

## Subscription television

### Executive summary

The incumbent Australian subscription video businesses (Stan and Foxtel) are dealing with unprecedented influx of competition from global entrants, and a heated contest for ownership of the content supply-chain. Consumers can look forward to greater choice, flexibility and range. For media owners, Australians are showing an increased willingness to pay for subscription content models, opening up new business model opportunities that don't require advertising support.

For advertisers, the stability of advertising video inventory supply, especially on platforms, channels or services that show only professional content, may become challenging. This will be driven by the likely continued increase in subscription video-on-demand (SVOD) services, and their collective ongoing ability to command both time and money from consumers.

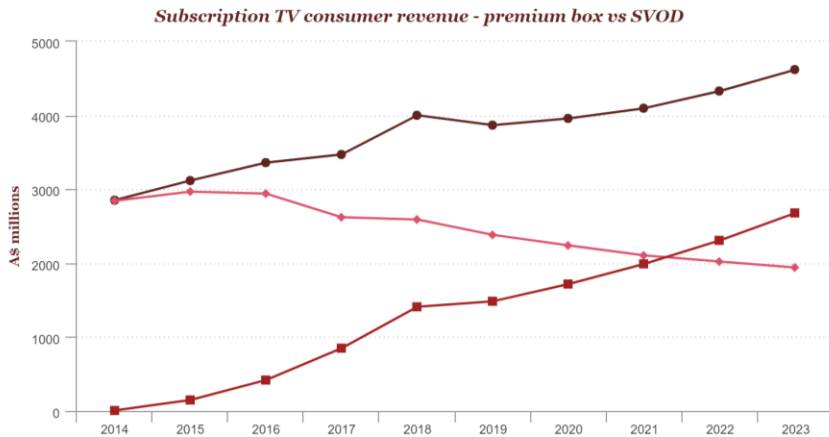


### Growth Drivers

1. Enhanced viewing experience supported by 4K, NBN and 5G
2. Selling Australian content
3. Telecommunications/entertainment bundling

## Forecasts at a glance

### SVOD grows strongly over the forecast period, surpassing premium box delivered revenue in 2023



#### CAGR 2019-2023

Total market 2.9%

Premium box delivered -5.6%

SVOD 13.7%

## Opportunities abound in a competitive market

The SVOD market has increased 31 percent in the past 12 months.<sup>1</sup> Australians are showing an increasing appetite for multiple SVOD subscriptions, often alongside premium box delivered subscription television (Foxtel) in order to access the content they want.

Netflix is the dominant SVOD in Australia, reaching over 11 million people.<sup>2</sup> Success for new entrants and emerging services may rely on offering consumers narrower content offerings, rather than trying to compete with Netflix's catalogue. Incumbent Foxtel has capitalised on this opportunity with the 2018 launch of Kayo Sports, which provides live and on-demand footage of over 50 sports.

## Selling Australian content to the world

The industry continues to look for ways to leverage their core capabilities in content creation by enhancing in-house content production. Additional home-grown content not only provides a richer experience for subscribers, but also increases the provider's ability to earn revenue through licensing the program format or the actual completed production to other broadcasters or SVOD players. This has been illustrated with the sale of Foxtel-produced *A Picnic at Hanging Rock* to Amazon for distribution in the US and to BBC in the UK.<sup>3</sup> Other Foxtel-produced Australian dramas such as *A Place to call Home* and *Wentworth* have been sold to over 123 countries and 80 territories respectively.<sup>4</sup> This trend is expected to continue with Netflix and Foxtel partnering in February 2019 to deliver Australian content globally.<sup>5</sup>

## Sports rights remain competitive

There continues to be significant competition for premium sports rights. In 2018, Foxtel secured broadcast and exclusive digital cricket rights for the six years ending 2024 for A\$100 million per annum.<sup>6</sup> This represents a 122 percent increase in costs compared to the previous four-year rights deal. Although costly, securing these content rights remain key to subscriber retention, particularly with the risk of studios such as Disney and Warner/ HBO withdrawing their content<sup>7</sup> and going direct to customer, impacting SVOD aggregators and subscription television providers alike. The sustainability of the quantum for these deals has recently been brought into sharp focus and will be closely watched as the market normalises after a period of competition inflation.

