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The Battle for the North American (US/Canada) Couch Potato: Online & Traditional TV and Movie Distribution

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Contents

COMMENTARY 10

SECTION ONE: US BROADCAST, CABLE & PAY NETWORKS ONLINE 13

Online Revenue and Viewing Methodology 13

Estimated Percentage of Average Weekly Viewers That Watch Free Online Full Episodes by Broadcast, Cable Network, and Broadcast/Cable Network Viewership, 2009-2013 14

Estimated US Broadcast & Cable Network TV Advertising Revenue, Online Broadcast/Cable Network TV Advertising Revenue, Online Share of TV Advertising Revenue, 2010-2014 15

Estimated US Online TV Advertising Revenue by CBS, Discovery, Disney/ABC, CBS, NBCUniversal, News Corp., Scripps, Time Warner, Viacom, 2010-2012 16

Estimated US Cable, Satellite, Telco TV Subscribers, and Total Subscriber TV Access Revenue, 2010-2014 17

Leading Cable, RBOC & Satellite by Estimated Residential Broadband & TV Subscribers, 2011 and 2012 17

Estimated US Residential Internet Subscribers by High Speed Cable, RBOC/Telco, Other Broadband, Dial, Residential Internet Subscribers as a Percentage of All US Residences, and Total Residential Internet Access Subscriber Revenue, 2010-2014 18

Broadcast Network TV Online: Overcoming Limitations of the Free Model…Increasing Advertising Minutes, Authenticating/Windowing, Hulu a Negotiating Tool with Cable, Satellite, Telco TV Access Providers 19

Estimated Percentage of Average Weekly Viewers That Watch Free Online Broadcast Full Episodes by ABC.go.com, CBS.com, Fox.com, NBC.com, and Their Online Distribution Partners' Websites, 2009-2013 19

Cable Network TV Online: Less Available for Free, and Authentication Model's Logical Progress 27

Estimated Percentage of Average Weekly Viewers That Watch Free Cable Network Online Full Episodes at AETN, Disney, NBCU, Scripps, Time Warner, Viacom and Their Online Distribution Partners' Websites, 2010-2012 27

Estimated Programming Sales by Cable Networks, Pay, VOD/PPV, Other to US Cable, Satellite, Telco Providers, 2010-2012 28

Estimated Programming Expenditures by US Cable, Satellite, Telco, 2010-2012 28

Estimated Programming Expenditures for US Market, by Apple, Netflix, Other Online Providers, TV Access Providers, and Per Subscriber Spend Netflix Versus TV Access Providers, 2009-2012 29

Estimated Apple, Netflix, TV Access Provider Content Costs as a Percentage of Revenue, 2009-2012 29

Pay-TV Online: The Authentication Original, Countering Netflix....................34
Mobile: Access & Content Transitions....................37

SECTION TWO: CHALLENGES & REALITIES....................39

Traditional TV is Far From Dead: Broadcast Advertising's Moderate Decline, Cable Network Advertising & Programming Fee Growth, TV Access Revenue....................40
TV Cord Cutting: Statistically Small, But Growing....................42
US TV Subscriber Cord Cutter Model, 2008-2013....................43
Netflix Down the Rabbit Hole: Transitioning from Mail to Streaming, Skyrocketing Programming Costs & Later Windows, Subscriber Growth Challenges and Margin Pressures....................45
Netflix Financial Model, 2010-2012....................45
Estimated Netflix Streaming, DVD, and Total Programming Expenditures, 2009-2012....................46
Estimated Programming Expenditures for the US Market by Apple, Netflix, Other Online Providers, TV Access Providers, and Per Subscriber Spend Netflix Versus TV Access Providers, 2009-2012....................47
Estimated Apple, Netflix, TV Access Provider Content Costs as a Percentage of Revenue, 2009-2012....................48
Estimated Netflix Subscribers by US (Streaming & Streaming-Only, DVD & DVD-Only), Canada Streaming-Only, Caribbean/Latin America/UK/Ireland Streaming-Only, 2010-2014....................48
Estimated Average Hourly Cost of Viewing Hulu Plus, iTunes, Netflix, Cable/Satellite/Telco TV Access Provider....................49
iTunes & TV Download Sales Competitors Far More Expensive than Hulu Plus, Netflix or TV Subscription…iTunes TV Downloads & Revenue Grow, Impact Modest....................57
Bandwidth Caps/Metered Billing: TV/Internet Access Players' Other Advantage....................60
Will Authentication & More Online TV Ad Minutes Increase DVR Usage? Cable/Satellite/Telco TV Providers VOD Innovations Still Hold Promise....................62
Estimated US DVR Subscribers by Cable, Satellite, Telco, TiVo. And By Percentage of Total TV Subs, 2010-2014....................62
Estimated DVR Subscribers and Penetration by AT&T, DirecTV, Dish, Comcast, Time Warner Cable, 2011 and 2012....................62
Competition Online: Google/YouTube Rule Online Advertising and Video Clips…A Different Approach to TV & Movies....................65
Estimated US Online Advertising Market Revenue by Google, Yahoo, Facebook, MSN, AOL, Broadcaster/Cable Network TV, Newspapers/Magazines, Other, 2010-2014....................65
Estimated US Online Advertising Market Share by Google, Yahoo, Facebook, MSN, AOL, Broadcaster/Cable Network TV, Newspapers/Magazines, Other, 2010-2014....................66
Estimated Search Market Share, 2010 & 2011....................67
Estimated Average 2011 Unique Monthly US Video Streaming Users By Leading Websites....................67

