THE FTI DELTA PERSPECTIVE

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The Future of Broadcasters

What lies ahead?

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The size and diversity of content libraries, consumers' purchasing power and evolving digital consumption habits have influenced users' preferences for certain video or TV services. Video streaming gained traction in recent years while cord-cutting continued in many markets. Traditional U.S. video households (comprising broadcast, cable and telcos' pay-TV offering) have been on the decline for a while, and FTI Delta expects this trend to persist over the next six years.

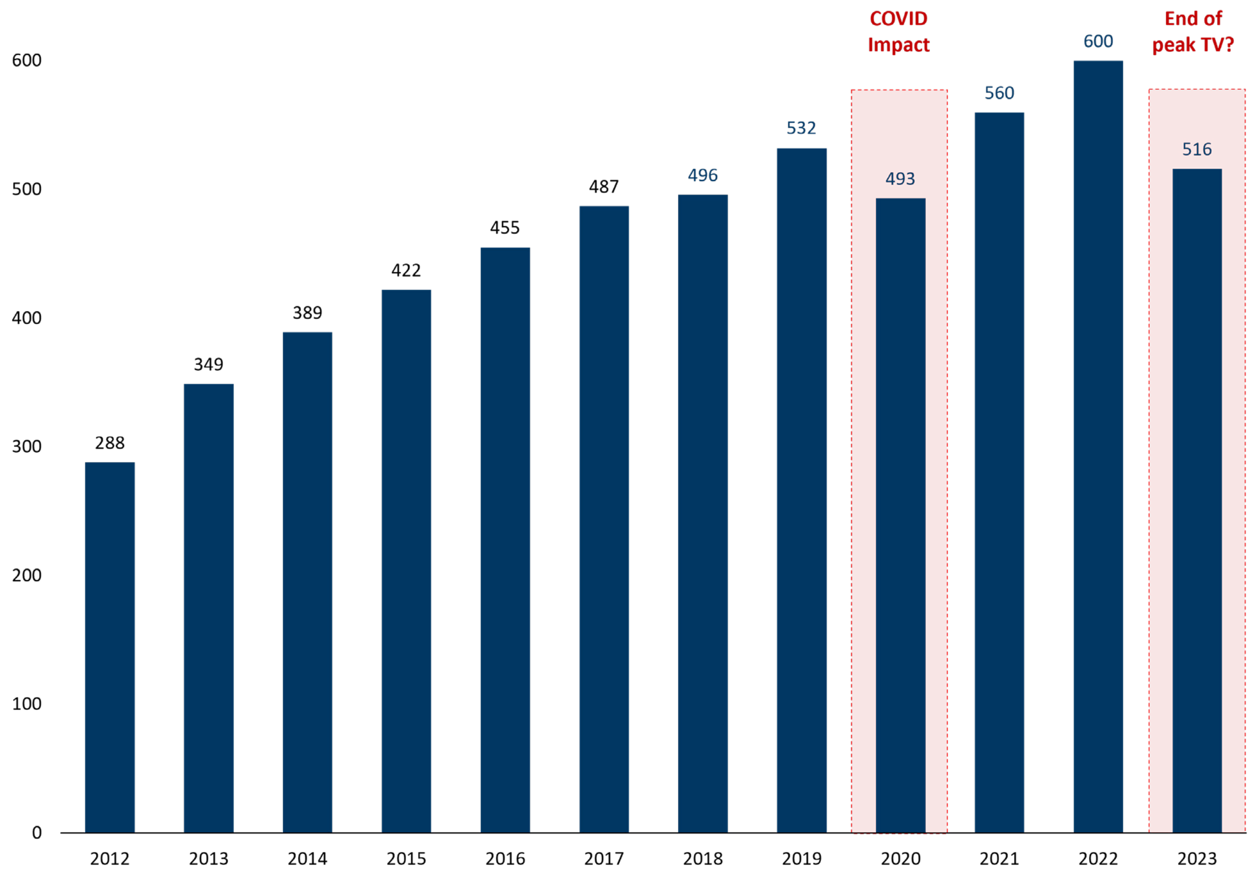
While the clear impact so far has been seen in the decline of broadcasters and cable providers' subscriber base, further change is expected. This includes the type of content they offer and the valuation of some of their TV assets. This was recently the case with Warner Bros. Discovery's $9.1 billion write-down on the valuation of its main advertising-supported networks[1] (such as Cartoon Network, Food Network, Discovery, Animal Planet, TNT and TBS) and Paramount Global's $6 billion reduction in the valuation of its MTV group channels (including Paramount Network, VH1, Comedy Central and MTV).[2]

