

OTT Services and the Value Chain in Canadian Broadcasting

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November 2011

IIC Canada

Value Chain

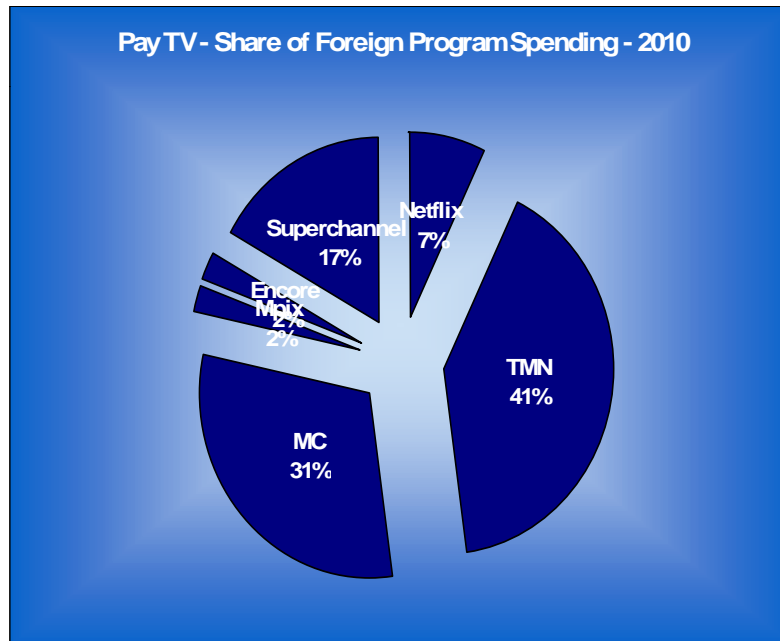
- Content Issues
 - Exclusivity
 - Availability
 - Price
 - Canadian content
 - Content exports
- Economic Advantage Issues
 - Foreign OTT has lower cost structure of foreign OTT
 - Canadian companies have advantage by spending more for foreign programming
- Subscriber Issues
 - Content access
 - Content pricing
 - Subscriber value
- Capital Market Issues
 - Economic profit
 - Valuation
 - Access to capital

