TV subscriptions and licence fees

Sports is a key battleground, and with a number of new players entering the market, distribution of sports content has become increasingly fragmented

Tailored TV packages are the future – consumers want to choose which channels they pay for, rather than sign up for broad-themed packages

Hardware is advancing at a rapid pace – 4K has arrived, and 8K is just around the corner. Broadcasters will need to invest in content quality to meet consumer expectations

Segment definition

The TV Subscriptions/Licences market consists of revenues generated by distributors of TV content. It includes spending on subscriptions to basic and premium channels accessed via cable, telephone companies, over-the-top **(OTT)** providers and other distributors. Swiss public TV licence fees and royalties for audio-visual works are also included.

Video-on-demand **(VoD)**, pay-per-view **(PPV)** and separately paid TV programmes delivered via the internet (OTT) and by TV providers are only included in the Filmed Entertainment segment. **Mobile TV** subscription spending is no longer reported here, because it is increasingly obsolete as a standalone revenue stream (revenues are included in the **IPTV** segment).

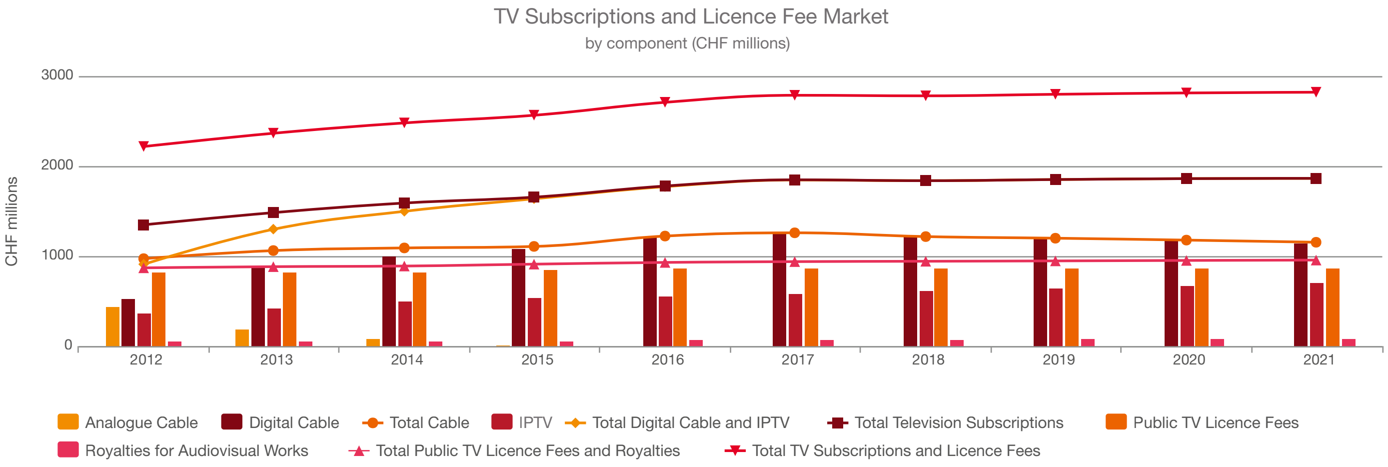
Business innovation

Virtual reality TV – closer than we think?

In past years, virtual reality **(VR)** has focused on the gaming industry, and for all intents and purposes, this is where the focus has remained. However, we have seen a recent push by VR into live sports, catering to purist fans who seek full immersion in the experience of their favourite games.

For the 2016-17 season, the NBA partnered with NextVR to broadcast one game per week in VR to subscribers. Reports have been positive and indicate a truly immersive and engaging experience. NextVR also broadcasted games in VR from the 2017 International Champions Cup. Brad Allen, NextVR's chairman, suggests that processors and resolutions will continue to improve, thereby increasing the appeal of VR content.

VR's foray into TV is not as advanced; however, experts believe there is a lot of potential here for the future. At the MIPTV 2017 (held in Cannes, France), Rikard Steiber, HTC's president of Viveport and SVP Virtual Reality, described VR as 'the next mass medium'.



