



2023 Media Update

Arctos Insights

October 2023

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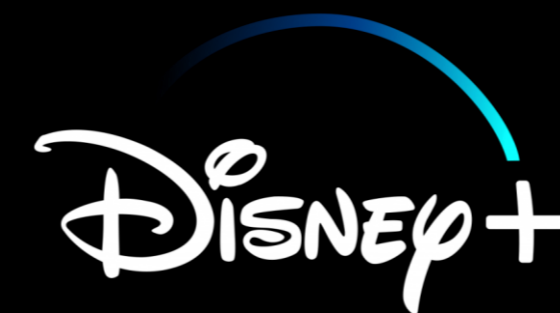
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A (not so) long time ago in a media ecosystem (not so) far,
far away...

STREAM WARS

Episode IV A NEW HOPE

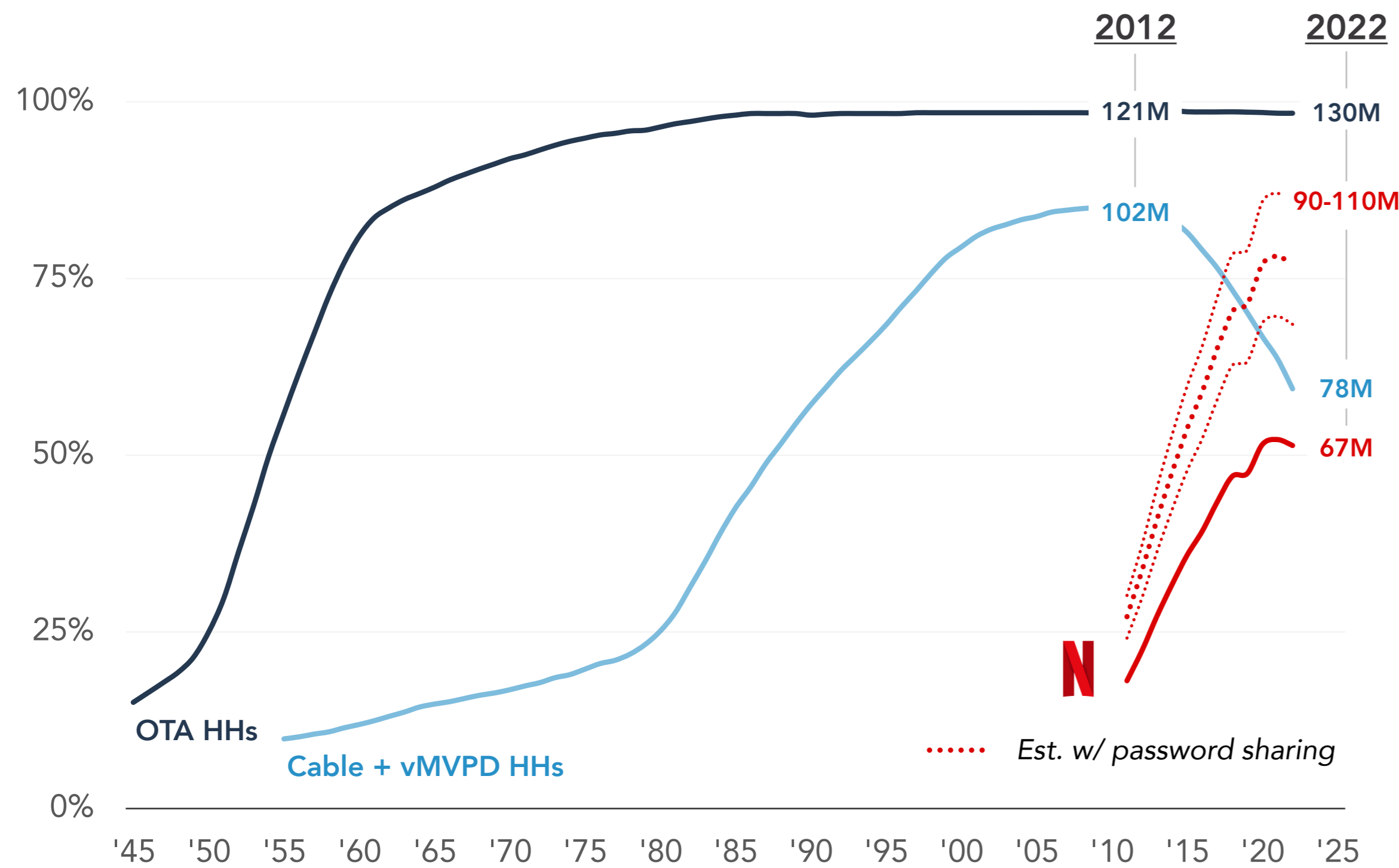
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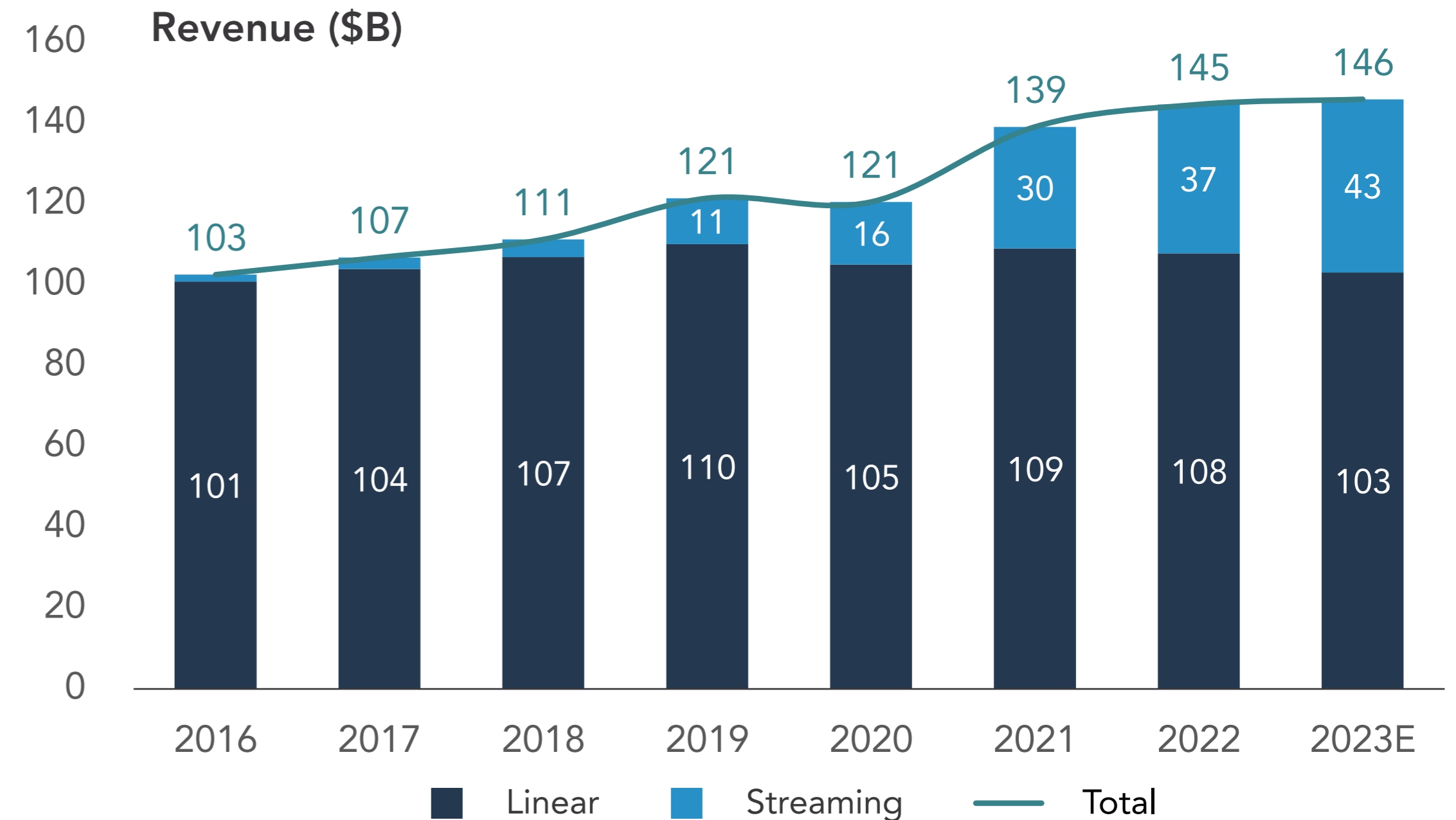
Streaming: A New Hope

In the hey-day of cable, Legacy Media had must-have programming, competition was controlled, and the market was growing. Then came the success of Netflix and advent of cord cutting. Streaming is now a big business for Legacy Media.

U.S. TV Household Penetration by Distribution Channel



Big Five Legacy Media Companies – Revenue (\$B)



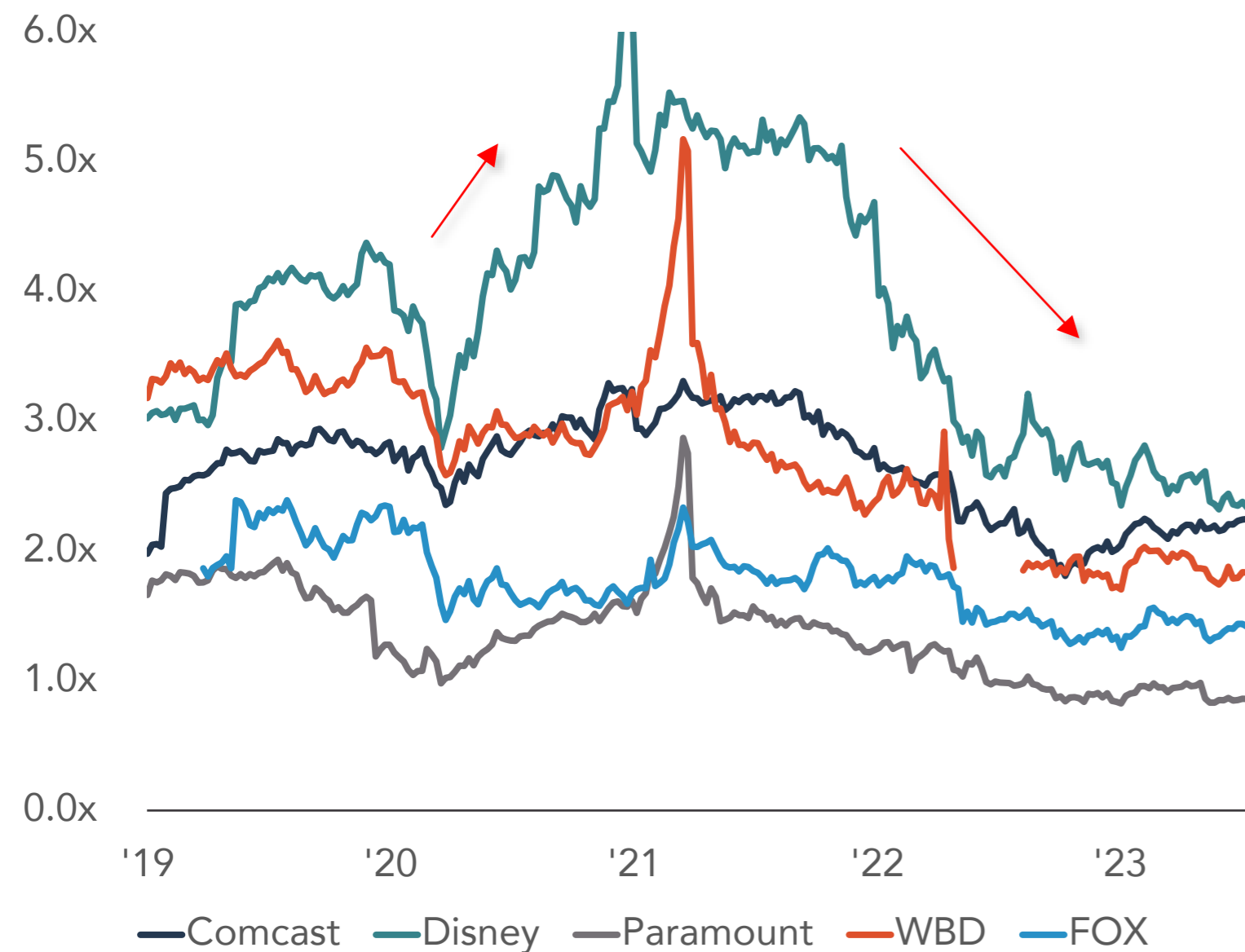
"Big Five" (Legacy Media)



