Green Hasson Janks & Entertainment and Media

Key Trends in Television: 2014 Outlook and Opportunities

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Introduction:

The television industry is undergoing a radical transformation as networks are forced to rethink their traditional business models in an increasingly fragmented and digitized marketplace. Revolutionary technological advancements in content-delivery systems have fundamentally transformed the current state and the future of television programming and viewership. Today's audiences access content created for television on multiple digital devices in a myriad of platforms, including paid and ad-supported online streaming as well as cable and satellite on-demand and time-shifted screening. Even as real-time live television viewership remains high, increasingly, it is the consumers who decide when, where and how they watch their favorite television programs, often bypassing traditional modes of delivery altogether by severing their cable or satellite connection or "cord cutting."

Meanwhile, original cable and online programming are redefining the meaning of a television "hit" beyond nightly Nielsen ratings and into successful niche categories. As the number of viewing platforms and channels increase, it is important to understand that ratings are no longer the sole measurement of a show's success. Rather, the industry now also considers the impact of critical acclaim and social-media buzz when deciding to continue or nix programming.

In this "content is king" environment, many television insiders question how long cable and satellite companies will be able to justify the practice of bundling network, premium, sports, news and other channels into set-price packages even as consumers are offered highly personalized a-la-carte choices elsewhere. These trends promise to accelerate in the coming years, leaving the industry in a state of uncertainty and its thought leaders conflicted about the direction of the television industry.

Green Hasson Janks recently conducted its annual Entertainment and Media Industry Survey with industry insiders comprised of producers, content creators, finance executives and other professionals. This year's study demonstrates notable fragmentation in the marketplace and some uncertainty about how advances in technology will influence viewer habits.

This report presents some of the key factors that will drive the industry for 2014 and beyond.

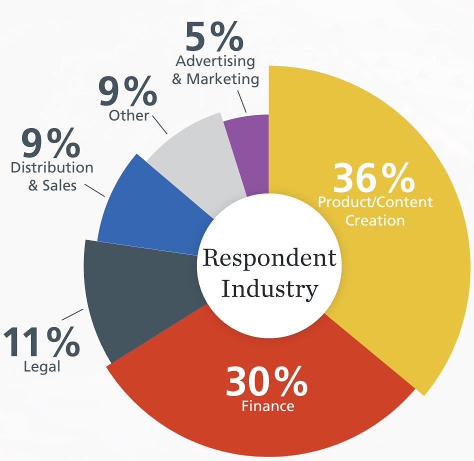
About the Respondents:

Green Hasson Janks' 2014 Entertainment and Media Industry Survey respondents represent a diverse cross-section of industry professionals, management and other thought leaders, the majority of whom are headquartered within Los Angeles' 30-Mile Studio Zone. All participants exhibit a high level of experience, knowledge of industry technology and forward-thinking perspectives.

