ENDERS | ANALYSIS

Adoption and usage of VOD:

Initial evidence and some implications

Toby Syfret

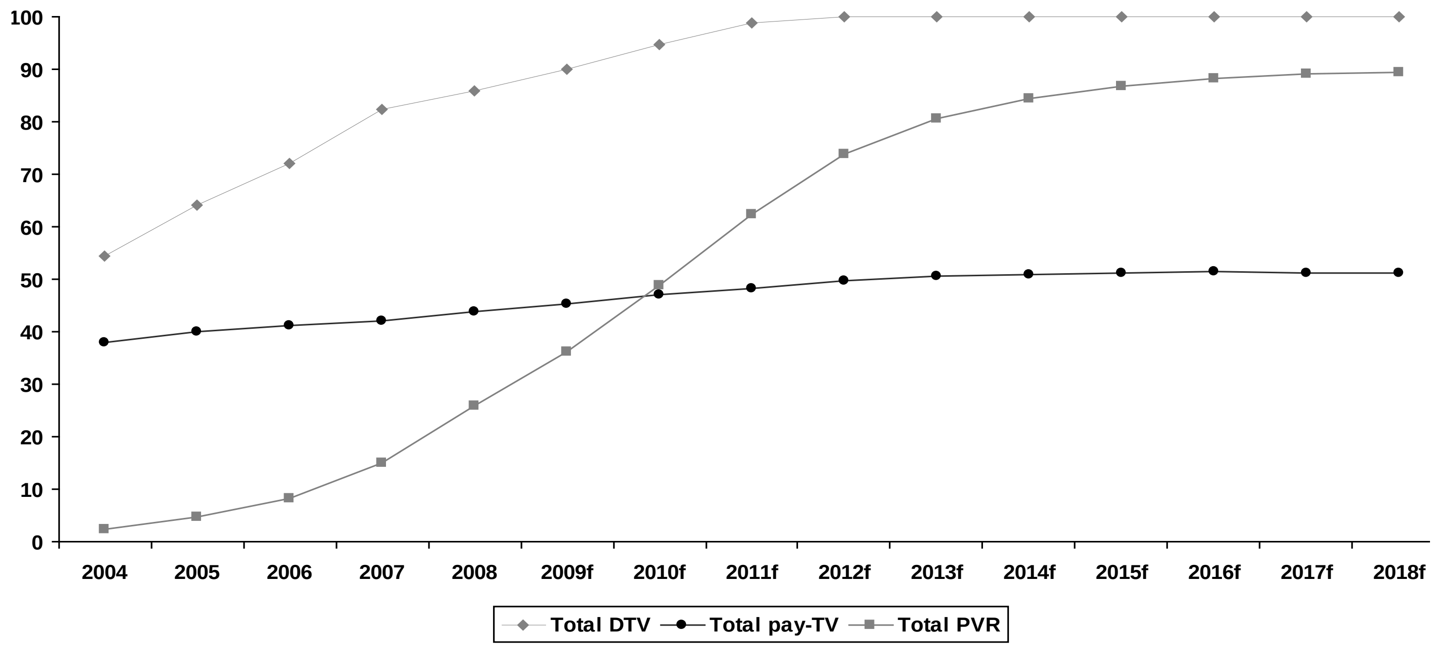
7th July 2009, London Business School

"It is not yet clear at what point technology and users will cross over from an environment where content is consumed passively through the linear schedule to one where content is consumed actively through search and on-demand. Measures in this Report will accelerate the ***not-distant*** point when that occurs."
(Bold italics ours)

Digital Britain Final Report, June 2009

Nearly digital already: End of June 2009 – 87% of homes, 92% of individuals with digital reception on 1+ TV sets

TV household penetration, 2004-2018 (%)



[Source: Enders Analysis]

