

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

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Pay TV (MVPDs) No Longer Growing

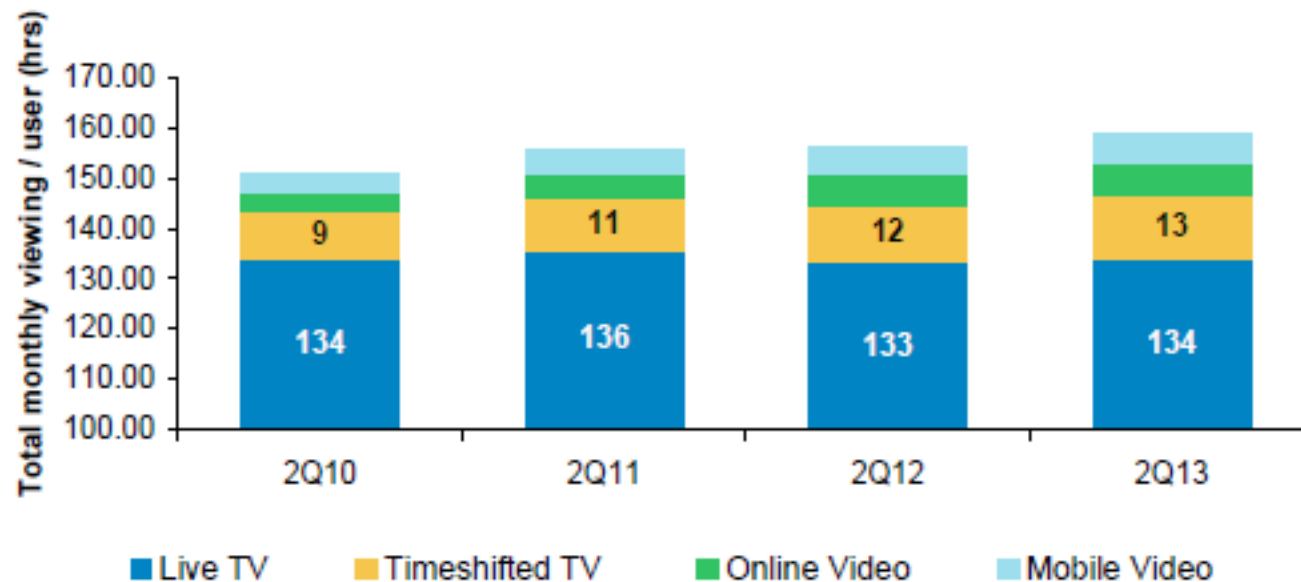
Change in pay TV subscribers

Distributor category	2012 YE subs (mm)	2013 YE subs (mm)	% change
Cable	54.9	52.9	-3.5%
Satellite	34.1	34.3	0.5%
Telco	9.5	11.0	15.8%
Total	98.5	98.3	-0.3%

Source: Morgan Stanley

Reason: Saturation and Online Streaming

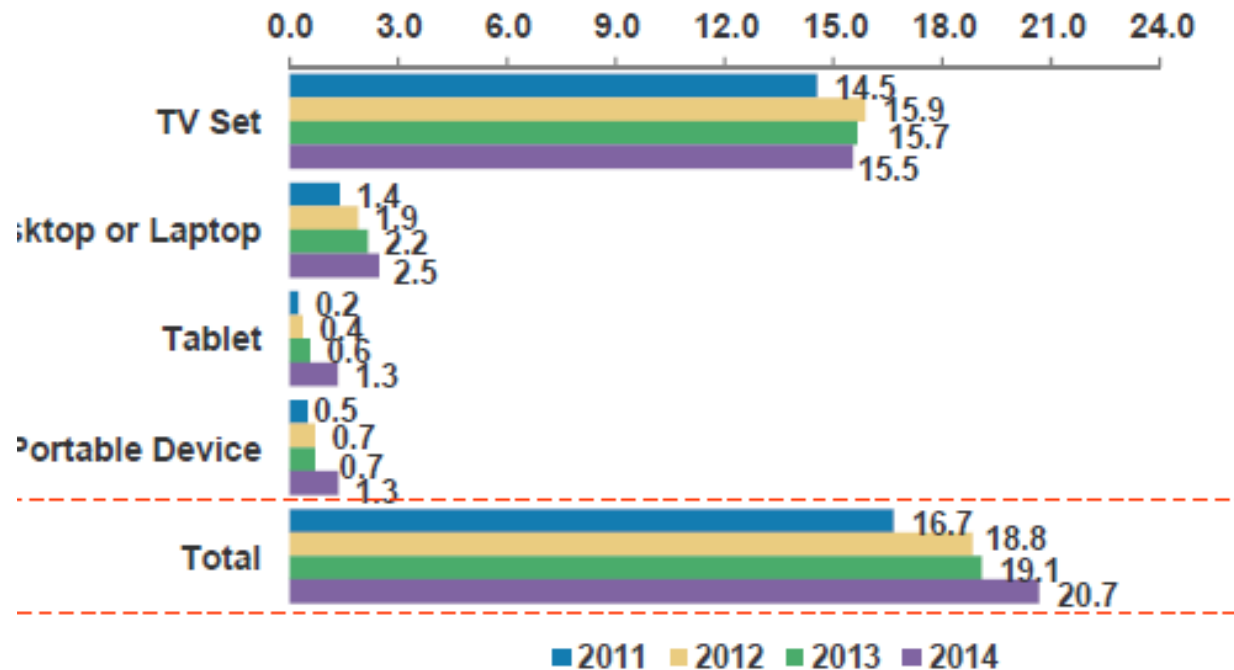
Online & Time-shifted viewing continues to take share...



Source: Morgan Stanley

New Devices Contribute Only a Small Share of Viewing of Traditional TV Programming...