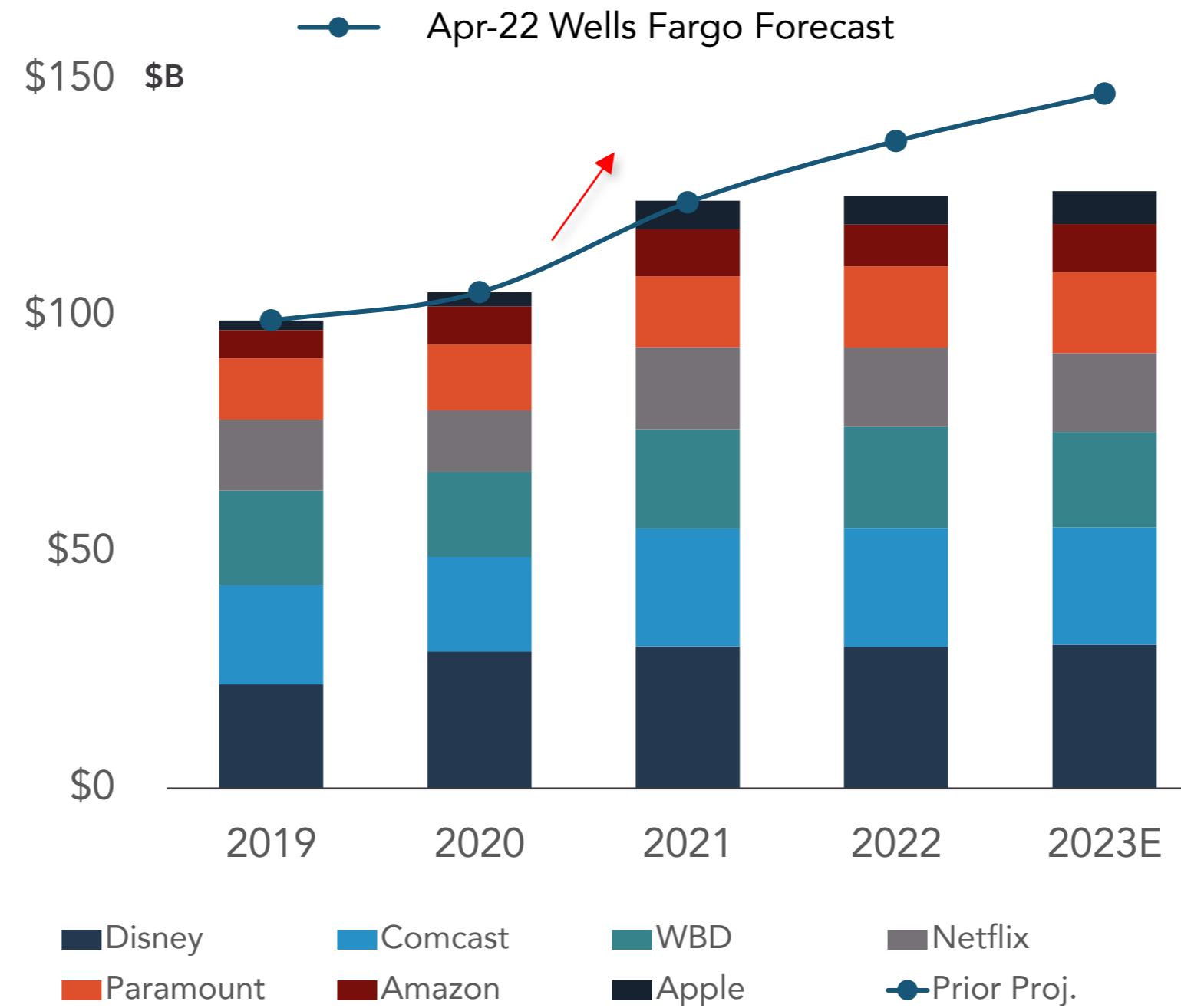
But... Reality Setting In

We are exiting a period where public market valuations encouraged value-destructive competition in streaming, esp. *premium scripted content*, which was Netflix's main source of differentiation. But building a retail touchpoint and withstanding internet competition without Netflix or Big Tech scale is hard, and markets are adjusted to that reality.

