CUTTING TO THE CHASE:

Disconnecting From Speculation And Plugging Into The Facts About Cord Cutting

2017 REPORT

VIDEO ADVERTISING BUREAU

The Great Disconnect

For years, the media has written about the impending demise of the TV industry due to cord-cutting households canceling their wired cable, satellite or telco subscriptions in favor of streaming.

There is no denying that in the past five years the number of broadband only and broadcast only homes has grown, with double-digit increases in this past year. However, even with this level of growth these homes still represent the minority of TV homes - less than 17%.

The great disconnect occurs when statistics about the rise in these homes are used to justify the premise that people en masse are canceling their cable subscriptions and relying solely on streaming for their TV content.

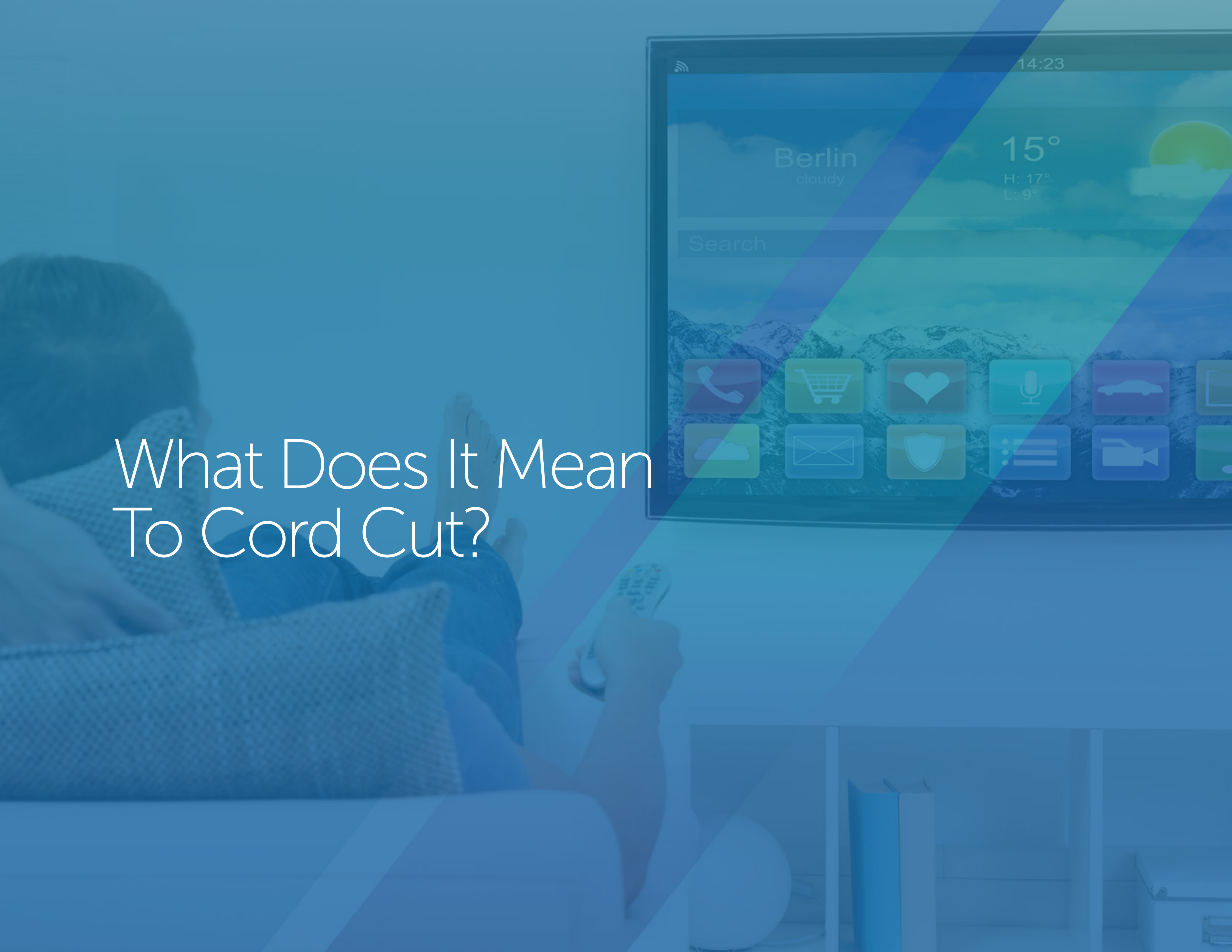
When you cut through the hype and plug into the facts (from independent, well-known syndicated sources), the truth is that MVPD households (wired cable, telco & satellite) have remained steady over the last 15 years, representing 83% of HHs, 98 million homes.