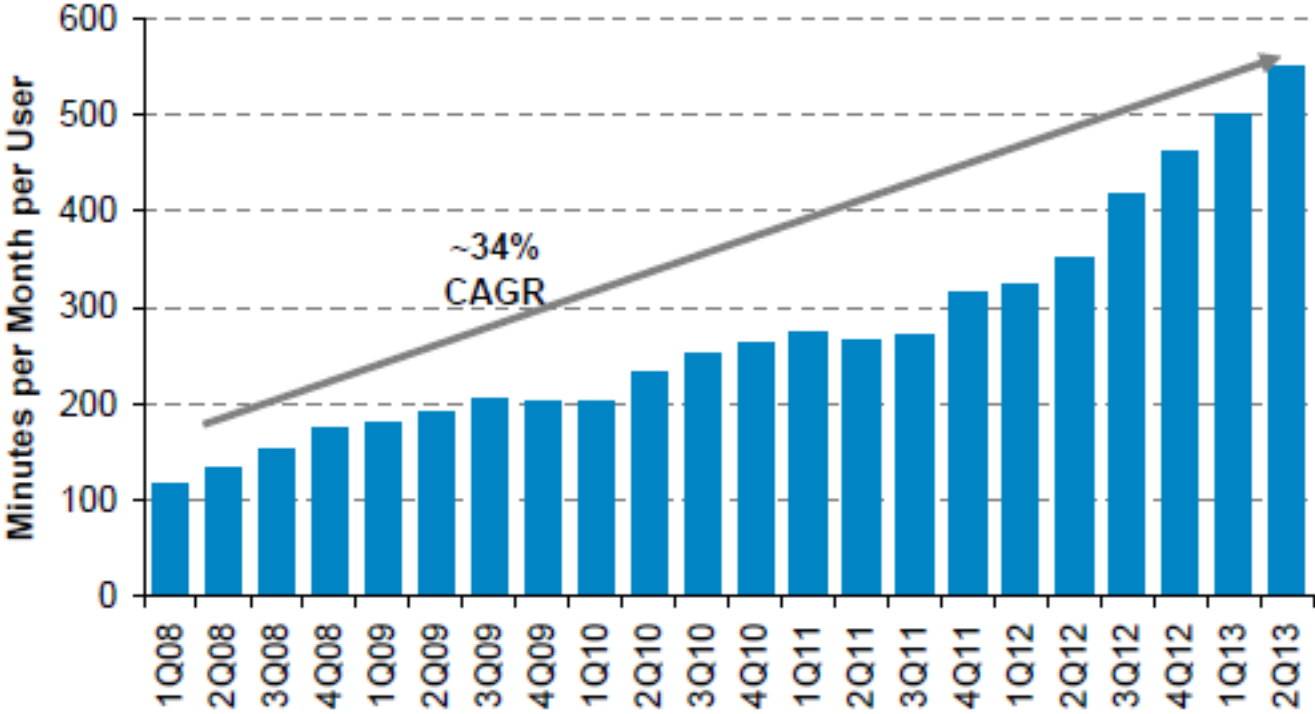
Typical hours spent watching TV shows in a week



Sources: Nielsen; Morgan Stanley

But the Modest Increase in Viewing is ...

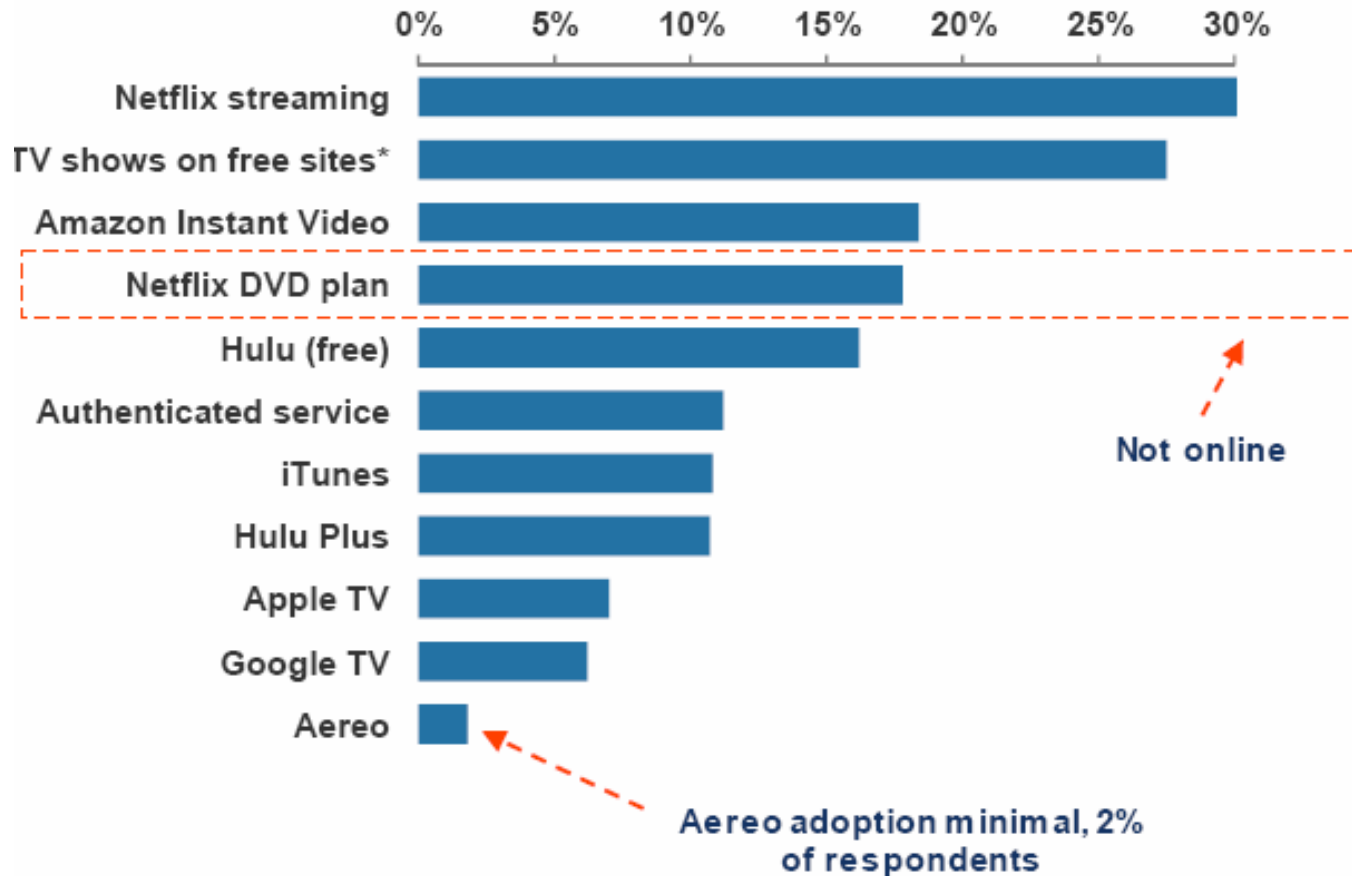
... led by online video viewing growth



Source: Morgan Stanley

Netflix Appears to Dominate On-Line Video Streaming

Percent of respondents who say they use any of the following services for movies/TV

