

Yet another guide to media stocks, a quick update \$CBS

Hi, I just wanted to post a quick update on my post on the Networks from earlier today.

The post included the chart below. I highlighted that I had doubts about the CBS number, but directionally it was probably fine for the point I was making so I went with it.

| Network Owner | Affiliate Revenue per Average Sub/Month 2018 (\$) |
|---------------------|---|
| Walt Disney Company | 16.10 |
| AT&T Inc. | 6.51 |
| Comcast | 5.89 |
| Viacom Inc. | 4.51 |
| Fox Corp. | 3.46 |
| Discovery Inc. | 3.19 |
| AMC Networks Inc. | 1.35 |
| CBS Corporation | 0.42 |

In hindsight, that was too glib and pretty lazy of me. The CBS number is just way too low; I knew that but I didn't highlight it strongly enough. I don't want people thinking "CBS gets pennies per sub," so I wanted to run a correction.

The AMC number is probably roughly right. A simple check is

AMC had ~90m subs in 2018 and had \$1.47B in distribution revenue (see p. 38 of 10-k). That works out to ~\$1.35/sub/month.

The right number for CBS is probably between \$2-\$3/sub. Networks generally don't make figuring out how much they get paid per sub easy (if they did, every distributor they negotiated with would know and use that against them), but you can spot check that number a few ways.

1. SNL Kagan (industry research experts) has put out estimates of network retrans before.
2. You can spot check the number against the financials of the various cable channels and broadcasters. This isn't an exact science, since they don't disclose perfect numbers, but it's useful as a check. For example, NXST's 2018 10-k discloses they reached 42.7m households, and retrans revenue for NXST in 2018 was \$1.12B. That works out to just under \$2.20/sub/month. That's not a perfect number for a variety of reasons (NXST has some small deals in 2018, in several markets they control more than one station, etc.), but again, it's directionally correct and helps support their numbers.
3. It meshes with the numbers we've seen on the few occasions the networks have explicitly put a number out there. For example, at CBS's 2016 investor day, they disclosed they expect to get <\$3/month/sub in retrans revenue by 2020, and \$2/month in reverse retrans.
 1. Yes, 2016 is a while ago, but it's useful as backup and CBS has consistently stuck with that revenue target.

RETRANS & REVERSE COMP

\$2.5B OPPORTUNITY Out-of-Home Rights

RETRANS

<\$3/sub/month

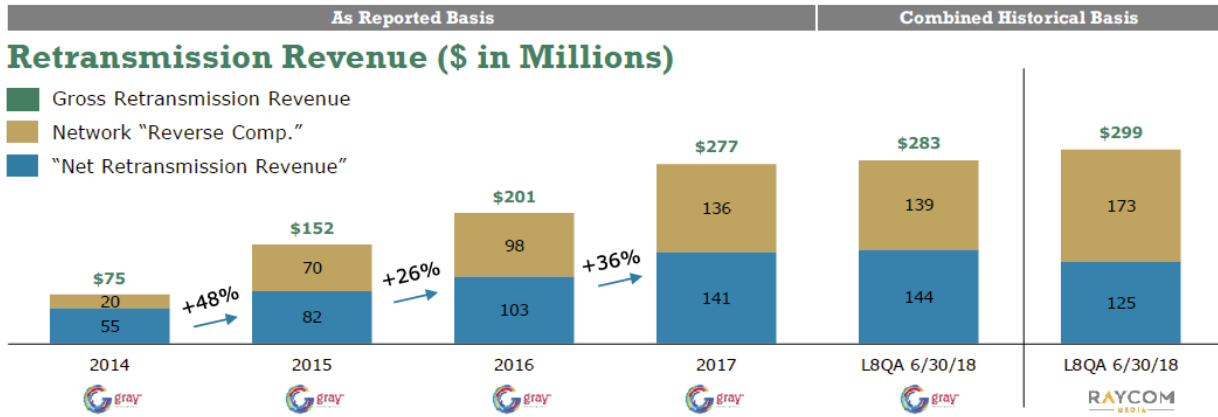
REVERSE COMP

<\$2/sub/month

Anyway, my bottom line here is I didn't like how I left the AMC / CBS section in the original post. The general thesis holds: AMC and CBS are getting pretty similar retrans numbers despite CBS's shows being far, far more watched, but I wanted to provide an update with some more accurate numbers.

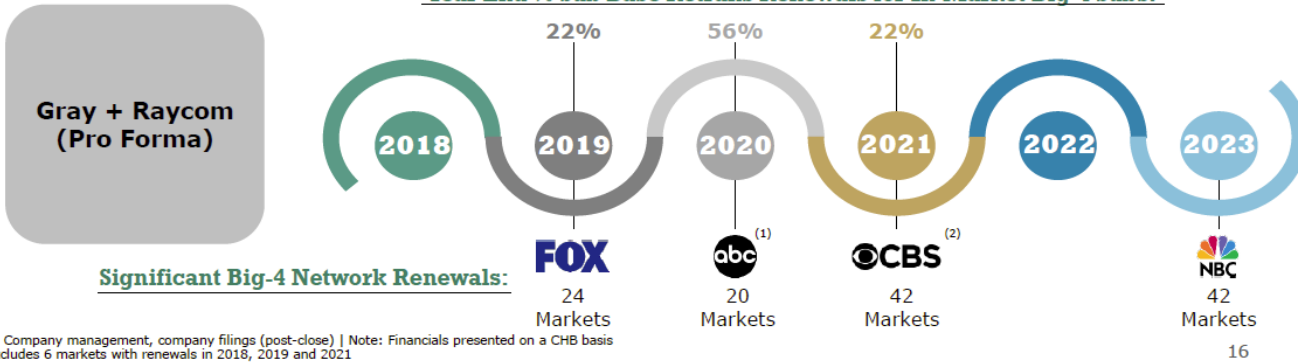
0, one more thing while I'm here. I think I've shared this chart before, but I wanted to throw it out there because it expresses my reasoning for liking the networks more than broadcasters so well. The chart below is from Gray (GTN) and shows retrans over time. Over ~five years, Gray's retrans revenue grew really rapidly, which is great if you're an investor! However, the percentage gray kept ("net retrans") dropped from ~75% in 2014 to ~50% by 2018 (and lower after factoring in the Raycom deal). I suspect the networks deliver significantly more than 50% of the value of a broadcaster, so overtime I'd expect that percentage to continue to tilt in network's favor.

Gray Excels at Retransmission Revenue



e: Figures are prior to impact of KDLT acquisition and other divestitures

Year End % Sub Base Retrans Renewals for In-Market Big-4 Subs:



Source: Company management, company filings (post-close) | Note: Financials presented on a CHB basis
 Excludes 6 markets with renewals in 2018, 2019 and 2021
 Excludes 2 markets with renewals in 2020