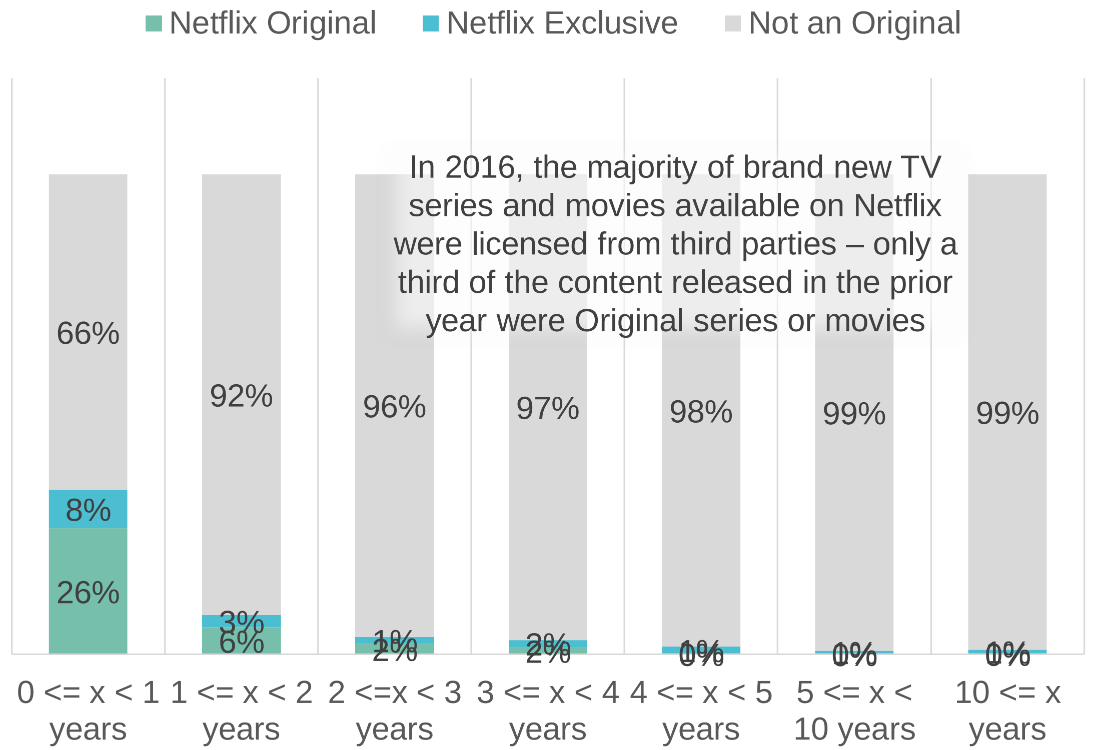
It’s not just Netflix: globally, the big SVoD content sector gainers have been reality and factual



