



“Mythbusting: The Exaggerated Effects of Cord Cutting.”

Much has been made in the trade press about cord cutting, broadband only homes and “zero TV” households but what, if anything, does this really mean for the cable TV landscape and advertisers?

Executive Summary

We continue to believe both the short and long term impact of “cord cutting” will be negligible for the cable TV industry due to several factors based on the following media consumption habits and consumer behaviors as well as macro, cable and advertising economics; not to mention cable’s own impactful offerings from both a content and technology perspective:

- TV penetration remains healthy
- Characteristics and relative size of non-cable/satellite HHs along with their pre-existing media consumption habits
- Video viewing is growing and still dominated by TV
- Cable TV ratings are healthy while cume GRPs are strong
- Cable TV’s advertising share and revenues are both up and projected to increase
- Cable TV’s heavy investment in year-round programming
- Cable’s superior solutions in providing greater consumer choice and content accessibility both inside and outside the home
- YOY comparisons show how insignificant “cord-cutting” is vs. the audience shifts in other mass media

TV Penetration Remains Healthy

The TV universe has steadily increased over the last 10 years

TV HH Universe Trend Shows a +7% Increase Over the Last 10 Years





More specifically, multichannel TV HH penetration (+13%) has been outpacing the growth in the total TV universe during the same ten year time period...

Total U.S. Multichannel Video Market		2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
# Total Multichannel Subscribers (actual)	(mil.)	89.4	91.8	93.7	95.8	97.7	98.9	100.7	100.8	101.0	101.0	100.9
Total Multichannel Subscriber Net Additions (actual)	(mil.)	1.9	2.4	1.9	2.1	1.9	1.2	1.7	0.2	0.2	0.0	-0.1
Total Multichannel Subscriber Growth (%)	(mil.)	2.2%	2.7%	2.0%	2.3%	2.0%	1.3%	1.8%	1.6%	2.1%	0.0%	-0.1%

Source: SNL Kagan 2014; includes cable, DBS and telco

...And multichannel TV HH penetration is projected to remain stable over the next ten years

Total U.S. Multichannel Video Market		2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
# Total Multichannel Subscribers (actual)	(mil.)	100.8	100.8	100.8	100.8	100.9	101.1	101.2	101.4	101.6	101.9
Total Multichannel Subscriber Net Additions (actual)	(mil.)	-0.1	0.0	0.0	0.0	0.1	0.1	0.2	0.2	0.2	0.2
Total Multichannel Subscriber Growth (%)	(mil.)	-0.1%	0.0%	0.0%	0.0%	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%

Source: SNL Kagan 2014; includes cable, DBS and telco

The Characteristics & Size of Non-Cable / Satellite Homes

There are two types of “non-cable / satellite” Nielsen households most closely associated with “cord cutting:” Broadband Only Homes and “Zero TV” Households (we’ve excluded “broadcast only” homes since they are much less likely to have had cable originally).

Broadband Only Homes

Broadband Only homes receive video exclusively through a broadband internet connection via an operable TV/monitor instead of traditional means (over the air, wired cable, telco, satellite). Back in September ’13 Nielsen expanded the TV universe to include BBO Homes, after this expansion these homes became part of Nielsen’s Household definition and thus are no longer included within “zero TV” homes.

Much like “zero-TV” households, BBO homes tend to be younger with a low-to-middle household income. However, BBO homes are more likely to be larger households with 3+ occupants which is different from “zero-TV” HHs who are more likely to be one-person households.

Although much has been mentioned in the trade press about Broadband Only Homes it’s important to note that they reflect **only 1.8% of total U.S. TV households**, or 2MM HHs, as of April ‘14.

“Zero-TV” Households

Nielsen’s 2014 definition of “zero-TV” HHs are homes that do not have a TV set connected to a Cable, Satellite, over-the-air antenna or broadband internet source; examples include PC or mobile only households or homes with a TV connected only to a DVD player. **75% of “zero TV” HHs have at least one TV set**, many of which can easily re-connect to cable at any point.



