
**WEDNESDAY, JULY 22, 2020**
**5:10p - 5:45p PDT**

**THE WORLD TURNED UPSIDE DOWN - DIVINING THE MEDIA BUSINESS IN DYSTOPIAN DAYS**

presenter:
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**TOM WOLZIEN** *CHAIRMAN*, WOLZIEN LLC AND THE VIDEO CALL CENTER, LLC

TOM WOLZIEN IS AN INVENTOR, ANALYST, MEDIA EXECUTIVE AND CONSULTANT TO INDUSTRY LEADERS. HIS CAREER SPANS FIVE DECADES IN LOCAL AND NETWORK TELEVISION NEWS AND MANAGEMENT, WALL STREET SELL-SIDE RESEARCH, CONSULTING, INVENTING AND ENTREPRENEURSHIP, MOST RECENTLY AS FOUNDER AND EXECUTIVE CHAIRMAN OF THE VIDEO CALL CENTER, LLC, WHICH MANAGES BROADCAST-QUALITY VIDEO ORIGINATING WITH THE WORLD'S 4 BILLION SMARTPHONES. WOLZIEN SERVED AS A US ARMY OFFICER (OCS), RUNNING A COMBAT CAMERA UNIT IN VIETNAM DURING THAT CONFLICT.

WOLZIEN BEGAN HIS NEWS CAREER AT KLZ (TIMELIFE)/KMGH (MCGRAWHILL NOW SCRIPPS) IN DENVER AS A SUMMER INTERN NEWSFILM PHOTOGRAPHER COVERING EVERYTHING FROM AUTO ACCIDENTS TO THE STATE HOUSE, AND CONTINUED THE JOB FULL TIME ON THE NIGHT SHIFT DURING HIS SENIOR YEAR IN COLLEGE. AFTER GRADUATING FROM THE UNIVERSITY OF DENVER IN 1969 AND COMPLETING ARMY INFANTRY TRAINING AND OFFICER CANDIDATE SCHOOL, HE SERVED IN VIETNAM AS OFFICER IN CHARGE OF AN ARMY COMBAT PHOTOGRAPHY UNIT AS PART OF THE US ARMY'S 221ST SIGNAL COMPANY/SOUTHEAST ASIA PICTORIAL CENTER. IN VIETNAM, HIS DUTIES RANGED FROM LEADING SMALL FIELD TEAMS OF COMBAT PHOTOGRAPHERS TO COMMANDING THE PHOTO BRANCH UNIT OF 40 PHOTOGRAPHERS CHARGED WITH FINDING THE WAR AND RECORDING IT. COMBAT VIDEO HE SHOT IN VIETNAM WAS AIRED ON THE NATIONAL NEWSCASTS OF ALL THE US COMMERCIAL NETWORKS AT THE TIME. (SAMPLE: https://www.youtube.com/watch?v=L1Krfzqls_s )

WHILE ON R&R FROM VIETNAM HE MARRIED HIS LIFE PARTNER, VALERIE.

AFTER VIETNAM, HE RETURNED TO DENVER AS A REPORTER/PHOTOGRAPHER, MOVED TO GREEN BAY (WLUK/POST CORPORATION) AS A NEWS PROGRAM PRODUCER UNTIL FIRED IN 1974 FOR PUTTING TOO MANY WATERGATE STORIES ON THE AIR, AND WAS HIRED BY THE CBS OWNED STATION IN ST. LOUIS (KMOX TV NOW KMOV MEREDITH) AS A NEWS SHOW PRODUCER. AT THAT TIME CBS HAD DECIDED TO USE KMOX AS THE EXPERIMENTAL STATION FOR THE TRANSITION FROM NEWS FILM TO ELECTRONIC NEWS GATHERING USING LIVE TRUCKS AND TAPE. WOLZIEN BECAME ONE OF THE FIRST PROGRAM PRODUCERS IN THE COUNTRY TO BUILD LOCAL NEWSCASTS WITH A HEAVY LIVE REMOTE COMPONENT. (THAT EXPERIENCE WAS INSTRUMENTAL 40 YEARS LATER IN CREATING THE VIDEO CALL CENTER.) IN 1975 HE MOVED ACROSS TOWN TO KSD (PULITZER NOW TEGNA'S KSDK) AS ASSISTANT NEWS DIRECTOR TO HELP WITH THE TRANSITION TO MINI-CAMERAS, AS THEY WERE CALLED AT THE TIME. THAT EXPERIENCE LED HIM TO NBC NEWS, FIRST AS FIELD PRODUCER AT THE WHITE HOUSE DURING THE 1976 FORD-CARTER PRESIDENTIAL CAMPAIGN AND NBC'S FILM-TO LIVE/TAPE TRANSITION.

FROM 1976 TO 1991 WOLZIEN WORKED IN NEWS PRODUCTION AND EXECUTIVE MANAGEMENT OF NETWORK NEWS AND IN CORPORATE BUSINESS DEVELOPMENT AT NBC. DUTIES AT NBC NEWS RANGED FROM FIELD PRODUCER, TO THE PRODUCER IN CHARGE OF THE NIGHTLY NEWS INVESTIGATIVE UNIT, AND TO EXECUTIVE PRODUCER OF MAJOR NEWS PROGRAMS INCLUDING A PRIME TIME MAGAZINE SERIES, SPECIAL EVENT PROGRAMS, AND NIGHTLY NEWS WEEKEND. HE COVERED PRESIDENTIAL ELECTION CAMPAIGNS AND RAN NEWS COVERAGE AND OPERATIONS OF MAJOR EVENTS RANGING FROM MIDEAST PEACE INITIATIVES IN THE BEGAN-SADAT ERA TO THE NUCLEAR MELTDOWN AT THREE MILE ISLAND. HE WAS THE EXECUTIVE IN CHARGE OF PRODUCTION FOR ELECTION NIGHT TELECASTS.

AS AN NBC NEWS VICE PRESIDENT, HE WAS RESPONSIBLE FOR THE WORLDWIDE OPERATIONS OF THE DIVISION INCLUDING EARLY COMPUTER GRAPHICS, GLOBAL COMPUTERIZATION, AND THE INTRODUCTION OF THE WORLD'S FIRST X-Y TRACKING ROBOTS FOR STUDIO CAMERAS. HE WAS A "NATIONAL TABLE" CONTRACT NEGOTIATOR FOR NBC AT MULTIPLE TECHNICAL AND GUILD NEGOTIATIONS DURING THE DIFFICULT DIGITAL TECHNOLOGY TRANSITION PERIOD OF THE MID AND LATE 1980S. MOVING INTO NBC CORPORATE MANAGEMENT AS SENIOR VICE PRESIDENT OF CABLE AND BUSINESS DEVELOPMENT, HE WAS PART OF THE TEAM THAT STARTED CNBC AND NEGOTIATED PROGRAMMING PARTNERSHIP DEALS WITH THE CABLE INDUSTRY.

FROM NBC WOLZIEN JOINED WALL STREET RESEARCH FIRM OF SANFORD C. BERNSTEIN & CO, WHERE HE SPENT 14 YEARS AS A HIGH PROFILE SELL-SIDE ANALYST covering large publicly traded media and cable companies for pension, mutual, and hedge funds. At Bernstein, Wolzien was internationally recognized for his ground breaking research into the impact of industrial trends on media and communications companies. For example, in 1995 he was the first on Wall Street to identify the potential of the cable modem and, later, cable telephony. He was ahead of the curve in predicting advertising downturns (2000), the huge growth in political issue advertising (2003 for the 2004 election), and in 2004, the potential of the "internet bypass" or over the top (OTT) delivery of video entertainment content to consumers via broadband connection.

In addition to briefing senior managements of major media and communications companies, Wolzien has testified before Congress and the Federal Communications Commission. He has discussed major industrial changes on the news programs of all major broadcast networks and cable news and business channels. He was quoted widely in major publications including The New York Times, The Wall Street Journal, The Financial Times, Time, Newsweek, The Economist, and Business Week.

Since 2005 Wolzien has worked with senior leadership of media and communications organizations through Wolzien LLC, a company jointly owned with his wife, Valerie. Significant present and past clients include Discovery Communications, The Directors Guild of America, Warner Bros., Microsoft, Sony, and Ion, among others.

Five U.S. patents have been awarded Wolzien, starting with 5,761,606, for his early interactive television inventions linking mass media and the web, including the "click to buy" or "click for more info" buttons now on many TV remote controls. He continues as an active inventor. His latest patents, 8,767,031 and 9,654,731, cover technologies and systems used for The Video Call Center, with additional patents pending.

Through The Video Call Center, Wolzien and his team have developed an extremely efficient approach to creating TV content with zero incremental acquisition costs for global remotes and no conventional control room costs. The system is used regularly on programs of WWE, TLC, Fox Sports 1, Fox Regional Sports networks, Major League Baseball, and the Sony/TEGNA nationally syndicated program Daily Blast Live, among others.( www.thevcc.tv)

Wolzien was a member of the Board of Directors of TiVo, Inc., a public company, for eight years beginning in 2007, including five as the Board's Lead Director, a period which included winning significant patent litigation. Rovi acquired and took TiVo's name in 2016.

Wolzien is a Director of IRTS, a non profit media industry educational organization which specializes in education and minority recruitment of the next generation of media leaders.

He has been married for 49 years to Valerie Shelley Wolzien, the author of some 25 published mystery novels. They live in New York's Hudson River Valley.

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# MCLE CREDIT

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## The World Turned Upside Down – Divining the Media Business in Dystopian Days

### Outline of Topics/Issues

Let's be honest. Nobody knows where things are going, but we can try to figure out where they stand today, what is impacting costs, revenue, and distribution, and how companies are beginning to cope. The question is whether the changes we are seeing today, for good and bad, are just sprouts from acorns planted in the past that will wither if the coronavirus goes away this year, or are these the seeds of major changes that will be locked in permanently if the pandemic continues through 2021? We'll do our best with the annual Status Report, traditional to this opening session, and then look at some of the cost, revenue, and distribution factors impacting the industry as a setup for the panels that follow.

**The World Turned Upsidedown**
**Media After Dystopia**
**Tom Wolzien**
**(Virtual) Entertainment Bar Symposium**
**Ziffren Institute**
**UCLA**
**July 21, 2020**

*(Text with references and selected slides.)*

A drive in theatre in Hyde Park New York last Friday. Is this the future of media? Or this? (Hamilton). Or this (NFL Draft)? Or this (Find Love Live).

Hi everyone from the Hudson River Valley, and thanks to the Ziffern Center and you all for inviting me back to open this most strange of Entertainment Bar Symposia. It certainly is, as Lin-Manuel Miranda wrote in Hamilton…a world turned upside down. When Matt Thompson asked if I'd do this virtual session, I said I would be happy to try, but please recognize nobody has much of a clue these days and I am no exception. He said got it… so here I am, and lets try to figure out things together.