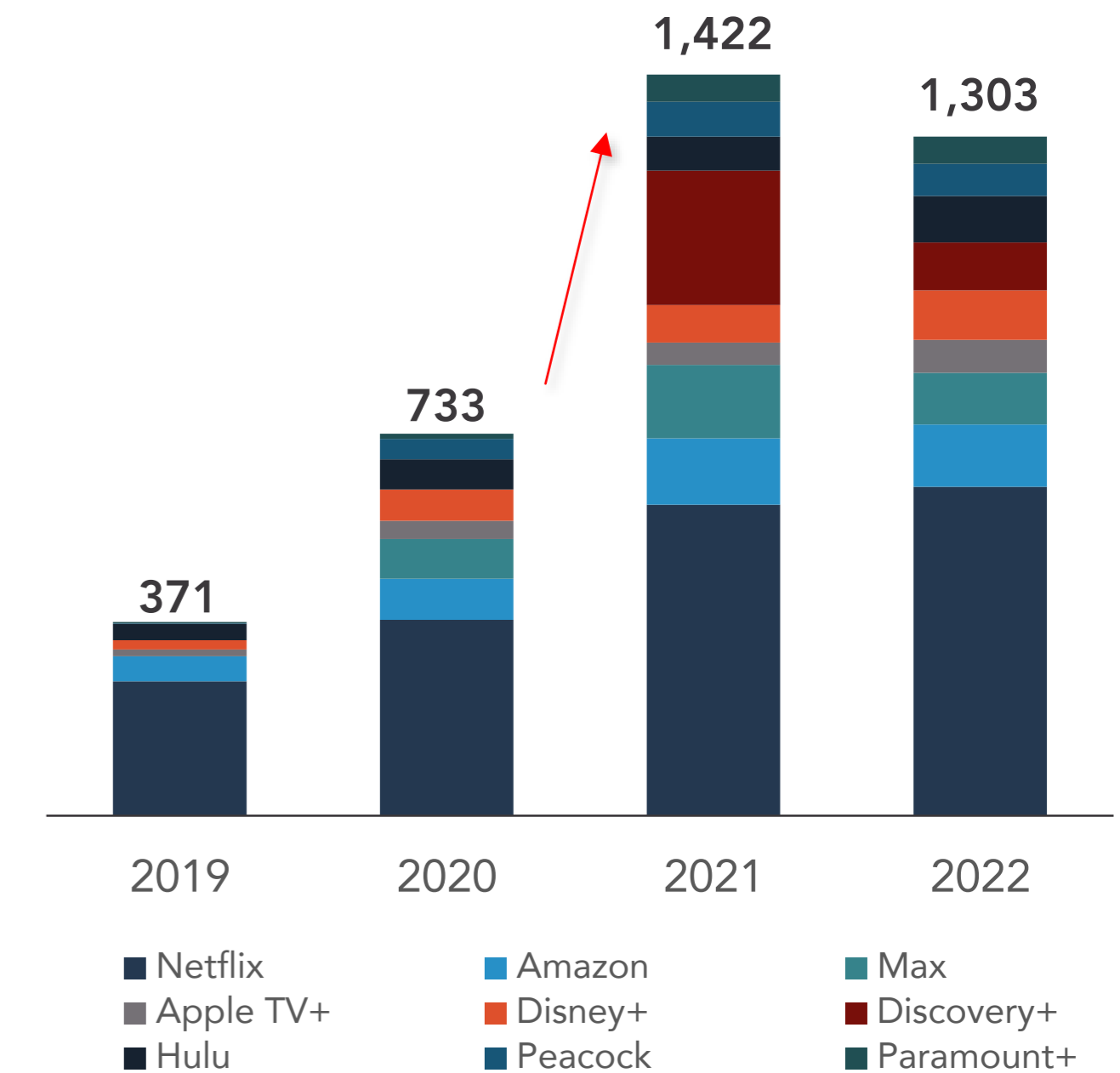
CYE Revenue Multiples



Content Spend vs. Prior Projection



New Original Series

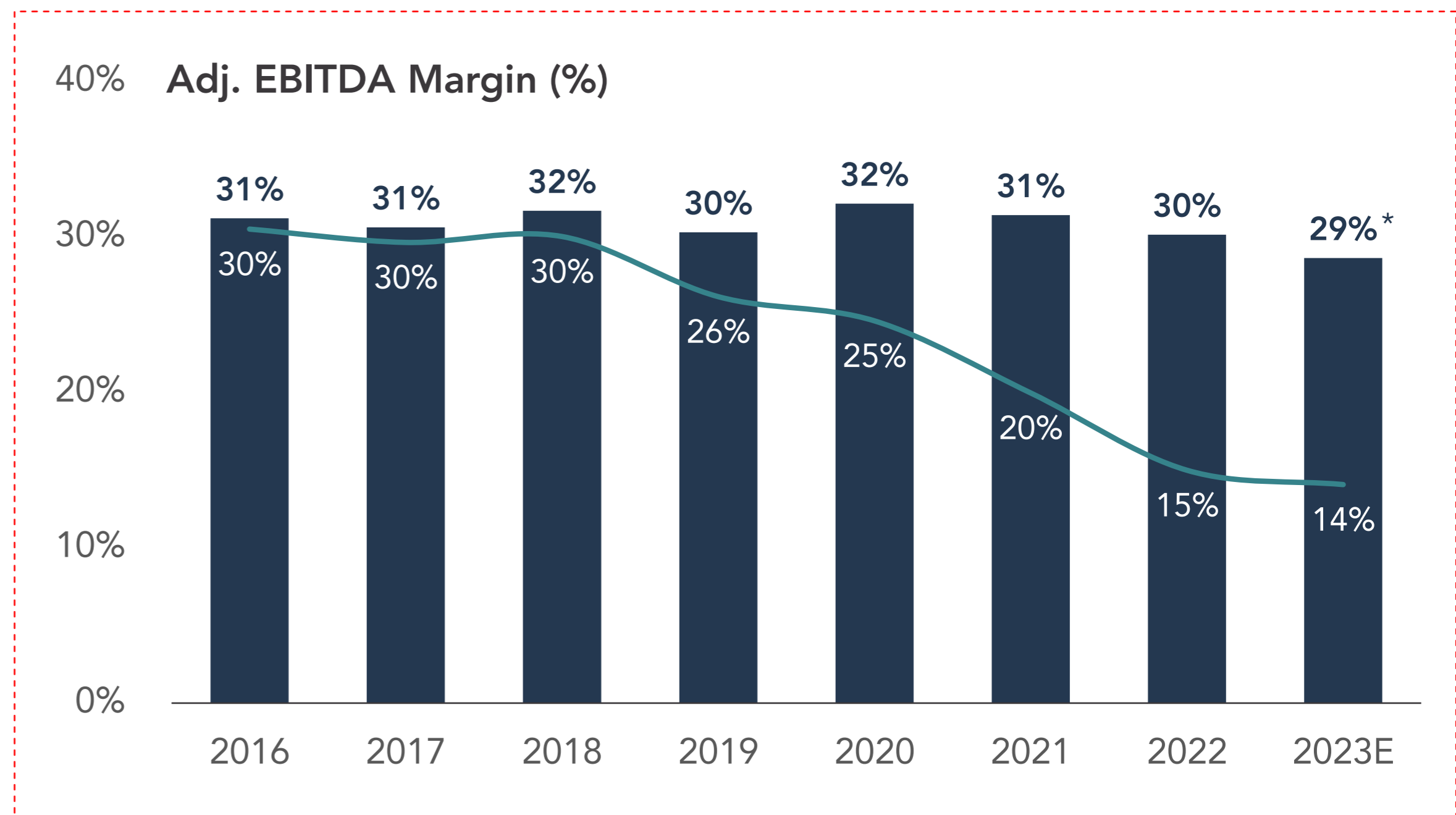
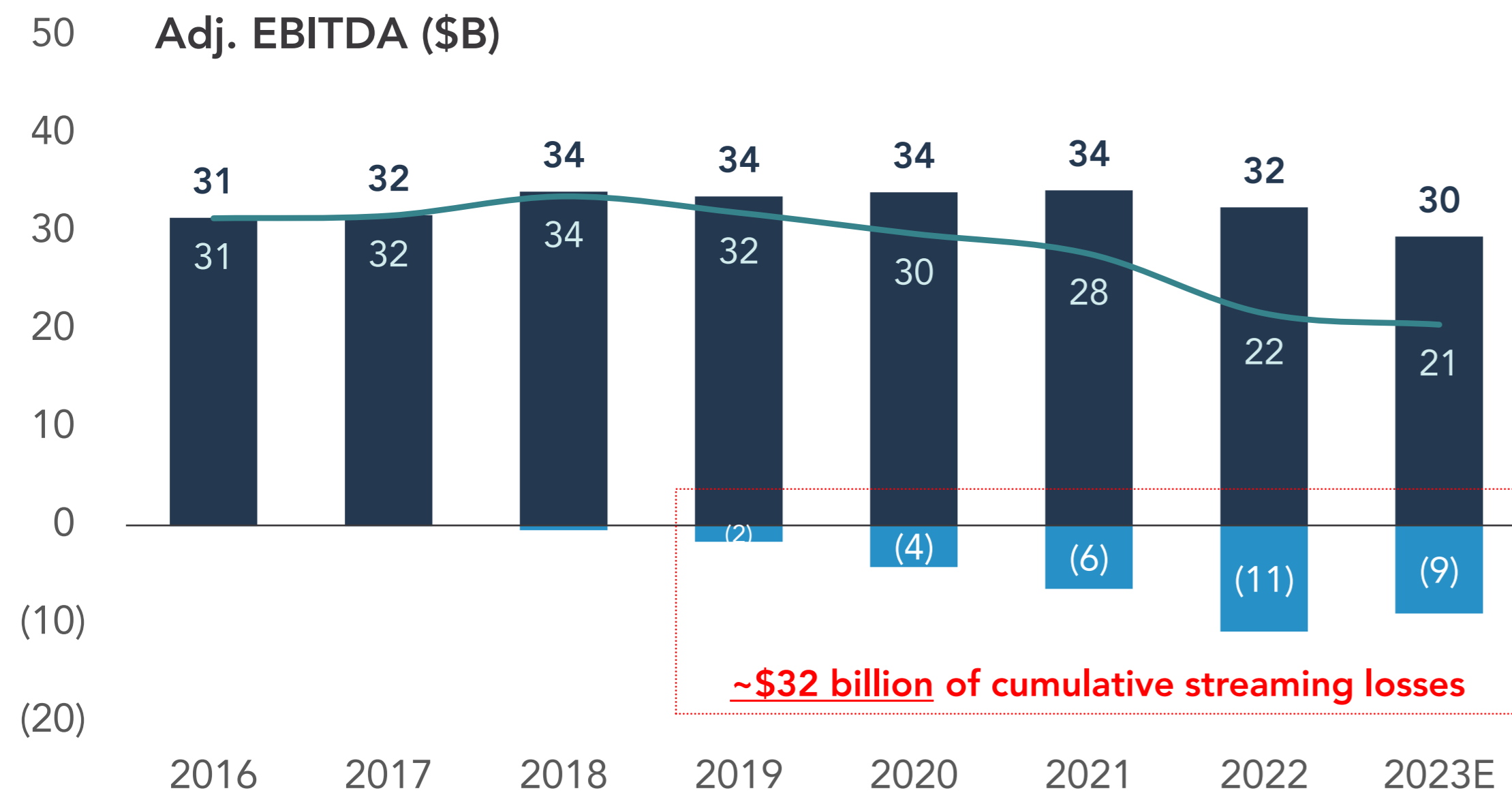


Streaming Is a Tough Business (1/2)

Streaming has accumulated roughly \$30 billion in total operating losses and is currently eating about half of media margins.

■ Linear ■ Streaming — Total

Big Five Legacy Media Companies – Adjusted EBITDA by Segment (\$B)



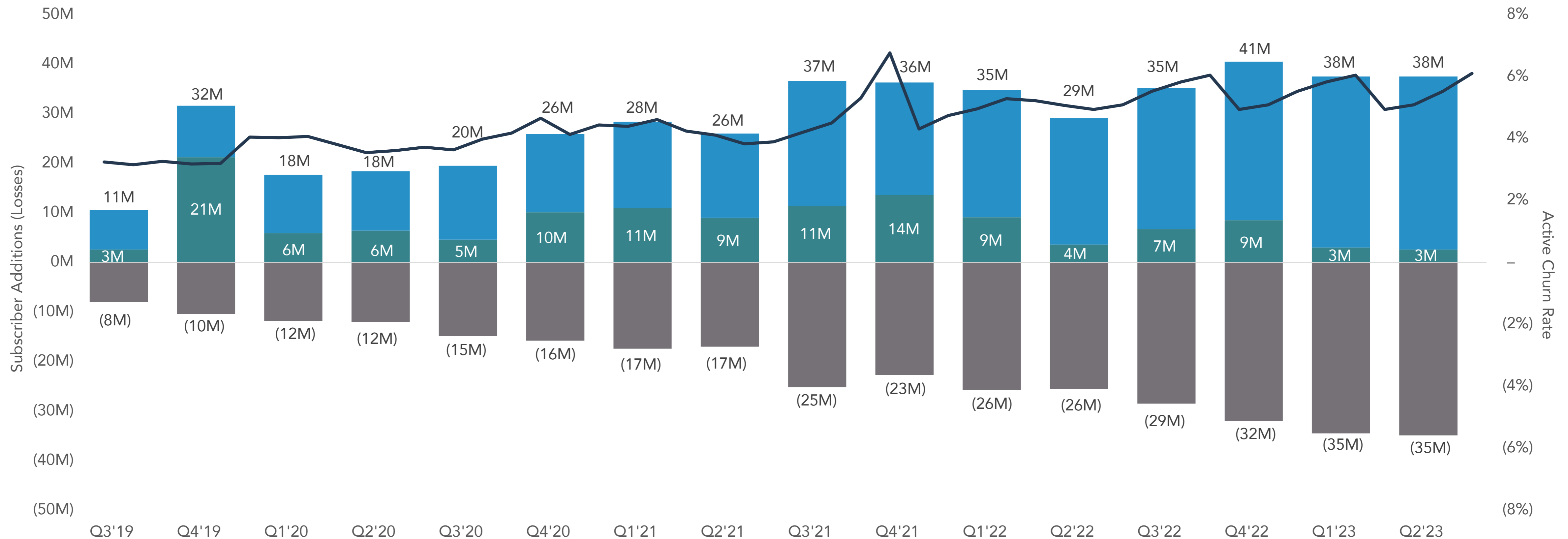
*Linear only margin

Streaming Is a Tough Business (2/2)

Significant churn: a fact of life for streamers.

