Digital UK

Pay-TV platforms: key trends and developments

Shaping the Future of Terrestrial Television
MTM is a research and strategy consultancy. We help clients succeed in fast-moving, digitally-driven markets.

What we do

**Consumer insight**
- Qual and quant research
- Content, brands, ads, technology
- Demand and pricing analysis

**Market and policy research**
- Market and economic analysis
- Competitor benchmarking
- Market sizing and forecasting

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- Vision and strategic planning
- Opportunity assessments
- Commercial growth strategies

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- User and market needs analysis
- Service and experience design
- Proposition development

**Digital transformation**
- Organisation/business process design
- Leadership coaching and support
- Implementation and action planning

Recent clients:

- BBC
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- Universal Networks
- Sky
- UKTV
- HBO
- Discovery Networks International
- BBC Worldwide
- Viacom
- Turner
- Love Film
- FremantleMedia
- Channel 4
- Netflix
- endemol
- News UK
- YouTube
- O2
- Google
- VisitBritain
- NHS
- Aol.
- Virgin Media
- Ofcom
- theguardian
- Yahoo!
- Ofcom
- BT
- Bauer Media Group
- Perform
- All3Media
- Ericsson
- Esa
- Tech City
- Film Forever
- HM Revenue & Customs
- Department of Energy & Climate Change
- Entertainment Retailers Association
- Government Digital Service
How is the UK pay-TV market developing?

- Setting the scene
- Trends and developments
- Areas of uncertainty

10 minutes – introducing (some of) the key issues
Following DSO, the TV platforms market stabilised – but broadband bundling and OTT have stimulated change.

What just happened?

Maturing market
- Post-DSO in 2012, growth of pay-TV slowed …
  - … with limited churn between operators

Broadband bundling …
- Growth of TV and communications bundling …
  - … emerged as key driver of growth

… stimulated competition
- BT investment transformed competitive dynamics …
  - … while broadband enables OTT entrants

‘Traditional’ pay under pressure
- ‘Traditional’ pay-TV providers under pressure …
  - … from telco competitors and OTT offerings
Sky is facing intense competition from Virgin and the new telco entrants, gaining share with cheap bundles

Quad play competitors

<table>
<thead>
<tr>
<th></th>
<th>Sky</th>
<th>Virgin Media</th>
<th>BT</th>
<th>TalkTalk</th>
<th>Vodafone</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TV subscriber base (2014)</strong></td>
<td>10.6m (1)</td>
<td>3.8m</td>
<td>1.1m</td>
<td>1.0m</td>
<td>-</td>
</tr>
<tr>
<td><strong>Distribution</strong></td>
<td>DSat</td>
<td>Cable</td>
<td>DTT / IPTV</td>
<td>DTT / IPTV</td>
<td>IPTV</td>
</tr>
<tr>
<td><strong>TV/broadband bundle?</strong></td>
<td>TV + broadband</td>
<td>Broadband + TV</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Netflix availability?</strong></td>
<td>No</td>
<td>Yes</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td><strong>Growth strategy</strong> (2)</td>
<td>Quad play (MVNO from O2)</td>
<td>Quad play</td>
<td>Quad play</td>
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<td>Quad play</td>
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<td></td>
<td>Now TV</td>
<td>Network roll out</td>
<td>Focus on sports</td>
<td>Value play</td>
<td>(IPTV)</td>
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<tr>
<td></td>
<td>Sky Europe</td>
<td>OTT apps</td>
<td>OTT apps</td>
<td>OTT apps</td>
<td>Potential acquisitions</td>
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<tr>
<td></td>
<td></td>
<td>Potential acquisitions</td>
<td>4K</td>
<td>TVOD premium packages</td>
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<tr>
<td><strong>Free cash flow (most recent FY)</strong></td>
<td>£1.1bn</td>
<td>£1.4bn - Liberty Global</td>
<td>£2.8bn</td>
<td>&lt;£0.1bn</td>
<td>£1.1bn</td>
</tr>
</tbody>
</table>

**Note:**

(1) Includes Now TV subscribers
(2) All key players already are or will soon be offering quad play packages – e.g. Sky MVNO deal with O2, BT’s acquisition of EE, Vodafone’s IPTV service
Competition has stimulated heavy discounting, helping to drive growth of lower-priced pay offers

Extreme marketing
Now TV, Sky’s response to competition from OTT and low-cost bundles, has been a success – mainly with FTA HHs