So in the next half hour, we'll make an attempt at the annual status report, and we'll move on to explore what's happening in revenues, costs and distribution as we all try to figure out what's temporary, and what's permanent. Since I'm your token non-lawyer, please remember that I come at all this from 50,000 feet, and am not nearly as expert as you on the specifics of your area.

As you know, I believe you have the right to know where I have related business interests so you can put what I say in perspective. I continue to work with the senior management of Discovery, as I have since 2007. This spring I wrapped up my fifth round with the Directors' Guild Forecast Project, working with Russ Hollinger, Jay Roth, Joyce Baron, and Mike Nathanson to provide foundational research for the just completed negotiations. What I say today does not reflect work for my clients.

Valerie's and my principle investment is in The Video Call Center, which, as many of you know from these sessions, provides high quality remotes by smartphone and automated production for broadcast, cable, and web streaming. We'll do a segment on how VCC is one of the ways production is changing at networks, and events like the NFL Draft.

So lets start with an attempt at our annual, though belated, status report.

Theatricals. Box office revenue and attendance in 2019 were both down almost 5% with ticket sales flat. In what now seems like ancient history, Avengers Endgame topped the charts last year, but there were about 10% fewer releases than 2018, overall.

Then came the virus. The disaster in 2020's first half shows BO down well over 99% percent. January and February were ok, but March slipped to a quarter of January as the lockdown started. In April the total us box office was a stunning $52,000. That's the total--$52000, as reported by box office mojo. By last month it had climbed to all of $2.5 million, one one hundredth of the already impaired March number.[i]

Now lets put Univeral's Troll's World Tour VOD against those numbers and you see why Comcast decided to give home release a try with uncertain theatrical reopenings. It was the largest release in VOD history.[ii] Trolls grossed $100 million in VOD in its first three weeks, with a $77 million kept by Universal.[iii] Maybe not what it would have taken at physical theatres, but according to reporting by The Wall Street Journal, the original Trolls made about the same amount on $154 million in domestic box.

By the way, Trolls ran in 21 drive ins, making you wonder why AMC, instead of fighting with Comcast, just doesn't put big sheets up on the sides of its mall theatres, and move a projector and FM or locked WiFi audio stream out to the otherwise empty mall parking lots….. Late last week we learned from CNBC that mall owner Brookfield Properties has signed a deal with the live events company Kilburn, to turn mall lots into drive ins. Now some drive in history.

Speaking of drive ins, couple of nights ago we went to one in Hyde Park, NY. Drive-ins have never made it to the Status Report before, but times change. From a 1958 peak of 4060, there are about 305 drive ins in the US, with 549 screens, according to the United Drive In Theatre Owners Association.[iv] Who knew. New York and Pennsylvania both have 28, and California is third with 15. On this Saturday night there were hundreds of cars filled with families social distancing to watch a two film bill… starting with an old PeeWee Herman movie. Makes you wonder…could there room for a drive-in comeback in the time of home video? Is the car a place for privacy for young adults back living at home? Will the bench front seat return?

After a pause to let that sink in, lets move on to Home Video. Now home video was back well before the increases from the lockdown. Here's the latest version of the slide going back to 1999 that I've been showing for the past fifteen years. Home video died, and now has been resurrected, thanks to digital, and particularly streaming.  Data from the industry's Digital Entertainment Group.

Look at the pattern… and now look at another industry that died, and has come back. Recorded music.  The pattern of the RIAA numbers is almost identical, also thanks to digital and streaming.

Advertising in 2019 was up 5.1 percent, about a point ahead of the economy.  And for an off year that should have been a good sign for 2020 with politics and the olympics.  Look at the history in this chart going back to the 1960s, where you can see nominal GDP in blue and advertising in red… See how advertising grows faster than the economy in inflationary periods like the 1970s, and tanks more than the economy in recessionary periods like the internet bust in 2000, and the great recession of 2008.

How bad advertising this year will be remains uncertain.  First quarter was mixed, with the pandemic hitting during March.  But, if you look at how advertising in the past has amplified the economy's numbers, up or down, then the prospect for the rest of 2020 and perhaps 2021, is for problems unlike what ad-supported media has ever seen.  We'll be getting second quarter company reports over the next few weeks, and that should give a better sense of the depth of initial declines.

Ad-based TV viewing has good and bad news stories.  Good news… about the only good news… is for the cable news nets, all three of which had record viewing in Q2.  But even then, only 7 million people were watching in prime time.  This chart from Statistica shows news network viewing early in the lockdown, the second week in march, with an increase of about 3.5 million viewers in prime.

Total broadcast network ratings were down about 4% for the just completed season, after dropping 7% the year before. More importantly, 18-49 viewing was down 11%, and has dropped by nearly a quarter in two years. [v] Using weekly changes over the past 5 quarters as a base, the broadcast networks are trending toward 8% annual declines, while cable nets are looking at 16% declines going forward.[vi] So even though people are at home, conventional television viewing continues to decline.

At the same time, we're seeing substantial cord cutting, with cable and satellite subscribers down another 4% percent last year. The most stunning number comes from Craig Moffett at Moffett Nathanson. Remembering that not too long ago pay subcriptions reached 90 percent of households…. That number has now dropped to only 63%. Put another way, the industry has given up all of its growth since 1995…25 years ago,[vii]

Of course the reason is streaming. According to Nielsen as reported by TechCrunch, a Q3 survey of 1000 adults shows that 90% subscribed to at least one streaming video service, and a third had three or more. Of 18 to 34 year olds, only four percent Did Not have a streaming service at all.

Since we last talked, in addition to Netflix, Prime, and Hulu, we've seen the launch and growth of Disney Plus, CBS All Access, HBO Max, and, this month, Peacock, among many others. And you have the cable offshoots available under Prime, like Epix and Showtime, as well as the foreign library services like Britbox and Acorn.  Overall the Nielsen report says there are almost 650,000 separate pieces of commercially produced streaming media available, of which about 50,000 are exclusive to their respective streaming platforms.

Nielsen data from Q4 2019 now puts streaming as 19% of total television viewing.[viii] And here's how that 19% broke down in Q4:  Netflix led with 31%, Youtube had 21%, and Hulu had 12% and Amazon Prime 8%.  In Q4 all the others were 28%.

(Hamilton)

Of course that was before Hamilton.

Disney paid a reported $75 million to acquire the film.[ix]  And the company says it was downloaded 750,000 times globally.[x] If you do the math, that's $100 per download, paid for by one subscribing household in 14 months at $7 per month.  And that leaves another 55 million households to cover other content… and eventual profit.

If you put together the reported subs, we had 181 million separate subscribers in the US at the end of 2019.  Looking at the four year growth, Netflix was in the lead, followed by Prime and Disney-controlled Hulu.  Disney Plus was closing rapidly. HBO and CBS were way back. International subs take the total to about 300 million….and climbing.

For the first half of 2020, Netflix was the first to report results late last week.  At the height of the pandemic, Netflix added 5 million subs in the US and Canada, and almost 21 million in the rest of the world.[xi]

Lets move on to talk about the revenue-cost balance, with focus on linear video. The  steady decline in multi-channel subs is certainly bad for the cable, satellite, and phone companies, but we need to consider the revenue impact on the cable networks.

There are three components:  change in the number of subscribers, related changes in the number of viewers of ads, and changes in the subscriber fees paid to the network by the multi-channel distributor.

This is the lets do some math section….

For this example exercise we'll create a mythical TW's Network—I'm sure you've heard of it…TWN.  And we're going to look at numbers back in 2013, and in 2019, with rate and inflationary adjustments.

Now our TWN cable network is fully distributed, a solid performer, but not at the very top, so lets say back in 2013 it was getting subscriber fees of $0.30 per month, or $3.60 per year.  Its contracts with the multi-system operators allowed 1% fee increases per year since back in 2013.

Here's one of the sticky problems.  Back in 2013 our fully distributed network reached 100 million homes, but today it is still fully distributed, but reaches only 92 million homes, an average sub decline of 1.3%, with that nasty 4% drop in 2019.  Put revenue growth for individual subs together with the subscriber declines, and that's an average annual subscriber revenue decline of 0.3%.  What was $360 million in sub revenue back in 2013 is 355 million today.  Down by $5 million.

Not too bad if that was all.  But it isn't.  As it negotiates to renew its contracts, our fictional TWN is facing the same problem Viacom CBS reported earlier this year… something euphemistically called "rate reset"… which in plain English means the distributors have decided to pay less per sub.

So if there's a rate reset of say, 10%, now you're down not $5 million, but $40 million from 2013. Our $360 million in 2013 will now become $319 million with that "rate reset."

Now lets see what happens to advertising with these subscriber declines. Back in 2013 our network had a million viewing homes or 1 rating—1% viewing of all available multichannel homes. Despite all the additional SVOD choices viewers have, our network has actually been able to hold its own in ratings pretty well, with only a 1% annual decline in viewing. (OK, I know ads are sold on demos, but lets use households as an efficient example, please, or otherwise we'll be here into next week.)

Back in 2013 we had an average of one million homes watching our network every minute of every day, but by this year we had only about 875 thousand viewing households when the decline in the universe and the decline in viewing are combined.

A couple of quick housekeeping lines… We're going to assume our network is operating 16 hours a day, with 12 minutes or 24 30 second spots an hour, and holding back 10% for makegoods. Back in 2013 we were selling spots at $5 average cost per thousand, and that's grown at 2%, so now we're getting $5.63 per thousand viewing homes.

Now here's where you see the impact of the declines in multi-channel homes. The revenue per spot was $5000 in 2013, but because of the lower number of households being reached, and despite the annual increase in ad rates, the revenue per spot is now $4900, and that hurts.

Back in 2013, our network was taking in $632 million in gross ad sales, but now its only booking $620 million, and in 2019 the ad revenues declined 3%.

Lets put the pieces together. TWN's total gross revenues in 2013 were just under $1 billion, and today, before the rate reset it would have dropped to $940 million, a decline of $55 million. But that 10% rate reset hurts badly, and whacks another 40 million off the total revenues, leaving the network with 95 million less than 2013.

That 898 million is the number investors would look at as they consider longer term growth for our network and factor into their forward looking stock price estimates. But since we are running the network, we need to consider what our actual program buying power is, compared to what we had back in 2013. Between then and now inflation has been 9.7%. That means we've lost another $90 million from our content-buying warchest.

When nearly 10% inflation since 2013 is factored in, the equivalent purchasing power of the network has been cut by $180 million in six years. That's a decline of 18%. Hold on to this because its important as we discuss cost cutting in the next section.

So how is the transition going to digital for our fictional network? Are the "Go" or OTT network transmissions helping? Digital gets a higher CPM for the moment, but sales seem to be a problem, as hinted by this off screen picture from a break on CNN's live digital feed last week. Many networks are not selling out their inventory on digital platforms. Further, as digital audiences increase, it is likely that digital cpm premiums will dissipate.

As a stand alone network company, our TWN is really stuck. But there are mitigation strategies for ad revenues being uised at the companies owning lots of networks. Some have started to aggregate the same demographic audiences across multiple networks to deliver a certain number of rating points of say, women 25-54. A commercial will run across maybe a half dozen networks, not just on one service. This increases the advertiser's reach while having positive impact on CPMs. It buys time to build digital audiences and spin-out busiensses based on their established brands.

