LikeFolio

MEGA TRENDS

Cutting the Cord

MegaTrends Report

October 2019

Introduction

How do you watch TV?

Chances are, at least some of the time, you're streaming with an internet-connected device instead of signing a multi-year contract with a traditional content provider.

You're not alone. The cord-cutting movement has revealed a major opportunity via Over-The-Top (OTT) Streaming content: programming that is streamed via the internet vs. through traditional cable or satellite connections. Advertising dollars are ready to flow into it.

The stage is set, and some obvious winners and losers have emerged.

While providers are obvious players in this game, many discreet parties are pulling levers as well.

Most notably, the revenue streams around advertising via OTT streaming platforms are only beginning to be tapped.

I'm willing to bet that Adobe (ADBE) is almost certainly not on your radar when it comes to riding the cord-cutting movement. As you'll see in this month's report, it should be.

I was surprised too!

This report presents the companies who are benefitting from this shift in consumer behavior, those who are struggling to stay relevant, and those who have little hope.

In addition, we'll dive into what is DRIVING this shift in behavior (ahem, *cost* and *content*).

Enjoy!

Andy Swan
founder, LikeFolio

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Streaming Advertising is an Untapped Goldmine

Consumers are overwhelmingly rejecting traditional TV.

Instead of settling for what cable companies serve up, consumers are opting to watch what they want, when they want to watch it.

They accomplish this by sending video from the Internet directly to their television set.

The industry calls this Over-The-Top (OTT) Streaming, and it is completely disrupting how people consume media.

The pace of this change is so hectic, advertisers can't keep up with the massive shift in consumer behavior.

To prove it, here's one of the most incredible statistics we've ever seen…

Streaming content accounts for 29% of total video watch time, but only captures 3% of television advertising spend.

That is an extreme divergence. So, what's going on?

It's not that advertisers don't want to reach streaming audiences. They do. They're *drooling* over those lost eyes.

They *want* to spend more on OTT advertising!

But they need help solving two major problems:

1) Buying OTT (streaming) advertising **at scale**

2) Increasing the effectiveness of each ad by **enabling targeting for individual audience segments**

The companies that SOLVE these problems will get a piece of a big pie: $70 billion will be spent on TV ads *this year.*

Two companies have figured it out.

Adobe (NASDAQ: ADBE) has the distribution and under-the-radar technology to capitalize on OTT Streaming advertising

Adobe?! You mean the Photoshop guys? That's right.

They've seen the streaming movement coming for a while…and they're ready.

Adobe bought Marketo in 2018 to build the BEST platform for marketers to do their job in one place. Campaign Planning. Analytics. Delivery.

They've created the crème-de-la-crème of advertising management software.

But when it came to placing ads on OTT content, advertisers were stuck in a manual ad-buying process that was clunky, frustrating, and impossible to do at scale.

That's part of the reason why, in March of this year, Adobe announced that it had struck a deal with the king of OTT Streaming platforms, Roku.

With one giant technology leap and an incredible partnership, *Adobe became one of the largest ad-management tools to allow programmatic ad buying on Roku's OTT inventory.*

Now, because of Adobe's incredible technology, buying OTT streaming ads across a million different videos streaming through Roku devices is just as easy as purchasing display banners across a network of websites.

Scale problem, solved.

But what about problem # 2: Personalized ad targeting?

That's where Roku comes in. Roku provides an inventory of placement options and access to first-party data.

First-party data means that Adobe clients can serve highly targeted ads to streaming TV viewers. In fact, they can do it all on the same platform.

Because Adobe's platform is conducive to multiple customer datasets and inventory options, this first-party data advantage allows advertisers to

identify a targeted audience interested in their products on a website or app, and then target those same individuals with video ads while they are streaming video content to their TV set via Roku.

Genius.

So, when a Fortune 500 company with a huge budget wants to target "working mothers with two teenagers interested in domestic family travel, who also have at least 80,000 frequent flier loyalty miles" with streaming ads, they can do it. Through Adobe.

"With the shift to streaming, marketers have an unprecedented opportunity to reach consumers in a targeted, relevant way on TV," said Scott Rosenberg, GM of platform business for Roku. "Roku has a direct, first-party relationship with its consumers and the most advanced ad capabilities in OTT.

This partnership gives Adobe clients a seamless way to activate their data and reach customers who've moved their TV viewing to Roku devices."

Absolutely incredible.

Adobe's technology and existing market penetration are going to help it capture a large chunk of the sure-to-grow streaming advertising budgets.

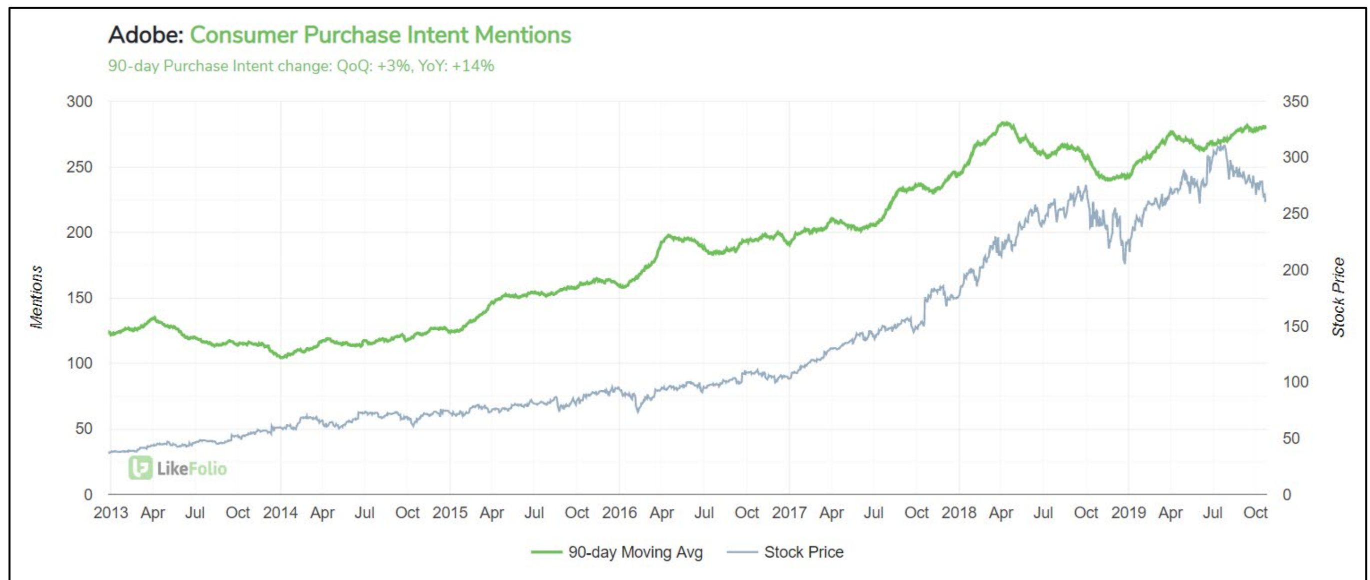
But that's not the only reason we love Adobe.

