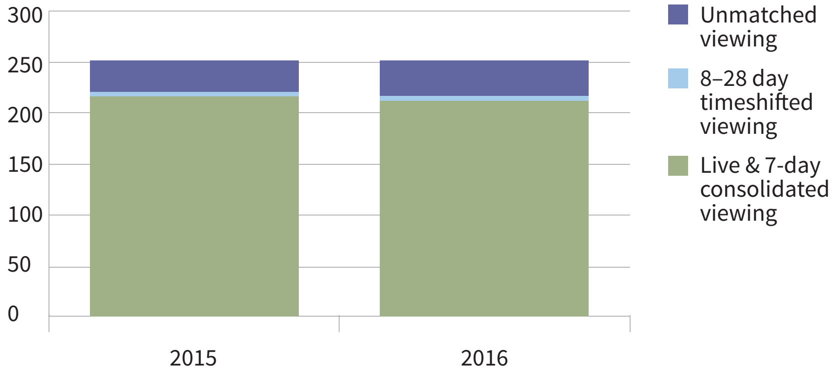
THE SVOD REPORT: CHARTING THE GROWTH IN SVOD SERVICES ACROSS THE UK

January 2018

In the UK, television is still king. We are investing in ever larger TV sets; more than half of all UK households have a TV at least 40 inches wide and 16% of homes have a set of at least 50 inches. We're getting a lot of use out of them too; in 2016, daily total TV set viewing by individuals was four hours 12 minutes on average. But how and what we are choosing to watch is changing.

1 DAILY CONSOLIDATED TV VIEWING

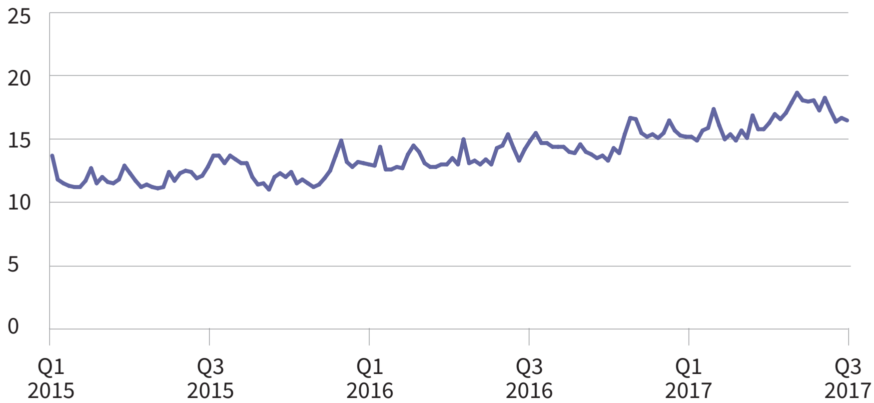
Average minutes, BARB panel



In a world of fragmentation, traditional TV viewing is declining (chart 1). In 2015, the average person watched 216 minutes daily of traditional consolidated TV (live and viewed within seven days of broadcast). In 2016, this fell to 212 minutes, a 2% decrease, although the total amount of time spent in front of the TV is unchanged. The reason for this apparent disconnect is that a fast-growing area of activity is unmatched viewing.

2 UNMATCHED VIEWING

Unmatched viewing as a % of total TV set usage, BARB panel



Unmatched viewing accounted for around 14% of all TV set activity in 2016, and this figure has reached almost 19% in recent months (chart 2). While a significant proportion of this can be attributed to games-playing on a games console, the rest ranges from archive playback of PVR recordings over 28 days old, to DVDs and, most importantly, to watching programming via subscription video-on-demand (SVOD) services.