Key Insights on “Zero TV” Households from Nielsen’s 2013 Custom Survey:

- **Economic pressures is the main reason for cord cutting (36%)**
 - “Cord cutting” velocity has been slowing down as the economy improves and people have greater flexibility with their discretionary income
 - Additionally, some cable providers have created a low-cost package of channels to compete directly with other subscription services in an effort to lure back these economically sensitive customers
- **More likely to be lower income, young adults living alone**
 - 44.4% are below 35 years old, while 41.2% live alone (vs. 26.2% for the TV home sample)

Non-Cable / Satellite Homes Are A Limited Universe

Non-cable/satellite homes (excluding broadcast only HHs) currently account for less than 6% of total U.S. TV homes. As the economy has improved, the velocity of growth has slowed with only a 1% point increase in each of the last two years:

	2011	2012	2013	2014
"Zero TV" HHs (MM)	1.3	3.9	5.0	4.4
Broadband Only HHs (MM)*				2.0
Total (MM)	1.3	3.9	5.0	6.4
% of Total TV HHs	1.1%	3.4%	4.4%	5.5%

*"Zero TV" HHs included homes with a TV connected to a broadband internet connection prior to Q 4 2013, now BBO homes are part of the Nielsen TV HH definition and thus separate

Source: Nielsen

Cord Cutters Overall Tend To Be “Light” TV Viewers Already

		"Light" TV Viewer (lower half quintile) (0-24 hrs/wk)
Average "Cord Cutter"	Comp %	64.2%
	Index	128

Source: 2013 GfK MRI Doublebase

Since the cord cutting demographic tends to identify themselves as “light TV” viewers, shifting a very small percentage of this audience out of the cable TV universe will most likely continue to have a negligible impact on average ratings.

Beyond the limited universe and “light” TV viewership habits of new Broadband Only and “zero-TV” households, there are several other media consumption and macroeconomic industry trends we see that should minimize any potential rating fluctuations due to cord cutting...



Video Viewing is Growing And Still Dominated by TV

Total monthly time spent watching video - whether it's through TV, computer or mobile device- continues to increase:

(monthly consumption by hours: minutes)

- Q4 2013: 164:29
- Q4 2012: 163:18

Source: Nielsen Cross Platform Report, Q4 '13, P2+

TV's total quarterly reach continued to dwarf video reach on other devices as almost 2.8 million more people watched TV during 4Q '13 vs. 4Q '12:

- Watching TV: 287 MM
- Watching Video on a Computer: 152 MM
- Watching Video on a Smartphone: 102 MM

Source: Nielsen Cross Platform Report, Q4 '13, P2+

TV also holds a huge advantage when it comes to time spent watching video by device; 95% of total video viewing time is spent with the TV:

(monthly consumption by hours: minutes)

- TV - 155:32
- Computer – 7:34
- Smartphone – 1:23

Source: Nielsen Cross Platform Report, Q4 '13, P2+

Although time spent watching video on computers and smartphones has increased over the last year, it's important to note that online video usage is generally additive, and not used as a replacement, to TV:

% of A18-49 who said their video usage has gone up, or stayed the same, by device compared to a year ago:

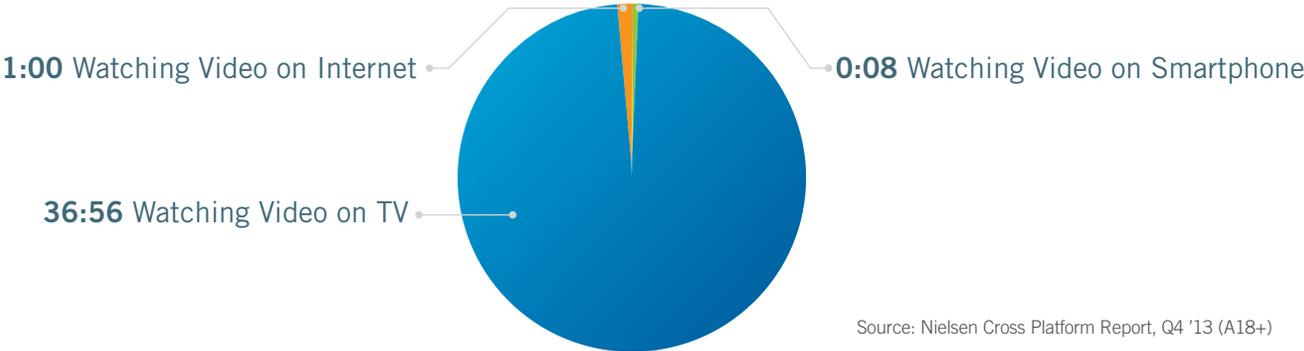
- TV – 83%
- Computer – 90%
- Tablet – 73%
- Smartphone – 80%

Source: 2013 CAB Custom Multi-screen Study



Based on current media habits, an average Adult 18+ watches over 6 hours of video a day – of which practically all is with the TV

