The Future of TV in OTT world: A survival guide

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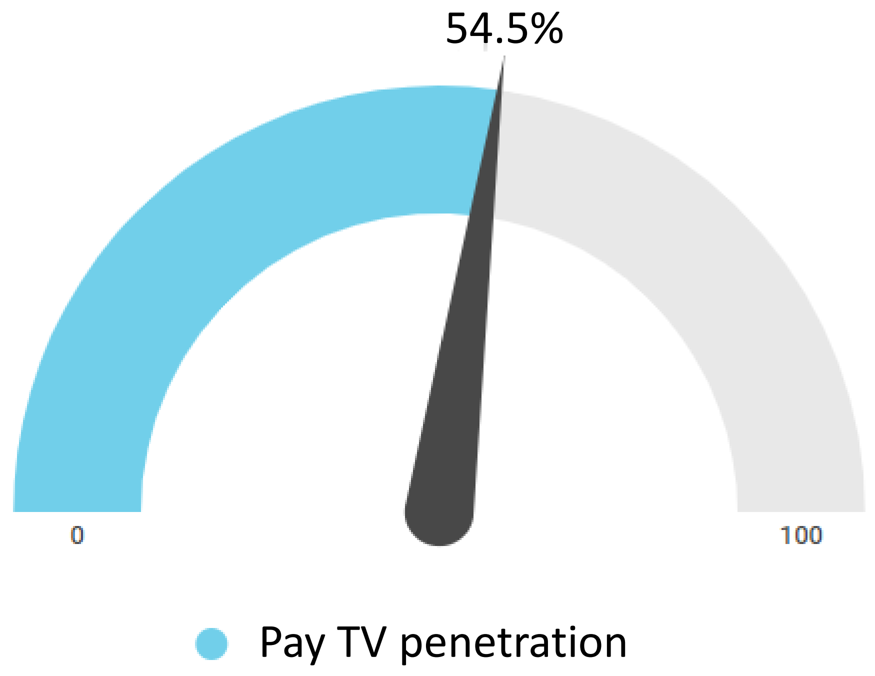
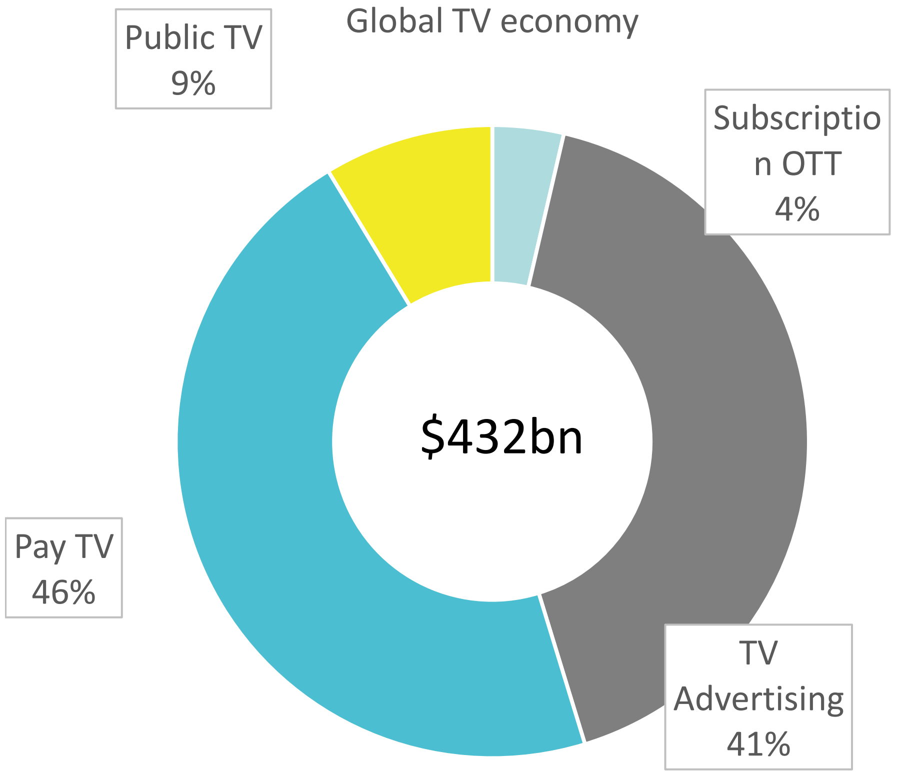
August 2017

Russia and the Baltics in context

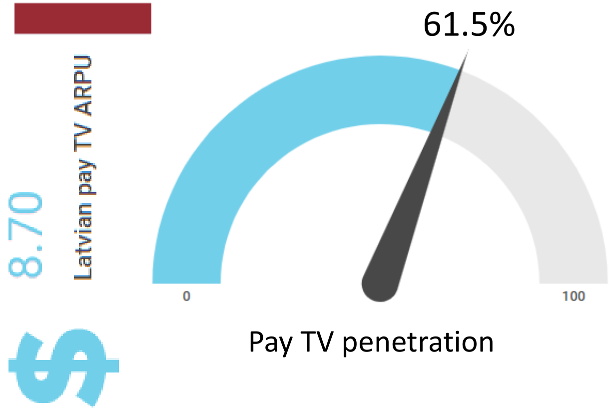
The Baltics and Russia in perspective: Global averages

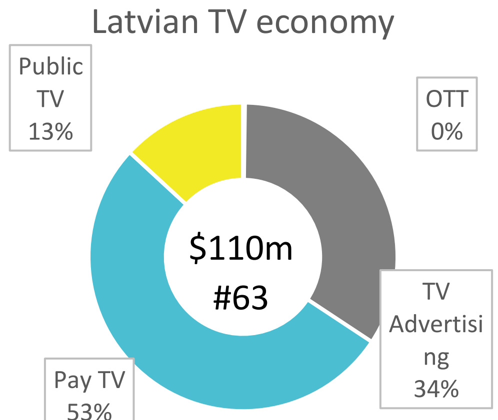
18.39
Global average pay TV ARPU

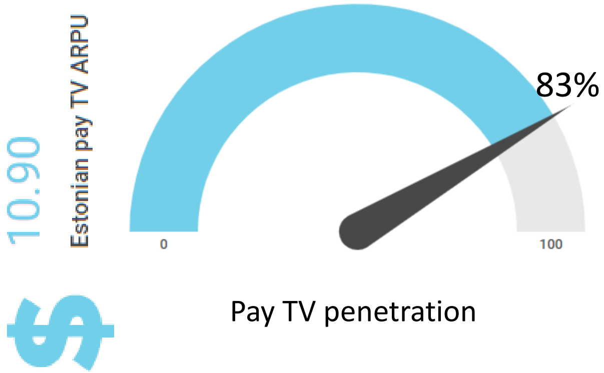


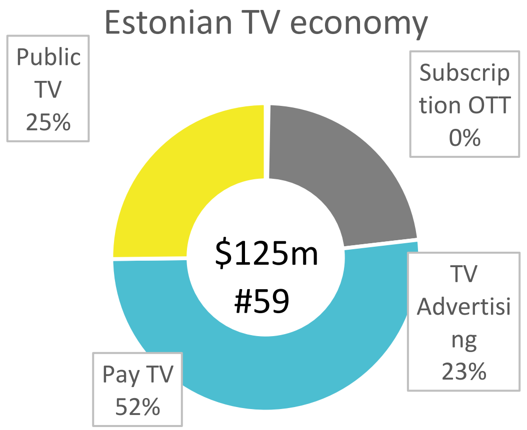


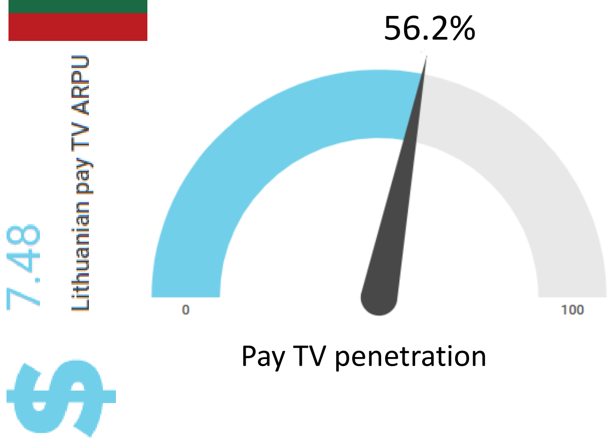
The Baltics and Russia in perspective: Local position