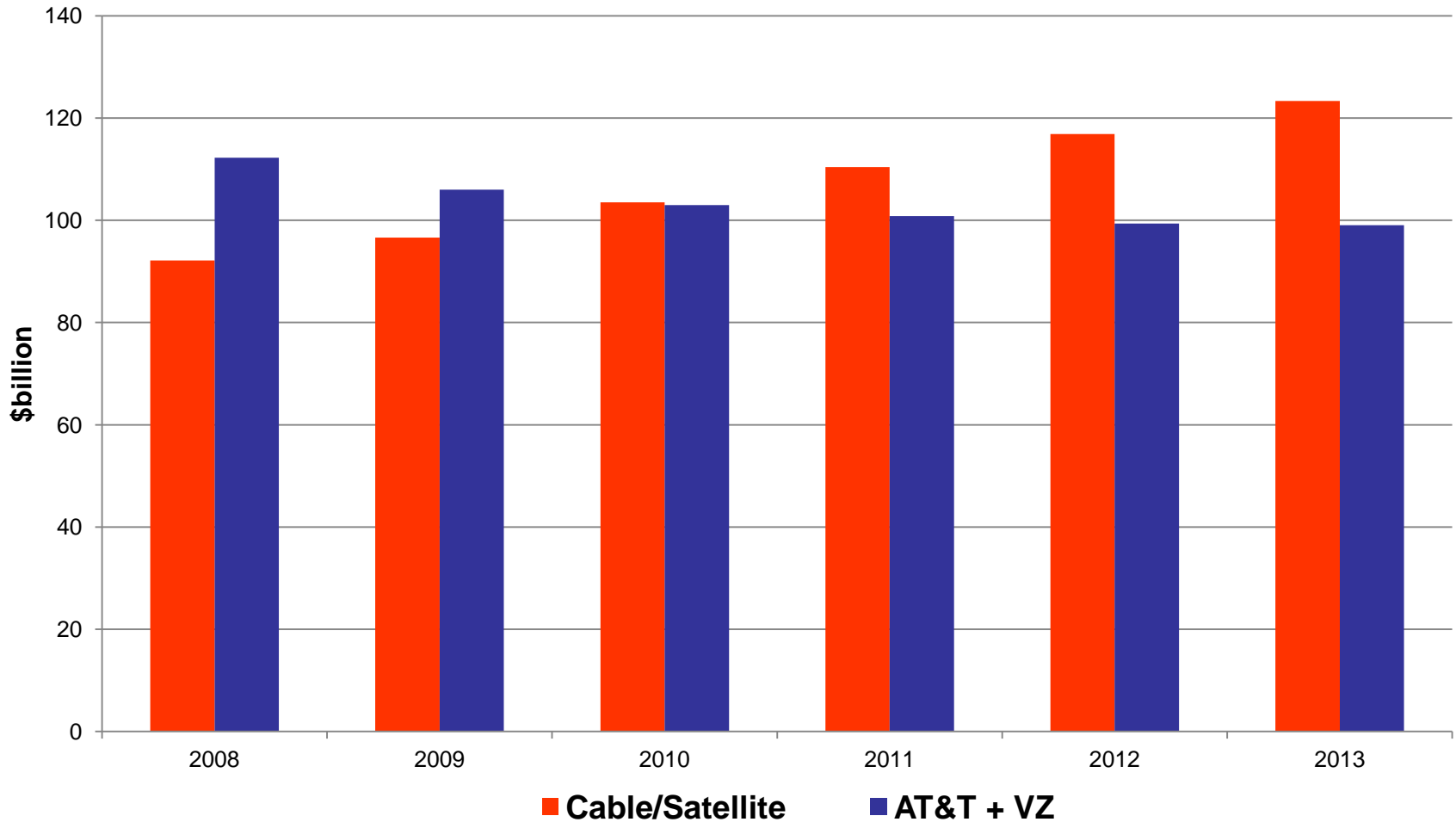


Source: Morgan Stanley,
Streaming Survey, 2014

How Has Online Streaming Affected Major Players in Information Industries?