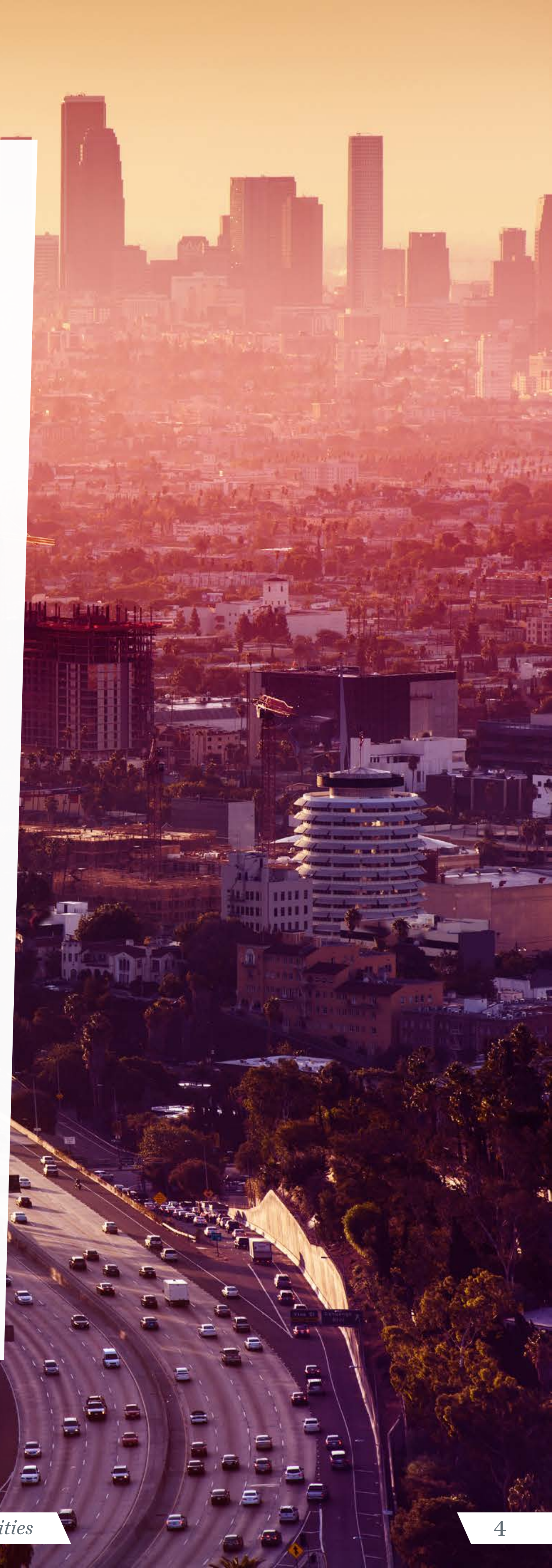
30-Mile Studio Zone

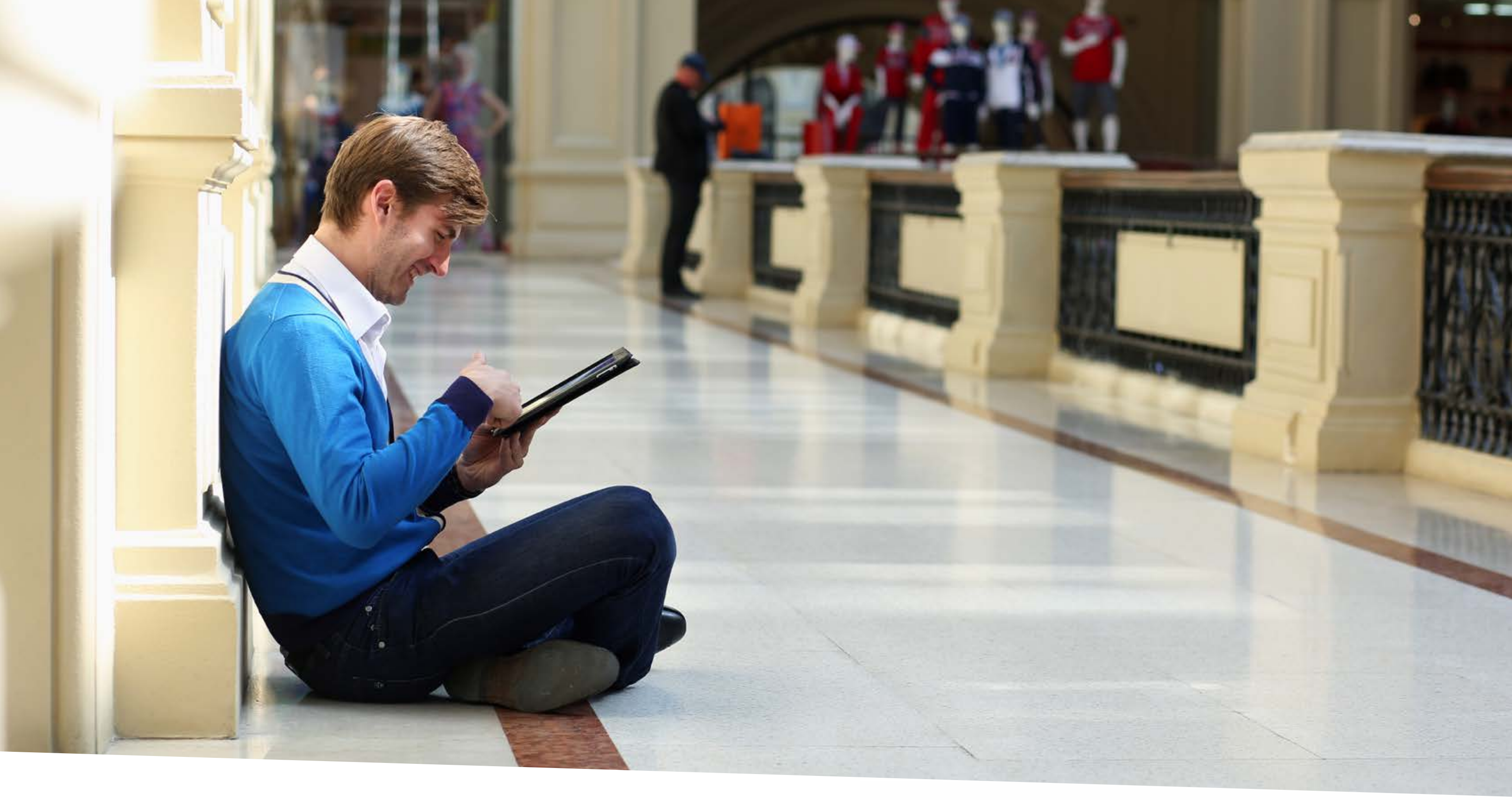
More than one-third of respondents participate in the production or content-creation arena. Thirty percent are involved in industry financing and 11 percent fall into the legal category. Other participants are involved in distribution and sales as well as advertising and marketing.