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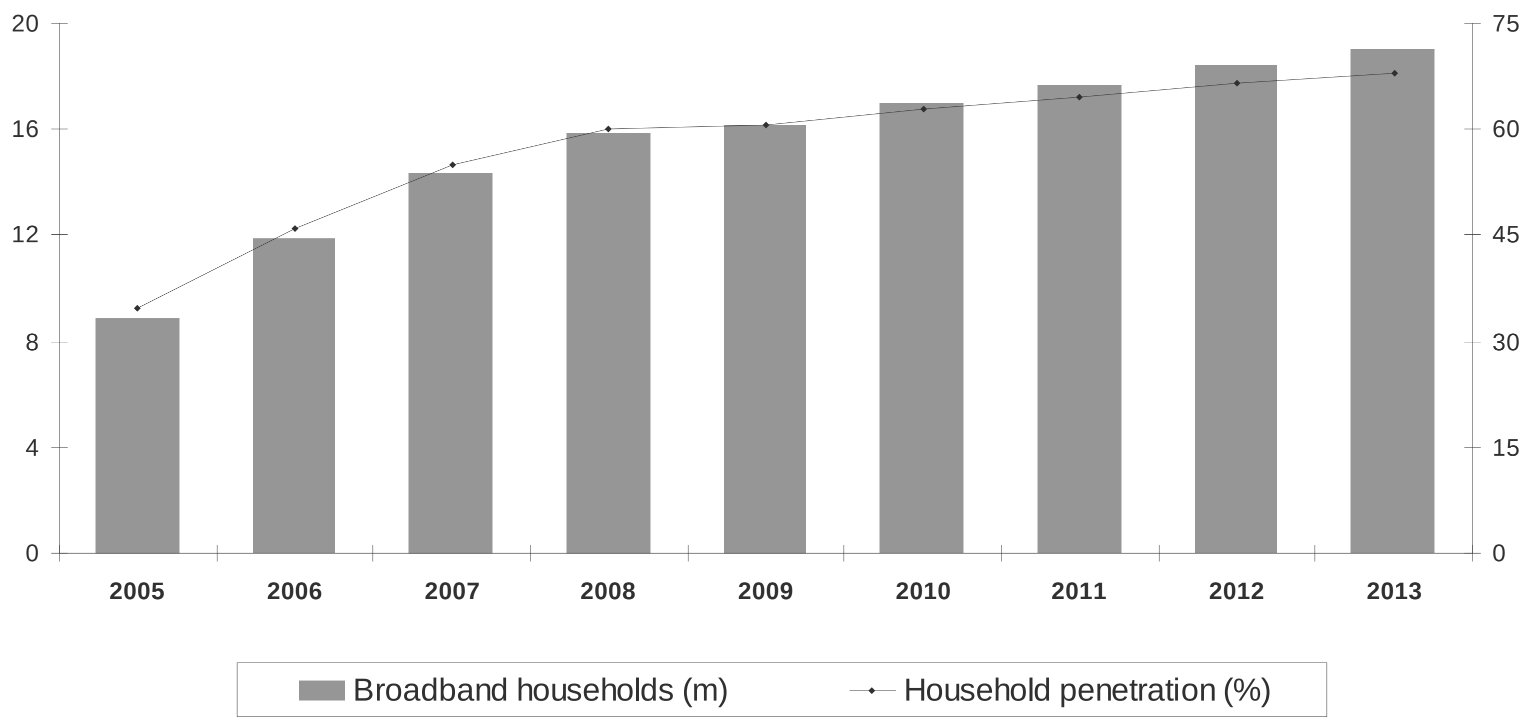
Forecasts without counting on Digital Britain dividend - About 4 million homes with access to cable/IPTV VOD to the TV set

Residential broadband households and household penetration (%)



[Source: Enders Analysis]

TV Anytime: Variety of forms

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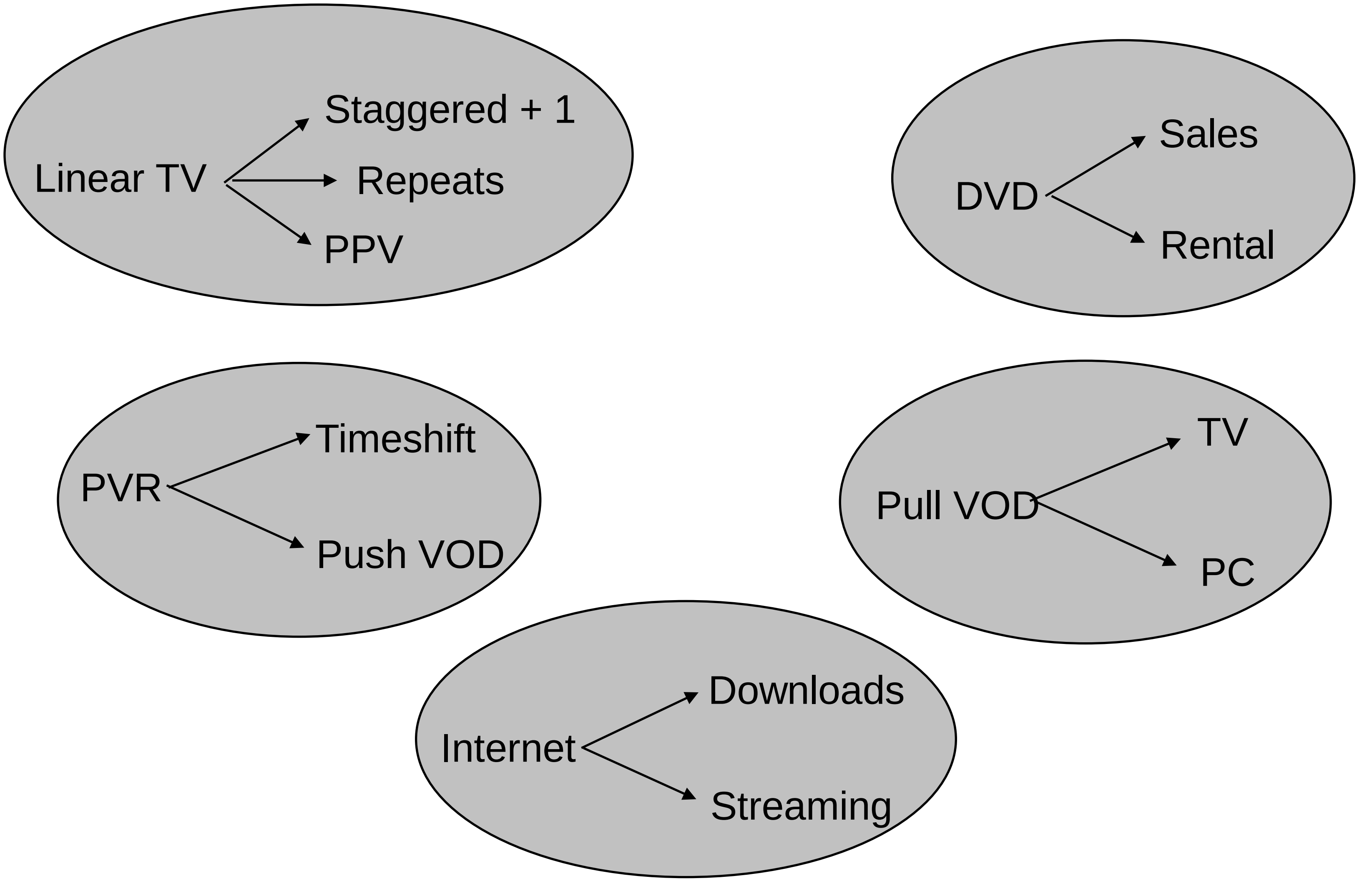
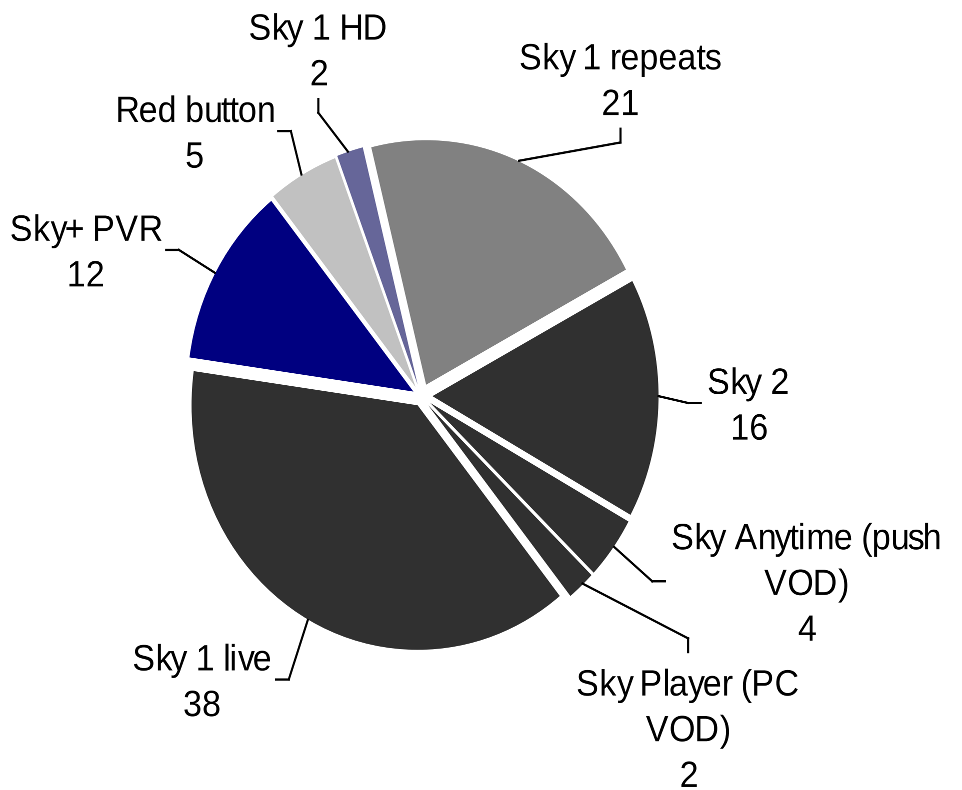


