Cable in Europe: Innovation-driven growth in a hyper-competitive market

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January 2018

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European Broadband Cable 2017

- Published in December 2017
- Now in it’s 17th year
- The only definitive and fully comprehensive data report on the EU28 cable markets
- Historic and current data on the size and value of the industry
- Review and analysis of latest industry trends
Traditional pay TV is still growing everywhere except North America – cord-cutting has not spread

- Other regions have not fallen victim to the same factors that left North America vulnerable:
  - High pay TV penetration – little room for organic growth
  - High price of subscriptions
  - Slow response to competition in the online-video space with innovation of their own
  - Poor and much-maligned customer service

Source: IHS Markit
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Source: IHS Markit
What is the ARPU for Cable TV in the US vs the rest of the world?

- **US**: $86
- **Rest of the World**:
  - **Europe**: $23
  - **Asia**: $6
  - **Rest of the World**: $7
Triple play package

£48 a month

Unbundled set up

- £33.49 a month
- £7.99 a month (HD Package)
- £7.99 a month (Standard Entertainment pack)
- £7.99 a month

= £57.46 a month
In Europe pay TV is still growing and most Europeans still receive their pay TV via cable

- The role online video has played has been to expand the overall market for subscription video
But Cable TV subscribers have been declining since 2009

Cable TV net additions and digital TV penetration in EU28

Source: IHS Markit
However, digital transition is helping drive up cable TV ARPUs – up 17% in last 5 years

- The higher value of digital TV subscriptions has compensated for overall declines in cable TV customers
- Cable TV subscriptions were worth an average of €16.75 a month in 2017 – lower than satellite (€31.40/month) but higher than IPTV (€14/month)
The power of the bundle: cable operators have grown total ARPUs 21% in 5 years by selling more services
Cable’s loss has been IPTV and satellite’s gain, with telcos driving subscriber growth.
Cable broadly achieved solid growth in 2017, with broadband the star performer

Growth in key cable metrics in EU28, 2016-2017

Subscribers and revenue-generating units

<table>
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<th>Metric</th>
<th>% Change</th>
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<tr>
<td>Digital cable TV subscribers</td>
<td>13.5</td>
</tr>
<tr>
<td>Cable Internet subscribers</td>
<td>4.9</td>
</tr>
<tr>
<td>Cable telephony subscribers</td>
<td>3.5</td>
</tr>
<tr>
<td>Total cable RGUs</td>
<td>2.2</td>
</tr>
<tr>
<td>Total cable TV subscribers</td>
<td>-0.1</td>
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Revenues and average revenue per user

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<td>Cable Internet revenue</td>
<td>7.1</td>
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<tr>
<td>Total cable revenue</td>
<td>4.5</td>
</tr>
<tr>
<td>Cable ARPU</td>
<td>3.8</td>
</tr>
<tr>
<td>Cable TV ARPU</td>
<td>3.5</td>
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<tr>
<td>Cable Internet ARPU</td>
<td>1.5</td>
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<tr>
<td>Cable TV revenue</td>
<td>3.4</td>
</tr>
<tr>
<td>Cable telephony revenue</td>
<td>2.7</td>
</tr>
<tr>
<td>Cable telephony ARPU</td>
<td>-0.8</td>
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Source: IHS Markit
Cable has been a high-speed broadband pioneer with DOCSIS 3.0, kick-starting Next-Gen Access (NGA) broadband network deployments across Europe

- DOCSIS 3.0 services have been available to more than a third of homes in the EU big five for several years
- This has spurred competition – availability of NGA technologies in the these markets now exceeds 75%
- Telco rollouts have accelerated – VDSL now passes more homes than DOCSIS 3.0 in these markets

Note: NGA technologies typically deliver download speeds of at least 30 Mbps – some VDSL connections can drop below this (to around 24 Mbps), depending on the distance from the cabinet

Source: IHS Markit
But cable is doing a better job of maximising the return on its NGA investment, converting a higher percentage of subscribers to the faster top-tier technology.

- More than two-thirds of all cable broadband subscriptions in the EU big five are NGA, compared to around 15% for DSL.