Analysis by PwC

The challenge is in engaging younger viewers, who are increasingly consuming content through OTT platforms such as YouTube. There is also the issue of price, with VR-capable technology and headsets usually attracting a premium, and VR TVs (if released) likely to have steep initial price points. There are some alternatives. At the recent IFA in Berlin, Fraunhofer Focus presented a device allowing current-day smart TVs to show 360-degree videos, which, while not fully comparable to VR, would allow a cheaper alternative for consumers to experience immersive content.

An important distinction is that VR offers an immersive experience, allowing consumers to experience, look and (almost) feel as if they are actually there in person. While it is still too early to tell if VR is here to stay, it is being billed as a way for the TV industry to remain relevant and provide a unique, immersive and engaging viewing experience to customers.

"VR will come for sure and enhance consumers' TV experience significantly. But it will take some more time due to two reasons: firstly, there has to be more content available; and secondly, the hardware needs some further improvement."

Victor Masopust
Chief Executive Officer | Teleboy

The Swiss TV subscriptions and licence fee market

Market overview

The Swiss TV subscriptions market consists of cable TV and IPTV. In Switzerland, free digital, terrestrial TV or free-to-air **satellite TV** compete with **subscription TV.**

BILLAG, a government agency, has historically been responsible for collecting the annual broadcasting licence fees for access to public TV content. However, after winning a public tender earlier this year, Serafe AG will be responsible for collecting these fees from 2019. This will follow a proposed change to the charging system (the revision of the Federal Law on Radio and Television **[RTVG]**), which was approved by the Swiss in June 2015 and is planned to be provisionally implemented from 1 January 2019.

The aim is to replace the current licence fee with a general tax, and to strengthen local radio and TV stations with funding and training (as well as impose public service obligations). Households will shift to this new licence model by 2019, and until then, BILLAG will continue collecting fees under the current model.

Swisscom has overtaken UPC in numbers of cable subscribers, expanding its TV market share to 33%, and is the current market leader in the Swiss IPTV market. In total, Swisscom TV subscribers increased 11.1% to 1.48 million at the end of 2016. Swisscom TV 2.0, Swisscom's cloud-based TV subscription released in April 2014, has been a key driver of the subscriber growth for the company. The company has invested in this technology, with access to content available through PCs, smartphones and tablets.

Cable TV was previously receivable in analogue as well as digital formats. In mid-2015, UPC, Switzerland's largest cable network operator, ceased analogue broadcasting, with the last six analogue channels (SRF1, SRF2, SRFInfo, Joiz and two local ones) shutting down on 19 May 2015.

At the end of 2016, UPC had a TV subscriber base of 1.25 million, representing a drop of 3.8% versus 2015. This downward trend, also exhibited last year, resulted in UPC's market share of Swiss TV subscriptions falling to 28%. While this trend reflects the impact of 'cord-cutting' as consumers shift to streaming and OTT alternatives, UPC has sought to mitigate further subscriber erosion by acquiring exclusive rights to broadcast a range of sporting leagues and events. UPC's new MySports service will broadcast live Swiss Ice Hockey and (most) Bundesliga games. These rights were previously held by Swisscom's Teleclub. Live sports are obviously a value proposition to consumers, and UPC will invest in this, establishing an editorial team to provide live sports entertainment to customers.

Sunrise, who still hold a relatively small market share compared to Swisscom and UPC, had a subscriber base of 152,000 customers at the end of 2016. This represented an increase of 20% from the previous year, and reflected the promotion and marketing of Sunrise TV, which offers more than 270 channels, live pause and replay capabilities. Sunrise recently entered into a new agreement with Teleclub to offer live sports to customers with a Sports HD add-on pack. They are also collaborating with Sky Deutschland to allow consumers' access to Sky's content through the Sky Sport App, as well as unique series from HBO, such as Game of Thrones.