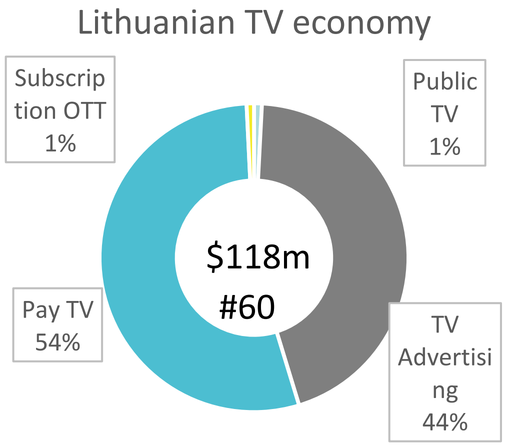


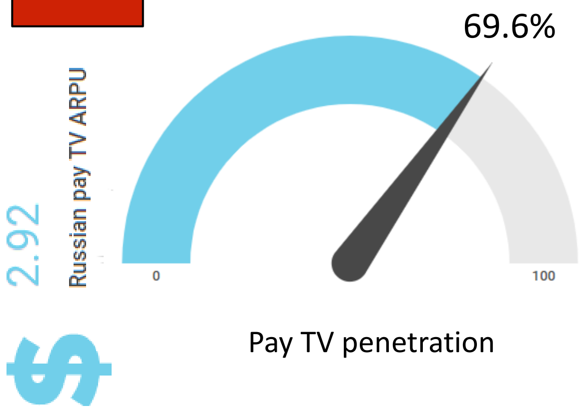


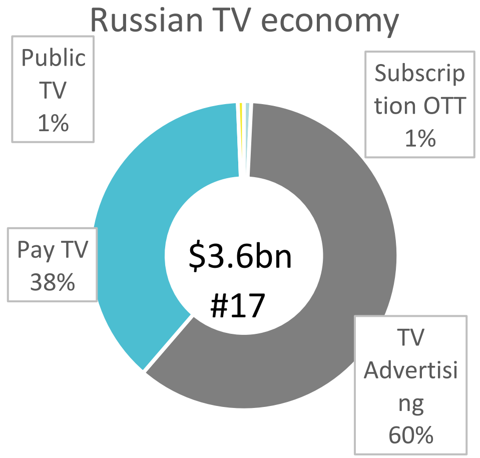




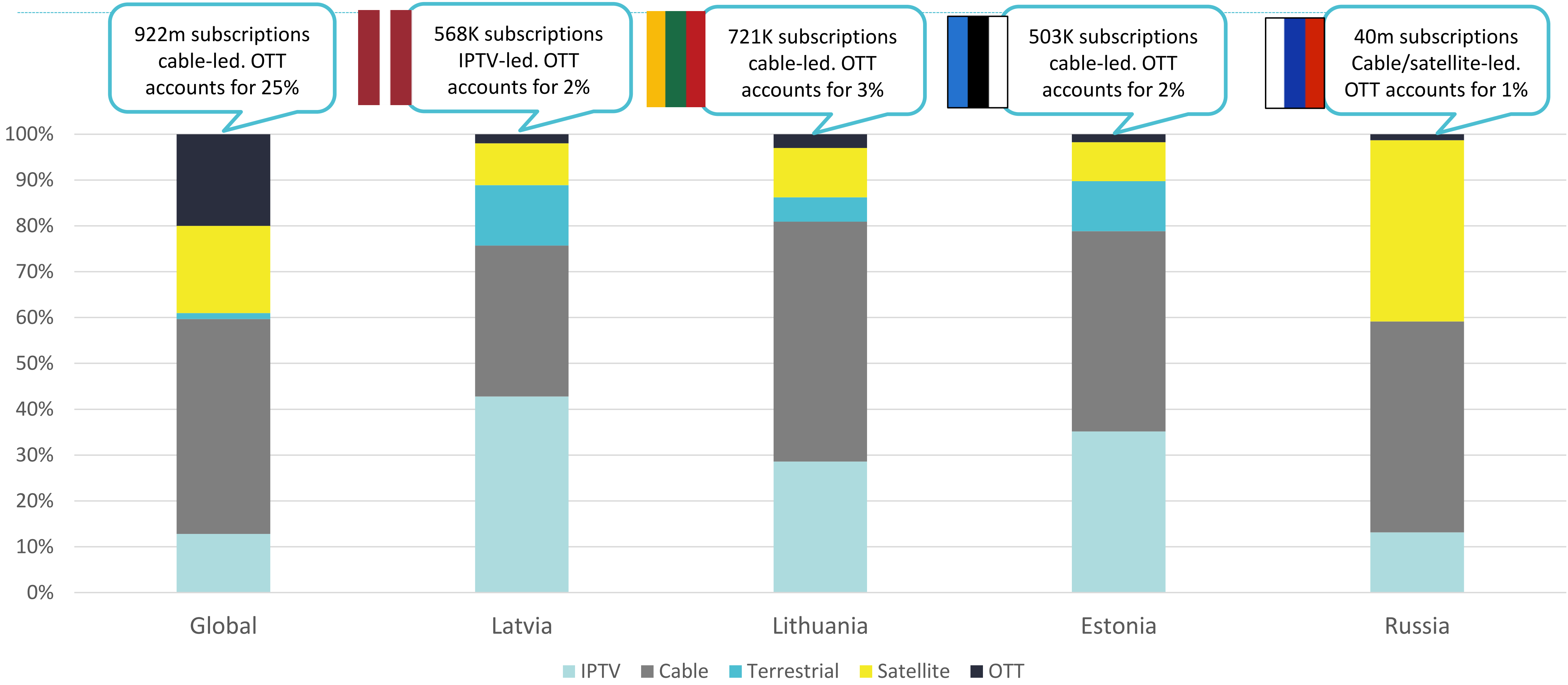




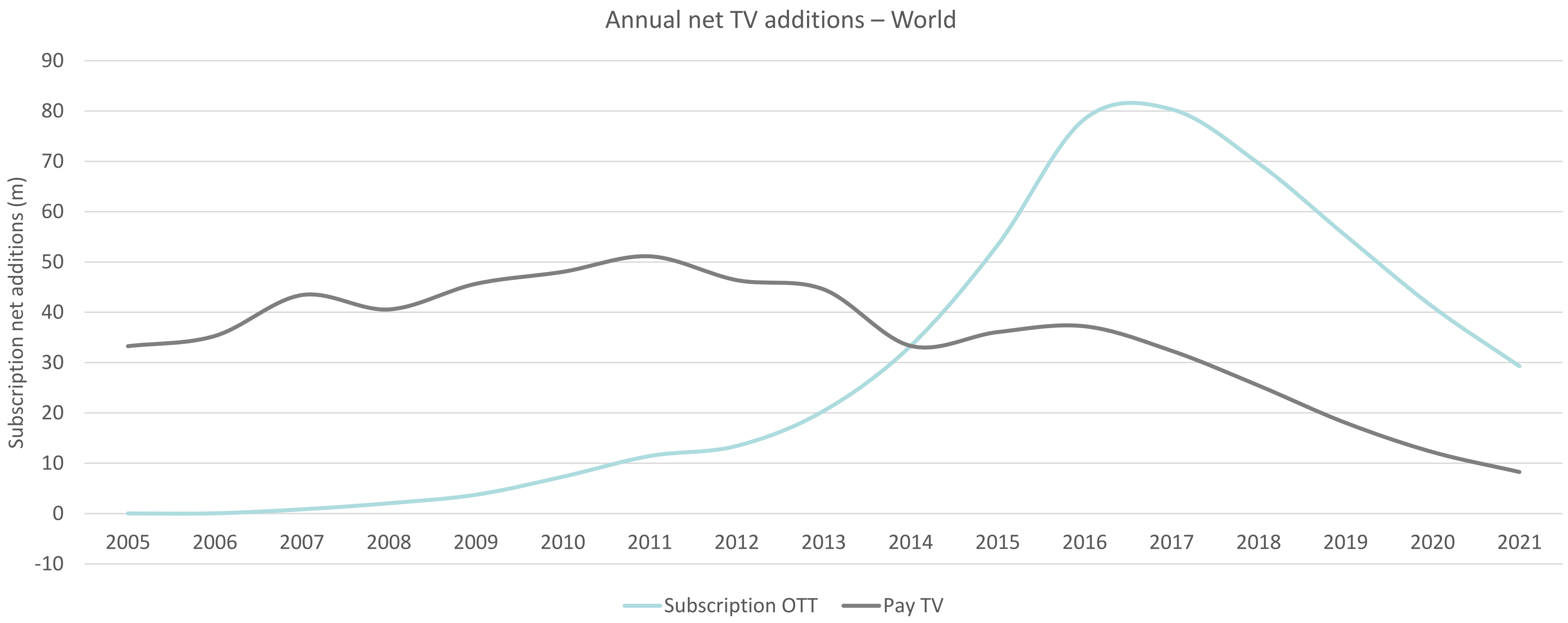




Platform mix: OTT platforms currently minor players in the region



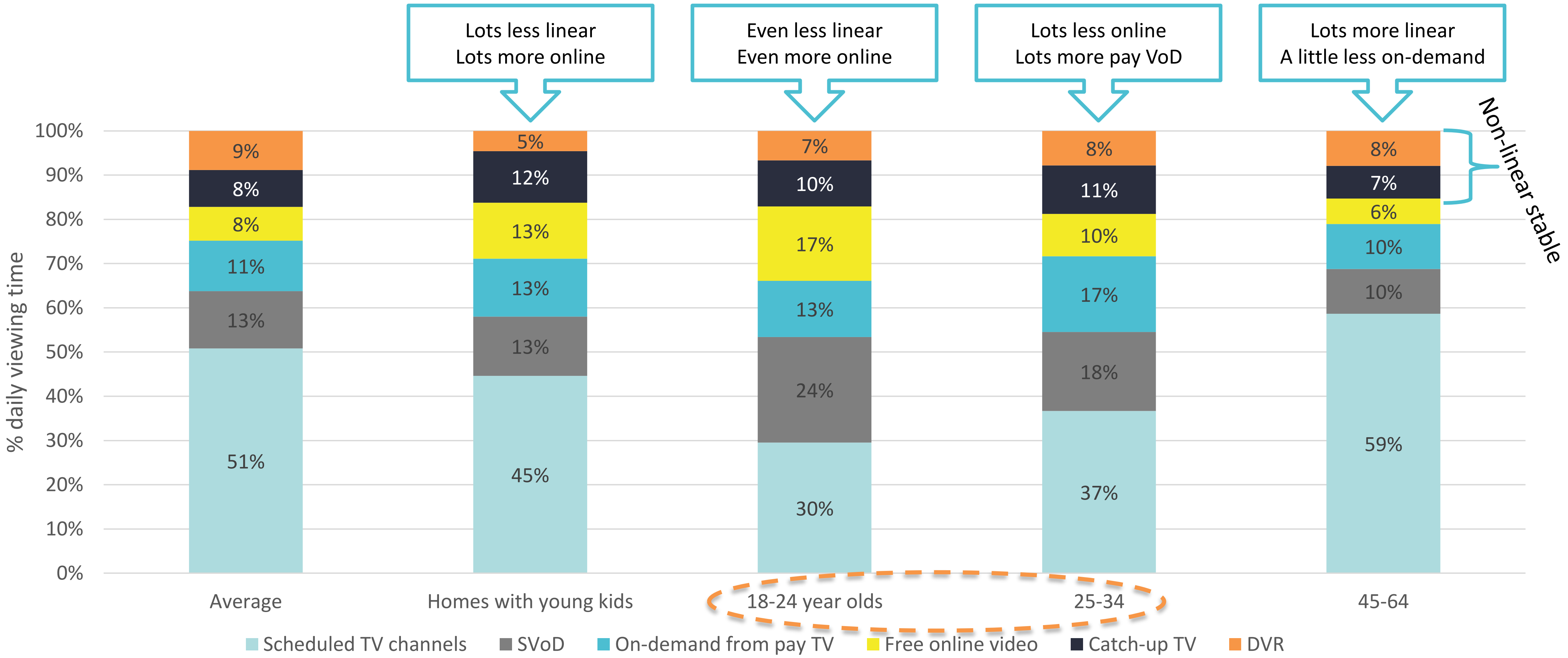
But globally the market is changing: All operators must evolve



OTT: Over the Top (meaning delivered over the open Internet)

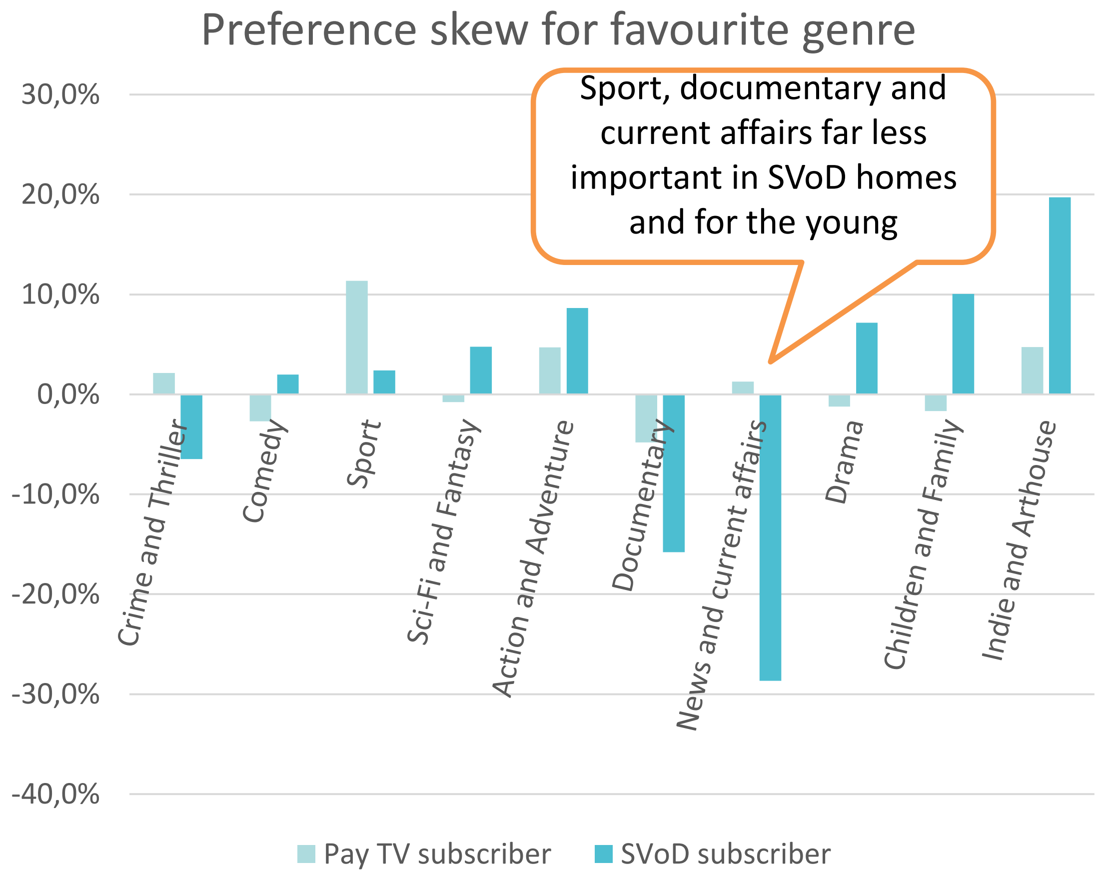
Strategy 1: Understand how the market (and viewer) is changing