About the Respondents*



Values have been rounded to the nearest whole number.





Background Information:

A technology-driven evolution is reshaping the landscape of the television industry. While more eyeballs are migrating to online channels, broadcast and cable programming remains strong. The average American spends more than 5.5 hours a day watching live and time-shifted television whereas they spend just a little over 2 hours on the Internet via computer, on smartphones and other multimedia devices combined.[1] According to research, live television viewing has decreased by just two minutes over the last 24 months.[1]

A look at advertising is one way to measure the impact of online viewing for live television. The digital ad market is growing faster than the television market—online video ads are expected to comprise a U.S. ad spend of $5.72 billion in 2014, yet television far outpaces online advertising with a U.S. ad spend of $63.8 billion in 2013.[2, 15] In terms of viewership, television still exceeds the web's reach. The monthly reach of television in the United States is estimated at 283 million viewers with online video consumption reported at 150 million viewers, up from 136 million in 2011.[2]

Consumers are increasingly turning to online platforms as more content becomes available. However, some experts assert that the broadband industry is not equipped to handle mass penetration. While one in four Americans do not have to access broadband Internet, virtually all Americans have access to some form of multi-channel or over-the-air television.[2]

The future of television in an Internet age is dynamic and unpredictable. It is possible that the future may bring a time when most if not all television content is accessed via the Internet. As the variety of viewing platforms expands, consumers become increasingly in control of the industry's future.

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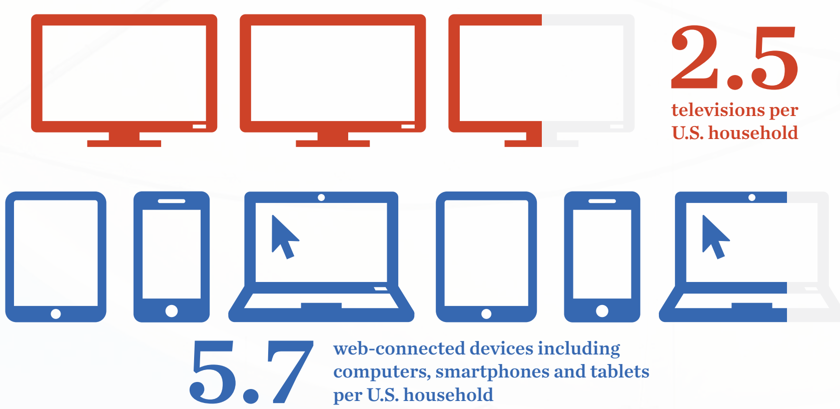
Industry Trends:

1. ***Media fragmentation challenges content development, distribution and tracking.*** Today's viewers have access to approximately 190 television channels, yet the average American watches only 17 channels regularly.[3] As the number of channels has increased over the years, programming has become more specialized with many channels specializing in a particular style of content. The intensified competition has led to decreased audience shares as viewing is spread thin across nearly 200 channels. In addition to greater availability of programming via network and cable television, consumers are accessing content across a number of different viewing platforms. In addition to 2.5 televisions per U.S. household, American homes also have 5.7 web-connected devices including computers, smartphones and tablets.[4,5] The increased fragmentation of the television viewing audiences presents serious challenges



to the industry. Consumers obtain information in many different ways and for production companies to reach viewers, it is becoming necessary to reach the consumer across multiple platforms. Preference for viewing platforms varies greatly by generation.