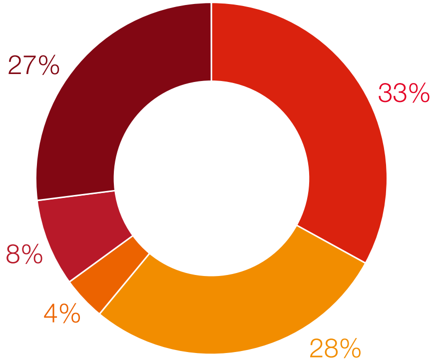
Cable operators and telephone companies face increasing competition in domestic TV. **Web-TV**, with its innovative features and mobile applications, has changed TV consumption. The leading Web-TV services Zattoo, Teleboy and Wilmaa differ in their range of channels, features and supported platforms for the playback of programs. Common to all, however, is a **freemium** model that provides a basic offering including live TV for free, and a premium version with more features.

Time-delayed television and seven-days replay functions are standard for all providers and include a pause function ('Live Pause' and 'Time-Shift').

"Investing in MySports is a strategic decision. Live sport broadcasting is the most important selling argument in the entertainment industry, there is no other format which is more demanded."

Urs Reinhard
Vice President Strategy and Business Development | UPC

Market Share: TV Subscription and License Fees
in 2016



Analysis by PwC

Zattoo and Teleboy also offer a recording function, while Wilmaa allows the download of content onto mobile devices. In March 2016, Teleboy and Wilmaa created a corporate operating company, with the aim of bundling forces and leveraging synergies, although the two brands will still be maintained.

Fragmentation in the market, and new viewing capabilities offered by UPC and Swisscom (through PC and mobile devices), have also impacted Web-TV providers, all of which recorded decreases in customer numbers during the year. According to Net Metrix, Zattoo had 850,000 unique clients at the end of 2016, which is 9% less than in December 2015. Wilmaa's unique clients decreased by 19% to 384,000, while Teleboy recorded an 8% decline to 495,000 unique clients at the end of 2016.

Cable TV still dominates the Subscription TV landscape in Switzerland provided by UPC and many smaller cable operators. But the largest player within the overall Swiss TV subscription market (cable and IPTV) is still Swisscom with its IPTV offering. Through new product offerings, Swisscom recognised a 3.1% point increase in market share (to 33%) during 2016, while the second largest operator UPC lost market share down to 28% (a 2 percentage point decline). Although still relatively small, Sunrise also increased its market share by 0.6% to hold 4% of the Swiss TV market by the end of 2016.

Principal drivers

Sports continue to be the key battleground

There has been a flurry of activity in the distribution of live sporting content this year. In July, UPC Switzerland signed a deal with Sky Deutschland to broadcast all Bundesliga games to which Sky has the rights (in total, 572 Bundesliga and 2nd Bundesliga matches). This content will be available to customers through MySports, which provides consumers access to a multitude of live events, including hockey, football and motor sports. The anchor content of this service is expected to be its exclusive rights to Swiss ice hockey, however customer appeal will definitely be bolstered by the new Bundesliga deal.

Previously, Teleclub, operated by Swisscom, held the rights to these matches and it remains to be seen what impact the loss of this content will have on subscriber numbers. Teleclub did, however, manage to secure a deal with Discovery Deutschland to air 40 Bundesliga games (including those in primetime slots) that will not be broadcast by Sky.

"Sport broadcasts, but in particular live events, have an enormous standing since they are our customers' most sought-after content. The number of viewers rises significantly every time there are 22 men chasing one ball around the field."

Jörg Meyer
Chief Officer Content & Consumer | Zattoo

Sports content distribution in Switzerland

	Swisscom Teleclub, Sky	UPC MySports, Sky	Sunrise Sky	SRG SSR	Sky	DAZN
Swiss ice hockey	✗	✓ [2]	✗	✓ [5]	✗	✗
Swiss Super League	✓ [1]	✗	✗	✓ [3]	✗	✗
Champions League	✓	✗	✓	✓ [3]	✓	✗
Premier League	✓ [3]	✗	✗	✗	✗	✓
Bundesliga	✓	✓	✓	✗	✓	✗
La Liga	✓	✗	✗	✗	✗	✓
Serie A	✓	✗	✗	✗	✗	✗
Ligue 1	✓	✗	✗	✗	✗	✗
Motor sports	✓	✓	✗	✓ [4]	✗	✗
Tennis	✓	✗	✗	✓ [4]	✗	✗
NHL	✓	✓	✗	✗	✗	✗
NFL	✗	✗	✗	✗	✗	✓

1) 4 year rights deal from FY17/18 season
2) 5 year rights deal from FY17/18 season
3) 1 game per gameday
4) Swiss participation
5) Playoffs

"The OTT market is a fast-growing one. The number of people using such service offers will increase at a triple-digit growth rate over the next five years."