‘Continuing behaviour’ shows viewing changes not just about Millennials

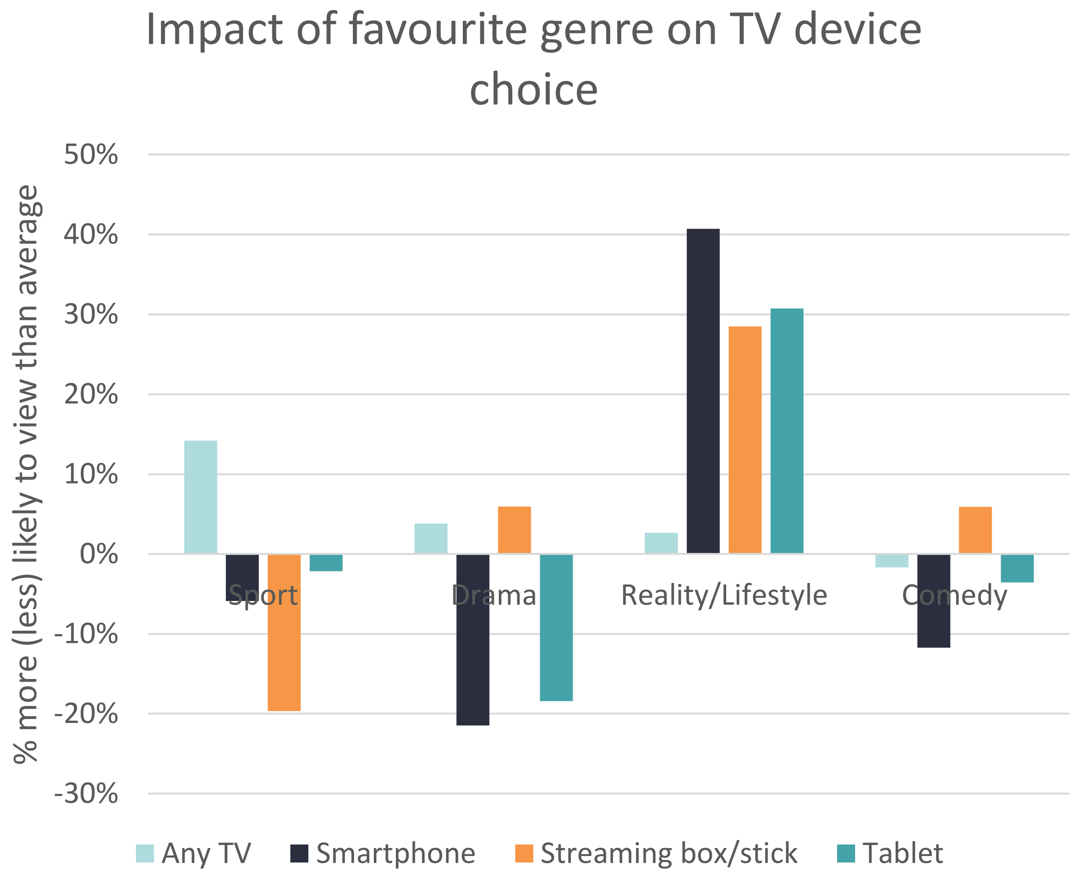


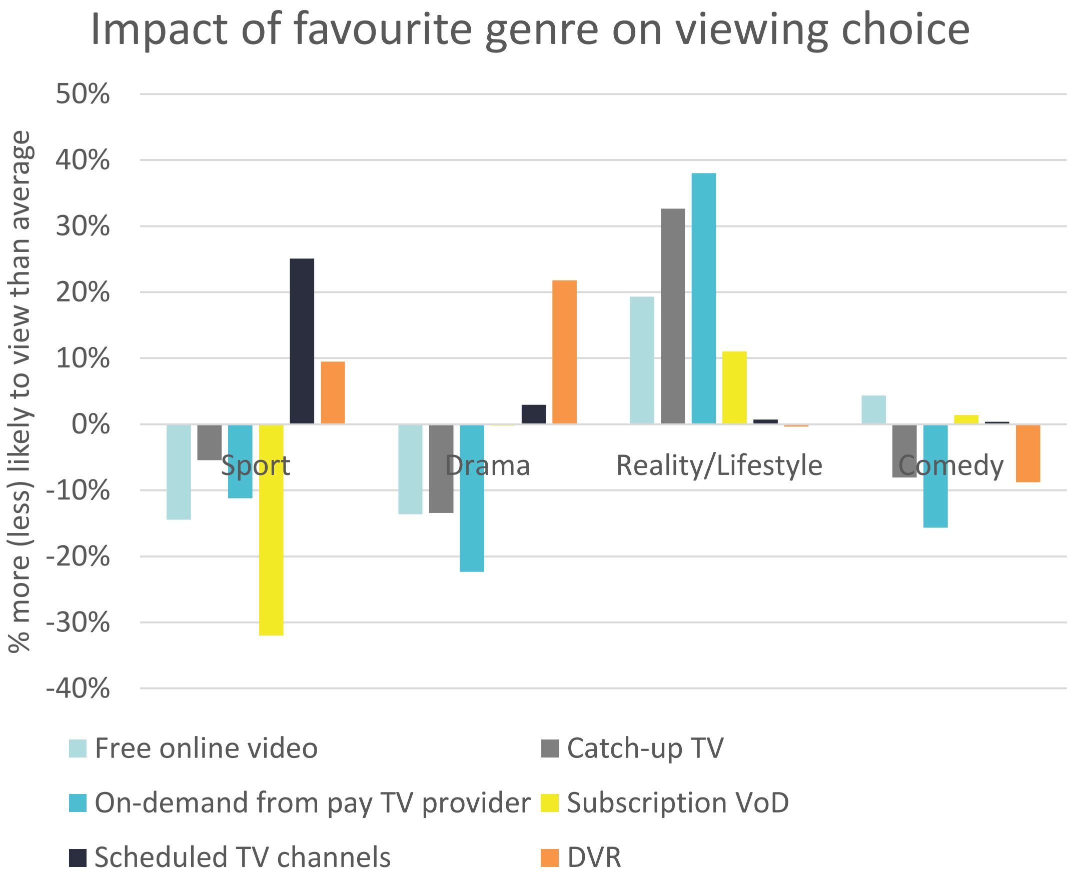
Based on analysis of 21,000 consumes in Europe and the USA. Q1 2017.

Content drivers for subscription TV also changing



And fans of different content, watch differently

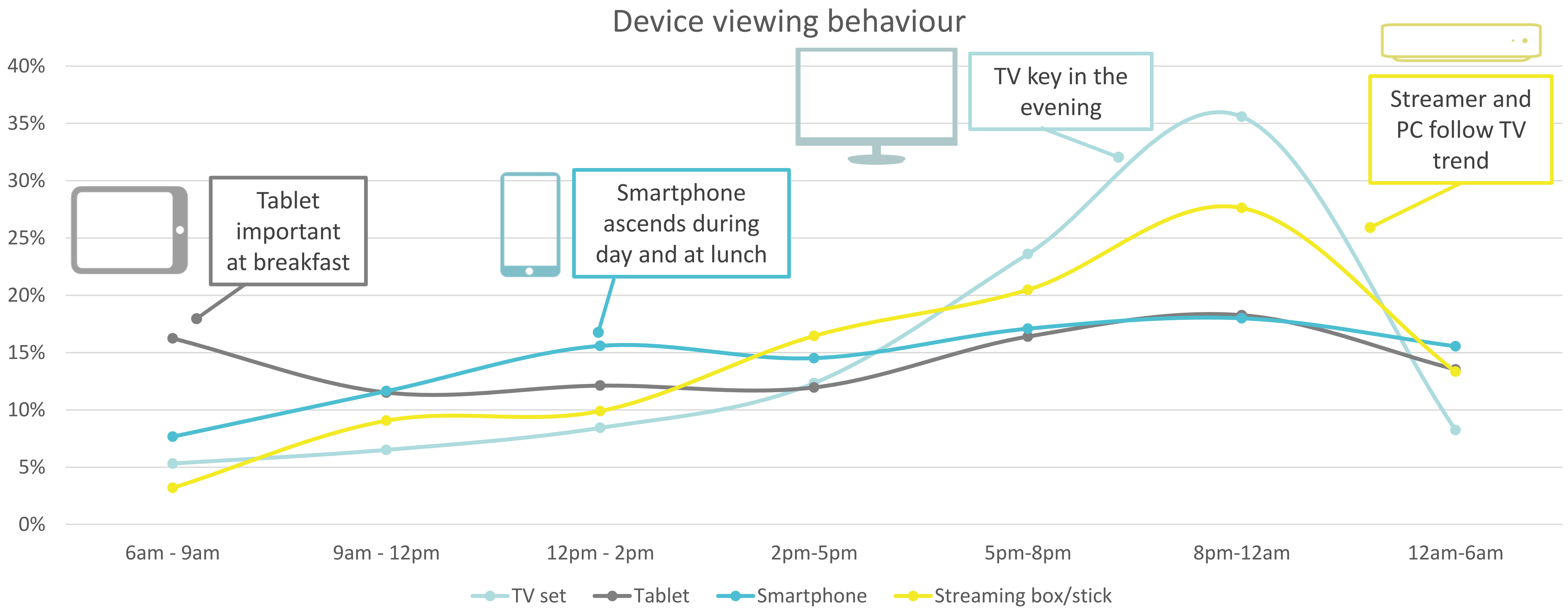




Based on respondents who chose stated genre as favourite in ten markets across Europe and the USA. Excludes Brazil, Turkey and Saudi Arabia. Q1 2017.