Broadband-only and broadcast-only homes have increased the number of total US TV households and have not come at the expense of MVPD subscriptions. The majority of households (71%) have both Cable+ and broadband, using streaming as a complement to (not replacement of) their TV viewing.

For the small group of homes that have cut the cord, the motivation is undeniable: Cost. Across several studies, the desire to cut costs is clearly the reason over other factors often cited. In fact, if cost weren't a factor, 80% of cord cutters/nevers would opt for an MVPD subscription.

Let's plug into the facts and connect to the truth around cord cutting…

Let's Plug In



What Does It Mean To Cord Cut?

VIDEO ADVERTISING BUREAU

There are Three Distinct Terms Commonly Associated With Cable, Satellite and Telco Household Status

Cord Cutters

Households that ***cancel*** their cable, satellite or telco service

Cord Shavers

Households that continue to subscribe to cable, satellite or telco service, but ***downsize*** their programming bundle

Cord Nevers

Households that have ***never subscribed*** to a cable, satellite or telco service

Cord cutters / shavers / nevers typically rely on internet or wireless to access television content through SVOD and/or vMVPD services, such as:

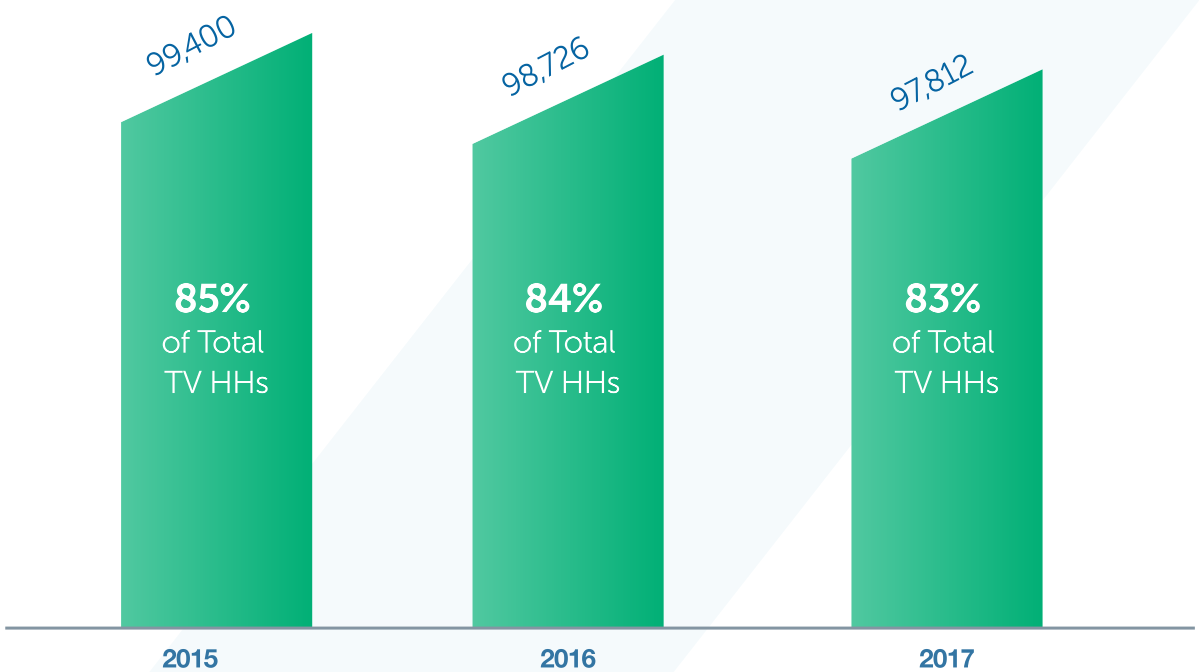
Streaming Video (SVOD)
(Subscription, Transactional, or Ad-supported)

"vMVPD" Devices/Services

Cutting It Down To Size - How Prevalent Is Cord Cutting?