SECTION THREE: US MOVIE/TV DVD/BLU-RAY/DOWNLOAD SALES & RENTAL MARKET 71

Estimated US Movie/TV DVD/Blu-ray/Download Sales including Break Out of Online Download by Movie and TV Revenue, and US Movie/TV Rental including Break Out by Store, Mail, Kiosk, Online (including by Subscription & Transactional), Cable/Satellite/Telco TV VOD Revenue, and US Box Office, 2010-2014 71
Estimated Movie and TV Download Market Share of US DVD/Blu-ray/Download Sales Revenue, and Estimated Store, Mail, Kiosk, Online (including by Subscription & Transactional), Cable/Satellite/Telco TV VOD Market Share of US Movie/TV Rental Revenue, 2010-2014 72
Estimated US Hulu Plus and US Netflix Streaming-Only Subscribers, Revenue, ARPU, 2010-2014 73
Apple's Estimated Share of US Online Movie Download Sales, Online TV Sales, Online Movie/TV Rental Revenue, 2010-2013 73
US DVD/Blu-ray Kiosk Rental Market Broken out by Coinstar/Redbox and NCR Kiosks, by Estimated Coinstar/Redbox and NCR DVD/Blu-ray Rental Revenue, ARPU, Market Share, 2010-2014 74
US DVD/Blu-ray Mail Market Broken out by Estimated Blockbuster and Netflix Revenue, Subscribers, ARPU, 2010-2014 75
Netflix Financial Model, 2010-2012 76
Estimated Netflix Streaming, DVD, and Total Programming Expenditures, 2009-2012 77
Estimated Programming Expenditures for the US Market by Apple, Netflix, Other Online Providers, TV Access Providers, and Per Subscriber Spend Netflix Versus TV Access Providers, 2009-2012 78
Estimated Apple, Netflix, TV Access Provider Content Costs as a Percentage of Revenue, 2009-2012 79
Estimated Netflix Subscribers by US (Streaming & Streaming-Only, DVD & DVD-Only), Canada Streaming-Only, Caribbean/Latin America/UK/Ireland Streaming-Only, 2010-2014 79
Estimated Average Hourly Cost of Viewing Hulu Plus, iTunes, Netflix, Cable/Satellite/Telco TV Access Provider 80
Average Estimated DVD/Blu-ray Sales, DVD/Blu-ray Rental, Box Office, Cable/Satellite/Telco TV VOD, Online Download Sales, Online Rental Percentage Splits 81
Average Movie Window Progression 81
Estimated PS3, Wii and Xbox 360 Sold in the USA, 2010-2012 82
Estimated Apple TV, Internet-Enabled TVs, Roku's Sold, 2010 & 2011 82

Movie/TV Blu-ray/DVD/Download Sales: Online Movie & TV Download Sales Lack Competitive Advantage, Slowly Taking Market Share, Breaking Out Small But Growing iTunes Movie & TV Sales 83

