

# Can Satellite Operators Change the Narrative of DTH Decline?



“It's completely insane to give up on video.”

Eutelsat CEO Rodolphe Belmer raises a passionate defense of what he still considers the “bread-and-butter” satellite industry market. The facts and sentiments about the satellite Direct-to-Home (DTH) video market have diverged, he says. Yes, Over-the-Top (OTT) penetration is growing, but DTH penetration is growing as well.

“It's a Euro-american-centric point of view to say Netflix works in the U.S. and in Europe and not in emerging markets and that's why satellite is continuing to exist in certain regions. It's totally wrong. If you read Netflix

figures, you realize that their growth is phenomenal in the U.S., but also in Latin America, Europe, [and the] Middle East," Belmer says. "At the same time, satellite continues to grow in many regions of the world. ... Quarter after quarter, we post figures which are stable in video, with contracts that are spectacular. Even though OTT is booming, satellite penetration in our footprint continues growing."

Belmer wonders why the markets don't recognize the stability Eutelsat has achieved in video. "It's a bit frustrating," he says.

Yet, for the past few years, satellite operator quarterly results have stuck to a widely observed trend — the percentage of revenues for video services is decreasing as the percentage of revenue for network services grows. According to Euroconsult, video's share of total capacity revenues in 2019 was approximately 55 percent. The firm predicts that by 2022, wholesale revenue for data applications will surpass video applications in the satellite industry, and by 2029, data market revenues will represent nearly 80 percent of the satellite connectivity market value.

Satellite operators argue that despite the narrative that DTH broadcasting is losing ground in some areas as viewers cut the cord and migrate to OTT options, video is still a key part of operators' revenues, and revenue from video can fund investment in other areas.

## **Growth in Emerging Markets**

Eutelsat has made a splash in the past few months by picking up a slew of DTH capacity deals in Africa with AfricaXP, RCS Ghana, Strong Roots Ethiopia Broadcasting Service and new Ethiopian DTH platform from CANAL+, in addition to a deal with BluTv, a new DTH broadcast platform serving the Brazilian market from 1Sat Telecomunicações.

Belmer said Eutelsat has pivoted its business toward emerging markets, where demand for content in local languages is a driving force for growth in

Africa, and in the Middle East, Central Asia, and Latin America. Latin America, for example, has had mostly pan-continental channels in the past, in Spanish and Portuguese. But Eutelsat is seeing local bouquets emerging in every Latin American country, including Peru and Colombia. "There is increasingly, a development for offering content and channels in local languages, which creates a very strong underpinning force for growth and for expansion," Belmer says.

The Eutelsat CEO says that while OTT already has a hold in emerging markets, satellite continues to grow because of its ability to reach 100 percent of populations in a geographic area, and groups who speak a common language outside of national boundaries.

"In many countries, the borders do not correspond well with the language spoken. In many emerging markets, you have diasporas, you need infrastructure to cover more than the footprints of terrestrial telco which are ubiquitous in urban areas, [but] don't cover 100 percent of the population," Belmer says.

For another major operator SES, the company saw the most significant increase in 2019 in households in Latin America, where its reach grew by 8 million up to 42 million TV homes. This was due to the SES-14 satellite which was launched in 2018, accelerating market penetration. Deepak Mathur, executive vice president of Global Sales and SES Video says that growth is coming from emerging markets in Latin America, Asia Pacific region (APAC), and Africa.

"They are organically growing markets, they're young markets. [People there] continue to watch a lot of television. Broadband is very expensive and doesn't reach a lot of people in these countries, and satellite television is the most appropriate broadcasting technology in order to get video signals to a number of these viewers," Mathur says.

While Mathur says there are still hundreds of millions of people that do not

have access to multi-channel Pay TV, as market penetration gets in the range of 50 percent to 70 percent of households in emerging markets, there will be a leveling off of growth. SES sees Africa's Pay TV and Free-to-Air (FTA) DTH market adding about 7 percent to 8 percent growth over the next few years, and about 3 percent growth per year through 2025 in the Asia Pacific region, driven mostly by demand in Myanmar, Indonesia, the Philippines, and India.

Dimitri Buchs, senior consultant for Euroconsult, says the situation in emerging markets is less dynamic for satellite TV than it was five years ago. Where there used to be 10 to 15 new DTH platforms launched each year in emerging countries, he said the past few years has seen only four to five per year. There have also been failures, and the number of platforms is not growing.

He says as it becomes easier and cheaper for small TV channels to move to OTT, satellite operators will either have to decrease capacity prices, or focus on maintaining Tier 1 and Tier 2 customers.

For Asian regional operator Measat Satellite Systems, India and South Asia remain promising DTH markets, while Indonesia and Malaysia may show less growth because of competition from regional platforms. Measat's Associate Vice President of Sales, Ganendra Selvaraj says satellite prevails in several emerging markets in Asia that have poor terrestrial infrastructure or are geographically dispersed.

"As on-demand content consumption becomes more popular, coupled with the COVID-19 pandemic affecting economies, slow-down in the broadcast market is expected but we do not see a major change to our business over the next few years," Selvaraj says. "This is primarily because many areas in the regions that we operate in lack reliable broadband. In any case, MEASAT is cognizant to the growing broadband demand and evolving viewing habits and hence focused on building High Throughput Satellite [HTS] capacity suitable for broadband services in the region."

Selvaraj says that for Video-on-Demand (VOD), the future looks exciting — HTS satellites and terrestrial 5G will complement each other and allow services to reach subscribers even deeper into previously unserved regions, increasing consumption of video and data in areas once thought uneconomical.

