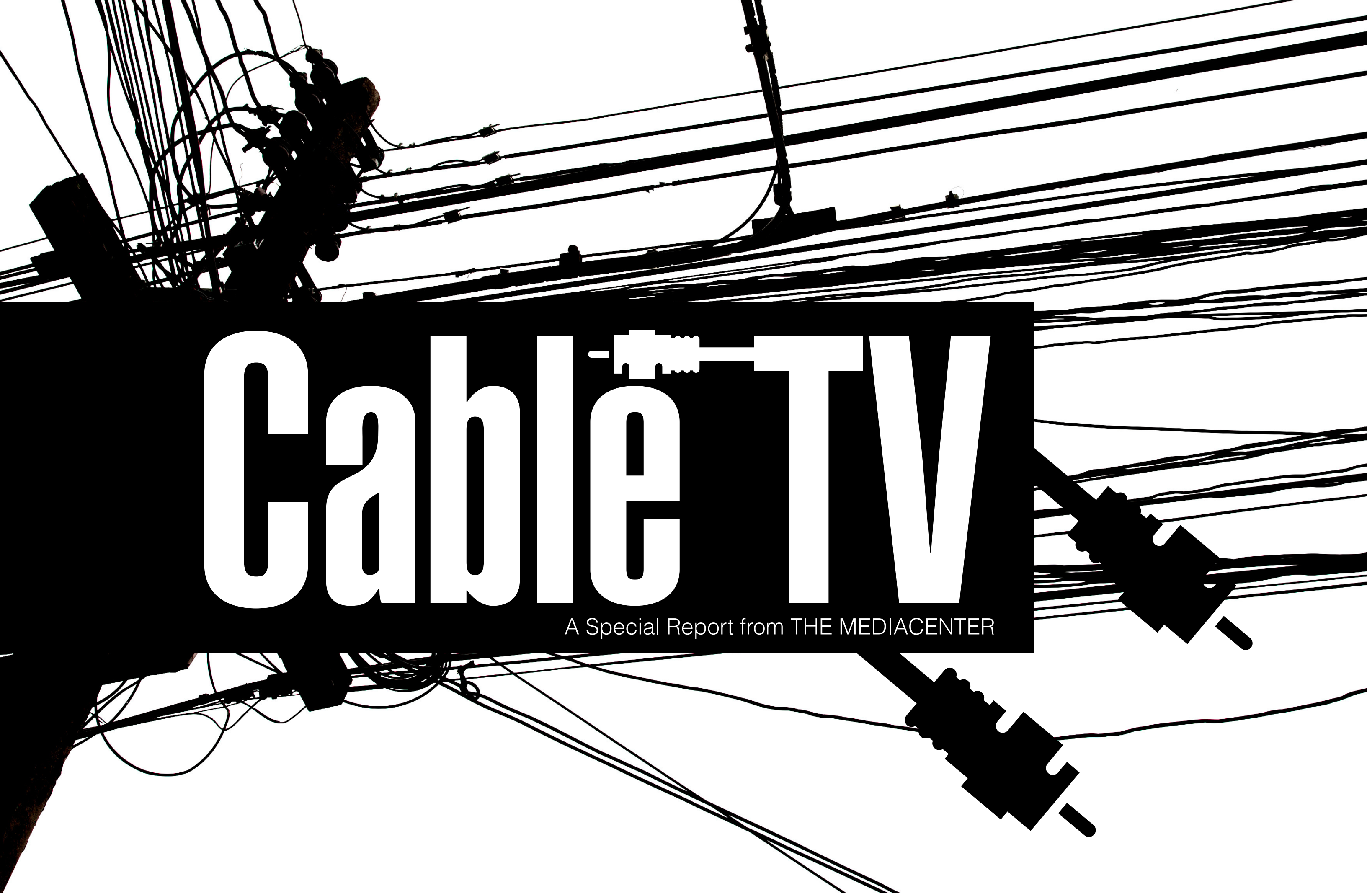


Cable TV

A Special Report from THE MEDIACENTER

Frayed, Fractured and Fiercely Competitive

The fortunes of the cable TV industry are inextricably intertwined with those of linear broadcast TV and the new streaming video services. Consumers may recognize the differences, but together they represent the entire palette of viewers' daily choices.