VIDEO ADVERTISING BUREAU

The Vast Majority of US Households, Nearly 100 Million, Subscribe To A Cable, Satellite, Or Telco Service



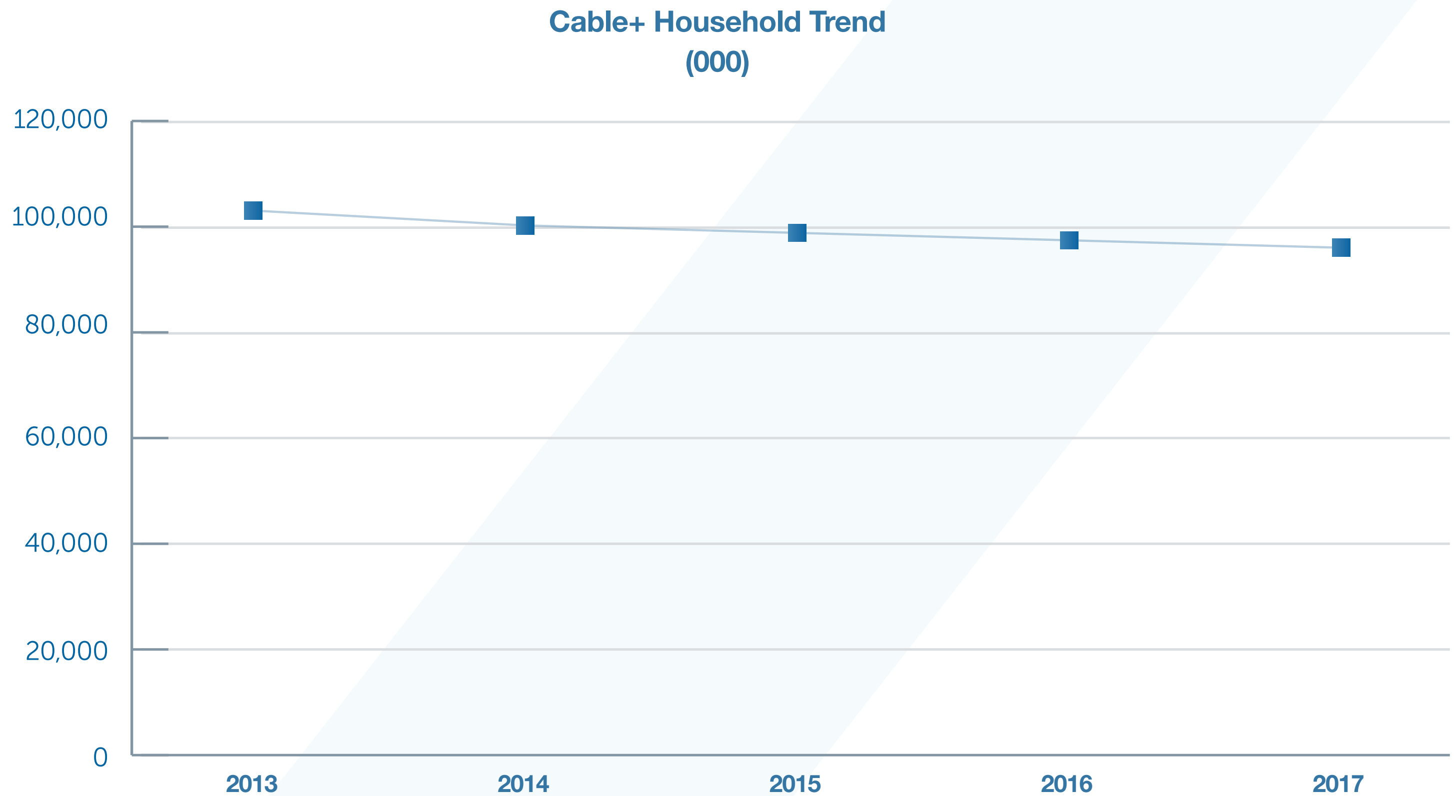
***Cable+:* A household that subscribes to wired cable, telco or satellite service**