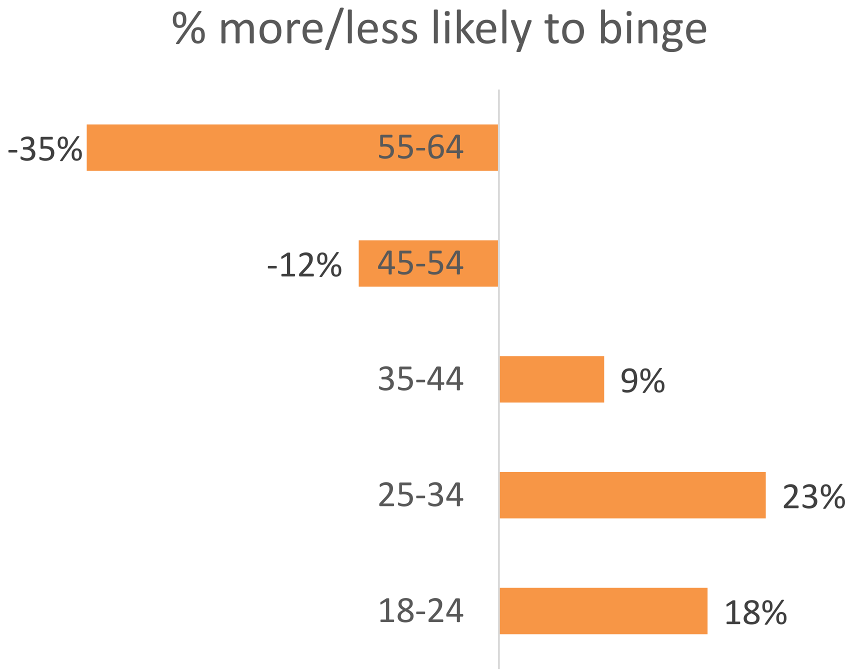
Strategy 2: Go where the audience goes

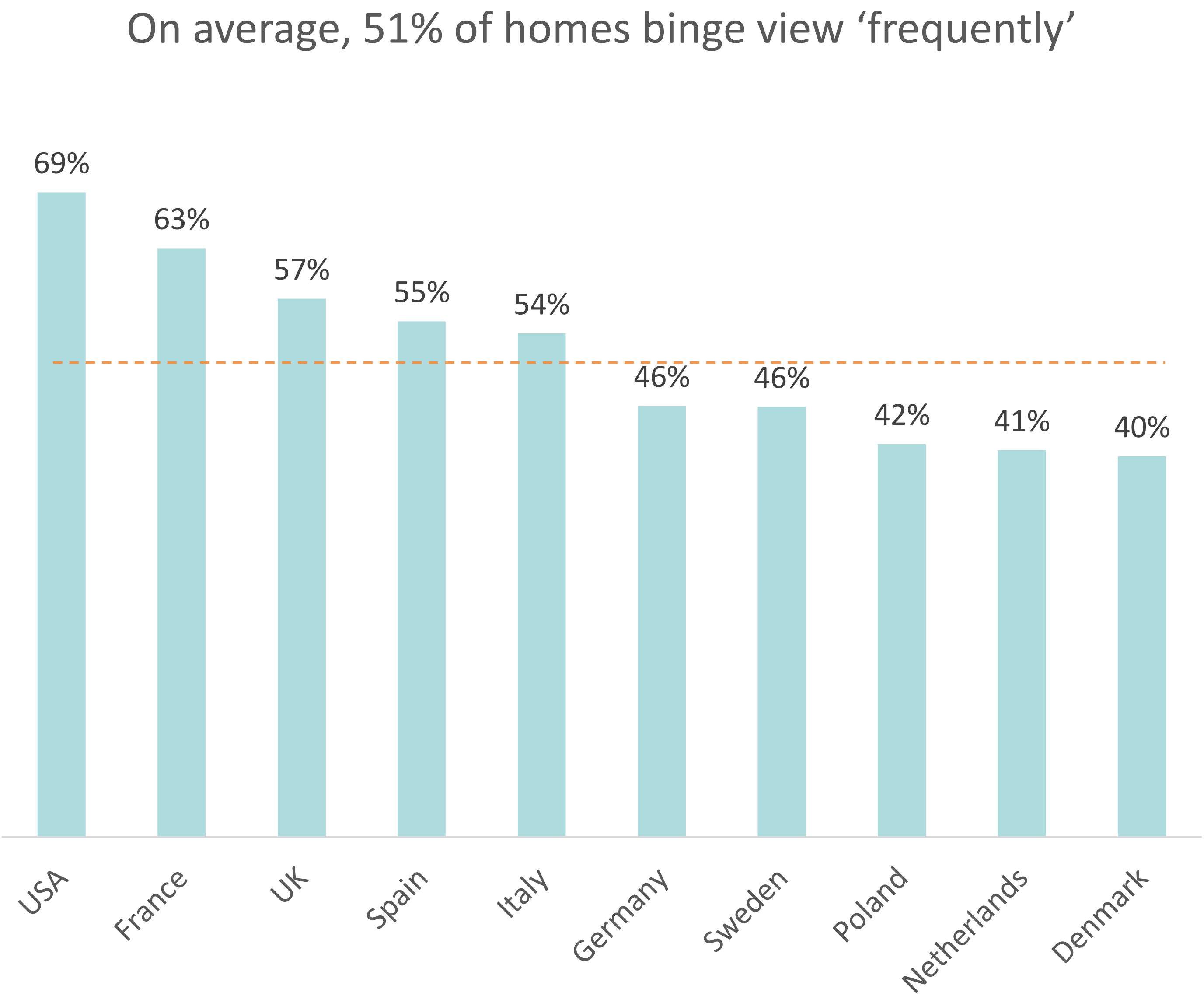
Device behaviour has created a range of ‘primetimes’



Based on 11 markets across Europe, USA, Brazil

Binge viewing is now ubiquitous – particularly among young consumers

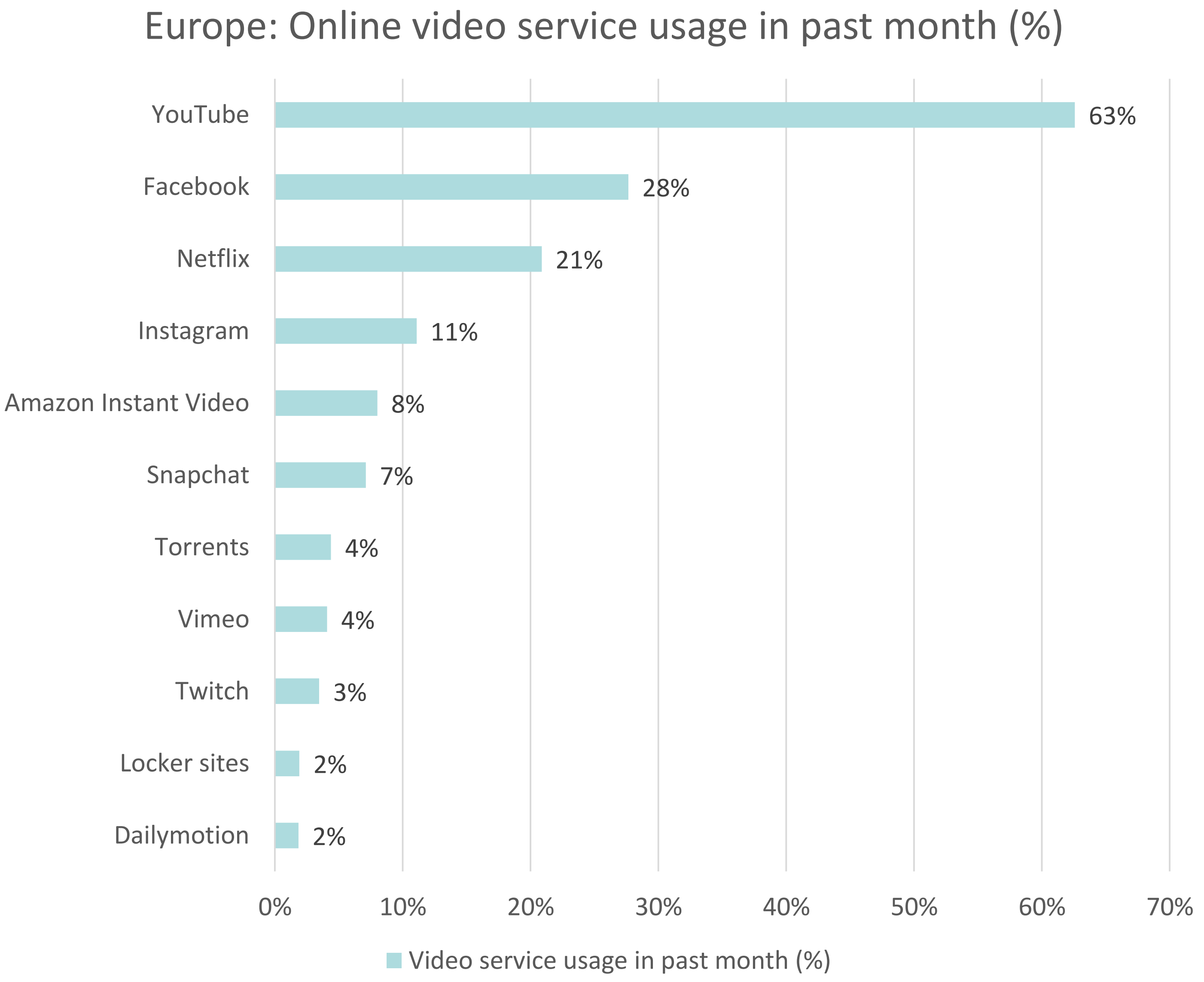




Blended average for UK, USA, ES, SE, Q1 2017.

Source: Ampere Consumer. Q1 2017.