Foreign OTT Cost Structure Comparison

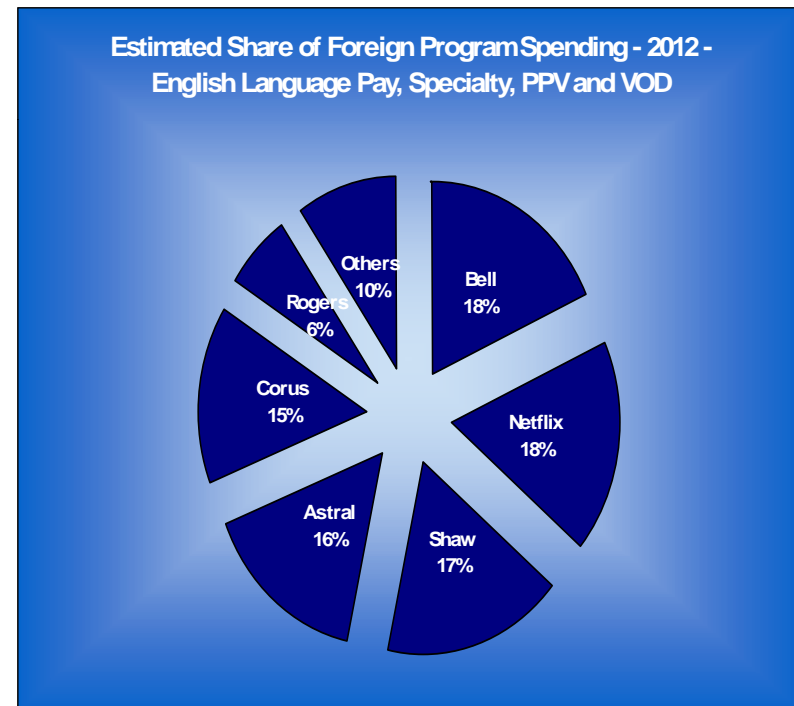
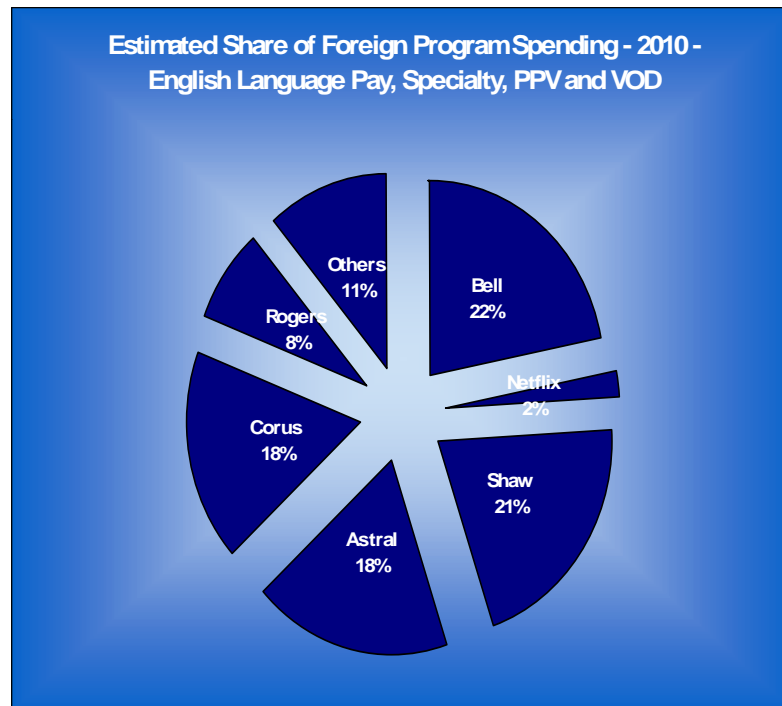
	Netflix USA	Netflix Canada	Super- channel	Movie Network	Movie Central	Mpix	Encore Avenue	Cdn Pay TV
2010/11								
Market households (mm)*	81.7	10.1	13.4	6.2	3.8	6.2	3.8	13.4
Revenues (\$mm)	2,163.0	60.0	25.5	136.5	107.8	24.1	19.2	313.1
Rev/ household /mn	\$ 2.21	\$ 0.50	\$ 0.16	\$ 1.85	\$ 2.38	\$ 0.33	\$ 0.42	\$ 1.95
Total programming expense (\$mm)**	1,154.0	89.0	33.4	91.6	70.0	7.8	5.6	208.4
Program expense / household / mn	\$ 1.18	\$ 0.73	\$ 0.21	\$ 1.24	\$ 1.55	\$ 0.11	\$ 0.12	\$ 1.30
Canadian program expense (\$mm)	n.a.	n.a.	6.1	26.4	20.7	4.1	1.6	58.9
Program expense / household mn	n.a.	n.a.	\$ 0.04	\$ 0.36	\$ 0.46	\$ 0.06	\$ 0.04	\$ 0.37
Foreign program expense (\$mm)	n.a.	n.a.	27.3	65.2	49.3	3.7	4.0	149.5
Program expense / household mn	n.a.	n.a.	\$ 2.04	\$ 10.58	\$ 13.08	\$ 0.60	\$ 1.06	\$ 11.16
Subscribers (000) - 2010/11	20,010	970	336	1,221	963	1,629	2,444	6,593.0
Program expense / subscriber / mn	\$ 4.81	\$ 7.65	\$ 8.28	\$ 6.25	\$ 6.06	\$ 0.40	\$ 0.19	\$ 2.63
* For Netflix represents broadband households. For pay TV providers, represents TV households								
** For Netflix Canada, represents last 4 quarters ending June 30/11, based on reported financial results.								
Source: Nielsen; Statistics Canada; BBM Canada; RJR CI estimates. For TMN assumes 20% of Quebec households are english speaking.								

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Streaming Rights Becoming More Valuable Than Broadcast Rights In Pay TV Sector