Source: Nielsen Total Audience Report, Q1 '17, Q4 '16, Q4 '15

VIDEO ADVERTISING BUREAU

Within The Past 5 Years, That Number Has Remained Largely Unchanged

Contrary to the hype, last year Cable+ households declined by less than 1%

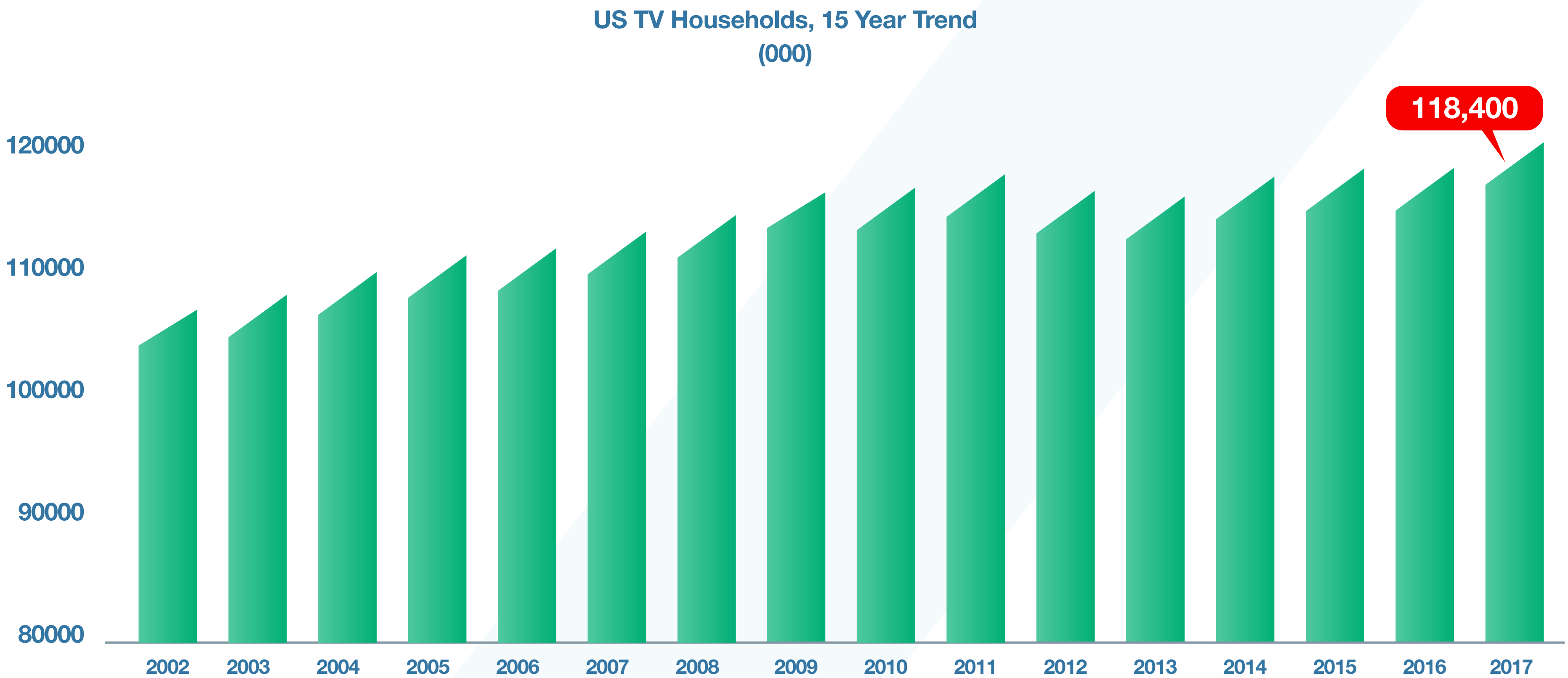


vs. Year Prior	- 0.4%	- 1.8%	- 1.5%	- 0.7%	- 0.9%

Source: Nielsen Total Audience Report, Q1 '17, Q4 '16, Q4 '15, Q4 '14, Q4 '13; Cable+ = Wired Cable, Telco, Satellite