The Recalibration, Redefinition & Another Revolution in Rental 89

Store: Still Declining 91

Online Transactional: An Expensive Consumer Option With Little Market Share.......93
Cable/Satellite/Telco TV VOD: Day & Date Window Success But Premium VOD At The Expense of Movie Theatres Is No Slam Dunk.......94
Kiosk: Redbox Grows and Improves Metrics, and Acquires Struggling NCR 97
Netflix: Transitioning from Mail to Streaming, Skyrocketing Programming Costs & Later Windows, Subscriber Growth Challenges and Margin Pressures.......99
Blockbuster/Dish Mail: Underwhelming.......106
Amazon Prime: Not a Stand-Alone Streaming Video Offer.......107
Hulu Plus: Part Consumer Offer, Part Negotiation Tool.......108

SECTION FOUR: CANADIAN BROADCAST, SPECIALTY & PAY NETWORKS ONLINE....... 110

Online Revenue and Viewing Methodology.......110
Estimated Percentage of Average Weekly Viewers That Watch Free Online Full Episodes by Broadcast, Specialty, and Broadcast/Specialty Network Viewership, 2010-2013.......111
Estimated Canadian Broadcaster & Specialty Network TV Advertising Revenue, Online Broadcaster/Specialty Advertising Revenue, Online Share of Share of TV Advertising Revenue, 2010-2014.......112
Estimated Canadian, Non-Canadian, and Total Programming Expenditures by Private Broadcasters, & Total Programming Expenditure by Specialty/Pay Networks, 2010 and 2011.......113
Estimated Canadian Basic Cable, Digital Cable, Satellite, Telco TV Subscribers, and Total TV Subscriber Revenue, 2010-2014.......113
Estimated Canadian Residential Internet Subscribers by High Speed Cable, Telco, Other Broadband, Dial, Residential Internet Subscribers as a Percentage of All Canadian Residences, and Total Residential Internet Subscriber Revenue, 2010-2014.......114
Leading Cable, Satellite, Telco by Estimated Residential Broadband & TV Subscribers, 2011 and 2012.......115
Broadcast Network Online TV: More Shows Available For Free, Ad Minutes Increase.......116
Estimated Percentage of Average Weekly Viewers That Watch Free Online Broadcast Full Episodes at CBC.ca, CTV.ca, GlobalTV.com, TVA.Canoe.ca, 2010-2013.......116
Specialty Network Online TV: Authentication Progressing, More Online Ad Minutes.......120
Estimated Percentage of Average Weekly Viewers That Watch Free Online Specialty Full Episodes at Astral, Bell Media, Corus, Shaw Media Websites, 2010-2013.......120
Estimated Cable, Satellite, Telco Programming Expenditures to Specialty Network and Pay/VOD/PPV, 2010-2012.......121
Pay-TV: The Walled Garden Natural.......125
Mobile: Mobile Players Content Line-Ups.......127

SECTION FIVE: CANADIAN CHALLENGES & REALITIES.............. 128

Canadian TV Alive & Kicking Despite Challenges: Broadcast Advertising Revenue Returns, Value for Signal Still on Hold, Specialty Network Advertising and Programming Revenue Grows, TV Subscriber Access and Revenue Growth 130

New Ownership, New Regulations: Limiting Access and Programming Competitive Advantage 132

Canadian Cord Cutting: Statistically Small, But Growing.. 135

Canadian TV Subscriber Cord Cutter Model, 2011-2013 136

Netflix: Big Canadian Entrance, Multiple Impediments to Growth.. 139

Estimated Programming Expenditures, for Canadian Market, by Apple, Netflix, Other Online Providers, TV Access Providers and Per Subscriber Netflix Versus TV Access Providers, 2010-2012.. 139

Estimated Average Hourly Cost of Viewing iTunes, Netflix, Cable/Satellite/Telco TV Access Provider 140

iTunes & TV Download Sales Competitors Far More Expensive than Netflix or TV Subscription…iTunes TV Downloads and Revenue Grow, Impact Modest 146

Bandwidth Caps/Metered Billing: Here to Stay 148

Free TV VOD, Alternative to Online TV & the PVR.. 151

Estimated Canadian PVR Subscribers by Cable, Satellite, Telco. And By Percentage of Total TV Subs, 2010-2014.. 151