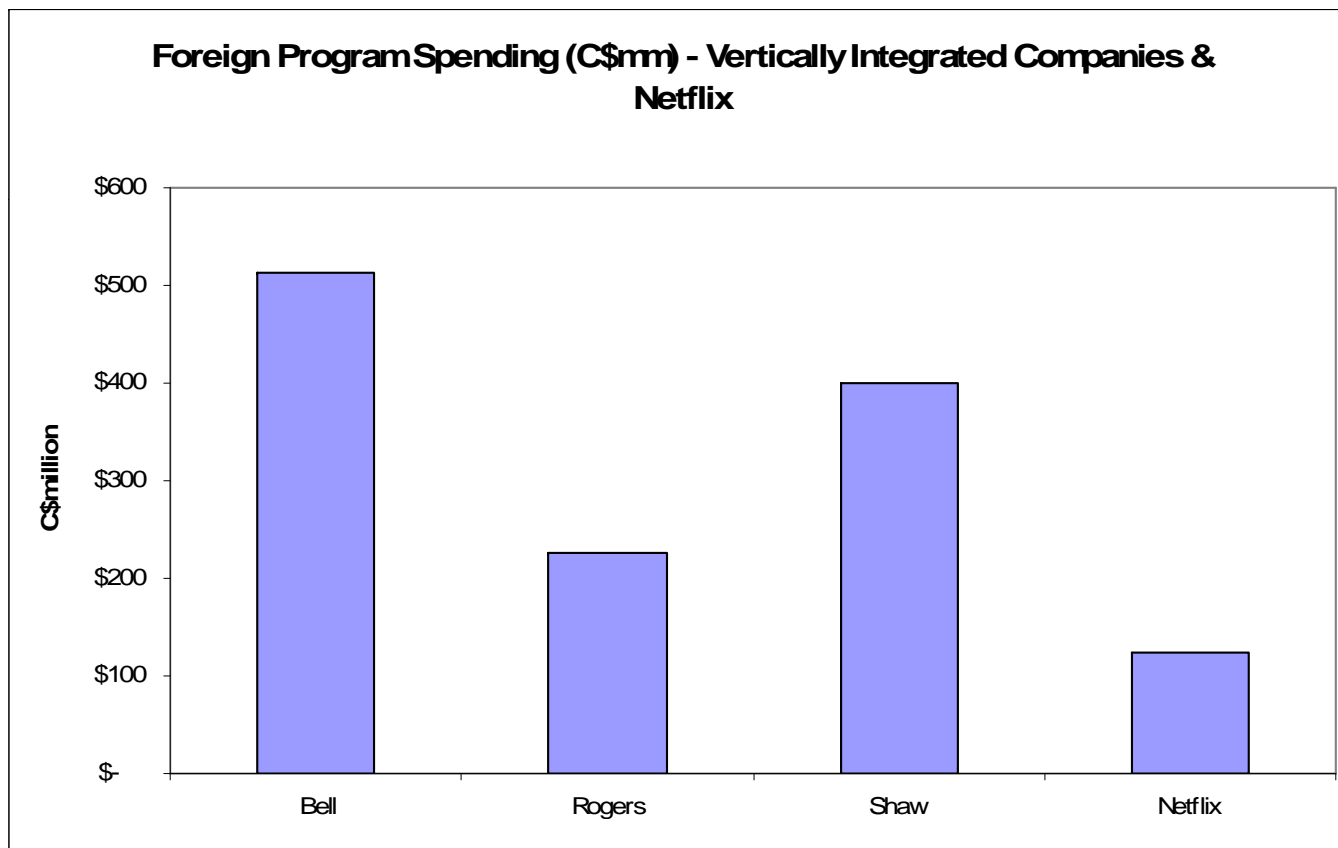


Foreign OTT Will Also be Significant Buyer in the Specialty, Pay, VOD, PPV Sector



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Vertically Integrated Entities Continue to Have Advantage over Foreign OTT



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Canadian Content on Foreign OTT is Roughly 10%

Program Inventory - Netflix Canada - October 2011			
	# of Movie Titles	# of TV Series	# of TV Series Episodes
Total	3,126	484	11,296
Canadian	102	40	1,857
Cancon	3.3%	8.3%	16.4%
Source: RJR Communications Insights; Netflix Canada website			