VIDEO ADVERTISING BUREAU

Total US TV Households Have Increased By 12%, Or 13 Million Households, In The Last 15 Years



US TV Household: A HH with access to video content through either wired cable, satellite, telco, broadband or over-the-air broadcast

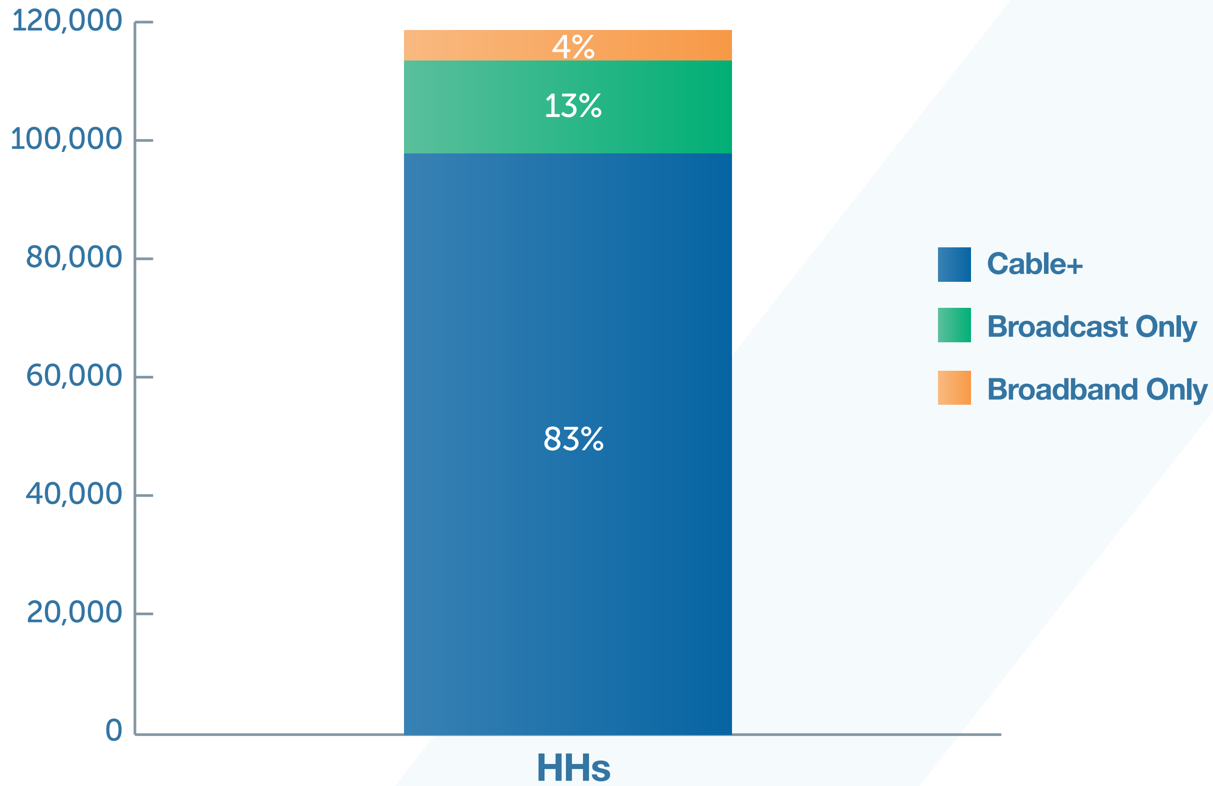
Source: US TV Households, Nielsen. Reflects data for the month of February each year, 2002 – 2017