Victor Masopust
Chief Executive Officer | Teleboy

	Swisscom	UPC	Sunrise
Triple or Quadruple play	Quadruple (inOne)	Triple (Connect & Play)	Quadruple (Sunrise One)
Components	Internet Phone TV Mobile	Internet Phone TV	Internet Phone TV Mobile
Minimum monthly fee / ARPU	100.00 CHF	89.00 CHF	139.00 CHF
Lock in contract	1 year, afterwards within 2 months	1 year, afterwards within 2 months	1 year, afterwards within 2 months

OTT is on the rise

The advent of streaming is a boon for sports fans, who will be spoilt by a number of direct-to-consumer offerings. In August 2017, Sky Deutschland launched its own OTT service in Switzerland, which, for CHF 19.90 a month, provides access to sports such as the Bundesliga and UEFA Champions League. Swiss sports fans can also subscribe to DAZN, a live sports service (owned by UK-based Perform Group), to access matches in other leagues such as the UK Premier League and Spanish La Liga.

DAZN, dubbed the 'Netflix of Sports', is a relative newcomer to the streaming market. Mirroring the Netflix concept, DAZN charges customers a flat fee of CHF 12.90 per month, with no lock-in contract. While they do not currently hold rights pertinent to Switzerland (such as the Super League and Bundesliga), the concept gives us a notion of how fans may consume European sports content in the future.

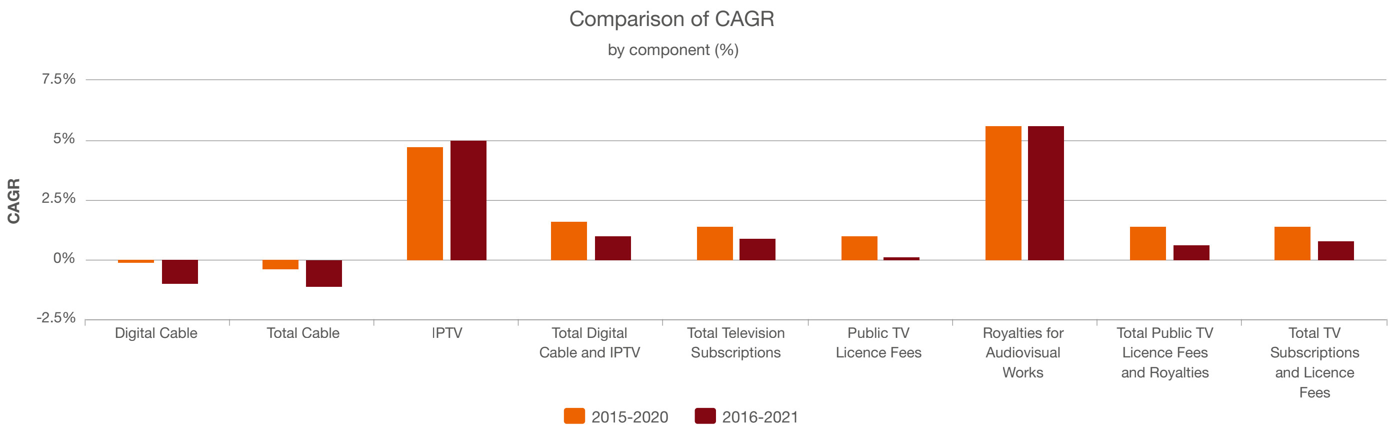
Bundle deals are expected to be a key growth driver

Swisscom released a new quadruple-play bundle in April 2017, inOne, with 450,000 people signing up for the new service since its launch. The strength of bundled offerings is reflected in Swisscom's bundled contract revenues, which increased almost 13% from the prior period to CHF 1.37 million.