**DOCSIS 3.0 and VDSL and as a % of total cable and DSL connections in EU big five**

Source: IHS Markit
DOCSIS 3.0’s success has put broadband on the path to becoming cable’s biggest revenue generator

Cable revenue by source in EU28

2010

- €3.7bn 20%
- €4.9bn 53%
- €4.9bn 27%

2017

- €4.9bn 20%
- €8.5bn 35%
- €11.1bn 45%

Source: IHS Markit
How important is content for a cable operator?
Pay-TV operator strategies reflect the increased competition for consumers’ time and spend

**CONTENT**
- Exclusive content
- Original programming

**VALUE ADD**
- Boxsets
  - Same day release

**INNOVATION**
- Advanced STBs, cloud based storage
- Partnerships beyond video

**ENTERING THE OTT SPACE**
- 3rd Party Apps
- Multiscreen
- Pay TV Lite
Pay TV operators, particularly telcos, are increasingly investing in original content

<table>
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<tr>
<th>Production &amp; Distribution</th>
<th>Altice Studio</th>
<th>Orange Studio</th>
<th>Telefonica Studio</th>
<th>All3 Media (50%), Lionsgate (3.4%)</th>
<th>Sky Vision</th>
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<td>€40m production budget for film</td>
<td>€100m content creation spend over 5 yrs</td>
<td>€100m investment for original production</td>
<td>€600m on originals content creation spend over 5 yrs</td>
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How much is a series ($)?

- Game of Thrones: $10m
- Marco Polo: $9m
- Narcos: $2.5m
- La Peste: $1.8m
- Title from local FTA: $0.66m
New online entrants are offering consumers unique content that, in many cases, complements pay TV

- Scale achieved is driving significant investment in original programming, perpetuating growth

![Original and acquired programming spend for selected groups](chart)

Source: IHS Markit
But it is not only pay TV operators investing in content

Apple to spend $1bn on original content and produce up to 10 new shows over the next year.
Major online services are operating consumer facing services at unprecedented global scale

Number of countries & territories with consumer video services

- Netflix
- Amazon
- iTunes
- BeIN Media
- Liberty Global
- DirecTV
- Sky
- Telefónica
- Deutsche Telekom
- Vodafone
- Comcast
Attitudes to Netflix have softened – pay TV’s ‘frenemy’

2013
Virgin Media (UK)
Com Hem (Sweden)
Wao (Denmark)

2014
Atlantic Broadband (US)
Grande (US)
RCN Corp (US)
Suddenlink (US)
GCI (US)
Midcontinent (US)
Cable ONE (US)
Proximus (Belgium)
Bouygues (France)
Orange (France)
Deutsche Telekom (Germany)
BT (UK)
Dish (US)

2015
TalkTalk (UK)
Optus/Fetch TV (Australia)
Elisa (Finland)
Totalplay (Mexico)
Telecom Italia (Italy)
Vodafone (Spain)
KPN (Netherlands)
Vodafone (Portugal)
Bell (Canada)

2016
SingTel (Singapore)
Vodafone (Ireland)
PCCW (Hong Kong)
StarHub (Singapore)
D’Live (South Korea)
Comcast (US)
Liberty Global (global)
Telia (Finland, Sweden)
Orange (Spain)

2017
Telenor (global)
Bharti Airtel (India)
Videocon (India)
Partner (Israel)
Altice (global)
Telekom Malaysia (Malaysia)
DNA (Finland)
Orange (global)
Cox (US)
Deutsche Telekom (global)
Verizon (US)

Strategic goals of online video partnerships for pay TV operators

Support subscriber acquisition by enhancing content offering – including 4K content
Upsell customers to higher-tier bundles with higher-spec CPE
Boost the appeal of high-speed broadband required for streaming video
Boost customer satisfaction/loyalty and reduce churn
Conclusions and recommendations:

• Cable companies should continue to invest in infrastructure to make sure that they provide fast and reliable connections

• Make ‘frenemies’ of new online channels that add value to your customers’ subscriptions

• But also consider going beyond partnerships – be on the look out for strategic investment opportunities

• Seek opportunities to execute a pay TV strategy of your own – don’t lose touch with the mobile-first generation

• Focus on the core, high-ARPU bundled proposition by delivering on the promise of anytime-anywhere TV and video

• Invest in new video technologies and standards; metadata, voice, personalization, smart home.
Thank you

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