



Executive summary

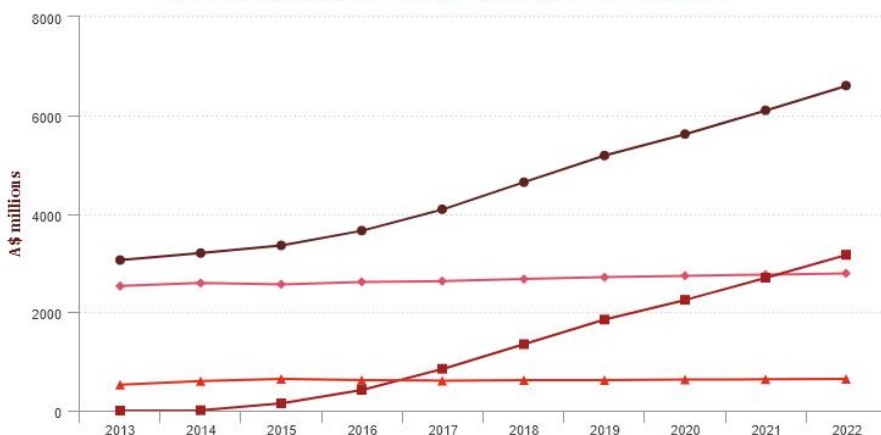
2017 saw Netflix cement its position at the top of the subscription video on demand (SVoD) market in Australia and Foxtel experience its first decline in overall subscribers. Amazon entered the market in 2017 with its SVOD service, Amazon Prime; and in early 2018 Foxtel and Fox Sports merged diluting Telstra's ownership of the merged entity. Telecommunications companies are still active in subscription video, with Optus, iiNet, Telstra and others competing on premium and SVOD bundles in order to secure more 'sticky', ie longer-term customers. Content rich studios like Disney and NBC Universal will put pressure on SVOD aggregators by withdrawing their content and going direct to consumers over the forecast period.



Forecasts at a glance

SVOD grows strongly over the forecast period, surpassing premium box delivered revenue in 2022

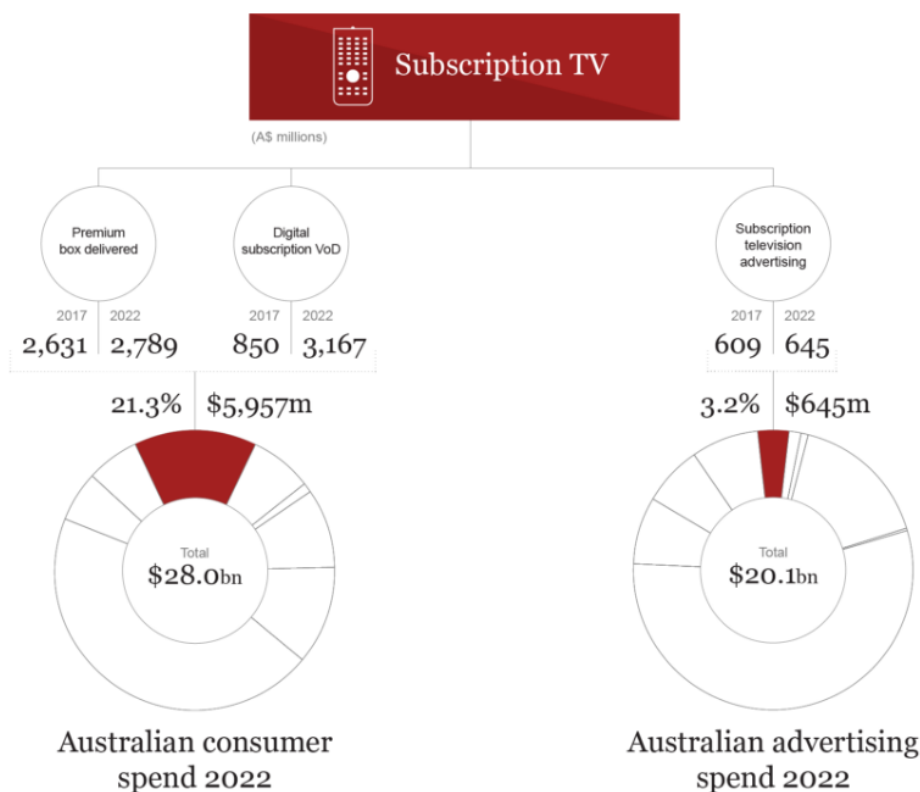
Subscription TV consumer revenue - premium box vs SVOD



CAGR 2018-2022

Total market	10.1%
Premium box delivered	1.2%
SVOD	30.1%
Advertising revenue	1.2%