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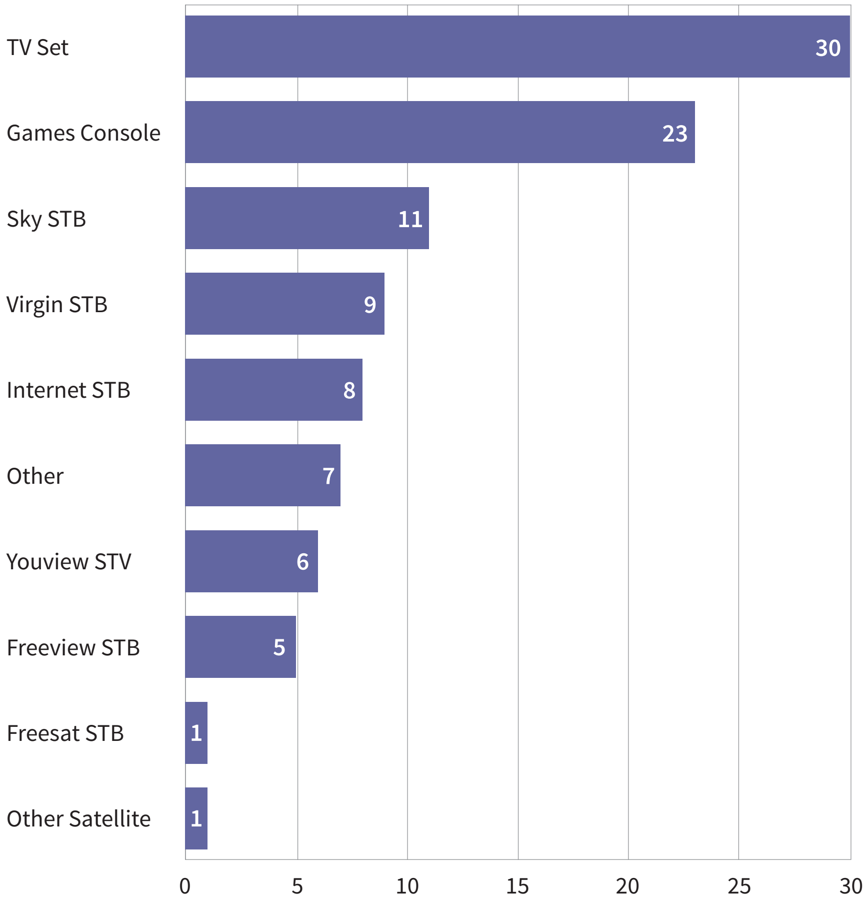
3 UNMATCHED VIEWING BY DEVICE

% of unmatched viewing, BARB panel Q1 - Q3 2017



30% OF TV VIEWING COMES FROM THE TV SET ITSELF RATHER THAN ATTACHED DEVICES, AND THIS IS MOST LIKELY TO BE VIEWING PROGRAMMING VIA SVOD SERVICES

Looking at unmatched viewing by device (chart 3), 23% is via games consoles, the vast majority of which can be assumed to be gaming. It also comes from set-top boxes provided by Virgin (9%), YouView (6%) and Freeview (5%), as well as internet set-boxes (8%) which includes Apple TV. All of these offer SVOD services through their set-top boxes; by contrast, despite accounting for 11% of unmatched viewing, Sky set-top boxes don't offer SVOD services. Most significantly, 30% of unmatched viewing comes from the TV set itself via integrated applications or USB stick plugins, and this is most likely to be viewing programming via SVOD services.

BARB isn't yet able to measure actual viewing to SVOD services without the cooperation of the service providers. However, we can get a sense of the popularity of these services from our Establishment Survey, which has been asking questions about SVOD service take-up since the beginning of 2014.

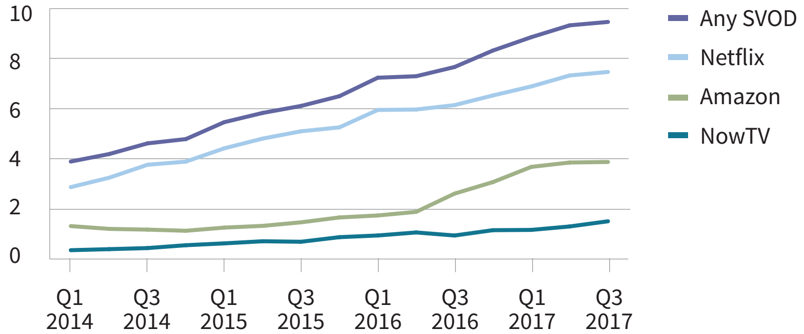
MORE THAN NINE MILLION UK HOUSEHOLDS SUBSCRIBE TO AT LEAST ONE SVOD SERVICE

SVOD SUBSCRIPTION GROWTH

The SVOD market is enjoying a sustained period of growth in the UK; more than nine million UK households subscribe to at least one SVOD service. When you take into account homes that have more than one service, we can project that there are over 12 million subscriptions to SVOD services. This is in addition to any pay-TV packages to which homes are committed, and the SVOD market has not yet reached maturity.