‘TV’ destinations are evolving



With 'digital native' platforms aligning strongly around age

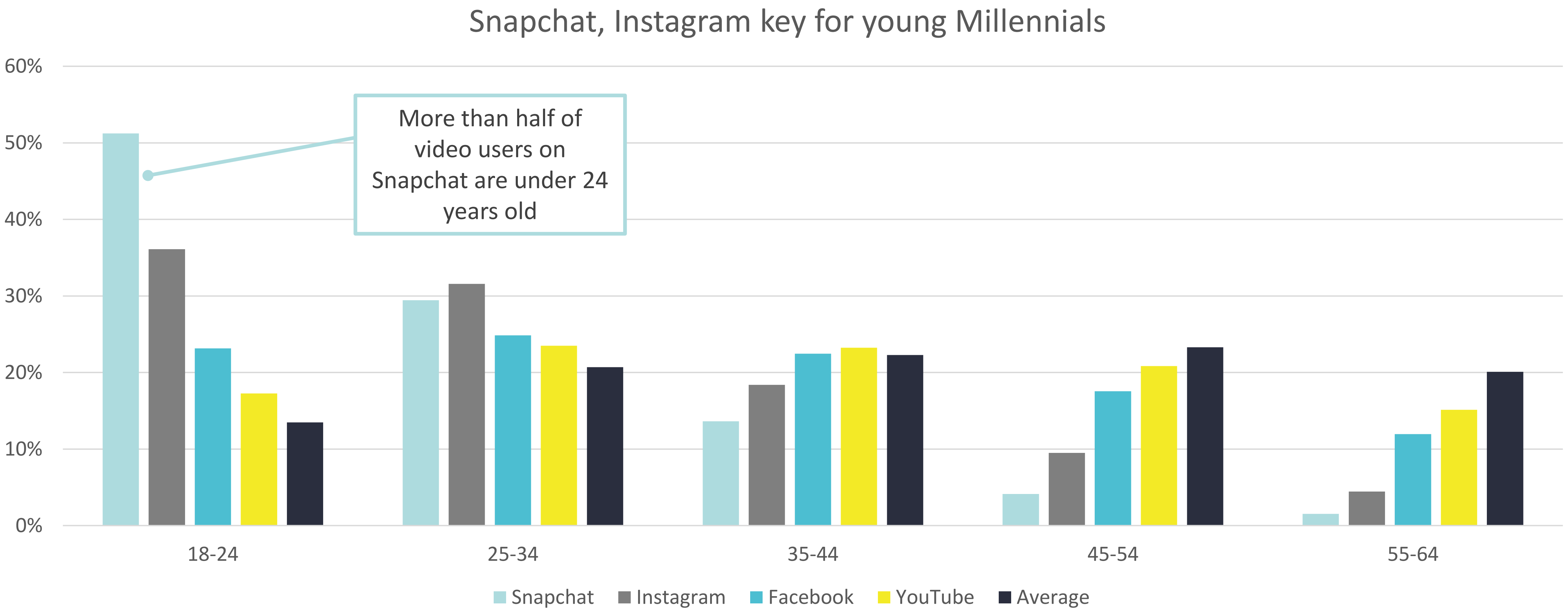
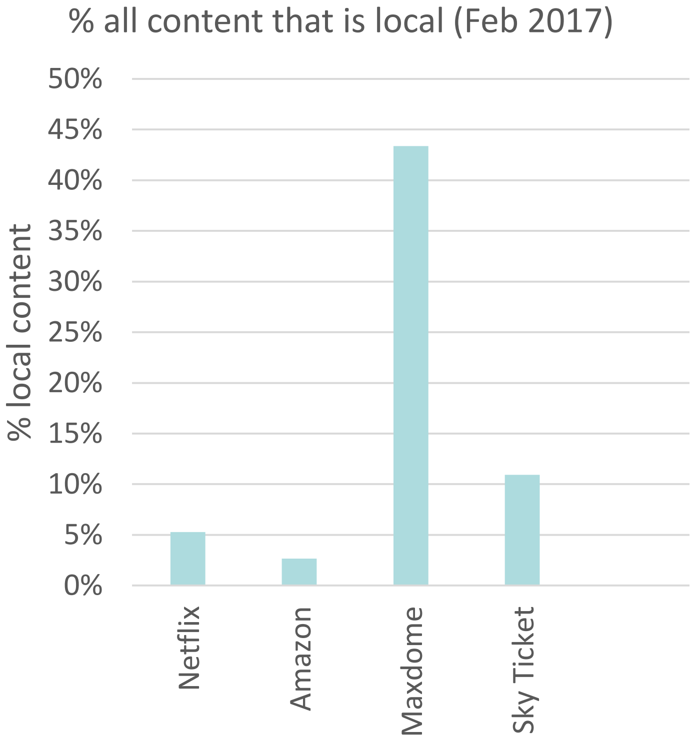
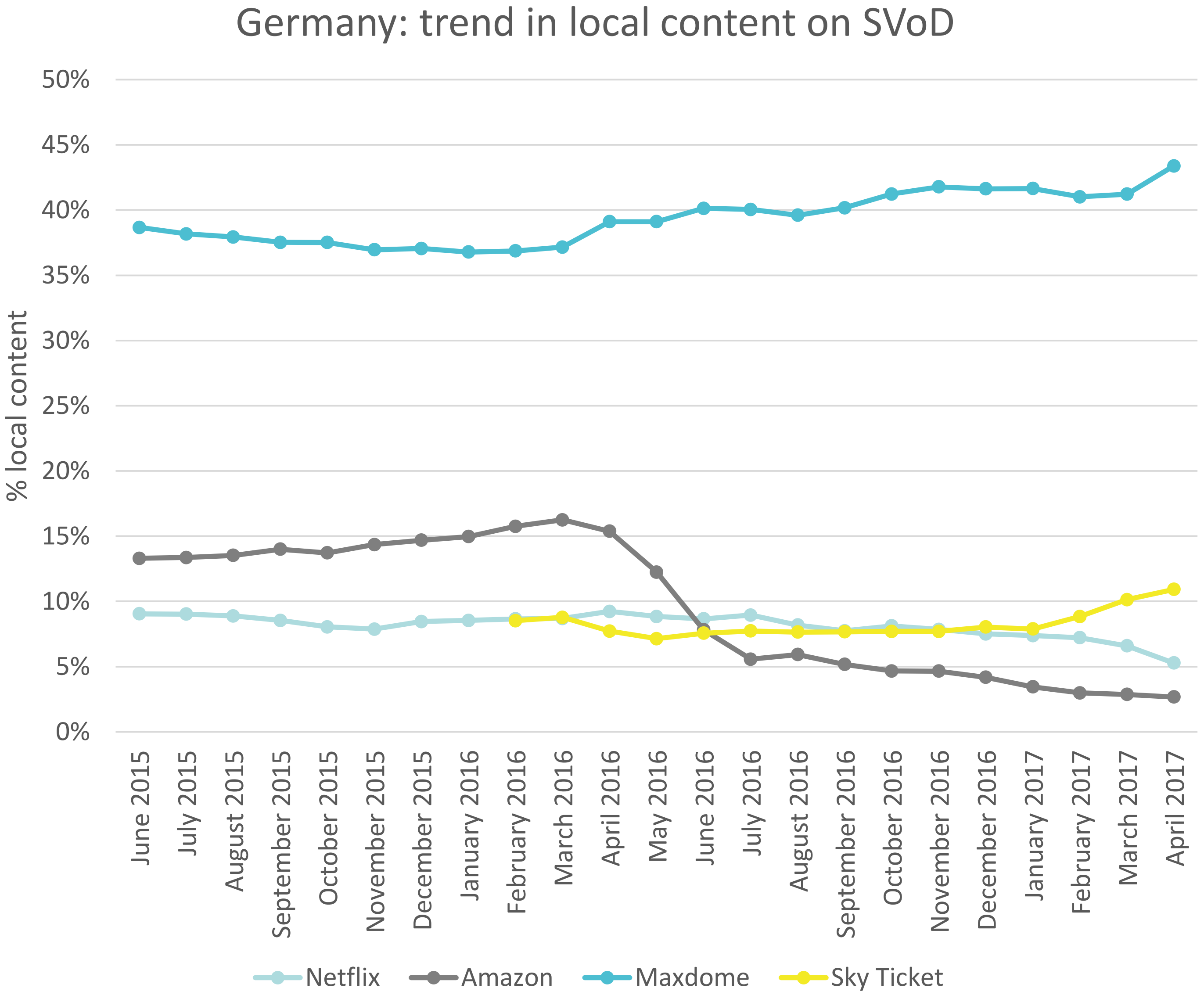


Chart shows: of all the people who have watched video on platform, how many fall into each age category.

Strategy 3: Play to local strengths

In some key markets, local OTT is a major competitive play

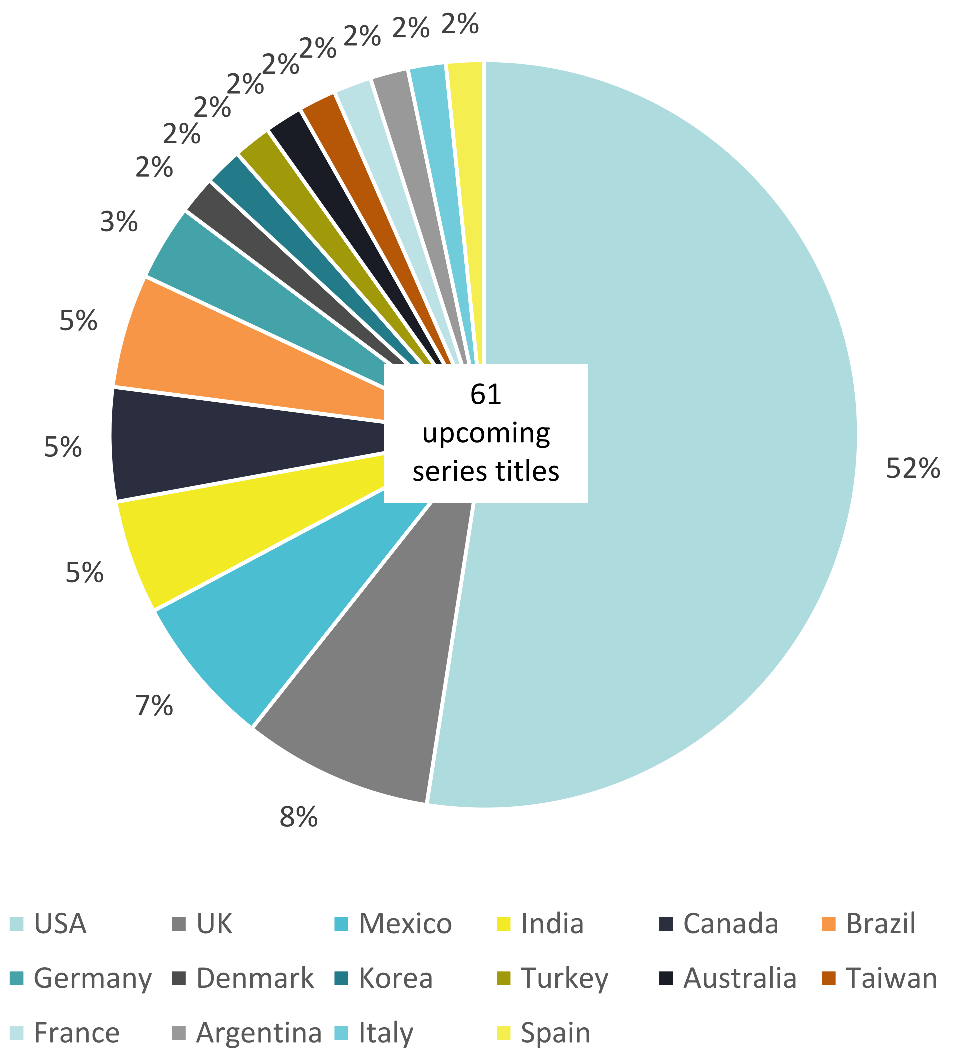




Netflix's originals strategy shows it already understands the power of local

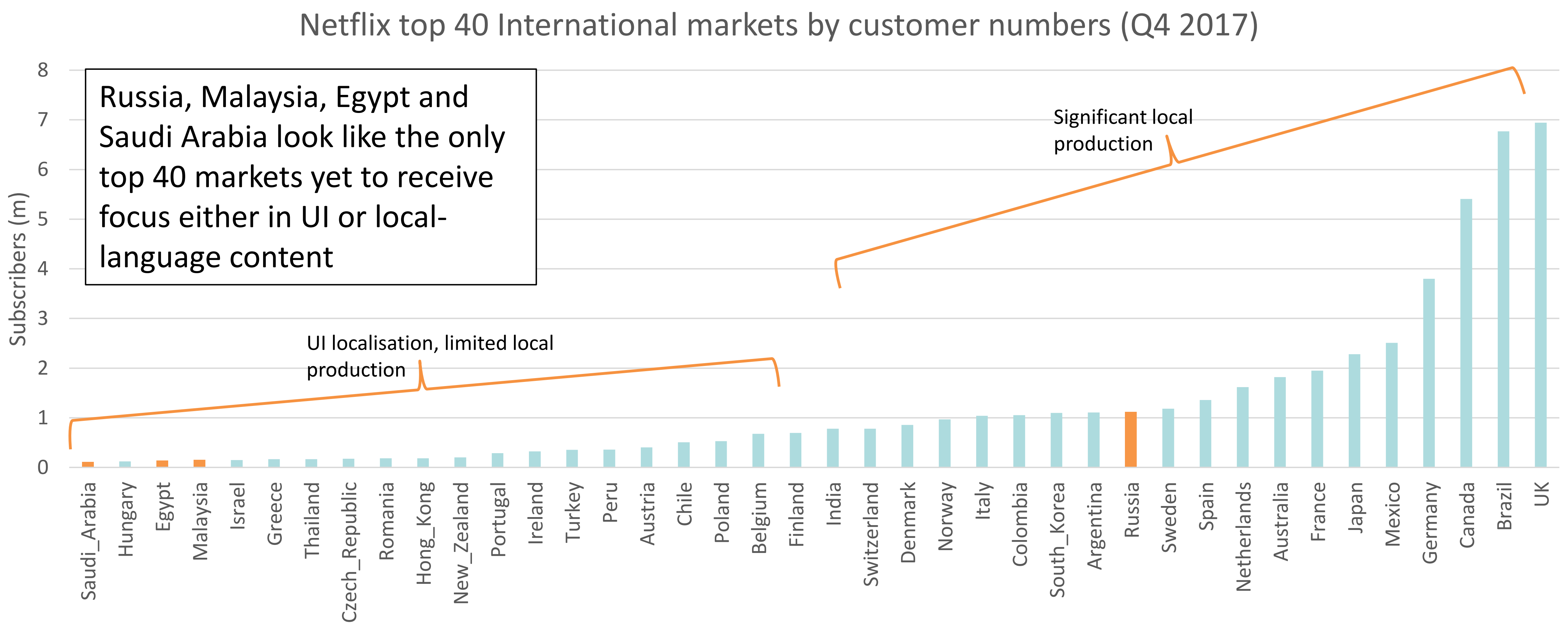
- Only half of ***upcoming*** Netflix Series originals releases are of US origin.
- Among non-English speaking territories, Mexico, India and Brazil are key.
- English-localisation..non-US English (Australia, Canada, UK) becoming common
- Newly localised markets (Poland, Turkey, Israel, Romania), yet to feed through to production, but can be expected to feed in shortly.

