

**CLOSED CAPTION AREA
TWO LINES OF TEXT**



Evolution of the Video Marketplace & The Future of Television

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CLOSED CAPTION AREA TWO LINES OF TEXT

- **Live, Linear TV in Secular Decline**
- Mobile is the 1st Screen, Not TV
- **Archaic Hardware with Closed, Uninspiring UI's**
- Binge Viewing Drives Binge Viewing More than Live
- **TV Everywhere = TV Nowhere**
- Why Watch Live? Ad Tolerance Falling
- **Multichannel Video Bundle Price/Value Declining**



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One Industry Has Not Evolved



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Entertainment Has Become **More Personalized** – Less of a Shared Experience

Living Room TV Increasingly a **Passive, Background Activity** Akin to Radio

Linear TV is Just Another App – So Many Cures for Boredom in 2016



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The True Cost of Netflix vs. Cable TV

NETFLIX



Monthly ARPU (4Q15)	\$8.63	\$80.00 [1]
Time Spent / Sub / Month (Hours)	61.9	348.5 [2]
Cost per Hour	\$0.14	\$0.23

[1] Assumes DVR fees for ~50% of MVPD HHs

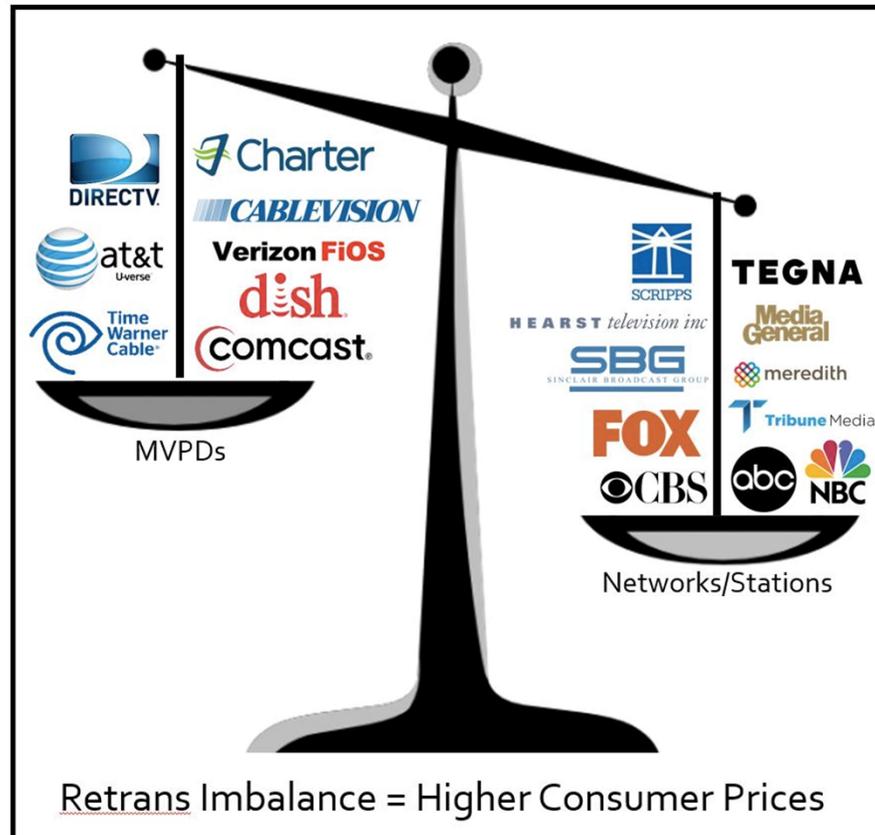
[2] Assumes 3.5% decline from FY14 Domestic Live & TSV Hours

Source: Company Releases, Nielsen, BTIG Estimates



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Failure by Government to Modernize Retrans Has Shifted Balance of Power



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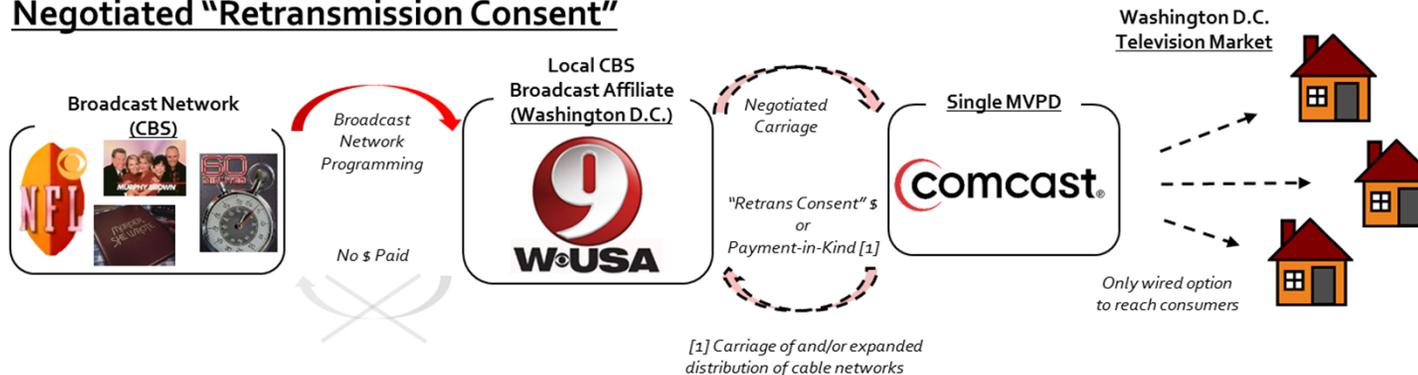
Broadcast TV Following Passage of 1992 Cable Act