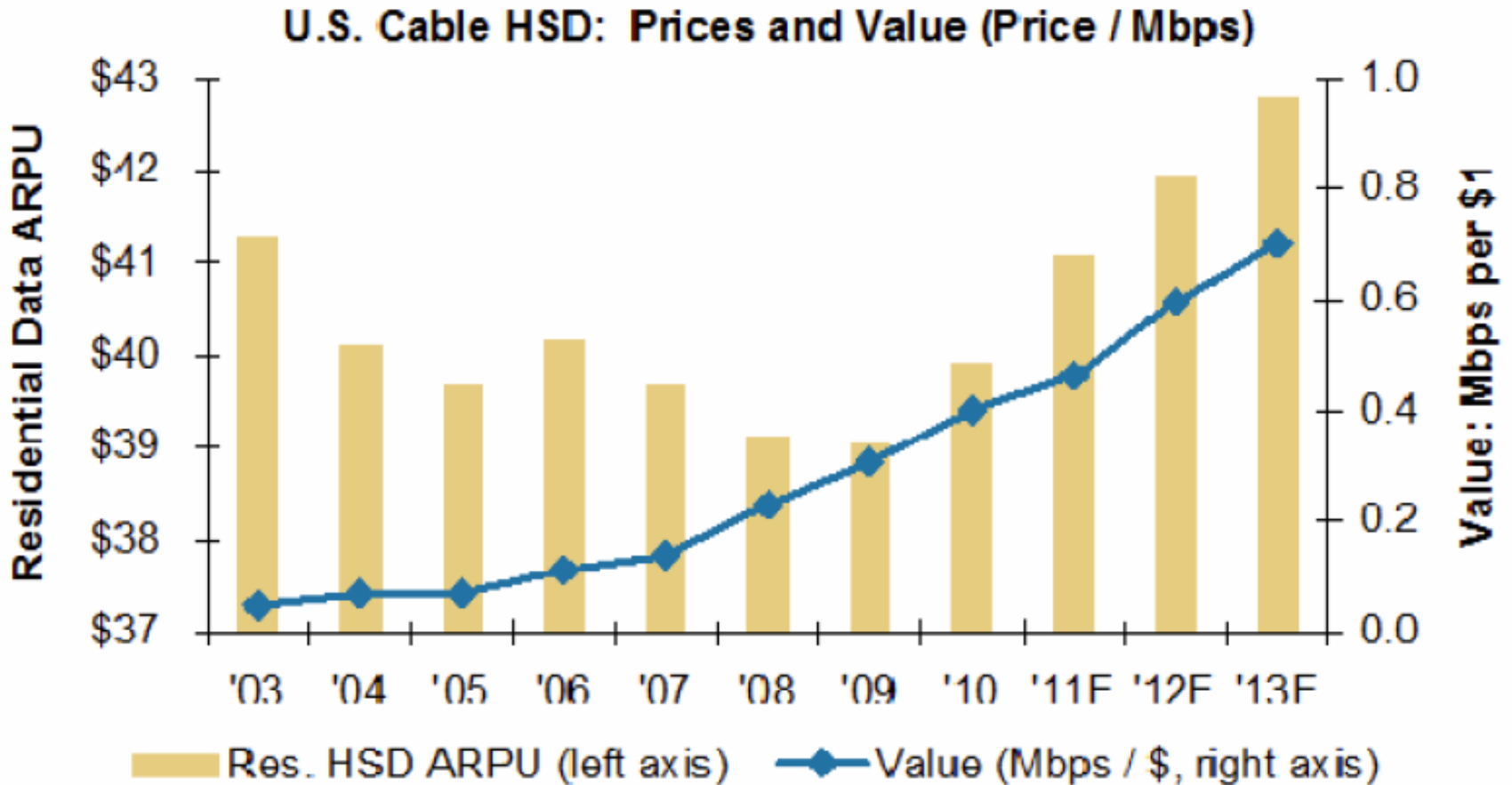
- **Cable/Satellite Companies?**
- **Telecom Carriers?**
- **Media Companies?**

Cable TV/ Satellite Revenues Are Rising, but Telecom Carriers' Fixed-Wire Revenues (including video) Are Falling