You see, unlike others in the space, Adobe is far from a one-trick pony.

Even without their streaming ad technology and partnership with Roku, Adobe has an incredible business.

Adobe consistently grows revenues at double the pace of their industry peers, thanks to a strategic transition to a subscription pricing model that has happy customers contributing revenue at a growing pace every single quarter.

Just look at the consistency of growth that LikeFolio consumer data is showing for Adobe's entire suite of products:



In fact, Adobe's opportunity on OTT streaming ads reminds us of Microsoft's lucrative foray into cloud computing a few years ago -- an outside bet on a growing industry, but with an incredible core business to fall back on.

Bottom line: Adobe is extremely well-positioned to ride the monster growth of OTT streaming advertising — AND has an incredibly profitable and fast-growing core business to boot.

But they aren't the only beneficiary of this partnership…

Roku (NASDAQ: ROKU) is absolutely dominating the streaming space

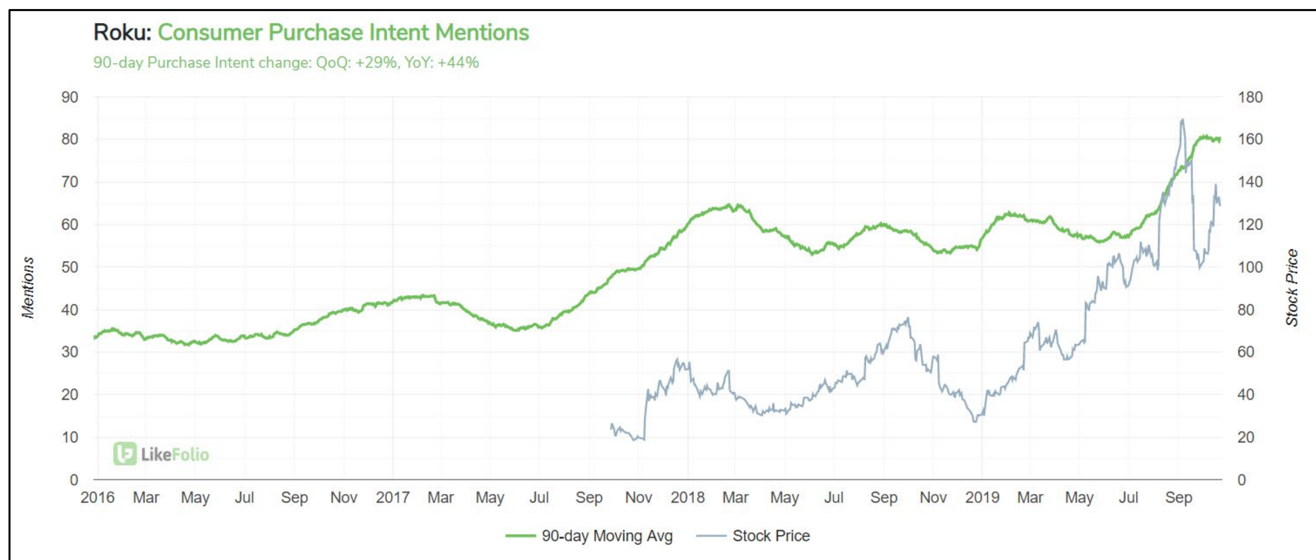
Don't forget, Adobe's ability to stream personalized ads at scale is possible thanks to access from their partner $ROKU, which is itself another incredible growth opportunity.

Roku is the epitome of streaming excellence.

Adoption of its platform is soaring (**+43% YoY**) and it is confirmed present in 1 in 5 U.S. households.

In fact, a majority of smart TVs sold in the United States today already have Roku streaming technology built in.

Just look at that Purchase Intent chart — up and to the right.



Plus, Roku receives some of the highest ratings of consumer happiness LikeFolio measures for similar products.

Happiness levels for ROKU are +70% positive, and actually improving YoY.

For reference, Amazon FireTV consumer happiness has *dropped 10%* in the same period, falling to less than 60% positive.

And this is only the beginning.

Roku partnerships are boosting audience exposure, leading some analysts to speculate Roku Smart TVs will allow Roku to (at least) double its user base in the next three years.

When we issued this opportunity alert for ROKU early this year with the stock at $39.88, we didn't expect it to move higher by 300% in just a few months.

But being best of breed in an industry with unbelievable tailwinds is a powerful position.

Most importantly, its CEO GETS IT. On the most recent earnings call, he touched on how Roku is leveraging its unique positioning within homes and superior product:

> *"I'd like to draw your attention to a distinguishing characteristic of our ad business. There is a growing understanding that having first-party customer relationships at scale is a fundamental advantage. Our ad business is thriving as we offer a superior solution,* ***providing precision targeting****, access to premium inventory, unique sponsorships and OTT reach that an individual publisher or third-party ad tech provider cannot match. The Roku OS was built to create value for advertisers and content distributors."*

Roku and Adobe are industry leaders with a clear vision of how to tap into the streaming advertising goldmine.

Roku provides the inventory and users. Adobe provides the advertisers at scale.

It's icing on the cake that the market hasn't caught on yet.

Both have sold off from all-time highs, which gives investors a discounted price.

We like both ADBE and ROKU long-term – PLENTY of room for growth here.