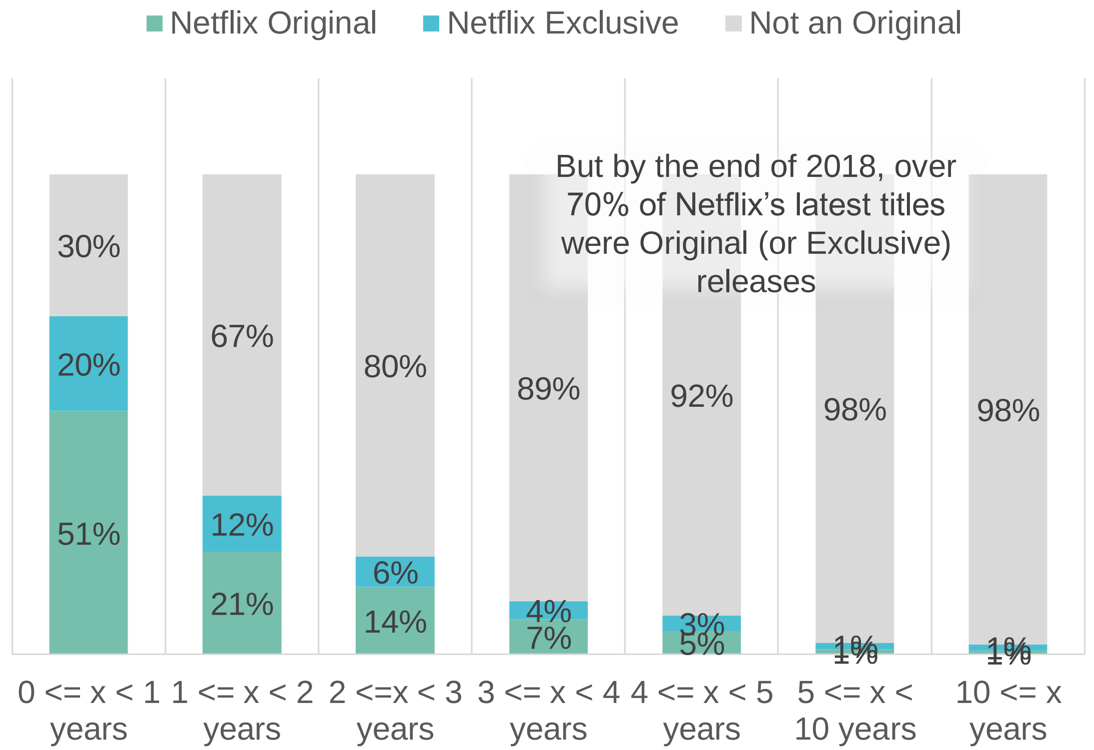
Based on analysis of 100 SVoD platform/country combinations. Source: Ampere Analytics.

Netflix's Originals investment is making a huge different to its catalogue profile

Dec 2016: Origin of content by age category (when content was released)



Dec 2018: Origin of content by age category (when content was released)



Source: Ampere Analytics

30% of Netflix's top shows are originals…

- But even with its strong originals strategy, Netflix is still heavily dependent on licensed studio content.

TV shows on Netflix USA in 2018 with highest affinity

Rank	TV Show Title	Affinity (Index)	Network
1	Riverdale	90.8	The CW
2	The Walking Dead	73.9	AMC
3	13 Reasons Why	66.8	Netflix Original
4	Grey's Anatomy	66.5	NBC
5	Stranger Things	66.0	Netflix Original
6	Black Mirror	60.8	Netflix Original
7	American Horror Story	60.7	Showtime
8	Friends	54.7	NBC
9	Shameless	48.1	Showtime
10	Orange Is the New Black	41.8	Netflix Original
11	Supernatural	39.9	The CW
12	Peaky Blinders	39.5	BBC
13	The 100	37.9	The CW
14	Altered Carbon	33.1	Netflix Original
15	Breaking Bad	32.6	AMC

* Ampere Affinity rating is a proprietary measure of a shows popularity based on a combination of user interest in the show title and demand for the title. The measure shows how powerful an individual show title is within the overall content mix.

Amazon's content strategy is still very reliant on licensing from channel partners