Sky viewing breakdown for first episode of *Ross Kemp in Afghanistan,* February 2007



[Source: Sky]

Sky PPV movie trends: 2003-2008

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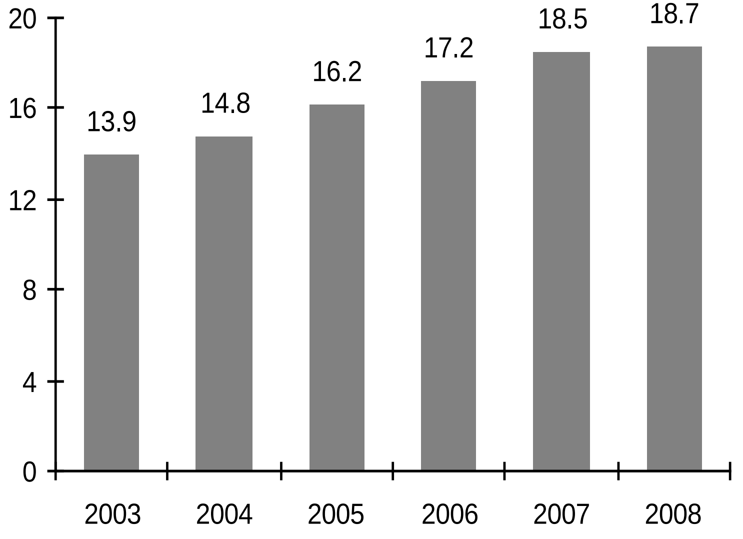
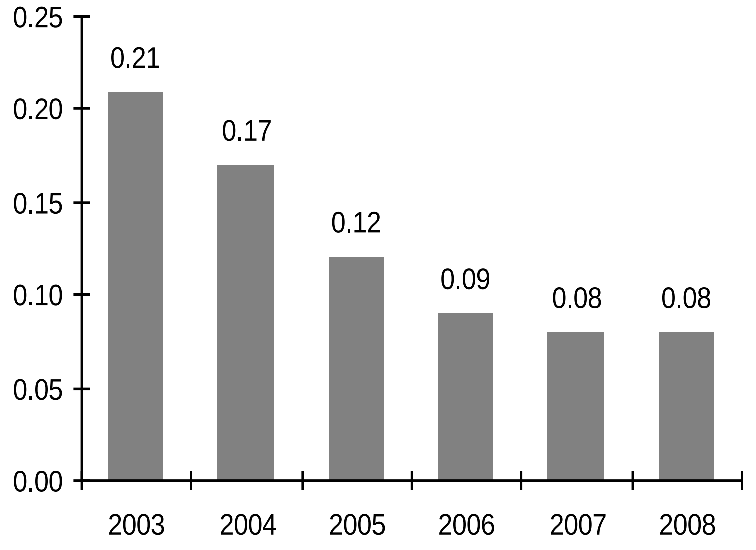
62% fall in viewing share against 33% increase in adult population in satellite homes ➔ c50% decline in number of PPV movie minutes viewed