According to SNL Kagan, subscribers of cable, satellite and telco video services declined 430,000 during Q3 2016, and 1.3 million year-to-date, which is the largest YTD loss ever recorded.

The "good news" is that cable TV's share of those 430,000 fewer subscribers, or 94,000, was cable TV's "best" performance during the past 10 years. The Q3 decline was only half of the number of subscribers lost during Q3 2015.

Actual good news for cable companies was the addition of 774,956 fixed US broadband service customers during Q3 2016, compared to a loss of 149,593 among telco operators. Of the total of 92.47 million fixed broadband customers at the end of Q3 2016, cable companies had a 62.5% share, or 57.79 million.

Cable Companies' Net Adds of Fixed Broadband Subscribers, Q3 2016

Cable Company	Total Subscribers	Net Adds
Comcast	24,316,000	+329,000
Charter	22,202,000	+387,000
Altice	4,122,000	+17,000
Mediacom	1,145,000	+17,000
WOW (WideOpenWest)	728,400	+2.700
Cable ONE	510,573	+2,256
Other major private companies	4,765,000	+20,000
Total	57,788,973	+774,956

Leichtman Research Group, November 2016

An industry that must consider losing fewer customers during 2016 than 2015 as "good news" is certainly frayed and fractured. By how much and whether those fractures will expand into major cracks is explored in this Special Report from THE MEDIACENTER.

By revealing the challenges facing the cable TV industry, this Special Report should also provide you with strong measures and messages to compete successfully in your local market.

Provider Performance

The overall loss of cable TV subscribers during the first nine months of 2016 is clearly evident when viewing the cumulative metrics from the top seven US pay TV operators for Q2 and Q3 2016.

Top US Pay TV Service Providers, by Total Subscribers, Q2 & Q3 2016

Provider/Platform	Subscribers	Net Adds	ARPU*
AT&T/IPTV + Satellite	25.292 M	-52,000	$118.09
Comcast/Cable	22.428 M	+28,000	$148.47
Charter/Cable	16.887 M	-199,000	$80.81
Dish Network/ Satellite	13.643 M	-231,000	$89.44
Verizon/IPTV	4.673 M	-1,092,000	NA
Cox/Cable	4.146 M	-20,000	NA
Altice/Cable	3.598 M	-66,000	$117.80

Fierce Cable (Strategy Analytics), August and November 2016
**Average Rate Per User*

According to MoffettNathanson data, adding Dish Network's Sling TV service subscribers improved the 1.3% decline in pay TV subscribers for Q3 2016 by 5 percentage points to -0.8%.

Merger Mania

Within the cable TV industry, the big news for 2016 is Charter Communications' acquisition of Time Warner Cable (TWC), which is a separate company from the much larger Time Warner, Inc., and the smaller Bright House Networks.

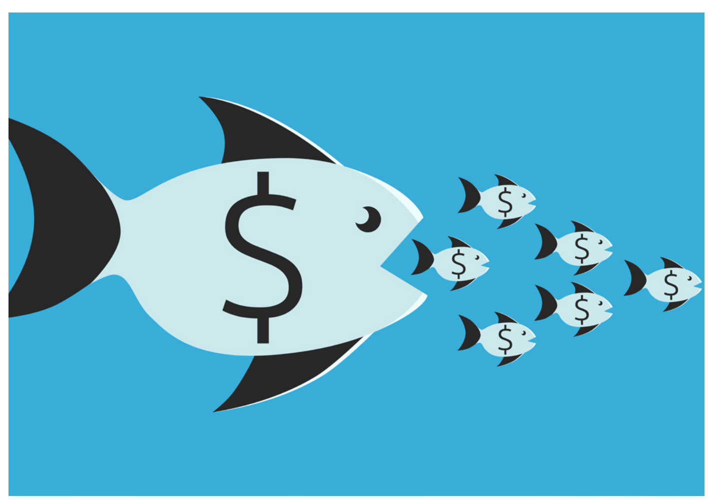
The combined companies now have 24.6 million residential customers, with approximately 21 million of those Internet subscribers, 16.9 million video subscribers and 10.3 million voice subscribers.