Scripted content – The end of peak TV

The volume and variety of content available from streamers is increasingly having an impact on broadcast network programming. While streamers accounted for no more than 5% of annual scripted original releases back in 2012, they now hold the lion's share of scripted programming premieres.[3] We also observe that scripted content constituted 70% of shows cancelled on linear TV in the past four years. In fact, the series cancellation rate of broadcasters exceeded that of streamers (more than double) and cable providers (more than triple) during the same period.[4] While cable TV series' cancel rate has remained relatively low, it is expected to increase over the next few years due to high content costs and consumers' preferences for some streaming platforms. The decrease in the number of scripted series is not, however, limited to cable and broadcasters and is signaling a broader change in the industry, more specifically the potential end of peak TV, a term first used by FX CEO John Landgraf in 2015. After hitting close to 600 shows in 2022, scripted series have witnessed their first decline (excluding COVID's 2020 impact) in over 10 years.[5]

Another factor potentially impacting linear TV programming is the evolving trend of broadcasters and cable providers becoming the second window for shows that hit streaming platforms first. For some series, broadcasters have been restricted to airing a limited number of episodes.

FIGURE 1: SCRIPTED ORIGINALS – BROADCAST, CABLE AND STREAMING (2012-2023)



Source: FX and The Hollywood Reporter

[1] New York Times

[2] Reuters

[3] Variety+

[4] Variety+

[5] FX/The Hollywood Reporter, Ampere Analysis

FIGURE 2: TRADITIONAL TV AS SECOND WINDOW FOR SERIES

NON-EXHAUSTIVE

The Good Fight	Paramount+ *(previously CBS All Access)*	February 2017	›	CBS	June 2019
Star Trek Discovery	Paramount+	January 2018	›	CBS	September 2020
The Mandalorian	Disney+	November 2019	›	ABC/FX/Freeform	February 2023
Love Life	HBO Max	May 2020	›	TNT/TBS	August 2021
The Mighty Ducks: Game Changers	Disney+	March 2021	›	Freeform	January 2023
How I Met Your Father	Hulu	January 2022	›	Freeform	April 2023

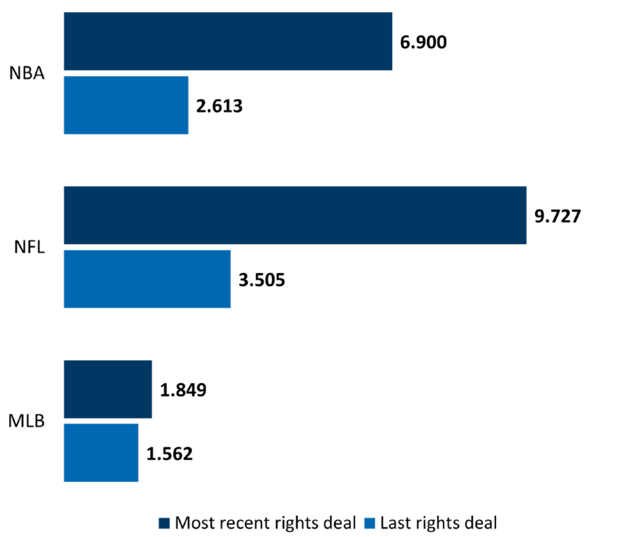
Source: FX and The Hollywood Reporter

Sports exodus

The outlook seems more positive when it comes to sports, which managed to maintain a significant portion of broadcasters' content running time and prime-time viewing in recent years. Seven-day ratings for the 2023-2024 TV season position live sports broadcasts as the top performers for both total viewers and the 18-49 demographic. Prime-time cable rankings also show that sports telecasts secured 12 of the top 20 positions, including nine of the top 10 among shows with at least three airings.[6] Fan engagement surveys paint a similar picture, with close to 50% of sports viewing households reporting that they consume sports content more than once per week.[7] While this establishes sports as a key driver for consumers' interest in TV bundles, it is unclear how long this will shield broadcasters as more streamers acquire sports rights. Whether it is NFL's Thursday Night Football, MLB's Friday Night Baseball, NBA's Thursday Night Doubleheaders, or NFL Sunday Ticket (TV's highest-rated prime time program), eyeballs have now been shifting to watch these matches on Amazon, Apple and YouTube, among others.