Adults (16+) in satellite homes (000)



[Source: BARB/InfoSysTV; Enders Analysis]

Sky Box Office viewing share in satellite homes (%)



[Source: BARB/InfoSysTV; Enders Analysis]

VOD service providers

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Sector	Service provider	Service	TV Anytime applications		
			PVR	TV VOD	PC VOD
Pay-TV operators	BSkyB	Satellite TV nVOD and PC VOD to pay-TV subscribers; plans TV VOD launch (2010?)	Yes	No	Yes
	Virgin Media	Cable TV VOD key differentiator versus Sky	Yes	Yes	No
ISPs	BT	BT Vision DTT-IPTV service over DSL; Canvas backer	Yes	Yes	Yes
	CPW	TV IPTV/VOD via DSL on Tiscali (formerly HomeChoice)	Yes	Yes	No
FTA broadcasters	BBC	iPlayer PC and TV VOD; Canvas backer	No	Yes	Yes
	ITV	itv.com PC and TV VOD; Canvas backer	No	Yes	Yes
	Channel 4	4oD PC and TV VOD	No	Yes	Yes
Hardware manufacturers	Apple	Apple TV device and iTunes to PC	No	Yes	Yes
	Sony	Considering UK launch	No	No	Yes
	Microsoft	Xbox to add Sky content late 2009; Portal offers TV shows	No	No	Yes
Independent aggregators	Google	Aggregator of content, ad-funded model	No	No	Yes
	Hulu	Plans UK launch, possibly autumn 2009	No	No	Yes
	LOVEFiLM	DVD and online movie rental	No	No	Yes

[Source: Enders Analysis]

Internet VOD consumption: March 2009

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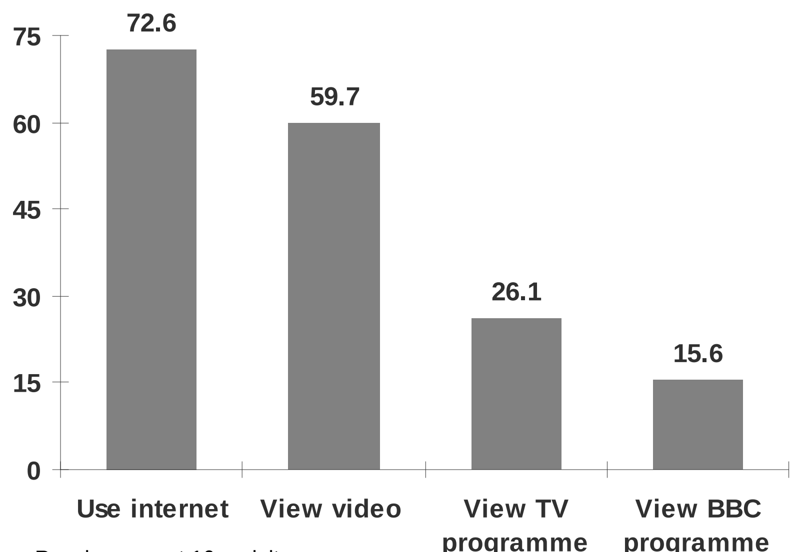
The average video streamer spends 19 minutes/day streaming video

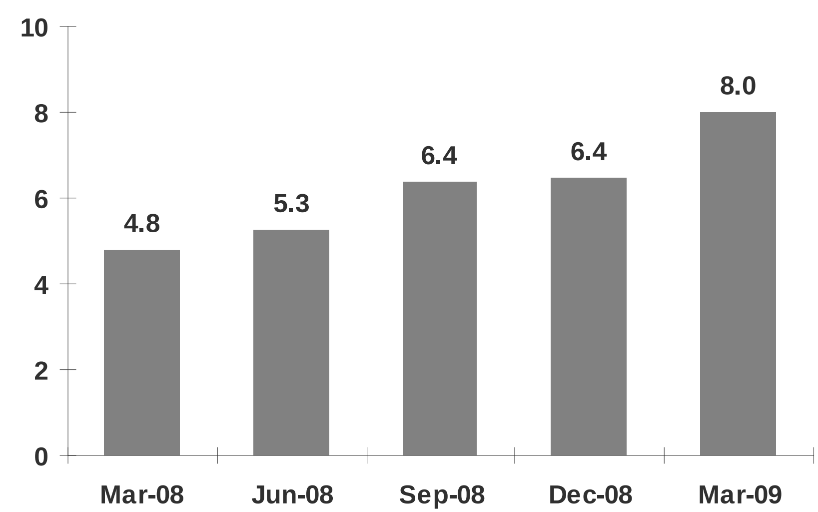
- Little appetite for pay - Consumption driven by short-form content (YouTube c.33% share of total hours viewed)
- PSB video applications generated only 5% of streaming video consumption

Internet video reach, March 2009 (% of adult population)



Reach amongst 16+ adults
[Source: comScore]