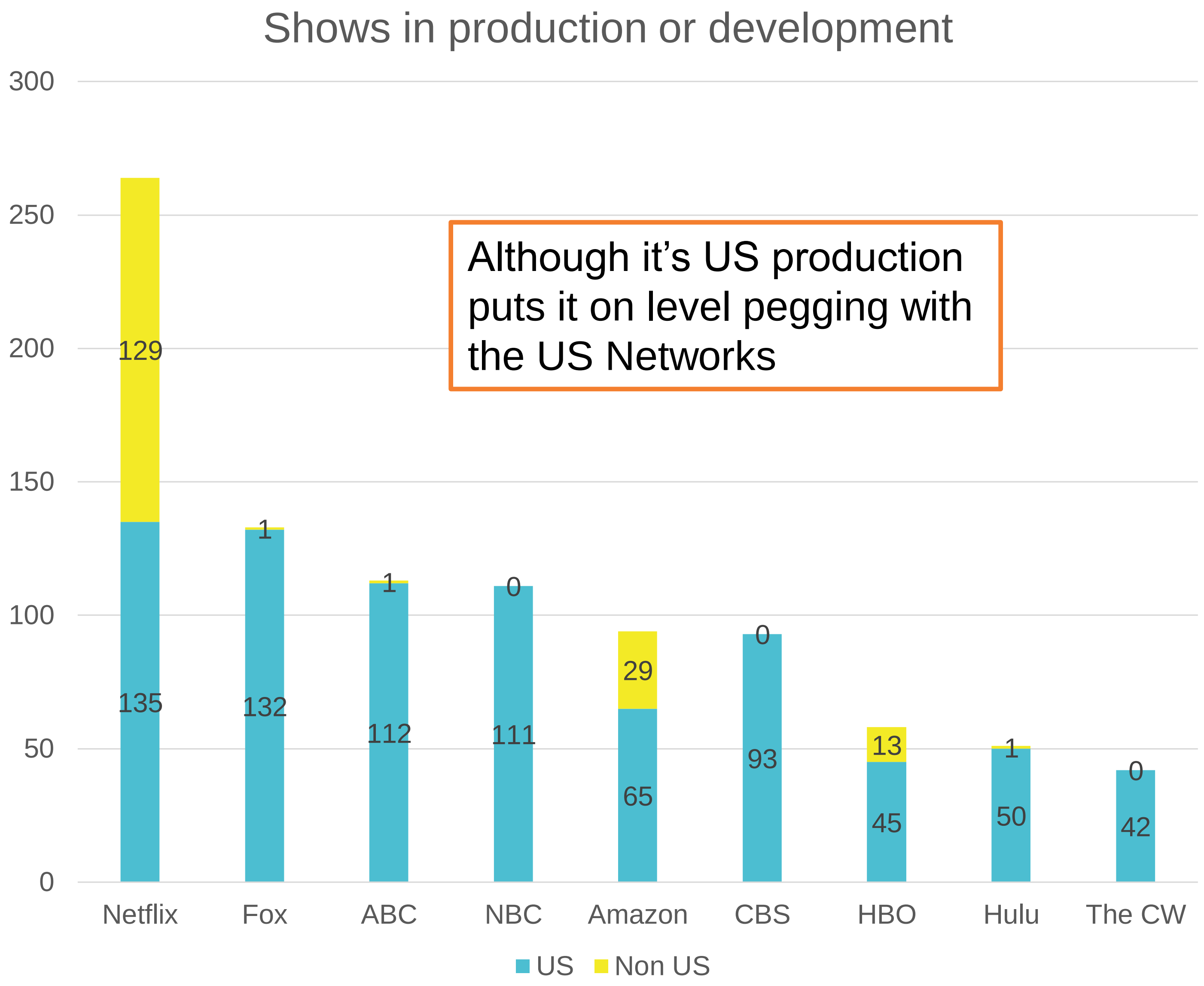
- Only two Amazon originals feature among the top 15 shows on Amazon rated by Ampere's affinity ranking*.

TV shows on Amazon USA in 2018 with highest affinity

Rank	TV Show Title	Affinity (Index)	Network
1	SpongeBob SquarePants	63.8	Nickelodeon
2	American Horror Story	60.7	Fox
3	Roseanne	55.9	ABC
4	Shameless	48.1	Showtime
5	The Bachelor	41.5	ABC
6	Vikings	40.4	History
7	Doctor Who	36.9	BBC
8	Suits	36.2	NBC
9	Sons of Anarchy	26.4	Fox
10	Parks and Recreation	26.2	NBC
11	Power	26.2	Starz
12	The Marvellous Mrs. Maisel	24.4	Amazon Original
13	The Man in the High Castle	23.7	Amazon Original
14	The Expanse	20.0	Syfy
15	Sesame Street	19.4	PBS