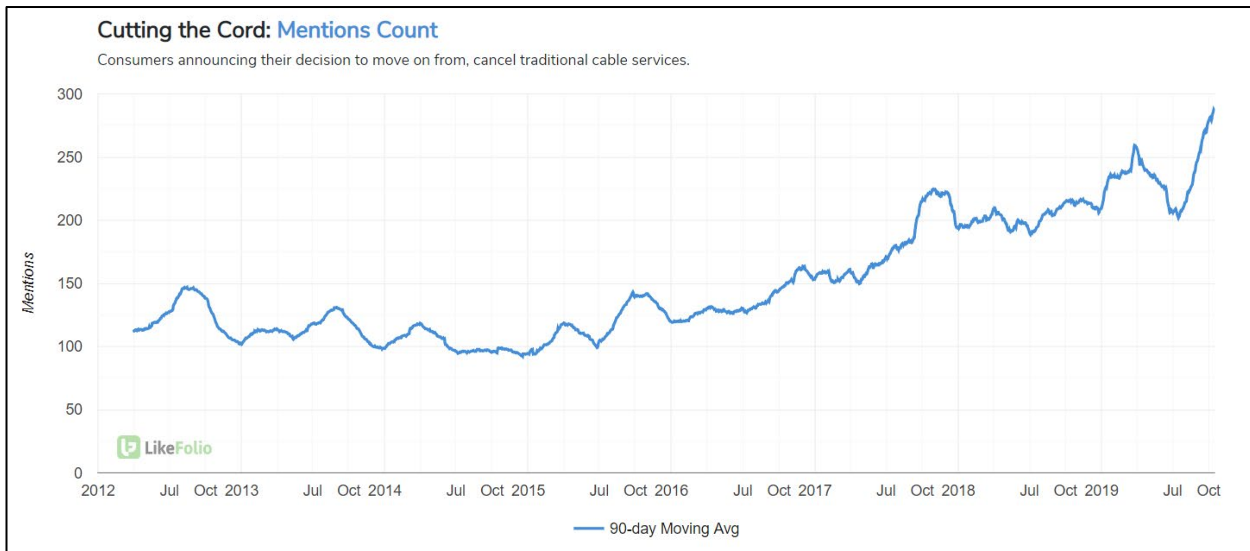
What about the other companies in the streaming realm? We've got insights on them, too.

The rest of this report highlights the remaining players in the streaming game, and the consumer trends powering it all.

Trend Watch: Cord Cutting

As it stands, nearly 22 million U.S. households have opted out of traditional pay-for-cable services.

The chart below displays mentions of consumers "cutting the cord" and "canceling cable."



In fact, this movement away from traditional cable services is accelerating, exhibiting an increase in mention volume of 39% in the last 90 days. It's estimated that by 2021, more than a fifth of U.S. households will have ditched cable.

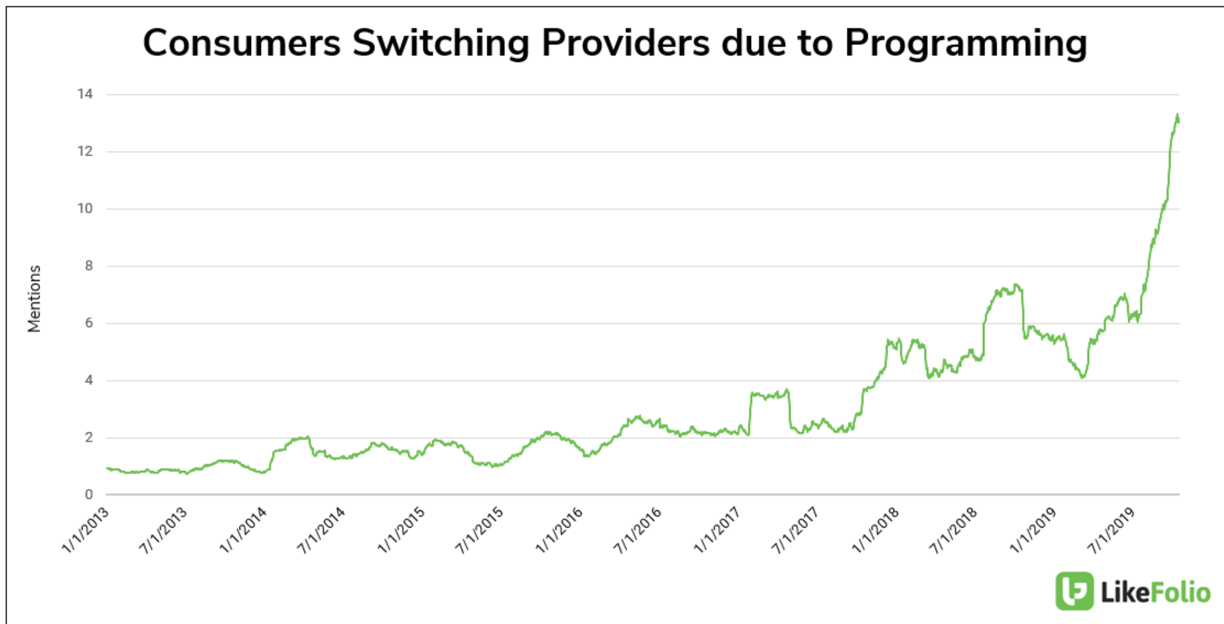
What's Driving the Cable Exodus?

Two major drivers determine how consumers tune into their favorite media content: CONTENT and COST.

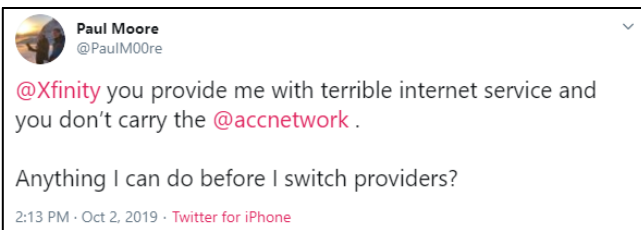
MegaTrend Driver #1: CONTENT

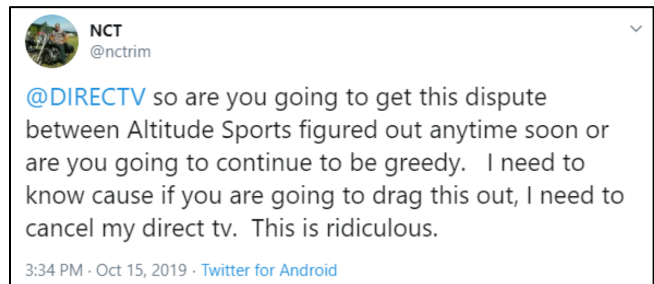
When analyzing tweets by consumers indicating they switched or canceled providers, the top reason cited was a carriage dispute.

Just look at the massive acceleration in cord-cutting due to programming issues.



