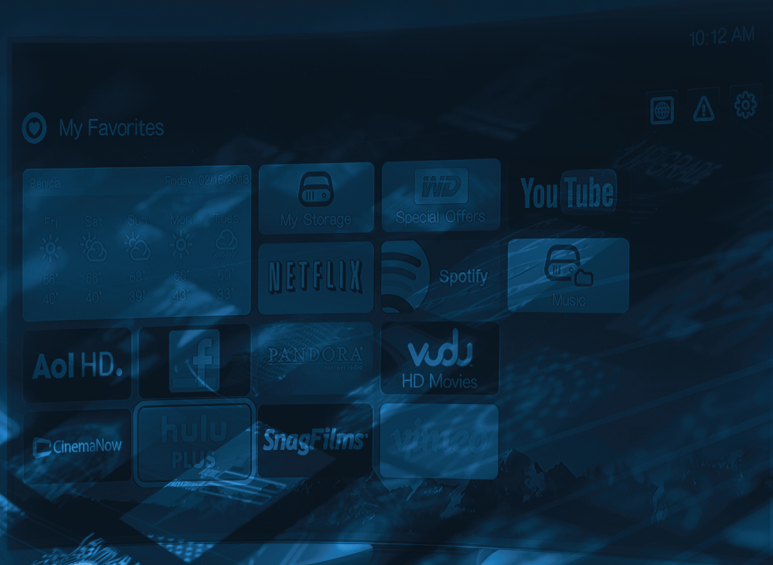


Market Snapshot: The Changing World of Pay TV

A Parks Associates Snapshot



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The Changing World of Pay TV

Television industry participants are grappling with the new realities of the US pay-TV industry. Traditional pay-TV providers (MVPDs) have faced continued subscriber losses due to increasing consumer choice from OTT services.

70% of US broadband households now subscribe to at least one OTT service.

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Urgency to change the pattern of subscriber losses is increasing. Consolidation has created large, innovative, integrated companies that impact creation, licensing, and distribution of live channels and content assets. New online competitors, virtual MVPDs, have created a new segment of competition within pay TV with packages of content and features that differ, in some cases significantly, from traditional service offerings.

These trends have a significant impact on broadcasters and cable networks. While the US market includes more licensing customers (pay-TV providers), the pricing pressure for consumer services is forcing increasing conflict in carriage negotiations. Such conflicts fuel the interest in continued vertical and horizontal consolidation in order to achieve greater scale, leverage, and control.

Satellite service providers AT&T and DISH Network have established a lead in vMVPD subscribership, but rivals including Hulu and YouTube are eager to close the gap.



US Pay TV: A Giant Slowly Sinking

Pay TV remains a dominant force in the US television entertainment marketplace. Despite the rise of OTT video services, new viewing habits, and the variety of devices available to receive video content, the US pay-TV market is still formidable.

Approximately 95 million US households currently subscribe to pay TV.

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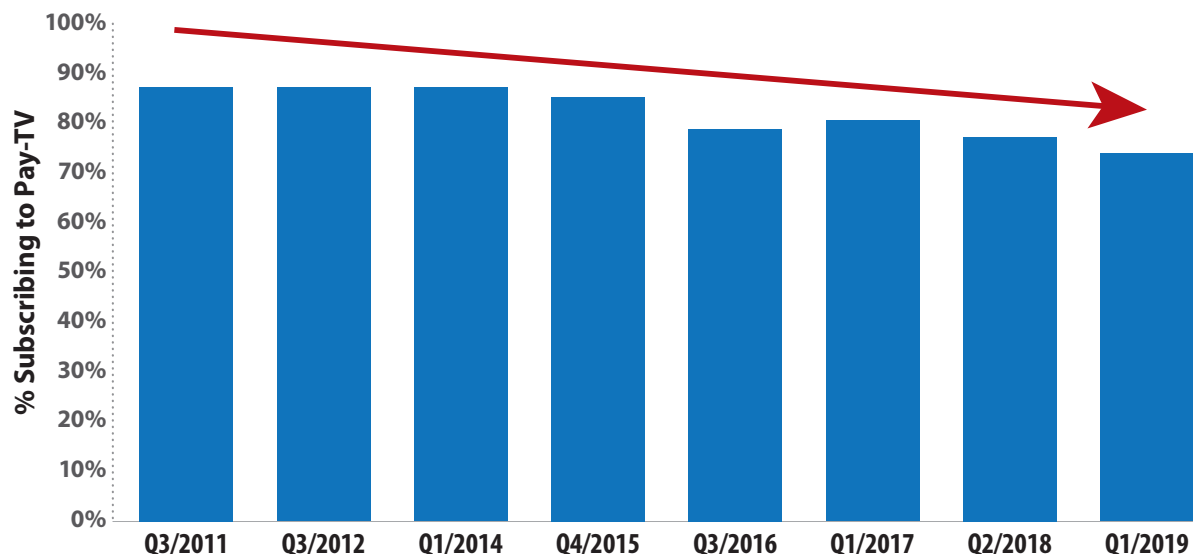
However, the ongoing changes in the market and new, low-cost alternatives are taking their toll. Pay-TV penetration, in slow decline since 2014, is now falling at a faster rate than ever before.