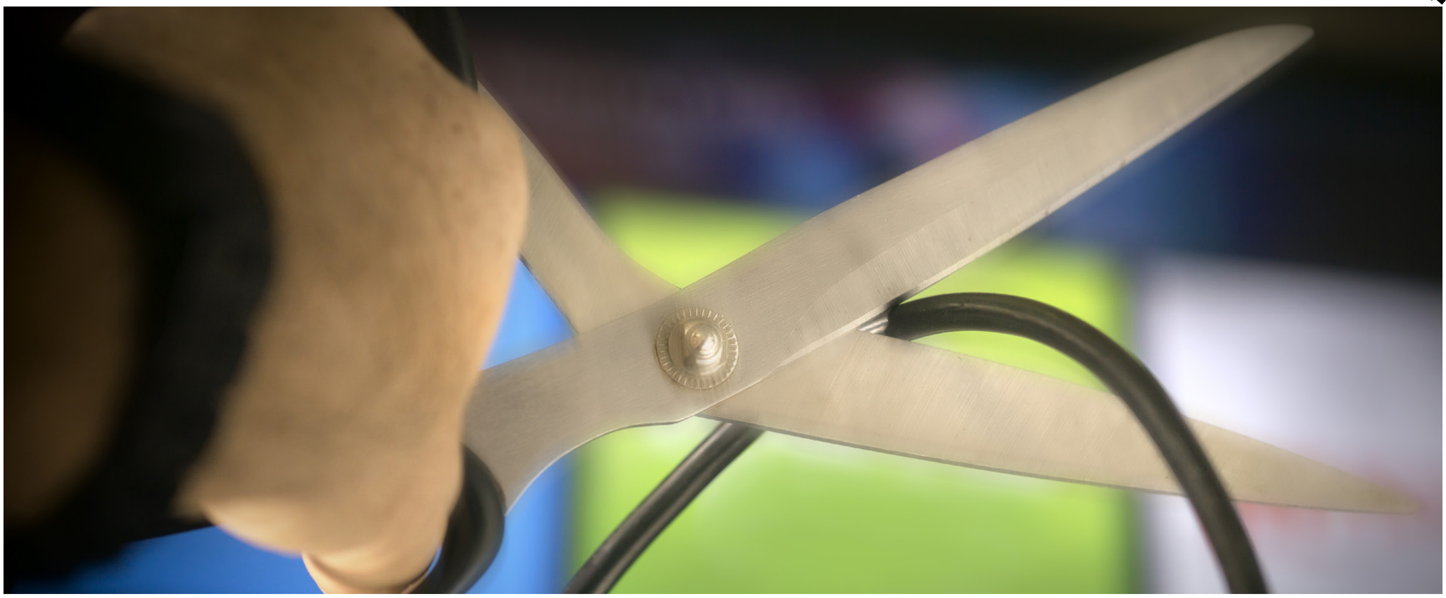
Time Warner Cable subscribers weren't happy when the merger resulted in higher subscription rates. During Q3 2016, Charter lost 47,000 subscribers, and all of them were former TWC customers. Many of these customers' discounted rates have or will be expiring, and then they are switched to non-promotional rates.

The other major 2016 merger, which will affect cable TV, linear broadcast TV, streaming video services and content creation and distribution is AT&T's acquisition of Time Warner, Inc. Included in the acquisition are HBO and its online channel, HBO Now, and Warner Brothers and Turner, which just launched FilmStruck, its new streaming video service.

The primary benefit to AT&T is access to all the content that these various assets have and will produce, allowing it to compete with Netflix, Amazon and Hulu.

Some analysts think AT&T's combination of widespread IP delivery infrastructure and video content would limit content rights restrictions and allow it to provide exclusive content. Other analysts' counter perspective is that FCC rules and competition would make it more difficult for AT&T to become a vertically integrated distributor with completely exclusive content.





The Cord-Cutting Conundrum

Much has been speculated, written and analyzed about the cord-cutting phenomenon, including in various previous reports from THE MEDIACENTER. Actually, there are three groups of people that shun cable TV service.

- **Cord Cutters –** Former cable TV subscribers who have canceled their service and replaced it with streaming video services (Amazon, Netflix, Hulu, etc.).
- **Cord Shavers –** Cable TV subscribers who have eliminated channels from their subscription, which are typically premium channels, such as HBO, or sports and other packages charged at an additional rate.
- **Cord Nevers –** Individuals and families who have never had a cable TV subscription, but are likely to have their Internet broadband service from the local cable TV provider, so they can access streaming media services and other digital services.