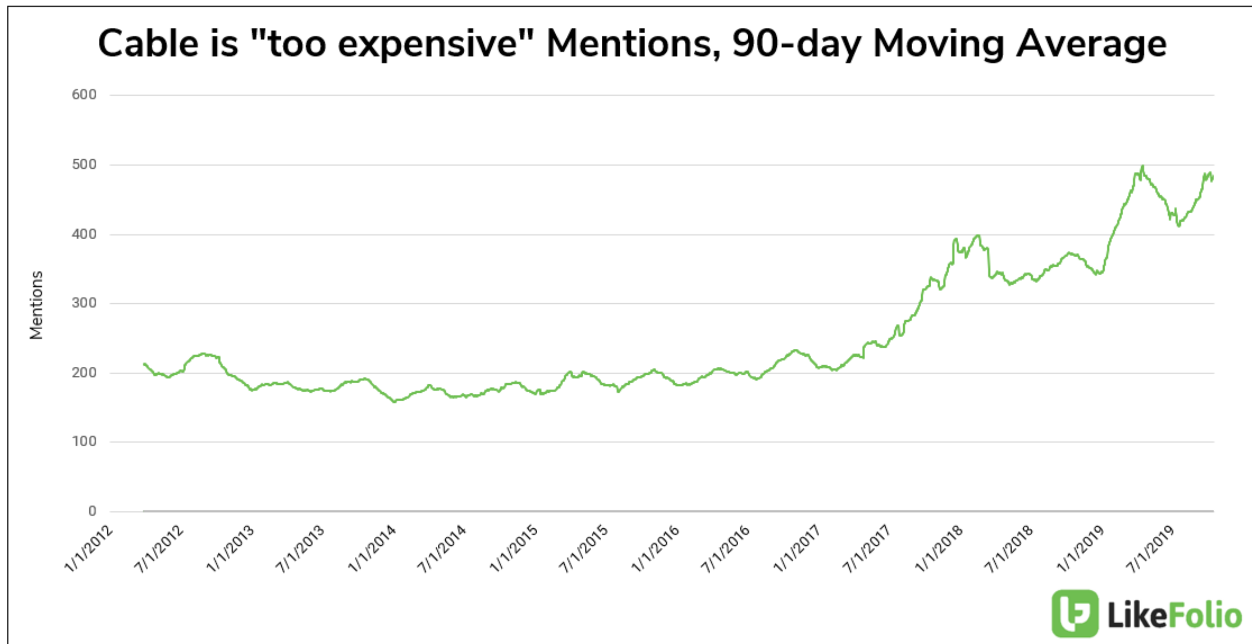
Unsurprisingly, consumers are not loyal to a provider; rather, they are loyal followers of TV shows, sports teams, and movies they like.





MegaTrend Driver #2: COST

The second most popular reason for switching providers or canceling was cost. **The value perception for traditional cable services is decreasing**, especially at their current price point. The chart below shows consumers indicating cable is “expensive,” “overpriced,” or “too costly.”



In the last 90 days, the mention volume of discussions referencing the cost of cable has increased by 30%.

Ultimately, these factors will determine the winners of the streaming war.

Ranking the Other Streaming Players

Not all streaming providers will win. Make sure you're playing it smart.

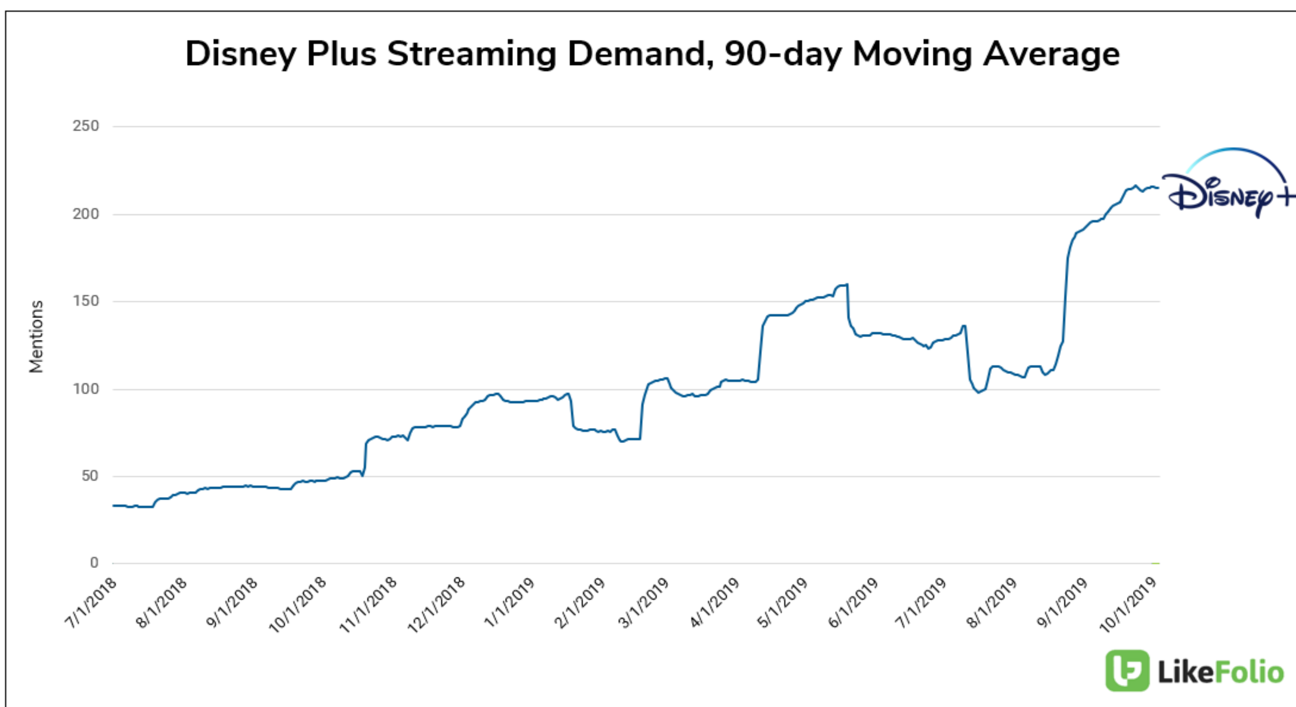
The chart below shows the companies with a dog in the fight, the entry price-point for consumers, and LikeFolio's outlook rating.

Company	***Streaming Service(s) --- Cost***	***Rating***
$DIS - Disney	HULU — basic: $6/mo, live tv: $45/mo Disney+ — $7/mo ESPN+ — $5/mo BUNDLE (all three above): $13/mo	Bullish
$AAPL - Apple	Apple TV+ — $5/mo* (free for a year with purchase of Apple device)	Bullish
$AMZN - Amazon	Prime Video — Included with Prime subscription, $119/yr IMDB Freedive — Free (no Prime subscription required)	Neutral/ Bearish Lean
$NFLX - Netflix	Netflix — basic: $9/mo, standard: $13/mo	Bearish
$DISH - Dish	Sling TV — one channel package: $25/mo, all channels: $40/mo	Bearish

The King: $DIS – Disney

Disney, the godfather of content creators, has ownership of the Fort Knox of content libraries. It flexed its "gold" by tweeting every movie to be included in the Disney+ vault — individually.