■ Gross Additions
 ■ Net Additions
 ■ Cancels
 — Churn Rate

Premium SVOD Quarterly Subscription Growth and Churn Rate



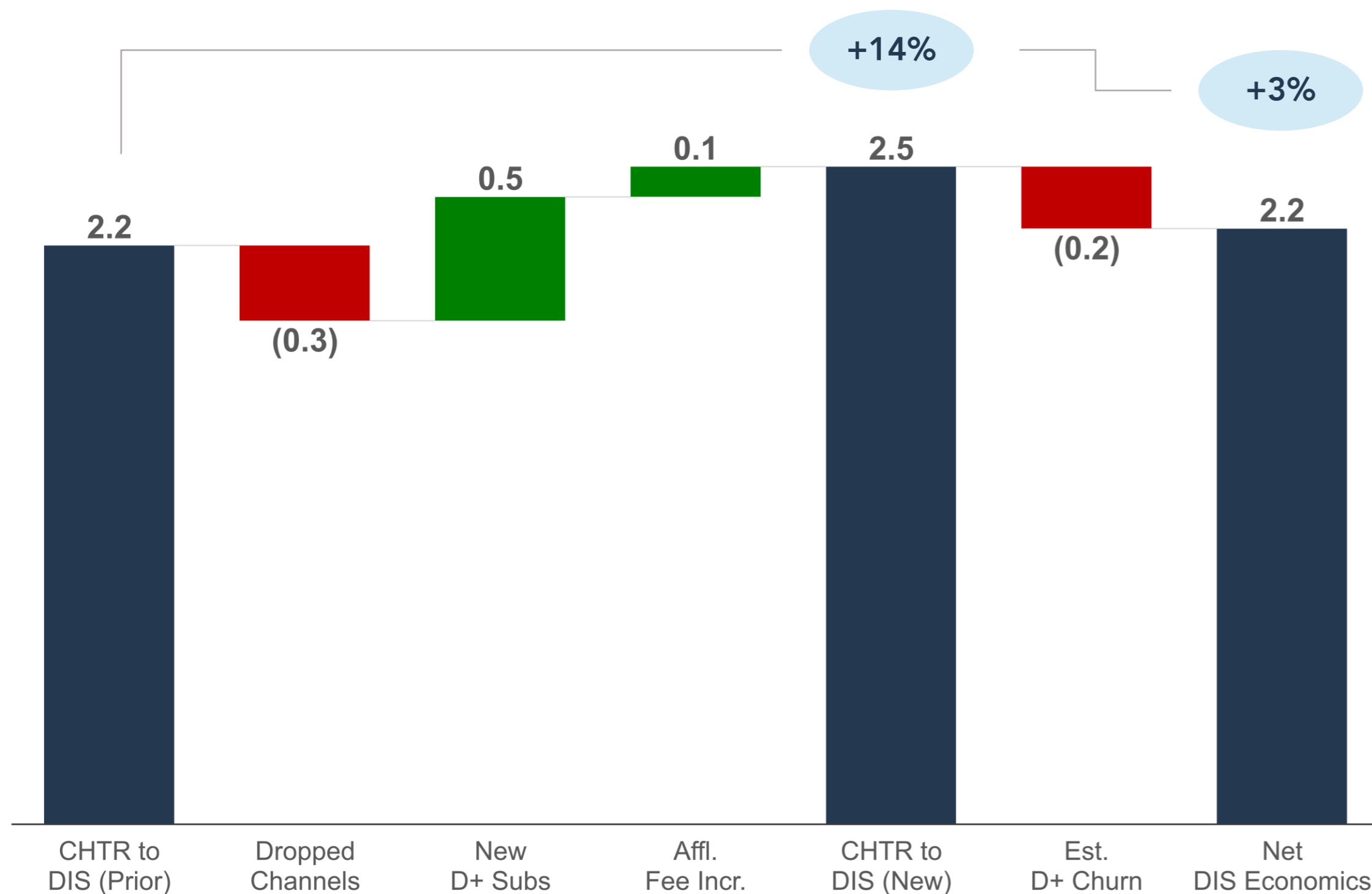
Episode V

*THE DISTRIBUTION EMPIRE
STRIKES BACK*

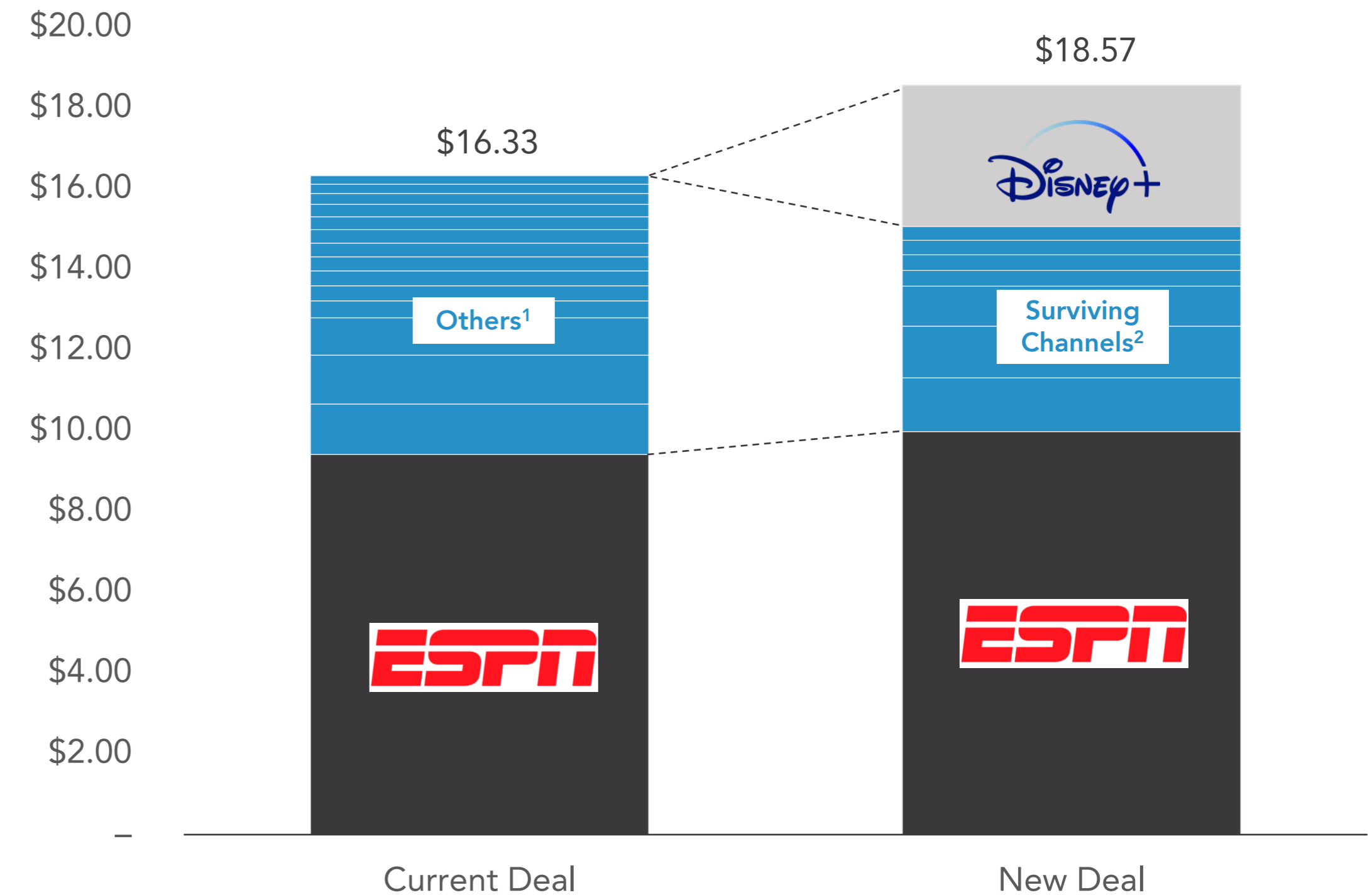
The Distribution Empire Strikes Back: National Rights

Disney got its affiliate fee increase from Charter, but they are now partners vs. competitors. Moreover, Disney will sacrifice Disney+ subscribers on the back-end, i.e., Charter customers were also Disney+ subscribers.

CHTR Annual Distribution Payment to Disney (\$B)