Not surprisingly, a January 2016 Harris Poll found the #1 reason for cord cutting is that the cable TV service had become too expensive.

Reasons US Internet Users Cut the Cord, January 2016

Reason	Percent
Too expensive	56%
Technical issues	32%
Poor customer service	23%
Unclear billing	16%
Lack of quality content	15%
Didn't want to continue service	14%
Difficult to use	13%
Complex/unclear pricing	13%
Other	23%

eMarketer (Harris/Salesforce), April 2016

The increasing cost of a cable TV subscription has two sources. First, the increase in network and broadcast carriage fees, or the rate a local cable TV provider must pay per subscriber for ESPN, AMC, Discovery, etc. Second, is the rental fee subscribers pay for the set-top box.

The FCC has been actively scrutinizing the charges for a set-top box; however, with the change of administration in Washington DC, many analysts think the issue will be shelved. If so, then consumers will not receive any relief from their set-top box charge, which could accelerate cord-cutters, shavers and nevers.

The "Non-Problem" of Cord Cutters

Data and analysis have suggested that many (some even say most) cord-cutters, shavers and nevers are Millennials who simply have a different perspective on their entertainment choices since they were the first all-digital generation.

It's very unlikely that this conclusion is totally correct. A 2016 NCC Media report suggests that cable TV and all local media and advertisers should simply disregard those who choose to part ways with cable TV in one form or another.

Based on Nielsen research, NCC Media found that since November 2016, cable TV has lost 2.5 million homes/subscribers and that 81%, or 2.1 million, of those homes became broadcast only. Their viewing choices have been reduced to local channels only by exchanging a cable set-top box for an antenna, returning to the dawn of the TV age.

These additional 2.1 million have increased the total number of broadcast-only homes by 16.5% since November 2014, or 14.5 million, which is 12.8% of all TV households. Because these households only watch local TV, they represent a larger percentage of all local broadcast viewers, or 17.2%, which also means 17.2% of ad impressions/GRPs.

Another way to express this situation is that "1 of every 6 dollars invested in local broadcast television chases the broadcast-only viewer." At face value, this would seem to be an advantage for local broadcast TV channels when competing for ad dollars with the local cable TV provider.

Unfortunately, this is not the case, as broadcast-only homes are not prime consumer targets. As the following table shows, adults 25–54 have quite low indices compared to all adults 25–54 in important consumer metrics.

Consumer Metrics of Adults 25–54 in Broadcast-Only Homes, 2015

Consumer Metric	Index
Household income: $50K+	72
Household income: $75K+	62
Household income: $100K+	56
Own home	74
Employed	90
Children at home younger than 17	94

NCC Media (MRI Doublebase), 2016

Although this increases the density of prime consumers for local cable TV, there are still a considerable number of advertisers who want a broad range of consumers, and even those at the lower end of the income range – and local TV can deliver both.

Digging into Cable Demographics

Comparing data from The Media Audit's Fall 2016 survey for the Spokane, WA markets of adults 18+ with local cable service only (no satellite) and those without cable or satellite reveal some interesting contrasts.

Adults, 18+ With and Without Cable Service

Metric	With Cable (No Satellite)	No Cable or Satellite
% in Target	31.5%	29.5%
Adults, 18–34	27.4%	30.0%
Adults, 35–49	22.7%	30.3%
Adults, 50–64	28.0%	22.7%
Adults, 65+	21.8%	17.0%
Caucasian Americans	85.6%	90.8%
African Americans	1.5%	1.0%
Hispanic Americans	8.9%	2.1%
Asian Americans	2.0%	2.9%
Income: <$50K	49.9%	56.8%
Income: $50K–$100K	36.2%	26.0%
Income: $100K-$200K	11.8%	15.8%
Income: $200K+	2.1%	1.4%

Based on The Media Audit's Fall 2016 Spokane survey

Although a greater percentage of young adults have no cable or satellite, it's those 35–49 with a much greater difference compared to those with cable than the difference in the two categories among adults 18–34.