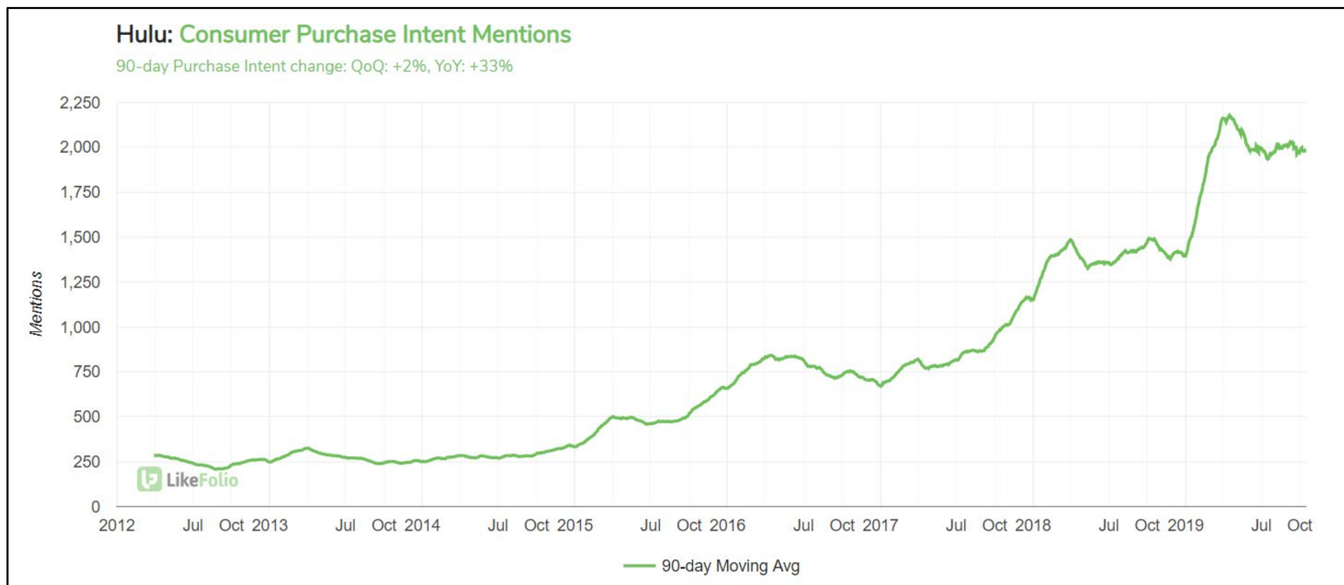
The Disney+ (Disney Plus) streaming service is slated to launch Nov. 12, and demand is surging in anticipation.



Aside from an arsenal of content, Disney already has experience in the streaming field.

Disney assumed full operational control of Hulu in May 2019. Hulu offers multiple membership levels, including a LIVE TV option, bundled on top of the traditional Hulu library.

The chart below showcases the booming nature of Hulu's Purchase Intent growth (mentions of consumers downloading Hulu, subscribing to Hulu, and watching Hulu):



Year-over-year growth of **+33%** for Hulu makes Netflix's growth rate of **+9%** pale in comparison.

Along with Hulu and Disney+, Disney offers ESPN+, a service that allows sports fans to access live sports programming through the ESPN app.

What does this mean?

Disney has achieved a rare trifecta: live programming, quality content, and a diverse target audience.

Naturally, they are providing a "bundle" option priced to be exactly competitive with Netflix's most popular subscription level.

Brilliant.

Honestly, it's unclear how there is any downside here for Disney. If consumers begin acting on "subscription fatigue," this package will be the last to go.

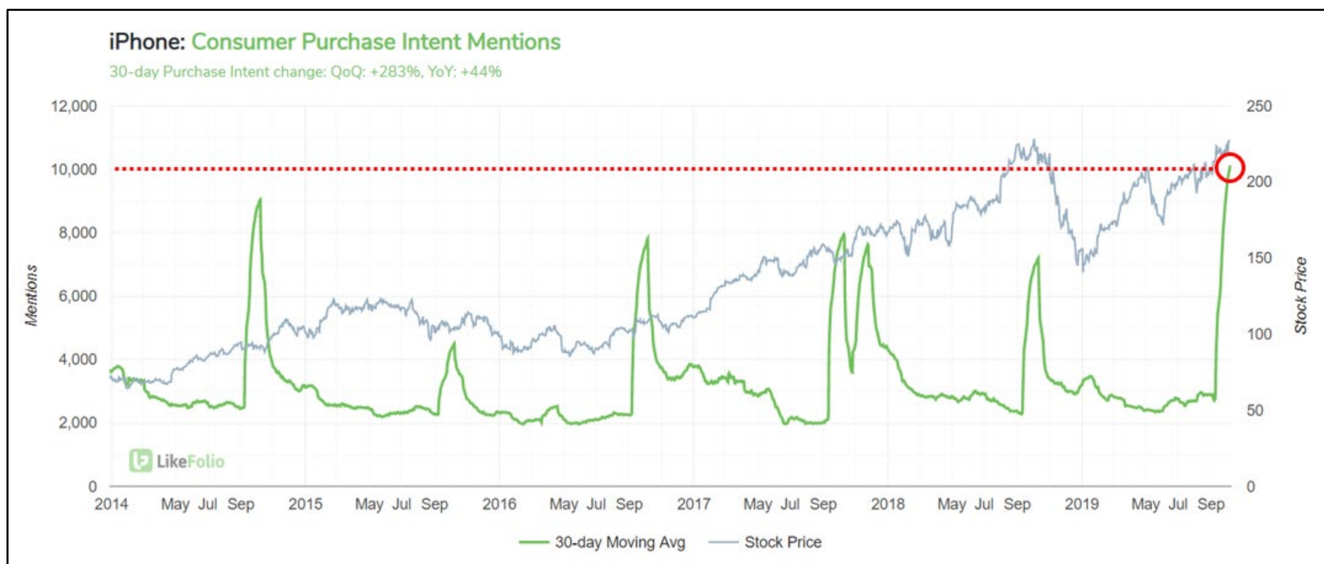
Looks like all gains ahead for this proven winner.

Late Bloomer Showing Promise: AAPL – Apple

Apple is late to the streaming game, but their approach is strategic. In contrast to competitors, Apple TV+ isn't boasting an extensive content library, **opting for an extremely competitive entry point**: FREE for a year with the purchase of an Apple Device, or $5/mo.