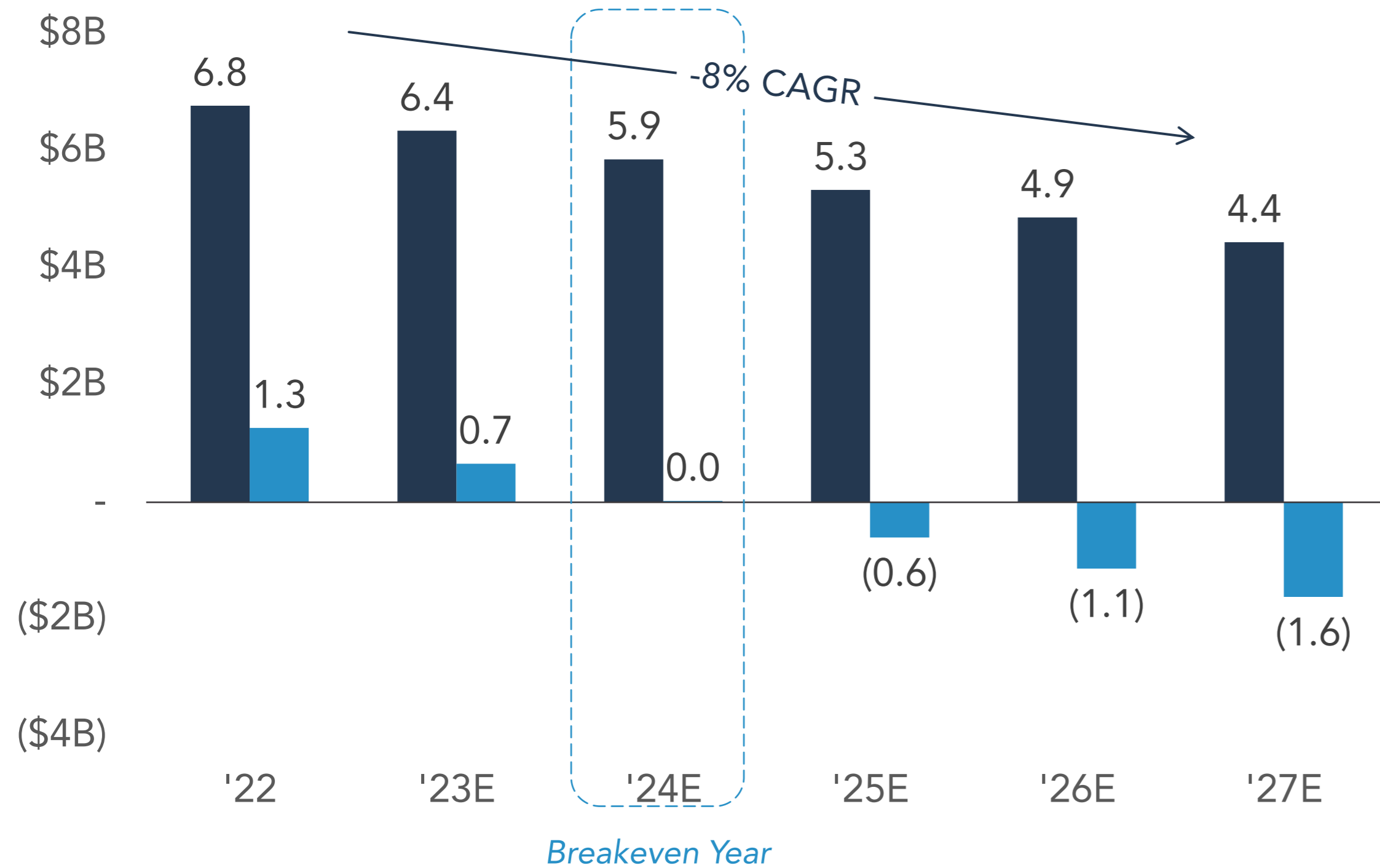
Charter-Disney Affiliate Fees



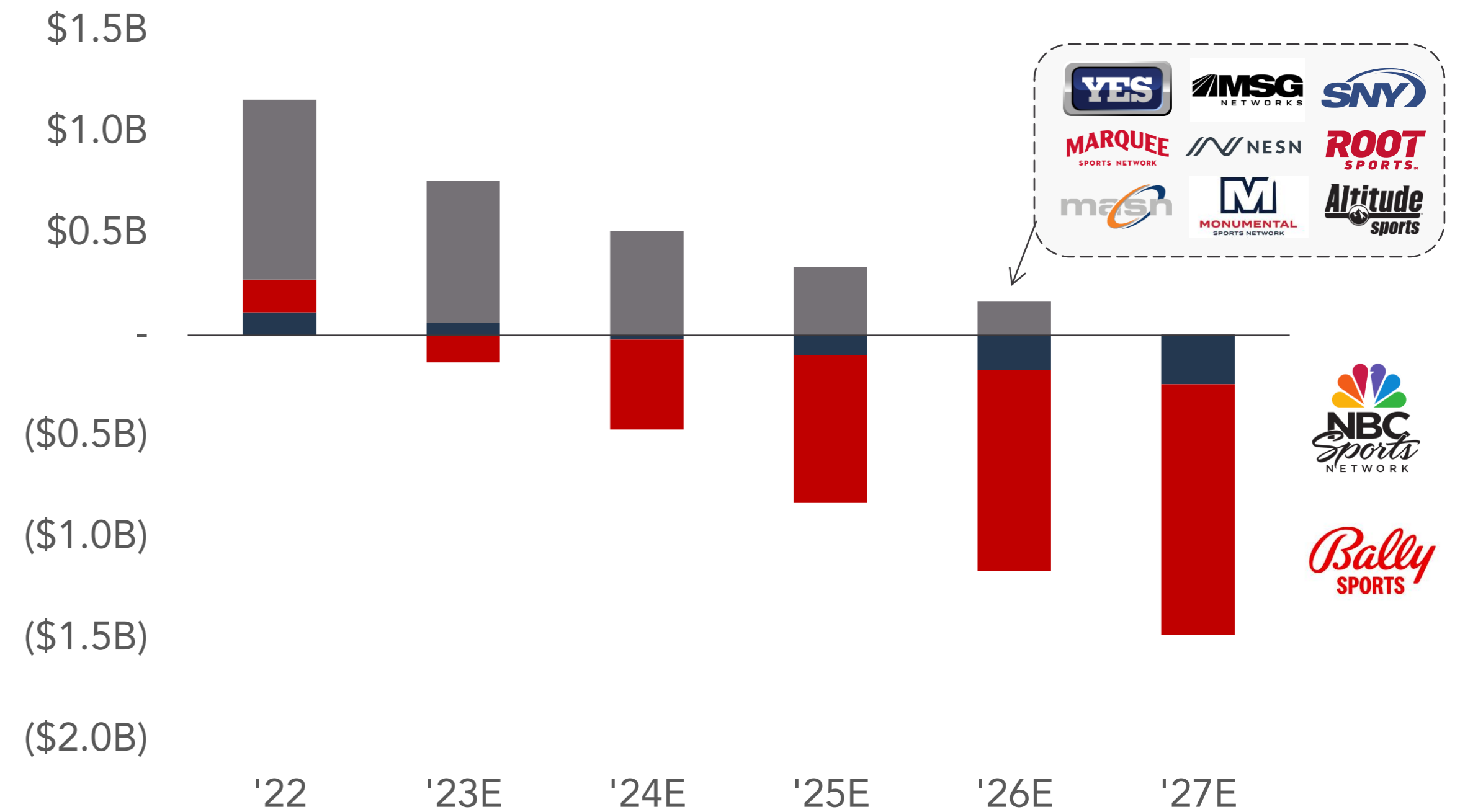
The Distribution Empire Strikes Back: Local Rights

We anticipate the RSN industry will have ~\$0 EBITDA in 2024 at current rights fees, driven by mainly by Diamond Sports Group. The nine independents were 70% of industry EBITDA in 2022 and will be >100% of it this year.

Revenue & EBITDA Run Off With Status Quo Rights



RSN Industry EBITDA w/ Status Quo Rights Contracts



Key Takeaways So Far

1. Network-funded streaming plays have driven irrational competition that is no longer tolerated by distributors and shareholders.
2. Ultimately, we believe networks will allow their streaming products to be included in the basic cable bundle, what we've previously called "The Great Rebundling".
3. The good news: We speculate that, over time, this will reduce and possibly eliminate cord cutting from the Legacy Bundle.
4. The (kind of) bad news: This is the end of the Streaming Wars, and the "Streaming Peace" will represent a marginal loss in competitive pressure for content (though, in our view, mostly scripted content).
5. We believe RSNs will start to see distribution losses due to tiering. This will begin a shift of local games into national packages.

Episode VI

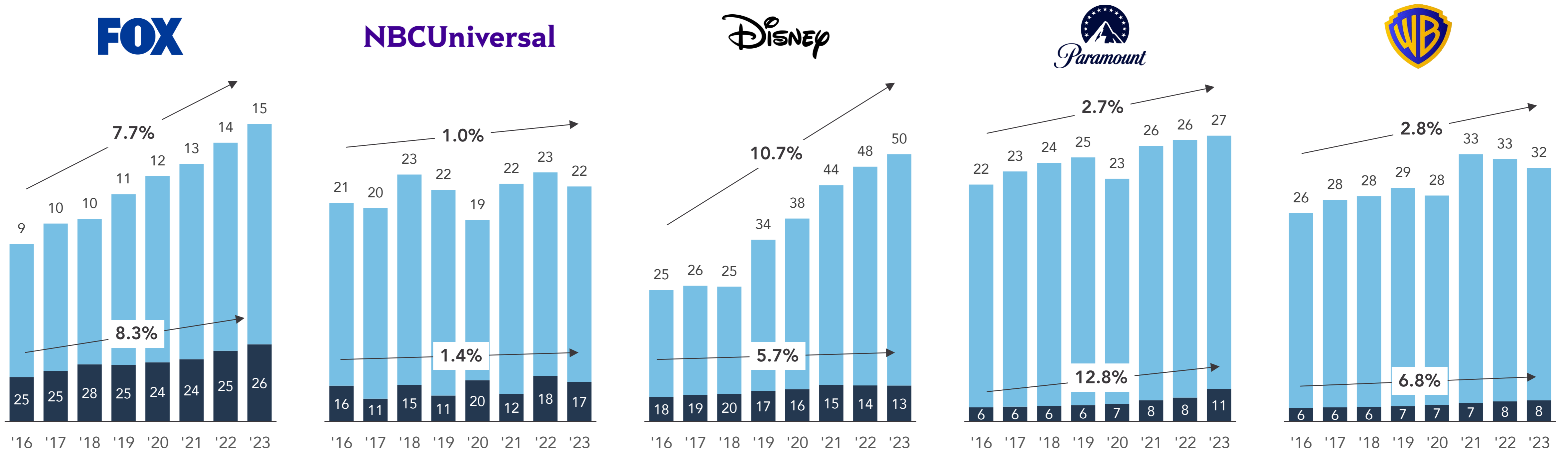
RETURN OF THE BUNDLE(S)

... And what it means for sports

Legacy Media Sports Spend Has Room to Run (1/2)

Legacy media companies are far from tapped out on sports and could easily reallocate premium scripted budget for long-term sports investment.

Legacy Media Revenue (\$B) vs. Sports Spend (%)

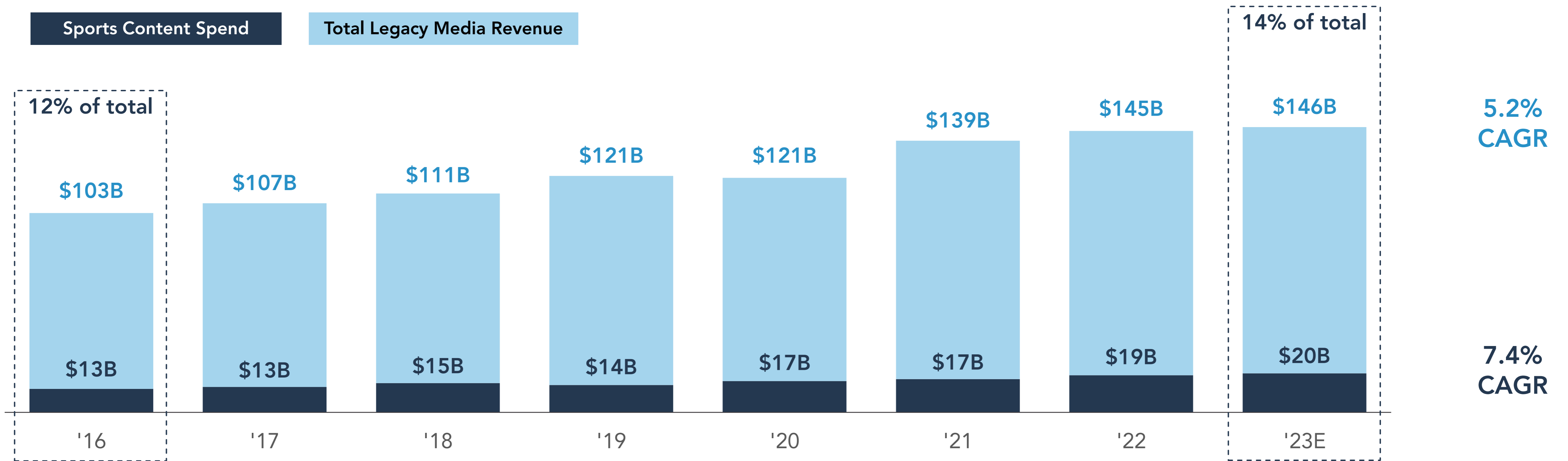


— CAGR —> Sports Content Spend (% of Rev.) Total Media Revenue

Legacy Media Sports Spend Has Room to Run (2/2)

The big 5 legacy media companies will spend about \$20 billion on rights in 2023, roughly the same percentage of their revenue that they spent in 2016.