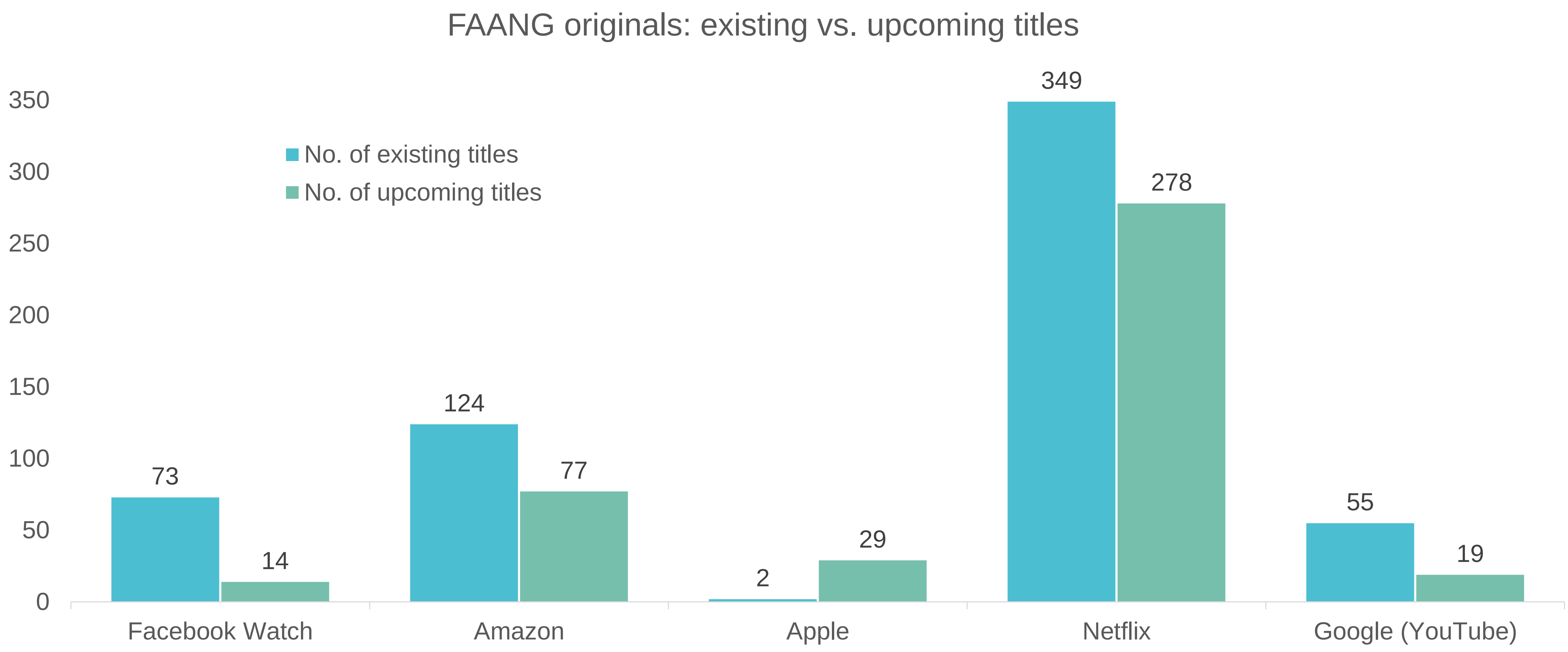
* Ampere Affinity rating is a proprietary measure of a shows popularity based on a combination of user interest in the show title and demand for the title. The measure shows how powerful an individual show title is within the overall content mix.

Netflix is commissioning double the number of shows of the next largest US broadcaster