The 56.8% of adults 18+ with an annual income of less than $50,000 and without cable would seem to support the conclusion of the NCC Media data on page 4, as many of these would be broadcast-only homes. The 49.9% in this lowest income bracket who do have cable, however, would seem to contradict the NCC Media conclusion.

What those Spokane adults with cable service are viewing appears to be quite eclectic programming, skewing towards informational content over news and sports.

Top 10 Cable Channels Viewed During Past Week

Channel	Percent	Index to Market
HGTV	30.5%	150
Food Network	29.7%	160
The Discovery Channel	29.1%	159
The History Channel	27.5%	166
TBS	24.6%	162
USA Network	22.7%	156
MSNBC	22.4%	202
National Geographic	21.9%	157
TNT	21.4%	133
ESPN	21.3%	116

Based on The Media Audit's Fall 2016 Spokane survey

Consumer Cable Talk

Many consumers have been vocal about their preference for a á la carte cable subscription, paying only for the channels they would choose for a custom package. Digitalsmiths, the TiVo research group, found in a recent survey that consumers' top choices for such a package would be the old, stalwart networks, ABC, CBS and NBC.

Consumers' Top 10 Channels in Á La Carte Cable TV Subscription

Channel	Percent	Preferred Pricing
ABC	70.7%	$1.52
CBS	70.1%	$1.55
NBC	65.5%	$1.54
Discovery Channel	62.1%	$1.53
History	59.7%	$1.54
FOX	56.0%	$1.47
A&E	50.8%	$1.49
PBS	49.2%	$1.74
TNT	49.1%	$1.51
TBS	48.2%	$1.41
Total		$15.30

FierceCable (Digitalsmiths), November 2016

Many have proposed the á la carte option as a means to stem the increasing cost of a cable TV subscription and make it affordable for more households. The major obstacle to implementing that option is the amount networks charge for access to its content is much more than what consumers are willing to pay. For example, CBS charges $5.99 per month for CBS All Access, a direct-to-consumer service, while consumers' preferred rate is $1.55.

Give Us Both

Recent survey results from GfK's The Home Technology Monitor found that a majority of consumers now think TV-connected streaming devices (Amazon Fire Stick, Roku, Chromecast, etc.) "should be used as an addition to regular TV broadcasts." In the 2014 survey, just 45% stated this preference while 58% said so in the 2016 survey.

Those who said adding a TV-connected streaming device resulted in them deciding to discontinue their pay-TV service declined from 17% during 2014 to 13% in the 2016 survey.

Cable Ownership/Non-Ownership and Shopping Habits

With the help of The Media Audit's CrossTab Reports feature, interesting comparisons are revealed of adults 18+ in Spokane with and without cable TV and their consumer habits.

Selected Shopping Habits of Adults 18+ Without Cable/Satellite

Shopping	Percent	Indexed to Market
Make of vehicle now owned: Ford	26.5%	103
Make of vehicle now owned: Lexus	1.4%	64
Plan to remodel home during next 12 months	8.7%	50
Plan to buy a home during next 2 years	8.7%	79
Shopped past 6 months: Nordstrom	4.0%	62
Shopped past 6 months: Walmart	76.3%	99
Internet e-commerce: 12+ purchases during past year	33.8%	89
Now own smartphone	85.2%	106

Based on The Media Audit's Fall 2016 Spokane survey

Selected Shopping Habits of Adults 18+ With Cable Only

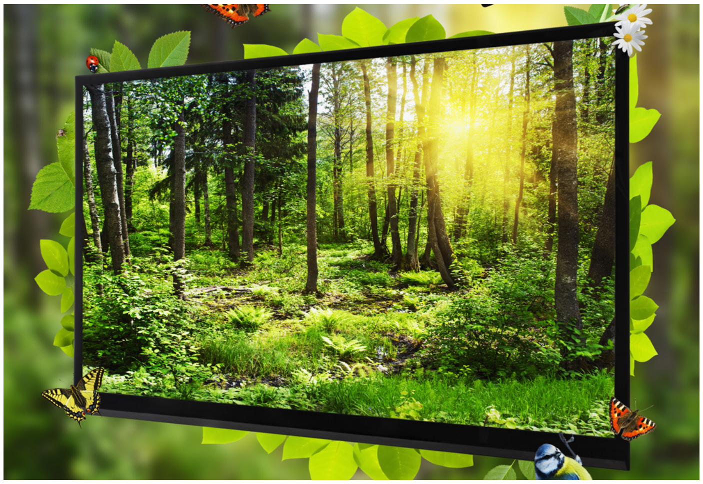
Shopping	Percent	Indexed to Market
Make of vehicle now owned: Ford	17.5%	68
Make of vehicle now owned: Lexus	2.5%	113
Plan to remodel home during next 12 months	21.4%	123
Plan to buy a home during next 2 years	13.7%	125
Shopped past 6 months: Nordstrom	9.3%	146
Shopped past 6 months: Walmart	72.9%	95
Internet e-commerce: 12+ purchases during past year	36.3%	97
Now own smartphone	74.7%	93