But overall, the picture I've just painted argues for yet more consolidation of multi-network owners, and a pretty impossible picture for our fictional TWN as a stand alone…or any other stand alone effort. So the big roll-ups over the pasat three years of CBS-Viacom and Discovery-Scripps are, by necessity, just the start. Further consolidation will buy more time for the survivors to adapt, and allow overhead cost reductions while further combining network demographic sales.

Costs.

Now remember that 14% reduction in buying power at our fictional network.

There's a message here if you're on the production side of a network…or a production company supplying the network. Its all about the cost revenue balance. Put another way, as maintaining revenues becomes tougher, and buying power goes down from the past, cost reductions become even more critical to continued profitability. So heavy downward pressure on costs, while still demanding ratings performance. Tough combination.

Interestingly, the pandemic is speeding this process. With studios and production centers shut down, and social distancing limitations on location production, production has been forced to turn to smartphones, pads, and laptops, sometimes coupled with better cameras, sometimes not.  And that production has been done not by professional crews, but by family members or the subjects themselves.  Over time, remotely controlled fixed installations have been put into the homes of top talent and regulars.

We're seeing this everywhere from late night to prime time, and throughout the day on news and sports talk.

The pandemic is speeding change in fundamental components of production—studio, remote, and control room.  First, the central studio and its crew has been replaced by the home studio.  Second, traditional remote pickups in the field no longer use crews, but rather are staffed by the subjects themselves. Using their own smartphones.

But the changes go beyond that, because the technical equipment itself is being run remotely.  At the Video Call Center we were one of a number of companies contributing to the historic NFL Draft this Spring.[xii]  CLIP first round.  Here's how the first draft pick,   , got on the air.

This is Samantha Gross.  She's working as something we call a Call Producer, and she's at her home in northern New Jersey.  On the right screen is the smartphone feed of Borrow from Albany Georgia, in the center is the live ESPN program feed from Bristol CT, and on the left are the controls Sam is using to run the remote.  VCC managed all the player interview remotes that ran on ABC, ESPN, and the NFL Network.  Here's the NFL's circuit map.[xiii]  After checking out the phones sent to five dozen players with test calls, the VCC team all working from their respective homes, connected and managed the calls through its terminal equipment located at the NFLs hub in Tulsa, and then on to ESPN HQ in Bristol, Connecticut, for switching to air.  In all

VCC set up 116 remotes and took about 60 to air, and like the rest of the 14 hour historic show, everything worked perfectly. Successes like the NFL Draft change fundamental thinking for when things return to normal. Not for everything… but for many things.

The NFL Draft was the largest and most influential remote production, but the pandemic plus cost concerns are causing all kinds of content innovation. Over at HGTV, comedians have been brought in to say what everybody thinks while watching repurposed House Hunters international shows. Food Network has a similar recycling approach.

Shows like 90 Day Fiance' have been using smartphone remotes through VCC for years, from all over the world, but now more so. Up to 30 in a single show, from five continents, and up for up to a dozen hours. Satellite, crew, and other costs would be prohibitive, and now Sharp Productions, the 90 Day produce, crews, or about anyone other than the production staff and editors.

CBS Tuning Out the News

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So what are we learning about the cost side of media production? Five things.

1. Technology is permitting dispersed production for some types of shows without central studios or control room.
2. Employees, including talent, are finding they can work from home at least somewhat effectively.
3. Continuation of this trend will result in reductions in personnel needed to produce programs as well as studio, control room, and office space.

4. Will require new types of origination and transmission equipment.
5. There will be negatives as we learn how, over time, the loss of in-person collaborative contact impacts both the creative process and personnel management.
6. Flexibility of going anywhere any time without incremental cost or logistic problems will become addicting, and result in demands to do more distributed production with better quality.

Lets wrap up this session with a discussion of distribution…and specifically the virtual multi video program distributors—vMVPDs—and bundling.

You remember this chart from the Status Report, showing the declines in the number of multi-channel household. Now lets focus on where the households are growing—the virtual, or broadband based distributors. They offer packages of cable networks and sometimes local TV, just like a cable company, but you buy your own transport separately from your wireline phone or cable company, or your wireless provider. But since most people already have that transport service, now the virtual MVPDs offer what appear to be reduced rates. Call it unbundling of content from transport.

Now the virtual players aren't huge, but they are growing. About ten million subs at the end of last year, according to numbers tracked by my friend Mike Nathanson. And great thanks to Mike for sharing his historical numbers for inclusion in this presentation.

Here's a chart showing the growth of the virtual packagers since 2016. Disney controlled Hulu is a million subs ahead of YouTube TV and has a slightly smaller margin above Sling.

We'll come back to Hulu in a minute. YouTube TV has picked up the major headlines lately, with a pricing increase to $65. You may recall that YouTube began its virtual multichannel service at $35 per month, and most recently was at $50. The reason given by YouTube is that ViacomCBS now is being distributed by YouTube, and the additional cost is being passed on to the customer. If that's the whole reason, then ViacomCBS is being paid $15 per month per sub…a stunning number when Viacom was complaining about "rate resets" as we discussed earlier.

But to me Hulu's Live service is the most interesting story. Subs nearly doubled last year with the monthly fee at $55. Hulu Live subscribers get live local network affiliates, linear cable networks, and standard access to all the Hulu VOD shows. Unlike YouTube TV, no Viacom nets, however.

Where Hulu Live takes on importance is not just the bundling with the entire Hulu library, but also that it is being sold along with Disney+ and ESPNs+ for, depending on the deal, around what YouTube TV now costs.

With the huge growth of Disney+, the company's ability to pull the pieces of SVOD, AVOD, and Linear TV into one bundle is significant. And the inclusion of live news and sports nets with fresh and library on demand content may be the model for the future, particularly as the popularity of non-live linear TV declines.

If so, then watch for Disney to bring other smaller streaming services into the bundle where library and new content demand, and you have to ask if it is conceivable to see Netflix in there, too, one day.

Whatever happens with Disney and Netflix, we're headed back toward a single bundle….almost like the content bundle provided by cable networks today.

The more things change… and so on. OK, that about wraps up my bit for this year's Symposium from the Hudson River Valley. Normally at this point I'd be doing the annual responsive reading about how there will always be jobs for lawyers—perhaps working from home—but I don't want all of you to be upsetting your families as you chant "lawyers, lawyers, lawyers" down in your respective bunkers.

Instead I'll remind you that if you have any questions, feel free to email me at wolzien@wolzien.com. With luck and care we'll be together at UCLA again next year. But in the meantime, be careful, be safe, and cover up.

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[i] https://www.boxofficemojo.com/month/by-year/?grossesOption=calendarGrosses

[ii] https://variety.com/2020/film/box-office/trolls-world-tour-universal-digital-debut-1234578471/

[iii] https://variety.com/2020/film/box-office/trolls-world-tour-universal-digital-debut-1234578471/

[iv] https://www.uditoa.org/media.html

[v] https://deadline.com/2020/05/tv-ratings-2019-2020-final-rankings-masked-singer-sunday-night-football-fox-cbs-1202935271/

[vi] MoffatNathanson data

[vii] https://www.detroitnews.com/story/business/2020/05/11/nearly-million-us-households-cut-cable-satellite-tv-first-quarter/111690254/

[viii] https://techcrunch.com/2020/02/11/nielsen-streaming-wars-total-audience-report/

[ix] https://www.wsj.com/articles/hamilton-movie-to-debut-on-disney-july-3-11589294497

[x] https://variety.com/2020/digital/news/hamilton-disney-plus-premiere-app-downloads-72-percent-1234698795/

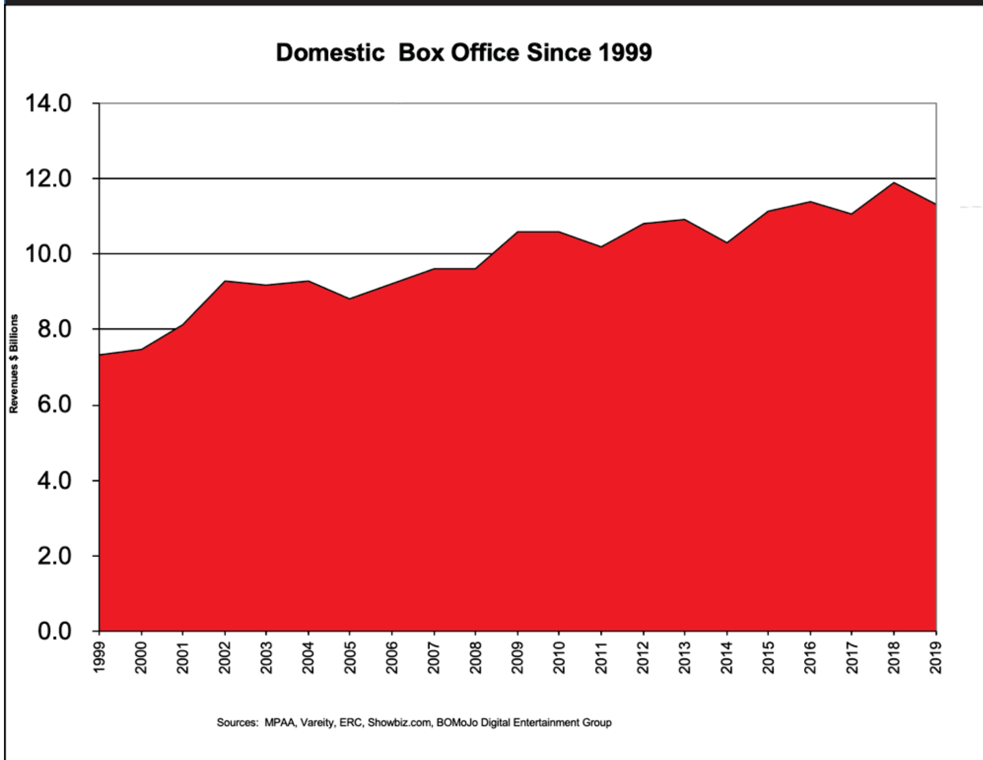
[xi] https://www.netflixinvestor.com/financials/quarterly-earnings/default.aspx

[xii] https://www.sportsvideo.org/2020/05/11/nfl-draft-reflections-how-video-call-center-took-viewers-inside-58-prospects-living-rooms/

[xiii] https://www.sportsvideo.org/2020/04/23/nfl-draft-2020-nfl-media-deploys-iphone-production-kits-coordinates-600-live-feeds-to-bring-virtual-draft-to-fans/