Measat challenges the idea that video and network services are mutually exclusive. “While we do see a shift in growth in a very traditional sense from video to networks, invariably video is fuelling the growth and revenue of our networks business. Not only do we expect this trend to continue, we expect satellite technology to continue to play a key role in ensuring video content is delivered to end users,” Selvaraj says.

## **Trouble in the US Market**

Satellite TV is a tough sell in the U.S., says leading U.S. telecom analyst, Craig Moffett, founding partner of MoffettNathanson. He says satellite TV offered better picture quality and more HD channels than cable TV in the early 2000s, but as cable closed that gap and offered bundle discounts on internet service, satellite lost its value proposition. Cord-cutting has only added to these challenges, and now satellite TV only makes sense in rural areas, he says.

For the two companies providing satellite TV service to customers — AT&T which owns DirecTV, and Dish Network — Moffett says they have taken different approaches to managing the decline. Moffett says Dish Network, coming from the position of a satellite operator, understands the business, and hasn’t done anything to make the situation worse. He says AT&T is managing cash flow as the business declines, and raising prices to offset subscriber losses, which makes subscribers more likely to leave. “AT&T feels for all the world like a death spiral,” Moffett says.

Even the days of two satellite TV providers in the U.S. are likely limited. AT&T President and COO John Stankey told investors in March that the company

is only marketing DirectTV to customers in rural areas, and instead putting its marketing muscle behind streaming service AT&T TV. And Dish Network Chairman Charlie Ergen said in the company's recent quarterly results call with investors that he sees a merger with DirectTV as "inevitable." And if Congress dedicates more money for rural broadband funding — "if rural broadband really does become ubiquitous, the need for satellite [TV] will wane even faster," Moffett says.

In 10 to 15 years, Moffett says satellite TV in the U.S. could go the way of the pager industry — which still exists, just for a small subset of customers who need it. "It's hard to imagine there will be two separate companies because I don't think the opportunity is big enough to keep two companies out of bankruptcy," he says.

## **Steady Prospects in Europe**

In Europe, Euroconsult analyst Buchs says satellite TV subscriptions are decreasing like in the U.S., but the decrease is less significant than in North America in terms of subscribers and revenues. Buchs points out that in Europe, there are fewer OTT options than in North America. And the price for satellite TV in Europe is much cheaper than the U.S. In addition, Pay TV operators often bundle OTT services along with linear TV, which can give European viewers the best of both worlds.

"They're still quite well positioned, even though they're losing subscribers might so I would say there's still quite competitive, at least we're expecting this to continue to be the case in the next five years or so. But they're losing ground to OTT which is no surprise right and IPTV as well is growing a bit in Europe."

Eutelsat's Belmer says Europe remains a strong, robust market for satellite DTH overall, representing about 30 percent of broadcast households and is slightly eroding, by one to two percentage points every two or three years. He points to the resiliency of the physical satellite dish, which a customer

has paid for and is already installed on their home, as a customer incentive to continue satellite TV service.

In addition, Eutelsat's main markets in Europe are Italy, Poland, and Greece, and beyond that, Turkey and Russia, which are well-suited for satellite TV because terrestrial infrastructure, for economic and geographic reasons is rolling out more slowly than countries like Germany, France, and the U.K.

SES has recently signed an interesting broadcast deal in Europe, with BBC Studios (BBCS) and its subsidiary UKTV to manage the playout and distribution of over 50 linear channels, and associated Video on Demand (VOD) services. Mathur says this deal is an example of SES moving into the value chain, trying to get a better understanding of the change in TV consumption from purely linear to linear and OTT. He says SES has done a number of other deals like this, and it will be an increased focus for SES as the company looks to allow its customers to provide the best experience to their users.

"What we're doing is actually managing and preparing content and channels before we deliver these channels to multiple takers of that content. We're lining up that content in a manner that it can go onto a linear satellite or into a nonlinear OTT environment. We're enabling the engine for the BBCS to be able to deliver that [content and channels] to the BBCS's partners for the final distribution to any platform or screen," Mathur says.

## **Satellite's Future in Video**

Moffett says one problem the overall Pay TV industry hasn't solved is the split in consumer behavior between sports, which require delivery in real time, and entertainment, which does not. "Trying to create live streaming bundles that combine sports and entertainment sort of missed the point. That's not the way people want to consume entertainment anymore," he says.

Broadcast networks "aren't ready to admit the obvious — that entertainment and sports are going in an entirely different direction," Moffett says. He sees a sports tier in the future with sports and news that is live and real-time, and a plethora of on-demand services that deliver entertainment programming.

"The idea that we have hundreds of channels of live TV will eventually be an anachronism that people think of as antiquated," Moffett says.

Mathur is also optimistic for the future, and says while there is no question that viewers are consuming more content online and on demand, there will always be a place for satellite TV. He believes the Pay TV operator whether it is DTH or cable provides the most vibrant bundle with news, sports, and general entertainment, while cord-cutters may have to subscribe to a number of platforms which can add up in price.

"The remarkable news is that the amount of linear consumption is not dropping off. People are watching more stuff, or watching two things at the same time. ... For a long time, it was not totally clear whether OTT would cannibalize linear viewership. Everything that we're seeing in the statistics, everything that our customers are telling us is that linear television delivered over satellite remains incredibly relevant, and it has been enriched, or added to by the OTT delivery."

In Eutelsat's most recent full year financial results, video made up 61 percent of the operator's revenues, but as Eutelsat makes investments in satellite broadband, data, and mobility services, Belmer predicts that connectivity will represent the same amount of revenue for the company in the medium to long-term.

"That's how we see the transformation of our business," he says.

"Transformation doesn't mean we were to cut one of our legs, we want to continue to preserve that [video] business as long as we can. We think that for the foreseeable future, video will be there and will be much more than instrumental to enable us to develop ourselves in the new verticals." **VS**