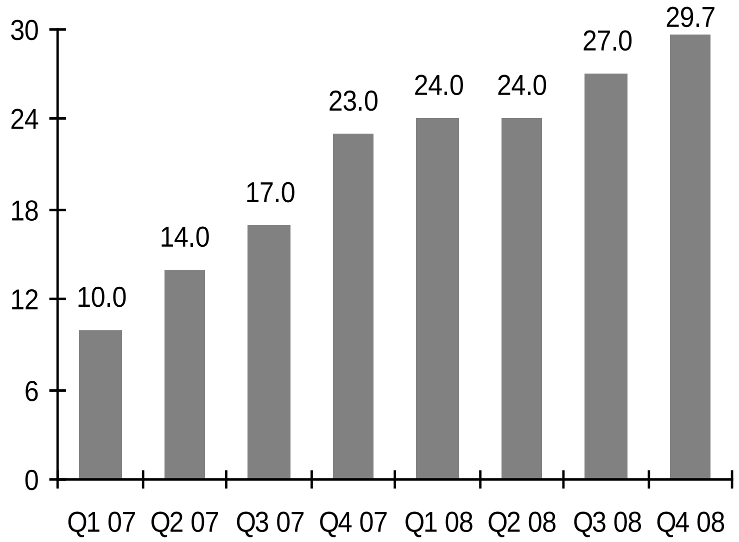
Streaming video as a proportion of TV viewing amongst video streamers (%)



Average time streaming video by 15+ video streamers/average TV viewing by 16+ adults
[Source: Enders Analysis based on comScore, InfoSysTV/BARB]

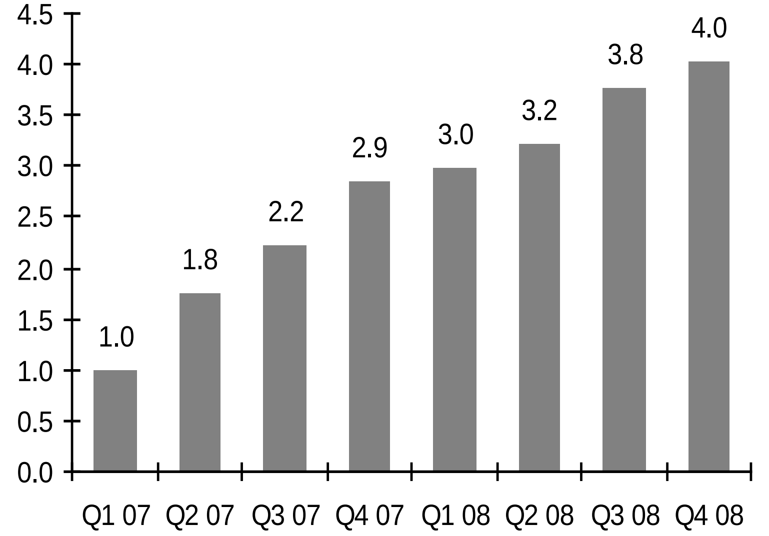
About 50% of VMed TV homes use VOD at least once a month – main growth coming from free content, while PPV/VOD revenues have grown more slowly (estimated £40+ million in 2008 - £30-£35 million in 2005)

Average VOD views per VOD using home per month



VOD users were 52% of VMed DTV base in Q4 2008 versus 43% in Q1 2007
[Source: Virgin Media]

VOD viewing as a proportion of TV home viewing (%)



[Source: Enders Analysis based on comScore, InfoSysTV/BARB]

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Free Catch-up TV is the principal motive for VOD usage

Main reasons for watching VOD, August 2008
(% of TV VOD users)

253 TV VOD users
[Source: Continental Research]

UK VOD spending

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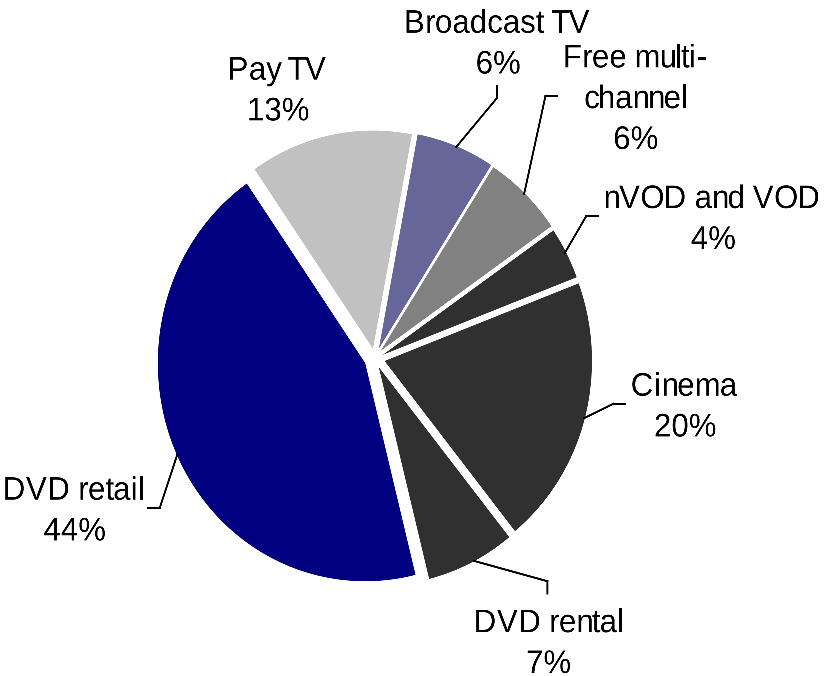
Of the £3.7 billion spent on feature films in 2008, £119 million (3.6%) was spent on VOD/nVOD (£92 million in 2007)