Now TV – the new entry-level offer

Join NOW TV with Sky Broadband

The simple way to enjoy entertainment from Sky without a dish

New to Sky?
Get a NOW TV Box & Sky Broadband Unlimited from

£10 a month for 12 months
+ Sky Line Rental (£16.40 a month)

Check availability

Sky Network areas only. Speeds vary significantly by location. Set-up costs may apply. £69.95 router delivery charge/12 months minimum contract. See further terms below.
At the same time, Sky – and BT – have ramped up investment in differentiating premium content

Content investment

• Competition for **premium sports**: BT, Sky

• Increasing prices for the best **entertainment** ...

• … growing emphasis on **originals/exclusives**

• Pressure on **channels**: cut-through content, rights

A more polarised market?
In many respects, Sky’s investments have been successful – more products, more customers, low churn

Reasons to be cheerful

Source: Sky, First Half Results 2015
However, Sky will need to continue investing to maintain its strong position in the market.

Management says it will offset a third of the anticipated price increase via pricing increases, which will be justified by the “enhanced range and value” offered by the new rights packages. [...] It is not just Premier League rights inflation that we are concerned about. [W]e see programming, technology and mobile all as likely sources of financial downgrades to medium-term numbers. All three are the result of stiffer competition, we think, and will be necessary if Sky is to maintain strategic superiority.

Berenberg Analysts, 2015
So, how will the pay-TV platform market develop during the next 3-5 years?
There appears to be limited scope for sudden or dramatic change in pay-TV platform market shares

Why?

• Few **break-out content deals** or product offers

• **Deep pockets**: rivals can respond

• **Inertia**: many consumers satisfied with existing offers

• Legacy bases **difficult to switch** or upgrade

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**Major pay-TV operators are settling into their strategies**
Future changes are likely to be driven by network roll-outs and low-cost offers targeting FTA upgraders.

Changes driven by:

- Broadband **roll-out** – more marketable homes
- Discounted telecoms-TV **bundles**
- New **low-cost OTT** products
- Streaming media **devices**

FTA upgraders, spin-downers, Millennials, bolt-ons …
Leading operators will invest to maintain competitive advantage, in features, user experience and extensions.

- **4K, UHD**
- Cloud-based PVR
- Consistent UI across devices
- OTT extensions
- Advanced data-driven UE
New products are becoming far more of a priority, to support ARPU growth

NPD

• Focus on **platform and capability upgrades** …

• … to support roll out of **new products**

• **Common priorities** include:
  – Transactional services
  – OTT/TVE upgrades
  – Cloud/storage
  – IoT offerings

• Delivery can be **challenging**: multiple suppliers, top talent, significant investment
Sky and Virgin are investing in advanced advertising platforms, leveraging end-to-end control of platforms:

- Demographics?
- Interests?
- Product preferences?
- Ratings?
Operators are also becoming much more open to partnering with third-party premium OTT providers

**OTT content**

1. Go it alone
2. Selected deals
3. Marketplaces?

**Pay-OTT video services carried:**
- = operators’ services
- = third-party services
In the medium term, virtualisation is emerging as an opportunity, potentially opening up new segments.

“Smart TVs enable the virtualisation of the set-top-box by delivering pay-TV services directly onto the Smart TVs without any external hardware components (STB, CI+ CAMs, etc). This results in a better user experience while reducing the CAPEX and OPEX for the operator” – Samsung(1)

“We created a virtual STB in the cloud streamed and certified 250 TV models for it… Customers like our solution – it is easy to install, and TVs and modules are sold in retail, so it cuts the marketing required… In Q4 2013, 10% of our customers were STB less” - Ziggo

Although TV technology platforms remain fragmented, there are signs of consolidation and standardisation

- Major **international pay-TV operators** aiming to standardise international footprints

- Wholesaling of **white label solutions** by leading edge operators and their suppliers

- New ‘**open’ platforms** seeking to build traction in the TV platforms environment

- RDK emerging as **common framework** to accelerate development times
However, there are important uncertainties about the evolution of the UK pay-TV platforms market

- Consolidation, acquisition
  - Comcast, Vodafone, Liberty?
  - BT, DT, FT?

- Charter renewal
- Commercial FTA
  - Weaker FTA TV could support pay growth?

- Virtual MVPDs?
  - New mass-market entrants?
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