Studios

# 2019: US Features Slip




## 2019

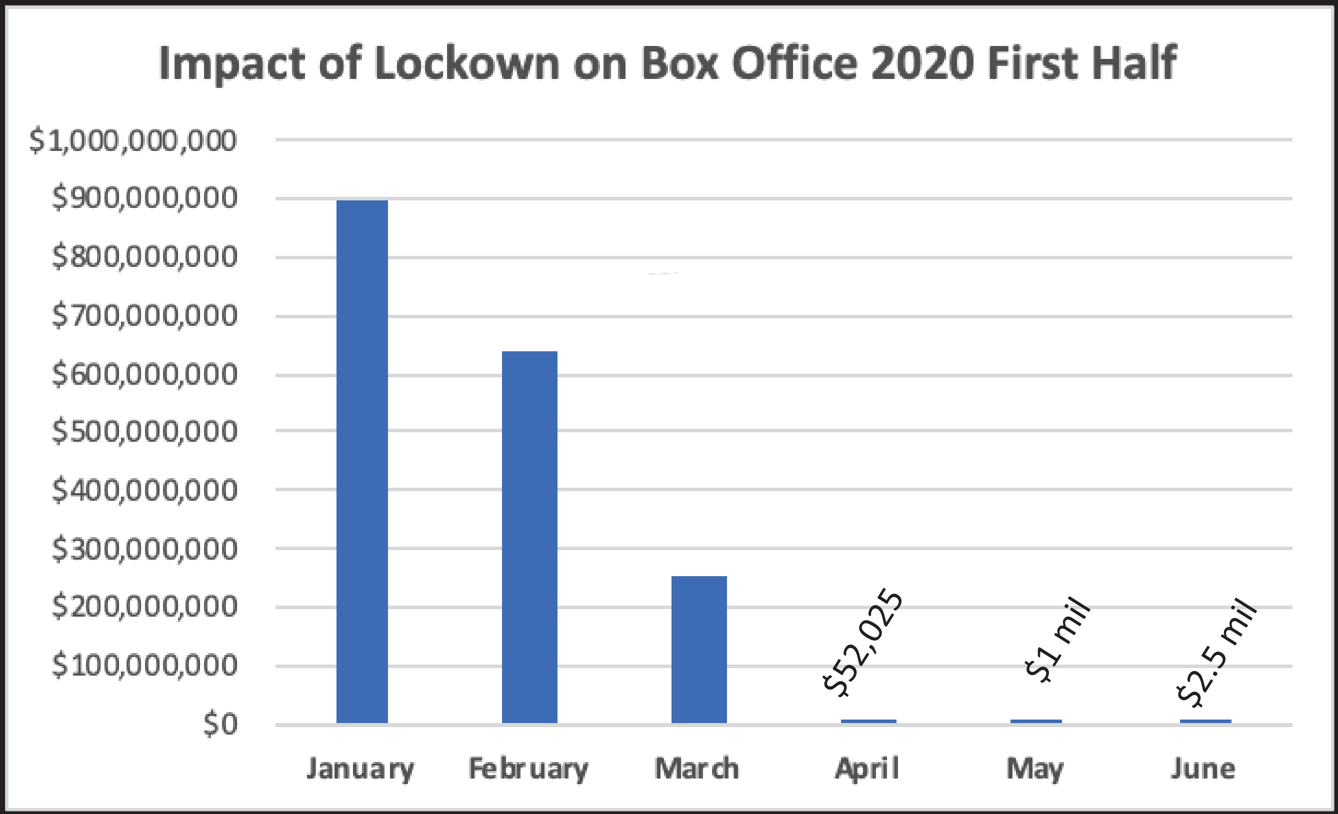
**US Box Office: 11.3b -4.8%**

**US Attendance : 1.2b -4.8%**

**Ticket Price: $8.97 FLAT**

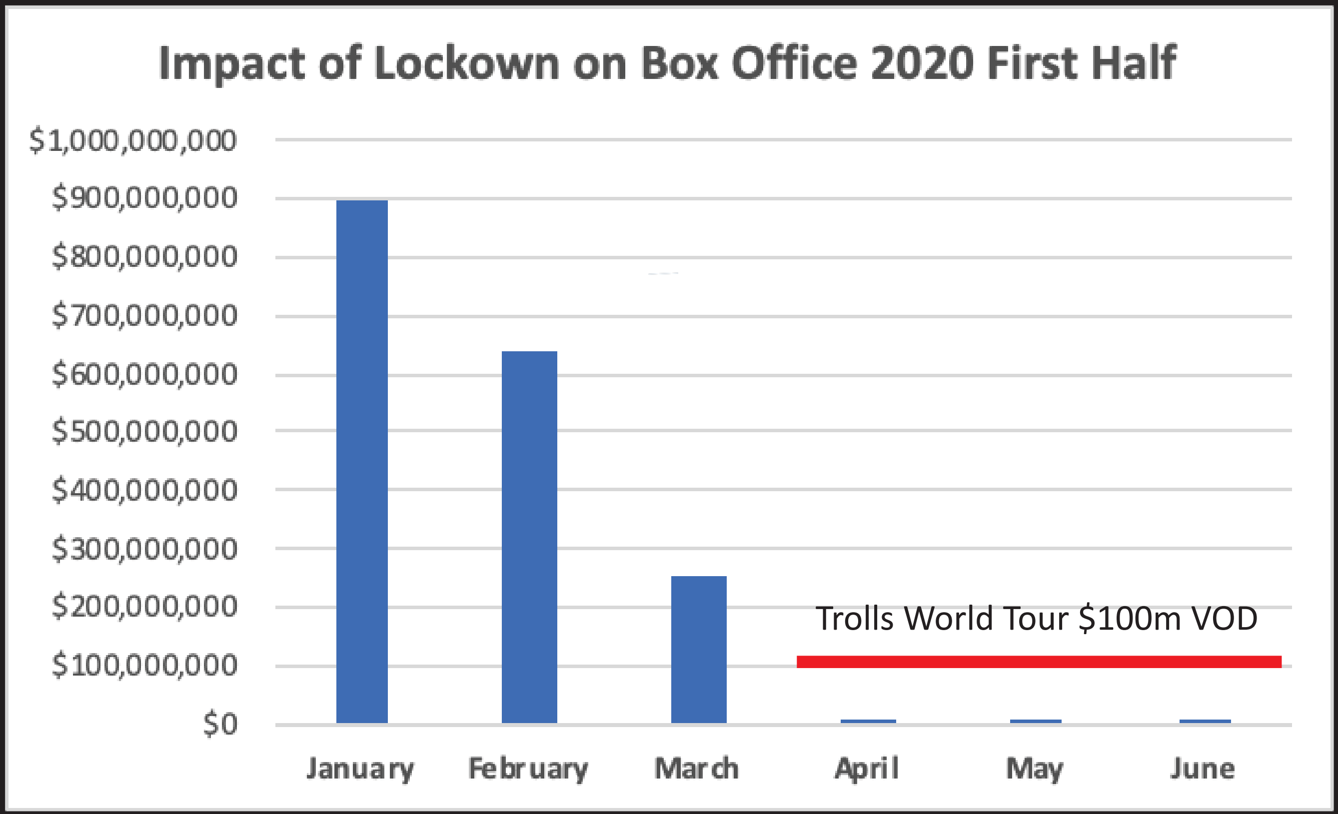
Studios

# 2020: How Bad Is It?



Studios

# 2020: How Bad Is It?



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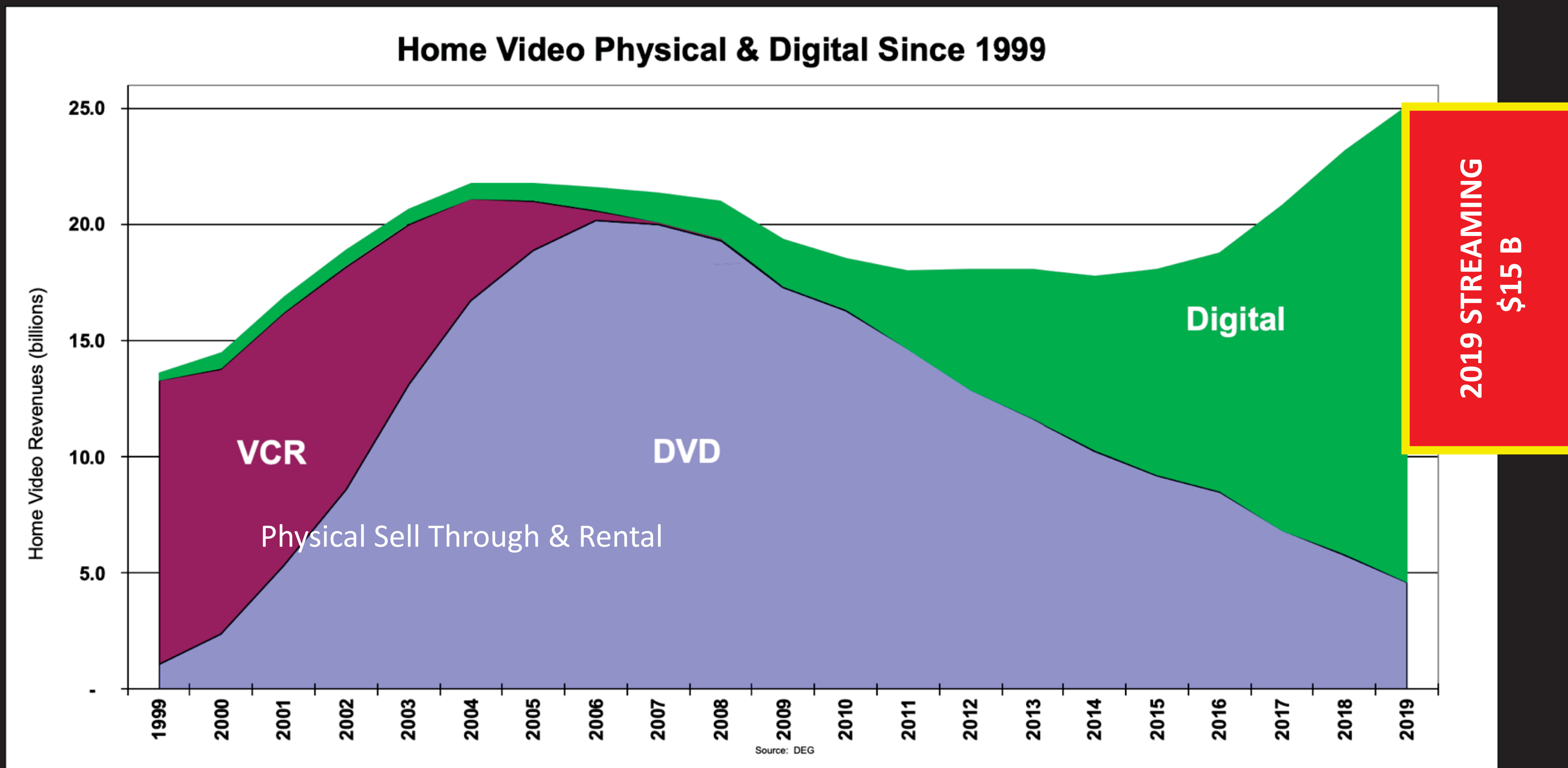
# *Home Video IS BACK*