Weekly Time spent in Hrs:Min



Source: Nielsen Cross Platform Report, Q4 '13 (A18+)

Television is the clear leader in total video time across the age spectrum, even among young demos who are typically identified as the lightest TV viewers

Monthly Time Spent (Hrs:Min)				
Site	TV Share of Total Video	TV	Internet Video	Mobile Video
P2-11	97%	111:10	3:40	–
P12-17	96%	93:53	4:31	–
P18-24	88%	113:14	13:14	2:15
P25-34	91%	130:57	11:20	1:34
P35-49	95%	152:51	7:50	1:07
P50-64	97%	195:56	6:08	0:56
P65+	98%	225:18	3:14	0:04

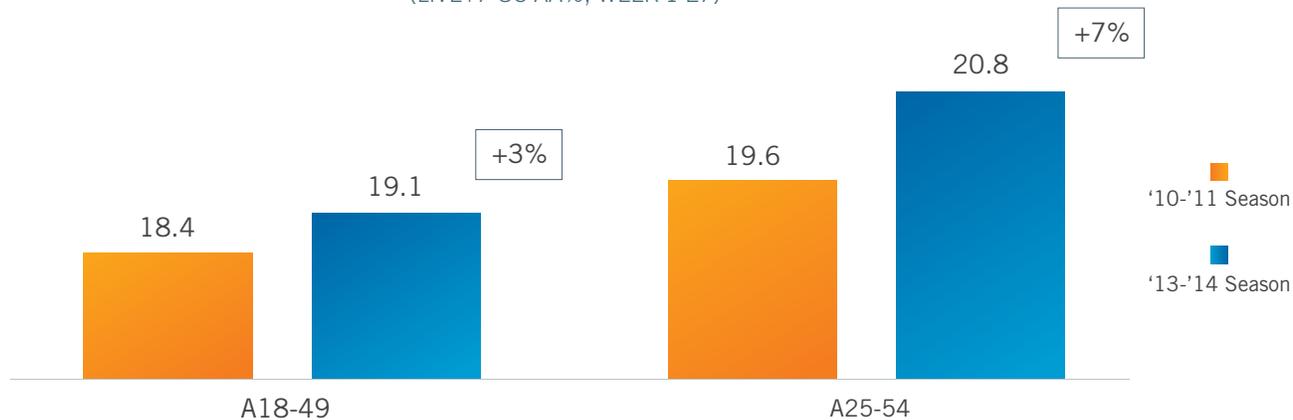
Source: Nielsen Cross Platform Report, Q4 '13

Cable TV Ratings Are Healthy While Cume GRPs Are Strong

Even with the recent trade talk about cord cutting and broadband only homes, it's important to understand that the business fundamentals of cable TV are, and will remain, healthy into the foreseeable future:

Primetime Ratings are healthy across key demographics

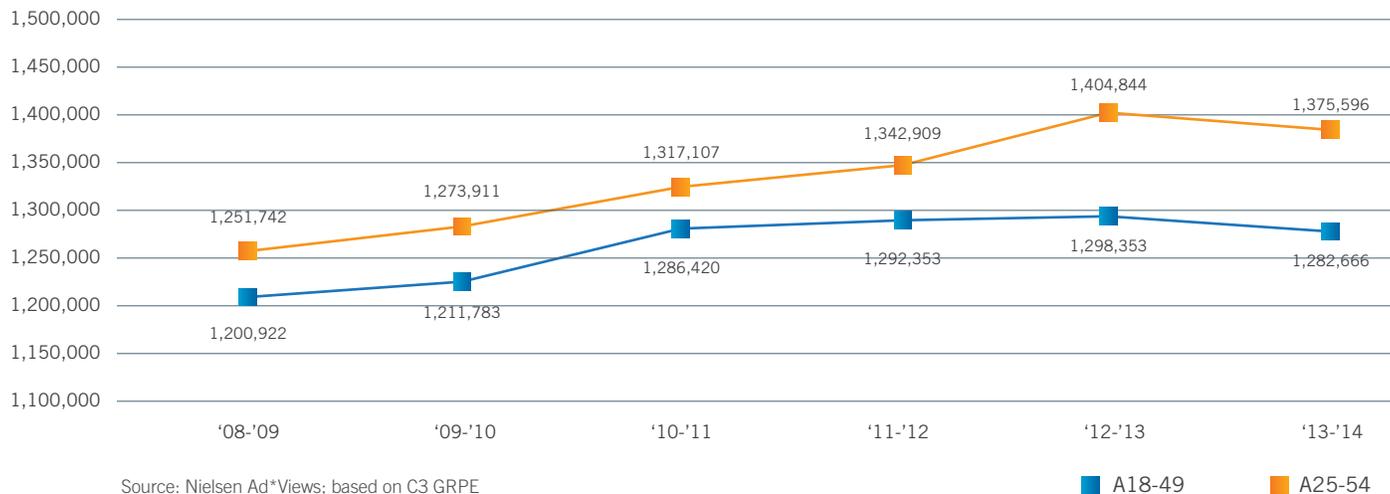
PRIMETIME AD-SUPPORTED CABLE RATINGS TREND
(LIVE+7 US AA%; WEEK 1-27)