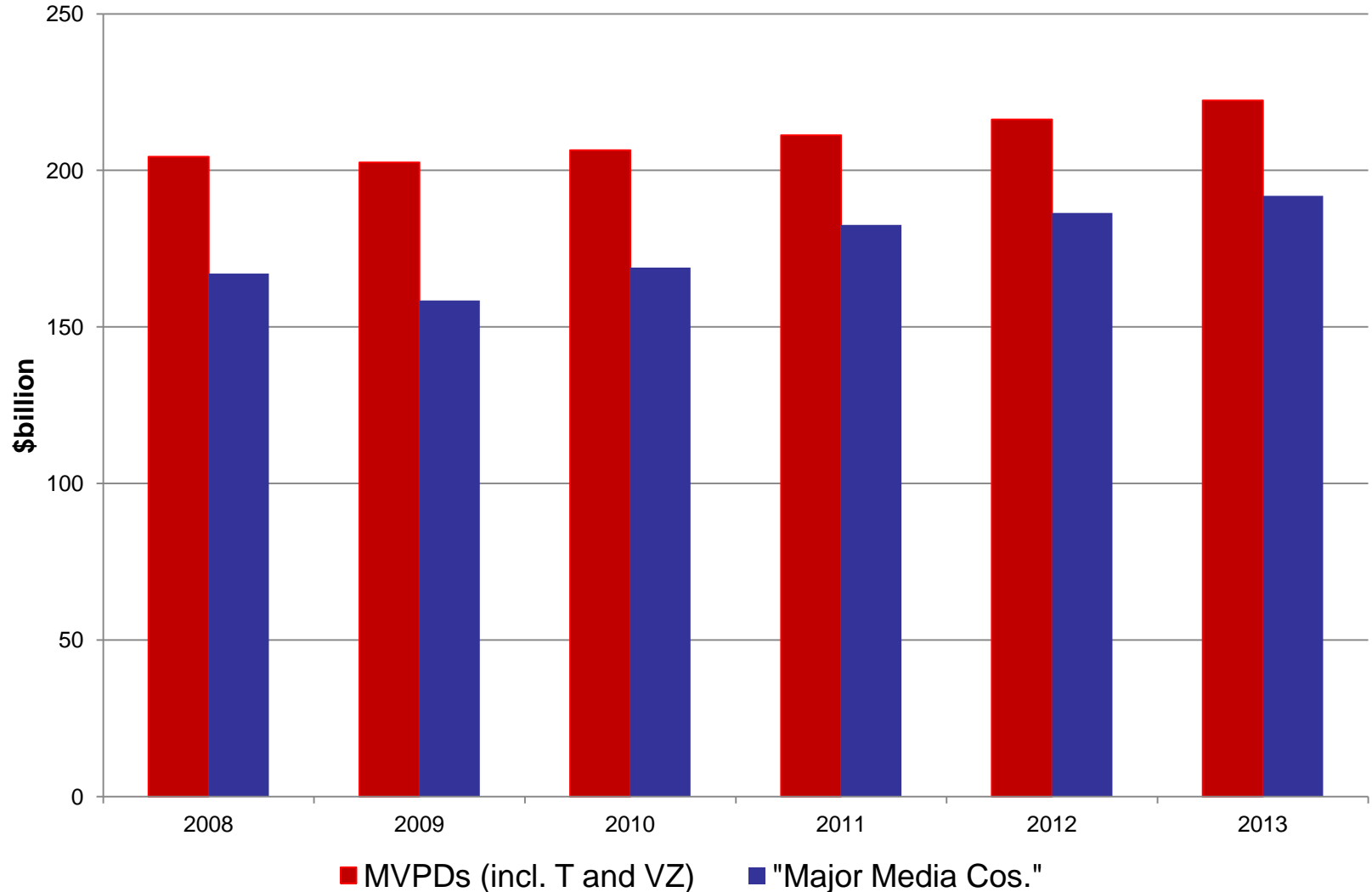
Source: Annual10Ks

Cable TV's Growth Due Largely to Increasing Revenues from Broadband



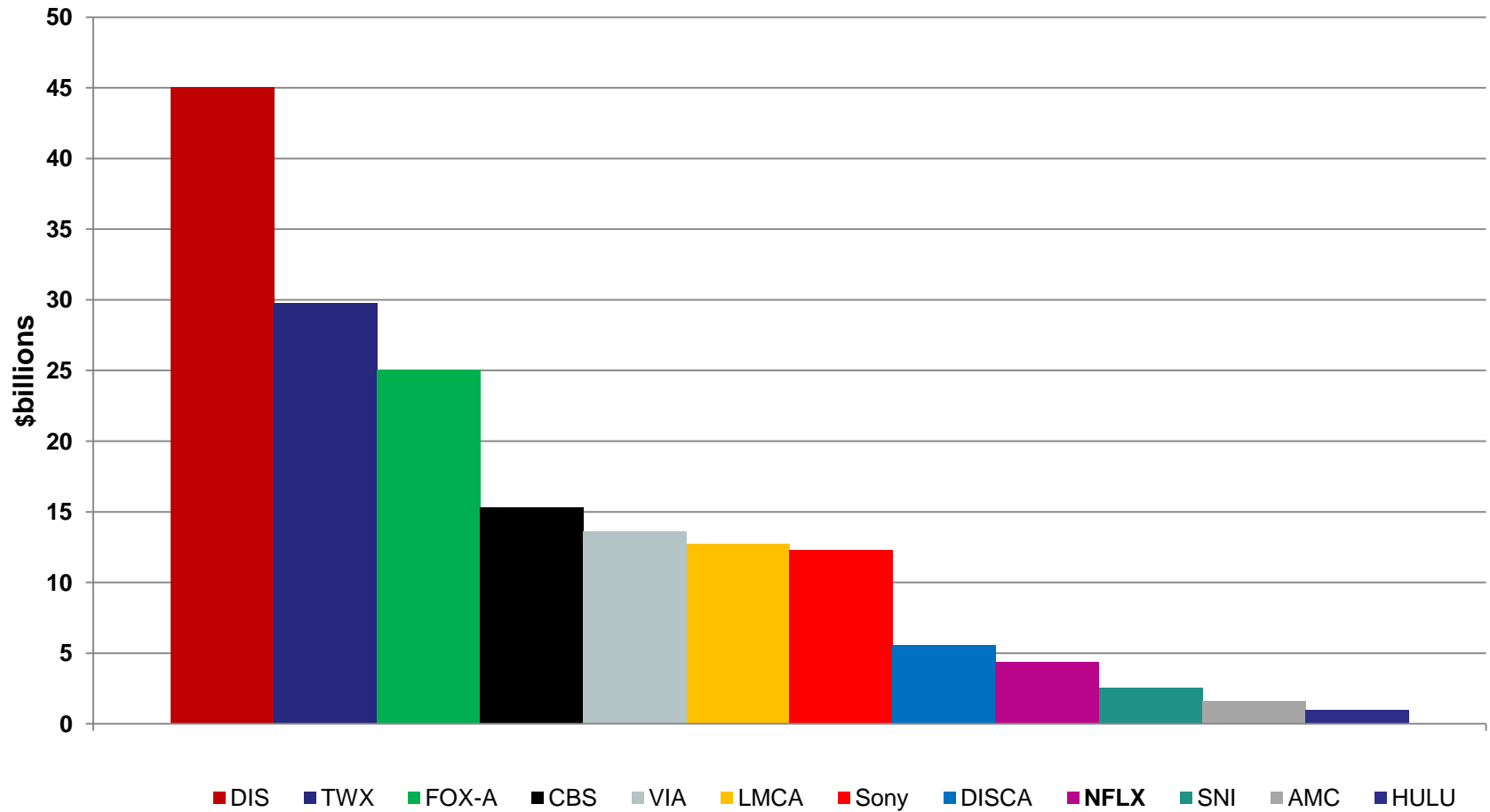
Source: Morgan Stanley

Media Companies' Revenues Are Growing Somewhat More Rapidly than the MVPDs' Revenues