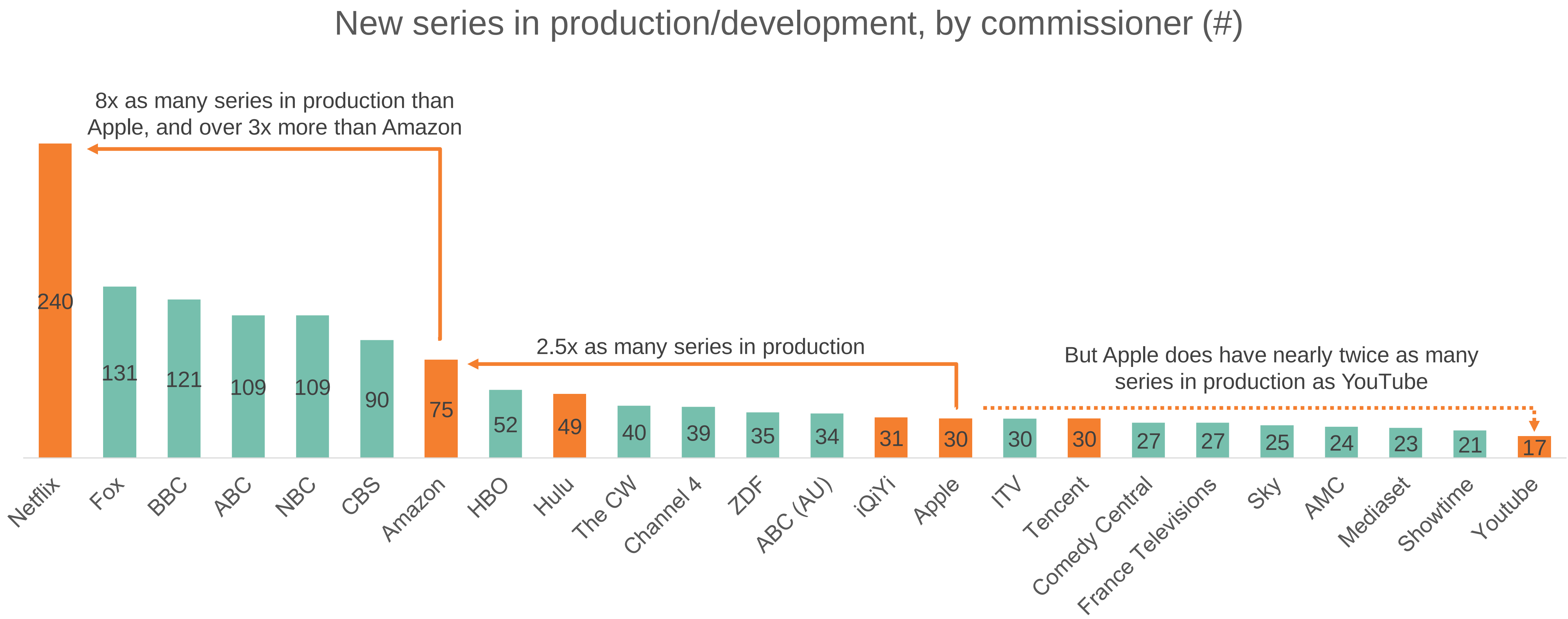


Source: Ampere Commissioning Analytics

Originals library and development slate put it well ahead

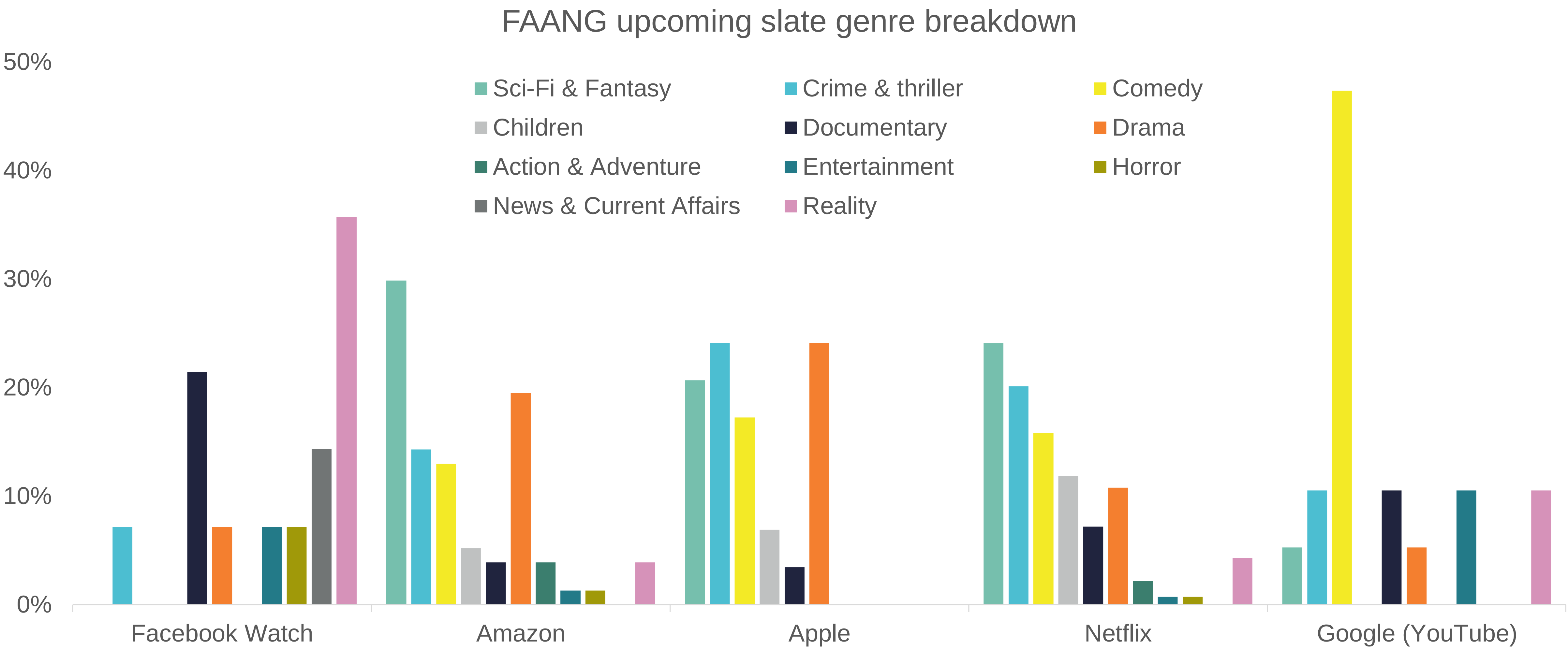


The volume of series in development illustrates how far Apple, YouTube have to go to catch up