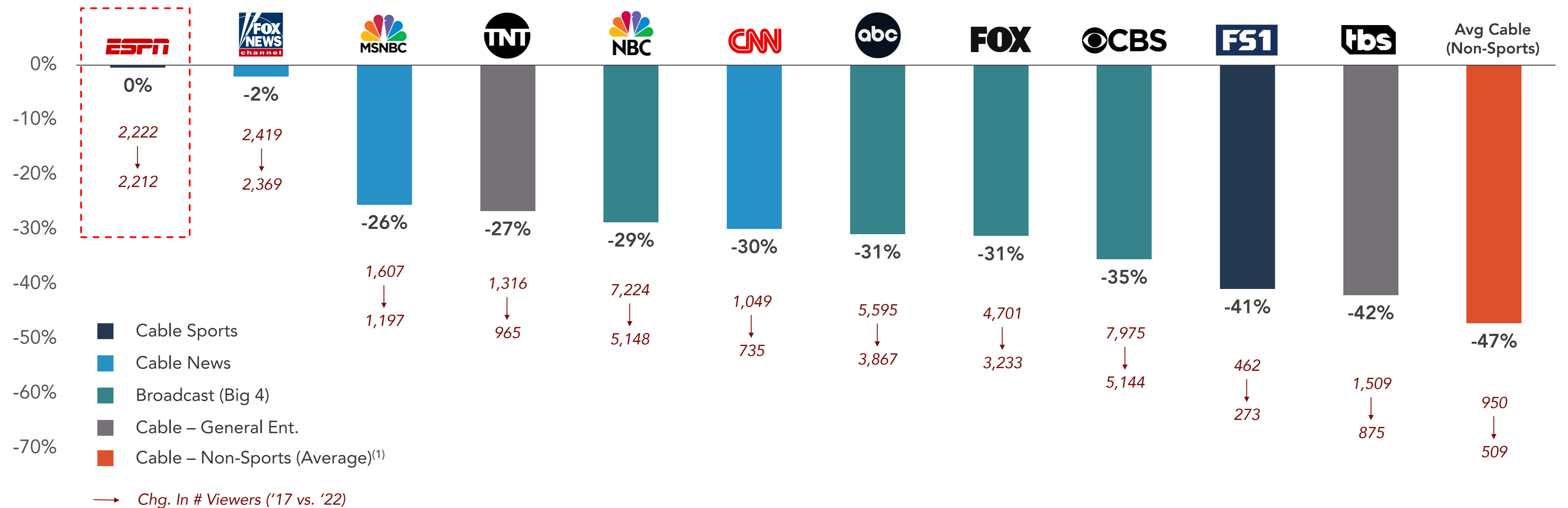
Legacy Media Revenue (\$B) vs. Sports Spend



Sports Might Be the Only Thing Holding the Bundle Together

Legacy media ported most of its premium scripted TV to DTC, which left only live sports and news. While carrying sports on your channel is not a panacea, it likely helped. Being focused on non-premium sports (FS1) or general entertainment has been painful.

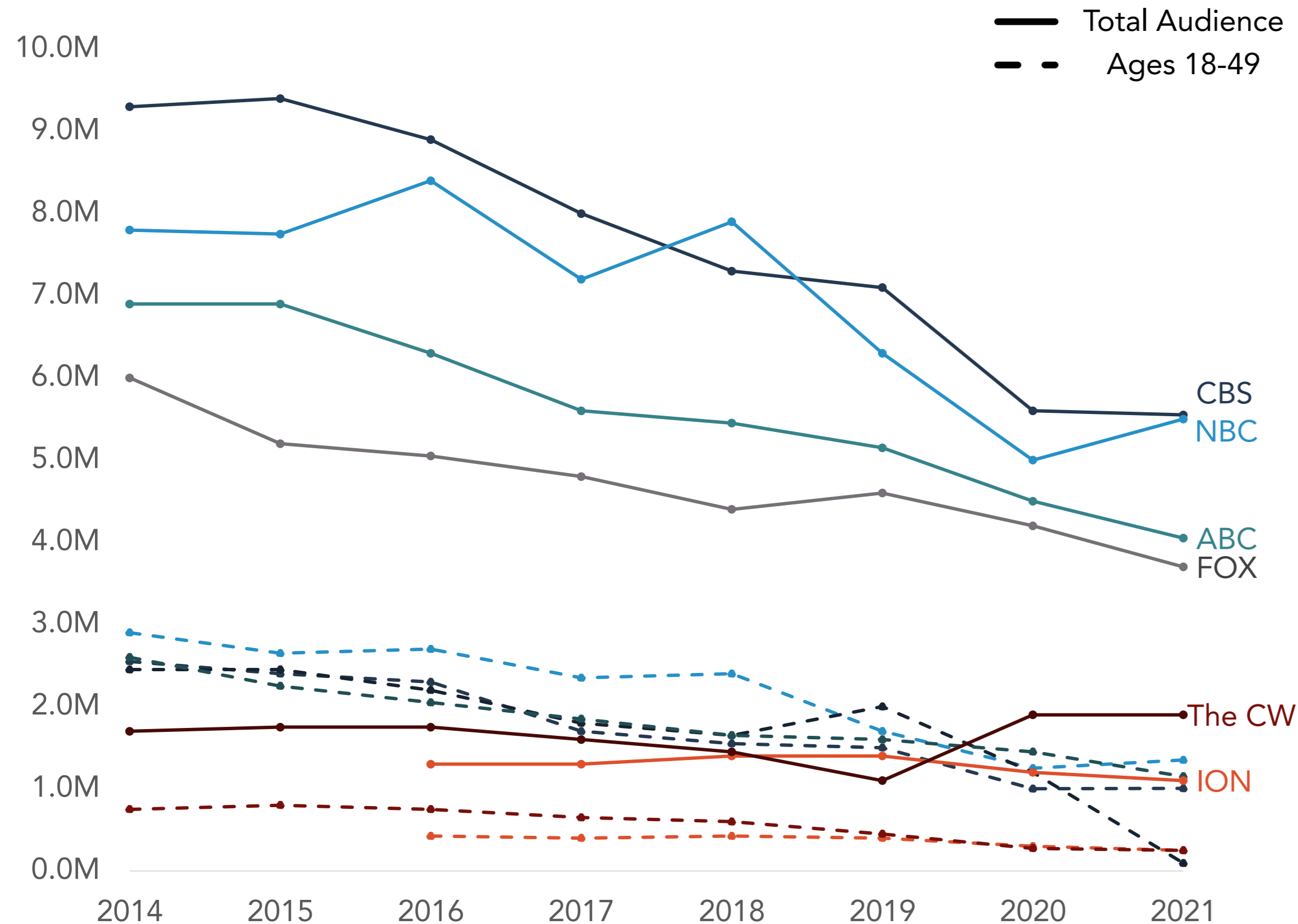
2017 to 2022 Change In P2+ Primetime Viewership, Cable & Broadcast Channels



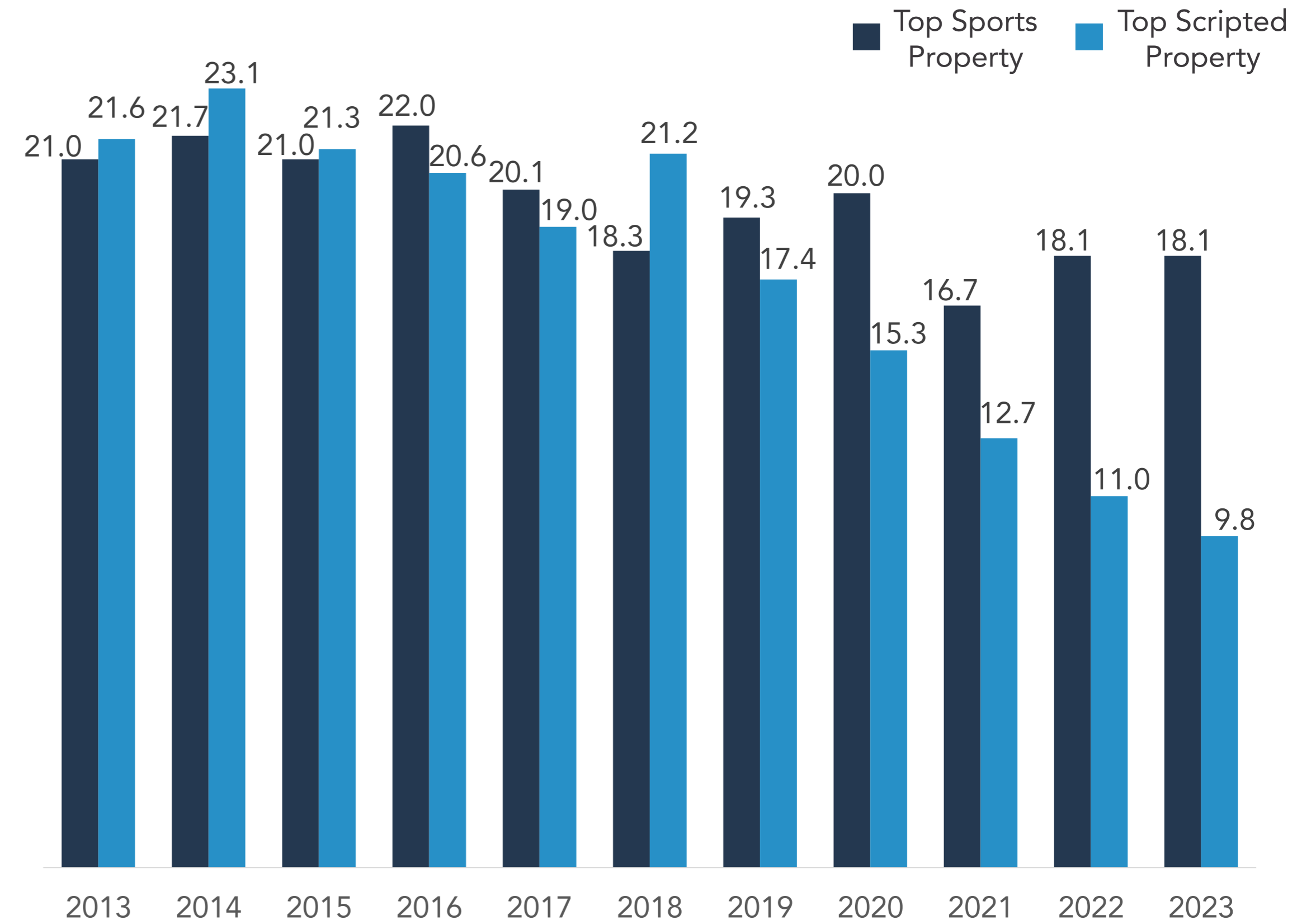
Scripted TV Has Fallen Far

The marginal primetime draw on broadcast is now clearly premium sports. Broadcasters are coming in; ABC will simulcast Monday Night Football from its sister cable network ESPN, because there is no alternative. Sports has inherent advantages over scripted: costs are not open-ended, and sports have built-in appeal and are evergreen in popularity.