While the overall trend of operator subscriber losses is common knowledge in the industry, the rate of change is interesting. Overall penetration among broadband households in mid-2018 is statistically similar to that of late 2016, suggesting that pay-TV losses are slightly greater than the number of new households created. That decline increased in early 2019.

The total penetration of pay TV includes households with traditional subscriptions, online pay-TV subscriptions, and subscriptions included within rent/housing fees.

Pay-TV Service Subscriptions (2011-2019)

Among US Broadband Households



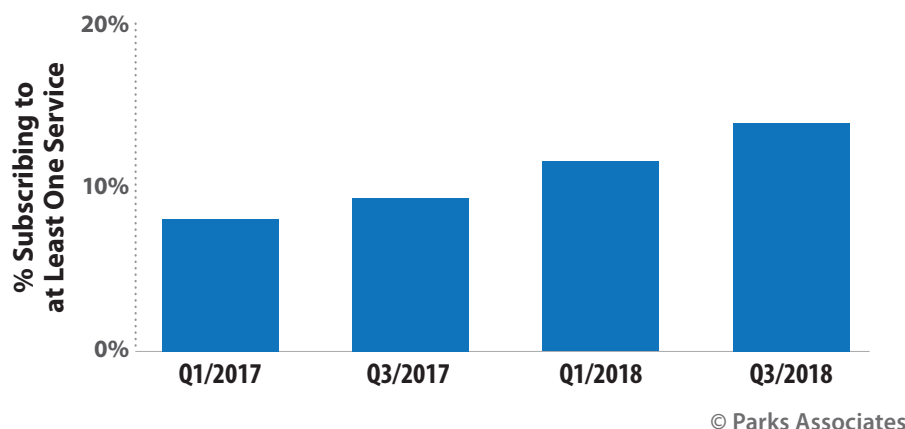
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Subscriptions to vMVPD services have doubled over 18 months, making it one of the fastest growing sectors in the TV marketplace. Monthly fees are lower for online pay-TV subscriptions than for traditional pay TV, but providers find lower average revenue per user (ARPU) preferable to cord-cutting.

vMVPDs, or pay-TV service providers that offer online versions of traditional cable TV, continue to gain subscribers at a rapid pace.

Overall vMVPD Service Adoption (2017-2018)