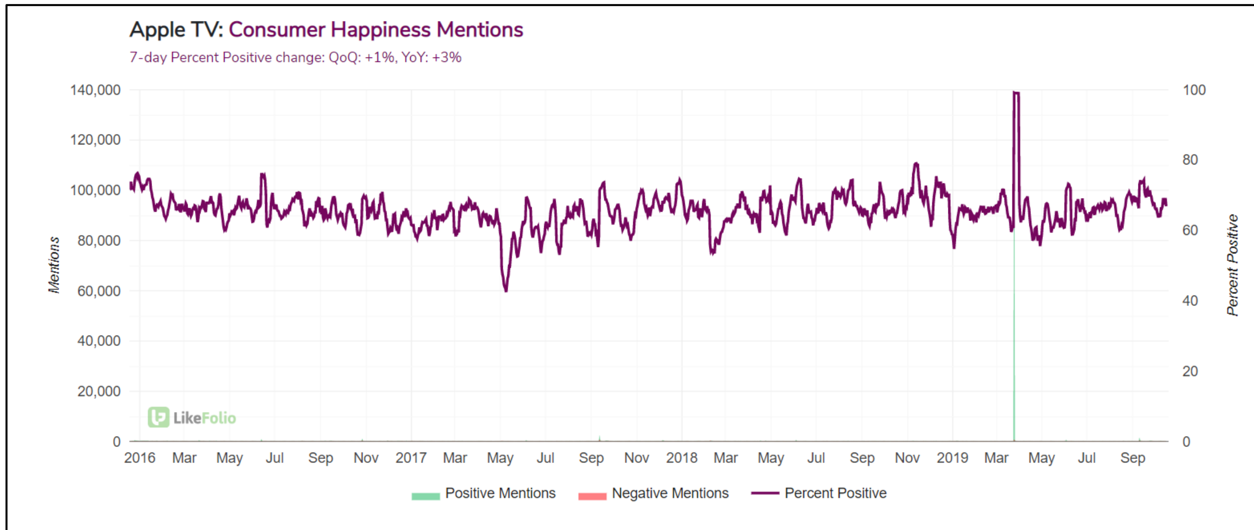
The service will come pre-installed on Apple devices, and give Apple some breathing room while they beef up original content production. Why is this important? Apple is showing signs of strength in product sales post-2019 Keynote event.

The chart below displays Purchase Intent mentions for the iPhone, achieving the highest interest we've seen for a new iPhone line-up in years.



If purchasers of this device cash in on the "free Apple TV+ offer" (and why wouldn't they, it's already installed), Apple can be expected to start off with an impressive, loyal, and immediate audience base — and they have a year to convert them to paying users.

Hype for the Apple TV brand (which includes mentions of Apple TV Plus) was real, with **consumer happiness reaching the highest levels we've ever recorded** on the date of the streaming announcement:

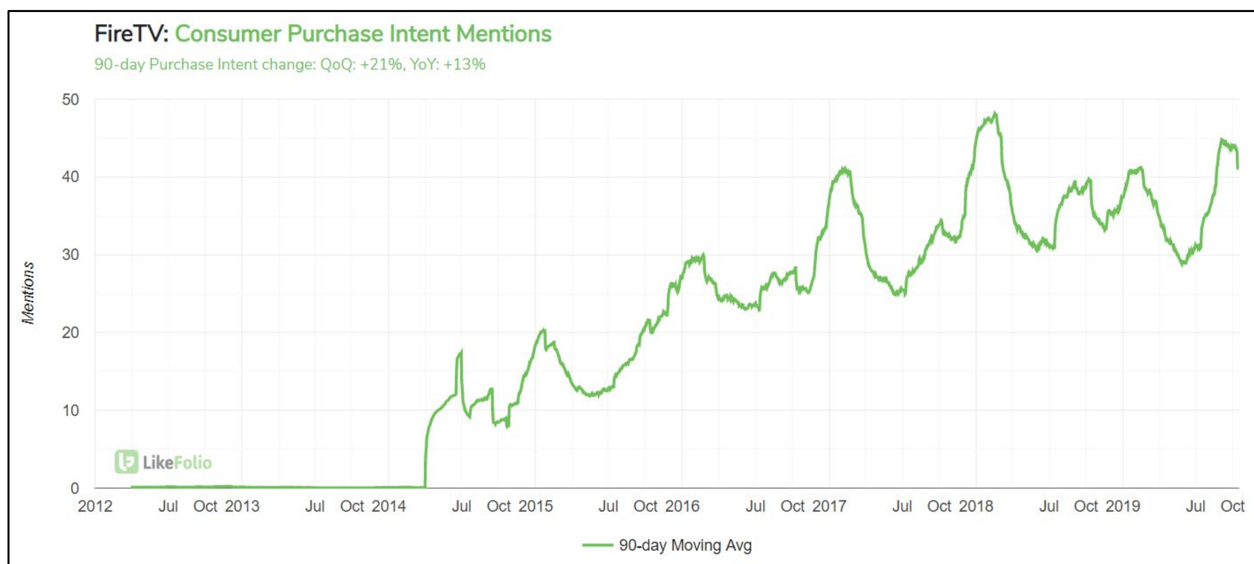


We'll continue to monitor Apple's streaming performance over the next year, but **the first look at consumer response confirms a positive set up for the company long-term.**

Losing Dominance: AMZN – Amazon

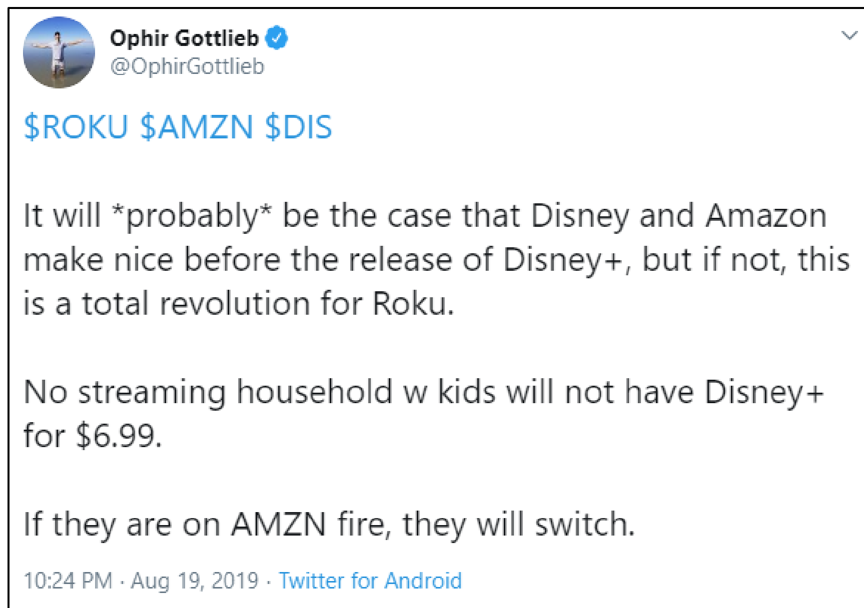
In the streaming sector, Amazon could be an example of the cautionary tale "how the mighty have fallen." Amazon has two primary streaming options: Amazon Prime Video, and IMDb Freedive.