Broadcast Networks Average Primetime Viewership



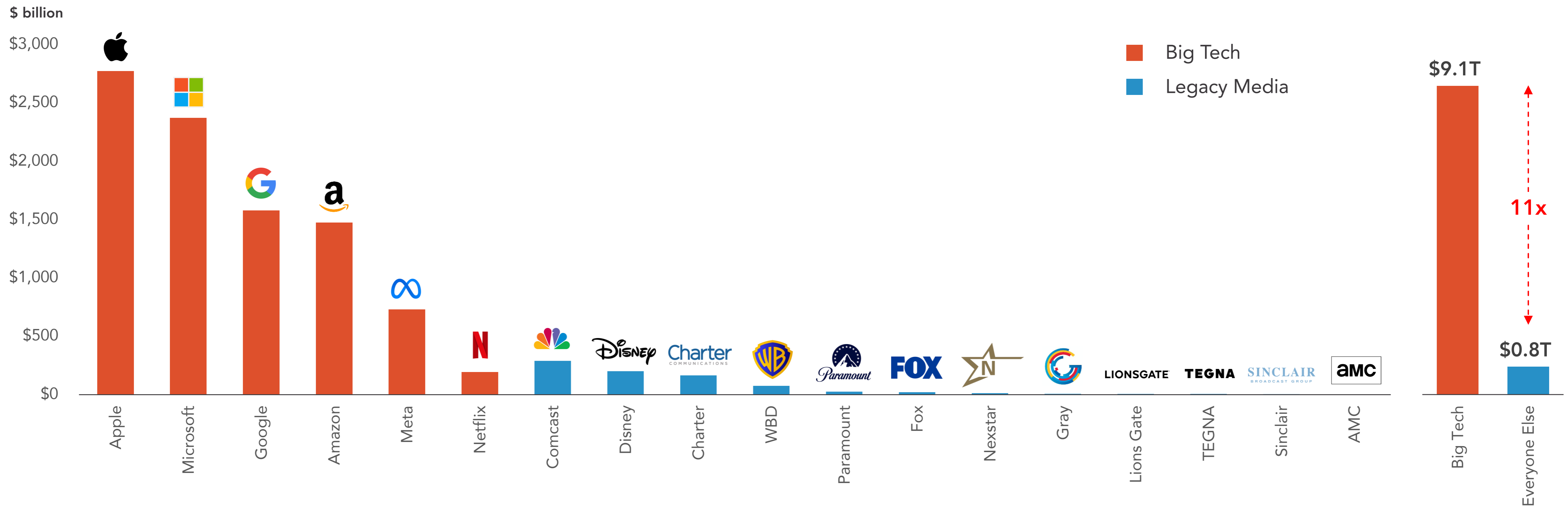
Most-Watched TV Series on Broadcast Networks



Big Tech Is a Stalking Horse & Dwarfs Legacy Media

Big Tech (6 companies) is ~11x the size of the rest of the dominant media & entertainment players combined (12 companies). We don't expect many direct acquisitions, but competition is already here.

Media Companies vs. Big Tech: Enterprise Value (\$B)

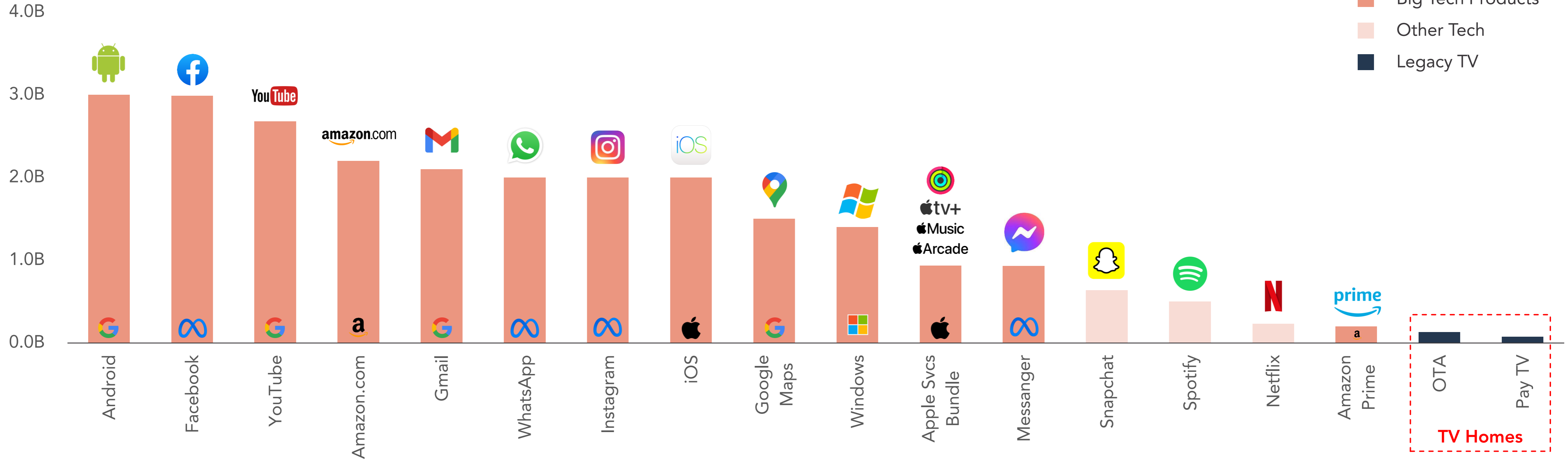


Big Tech (+Netflix) Is the Ultimate Reach Vehicle

Big Tech products are much bigger and more global than the traditional rights buyers for domestic sports. The push for leagues to internationalize is enabled by of global distribution of these platforms – hard to imagine a better way.

MAUs / Subscribers – Big Tech Ad Platforms vs. Legacy TV Ecosystem

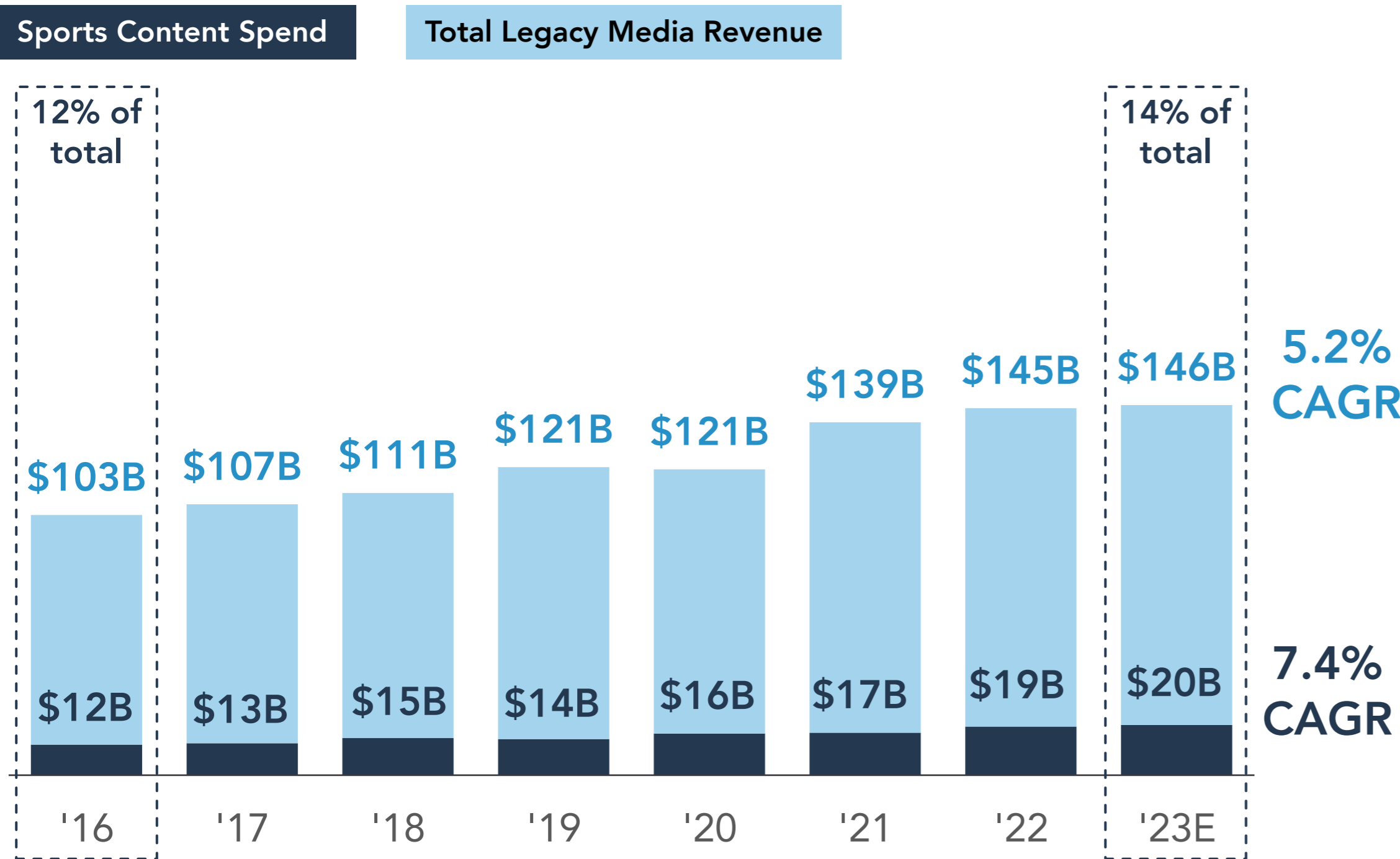
Subs / Monthly Active Users (#)