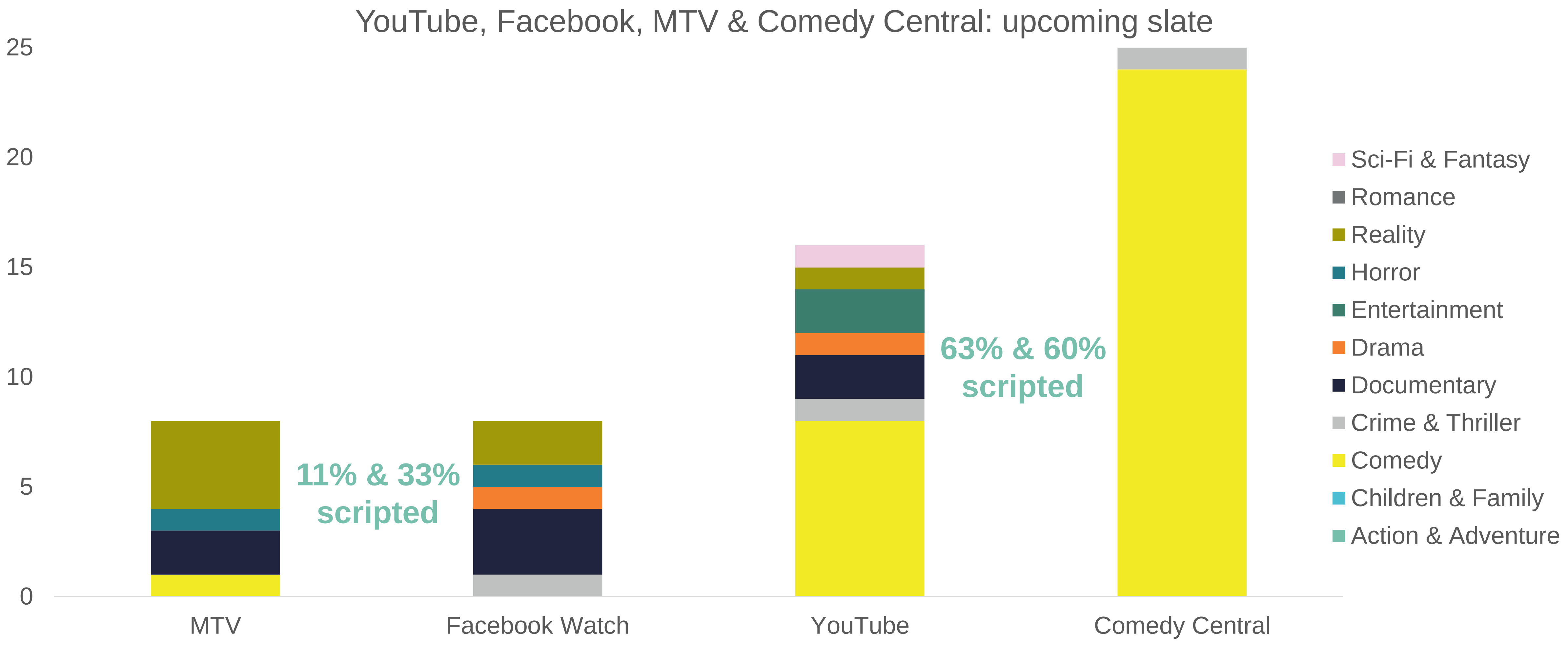


Ampere Commissioning – announced series, Jan 2019. New titles only – excludes recommissions and movies

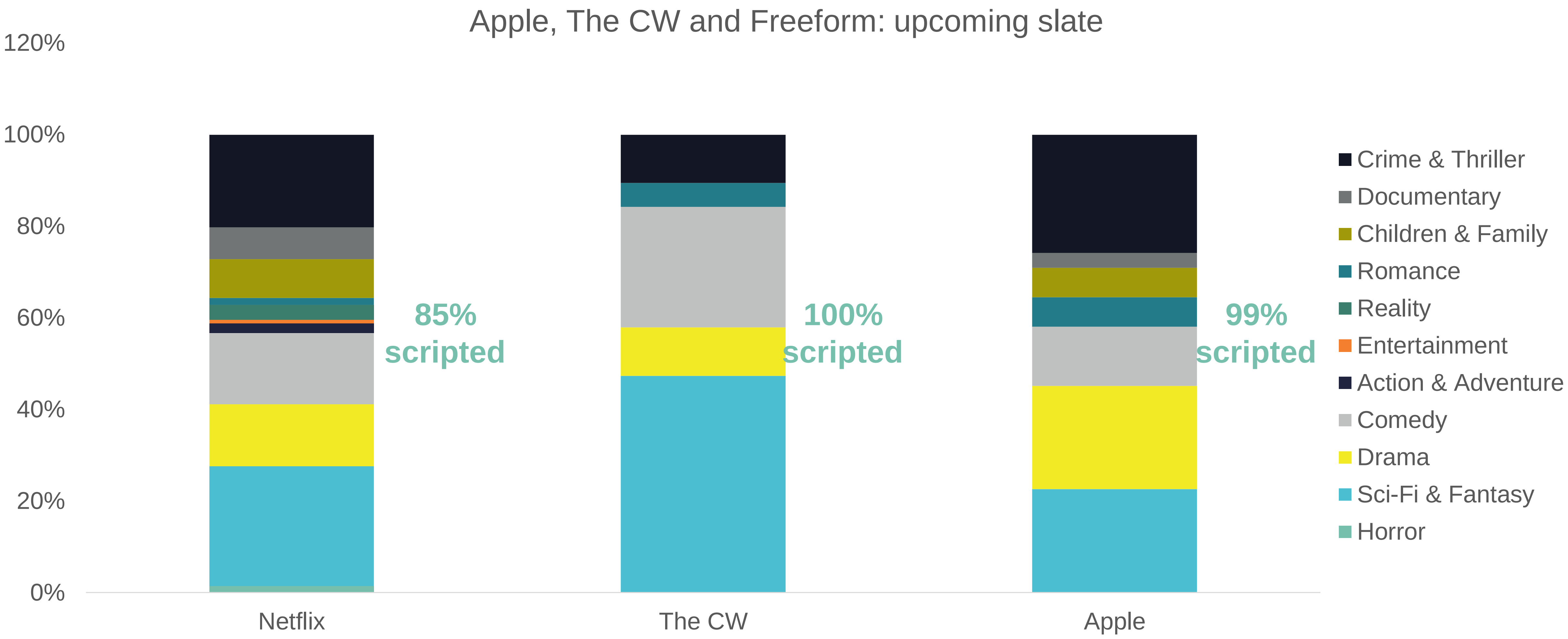
Upcoming FAANG slate breaks into distinct catalogue profiles



YouTube and Facebook look to take on the smaller, specialised cable channels



While Apple TV + eyes mainstream and Netflix?



In the midst of disruption comes order in the form of a shift back to the old way of doing…and thinking about…the TV business.

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