Australian snapshot



SVOD bundles popular but internet speeds still a challenge

Internet service providers (ISPs) bundling SVOD with data and access are a common part of the subscription TV market now, prompted by ISPs seeking better customer retention and consumers wanting greater value for money. Approximately 70 percent of households who purchase a data bundle add at least one STV service, according to Scott Lorson, CEO of Fetch.¹ It is expected that rollout of the National Broadband Network (NBN) will assist growth in bundled offerings over the next three years as customers switch over and consider new plans.²

Bundling gives SVOD providers greater exposure to potential customers and more certain revenue streams. An ongoing challenge within the industry facing ISPs is the provision of adequate internet speeds and bandwidth to SVOD customers. This is evident in the recent announcement by Foxtel to no longer distribute via Hybrid Fibre Co-Axial (HFC) cabling in favour of satellite technology.³

'In a new world of media options, we see a fragmentation of viewing behaviours. Using a grocery analogy, consumers visit a range of stores - the baker, butcher, fruit & veg and a convenience store.' Fetch aims to provide the equivalent of a supermarket, offering the convenience of everything they need under one roof - a set top box, a single remote and one bill.

Scott Lorson, Fetch TV

Foxtel and Stan differentiate by offering more premium Australian content

	foxtel now	Netflix Australia	Stan	Amazon
Price (minimum spend per month)	\$10	\$9.99	\$10	US \$2.99
Price (maximum spend per month)	\$104	\$17.99 (4K, stream on four devices at once, offline viewing on four devices)	\$15 (4K, stream on four devices at once, offline viewing on five devices)	US \$5.99
Quality	1080P	4K	4K	4K
Offline downloads	No	Yes	Yes	Yes
Duration of the free trial	2 weeks	1 month	30 days	7 days
Supported devices	iOS, Android, PlayStation 4, Google Chrome on Windows and Mac, Telstra TV, Chromecast. PlayStation 3 and Xbox One run the older Foxtel Play app (can access the same content, but won't play HD videos)	iOS, Android, Windows Store, web browsers on PC and Mac, most smart TVs, Apple TV, Telstra TV, Fetch TV, Chromecast, Xbox One, Xbox 360, PlayStation 4, PlayStation 3, and Wii U	iOS, Android, Windows Store, web browsers on PC and Mac, Xbox One, PlayStation 4, PlayStation 3, Apple TV, Telstra TV, Fetch TV, Chromecast, and selected smart TVs	iOS, Android, web browsers on Windows and Mac, Apple TV, Amazon Fire TV Stick, PlayStation 4, PlayStation 3, Xbox One, Xbox 360, and selected smart TVs
Exclusive/original/ Australian content (selected)	Live sport Exclusive content includes HBO shows such as <i>Game of Thrones</i> , <i>Silicon Valley</i> and <i>Westworld</i> Australian content includes <i>Wentworth</i> , <i>Open Slather</i> , <i>A Place to Call Home</i> and <i>The Kettering Incident</i>	Netflix original content include <i>Stranger Things</i> , <i>Orange is the New Black</i> , <i>BoJack Horseman</i> and <i>Narcos</i>	Exclusive/first on Stan content includes new seasons of <i>Will & Grace</i> , <i>Twin Peaks</i> , <i>Billions</i> and <i>I'm Dying Up Here</i> Australian and Stan original content includes <i>One Night Stan</i> , <i>Wolf Creek TV series</i> , <i>The Other Guy</i> and <i>No Activity</i>	Amazon prime original content includes <i>The Grand Tour</i> and <i>Bosch</i> Exclusive content includes <i>American Gods</i>

Sources: whistleout.com.au, foxtel.com.au, amazon.com, stan.com.au

Content studios choose to go it alone

A large risk facing SVOD providers is that content-rich production companies such as Disney, HBO and NBC Universal are, or have, signalled their plans to pull their content from aggregator services such as Netflix and start their own platforms.⁴ While Netflix and Amazon shelter themselves with significant investment in original content, research shows that the majority of viewing on aggregator platforms is licensed content, not originals.⁵

'TV isn't dying, TV is having babies. If you look at the rich range of BVOD (Broadcaster Video-on-Demand) and SVOD services and live-streaming, TV is healthier from a content and audience point of view than ever. It is enabling its content to be consumed by Australians across multiple devices at any time of day for the length that they choose.'

Kim Portrate, ThinkTV

Sporting codes and content studios are increasingly going direct to fans with niche SVOD offerings...