> *Research shows that weekly live television viewing for 18-to-24-year-olds has declined by nearly 18 percent since 2011 while live-television consumption for 25-34-year-olds remained steady.[6] Live viewing for the over-50 group shows a steady increase.[6]*

2. ***Time-shifted television and online viewing challenges traditional appointment-viewing model.*** The first digital video recorders (DVRs) were introduced in 1999. Since then, the technology has advanced significantly and matured into a substantial platform for delivery and content discovery. As options for on-demand viewing expand, consumers are presented with additional ways to discover, catch up on and access content. Today's viewers have total control over how, when and where they view content, in sharp contrast to the traditional appointment-viewing model of earlier generations. More than 60 percent of American households have cable video on demand (VOD), which is increasingly appealing to younger demographics.[7] In addition to traditional VOD services, 41 percent of American homes subscribe to at least one subscription VOD (SVOD) service such as Netflix, Hulu Plus and Amazon Video.[7] Experts predict that global SVOD revenues will increase from \$3.3 billion in 2013 to \$10.1 billion in 2018.[8] Transactional video services (including iTunes and Google Play) where users pay to rent or buy digital copies of movies or television shows, are expected to drive revenues even higher. While time-shifted and on-demand viewing is on the rise, experts also point to the continued power of event-based viewing, often driven by social dynamics. Studies show that more than one-quarter of viewers watch the Super Bowl with groups of six or more.[9] Academy Awards viewing parties are also demonstrating increased frequency. These events attract casual fans based on their desire to be part of the group social experience. These types of events are directly connected to social media. In fact, Nielsen has reported that social media can increase program ratings for 29 percent of shows.[9] Some experts believe that viewing priorities may drive how consumers access content. When a relaxing viewing experience is paramount, viewers turn to time-shifted, VOD and SVOD viewing, decreasing dependency on linear television channels and the main household television.[10]

> *Experts predict that global SVOD revenues will increase from \$3.3 billion in 2013 to \$10.1 billion in 2018.[8]*

3. ***Time-shifted viewing drives demand for increased audience measurement technologies.*** As viewers watch television on multiple platforms and in various ways, it becomes increasingly difficult to monetize the value of advertising to companies. Although DVRs and time-shifted viewing make it easier for viewers to access content, the audience-measurement technology is struggling to catch up. Networks currently monetize time-shifted viewing through C+3 ratings (commercial ratings that measure live viewing of commercials plus DVR viewing for up to three days). In a recent industry presentation, Ken Ziffren, partner at Ziffren Brittenbaum, LLP, highlighted an increased emphasis on C+7 (commercial ratings for live and time-shifted viewing up to seven days) even though "live television is still 60 percent of total viewing on broadcast networks." In addition, industry insiders are eager to learn more about how viewers are watching online and mobile media. In response to the surge of online viewing, both Nielsen and Rentrak have recently introduced technologies that begin to address online viewing in very limited scope. But because SVOD platforms such as Netflix, Hulu Plus and Amazon Video are not ad-supported like television, it is difficult for the public to obtain ratings data. Thus, Nielsen and other audience-measurement companies are under increased pressure from the television and advertising industry to improve measurement matrices for online and mobile platforms.

More than 60 percent of Americans have binge-watched a program.[11]

4. ***Binge watching is transforming television-viewing habits.*** More than 60 percent of Americans have binge-watched a program.[11] The trend of binge-watching (watching multiple episodes of a television show consecutively) is on the rise, creating additional challenges for networks, providers and advertisers. Ramifications for the industry include the risk to long-standing practices, such as advertising and syndication, which have historically supported the traditional viewing model. Time-sensitive ads might lose their value and advertisers may discover that time-shifted and binge audiences differ from those originally promised and paid for in live programming.

5. Cable and satellite cord-cutting presents threats to the traditional television model. A recent study revealed that 6.5 percent of American households, or 7.6 million homes, have cancelled cable to satellite subscriptions while maintaining high-speed Internet services.[12] This number is up from 5.1 million homes or 4.5 percent of households in 2010.[12] Consumers are ditching cable and satellite service in favor of Internet-connected televisions and other viewing devices. Research shows that more than one-third of adults have an Internet-connected television either directly or through a separate device like Apple TV or Roku, up by nearly 10 percent over the previous year.[12] Those numbers are expected to increase in the face of the introduction of new technologies including Google Chromecast and Amazon Fire TV. The trend toward cord-cutting is threatening to networks

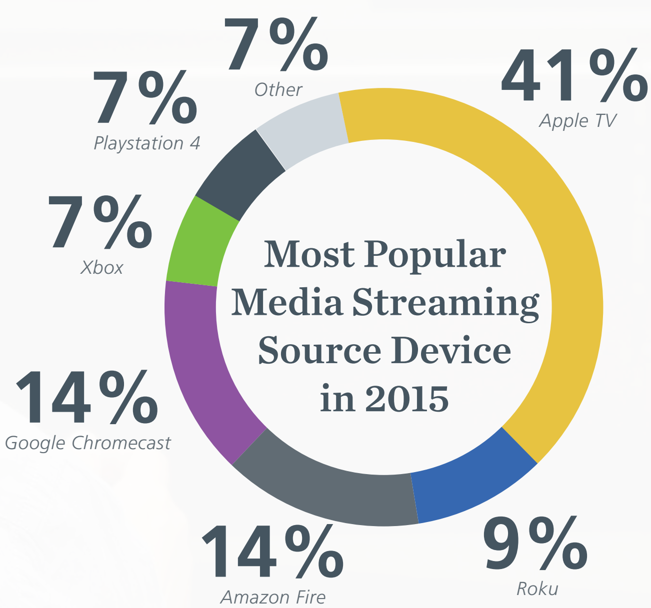
1/3

of adults have an Internet-connected television either directly or through a separate device like Apple TV or Roku.