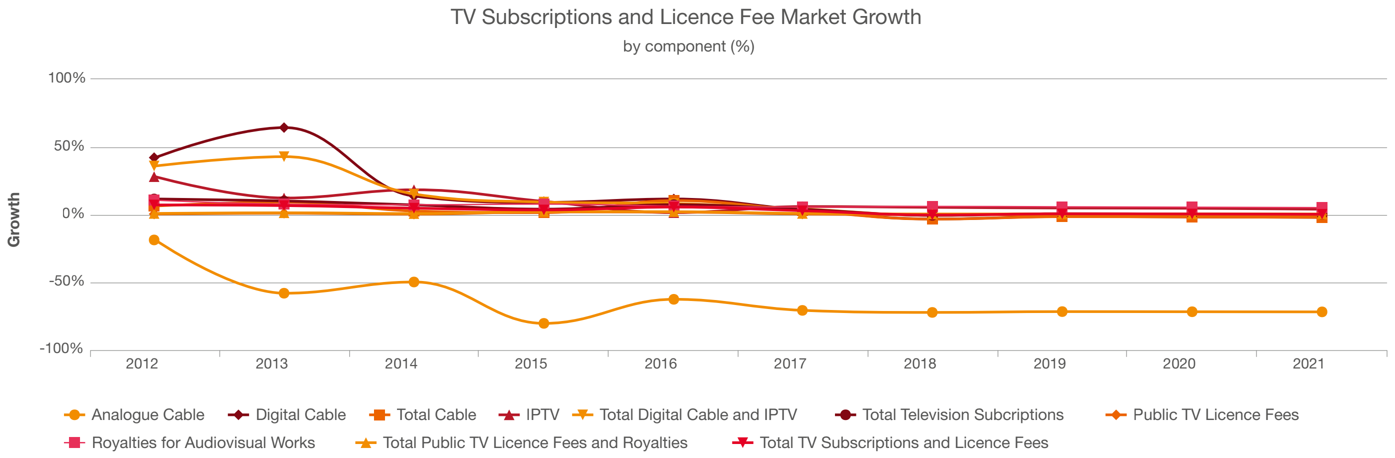
UPC also came to the party by refreshing their triple-play bundle, Connect & Play, in May 2017. The product portfolio, initially launched late last year, has been a key driver of the close to 11,000 RGU (subscriber) additions in the second quarter of 2017. We would expect UPC's customer stickiness to increase following the launch of their MySports service and release of a Netflix app on their Horizon HD recorder.

Tailored TV packages are the future

With linear programming on the decline, and on-demand and time-shifted content here to stay, we believe consumers now seek tailored and personalised TV packages. In the US, a number of



Analysis by PwC



Analysis by PwC

TV channels, such as AMC and HBO, have released their own stand-alone service for their shows. A recent US market study by TiVo revealed that 77% of respondents are only willing to pay for channels they want to watch.

Customer inclinations may be the same in the Swiss market, with many TV packages offering more than 150 channels. Although tailored packages may increase customer satisfaction and stickiness, they would serve to reduce the ARPU generated. The TiVo report also highlights that content recommendations positively affect the perceived value of Pay-TV content, which could be a strategy for broadcasters faced with this shift in consumer preference.