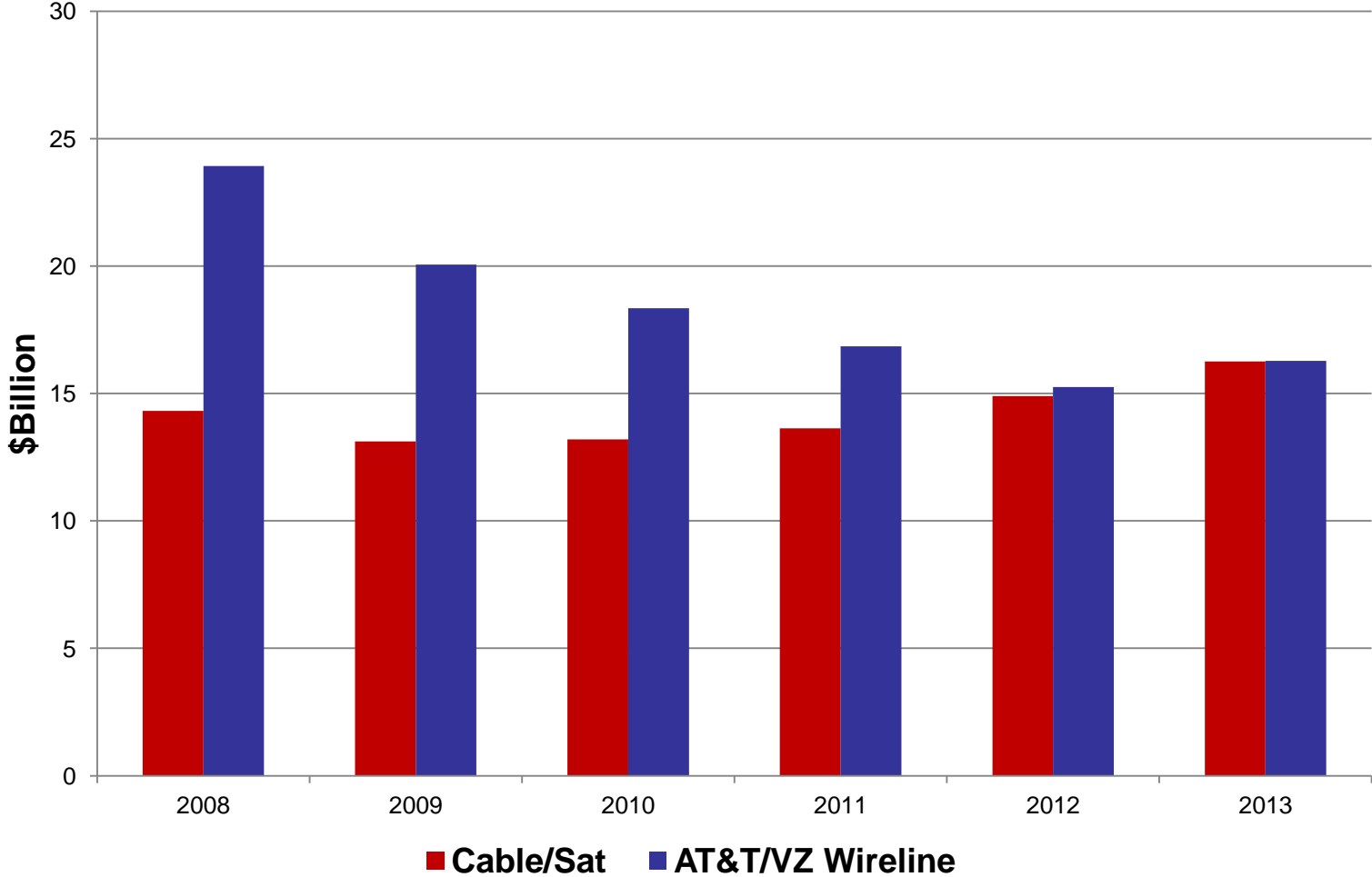


Source: Annual 10Ks

Major Media Companies Still Dominate (2013 Revenues)