as well as cable and satellite providers due to a disruption of packaging and the advertising-revenue models. Experts agree that the Millennials will lead the charge to cord-cutting with many never paying for television in their lifetimes. "There is a generation shift that will take more than a few years for us to see its full impact," says Judd Payne, head of production for Wind Dancer Films. Those cable companies, such as Comcast, that are the gatekeepers to the Internet and thus provide access to services like Hulu and Netflix may need to rethink their business models to ensure continued success in the marketplace. While many think that cord-cutting may force significant change in the industry, some believe that the fears may be overblown. One recent study predicts that U.S. cable, satellite and telco subscribers may increase by one-half of a percentage point by the end of 2014.[13] It's possible that the future of pay television will result in the increased access and usage of remote DVR accessibility and the ability to access television content on mobile devices. While these options are available for some consumers, the technology hasn't fully penetrated the marketplace. Additionally, if cable and satellite channels increase digital offerings, companies may be able to grow in the long term.

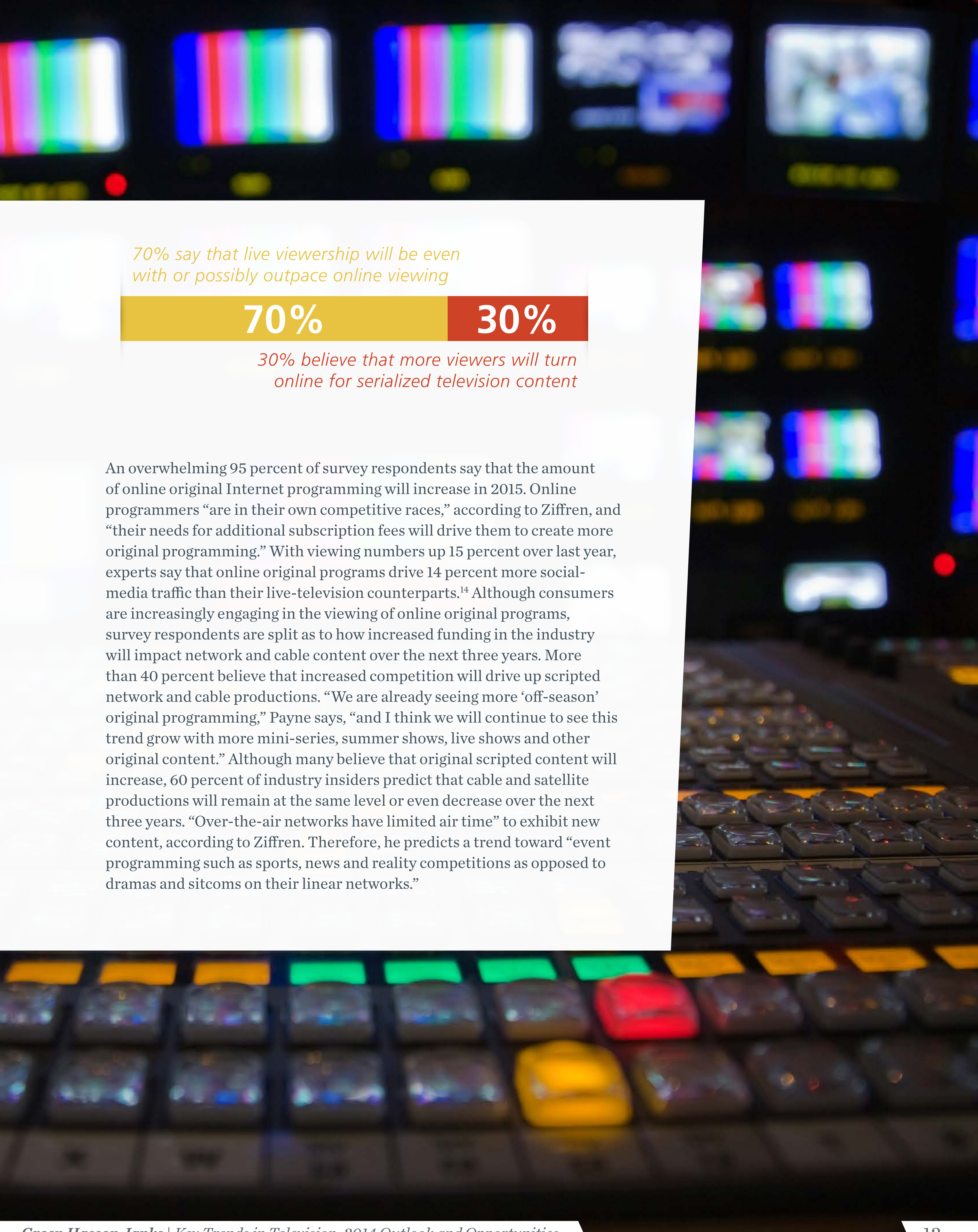
Key Findings:

- ***Multi-screen delivery continues to grow.*** Survey respondents are unsure of which viewing platform will dominate in the next several years. Participants were evenly divided between online video streaming and time-shifted viewing. Live-television viewing trailed by a slim margin. The results indicate that although there are rumblings about threats to traditional television, its strength is expected to continue, at least in the short-term. “Live television is still huge for networks and their advertisers,” according to Payne. He cites “a saturation of awards shows,” live reality television and sports as main drivers for live television. “There’s a reason why networks have paid sky-high prices for the rights to sports,” Payne says, “and I think live will continue to grow in a DVR world.” In the area of online streaming, 70 percent of survey respondents predict that industry leaders, such as Apple, Amazon and Google will dominate the digital sector. When asked to predict the most popular media streaming device for 2015, more than 41 percent of respondents said that Apple TV will lead the pack in 2015, followed by Amazon Fire and Google Chromecast, which both received 14 percent of responses. Survey respondents support the industry belief that viewing via gaming devices will continue to decrease with only fewer than 7 percent of respondents reporting confidence in the Sony Playstation or the Xbox platforms.



- ***Secondary markets are the new primary markets.*** Respondents show strong confidence in Netflix, with 71 percent saying that the current online video leader will hold its position with viewers. In addition to the company's breakout success with original programming (e.g. House of Cards and Orange is the New Black), Netflix is also credited with giving older shows such as Arrested Development a vibrant new life. Binge-watching previous seasons of current series also drives a new group of viewers to existing programs. Netflix is also resurrecting previously cancelled series with new content. After AMC cancelled The Killing twice, Netflix struck up a partnership with Fox Television Studios to resurrect the series with a fourth season of original content.

- ***Content is king.*** With viewers accessing content on multiple platforms, the competition is increasingly fierce. Consumers are hungry for unique, engaging and even controversial content. Content providers are willing to release via multiple channels as long as it reaches the largest or most coveted audience and can be monetized with advertisers. There is no question that viewers want quality content, but industry professionals are conflicted about how serialized content will be consumed over the next three years. More than 70 percent say that live viewership will be even with or possibly outpace online viewing. Yet nearly 30 percent believe that more viewers will turn online for serialized television content. "It's too easy to create content and distribute on the Internet to not think there will be more and more content creators large and small," according to Payne.



70% say that live viewership will be even with or possibly outpace online viewing

70% **30%**

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An overwhelming 95 percent of survey respondents say that the amount of online original Internet programming will increase in 2015. Online programmers "are in their own competitive races," according to Ziffren, and "their needs for additional subscription fees will drive them to create more original programming." With viewing numbers up 15 percent over last year, experts say that online original programs drive 14 percent more social-media traffic than their live-television counterparts.[14] Although consumers are increasingly engaging in the viewing of online original programs, survey respondents are split as to how increased funding in the industry will impact network and cable content over the next three years. More than 40 percent believe that increased competition will drive up scripted network and cable productions. "We are already seeing more 'off-season' original programming," Payne says, "and I think we will continue to see this trend grow with more mini-series, summer shows, live shows and other original content." Although many believe that original scripted content will increase, 60 percent of industry insiders predict that cable and satellite productions will remain at the same level or even decrease over the next three years. "Over-the-air networks have limited air time" to exhibit new content, according to Ziffren. Therefore, he predicts a trend toward "event programming such as sports, news and reality competitions as opposed to dramas and sitcoms on their linear networks."