Proportional spend on film, 2007

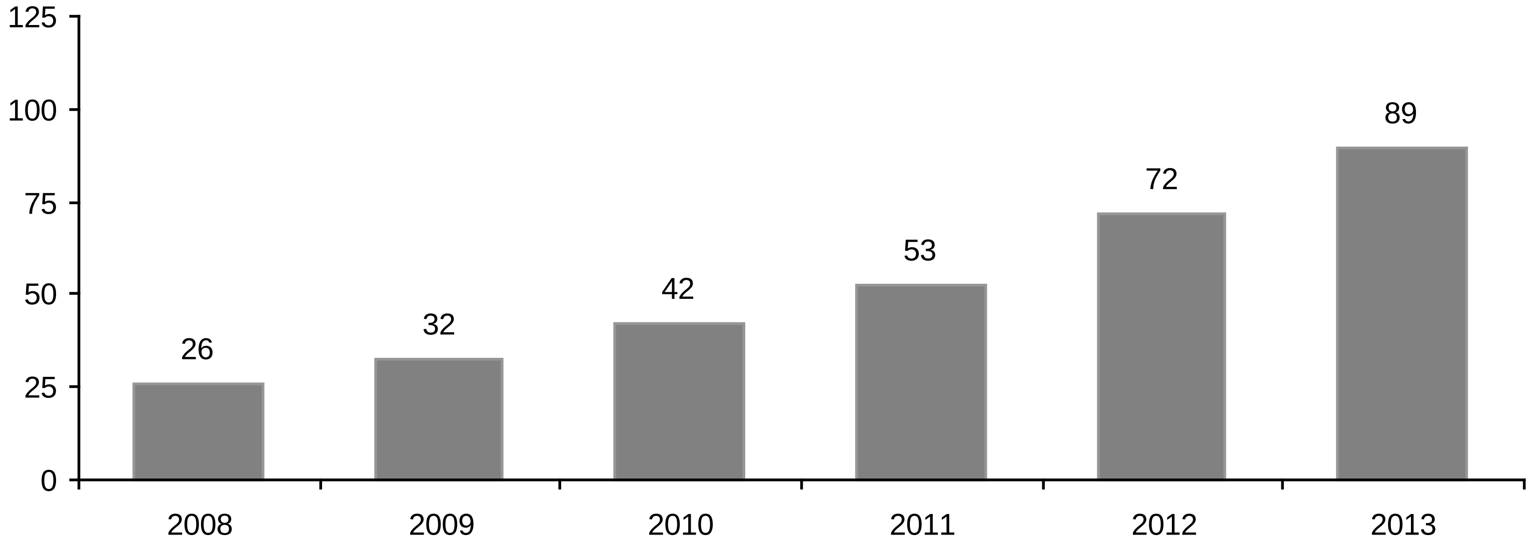


[Source: UK Film Council]

- **About 11 million households had access to VOD/nVOD**
- **16 million UK households were equipped with broadband, but internet VOD generated only £7 million**
- **Piracy, according to the BVA, is the biggest obstacle to the successful development of a commercial VOD market**

By 2013, we estimate that internet video will represent about 6% of TV viewing and 3% of TV ad spend, reflecting low volume of sellable inventory and limited advertiser interest

Internet TV advertising spend
(£m)



In-stream video advertising only (e.g. pre- and post-roll)
[Source: Enders Analysis based on IABUK/PwC]

TV Anytime – IPTV/VOD opportunity

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- Demand for IPTV to the TV or PC remains niche and hard to monetise
- TV VOD still only estimated 3**%** of total viewing in Virgin Media TV homes
- Consumption of TV video content to the PC still tiny next to TV (c.0.5% of total viewing for long-form content and 4% for all non-pirated video content)
- Monetisation of PC video problematic and use largely generated via user-uploaded content sites

➢ By 2013 we forecast TV-based VOD services will generate about £200 million in direct revenues and a further £100 million in advertising (latter including VMed)