...while aggregators seek scale

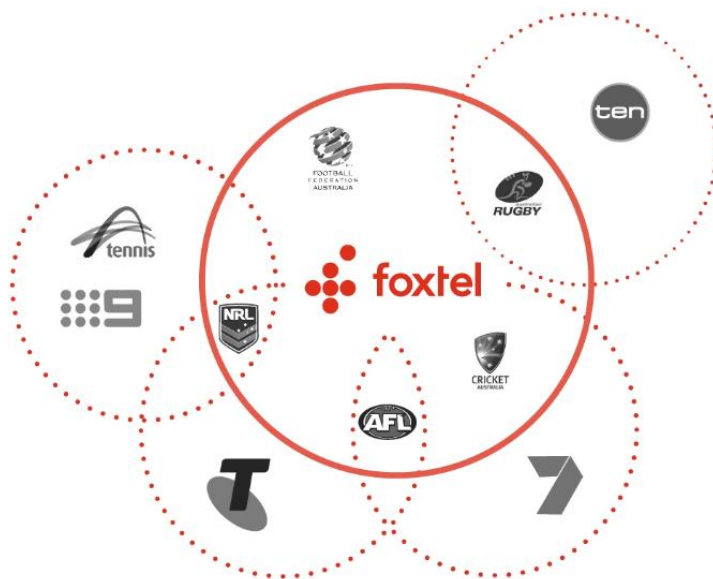


Sources: AHEDA Yearbook 2017, Nine Entertainment Co.

Foxtel-Fox Sports merger

The Foxtel and Fox Sports merger was approved by the ACCC in December 2017,⁶ giving Foxtel better cross platform access to Fox Sports' 400 live sporting events. The merger, along with a six year broadcast and streaming deal with Cricket Australia secured in April 2018, further cements Foxtel as Australia's leading subscription sports provider. With Netflix already announcing they will never broadcast sporting content,⁷ focusing instead on scripted content like drama, Foxtel's differentiation may be unchallenged by competitors in Australia, even though in other markets like the US, over-the-top players like YouTube are entering the subscription TV market with a focus on local news and sport.⁸

Foxtel dominates sporting rights after Fox Sports merger



Code	Right holders	Total deal (A\$)	Annual value (A\$)	Year struck	Percentage change from previous deal
AFL	Seven, Foxtel, Telstra	\$2.5bn, 6yrs	\$418m	2015	+67pc
NRL	Nine, Foxtel, Telstra	\$1.8bn, 5yrs	\$360m	2016	+70pc
Cricket Australia	Foxtel, Seven	\$1.2bn, 6yrs	\$200m	2018	+100pc
Tennis Australia	Nine	\$300m, 5yrs	\$60m	2018	+50pc
Football Federation of Australia	Foxtel	\$346m, 6yrs	\$58m	2016	+45pc
Rugby Australia	Foxtel, Ten	\$285m, 5yrs	\$57m	2016	+148pc

Source: abc.net.au



Industry participants *Subscription television*

Subscription television data tables

Subscription television total market (A\$ millions)

	Historical data					Forecast data					2018-2022 CAGR
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
AUD											
Australia	3,058	3,200	3,356	3,656	4,090	4,640	5,181	5,618	6,100	6,602	
% change		4.6%	4.9%	8.9%	11.9%	13.5%	11.7%	8.4%	8.6%	8.2%	10.1%

Premium box delivered (A\$ millions)

	Historical data					Forecast data					2018-2022 CAGR
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
AUD											
Australia	2,531	2,593	2,565	2,616	2,631	2,673	2,710	2,739	2,764	2,789	
% change		2.4%	-1.1%	2.0%	0.6%	1.6%	1.4%	1.1%	0.9%	0.9%	1.2%

2016 figure has been updated to reflect most recently available information

Subscription VOD (A\$ millions)

	Historical data					Forecast data					2018-2022 CAGR
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
AUD											
Australia	1	7	149	419	850	1,350	1,850	2,250	2,700	3,167	
% change		600.0%	2028.6%	181.2%	102.9%	58.8%	37.0%	21.6%	20.0%	17.3%	30.1%

Source: AHEDA

Subscription television advertising (A\$ millions)

	Historical data					Forecast data					2018-2022 CAGR
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	
AUD											
Australia	526	600	642	621	609	617	622	629	636	645	
% change		14.0%	7.0%	-3.4%	-1.9%	1.4%	0.8%	1.2%	1.1%	1.4%	1.2%

2013-16 figures have been updated to reflect most recently available information

© 2018 PricewaterhouseCoopers. All rights reserved.

PwC refers to the Australia member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details.

This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.

Liability limited by a scheme approved under Professional Standards Legislation.

At PwC Australia our purpose is to build trust in society and solve important problems. We're a network of firms in 158 countries with more than 236,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com.au.