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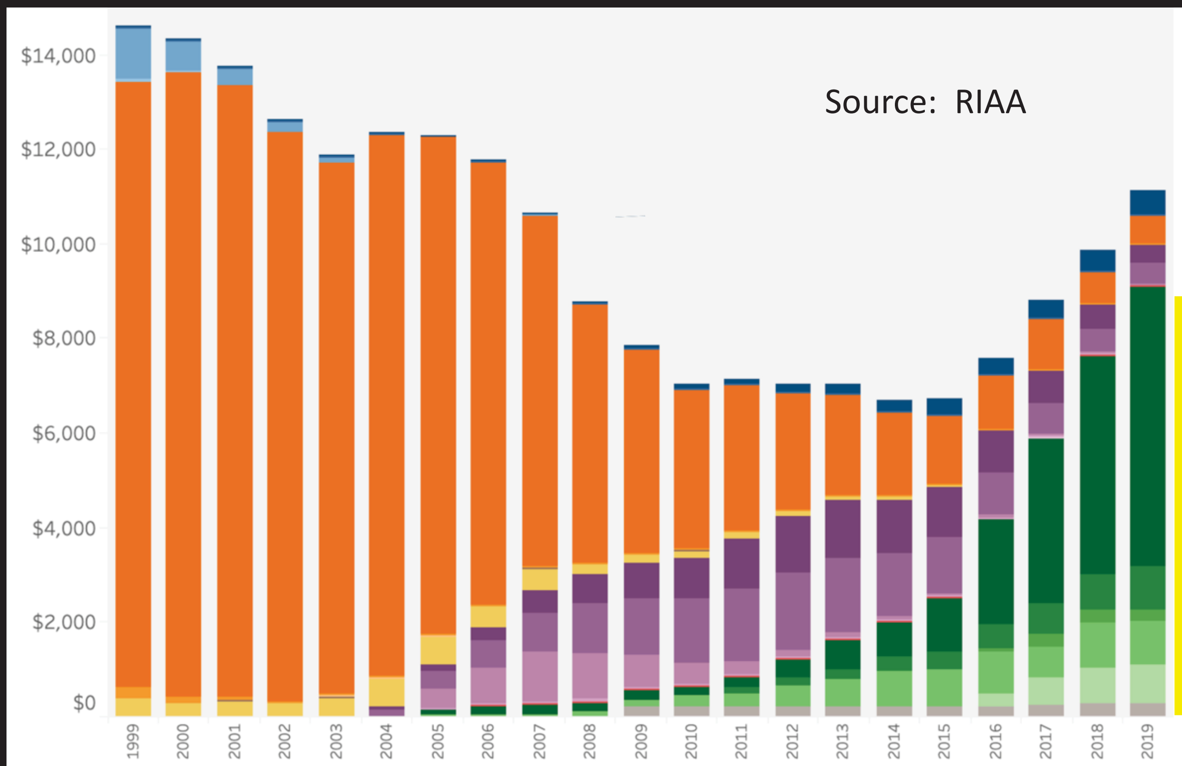
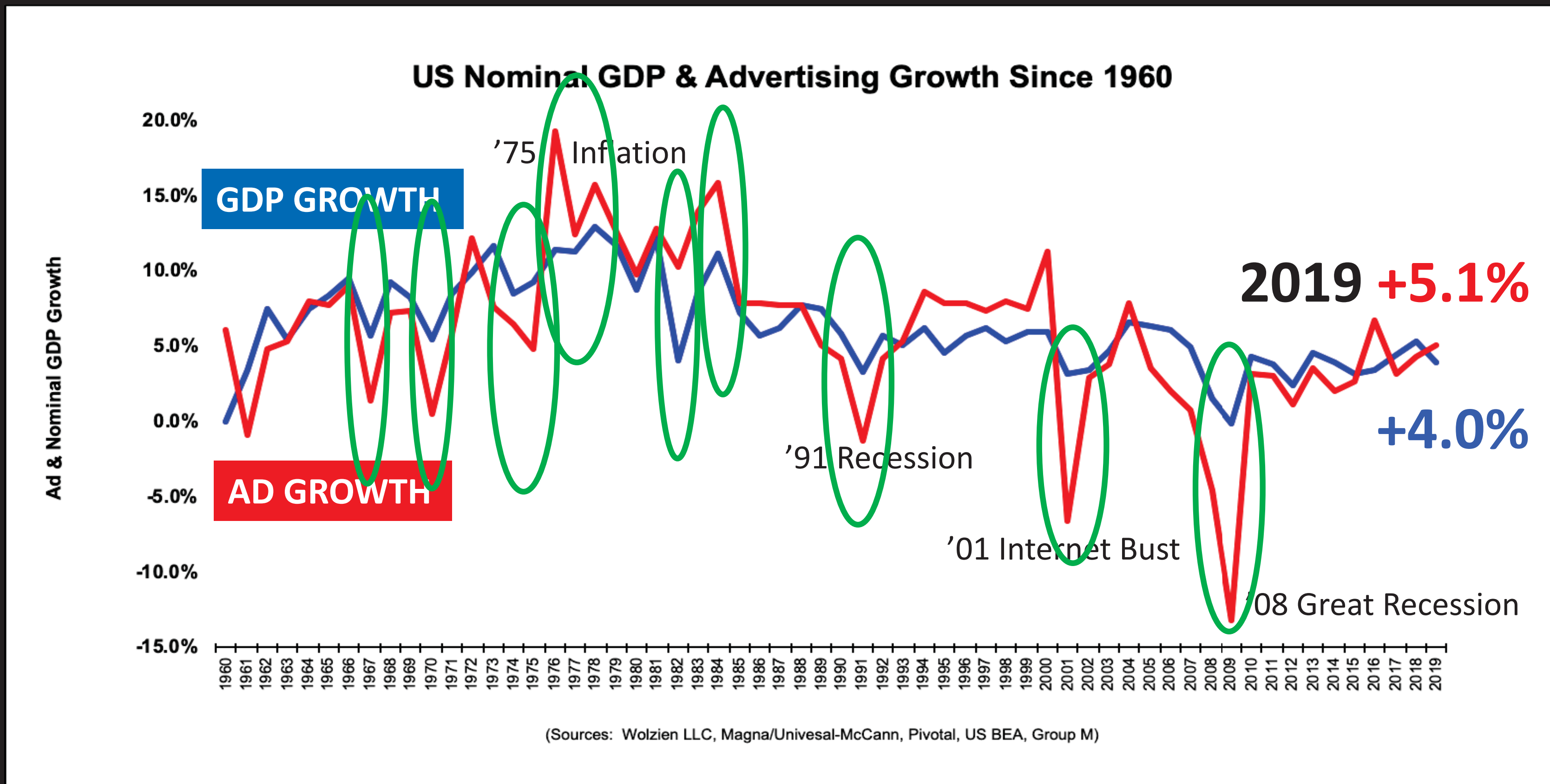
# Recorded Music Seeing Similar Comeback