TV viewing by age: 2003 – End of June 2009

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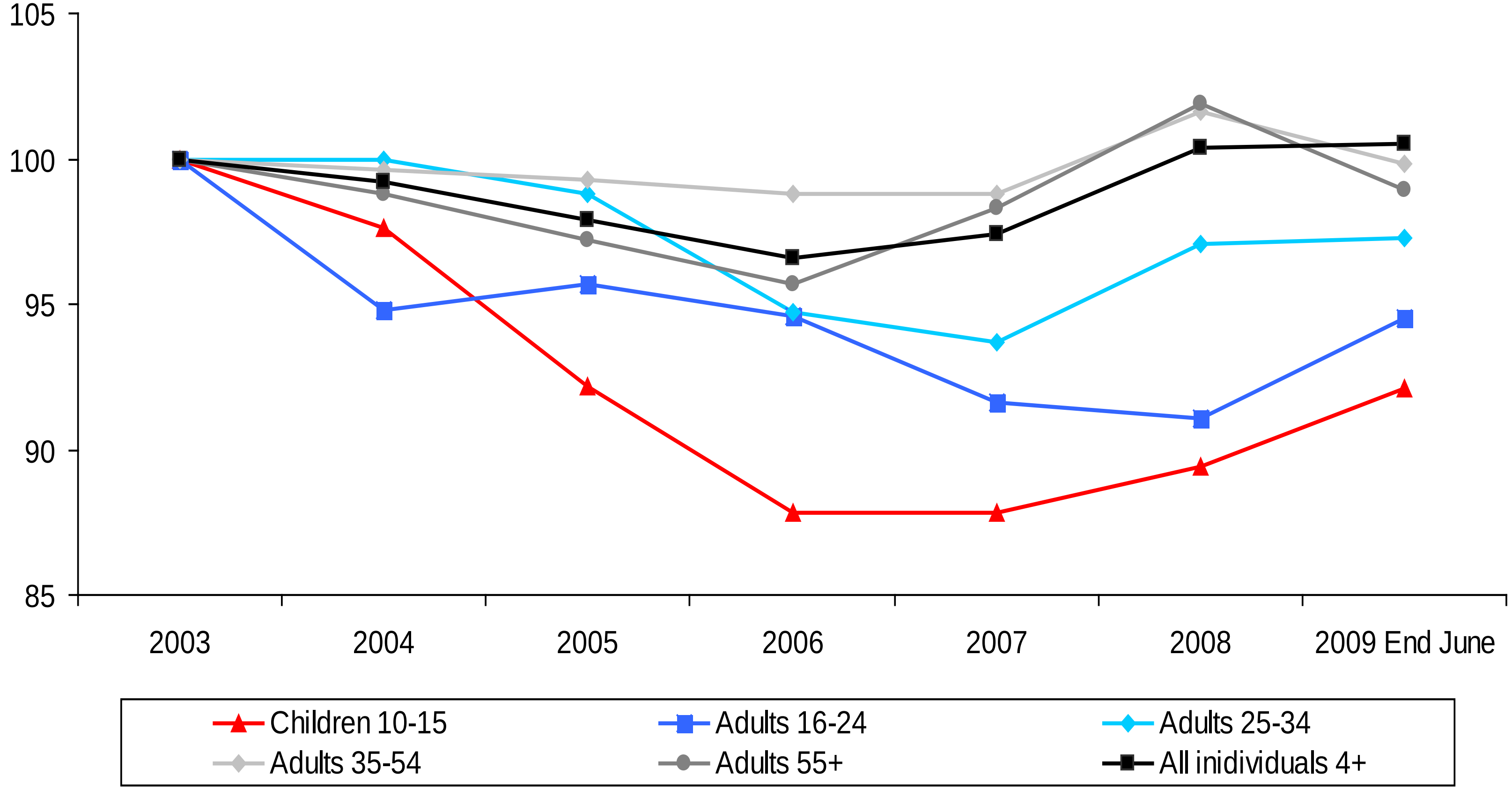
Younger losses compensated by older gains, trends stabilising

Average daily viewing index
(2003=100)



[Source: InfoSysTV/BARB, Enders Analysis – 2008 is indexed on 2003 Jan-Nov]

Issue: TV advertising crisis

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- The TV advertising crisis:
  - Severe recessionary conditions
  - Negative structural change

- Prospect of 33% falling real TV NAR (Net Advertising Revenues) between 2007 and 2010