In addition, the company sells platforms for viewing their own (and others') content via Fire TV devices. This means they have a hand in content creation, distribution, and potential ad revenue. The Amazon Fire TV brand (including mentions of the Fire TV Stick) is showing signs of life after a decline in late 2018, as evident in the chart below:



However, Disney recently pulled a power move, announcing that the new Disney+ subscription service will be available on platforms and devices made by nearly every competitor EXCEPT Amazon...leaving the public to wonder: What did Amazon do to tick Disney off this time?

Our data-supported thesis is that consumer loyalty lies with the content, NOT the device. So, Amazon losing out on Disney's massive library could be a deal-breaker for a large portion of their target market.


Ophir Gottlieb
@OphirGottlieb

$ROKU $AMZN $DIS

It will *probably* be the case that Disney and Amazon make nice before the release of Disney+, but if not, this is a total revolution for Roku.

No streaming household w kids will not have Disney+ for $6.99.

If they are on AMZN fire, they will switch.

10:24 PM · Aug 19, 2019 · Twitter for Android

It is now less than a month out from the Disney+ release and the tension between the brands is not resolved.

One cause of conflict is related to Amazon's pursuit of the rights to sell a large percentage of ad space on Disney apps (like ABC, ESPN) when streaming from one of their devices.

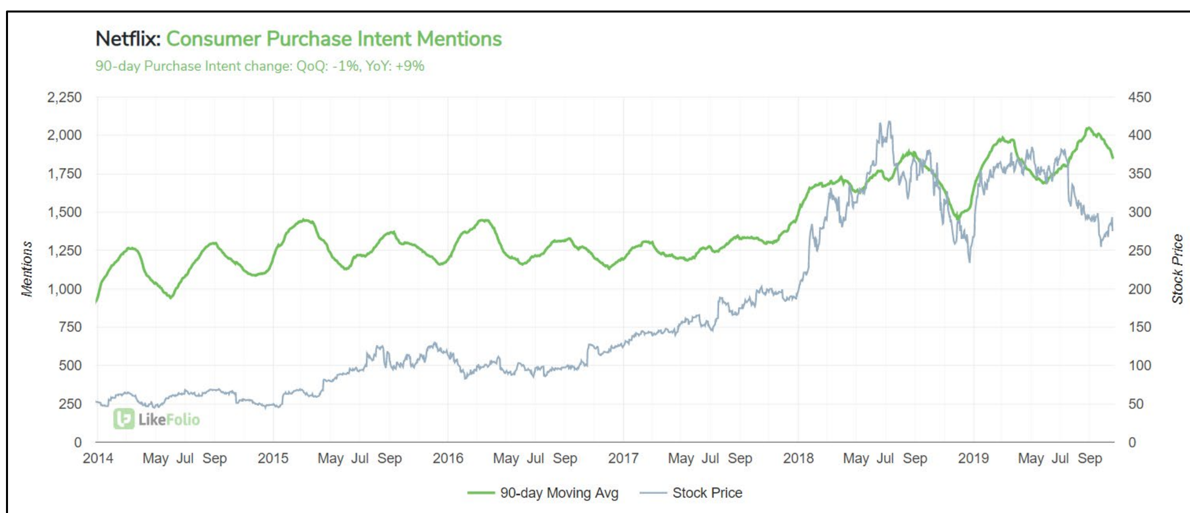
Disney has yet to approve Amazon's devices for Disney+ streaming, and could pull other supported apps from Amazon devices as well.

With the ball in Disney's court, Amazon is unlikely to come out on top.

Major Trouble Ahead: NFLX – Netflix

Netflix, the slayer of Blockbuster and genesis of "Netflix and chill," was the first mover in the streaming space and they have profited accordingly: shares have increased exponentially since their debut near $10 in 2012.

Purchase Intent mentions are increasing, but not fast enough to justify the hefty valuation of the stock, especially as competition closes in from seemingly every angle.

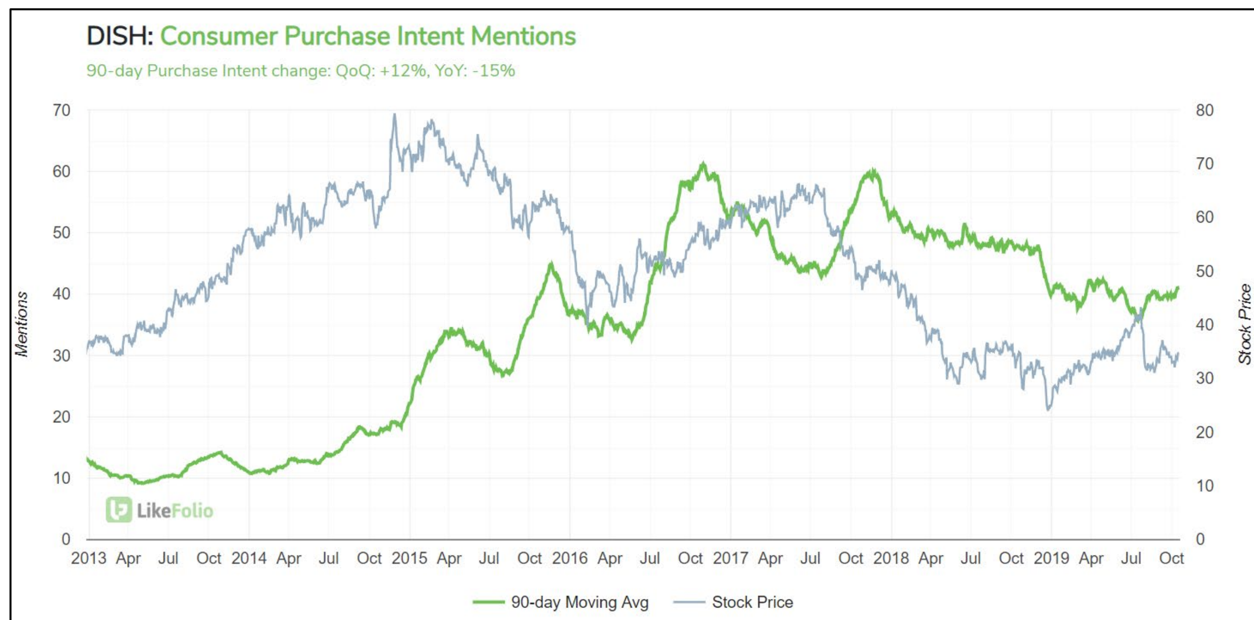


Headwinds are brewing. **They have nearly saturated the U.S. market and are largely dependent on international subscribers to drive user growth** (in the last report, international subscribers accounted for more than 93% of new users: 6.3 million International, 500,000 U.S.).