Estimated PVR Subscribers and Penetration by Bell Satellite TV, Rogers, Shaw Cable, Shaw Direct, 2011 and 2012.. 151

Competition Online: Google/YouTube Rule Online Advertising & Video Clips, A Different Approach to TV & Movies.. 153

Estimated Canadian Online Advertising Market Revenue 2010-2014, and by Google, Yellow Media, Bell/Bell Media, MSN, Rogers, Torstar, Quebecor, Other, 2010-2012.. 153

Estimated Canadian Online Advertising Market Share by Google, Yellow Media, Bell/Bell Media, MSN, Rogers, Torstar, Quebecor, Other, 2010-2012.. 154

Estimated Search Market Share, 2011 154

Estimated 2011 Average Monthly Unique Users of Leading Canadian Websites.. 155

SECTION SIX: CANADIAN MOVIE/TV DVD/BLU-RAY/DOWNLOAD SALES & RENTAL MARKET 158

Estimated Canadian Movie/TV DVD/Blu-ray/Download Sales including Break Out of Online Movie and TV Download Revenue…Movie/TV Rental including Break Out by Store, Mail, Kiosk, Online (including by Subscription & Transactional), Cable/Satellite/Telco TV VOD Revenue, and Box Office Revenue, 2010-2014 158

Estimated Canadian Movie/ TV Download Market Share of Canadian DVD/Blu-ray/Download Movie and TV Sales Revenue, and Estimated Store, Mail, Kiosk, Online (including by Subscription & Transactional), Cable/Satellite/Telco TV VOD Share of Canadian Movie/TV Rental Revenue, 2010-2014 159
Estimated Canadian Apple iTunes TV Download, Movie Download and Transactional Rental Market Share, Netflix Subscribers, Number of Kiosks, Zip.ca Mail Subscribers, 2010-2014 159
Canadian Kiosk & Mail Players 160
Estimated Programming Expenditures, for Canadian Market, by Apple, Netflix, Other Online Providers, TV Access Providers and Per Subscriber Netflix Versus TV Access Providers, 2010-2012................161
Estimated Average Hourly Cost of Viewing iTunes, Netflix, Cable/Satellite/Telco TV Access Provider 162
Estimated PS3, Wii and Xbox 360 Sold in Canada, 2010-2012.............163

Movie/TV Blu-ray/DVD/Download Sales: Online Movie & TV Download Sales Lack Competitive Advantage, Slowly Taking Market Share, Breaking Out Small But Growing iTunes Movie & TV Sales 164
Canadian Rental's Strange Brew..168
Store Channel's Demise...169
Best Buy, Redbox, Starburst & Zip Kiosk Expansion, Online Transactional Small But Growing, Cable/Satellite/Telco TV VOD's Rental Channel Rise .171
Netflix: Big Canadian Entrance, Multiple Impediments to Growth................176

SECTION SEVEN: PROFILES 181

US PROFILES 182

Apple..183
CBS Corp. 188
Comcast/NBCUniversal 190
Dish/Blockbuster 193
Google 196
Microsoft..198
Netflix 199
News Corporation...203
Redbox/Coinstar/NCR 205
Time Warner 207
Viacom 209
Walt Disney/ABC..211
Yahoo 213

CANADIAN PROFILES 214

Apple Canada 215
Astral Media 221
Bell/Bell Media..222
CBC...224

Corus Entertainment 225
Netflix Canada 226
Quebecor/Videotron 229
Rogers 230
Shaw/Shaw Media 232

Commentary

Now in its sixth year of publication, The Battle for the North American (US/Canada) Couch Potato: Online and Traditional TV, and Movie Distribution (April 2012, 233 pages) contains detailed analysis by **Company & Market**. In addition to Convergence analysis, sources include Company interviews, annual/quarterly reports & presentations, CRTC.

US Commentary (Canadian Commentary follows), see Table of Contents for what is included in this Report:

Broadcast & Cable Networks continue to make online full-episode TV 'less free' by upping ad minutes, and windowing or reducing shows available for free by authenticating behind Cable, Satellite, Telco TV access players' walled gardens.