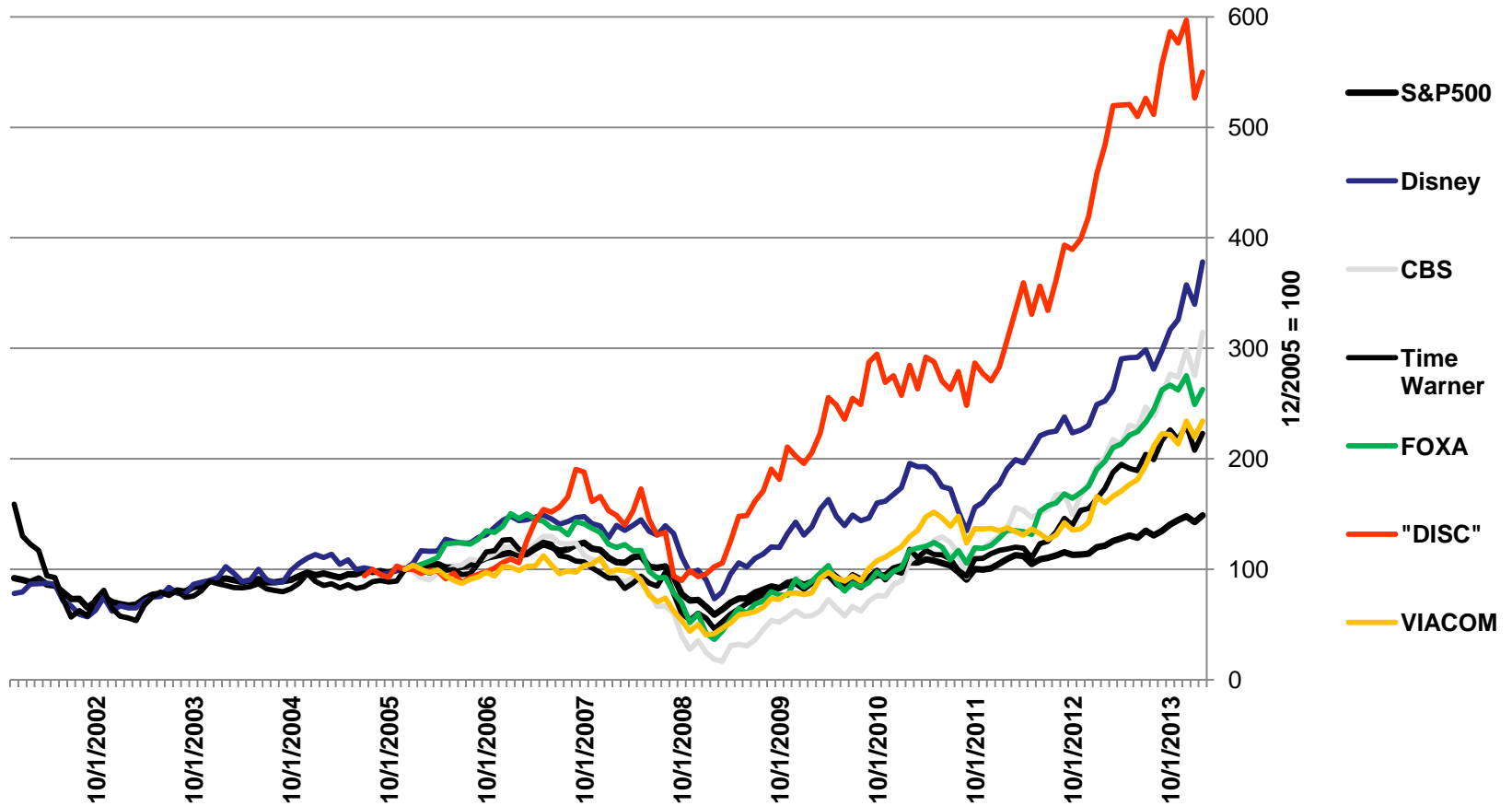


Cap-Ex Is Lagging, Particularly for AT&T and VZ Fixed-Wire Operations



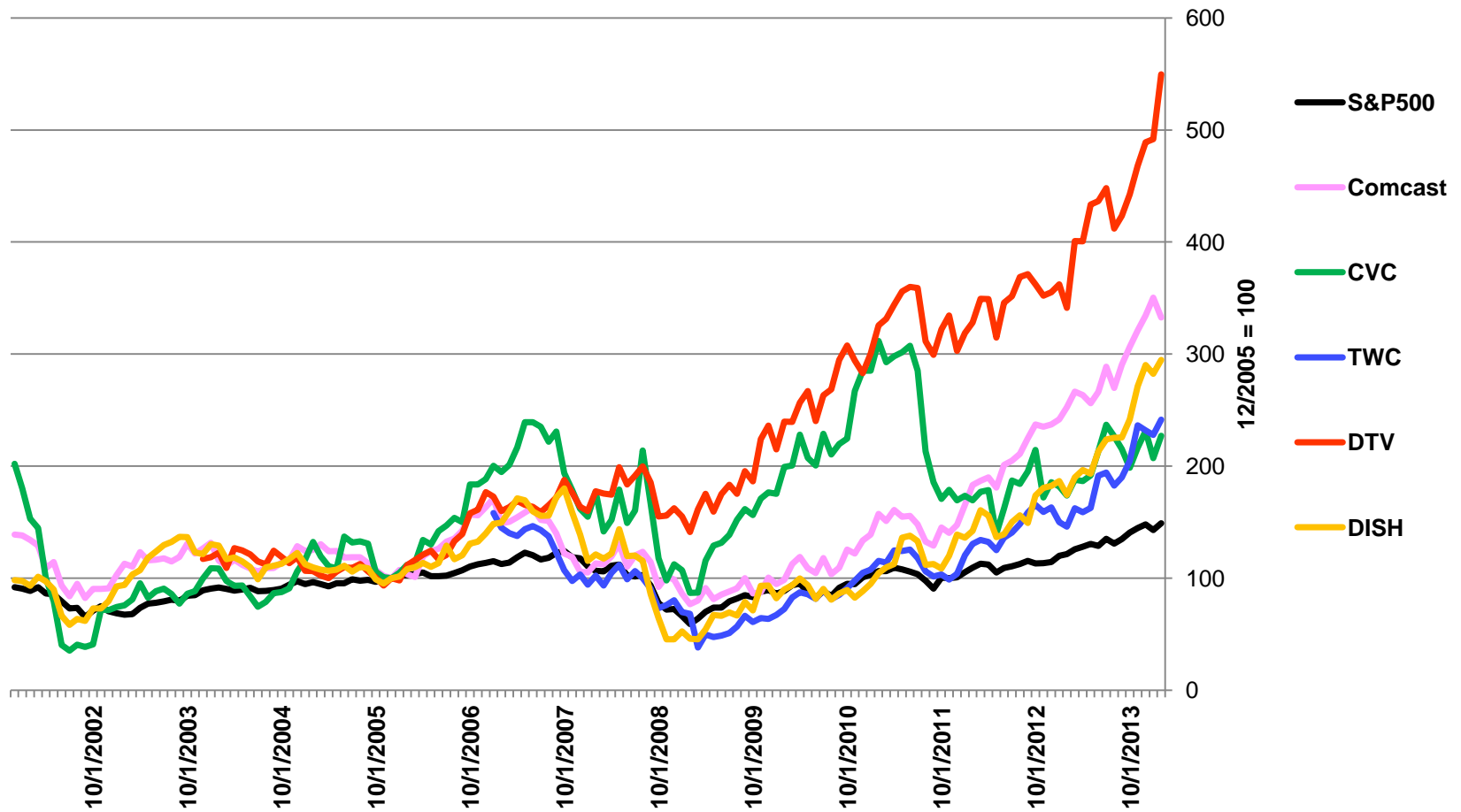
Source: Annual 10Ks

Major Media-Company Stocks Have Risen Sharply



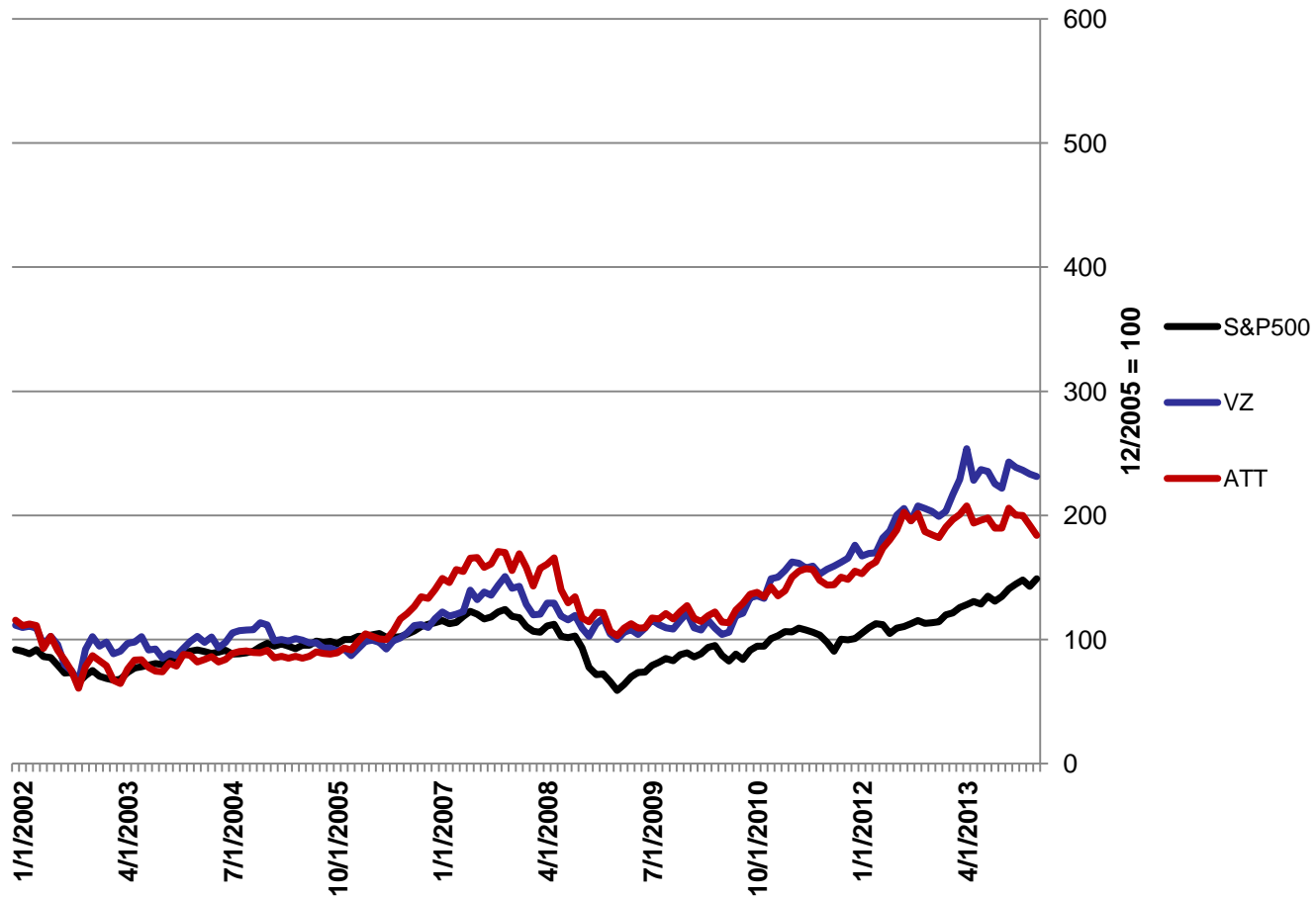
Source: finance.yahoo.com

Cable/Satellite Stocks Have Matched Their Performance