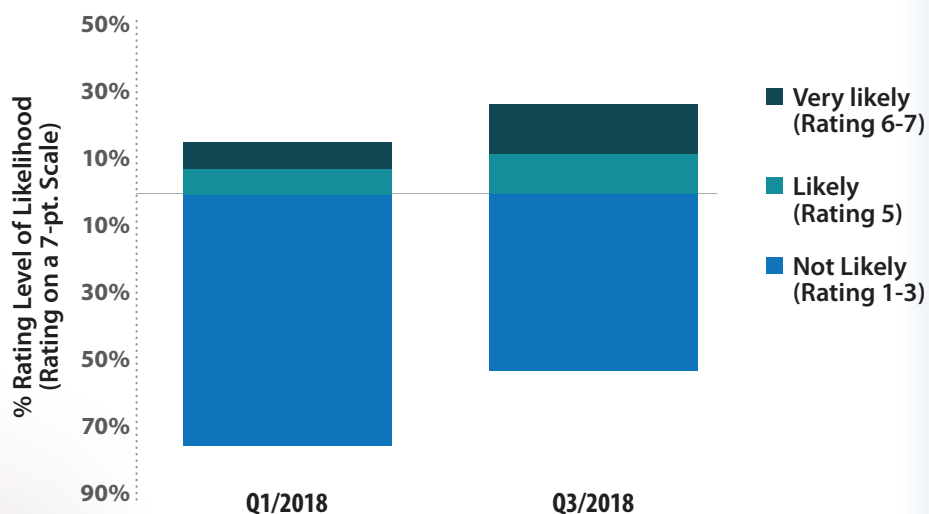
Among US Broadband Households



These trends are the result of successful marketing of vMVPD services. OTT services are now staples in millions of households, and as their influence continues to increase, more households will be willing to scale down their pay-TV service from a traditional service to a skinny bundle.

Likelihood to Subscribe to an Online Pay-TV Service (2018)

Among US Broadband Households Not Subscribing to Online Pay TV in Specified Groups



Awareness of online pay-TV services is growing; so are subscription intentions. High intention to subscribe to an online pay-TV service doubled in less than a year.

Upgraders, Downgraders, Switchers

For now, households in general are keeping their pay-TV services when adding an OTT service, and the addition of an OTT service is part of an overall push toward more content and service options.

Pay-TV downgraders are less likely to subscribe to an OTT service than switchers, upgraders, or new subscribers.

- Downgraders have reduced the features taken and the price paid in the past year.
- Upgraders have increased features and amount paid. Upgraders are likely to be content buyers overall and willing to pay for content access regardless of source.
- Switchers changed their provider in the past year.

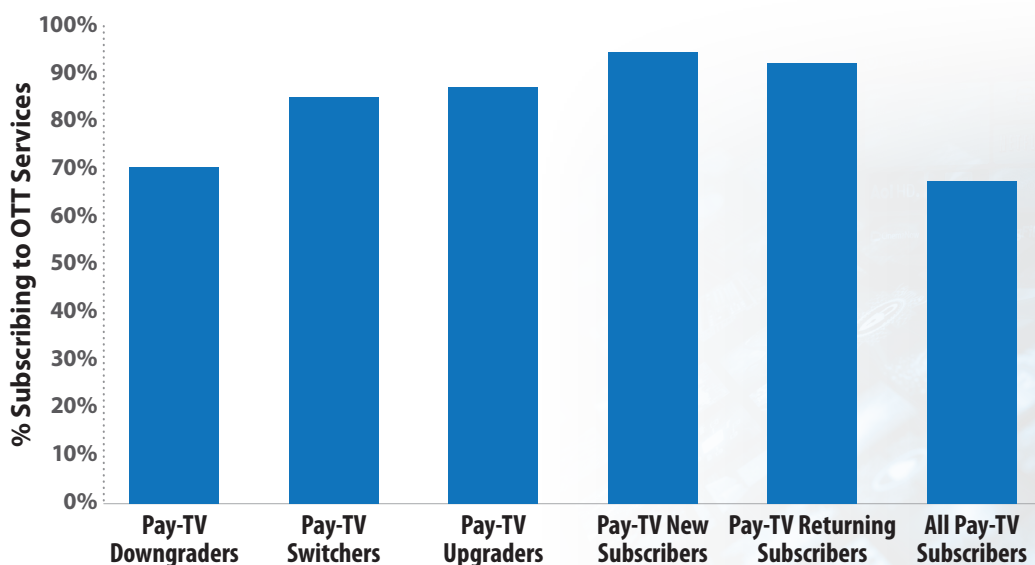
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58% of pay-TV subscribers made no change to their services in the past year.