Origin of upcoming Netflix Series releases



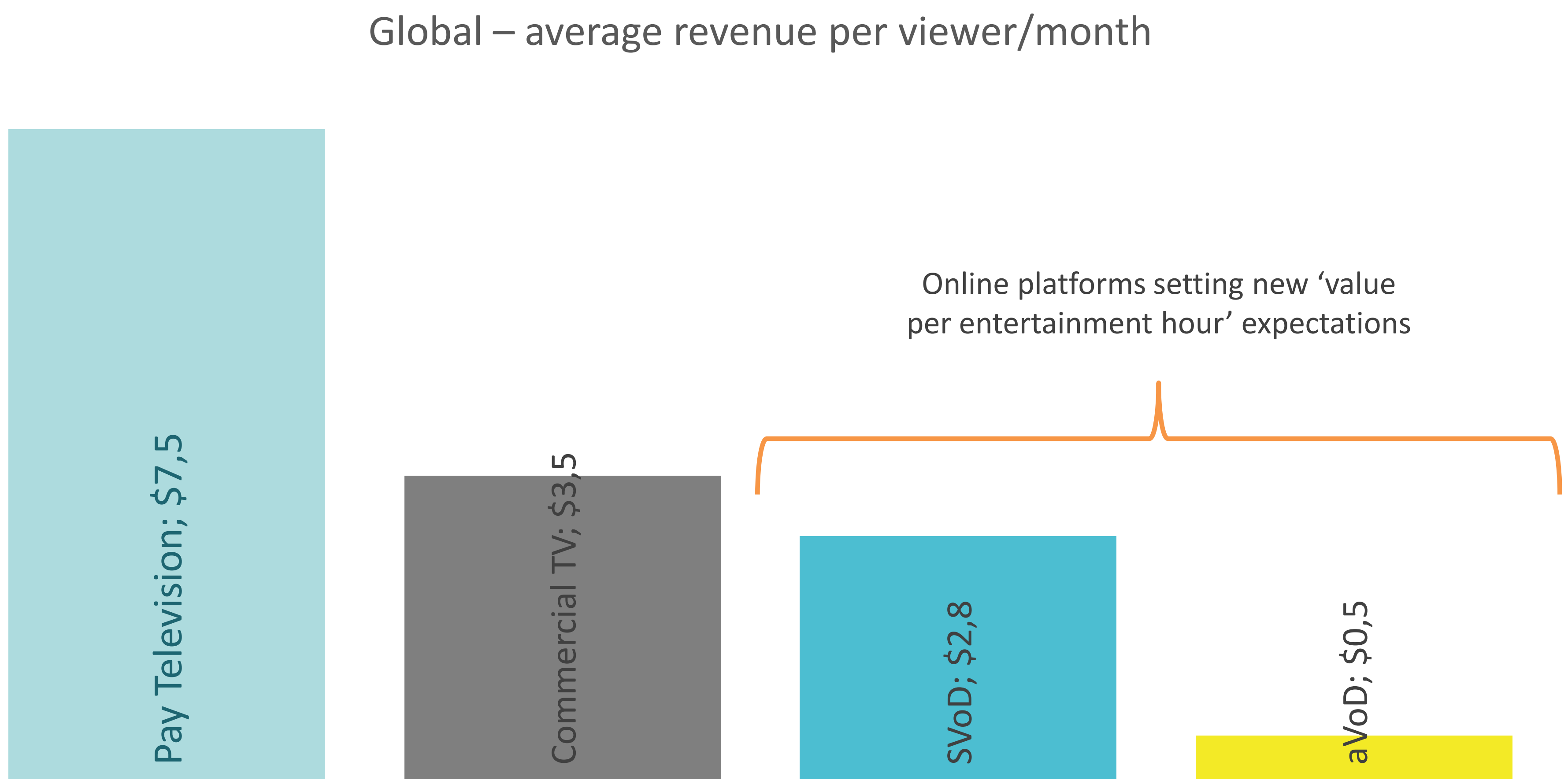
Based on title count (count 1 title per series). All series are multi-episode ranging from 8-12 a season.

Where next for Netflix's local focus?