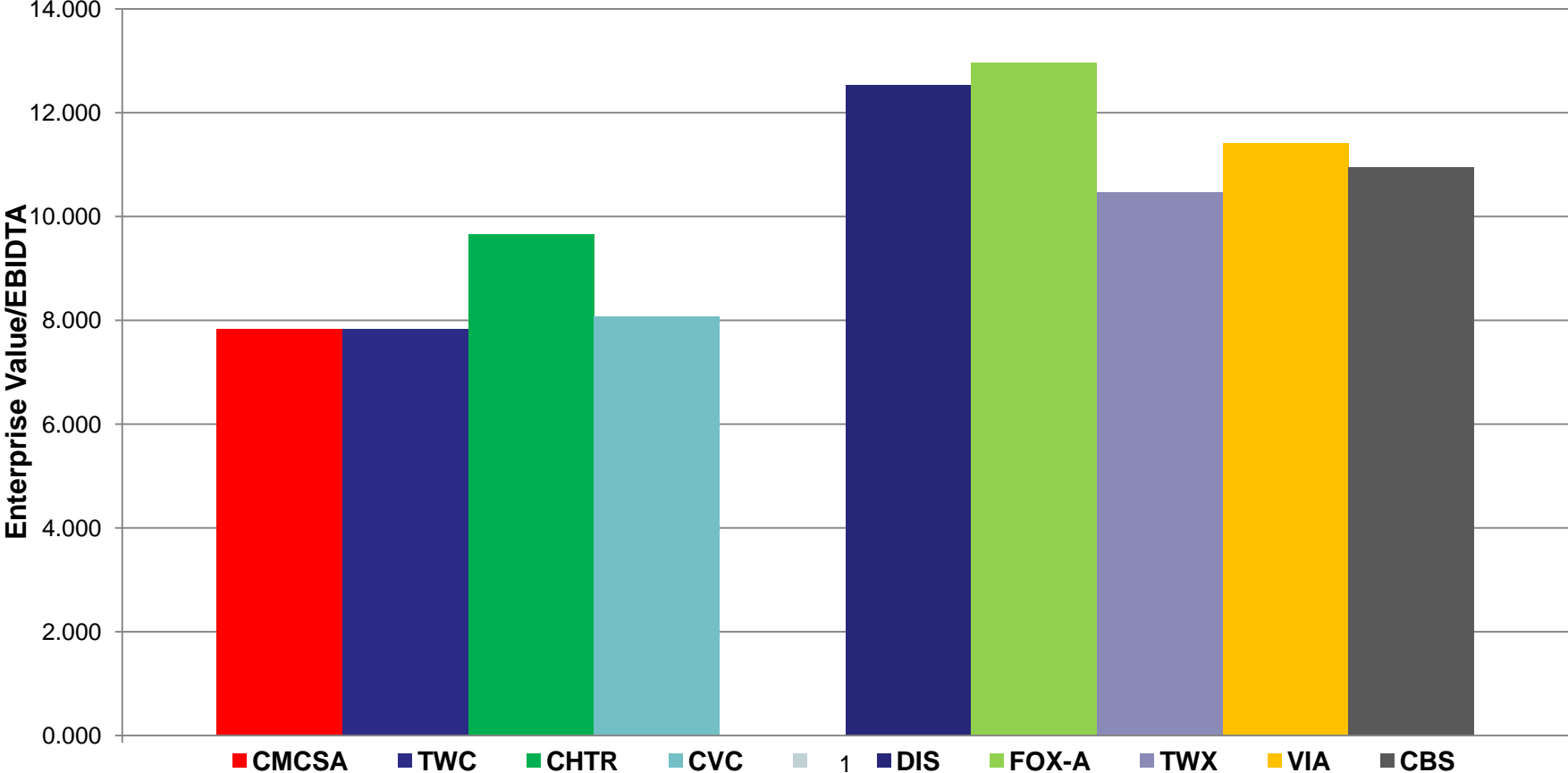
Source: finance.yahoo.com

But AT&T and Verizon Have Not Done As Well



An Aside: Vertical Integration with NBC/Universal Apparently Has Not Boosted Comcast's Value

Enterprise Value (4/18/14)
/ EBIDTA (2013)



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...