- ***Cord-cutting and a la carte channel offerings provide savings and flexibility.*** More than half of survey respondents indicate that the number of cable and satellite subscribers will decrease. The three-year projection is more alarming, however, with nearly 90 percent of insiders saying that the cord-cutting trend will continue for the next three years. Cable and satellite providers may provide an alternative to cord-cutting through the introduction of a la carte channel packages. More than 40 percent of survey respondents predict that a la carte channel delivery will become available within the next five years with 32 percent predicting the option within the next 36 months. Nearly 60 percent of insiders say that a critical mass of viewers would be willing to pay less than $15 for a la carte sports channels and less than $20 for premium pay channels such as HBO or Showtime. Perhaps in response to the 24-hour availability of news online, more than three-quarters say that $10 is the most that viewers en masse will

> *Cable and satellite providers may provide an alternative to cord-cutting through the introduction of a la carte channel packages.*

pay for a la carte news channels. While the industry is undecided about whether and how a la carte programming will manifest, the bottom line is that it may lead to more expensive per-channel programming. Ziffren says that politics may delay or even prevent a shift to a la carte channel delivery. “I don’t believe that the FCC can change packaging practices on its own,” he says. Further, “the big seven companies—Fox, NBC, ABC, CBS, Turner Broadcasting, Viacom and Discovery Channel—have enough political clout to keep the current system or something close to it in place,” according to Ziffren. Lauren Cole, president of Cole Media, agrees that the future of television may not support a la carte channel delivery. “The economics don’t work for most content,” she asserts. “It’s hard to see how a channel like ESPN would make more money from a la carte than it makes from cable” when taking into account fees received from affiliate fees, advertising and various platforms, she says.

> *“The economics don’t work for most content.”*
> *–Lauren Cole*

- ***Fragmented audiences and delivery platforms are transforming the way that brands advertise.*** Industry research shows that television ad revenue has grown overall even in the face of stagnant viewership.[15] Survey respondents are a bit more skeptical with more than half predicting advertising rates on serialized network content will decline over the next three years in response to time-shifted viewing trends. Advertising isn't going away," according to Cole. "Advertisers are shifting money around and online advertising is growing," she says. Companies may look to non-traditional advertising models such as product placement and product integration to ensure that viewers see their messages. Big Data has the capability to reveal specific viewer characteristics, allowing for targeted advertising. This personalized viewing experience has the potential to provide different advertising spots to different users. Some insiders predict a future when viewers may see different cars, different dialogue, different scenes and targeted product placement, providing customized advertising based on desired viewer characteristics.[16] As viewers skip commercials, brands and networks will need to find new ways to increase exposure with target audience. Ziffren predicts that time-shifted television will facilitate more targeted advertising via VOD and dynamic ad insertion. "Advertisers want to serve consumers with targeted ads, especially to households that can afford full packages of programming," according to Ziffren. This will "increase buy rates for services and products," he says. Nearly one-third of survey respondents expect to see a rise in product placement and more than 20 percent predict increased product integration within serialized content. Cole says that product placement and integration has always been an important part of television but that today "advertisers have taken a step beyond and are paying to create content, particularly online." Technology may play a role in ensuring that viewers watch ads. More than 43 percent of insiders anticipate the introduction of additional technology to prevent viewers from skipping ads. Special-event programming is becoming more influential with consumers. In response, more than half of respondents expect to see a shifting of time sensitive ads to live (vs. serialized) programming. As online platforms increase in influence and popularity, advertisers may seek packaged online and television advertising packages. More than 56 percent of respondents agree, citing an anticipated increase in bundling campaigns.

"Advertising isn't going away. [...] Advertisers are shifting money around and online advertising is growing."
–Lauren Cole

- ***More comprehensive ratings technology is needed.*** Television ratings technology is struggling to keep pace with the industry and consumer viewing trends. Still measuring viewership via a "black box," Nielsen continues to attract criticism over its inability to accurately measure viewership in today's fragmented audiences and platforms. "It is essential that Nielsen, Rentrak or a new competitor improve the metrics on second, third and fourth screens inside and outside of the home," Ziffren says, "so that the television industry can monetize ads for higher CPMs as opposed to just counting eyeballs." Because Netflix, Hulu and other subscription-based services don't sell advertising, it doesn't need to release ratings figures. This creates tension with networks like HBO and Showtime, which don't sell advertising, but are subject to Nielsen ratings scrutiny. The majority of survey respondents

> *"The technology is there to get actual data from millions and millions of viewers instead of the antiquated Nielson method."*
>
> *–Judd Payne*

agree that the industry needs a makeover in the way it reports viewership data. More than 54 percent say that it will be important to obtain ratings from paid and ad-supported streaming platforms. Additionally, three-quarters say that the importance of online video ratings will continue to grow for advertisers and distributors. Payne agrees. "The technology is there to get actual data from millions and millions of viewers instead of the antiquated Nielson method," he says. As technology changes, the emphasis on when viewers are watching may evolve. "Overnights will be less important," according to Payne, "and total viewers for L+3 (live viewing plus time-shifted viewing for up to three days later) and L+7 (live viewing plus time-shifted viewing up to seven days later) will become the norm." As the proliferation of Big Data continues, networks, streaming platforms and advertisers will demand more and increasingly comprehensive data about how, when and where viewers are accessing content.