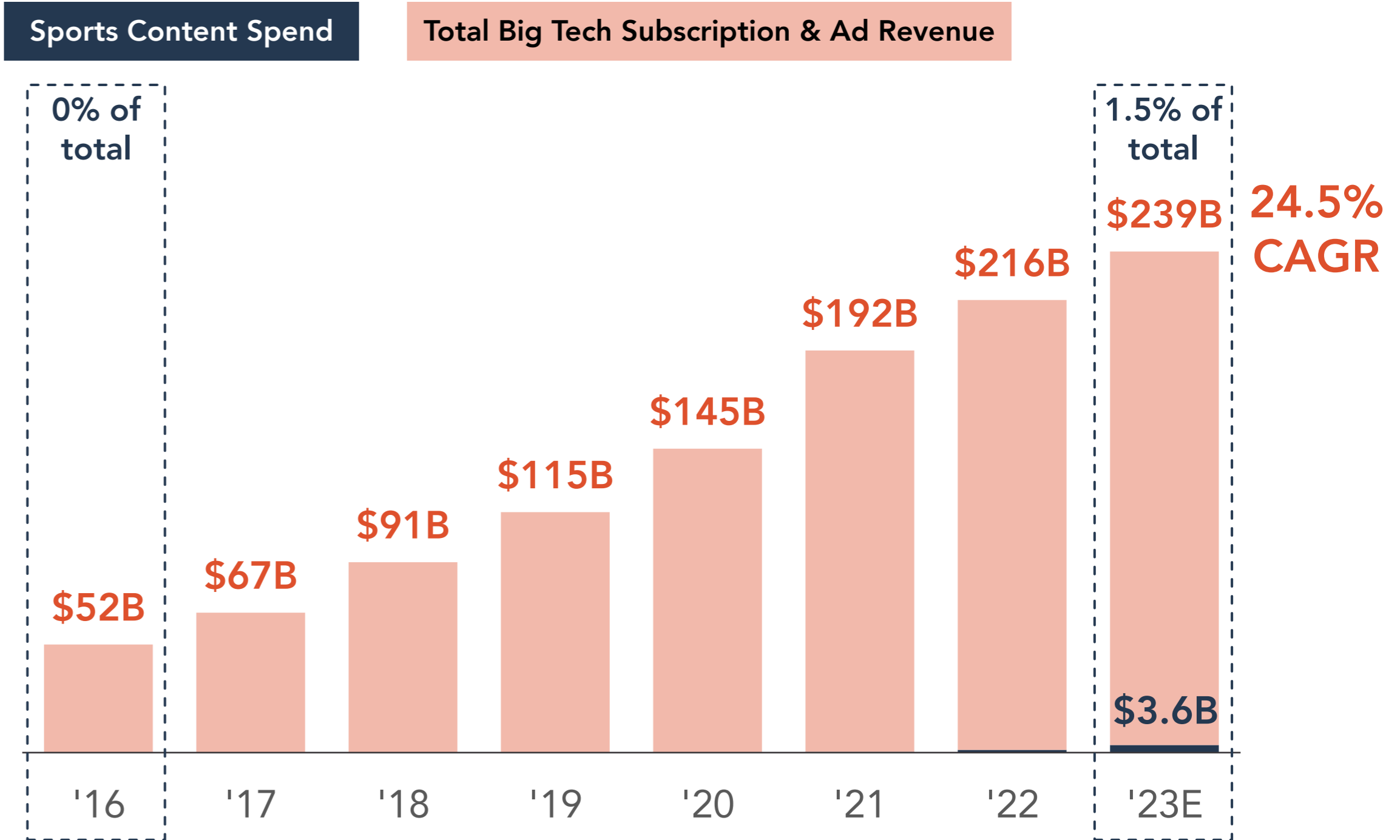
Big Tech Has Even More Headway Than Legacy Media

Legacy sports media players are spending roughly the same amount of revenue on sports rights that they spent in 2016. Relative to revenue that sports programming is meant to support – Big Tech has barely scratched the surface in sports.

Legacy Media Revenue (\$B) vs. Sports Spend

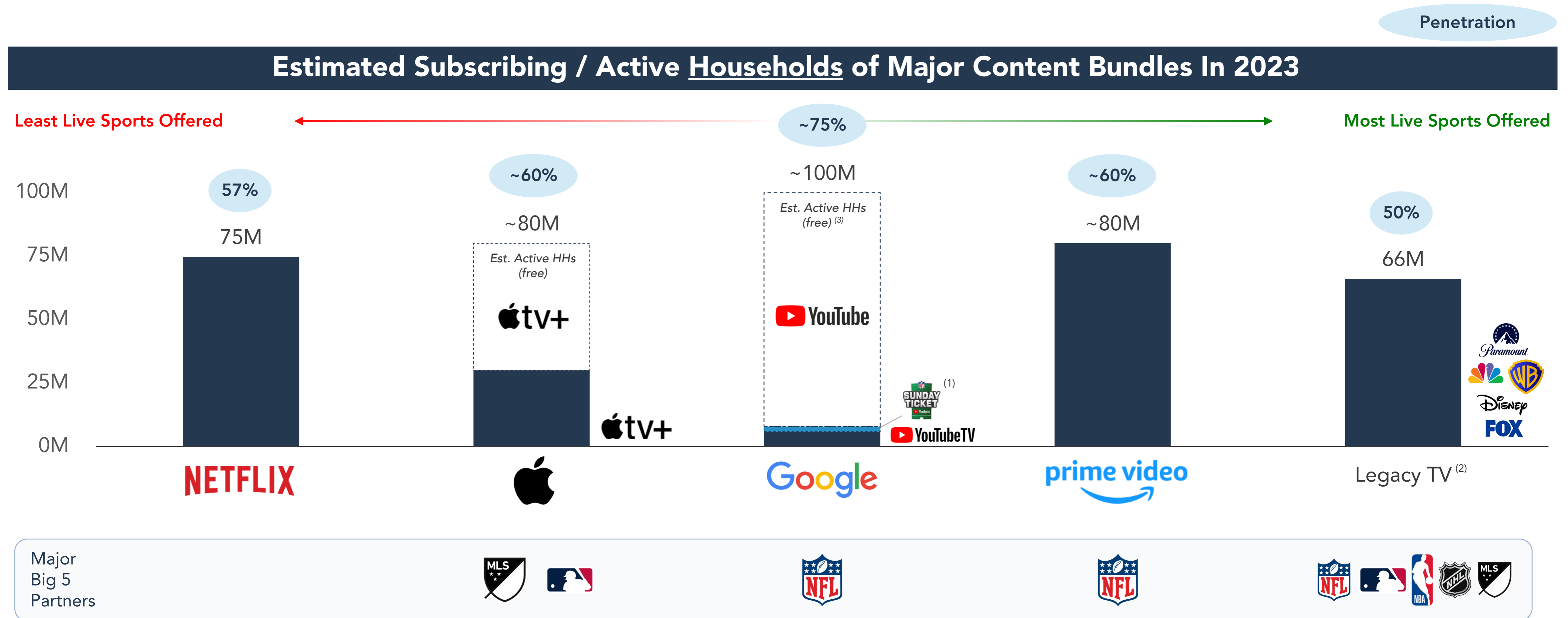


Big Tech Sub. & Ad Revenue (\$B) vs. Est. Sports Spend



Battle of the Bundles: The Emerging Landscape of Media Competition

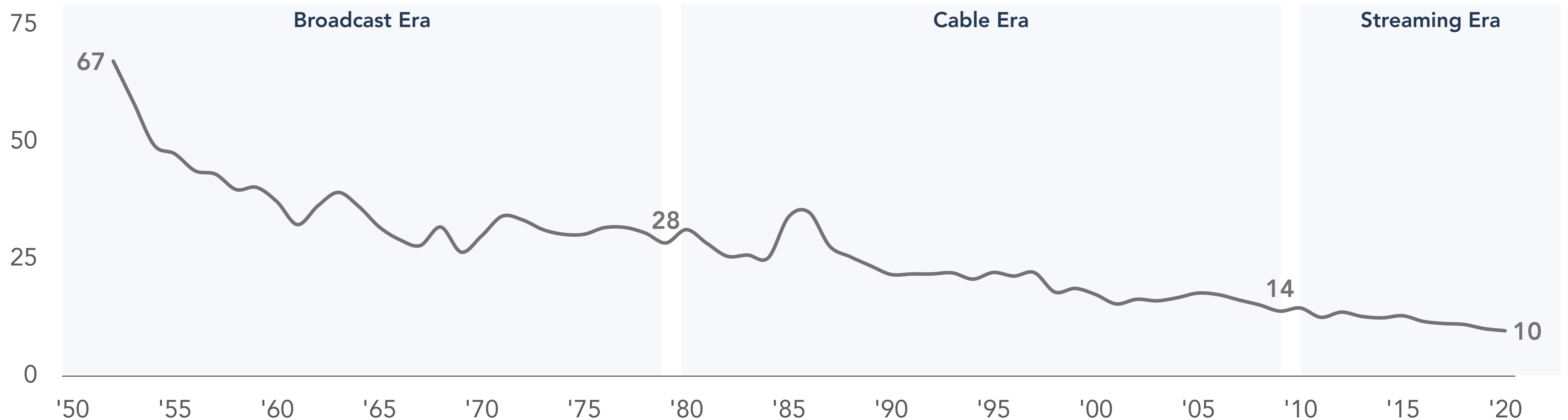
We believe main locus of competition will shift from “who will win streaming” to “who will win video”. Legacy Pay TV is currently all linear video but should rebundle loss-leading streamers like HBO Max, Peacock, and Paramount+ over time.



The Big Secular Trend of Media: Audience Disaggregation

Consumer preferences have been breaking apart for decades, whether we were in a broadcast, cable / satellite, or streaming era. Each technological paradigm for video distribution has taken about 30 years to play out. **Sports**, as the last great audience aggregator, will matter in the streaming era just as much – if not more – as it has in the cable era.

Average Nielsen Rating for Top Rated U.S. TV Show



Key Takeaways

1. We are transitioning from the Stream Wars and into the Battle of the Bundles.
2. The Legacy Bundle is hooked on live sports content and has significant spending room, especially as hyper-competition with scripted content eases.
3. On top of that, live sports enjoys uniquely threatening competition in the form of multiple Big Tech bundles. Their room for growth in sports is even more significant.
4. The Great Rebundling is a headwind for the content business generally. And the end is nigh for RSNs. But overall, our outlook for premium sports rights remains strong.

Our Advice for Leagues

- A drop in competitive pressure for rights and the decline of RSNs is stressful, but the white space to both grow rights fees and innovate on the media product is high.
- Feed all hungry mouths, including Legacy TV. There has never been more potential rights bidders around the table, from all walks of life: broadcast, cable, streaming, and Big Tech.
- Nationalize as many local games as possible for exploitation in the national market.
- Cultivate Big Tech. We benefit from an engaged and heavily interested Big Tech bidding group. We believe the potential for product innovation and fan engagement remains largely unexplored.

Our Advice for Teams

- Do not sign long-term RSN or broadcast deals in this environment – stay short-term.
- Stay close to your league on local rights strategy.
- Budget appropriately. Starting in FY24, rights fees should start to decline.
- Accept volatility over the next 2-3 years – and longer for some teams – as the RSN ecosystem withers. For some teams, there will be some pain.
- In the interim, do what's cleanest for your fans. If you can stay on your incumbent RSN, do that – fans know where you are. If you must do a broadcast deal, just make sure fans know where to find you, and focus on experience in-venue for your fans and sponsors. Stop gap solutions are not worth the distraction.



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