The Effect “Over the Top” on Communications/Media Industries

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## Pay TV (MVPDs) No Longer Growing

<table>
<thead>
<tr>
<th>Distributor category</th>
<th>2012 YE subs (mm)</th>
<th>2013 YE subs (mm)</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cable</td>
<td>54.9</td>
<td>52.9</td>
<td>-3.5%</td>
</tr>
<tr>
<td>Satellite</td>
<td>34.1</td>
<td>34.3</td>
<td>0.5%</td>
</tr>
<tr>
<td>Telco</td>
<td>9.5</td>
<td>11.0</td>
<td>15.8%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>98.5</strong></td>
<td><strong>98.3</strong></td>
<td><strong>-0.3%</strong></td>
</tr>
</tbody>
</table>

Source: Morgan Stanley
Reason: Saturation and Online Streaming

Online & Time-shifted viewing continues to take share...

Source: Morgan Stanley
New Devices Contribute Only a Small Share of Viewing of Traditional TV Programming…

Typical hours spent watching TV shows in a week

Sources: Nielsen; Morgan Stanley
But the Modest Increase in Viewing is …

... led by online video viewing growth

Source: Morgan Stanley
Netflix Appears to Dominate On-Line Video Streaming

Source: Morgan Stanley, Streaming Survey, 2014
How Has Online Streaming Affected Major Players in Information Industries?

• Cable/Satellite Companies?
• Telecom Carriers?
• Media Companies?
Cable TV/ Satellite Revenues Are Rising, but Telecom Carriers’ Fixed-Wire Revenues (including video) Are Falling

Source: Annual10Ks
Cable TV’s Growth Due Largely to Increasing Revenues from Broadband

Source: Morgan Stanley
Media Companies’ Revenues Are Growing Somewhat More Rapidly than the MVPDs’ Revenues

Source: Annual 10Ks
Major Media Companies Still Dominate
(2013 Revenues)
Cap-Ex Is Lagging, Particularly for AT&T and VZ Fixed-Wire Operations

Source: Annual 10Ks
Major Media-Company Stocks Have Risen Sharply

Source: finance.yahoo.com
Cable/Satellite Stocks Have Matched Their Performance

Source: finance.yahoo.com
But AT&T and Verizon Have Not Done As Well
An Aside: Vertical Integration with NBC/Universal Apparently Has Not Boosted Comcast’s Value

<table>
<thead>
<tr>
<th>Company</th>
<th>Enterprise Value (4/18/14)</th>
<th>EBIDTA (2013)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CMCSA</td>
<td>8,000</td>
<td>1</td>
</tr>
<tr>
<td>TWC</td>
<td>8,000</td>
<td>1</td>
</tr>
<tr>
<td>CHTR</td>
<td>10,000</td>
<td>1</td>
</tr>
<tr>
<td>CVC</td>
<td>12,000</td>
<td>1</td>
</tr>
<tr>
<td>DIS</td>
<td>14,000</td>
<td>1</td>
</tr>
<tr>
<td>FOX-A</td>
<td>16,000</td>
<td>1</td>
</tr>
<tr>
<td>TWX</td>
<td>18,000</td>
<td>1</td>
</tr>
<tr>
<td>VIA</td>
<td>20,000</td>
<td>1</td>
</tr>
<tr>
<td>CBS</td>
<td>22,000</td>
<td>1</td>
</tr>
</tbody>
</table>
Looking Forward: AT&T and Verizon Are the Most Vulnerable to Shifts in Video Market

- Despite substantial FiOS and U-verse growth, fixed-wire revenues are falling

- Combined share of video customers is less than 12%

- Declining share of fixed-wire broadband

- Unlike CableCos, who can assign more and more of their HFC capacity to broadband for streaming, telcos have difficulty increasing broadband speeds without substantial investment.
Conclusion

- Video streaming is increasing as more and more wireless devices are used by consumers

- But the shift to “Over-the-Top” viewing is quite slow

- And, accordingly, its effects on industry participants has been very muted

- Moreover, the equity markets are not signalling a disruptive change — thus far…