4 HOUSEHOLD SVOD TAKE-UP

Household subscriptions (millions), BARB Establishment Survey



THERE HAS BEEN A 24% INCREASE YEAR-ON-YEAR IN THE NUMBER OF HOMES TAKING AT LEAST ONE SVOD SERVICE

Growth across all of the main SVOD services has been consistent over the last 12 months (chart 4). Overall, households taking at least one service have grown by 24% to 9.5 million homes.

Amazon Prime Video, which had seen very high growth in late 2016 and early 2017, has plateaued in Q3 2017 and saw the smallest quarter-on-quarter increase of all the three main services.

5 ANNUAL SUBSCRIPTION GROWTH

% growth in homes with a subscription, BARB Establishment Survey Q3 2017

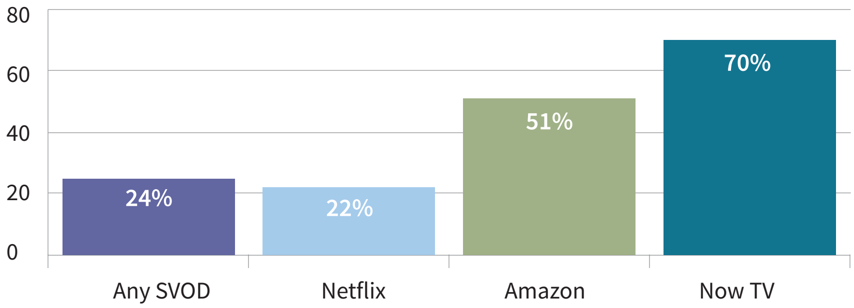


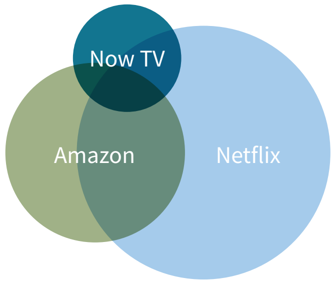
Chart 5 compares the services by their annual subscription growth. Netflix, still the dominant SVOD player in the UK, grew at the slowest rate of the three main services, with a 22% annual growth rate, but added the most subscribers in the year, rising by 1.4 million to a total of 7.5 million. Now TV experienced the largest annual subscription growth of 70%, adding 0.6 million subscribers to reach a subscription base of 1.4 million households.

THE NUMBER OF HOUSEHOLDS THAT ARE SUBSCRIBING TO MORE THAN ONE SERVICE IS INCREASING

Subscriptions to SVOD services are not exclusive however, and the number of households that are subscribing to more than one service is increasing (chart 6). By the third quarter of this year, of the 7.5 million households subscribing to Netflix, 2.3 million also subscribed to Amazon Prime Video - 31% of Netflix's subscriber base. Likewise, of all Amazon Prime Video subscribers, a significant 60% of them also subscribed to Netflix.