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Uptake of OTT Services by Pay-TV Subscription Groups

Among US Pay-TV Service Subscribers



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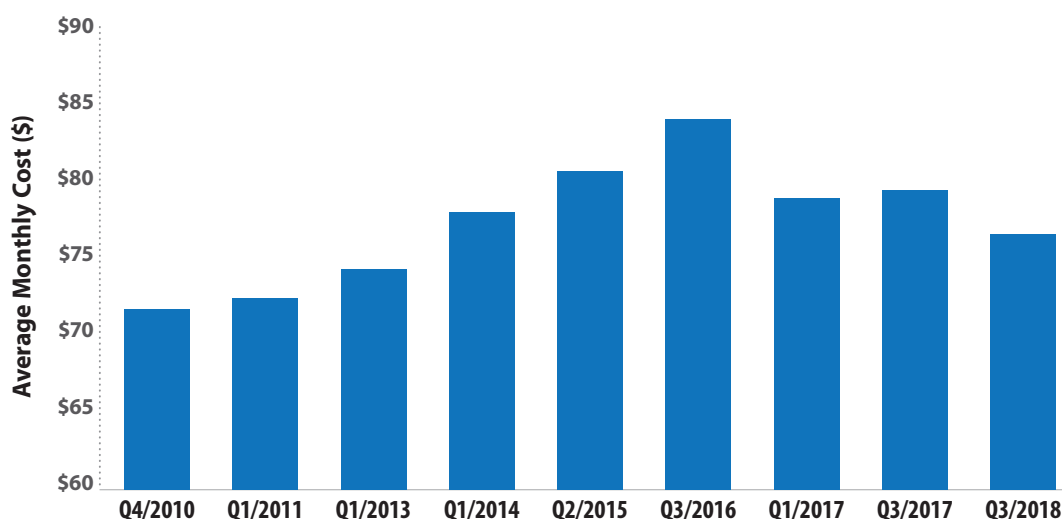
Revenues and User Expenditures

Standalone pay-TV ARPU has fallen since late 2016, likely due to downgrading and the introduction of skinny bundles and vMVPD services.

The average standalone pay-TV service ARPU declined 10% from 3Q 2016 to 3Q 2018.

Pay-TV Service ARPU (2010-2018)

Among Those with US Pay-TV Service Not in a Bundled Package, Outliers Excluded

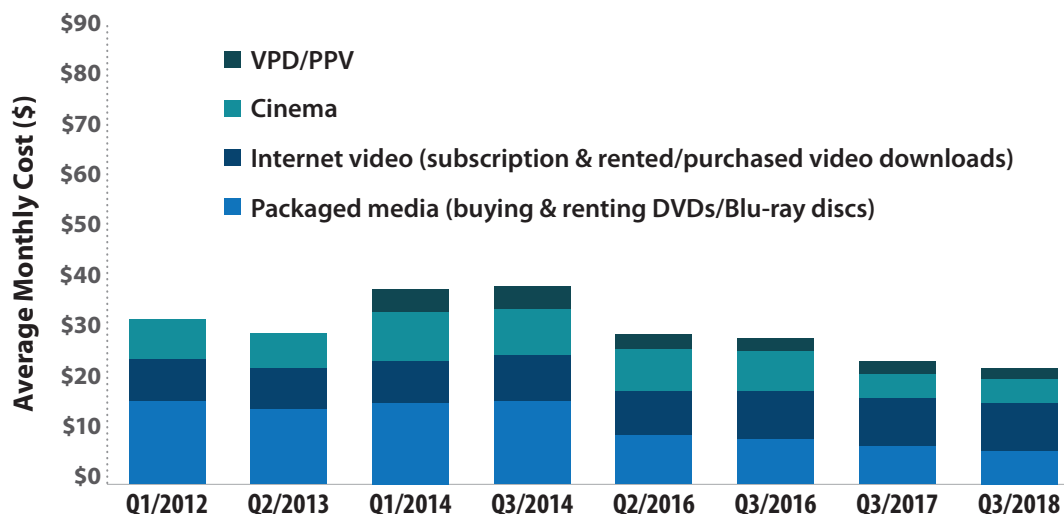


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Household expenditure on non-pay-TV home video entertainment has declined nearly 30% per month over the past seven years.