Source: Nielsen, Live+7 time period ratings

Total sellable Cable TV GRPs have been holding steady across key demographics, even when faced with heavy Olympics competition from broadcast like this year

CUME TOTAL DAY GRPS BY SEASON (WEEKS 1-27)



Source: Nielsen Ad*Views; based on C3 GRPE

Cable TV's Ad Share and Revenues Are Both Up and Projected to Increase

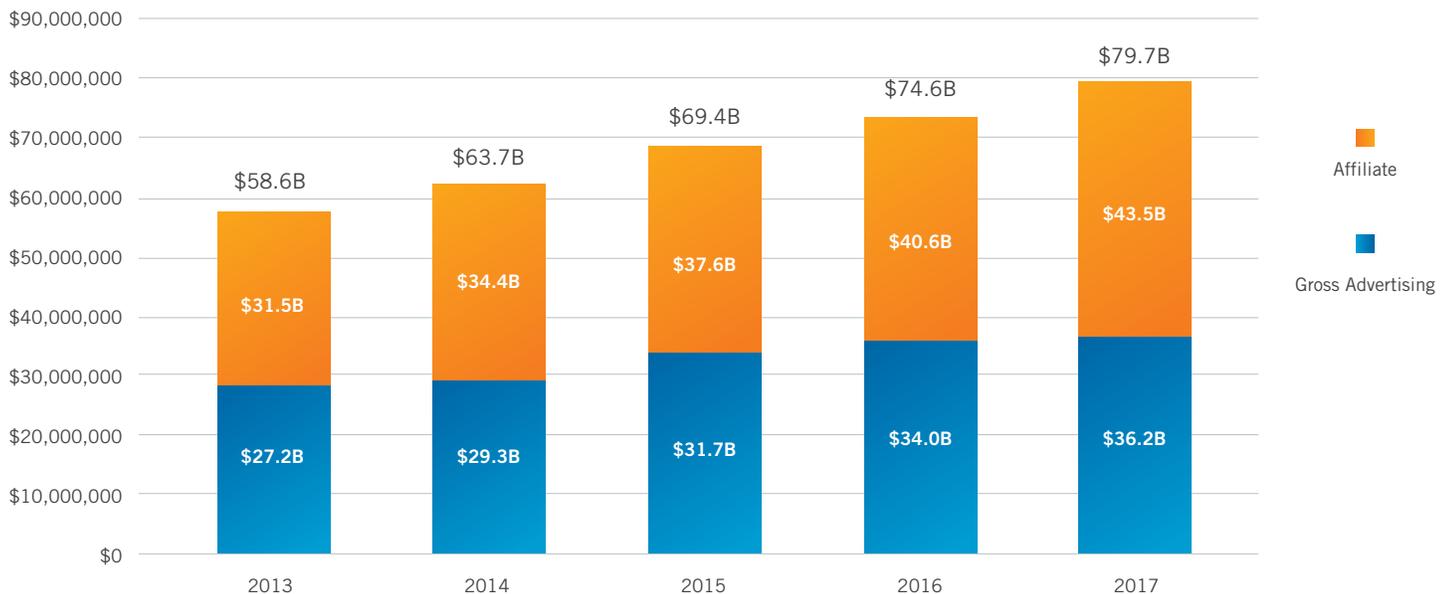
Cable TV (networks & cable systems) is projected to grow its already medium-leading market share over the next nine years as advertiser confidence in its ability to deliver a large, desirable audience base continues to be strong