6 OVERLAP BETWEEN SVOD SUBSCRIPTIONS

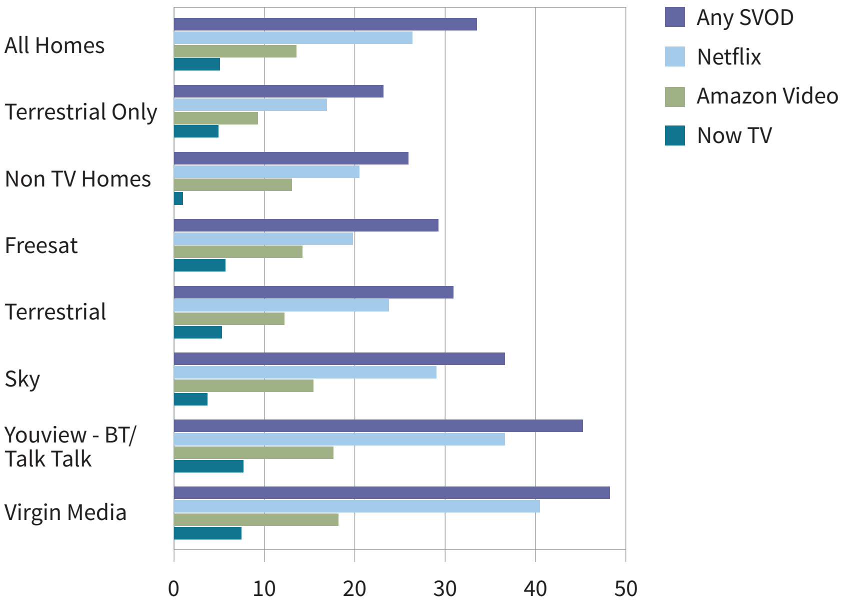
BARB Establishment Survey Q3 2017



Should price points for these services become sensitive to consumers, these overlaps will become ever more important for how each operator markets its services, not only in terms of competitive pricing, but also in the types of programming that drives subscriptions.

7 SVOD SUBSCRIPTIONS BY HOUSEHOLD PLATFORM

% of households, BARB Establishment Survey Q3 2017



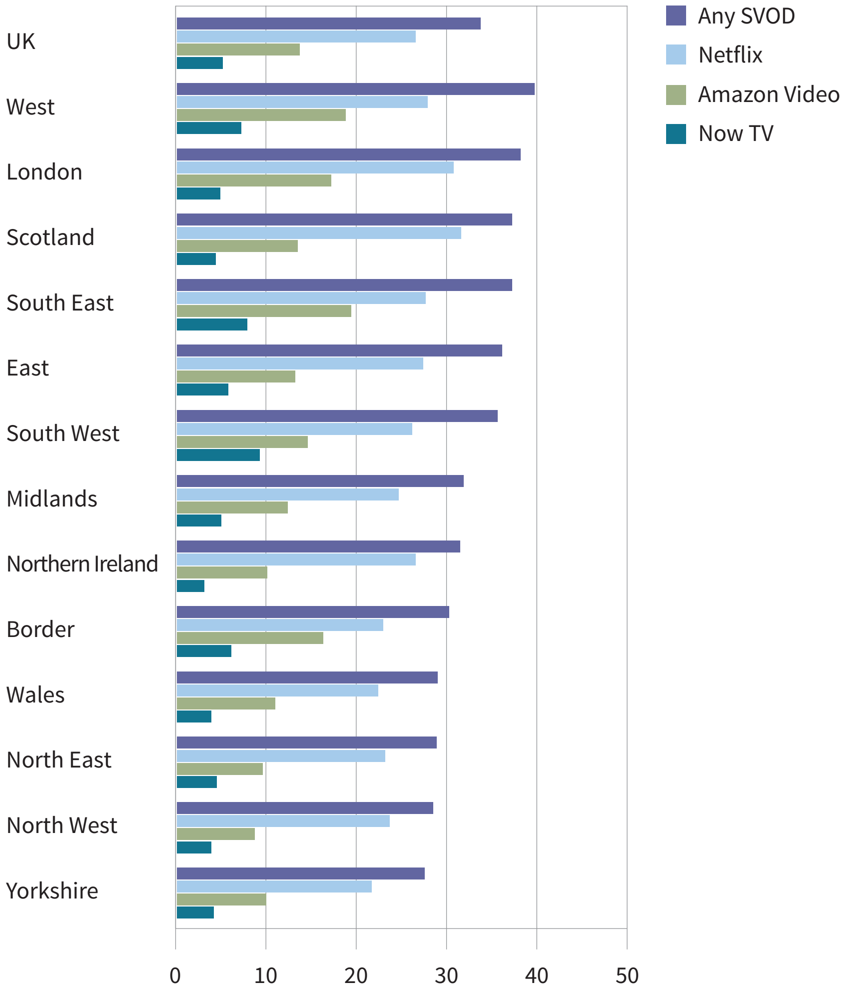
THERE IS ALSO SIGNIFICANT OVERLAP BETWEEN THOSE THAT CHOOSE TO PAY FOR TELEVISION AND THOSE THAT ALSO CHOOSE TO PAY FOR SVOD SERVICES

The growth of SVOD services has, of course, not gone unnoticed by traditional television providers, and there is also significant overlap between those that choose to pay for television and those that also choose to pay for SVOD services (chart 7). In the UK, pay-TV and SVOD have a symbiotic relationship, with many households choosing to subscribe to both in order to get access to all the content they want.