Foreign OTT Has Significant First Window Pay Movie Content

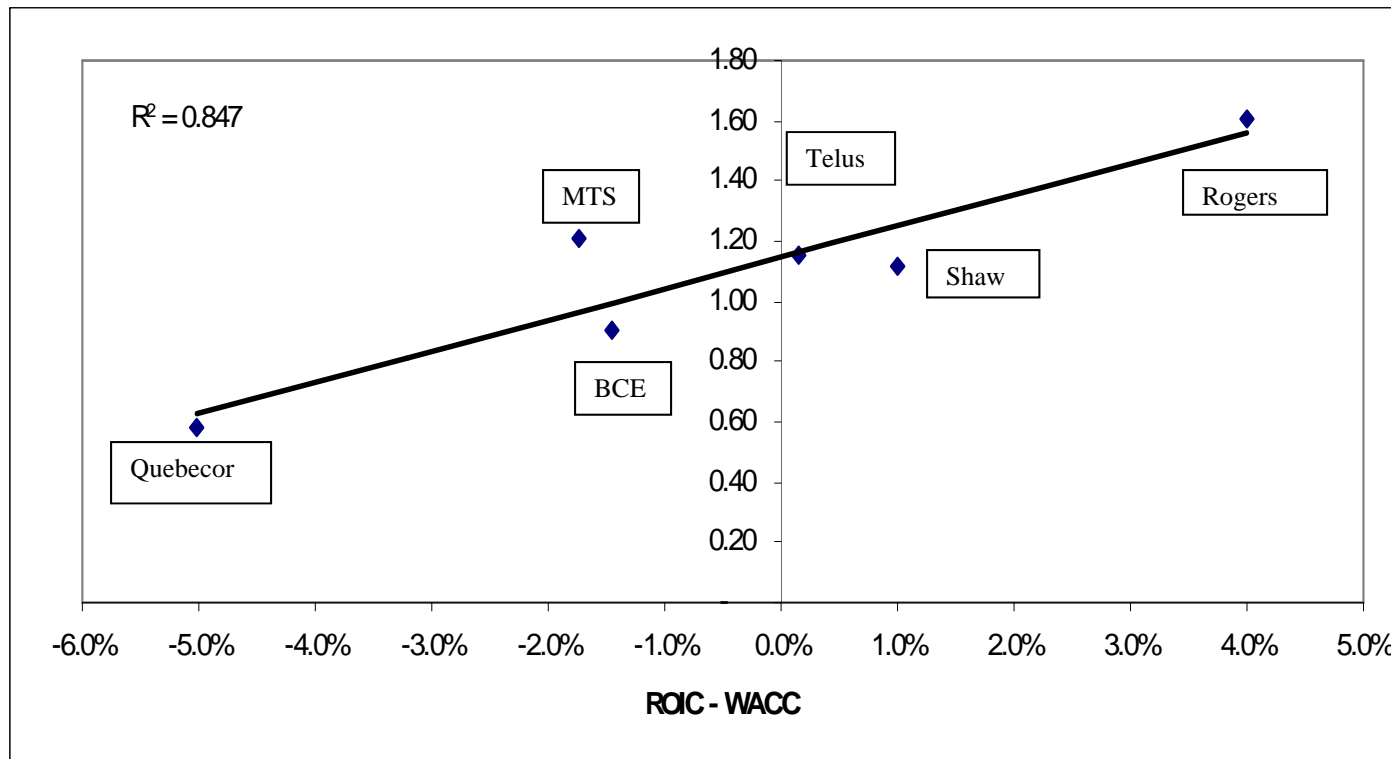
2010 Hollywood Movies Available on Select Canadian Services						
			# of movies	% of sample		
Service						
Movie Central			35	64.8%		
The Movie Network			26	48.1%		
Netflix			14	25.9%		
Superchannel			7	13.0%		
Source: RJR Communications Insights; Box Office Mojo						
Note: Data sourced Oct 19						

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Capital Markets Considerations

- Valuation
- Economic Value Added
- Relative Risk

Return on Capital Drives Stock Valuations



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Canadian Broadcast Entities Generally Did Not Create Economic Value in 2010

	ROIC	WACC	ROIC - WACC	
Rogers	12.0%	7.6%	4.5%	
Shaw	8.5%	7.5%	1.0%	
Telus	7.2%	7.5%	-0.3%	
BCE	5.9%	7.4%	-1.6%	
Astral	7.0%	9.0%	-2.0%	
TVA	6.8%	9.0%	-2.2%	
Manitoba Tel	6.4%	8.8%	-2.4%	
Corus	6.5%	9.3%	-2.8%	
Cogeco Cable	6.2%	9.2%	-3.0%	
QBR	6.0%	10.3%	-4.2%	
Score	6.0%	11.4%	-5.4%	
Source: RJR Communications Insights; Company reports				

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Broadcast Sector – Cash Inputs and Outputs

		\$C bln	
Inputs:	Subscriber fees	7.6	63%
	Advertising revenues	3.6	30%
	Government funding	0.9	7%
	Total	12.1	100%
Estimated Canadian outputs			
	Canadian programming	3.0	25%
	Salaries	2.8	23%
	BDU technical and admin.	1.5	12%
	Capex	0.9	7%
	Gross profit (EBITDA less capex)	1.4	12%
	Total	9.6	79%
Estimated non-Canadian outputs			
	Capital expenditures	0.9	7%
	Foreign programming	1.7	14%
	Total	2.6	21%
Total		12.1	100%

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Relative Risk Ranking

Low	Non vertically integrated BDUs	
		Potential erosion of video retail pricing power over time
		Shift to OTT consumption aids in pricing of broadband
		Cord cutting/shaving partially offset by lower program expense
Medium	Vertically integrated BDUs	
		Potential erosion of video retail pricing power over time
		Shift to OTT consumption aids in pricing of broadband
		Cord cutting/shaving partially offset by lower program expense
		Exposure to highly exposed broadcasting assets
High	Broadcasting	
		Two revenue streams affected: sub fees + adv revs
		Eroding BDU pricing power negatively affects wholesale rates
		Main players generate negative EVA
		Main players have higher costs of capital than BDUs
		Higher exposure to exposed pay television segment

Conclusions

- The value chain is changing in tangible ways
 - Cancon
 - Economic advantage
- Broadcasting companies are most exposed
 - Minimal economic cushion to absorb external threats
 - OTT is a MT challenge to specific sub-sectors (pay TV, cat2)
- Systemic risks rise over time
 - Sum of the parts will equal the whole over the longer term
- Access to capital and return on capital are vital ingredients for a successful industry