## Telecommunications/entertainment bundling provides a once in a generation opportunity

The NBN rollout and the 5G network provides a unique opportunity for SVOD providers to partner with telecommunication companies to scale their reach rapidly. As previously 'sticky' customers explore alternative ADSL connections in the upgrade to the NBN, telecommunications retail service providers will look to differentiate their products. Opportunities exist for emerging and new SVOD services to enter into collaborative partnerships with telecommunications retail service providers, to secure rapid market share during this critical time as households enter into new contracts for their internet services.

'Consumers clearly value the convenience of one remote, one interface and one bill. For telcos, winning the coveted HDMI1 position on the main TV is key to driving engagement and advocacy, whilst at the same time, dramatically reducing broadband churn.'<sup>8</sup>

Scott Lorson, Chief Executive Officer, FetchTV

## Network infrastructure improvement will increase speed and quality of SVOD services

The NBN rollout, which is expected to complete in 2020, will provide Australians with even greater accessibility and flexibility for how they consume digital content. NBN promises to provide faster broadband internet to more regions of Australia, with download speeds of at least 60Mbps during peak hours for the premium offering (NBN 100). This will open up new viewing opportunities for subscription television, including the ability to stream in 4K that requires significant amounts of data. Through the premium NBN offering, a high definition movie will take approximately seven minutes to download,<sup>9</sup> compared to around 30 minutes in 2017 based on average internet speeds.<sup>10</sup>

'Consumers and advertisers alike are embracing the shift to anytime, anywhere, any device view of television.'<sup>13</sup>

Kim Portrate, Chief Executive Officer, ThinkTV

In the same way, the 5G network that is set to go live commercially in the first half of 2019 will provide tremendous improvements to mobile video streaming. 20 times faster than 4G at peak speed,<sup>11</sup> 5G's median streaming quality is expected to be 8K at 120 frames per second with 10-bit colour, up from 2K at 30 frames per second with 8-bit colour over the current 4G network.<sup>12</sup> This will mean television in your pocket, easier streaming and consumption of live content and one step closer to making immersive virtual reality 360 degree video streaming a reality.

## Advances in audience measurement for advertising supported video-on-demand platforms

Foxtel is the only SVOD on the market that also offers advertising inventory. This important revenue stream to the business will be bolstered by investments in improving cross-device measurement. This will provide greater clarity to media buyers and advertisers, as they show a willingness to explore programmatic advertising, which requires a more granular level of audience data for improved targeting. OzTAM will launch VOZ (Virtual Australia), a new audience measurement service, in 2019 combining data from 'broadcast viewing on TV sets with connected devices [to] support advanced audience targeting'.<sup>14</sup> This approach sees subscription television providers having the ability to track audiences cross device, providing greater transparency and accuracy to media buyers and advertisers.

'We need to educate as we bring innovation in measurement to market. We need to ensure that advertisers and agencies understand where the benefits lie and how to utilise those benefits.'<sup>15</sup>

Kim Portrate, CEO, ThinkTV

### Total Subscription TV market (A\$ million)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2019-2023 CAGR
<b>Premium box delivered</b>	2,845	2,969	2,942	2,621	2,591	2,383	2,240	2,106	2,022	1,941	
% change		4.3%	-0.9%	-10.9%	-1.2%	-8.0%	-6.0%	-6.0%	-4.0%	-4.0%	-5.6%
<b>SVOD</b>	7	149	419	850	1,410	1,485	1,718	1,991	2,309	2,680	
% change		2028.6%	181.2%	102.9%	65.9%	5.3%	15.7%	15.9%	16.0%	16.1%	13.7%
<b>Total</b>	2,852	3,118	3,361	3,471	4,001	3,868	3,959	4,097	4,330	4,620	
% change		9.3%	7.8%	3.3%	15.3%	-3.3%	2.3%	3.5%	5.7%	6.7%	2.9%