For Netflix, this is most profound for Virgin Media households, where over 40% of these homes also have a Netflix subscription. A probable reason for Netflix's success in Virgin Media households is its prominent position on the EPG and that the monthly subscriptions are incorporated in the billing structure.

8 HOUSEHOLD SVOD SUBSCRIPTION BY ITV REGION

% of households, BARB Establishment Survey Q3 2017



There are also notable regional differences (chart 8), which reinforce some of the learnings we've already seen when looking at the level of SVOD services by household platform.

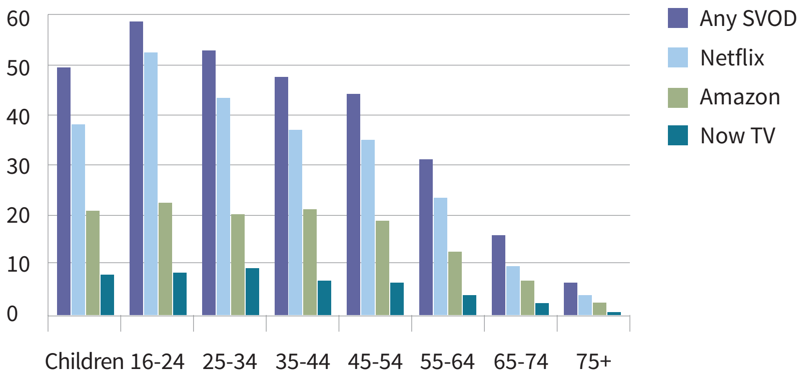
The Scottish and English Border region has little to no cable network available, which means fewer Virgin Media households. It is clear that there is a direct impact on the number of Netflix subscriptions in the area, with only 23% of households subscribing here, compared to 27% in the UK as a whole. This is only a correlation, but it supports the theory that the lack of cable offering and the subsequent loss of convenience of bundling and EPG positioning has suppressed Netflix take-up in this region.

AMAZON PRIME VIDEO PENETRATION SCORES HIGHLY IN AREAS SUCH AS LONDON AND THE SOUTH EAST OF ENGLAND

As with Netflix, Amazon Prime Video penetration varies across the UK, and scores highly in areas such as London and the South East of England. Once again, this is likely linked to bundling effects, with Amazon including its video service as part of a package together with free next-day delivery for its customers' e-commerce needs.

9 SVOD ACCESS BY AGE GROUP

% access, BARB Establishment Survey Q3 2017



NEARLY 50% OF ALL CHILDREN IN THE UK HAVE ACCESS TO ONE OF THE SVOD SERVICES; FOR YOUNG ADULTS AGED 16-24, NEARLY 60% HAVE ACCESS

As with most new entrants to a mature market, the demographic profiles of early adopters differ from the wider market. These profiles may be a sign of future customers, or perhaps just a reflection of the niche attraction of a particular product or service.

Is SVOD different? It is now in over 33% of UK households, and continues to grow. It could therefore be argued that SVOD is no longer niche, nor is it purely for early adopters. Looking at SVOD access by age group (chart 9), nearly 50% of all children in the UK have access to one of the SVOD services. For young adults aged 16-24, nearly 60% have access to one of the SVOD services. For these age groups, SVOD isn't a new entrant, niche or optional; it is a staple service. This changes for older audiences, with SVOD becoming less prevalent, although these declines really only manifest when you enter the 55+ age categories.

In conclusion, we can see that access to SVOD services is highly prevalent in audiences under 55, where these services exist and co-habit alongside broadcast platforms. Far from being niche, SVOD services are now an established part of the television ecosystem.