Summary and Conclusion:

In the rapidly changing and fragmented marketplace of television programming, the industry is in the throes of a redefining shift in terms of content creation, format, delivery and economics. For companies to be successful, their leaders need to wade through the uncertainty and recognize emerging trends that will impact existing business models in the months and years to come. Prioritization of content has emerged as one of the more important trends in television and viewers have proven that they will follow their favorite programming to any platform or device. Multi-screen delivery will be a key source of growth for both network and original online content. To effectively respond to the changing landscape of the industry, media executives will need increased insight into the viewing patterns, priorities and preferences of their audiences. This actionable data will allow companies and content providers to develop more meaningful relationships with viewers. The growing trend toward giving consumers increasing control over what, when and how they watch television content will continue to provide new business opportunities. At the same time, growth of time-shifted viewing will continue to challenge traditional industry relationships with advertisers. Digital media is now fundamental to the television experience and the consumer demand for quality, innovative and unique television programming has never been greater. If companies drive operational change in response to today's challenges and tomorrow's omniscreen experience, they can prepare themselves for the future of television.

Green Hasson Janks, LLP, would like to extend its sincere thanks to those who participated in the 2014 Entertainment and Media Industry Survey.

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Ilan Haimoff has over 20 years of accounting experience in public accounting and private industry serving clients primarily in the entertainment, financial services and distribution service industries. Ilan leads the Entertainment and Media practice and Royalty & Licensing Audit Services. His specialty includes profit participation and forensic accounting on behalf of talent, investors and co-producers at both the major and mini studios.

Prior to joining the firm, Ilan was the Chief Audit Executive at large private companies where he oversaw company-wide anti-fraud programs and the execution of annual internal audit plans, including third-party audits. Ilan's public accounting experience includes Big Four firms where he assisted organizations with performing risk assessments, internal audit reviews and process improvement projects. He also has worked on various forensic accounting, due diligence and other agreed upon procedure engagements on behalf of banks and investors, providing financial due diligence analysis in connection with mergers and acquisitions.

Ilan has written various articles and participated in various speaking engagements, focusing on entertainment, profit participation, royalty, internal controls and anti-fraud.

Ilan leads the Entertainment II ProVisors group and is a member of the Motion Picture and Television Fund Professional Advisory Council, the CalCPA Entertainment Conference Planning Committee (Co-Chaired in 2014), the California State University Chancellor's Advisory Council on the Entertainment Industry, the Institute of Internal Auditors, the Beverly Hills Bar Association, the Association of Certified Fraud Examiners and the AICPA.

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Steven is an attorney, CPA, Certified Fraud Examiner and Certified Financial Forensic. He has been a featured speaker at the California Society of Certified Public Accountants and New York CPA Foundation, as well as the UCLA and USC film schools. His published works include Profit Participation in the Motion Picture Industry, Los Angeles Lawyer, April 1989; Participants in the Motion Picture Industry, Entertainment, Publishing and the Arts Handbook, 1987; and Movie Money: Understanding Hollywood's Creative Accounting Practices, 1998 (2nd edition published in 2006).

About Green Hasson Janks:

Founded in 1953, Green Hasson Janks is one of the oldest independent accounting firms on the west side of Los Angeles. Ranked as a top-20 largest accounting firm on the Los Angeles Business Journal's Book of Lists, the firm has 13 partners and more than 130 staff members that serve over 3,000 clients.

The firm is a member of the American Institute of Certified Public Accountants (AICPA), the AICPA Governmental Audit Quality Center (GAQC), the California Society of CPAs and the California Association of Nonprofits (CAN) and the Public Company Accounting Oversight Board (PCAOB).

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We focus on helping forward-thinking, entrepreneurial organizations and individuals within the entertainment and media industry by providing assurance, tax, royalty and licensing audit, expert witness and litigation support and consulting services designed specifically with their needs in mind. Our clients in the entertainment and media industry include production companies, distribution companies, foundations, studios, profit participants, recording artists, songwriters, video game developers and unions representing talent. Our services include:

- Participation and residual audits
- Royalty and contract audits
- Assurance and advisory services
- Tax compliance and planning

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