More bad news: the new subscriber growth did NOT meet expected growth targets...for the second quarter in a row. NFLX also lowered its End-of-Year subscription growth expectations. The stock reacted positively, as this loss wasn't as bad as investors expected. **Positive moves in Netflix stock could set up an ideal entry point for a long-term bearish outlook as competition grows**.

Last Place: DISH – Dish

Dish is an interesting player in the streaming game and is definitely not a starter. Purchase intent mentions are **down 15% YoY**, as displayed in the chart below:



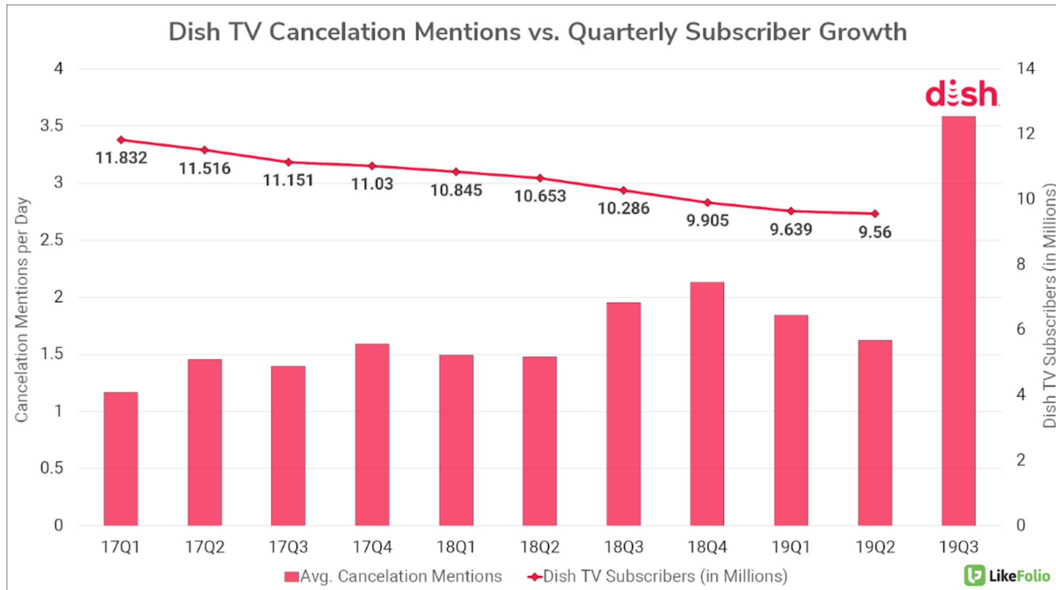
On one hand, the Dish Network brand is an easy target for cord-cutters who know it's much easier to plug in a Roku than to install a satellite dish.

On the other, Dish was a fairly early mover in the streaming market with the release of Sling TV in 2015 and has since re-captured *some* lost users.

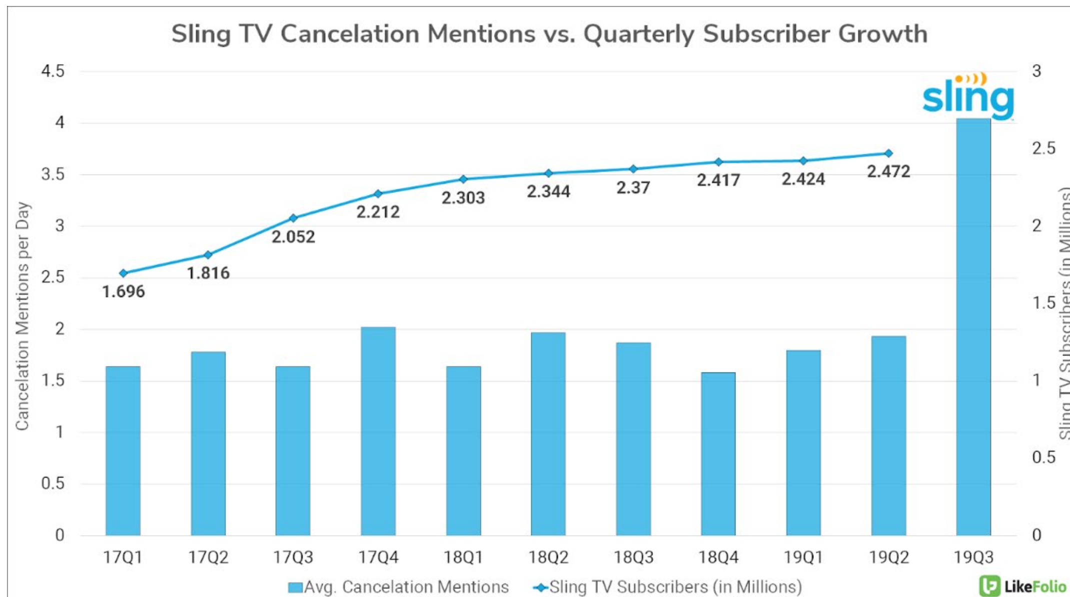
How are both brands currently fairing in the saturated market? Not good.

Dish TV has lost customers in every quarter since the start of 2017, with no end in sight. Last quarter, we saw cancelation mentions reach all-time highs as Dish carriage battles left consumers without the content they needed.

The chart below showcases both actions: The line demonstrates the loss of subscribers, and the bars represent consumer cancelation mentions.



The Sling TV brand is meeting resistance as competent *live TV competitors* enter the market (cc: Hulu Live, YouTube Live). This is not a good sign for Dish, as it was the Sling brand that previously helped to grow the $DISH user base.



Sling faces the same carriage losses as its sister brand, Dish Network, that are the result of ripple effects from Disney's acquisition of 21st Century Fox.

Tweet analysis for both brands reveal extremely unhappy customers unable to watch local sports.

If Dish can't resolve carriage disputes, consumers are only one click away from instant access via Hulu. **We don't anticipate a recovery for $DISH any time soon.**

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