- Commercial PSBs – ITV/GMTV, Channel 4 and Five – most exposed

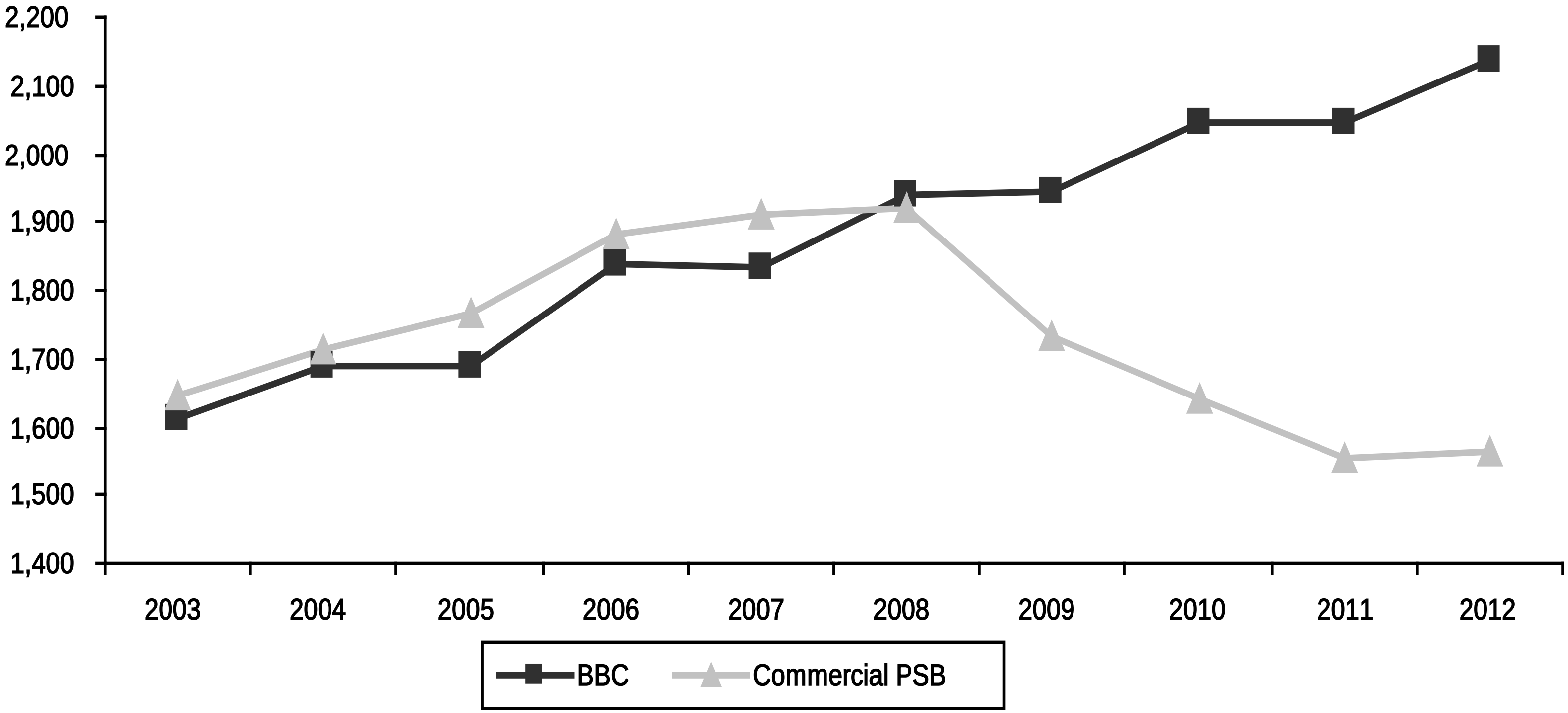
- BBC effectively recession-proof

- Pay sector continues to expand

- Structural damage to the TV advertising sector, as falls in TV NAR ➔ programme budget cuts ➔ further losses in NAR ➔ downward spiral

Growing funding gap ➔ Risk further loss in PSB NAR shares

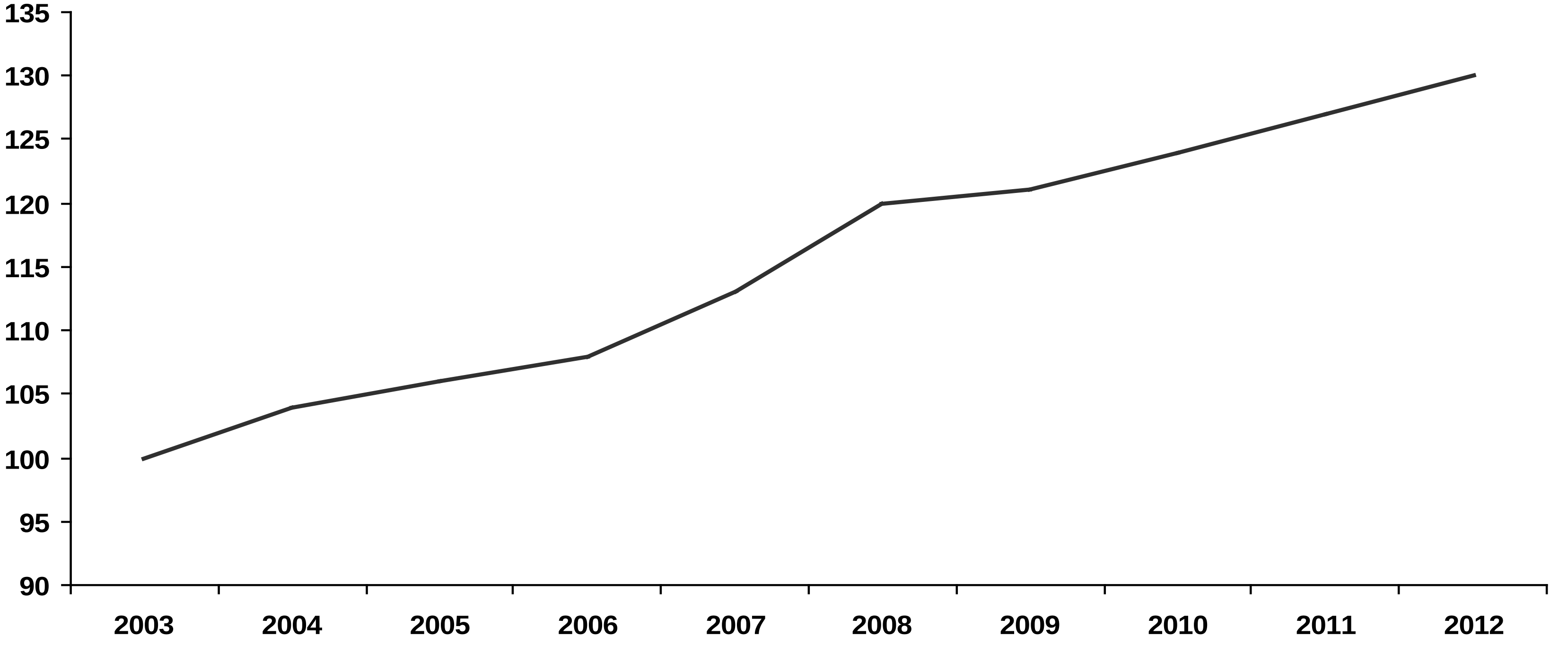
Group spend on TV programming
(£000)



Note: BBC reporting year runs from April to March, such that 2007 entry applies to the year April 2007-March 2008. Commercial PSB figures exclude STV and UTV.
[Source: Broadcasters; Ofcom; Enders Analysis]

Ever more advertising spot eyeballs just another deflationary pressure – If only IPTV/cable VOD services could grow faster!

UK commercial impacts
Index (2003=100)



[Source: BARB/InfoSysTV; Enders Analysis]