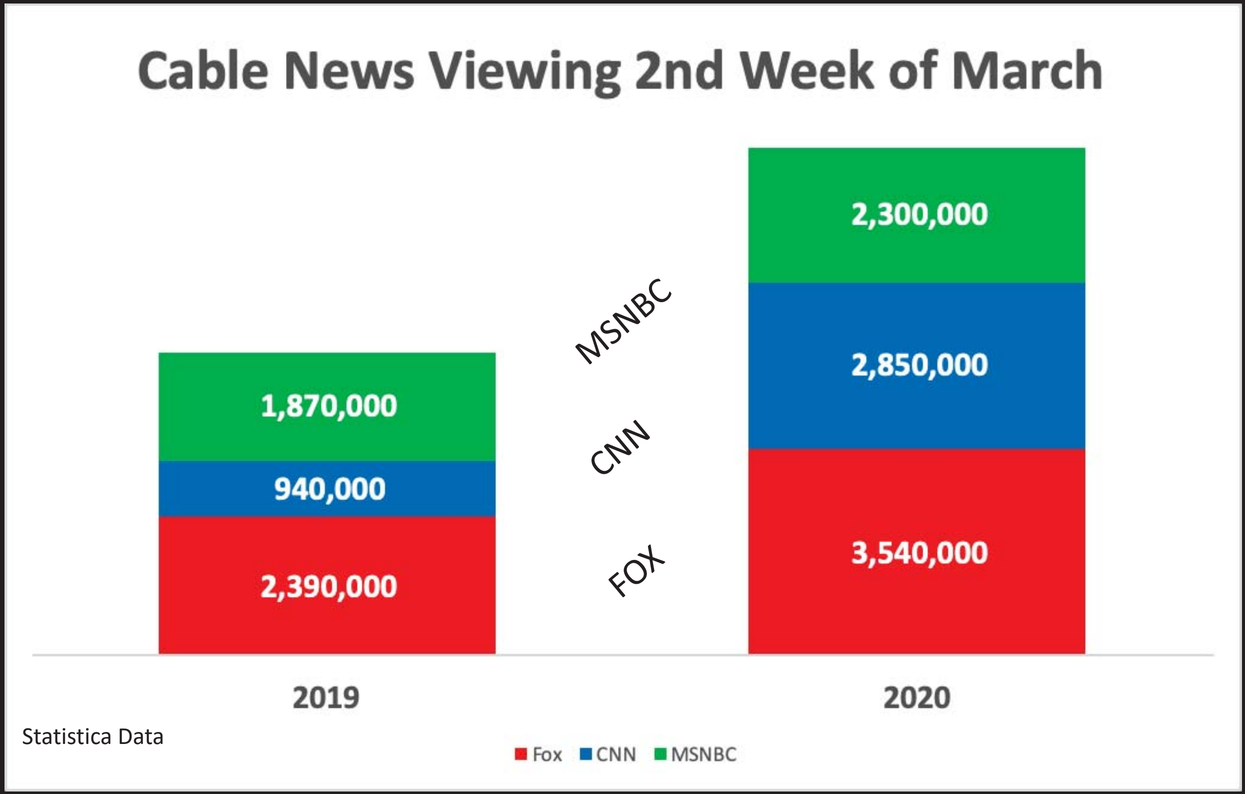



**2019 STREAMING & SUBSCRIPTION $9 billion**

# Off Year Ad Spending Beats GDP



# Pandemic News Viewing Up 67%





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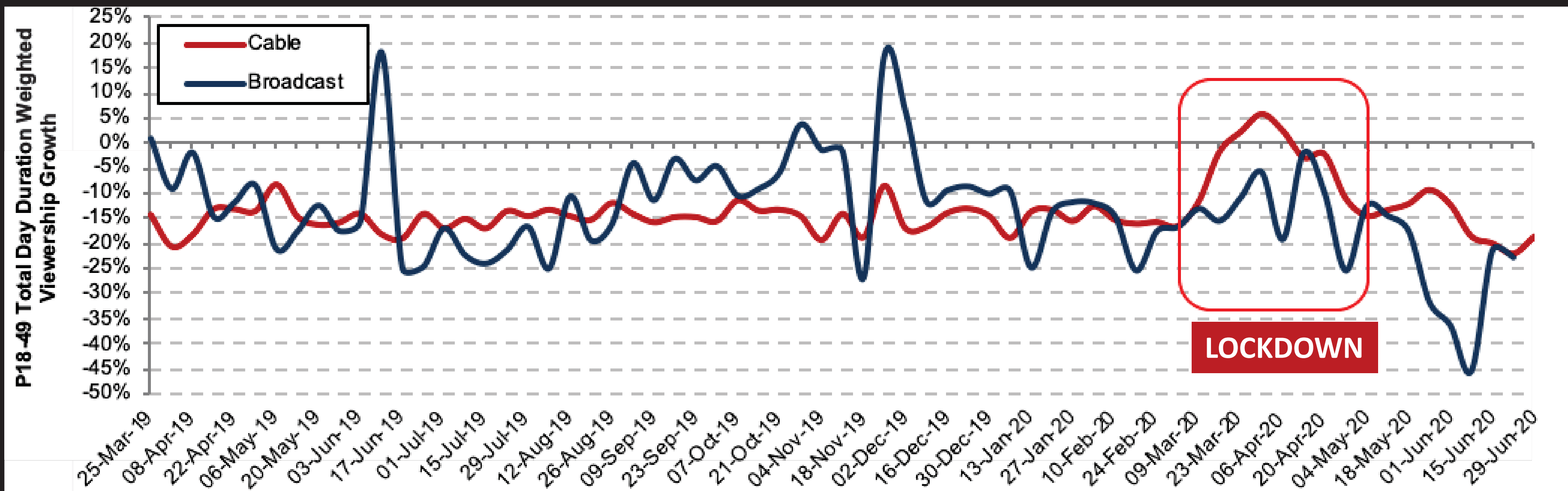
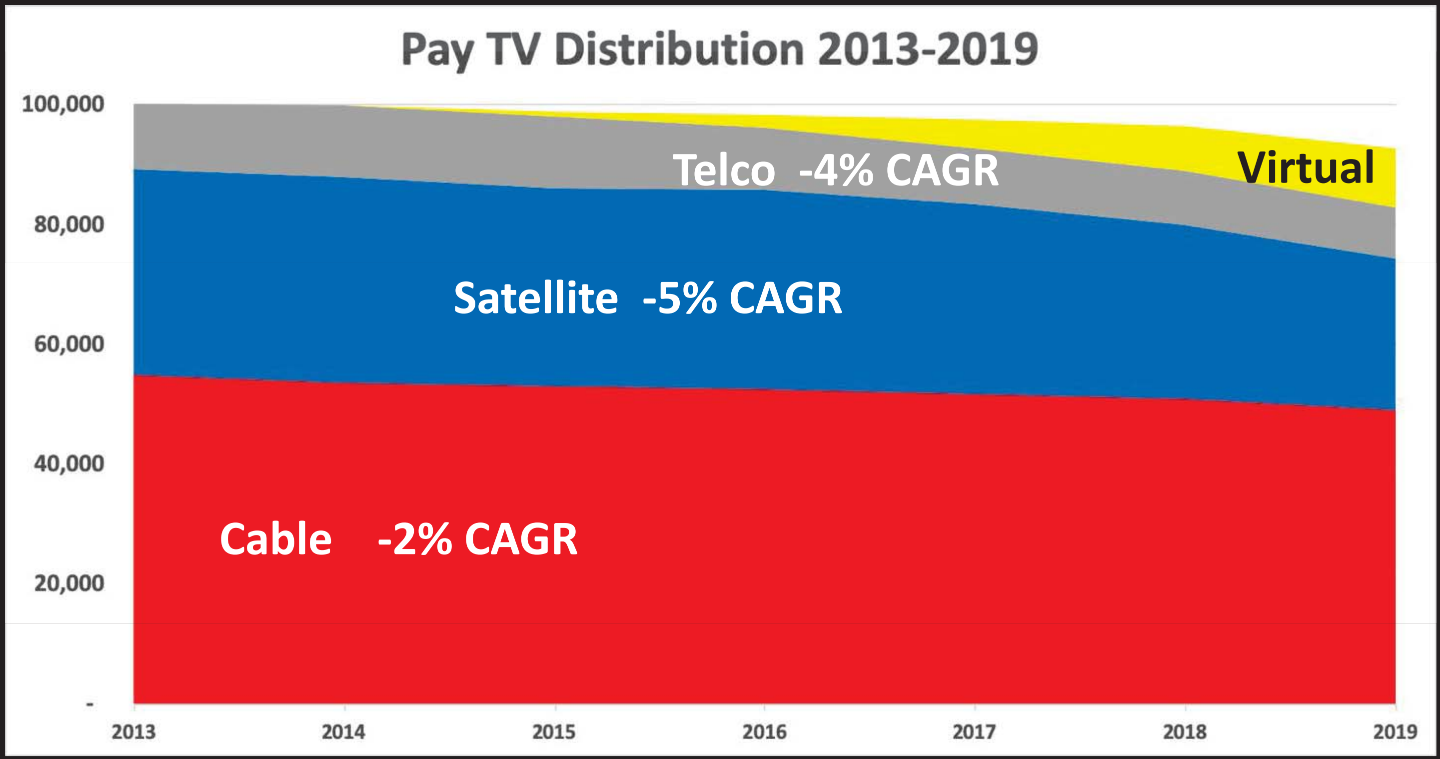
# Broadcast & Cable Viewing