Subscription VOD data are available in the BARB Establishment Survey quarterly data files. If you'd like to enquire about getting access to these data, then please contact enquiries@barb.co.uk

BARB ESTABLISHMENT SURVEY QUARTERLY DATA TABLES

Total	Households (000s)				Individuals (000s)			
	Any SVOD	Netflix	Amazon	Now TV	Any SVOD	Netflix	Amazon	Now TV
Q1 2014	3,826	2,791	1,217	239	11,642	8,639	3,585	739
Q2 2014	4,131	3,174	1,102	282	12,229	9,489	3,155	864
Q3 2014	4,566	3,702	1,072	327	13,556	10,991	3,163	978
Q4 2014	4,740	3,831	1,025	446	14,054	11,602	2,948	1,303
Q1 2015	5,429	4,372	1,155	523	15,778	12,880	3,230	1,534
Q2 2015	5,805	4,769	1,225	611	17,069	14,127	3,487	1,759
Q3 2015	6,089	5,066	1,371	590	17,891	15,070	3,986	1,680
Q4 2015	6,486	5,226	1,570	781	18,791	15,339	4,396	2,285
Q1 2016	7,238	5,936	1,651	851	20,833	17,237	4,586	2,457
Q2 2016	7,299	5,953	1,799	977	21,212	17,537	5,242	2,751
Q3 2016	7,673	6,133	2,545	850	22,194	18,063	7,211	2,405
Q4 2016	8,344	6,526	3,018	1,071	24,151	19,054	8,938	3,234
Q1 2017	8,888	6,894	3,640	1,083	25,090	19,704	10,367	3,023
Q2 2017	9,370	7,341	3,820	1,226	26,473	20,856	10,752	3,505

%	Households (%)				Individuals (%)			
	Any SVOD	Netflix	Amazon	Now TV	Any SVOD	Netflix	Amazon	Now TV
Q1 2014	14.0	10.2	4.5	0.9	18.3	13.5	5.6	1.2
Q2 2014	15.1	11.6	4.0	1.0	19.1	14.9	4.9	1.4
Q3 2014	16.7	13.5	3.9	1.2	21.2	17.2	4.9	1.5
Q4 2014	17.3	14.0	3.7	1.6	21.9	18.1	4.6	2.0
Q1 2015	19.7	15.9	4.2	1.9	24.6	20.1	5.0	2.4
Q2 2015	21.2	17.4	4.5	2.2	26.7	22.1	5.4	2.7
Q3 2015	22.1	18.4	5.0	2.1	27.9	23.5	6.2	2.6
Q4 2015	23.5	19.0	5.7	2.8	29.3	23.9	6.8	3.6
Q1 2016	26.2	21.5	6.0	3.1	32.4	26.8	7.1	3.8
Q2 2016	26.2	21.4	6.5	3.5	32.8	27.1	8.1	4.3
Q3 2016	27.5	22.0	9.1	3.0	34.3	27.9	11.1	3.7
Q4 2016	29.8	23.3	10.8	3.8	37.2	29.4	13.8	5.0
Q1 2017	31.7	24.6	13.0	3.9	38.6	30.3	16.0	4.7
Q2 2017	33.3	26.1	13.6	4.4	40.6	32.0	16.5	5.4

Annual growth	Households (%)				Individuals (000s)			
	Any SVOD	Netflix	Amazon	Now TV	Any SVOD	Netflix	Amazon	Now TV
Q1 2015	41.9	56.6	-5.1	118.8	35.5	49.1	-9.9	107.6
Q2 2015	40.5	50.3	11.2	116.7	39.6	48.9	10.5	103.6
Q3 2015	33.4	36.8	27.9	80.4	32.0	37.1	26.0	71.8
Q4 2015	36.8	36.4	53.2	75.1	33.7	32.2	49.1	75.4
Q1 2016	33.3	35.8	42.9	62.7	32.0	33.8	42.0	60.2
Q2 2016	25.7	24.8	46.9	59.9	24.3	24.1	50.3	56.4
Q3 2016	26.0	21.1	85.6	44.1	24.1	19.9	80.9	43.2
Q4 2016	28.6	24.9	92.2	37.1	28.5	24.2	103.3	41.5
Q1 2017	22.8	16.1	120.5	27.3	20.4	14.3	126.1	23.0
Q2 2017	28.4	23.3	112.3	25.5	24.8	18.9	105.1	27.4