Based on The Media Audit's Fall 2016 Spokane survey

Many of these data points seem to support NCC Media's conclusions on page 4. As the top-selling car brand, there's nothing surprising about the large percentage of adults in both categories who own a Ford; but notice the much larger index among those without cable/satellite than those with cable only. Considerably fewer Lexus are purchased than Fords, but adults with cable TV are 49% more likely to own one than those without cable/satellite.

Cable-TV-only adults are also much more likely to plan to remodel a home and/or purchase a home than those adults without cable/satellite. Adults with cable only are 84% more likely to shop at Nordstrom, but the numbers for "shopped at Walmart" are essentially the same as well as those who made 12 or more e-commerce purchases during the past year.

Somewhat surprisingly, more adults without cable/satellite own a smartphone than those with cable only. This may be a function of a higher percentage of young adults who are cord-cutters or cord-nevers and who also are more likely to view video content on their phones.



Cable Ownership/Non-Ownership and Activities

Another set of comparison that can be culled from CrossTab Reports from The Media Audit for the Spokane market is the entertainment and activities choices of adults with and without cable TV.

Selected Entertainment/Activities of Adults 18+ Without Cable/Satellite

Entertainment/Activities	Percent	Indexed to Market
Participated in lawn/gardening during past year	62.7%	105
Participated in hunting/fishing during past year	24.2%	101
Participated in snow skiing/ boarding during past year	8.5%	139
Participated in golf during past year	4.2%	50
Attended 3+ college/professional sports events during past year	5.9%	64
Attended country music concert during past year	2.3%	41
Attended rock/pop music concert during past year	9.8%	50
Attended opera/symphony/ theater during past year	19.1%	94
Visited major theme park during past year	7.6%	79

Based on The Media Audit's Fall 2016 Spokane survey

Selected Entertainment/Activities of Adults 18+ With Cable Only

Entertainment/Activities	Percent	Indexed to Market
Participated in lawn/gardening during past year	59.0%	99
Participated in hunting/fishing during past year	18.6%	78
Participated in snow skiing/ boarding during past year	4.0%	66
Participated in golf during past year	9.2%	109
Attended 3+ college/professional sports events during past year	12.0%	129
Attended country music concert during past year	4.6%	81
Attended rock/pop music concert during past year	21.4%	110
Attended opera/symphony/ theater during past year	15.2%	75
Visited major theme park during past year	7.0%	73

Based on The Media Audit's Fall 2016 Spokane survey

Although the almost equal participation in lawn/gardening is surprising, the higher percentage and index of adults without cable/satellite who attended opera/symphony/ theater during the past year is more so. This could be a function of people who prefer attending live performances versus sitting in front of their TV.

It doesn't necessarily follow that adults without cable/ satellite have more time for hunting/fishing and snow skiing/boarding than those with cable. Again, the much higher percentage and index for snow skiing/boarding may correlate to the many young adults who participate in snow sports and are cord-cutters and cord-nevers.

Since cost is a major factor in cutting the cord or never subscribing to a cable TV or satellite service, the higher percentages and indices of adults with cable who attended college/professional events and are golfers would seem to indicate higher incomes and the financial wherewithal to pay for cable TV.

Sources: FierceCable Website, 11/16; Leichtman Research Group Website, 11/16; Ars Technica Website, 11/16; MediaVillage Website, 11/16; eMarketer Website, 11/16; The Media Audit Website, 11/16.

Updated: November 2016