"Must Carry"



OR

Negotiated "Retransmission Consent"



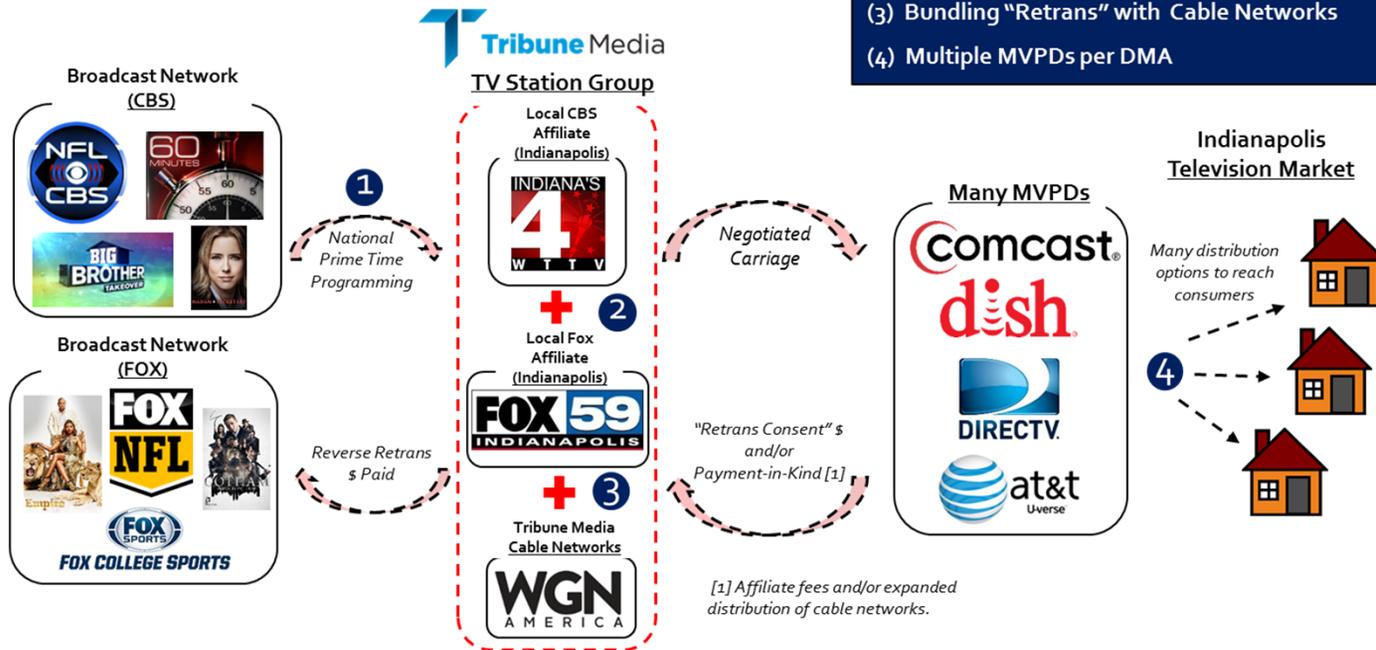
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Broadcast TV in 2015

Negotiated "Retransmission Consent" with TV Station Groups

What's Changed? 4 Issues

- (1) "Retrans" Funding National Programming
- (2) Control of Multiple Big 4 Networks in one DMA
- (3) Bundling "Retrans" with Cable Networks
- (4) Multiple MVPDs per DMA



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June 1991: House Energy & Commerce Subcommittee on Telecom & Finance
Cable TV Competition Hearing Discussing What Became the 1992 Cable Act

“The \$3 billion [retrans] number that has been used this morning, I don’t where it comes from. It may be an example of a number. Each station would negotiate its own transmission price with the local cable network, it may end up as \$300 million, it may end up as \$800 million, it may end up as a \$1 billion, but it certainly will not be \$3 billion”

-- Laurence Tisch, CBS CEO (1986-1991)



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CBS March 15, 2016 Analyst Day: Guidance for “just” CBS’s Retransmission Haul by 2020



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Multifaceted Problem

Retrans, Bundling, MFNs & ADMs



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Broadcasters

- **Retrans \$'s for Free-to-Air TV Have Soared**
- Reverse Retrans Never Contemplated by Regulators
- **Retrans Costs Well Above Reported Figures as Used to Create & Drive Cable Network Distribution**
- Cable Act Woefully Out-of-Date



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Cable Networks

- **Force Distributors to Carry Entire Family of Networks, Regardless of Consumer Interest or Viewership Levels**
- **Require Minimum Distribution Commitments That Result in Little-to-No MVPD Packaging Flexibility**



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MVPDs

- **Require MFN Clauses That Limit Pricing & Packaging Terms with Other Distributors**
- **Require ADM Clauses That Limit Programmers' Ability to Distribute to vMPVDs**
- **Begun to Restrict the Sale of Content to OTT Providers**
- **Prevent Set-Top Box Access to Competitive Video**

Services



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So What Happens Next?

- **Legacy MVPDs Create “Skinny” Bundles or Cord-Cutting/Neuvering Accelerates**
- **Rise of OTT’ers (Netflix & Amazon) – Whose Business Model is Based on Putting Consumers First**
- **Rise of vMVPDs Who Rethink What the Bundle Is: YouTube Red to Amazon Prime to Sling to Fubo.TV**