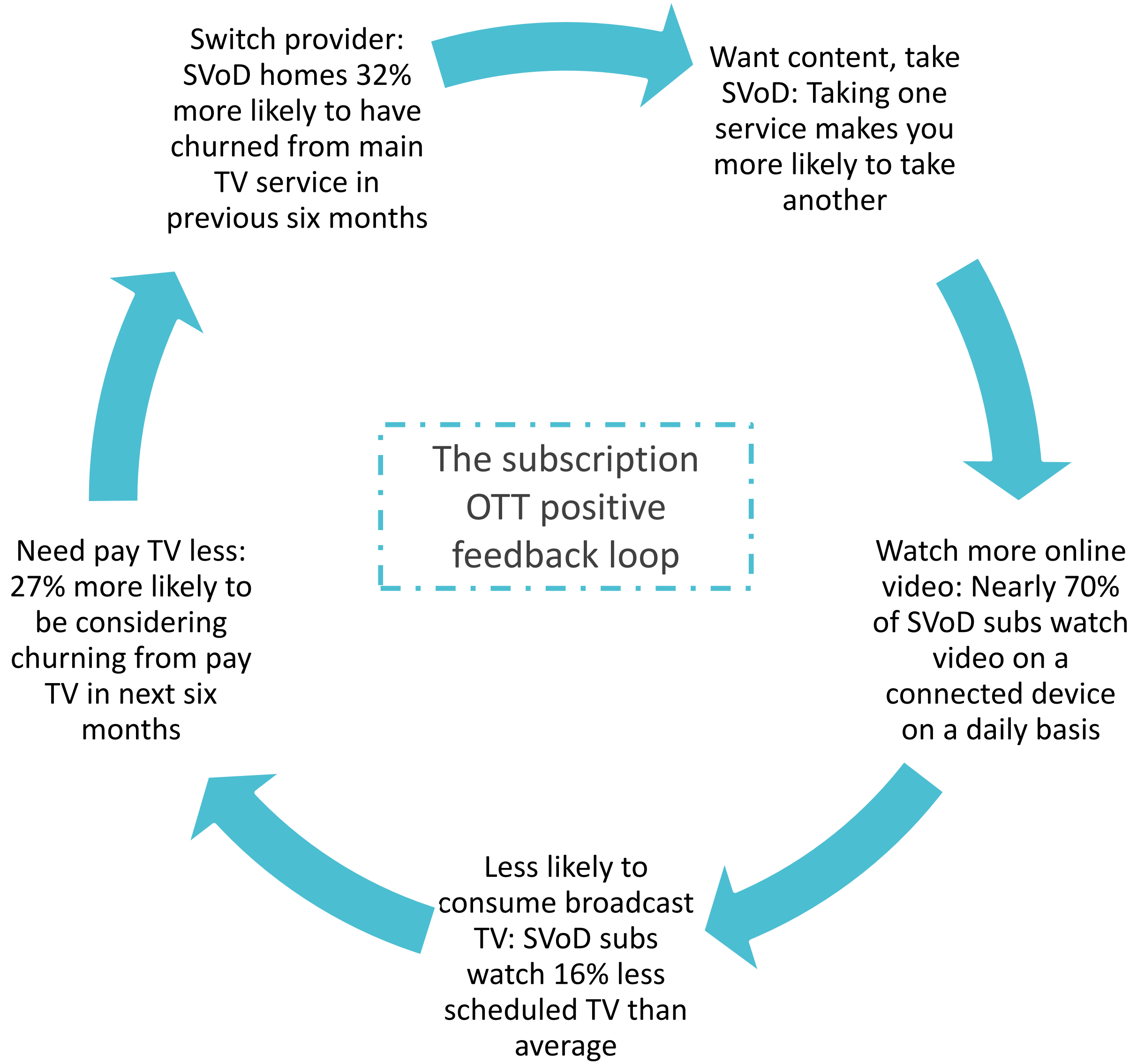


Strategy 4: Balance the economics

The big danger for operators is that OTT pushes a new economic equilibrium

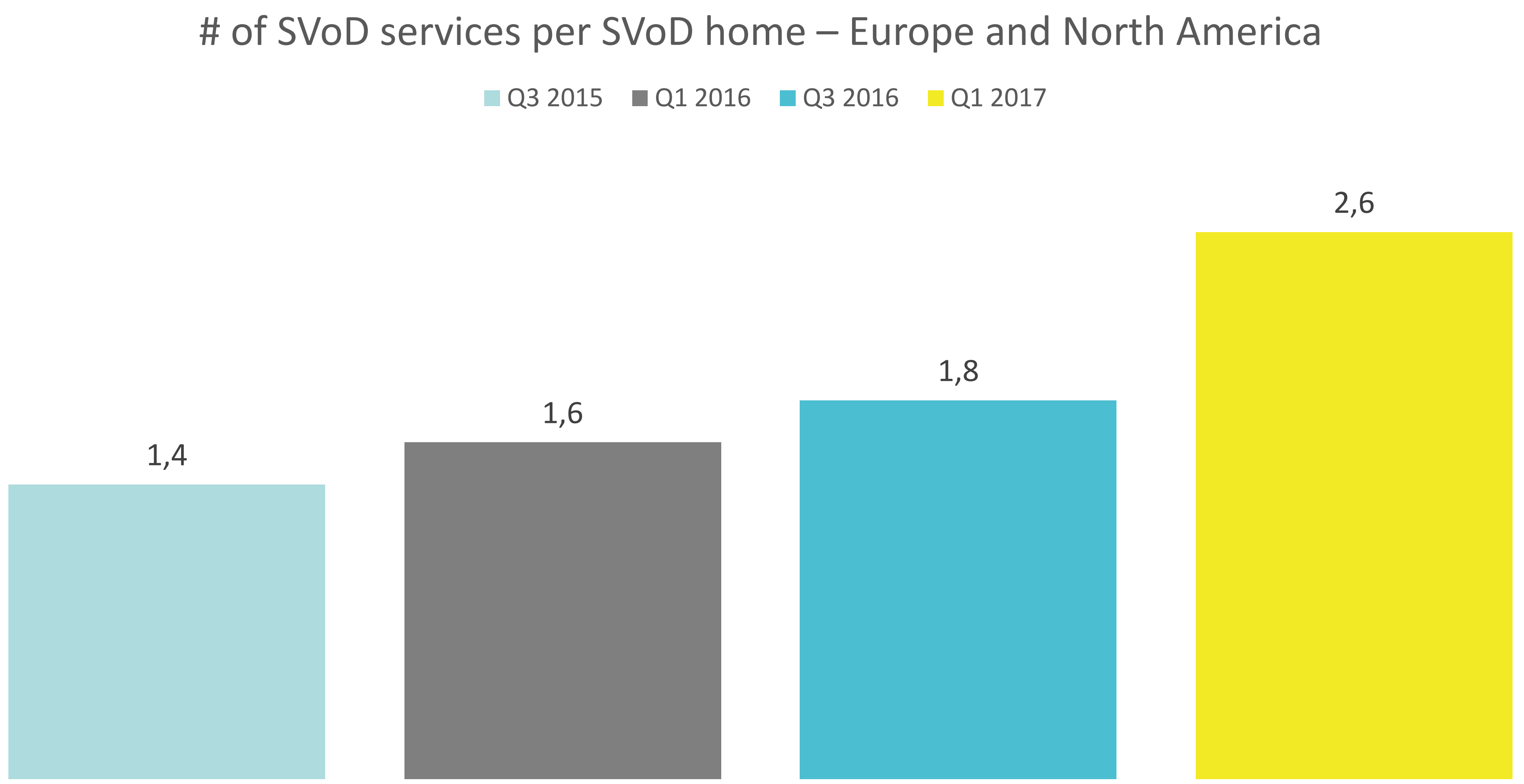


Leading to worrying trends for traditional media providers



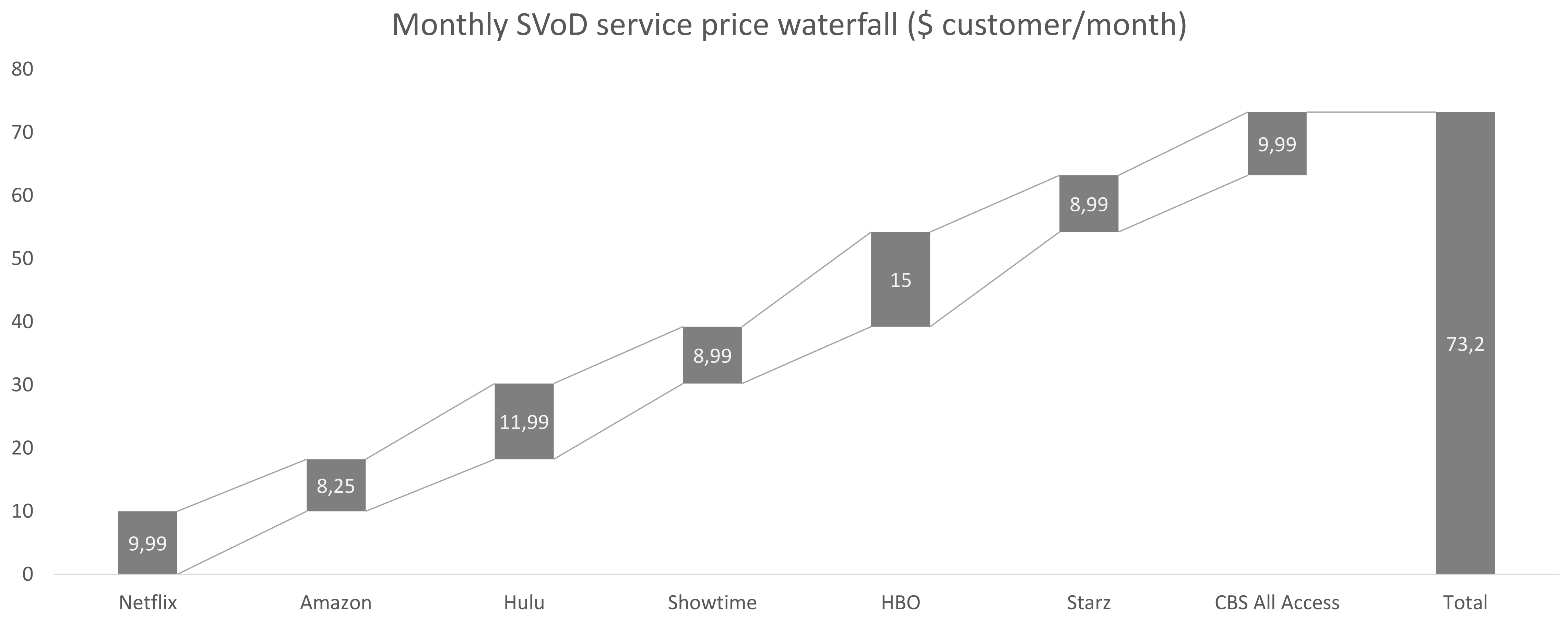
Source: Ampere Consumer, Q1 2017 - 21,000 respondents in North America and Europe. Nat Rep internet users.

But as consumers increasingly ‘stack’ SVoD services



Source: Ampere Consumer, Q1 2017 - 21,000 respondents in North America and Europe. Nat Rep internet users.

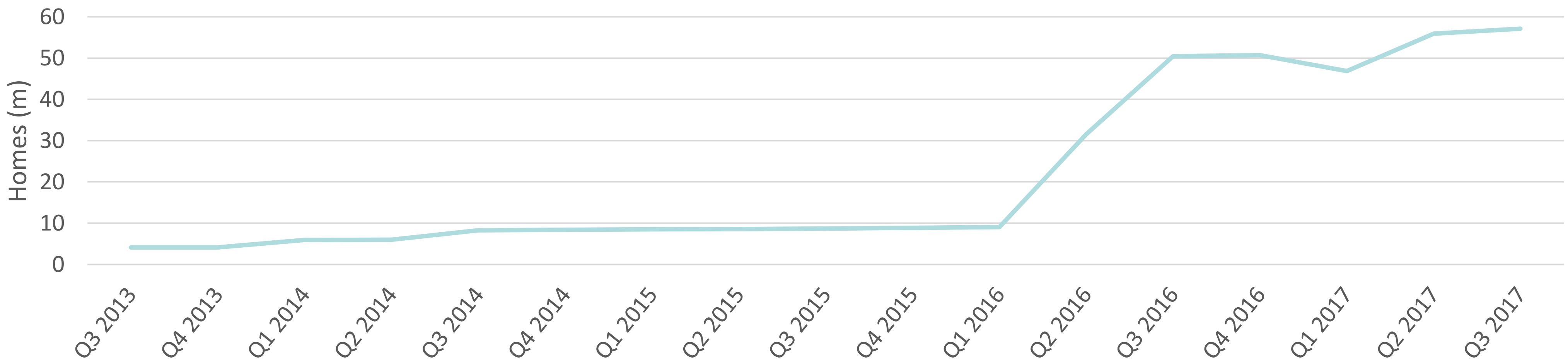
The economic balance can shift in favour of the traditional pay TV bundle



Netflix is also eager to 'on-board', giving operators trump card

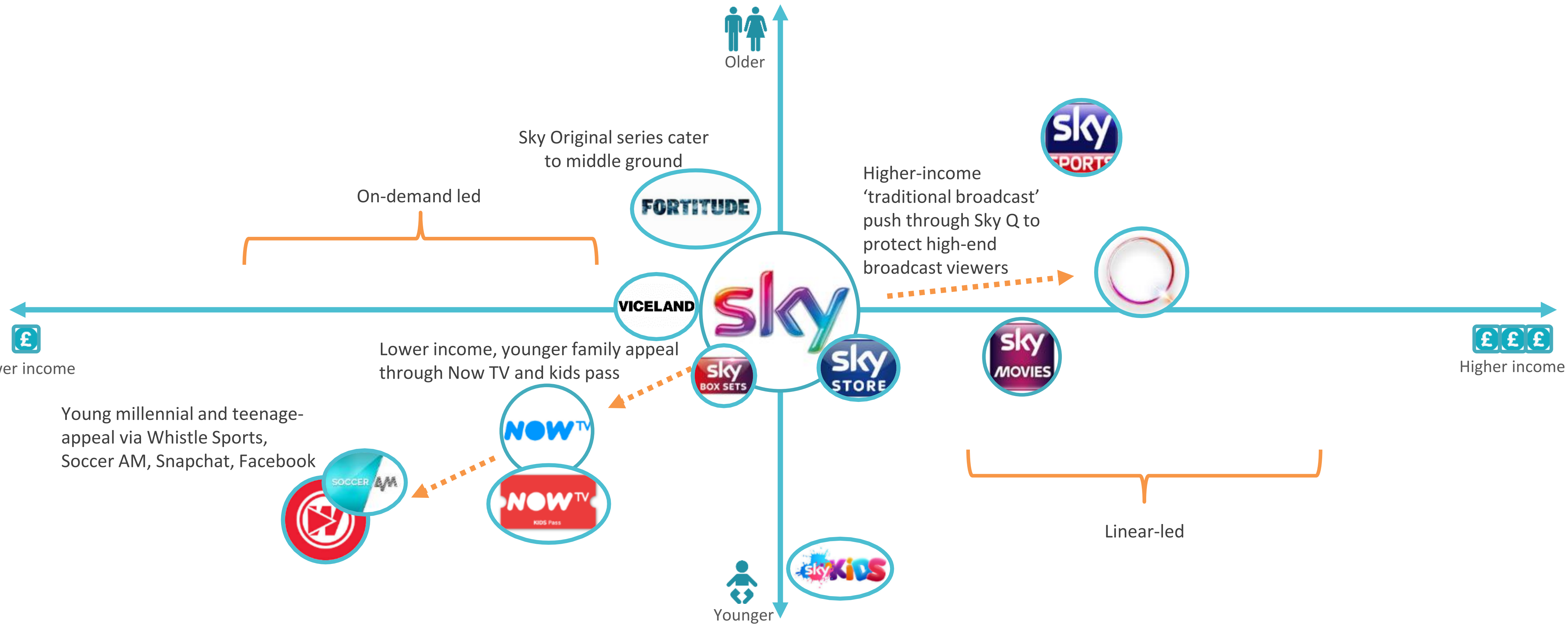
Sep 2013 · Jan 2014 · Sep 2014 · Oct 2014 · Nov 2014 · Dec 2014 · Jul 2016 · Sep 2016 · June 2017 · Oct 2017