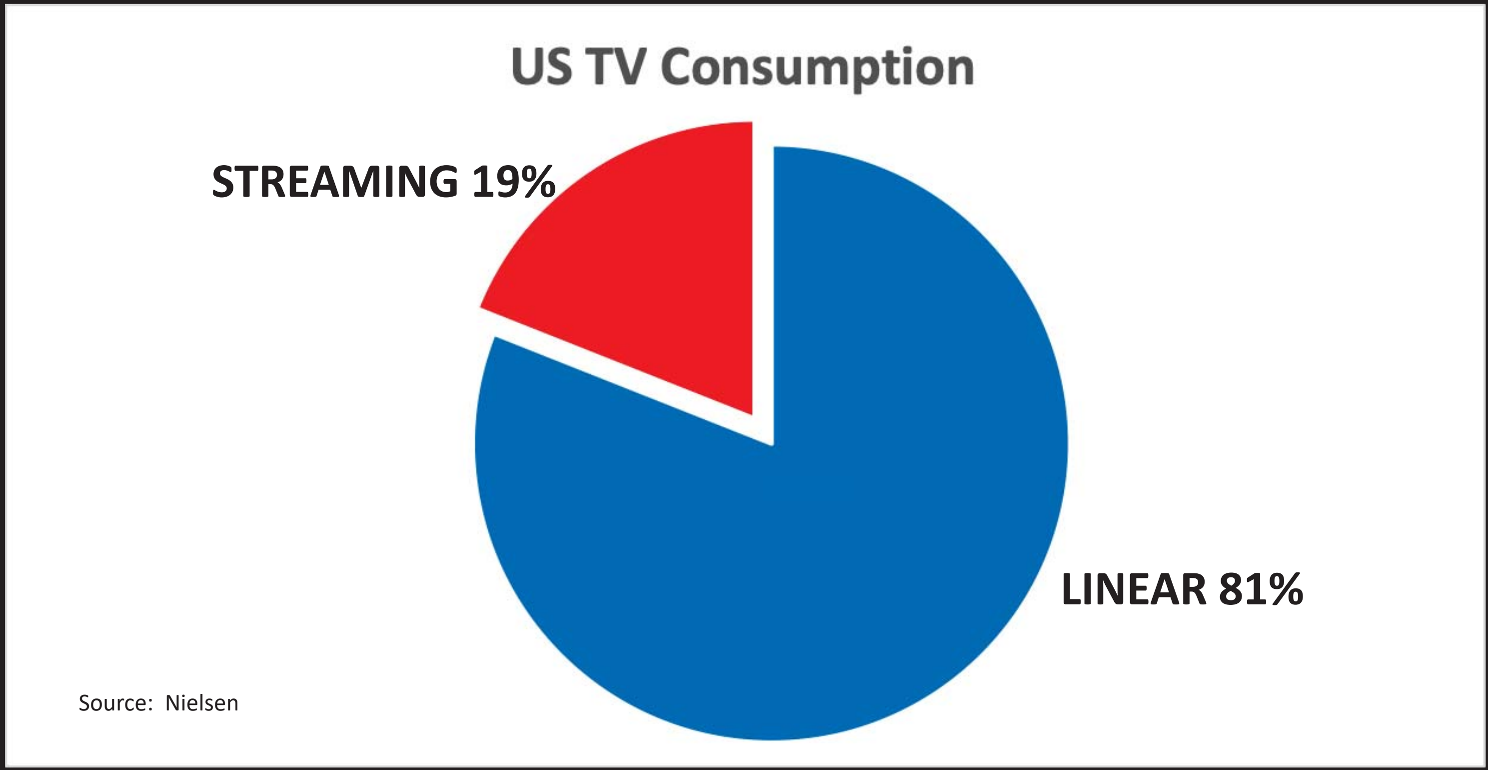
P18-49 March 2019-June 2020



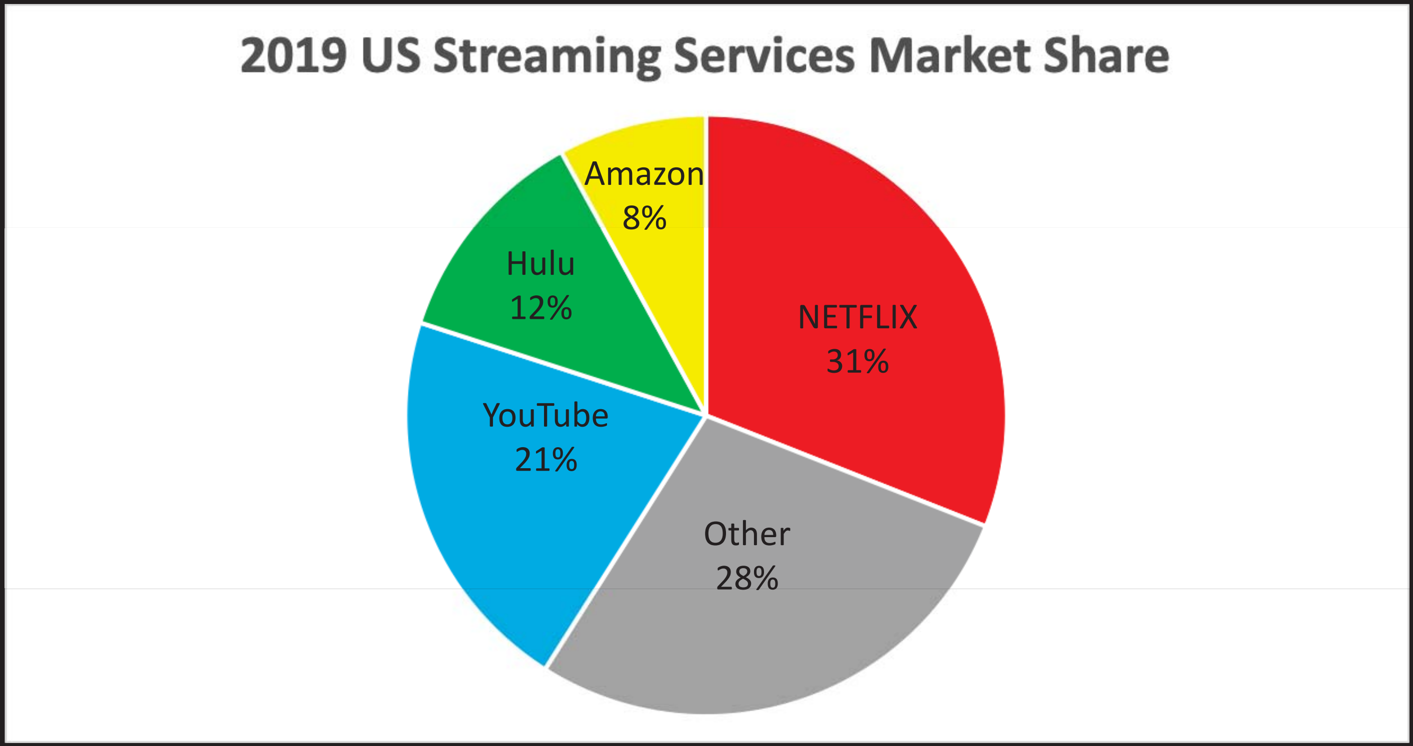
# Steady Pay TV Declines



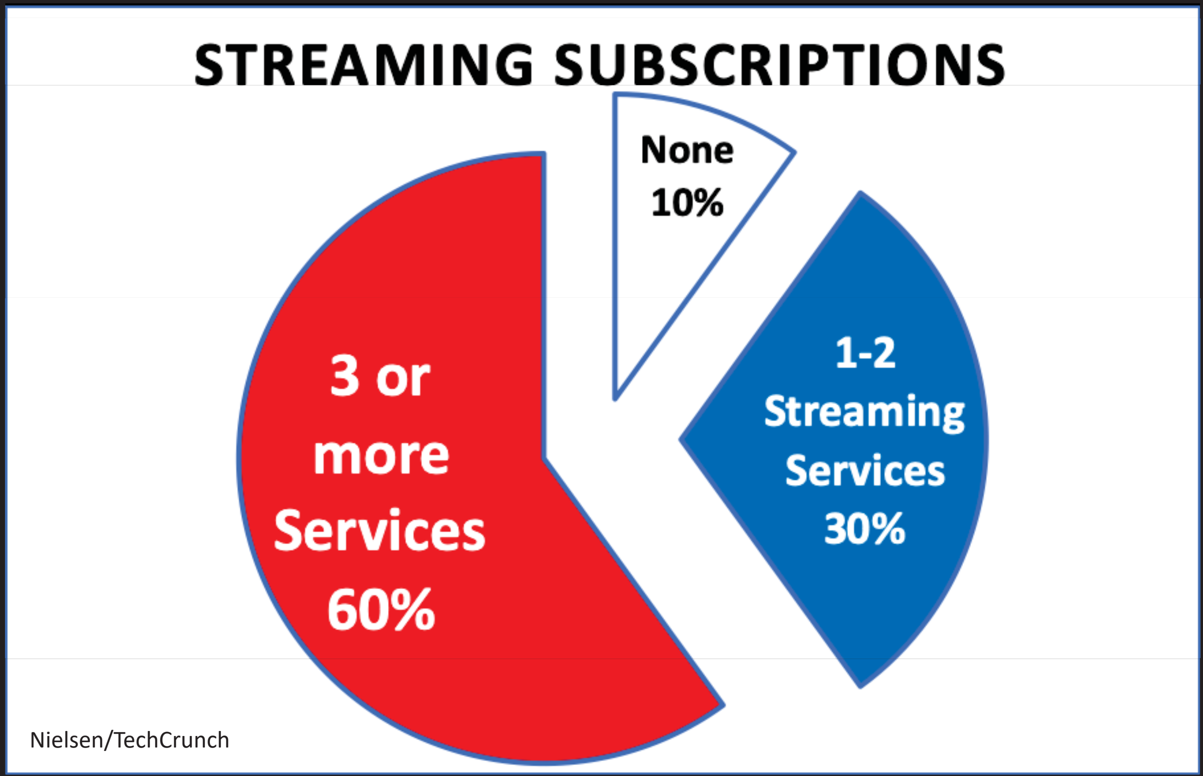
# How We Watch TV



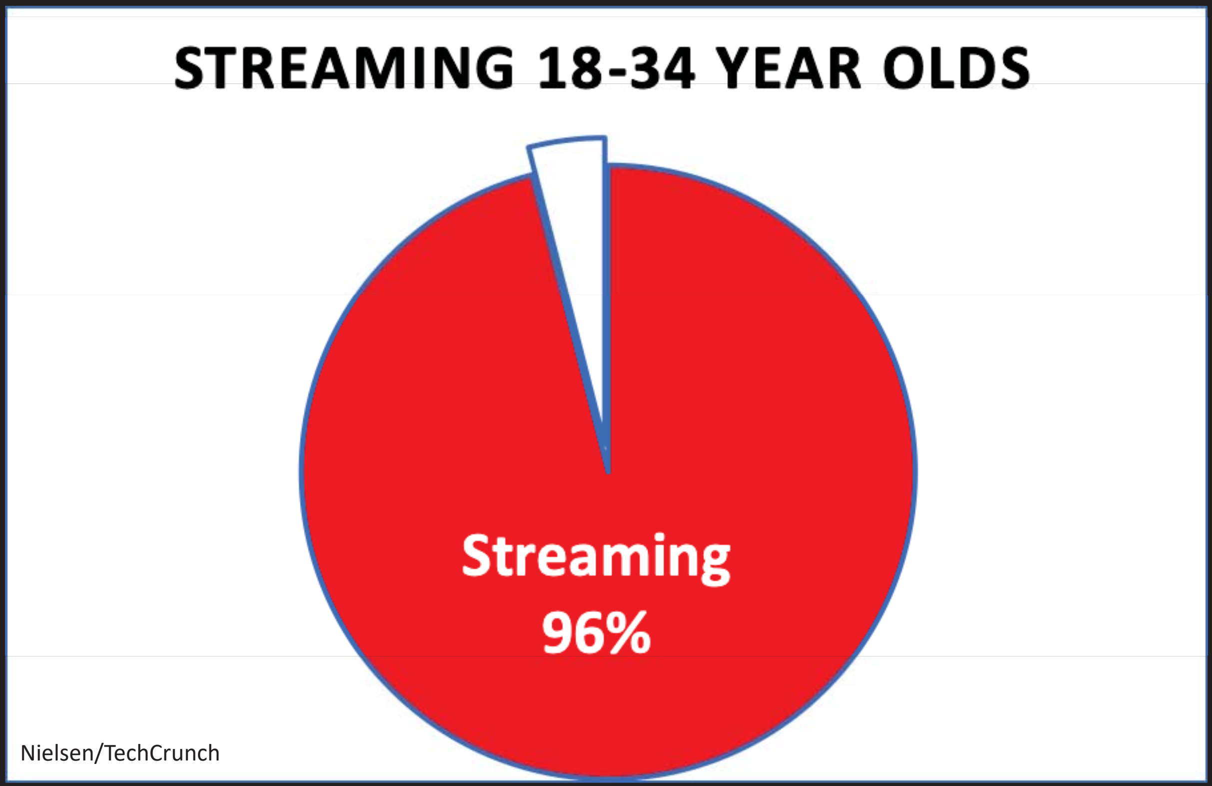
# Netflix Continues SVOD Lead



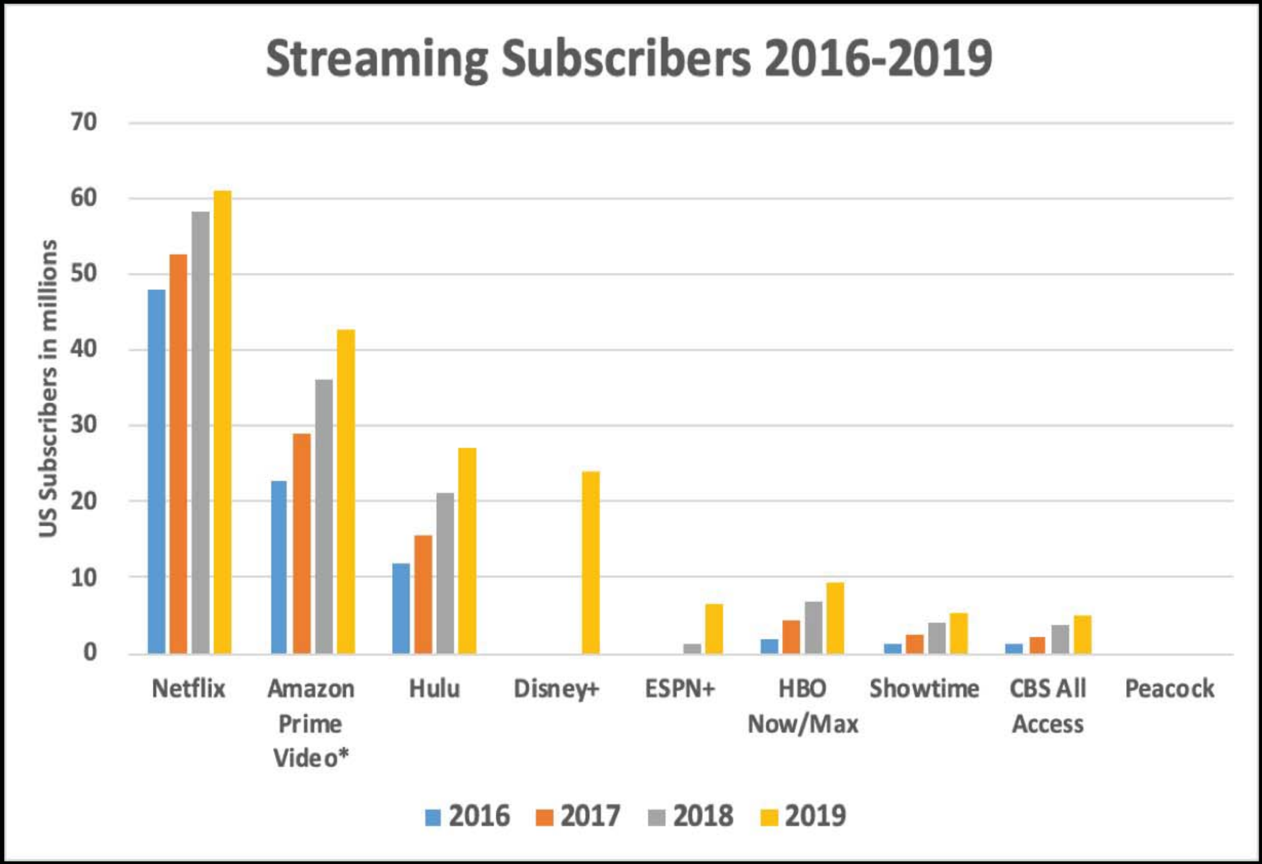
# Survey of 1000 Adults Q3 2019



# Survey of 1000 Adults Q3 2019

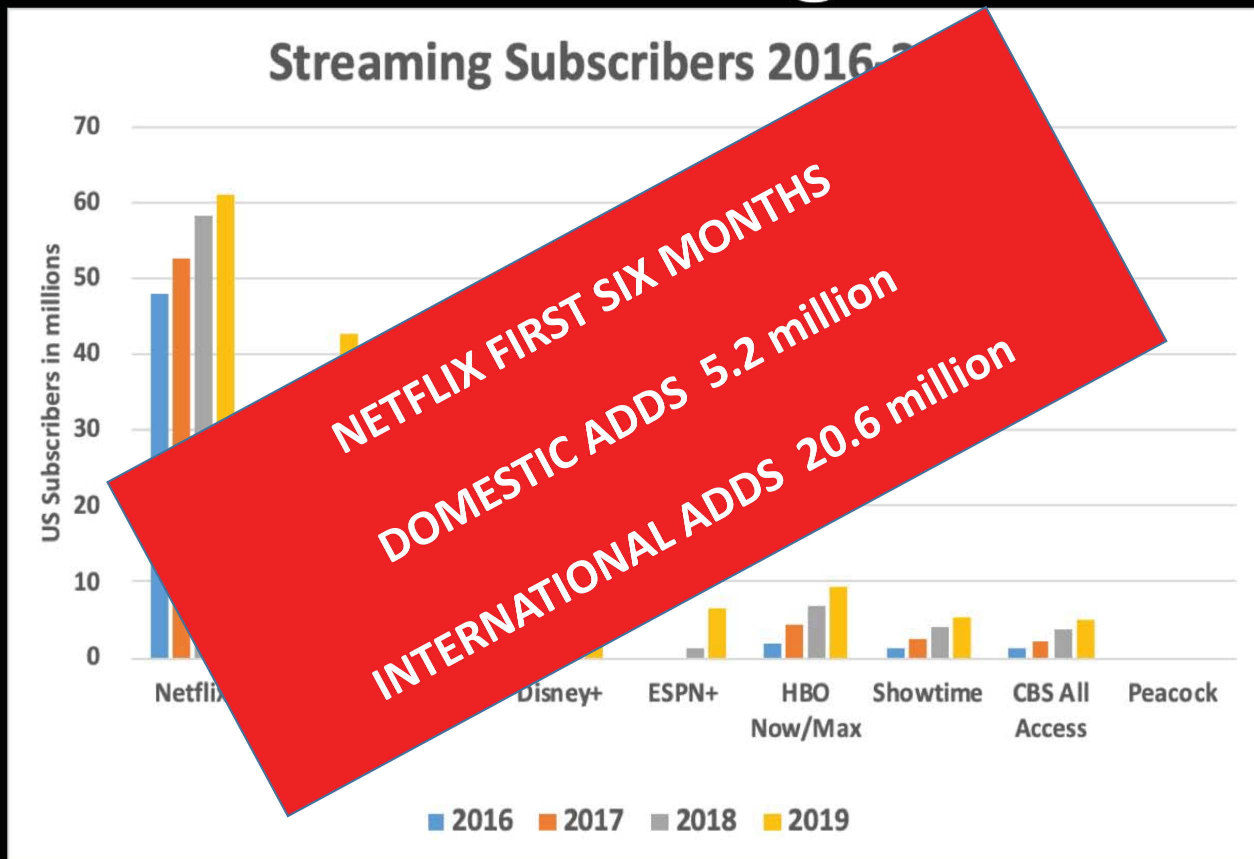


# 181 Million Streaming Subs YE ‘19




Source: MoffatNathanson

# 181 Million Streaming Subs YE '19




Source: MoffatNathanson

# Revenue Variables

▲ # Subscribers
▲ # Viewers per Ad
▲ # Per Subscriber Fees

# TWN Revenue from Distributors

| | 2013 | 2019 | CAGR 13-19 |
|---|---|---|---|
| Annual Sub Fee | $ 3.60 | $ 3.82 | 1.0% |
| Growth | | 1.0% | |
| | | | |
| Total subscribers (inc. vMVPD) | 100,234 | 92,807 | -1.3% |
| Growth | - | -3.9% | 0.0% |
| | | [redacted] | |
| | | | |
| Subscriber Annual Rev | 360,841,691 | 354,661,102 | -0.3% |
| Growth | - | -2.9% | |
| | | | [redacted] |
| Rate Reset | | -10% | [redacted] |
| Adjusted Revenue | 360,841,691 | 319,194,992 | -2% |
| Change | | (41,646,698) | |



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# TWN Revenue from Advertising

| | 2013 | 2019 | CAGR 13-19 |
|---|---|---|---|
| HHLD Rating | 1.00 | 0.94 | -1.0% |
| Change | | -1% | |
| Viewing HHLDs (000) | 1,002.3 | 873.8 | -2.3% |
| | | | |
| Comm'l Positions Hr | 24 | 24 | 0.0% |
| Hours Day | 16 | 16 | 0.0% |
| Comm's Year | 140,160 | 140,160 | 0.0% |
| Makegoods | -10% | -10% | 0.0% |
| Comm'ls year | 126,144 | 126,144 | 0.0% |