TV hardware advances will lead to higher-quality content

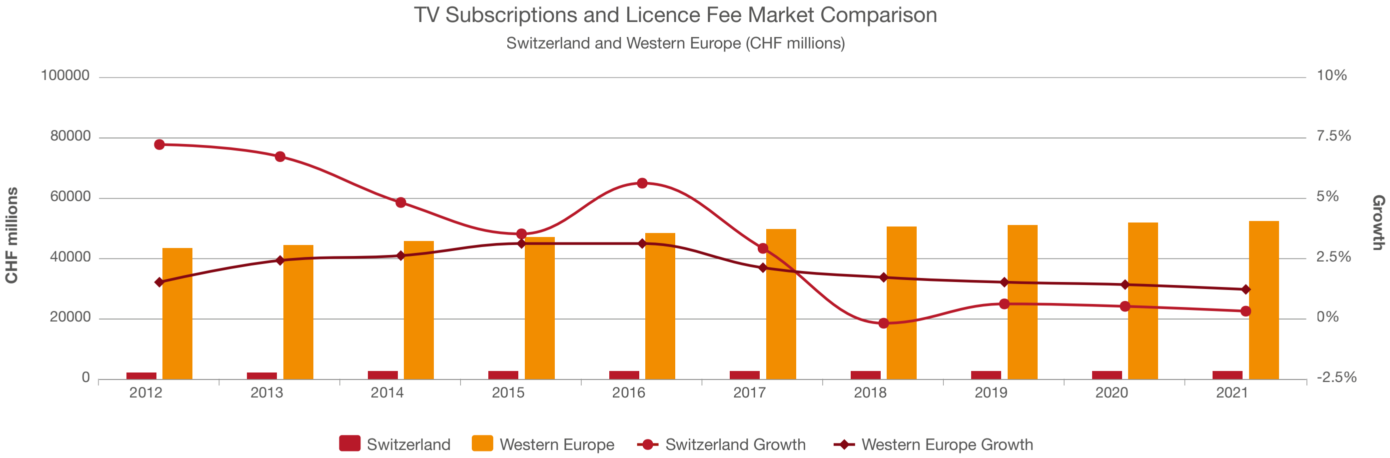
As TV hardware capabilities have increased, so too has demand for higher-quality content. Earlier this year, Swisscom added an Ultra HD channel, Insight TV, to its channel line up on Swisscom TV 2.0, which it hopes will drive consumer take-up of UHD services. A number of TVs are now capable of showing 4K and Ultra HD content, and we expect content quality to catch up during the course of next year.

TV technology typically outpaces content quality, and while it will take time for broadcasters to upscale their feeds to deliver 4K content, 8K TVs may be available in the home as soon as 2018. While the growth of Ultra HD or 4K content has been slow, we can expect this to be a focal point in future years as consumers demand higher-quality content to match their TV's capabilities.

Market growth

The landscape for Swiss TV subscription and licence fees has changed, and growth rates are expected to be lower than in the past – over the next five years, the market is expected to grow at a CAGR of 0.8%. Embedded within this growth rate are two offsetting factors – the decline in traditional cable offerings, and an increase in IPTV. The latter is expected to grow at a CAGR of 5% through 2021.

By 2021, 2.2 million households are projected to have IPTV offerings, up from 1.6 million at the end of 2016, which represents an annual average growth rate of around 6.9%. The trend for cable has continued – in 2016, the cable market lost 80,000 subscribers, and this erosion is expected to persist in the near future. Licence fees are expected to remain flat, while royalties should grow by around 5.6% a year for the next five years.



Analysis by PwC

Comparison to Western Europe

The European market has embraced bundled offerings, and major Subscription TV providers are aiming to capitalise on this in effort to increase their ARPU. Key value propositions from providers include multiscreen capabilities and continual enhancements to set-top boxes.

A key source of innovation will be Sky Europe, which was serving 22 million subscribers across the UK, Ireland, Germany, Austria and Italy at the end of 2016. Sky has often been first to market with new TV innovations such as VOD, Ultra-HD and next-generation set-top boxes and DVR.

In terms of growth, Switzerland is lagging the Western European market, with a forecast CAGR of 0.9% over the next five years, compared to the Western European forecast of 1.6%. Germany will remain the largest market in terms of households and is expected to have 23.4 million subscribers in 2021. Although it has a lower projected subscriber base (17.1 million by 2021), the UK is still expected to be the largest market from a revenue standpoint, driven by the increased uptake of premium services and higher prices for TV packages.

Cable remains the largest subscription TV platform in Western Europe, however it has reached a peak. Cable TV households are forecasted to decline from 43.6 million at the end of 2016 to 42.1 million by the end of 2021. This trend is also expected in the Swiss market.

The main beneficiaries of cable's decline will be IPTV, with the number of IPTV households in Western Europe expected to increase at a CAGR of 4.7% through the end of 2020. Key growth areas will be France, Europe's largest IPTV market, followed by the UK.