Netflix on-platform: Cumulative reach approaches 60m potential homes



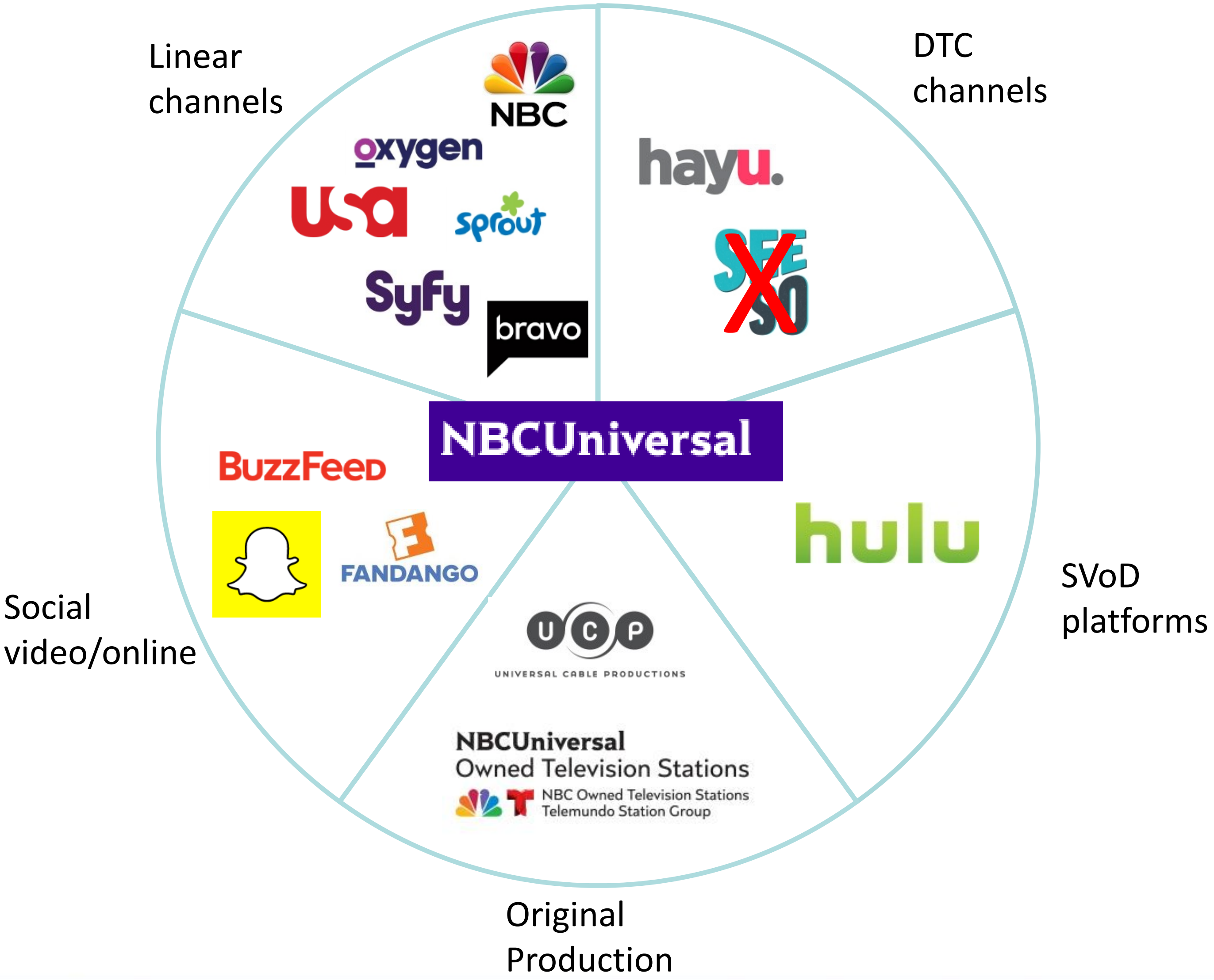
Strategy 5: Diversify business models and embrace audiences

Sky: A future platform now?

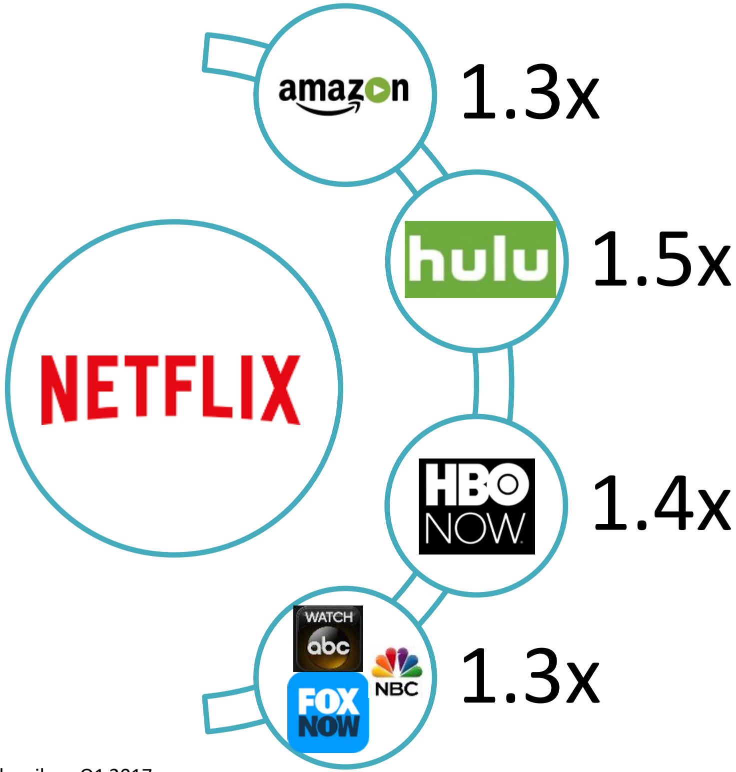


NBC Universal: A future channel business?

- Linear outlets for live sports and drama/series content
- Niche DTC for lower value content
- SVoD platforms for future distribution control
- Original (multi-language) production
- Youth focused investments in social video platforms

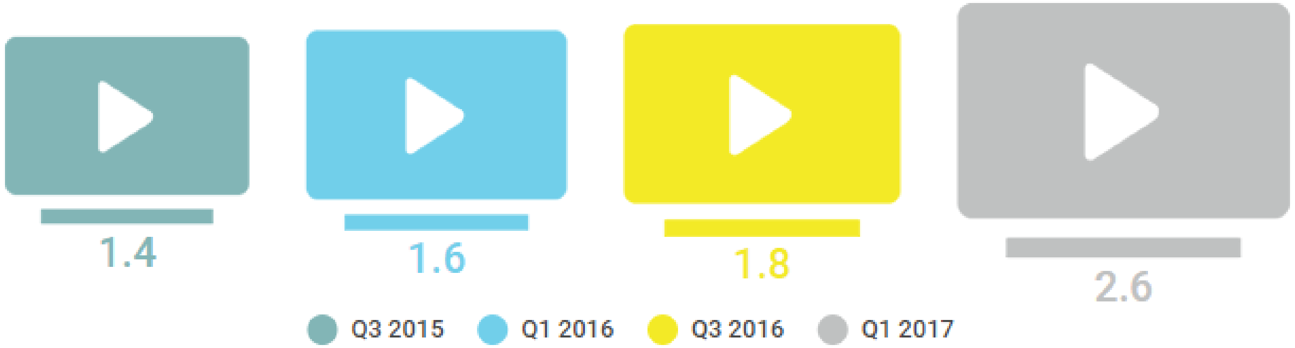


Ultimately, if operators don’t do it, consumers will do it for themselves



US Netflix subscriber. Q1 2017

SVoD services per SVoD home increasing steadily



Source: Ampere Consumer, 2015-2017 - 53,000 respondents in North America and Europe

Source: Ampere Consumer. Q1 2017.

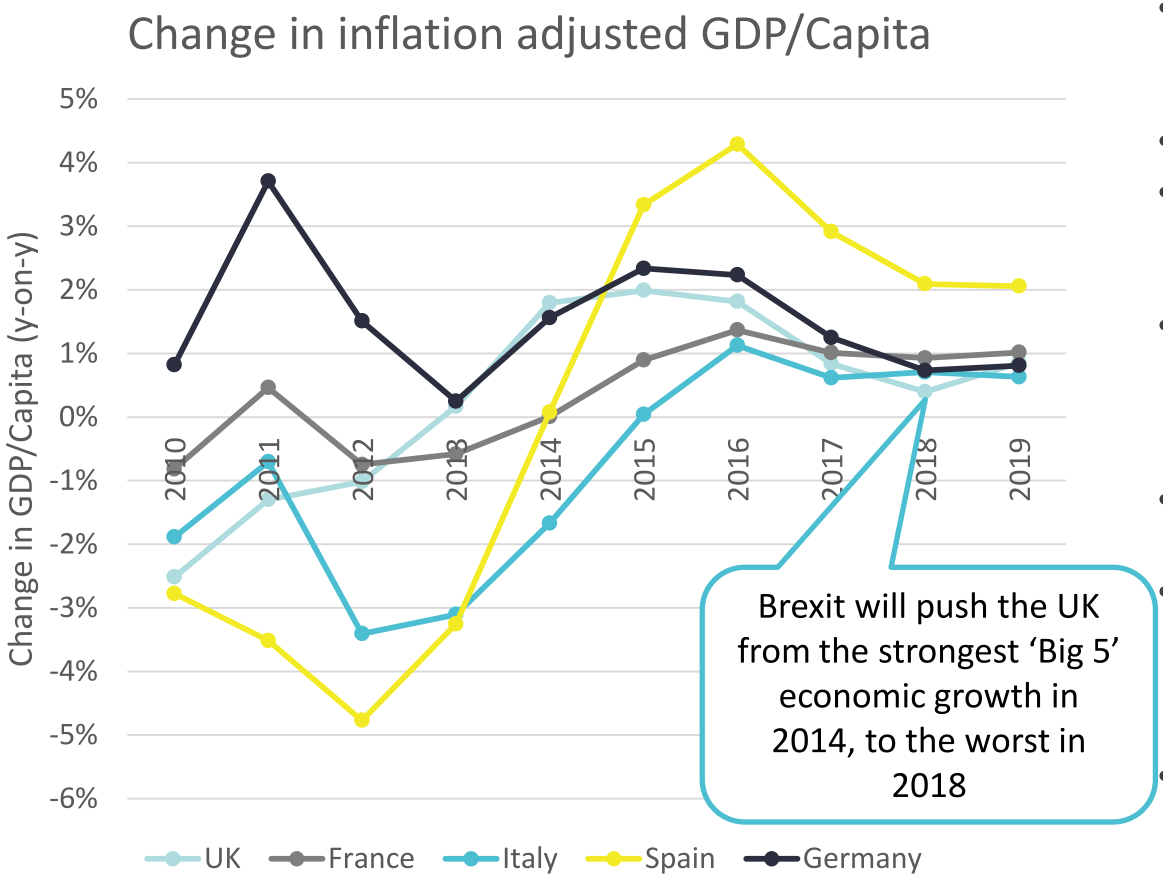
Future TV is about embracing (not running from) the next-generation bundle, which may just turn out to look a lot like the traditional pay TV bundle.

But if you think OTT is trouble…a view from Brexit Britain

What impact will Brexit have on the UK market?

The honest answer is nobody has a clue!

But a few possibilities



- UK TV advertising to show continued decline through 2018 from €5.3bn in 2015 to €4.9bn in 2018 (all other big 5 markets growing strongly).
- Accelerated transition to online advertising?
- Knock-on effect on content spend (although ITV production investments represent strong hedge for largest commercial group)?
- Channel market potentially impacted depending on implementation of EC's AV Media Services Directive may lead to studio-channel group migration to other EU markets?
- Remaining UK media assets increasingly become take-over targets?
- UK left out of Digital Single Market? Content portability, and content quotas not enforced under DSM initiatives?

- …but on the plus side? Currency collapse means UK productions start to look great value!

Thank you

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