The audience for free full-episode (not Hulu Plus, iTunes, Netflix, etc or walled garden requiring a paid subscription) has started to plateau. Based on the full-episode TV shows Broadcasters & Cable Networks made available online for free in 2011, we estimate that on average 19% of the weekly viewing audience watched on average between one to two episodes at a Broadcaster or Cable Network or one of their distribution partner's websites (CBS Audience Network & Hulu/partners), up from 18% in 2010, 15% in 2009, and we forecast 19% for 2012.

We estimate Broadcast (including local station) & Cable Network online TV advertising revenues represented 2.8% ($1.9 billion) of 2011 US Broadcast/Cable Network TV advertising revenue, and forecast 3% for 2012.

We estimate 112,000 TV subscribers were added in 2011, down from 272,000 in 2010, and forecast 185,000 TV sub additions for 2012. 2000-2009 annual TV sub additions averaged 2 million. Based on our TV Cord Cutting Model (takes into account economic conditions, annual subscriber additions, digital transition), we estimate 2.65 million (2.6%) US TV subscribers cut their TV subscriptions 2008-11 to rely solely on Online, Netflix, OTA, etc, 1.05 million (1%) in 2011 alone. We forecast cord cutters will reach 3.58 million year end (3.6%) 2012.

Kiosk, Mail & now Streaming Rental (assuming sufficient usage) offer a lower-price value proposition & have radically altered the Rental channel while negatively impacting DVD/Blu-ray/Download sales, and encroaching on TV subscription.

Netflix's deals for in almost all cases previous season Broadcast & Cable Network TV shows, and window-delayed Studio movies, saw 2011 programming costs skyrocket (2012 will also be very high), which to overcome Netflix must achieve sufficient subscriber/revenue growth.

We estimate Kiosks represented 19%, Mail 25%, Online Subscription (Hulu Plus & Netflix) 13%, Online Transactional 2%, Store 20%, VOD (Cable, Satellite, Telco TV) 21% of 2011 US Movie/TV Rental market revenue, and forecast Kiosk 22%, Mail 16%, Online Subscription (Hulu Plus & Netflix) 25%, Online Transactional 3%, Store 13%, VOD 21% for 2012.

We estimate Download Movie and TV sales represented 4% and 3% respectfully of 2011 DVD/Blu-ray/Download Movie/TV Sales.

Canadian Commentary, see Table of Contents for what is included in this Report:

Canadian Broadcasters increased free TV shows available online in 2011, bringing them to same level as the US. While Specialty Networks, like their US Cable Network counterparts, continue to make less free TV available online than Broadcasters. Authentication is at an earlier stage in Canada than the US. In both Canada and the US online full episode TV advertising minutes are increasing.

Based on the full-episode TV shows Broadcasters & Specialty Networks made available online for free (not iTunes, Netflix, or walled garden requiring a paid subscription) in 2011, we estimate that on average 18% of the weekly viewing audience watched on average between one to two episodes at a Broadcaster or Specialty Network website, up from 16% in 2010, and we forecast 19% for 2012.

We estimate Broadcast & Specialty Network online TV advertising revenues represented 3.3% of 2011 Canadian Broadcast/Specialty Network TV advertising revenue, and forecast 3.8% for 2012.

We estimate 222,000 TV subscribers were added in 2011, down from 246,000 in 2010, and forecast 180,000 TV sub additions for 2012. Based on our TV Cord Cutting Model (which takes into account annual subscriber additions and the digital transition), we estimate .7% (83,000) Canadian TV subscribers cut their TV subscriptions in 2011 to rely solely on Online, Netflix, OTA, etc.

The Canadian Rental market's transformation has begun but under different circumstances & with different value propositions than the US.

Despite programming constraints and caps, Netflix will take market share, but Cable, Satellite, Telco VOD will we forecast continue to be larger and by year end 2013 be the top revenue channel followed by Store, Online Subscription (Netflix Streaming), and Kiosks. We estimate Kiosks represented 2%, Mail 3%, Online Subscription (Netflix) 7%, Online Transactional 3%, Store 60%, VOD (Cable, Satellite, Telco TV) 25% of 2011 Canadian Movie/TV Rental market revenue.

We estimate Download Movie and TV sales represented 4% and 3% respectfully of 2011 Canadian DVD/Blu-ray/Download Movie/TV Sales.