Average Household Expenditure on Home Video Entertainment by Video Sources (2012-2018)

Among US Broadband Households



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The movie theater has seen significant declines, with reported expenditures dropping by 50% from 2014. Packaged media has experienced a 67% decline over the past seven years.

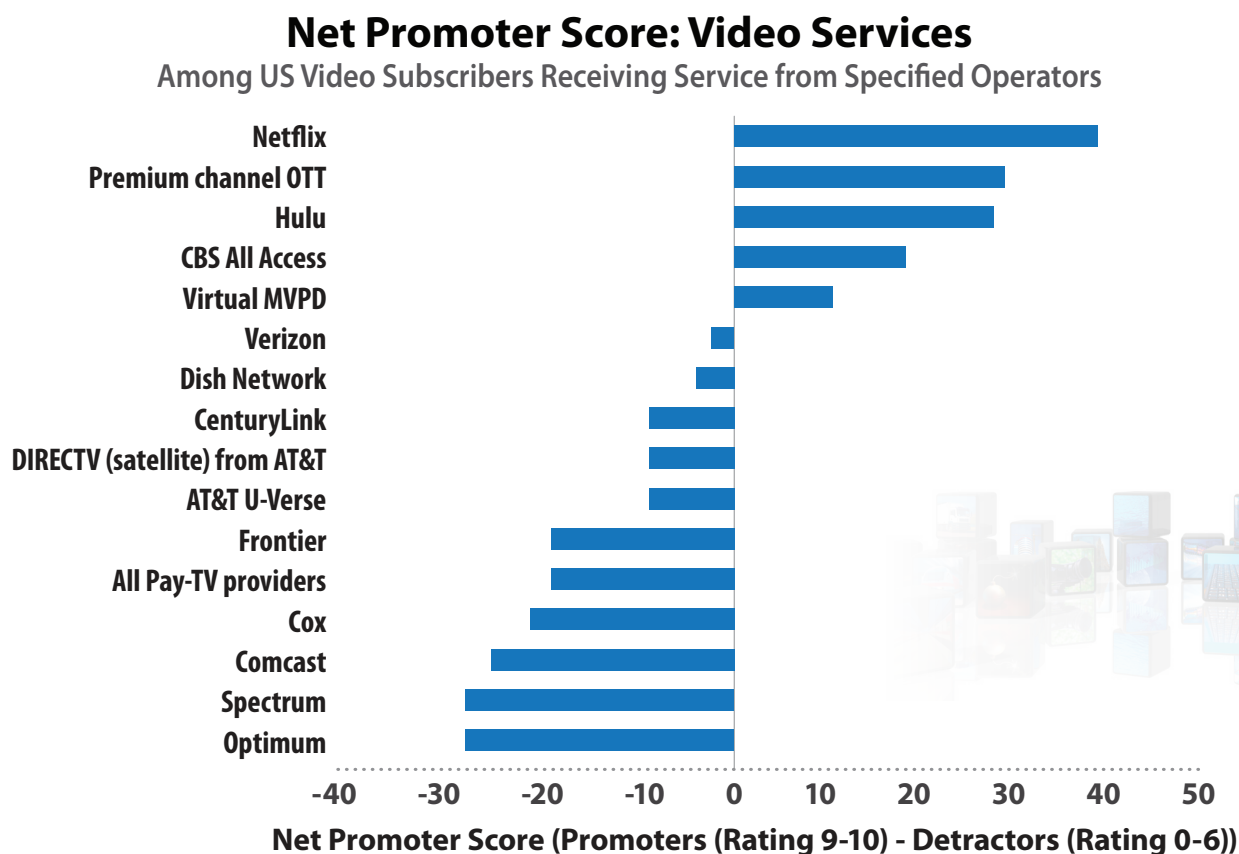
The only "winner" is internet video, showing the power of streaming and downloading content in US households.

NPS and Customer Satisfaction

Pay-TV service providers earn terrible NPS scores compared to OTT video service providers.

Satellite operators and telcos (with the exception of Frontier) have NPS scores that are better than cablecos, though their figures are still negative. Reasons vary from the cost perception, program choice, and service quality.

OTT video services focus on content and user experience but have little control over the networks their services travel across. Operators are responsible for complex network operations, the overall user experience, and the content.



