BEING COMPETITIVE IN THE STREAMING WORLD

November 3, 2021

Brad Danks J.D.
CEO of OMG Media Group and OUTtv Network Inc.

MY BACKGROUND

Entertainment lawyer in the 1990s-mid 2000s

Worked on film and television financings from Canadian independents to US studios and major broadcasters. Involved in the production, financing and distribution of thousands of hours of entertainment content.

COO of OUTtv in 2006 then CEO in 2016.

- OUTtv is the world’s first LGBTQ television channel, launched as PrideVision in 2001 Celebrating 20 years of service to the community.
- In 2016 we launched our direct to consumer OTT SVOD service in Canada called, OUTtvGo - Now distributed through this platform in many countries around the world.
- OUTtv was the first Canadian service too launch with AppleTV+ in Canada (2019) and the first too launch in the US (2020)
- Amongst the first to launch with Amazon in Canada in 2019 and will be the first Canadian service to launch with them in Australia in November 2021
- In addition, we have numerous other distribution deals with other aggregators around the world.

THE CURRENT ENVIRONMENT

We are in a period of disruption and transition

Key Trends

1. There is rapid dispersion of consumers off the traditional television system to new streaming platforms. A recent report from Leichtman Research Group (LRG) says that between 2011 and today US TV households subscribing to Pay-TV has dropped from 87% to 71%. This represents a 19.5% drop. In Canada we see similar drops from a high point in 2013 of 86% of households dropping to 70% by 2018.

2. This dispersion began slowly with the launch of Netflix as a streaming service in 2007 and Amazon Prime Video in 2015 but accelerated with the launch of Disney+ in November of 2019 followed soon by HBO Max, Peacock, Paramount+, Discovery+ and others.

3. The streaming services are dramatically disrupting global content markets and putting enormous competitive pressures on local content providers.

OPPORTUNITIES AND THREATS

- Streaming represents a once in a generation shift in the business model of content delivery and what we currently call broadcasting.

- Threat – when the Established, Traditional Broadcasting system was created it was technologically a “walled garden” delivery system. The walled-garden system is now eroding more quickly as the new streaming platforms gain consumer support.

- Opportunity – the new streaming aggregators provide an incredible opportunity for Canadian companies to globalize their brands and export Canadian content around the world. It is the digital “land grab” of this generation.

- Most Canadian Broadcasting services are in both worlds. We are trying to maintain the revenue from the past in order to help us get to the future.

WHY ARE CONSUMERS SHIFTING TO STREAMING?

Three Main Drivers

1. Better, lower cost consumer experience

2. The consumer perception of the overall cost/quality of Pay-TV continues to drop.

3. Premium content now offered only on the streaming platforms – i.e. *The Mandalorian, Squid Game*

THE PLAYERS

1. The major content platforms - Netflix, Disney+, HBO Max and Discovery+ (Warner Bros.), Peacock (Comcast/NBC/Universal), Paramount+ (Viacom/CBS)

2. The major aggregators (the new BDUs) – Amazon, Apple and Roku

3. The AVOD platforms – Tubi (Fox), PlutoTV (Viacom), Xumo (Comcast), SamsungTV and IMDB.TV (Amazon)

4. Differences between SVOD and AVOD

WHY DIRECT TO CONSUMER IS BETTER FOR THE CONTENT OWNERS

- **Customer Captivity:** A direct relationship with the consumer creates a better relationship and understanding through data insights impacting pricing, product (content) and potential upselling of other products – Note the current battle over the TV screens including television sets from Comcast and Amazon.
- Cuts out the middleman BDUs who control the customer relationship and extracts more of the revenue.
- Better financial model for revenue – LTV – Long Term Value of the Customer – raises valuations by 25% or more.
- Need to be part of the OTT Eco-system for higher valuation and potential acquisition
- **When will the Content Platforms stop selling to Canadian broadcasters?**

THE NEW PLATFORMS VERSUS ESTABLISHED BDUS

Key Differences:

- Performance payment arrangement – revenue share
- Partnership model
- Full market penetration – no packaging
- Less consumer friction
- Performance data – the importance of knowing the numbers

WHY IS THE CHANGE SO SIGNIFICANT?

1. Distribution, not Content, is really King or at least the King-Maker.

"**In fact, the dirty little secret of the media industry is that content aggregators, not content creators, are the overwhelming source of value creation."** Columbia Business Professor Johnathan Knee, in The Platform Delusion, p. 134.

a) The primary asset of the major media companies in Canada – by far - is their monopoly of distribution in the Canadian market. It is not their IP, technology or exclusive content licenses. Their distribution on the established BDU system gives them the revenue and market access that gives them the confidence to invest in their original programming and foreign content licenses.

b) The Established Canadian system is built on this foundation – Broadcasting Services get the benefits of aggregation but are then obligated to spend a percentage of their revenues – perhaps 30% - on original programming. The migration of consumers off the established BDU system has already lowered content expenditure but it continue to erode their ability to make these investments.

WHY IS THE CHANGE SO SIGNIFICANT? (CONT.)

2. **How do we respond to the shrinking of the Established distribution system?**

a) Current response of the Major Media Companies – "level the playing field". In other words, cut obligations. Problem is that it doesn't solve the underlying problem. It is a temporary fix only.

b) Fix the Established distribution system to give it a longer life or make it fully competitive.

c) Replace the distribution lost on the Established system with distribution in the streaming world.
   1. Just in Canada – Crave, StackTV – Yes, but there is problem with no longer being a monopoly in control of the market.
   2. Moving your content outside of Canada into the opportunities in the global streaming world. That's what I want to talk about.

HOW DO YOU GET CARRIED ON THE AGGREGATORS

1. Content requirements – 200/20 rule. The “Grundle”

2. Importance of Original and Exclusive content.

3. Marketing support

4. Ability to generate subscriptions

5. Ability to deliver technologically to their platforms

6. Relative Scale – what *OUTtv* does with 25 people

THE PROBLEMS WITH CONTENT

1. The Acquisition Trap versus Original Programming replacement costs

2. Why is so much original content being produced globally?

3. Content sales to third parties versus branded platform sales direct to consumer

4. How does streaming change the marketplace for programming rights and Canadian producers?

5. When will we reach a sustainable market equilibrium?

KEY AREAS OF FUTURE CONCERN FOR CANADIAN CONTENT PROVIDERS - THE NEED FOR REGULATION

- Meet the new boss, same as the old boss. We naively continue to believe that the relationship between distributors and content owners is relatively equal – they are not.

- Barriers to entry and future need for regulation:
    1. Access to Aggregators by Canadian content providers
    2. Canadian cultural imperatives – mandatory carriage?
    3. Fair commercial terms – revenue share, fair marketing (discoverability)
    4. Pay for play marketing concerns
    5. Vertical integration, self-dealing and preferences

- The problem with content platforms – the 30% solution?

- Canadian market distribution contributions

STATE OF RESPONSE

- The national champions – Bell, Rogers and Corus (Shaw)
- Quebecor - Vrai – unscripted service
- Where is MapleBox?

- Possible strategies
  a) BritBox and Viaplay
  b) AMC+ - (Shudder, Sundance, AcornTv), Lionsgate (Starz)

- Canadian independents – OUTtv, Blue Ant (Love Nature, Haunt), WildBrain, GustoTV

- The Canadian content issue – Aggregator versus content platforms

THANK YOU!

Contact: Brad Danks J.D.
Brad@outtv.ca