	2014 (%)	2015 (%)	2016 (%)	2017 (%)	2018 (%)	2019 (%)	2020 (%)	2021 (%)	2022 (%)
Cable TV	16.6	17.7	18.5	19.5	20.3	21.4	22.2	23.3	24.2
Internet	16.2	16.9	17.1	17.7	17.6	17.9	17.6	17.9	17.8
Mobile	4.6	5.9	7.0	8.1	9.0	10.0	10.6	11.5	12.0
Broadcast TV Stations	9.2	8.5	9.2	8.3	9.0	8.1	8.8	7.9	8.5
Broadcast TV Networks	8.0	7.5	7.7	7.2	7.3	6.8	7.0	6.5	6.5
All other Media	45.4	43.5	40.5	39.2	36.8	35.8	33.8	32.9	31.0
Total Ad Market (all media)	100.0								

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Due to the aforementioned positive key indicators, cable TV network revenues are expected to increase for both sides of the dual revenue stream

Cable TV Network Projected Revenues



Source: 2014 SNL Kagan; reflects only cable TV networks and not MSO revenues



Cable TV's Heavy Investment In Year-Round Programming

Cable's ability to produce superior high quality content on a consistent basis is made possible by the fact that the networks are now collectively investing **almost \$30 billion** directly into programming each year and that number is only expected to grow.

Cable Network Programming Expenses
(IN BILLIONS)



Source: 2014 SNL Kagan

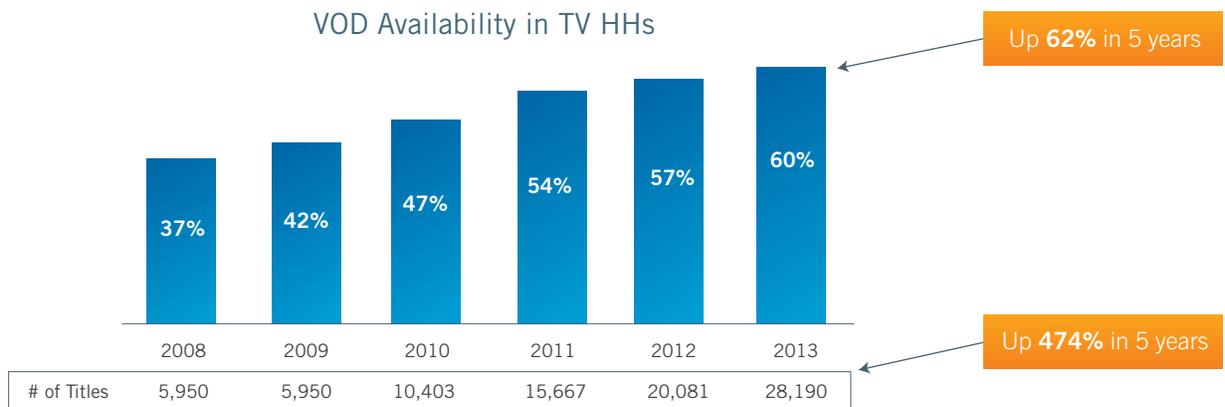
Furthermore, cable is the preferred regular season medium for major sports like MLB, NBA and NHL and now the exclusive home for a host of signature sporting events such as the **College Football Playoffs**, the **NCAA Final Four** (every other year), **MLB Divisional Playoffs**, **NBA All-Star Weekend**, **Wimbledon** and **US Open** Tennis.

Cable's Superior Solutions in Providing Greater Consumer Choice And Content Accessibility Both Inside and Outside the Home

VOD Growth

Video-On-Demand has grown substantially, fueled by an improving, more intuitive interface and a recent surge in available content from network providers, and is now available in 60% of TV homes.

VOD Availability in TV HHs



Source: VOD availability based on Nielsen (August of each year); # of titles SNL Kagan Multichannel market trends (yearly average)



Improved content search and discovery is allowing consumers easy access to a variety of entertainment options – from a wide assortment of movies, both new and old, to recent episodes or seasons of TV shows to enable viewers to “catch up” on their favorite programs.

“TV Everywhere” Explosion

What is TV Everywhere? It’s content you **already subscribe to** delivered on multiple screens thru **authentication** both live stream and streaming VOD. Subscribers have access to past and present full length TV show episodes, news and major live events like sports.

TV Everywhere video streams continue to grow at a rapid pace as consumer adoption increases (+3,137% over the last two years):

- Q4 '13 Measured Streams: 574.2MM
- Q4 '12 Measured Streams: 222.5MM
- Q4 '11 Measured Streams: 18.3MM

Source: Adobe Digital Index: The US Digital Video Benchmark Q4 2013

Mobile devices, such as the smartphone and tablet, are now a key asset for cable providers since they provide a large majority of the total TV Everywhere streams

	Tablet	Smartphone	PC	Gaming Console	Connected TV
% of Total TVE Streams	42%	31%	22%	3%	2%

73%

Source: Adobe Digital Index: The US Digital Video Benchmark Q4 2013

The growth in mobile access to these streams offers additional reach, greater total impressions and precise targeting capabilities, not to mention they increase overall video consumption time of the audience.