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Comcast, AT&T, and DISH Network, among others, are raising prices for various elements of their services. This is occurring as cord-cutting remains an issue. Whether these increases, reported to reflect the channel carry payments, will cause a new round of cord-cutting remains to be seen. Online pay-TV services have also raised their prices in order to achieve greater profitability (or sustainability).

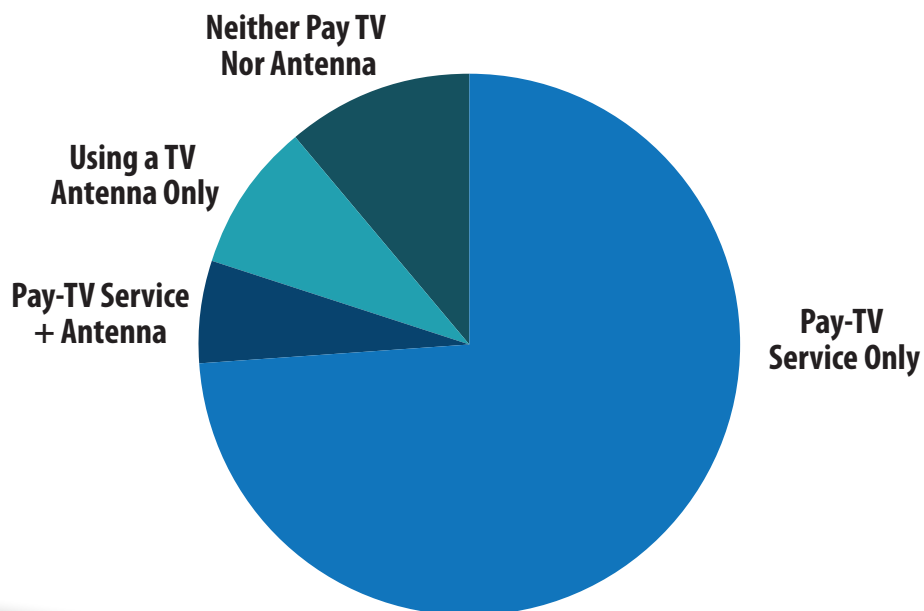


OTA Antennas Still Viable

Approximately 15% of US broadband households use an antenna to access over-the-air (OTA) broadcasts.

Over half of antenna users do not subscribe to a pay-TV service, either traditional or vMVPD. However, many antenna users have both pay TV and antennas. These households likely use antennas for secondary televisions in the home or to supplement vMVPD services that do not have local broadcast channels. Over half of non-pay-TV households use an antenna.

TV Service Breakdown: Pay-TV & Antenna Segments Among US Broadband Households



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About The Author



Brett Sappington, *Senior Research Director and Principal Analyst, Parks Associates*

As Senior Research Director and Principal Analyst, Brett Sappington leads Parks Associates research practice for entertainment, broadband access, and consumer electronics markets. His personal and custom research focuses on trends and technology innovations among major service providers, content producers, networks, and technology vendors and the market forces affecting their businesses. Brett is an internationally recognized thought leader in the television, broadband, and online video service industries.

Brett has spent over twenty years in the industry as an analyst, executive manager, and entrepreneur for companies specializing in cloud, communication, and IP-related technologies. He founded a successful networking technology startup, built new divisions of wireless networking and audio software products, and was involved in the development and marketing of early-market products for Wi-Fi, VoIP, video-over-IP and other technologies.

Brett holds an MBA from the University of Texas at Austin with a concentration in high-tech marketing and a BA in physics from Baylor University.

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Parks Associates is an internationally recognized market research and consulting company specializing in emerging consumer technology products and services.

Founded in 1986, Parks Associates creates research capital for companies ranging from Fortune 500 to small start-ups through market reports, primary studies, consumer research, custom research, workshops, executive conferences, and annual service subscriptions.

The company's expertise includes the Internet of Things (IoT), digital media and platforms, entertainment and gaming, home networks, Internet and television services, digital health, mobile applications and services, support services, consumer apps, advanced advertising, consumer electronics, energy management, and home control systems and security.

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