This certainly places broadcasters in a less desirable position as leagues continue to benefit from ever-increasing demand for sports rights, a market which has grown by 68% across main markets such as the United States, the United Kingdom, France, Germany, Spain, Italy and Australia.[8] In fact, some leagues, such as the NFL and the NBA, have witnessed an exponential increase in domestic rights value, roughly tripling since the last rights acquisition deal. With fewer scripted series and less control over sports, what will broadcasters still offer?

FIGURE 3: AVERAGE ANNUAL CONTRACT VALUE FOR SPORTS RIGHTS DEALS – UNITED STATES, 2H24 ($M)



Source: S&P Global Market Intelligence

[6] Nielsen

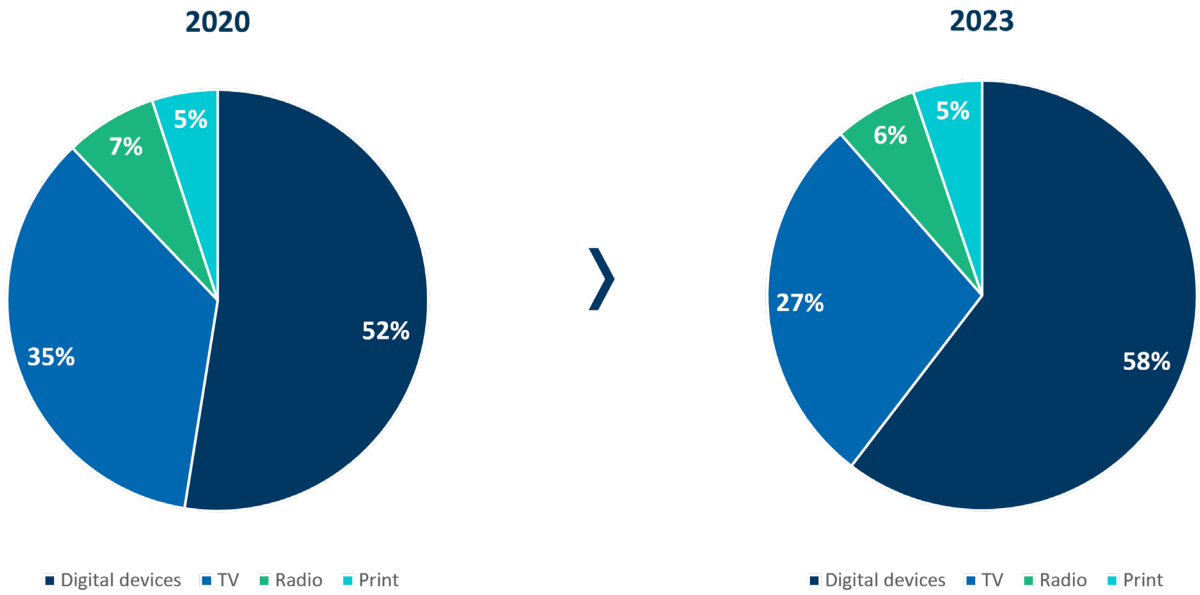
[7] Kagan US Media Census, 3Q23 data

[8] Advanced Television, October 2, 2023

Turning to games and reality shows

In addition to series and sports, news and reality TV/ game shows are still a popular type of content for U.S. consumers. According to Pew Research Center, 62% of U.S. adults still often or sometimes watch news on TV; however, 58% of these Americans would actually prefer getting their news from digital platforms, with those choosing TV as their preferred option dropping to 27% in 2023.

FIGURE 4: EVOLUTION OF CONSUMERS' PREFERENCES FOR GETTING THE NEWS, BY PLATFORM



Source: Pew Research Center – Survey of U.S. adults conducted September–October 2023

While news was never the main value proposition for traditional TV providers, it has undoubtedly shifted to digital platforms, including social networks, websites and apps in recent years. This content is also increasingly becoming popular on other TV offering formats such as FAST (free ad-supported TV), where 42% of viewing time was spent on news channels towards the end of 2023.[9]

Consequently, broadcasters are left with game and reality shows, which have been popular for many years and seem to have been revived recently. Compared to scripted series and sports content, these shows are cheaper to produce or acquire and can help broadcasters retain some subscribers — mainly the viewer demographic that has not cut the cord yet.

With the shift of traditional TV programming away from premium content, more streamers and D2C providers on the market, exploding sports rights value and evolving consumer viewing preferences, one can only wonder what the broadcaster of the future will look like.

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[9] Activate Technology & Media Outlook 2024

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