| | | | |
| Cost per Thousand | $ 5.00 | $ 5.63 | 2.0% |
| Growth | | 2% | |
| Revenue per Spot | 5,012 | 4,920 | -0.3% |
| Gross Annual Ad Revenue | 632,194,642 | 620,628,360 | -0.3% |
| Growth | 0.0% | -2.9% | |

# TWN Adjusted Revenue Summary

| Summary | 2013 | 2019 | CAGR 13-19 |
|---|---|---|---|
| Subscriber Annual Rev | 360,841,691 | 319,194,992 | -2.0% |
| Gross Annual Ad Revenue | 632,194,642 | 620,628,360 | -0.3% |
| **Total Network Revenue** | **993,036,333** | **939,823,352** | **-0.9%** |
| | | | |
| NEW BASE | | | |
| Less Rate Reset | | (41,646,698) | |
| Revised Revenue | 993,036,333 | 898,176,654 | -1.7% |
| | | | |
| **Investor Number** | **993,036,333** | **898,176,654** | **-1.7%** |
| Inflation 2013-19 | | 9.7% | |
| Content Buying Power | 993,036,333 | 811,053,518 | -3.3% |
| Change from 2013 | | (181,982,814) | |
| Change from 2013 | | -18.3% | |

# Costs

REVENUES DOWN

COSTS DOWN SAME DOLLAR AMOUNT

## To Maintain Same $ Profit

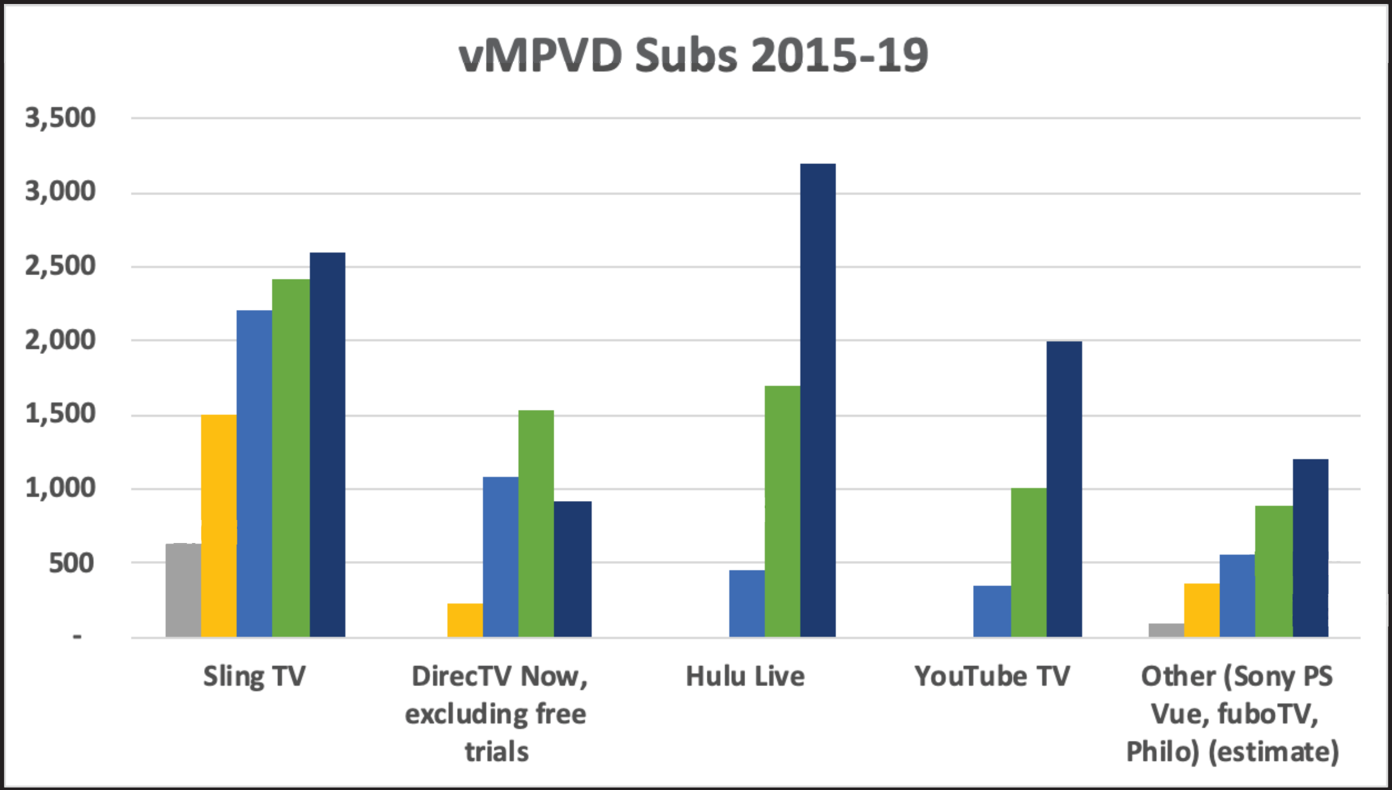
# Pandemic Speeding Change

1. Home Studios Replace Studio Floors
2. Remote Pickups Done Without Crews
3. Remote Control of Technical Equipment

# What We're Learning

1. Tech allows dispersed production.
2. Employees/Talent can do a lot of remote work
3. Trend will allow reduction in facilities & space
4. Need new origination & transmission tech for quality
5. Negatives still to be learned—creative & HR
6. "Anywhere" flexibility is addictive; no going back

# Virtual Alternatives




Data Source:
Moffat/Nathanson



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