“Cord Cutting” Is Still Insignificant Compared To Shifts In Other Mass Media

The -1.1% point YOY shift due to Broadband Only and “Zero TV” homes looks even more insignificant when compared to YOY audience trends for other mass-reaching media such as portals and social media

- 9 out of 10 sites below lost more unique visitors YOY in comparison to the 1.4MM shift to broadband only / “zero TV” HHs

Site	Total Unique Visitors (000)			
	April '13	April '14	Diff (000)	% Diff
Facebook	146,737	137,739	-8,998	-6%
Pinterest	29,430	26,378	-3,052	-10%
LinkedIn	50,451	47,789	-2,662	-5%
Twitter	37,962	37,244	-718	-2%
Amazon Sites	113,190	99,805	-13,385	-12%
YouTube	130,656	120,143	-10,513	-8%
Bing	85,183	75,714	-9,469	-11%
Yahoo! Sites	190,488	181,328	-9,160	-5%
AOL	114,733	106,404	-8,329	-7%
MSN Sites	157,103	151,535	-5,568	-4%

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Final Thoughts

As with last year when we conducted the first analysis on this subject, we continue to believe that both the short and long term impact of “cord cutting” will be negligible for the cable TV industry based on a variety of factors which are centered on media consumption habits and consumer behaviors as well as macro, cable and advertising economics; not to mention cable’s own impactful offerings from both a content and technology perspective.

While there has been a lot of talk in the trades recently about “cord cutting,” multichannel HHs are still projected to grow over the next ten years. However, even if the cord cutting universe continues to grow it’s important to understand that this segment – which is typically younger, lower-to-mid income and economically frugal – tends to be “light” TV viewers already, so any small shifts out of the cable TV universe by this segment should continue to have a rather insignificant impact on average ratings. Also, since “cost” is most often quoted as the reason why people cut the cord, it should come as no surprise that the velocity of this activity has slowed as the economy improves.



Overall trends from a media consumption perspective remain positive. TV's quarterly reach continues to rise. Television dominates the time spent watching video vs. other devices; not only that but it's the clear leader in total video time across the age spectrum, even among younger demos whom the trade press inaccurately portrays as leaving TV in droves – in fact, Adults 18-24 spend 88% of their total video time with television. Beyond that, cable TV ratings continue to be healthy while cumulative sellable GRPs remain strong across key demographics.

From a business perspective, cable TV's "leadership" share as a percent of total advertising spend is projected to grow each year through 2022 with increased returns on both sides of the revenue stream. These increased revenues give cable TV a huge advantage on the programming investment side especially compared to other media. In 2014 for instance, almost 50% of all cable revenues, or nearly \$30 billion, are projected to be re-invested back into programming. Understanding that program development is a multi-year cycle, this means there is over \$120 billion actively working in the cable marketplace to attract the best talent and develop premier content in order to produce the highest quality product.

A prime example of cable programming dollars in action is sports. With the ability to invest large sums of money into content, cable is now the preferred regular season medium for major sports like MLB, NBA and NHL – delivering season-long continuity to local market sports fans across the country. Cable is also now the exclusive home to several signature sporting events and exciting post-season action such as the College Football Playoffs, the NCAA Final Four (every other year), MLB Divisional Playoffs, NBA All-Star Weekend, Wimbledon and US Open tennis.

Cable is also very adept at building superior solutions to create greater consumer choice and content accessibility both inside and outside the home, especially in two distinct areas: Video-On-Demand and "TV Everywhere." VOD has grown significantly of late, fueled by an improving, more intuitive interface along with a recent surge in available content from network providers, while "TV Everywhere" has enjoyed tremendous growth in video streams due to widespread mobile device ownership and greater availability of apps whose enhanced functionality have also made them more user-friendly.

Lastly, while we all know the press loves to create a juicy headline to grab people's attention, the minimal TV household shifts seen due to "cord cutting" should also be looked at in proper context to YOY trends for other mass-reaching media, such as digital portals and social media, which are seeing declines in monthly unique visitors on popular sites like Amazon (-12%), Bing (-11%), AOL (-7%), Pinterest (-10%), Facebook (-6%), LinkedIn (-5%).