



BERNSTEIN

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STATE OF THE VIDEO MARKETPLACE

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See Disclosure Appendix of this report for important Disclosures and Analyst Certifications

Bundled Pricing Is An Output, Not an Input

- We believe bundled pricing didn't drive the industry structure.
- We believe the industry structure drove bundled pricing.
- Technology is changing the industry structure (from linear to on-demand).
- Therefore we believe pricing practices will have to change as well.

Pay TV Value Chain



Households

↓ \$82



MVPDs

25% margin
~20% ROIC

\$45 →



TV Networks

40% margin
+30% ROIC

↗ \$10



Sports Leagues

↘ \$10



Studios

15% margin
High SD/low DD ROIC

↘

Talent & Production Costs

\$17



↘

2015 Current Affiliate Fee Breakeven

(Fees in \$/sub/mo)

Pay-TV ARPU	\$82
Aggregate Affil Fees	\$45
Customer-Related Expenses	\$16
Gross Margin \$'s	\$21
Gross Margin %	45%
Customer-Related OpEx %	20%

	2015 Fees (\$/sub/mo)	Distributor Break-Even (% Subs Lost)
DIS	\$9.93	32.6%
FOXA	\$5.09	19.9%
TWX	\$3.71	15.3%
VIAB	\$3.04	12.9%
DISCA	\$1.06	4.9%
CBS	\$1.11	5.1%
AMCX	\$0.75	3.5%
SNI	\$0.62	2.9%

Source: SNL Kagan, Bernstein Estimates & Analysis

2018 & 2023 Affiliate Fee Hypothetical Breakeven

(Fees in \$/sub/mo)

	Current	Est. Growth Rates	2018	Est. Growth Rates	2023
Pay-TV ARPU	\$82	4%	\$92		\$112
Aggregate Affil Fees	\$45	9%	\$58	9%	\$90
Customer Expenses	\$16	4%	\$18	4%	\$22
Gross Margin \$'s	\$21		\$15		\$0
Gross Margin %	25%		17%		0%

	2018				2023		
	Current Fees	Est. Growth Rates	Break-Even Fees (\$/sub/mo)	Break-Even (% Subs Lost)	Est. Growth Rates	Break-Even Fees	Break-Even (% Subs Lost)
DIS	\$9.93	5%	\$11.49	43%		\$14.67	100%
FOXA	\$5.09	8%	\$6.42	29%		\$9.43	100%
TWX	\$3.71	10%	\$4.94	24%	5%	\$6.30	100%
VIAB	\$3.04	3%	\$3.32	18%		\$3.85	99%
DISCA	\$1.06	6%	\$1.26	8%		\$1.69	99%
CBS	\$1.11	5%	\$1.28	8%	15%	\$2.23	99%
AMCX	\$0.75	6%	\$0.90	6%		\$1.20	98%
SNI	\$0.62	6%	\$0.73	5%		\$0.98	98%

Source: SNL Kagan, Bernstein Estimates & Analysis

If You Want To Accelerate the Change

- Sports
- Digital Antennas