VIDEO ADVERTISING BUREAU

This Increase Has Primarily Been Driven By Broadband And Broadcast–Only Homes

Broadcast–only and Broadband–only account for 20.6 million, or 17%, of TV households

Television Distribution Sources by Household, 2017 (000)



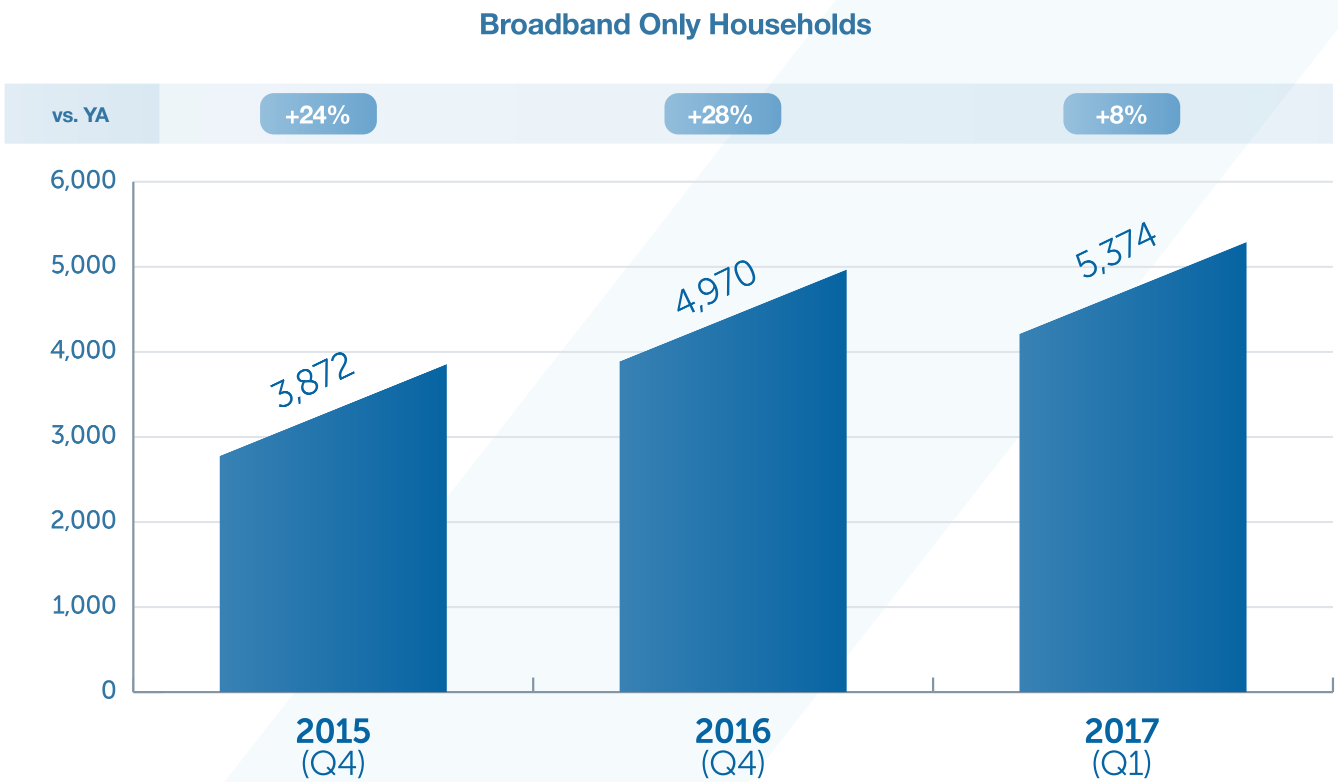
Broadband Only: A HH with at least one operable TV/monitor that receives video exclusively through a broadband internet connection instead of traditional means (over the air, wired cable, telco, satellite)

Broadcast Only: A mode of television content delivery that does not involve satellite transmission or cables (i.e. a paid service). Also commonly referred to as "over the air"

Source: Nielsen Total Audience Report, Q1 '17, Cable+ = Wired cable, satellite or telco

VIDEO ADVERTISING BUREAU

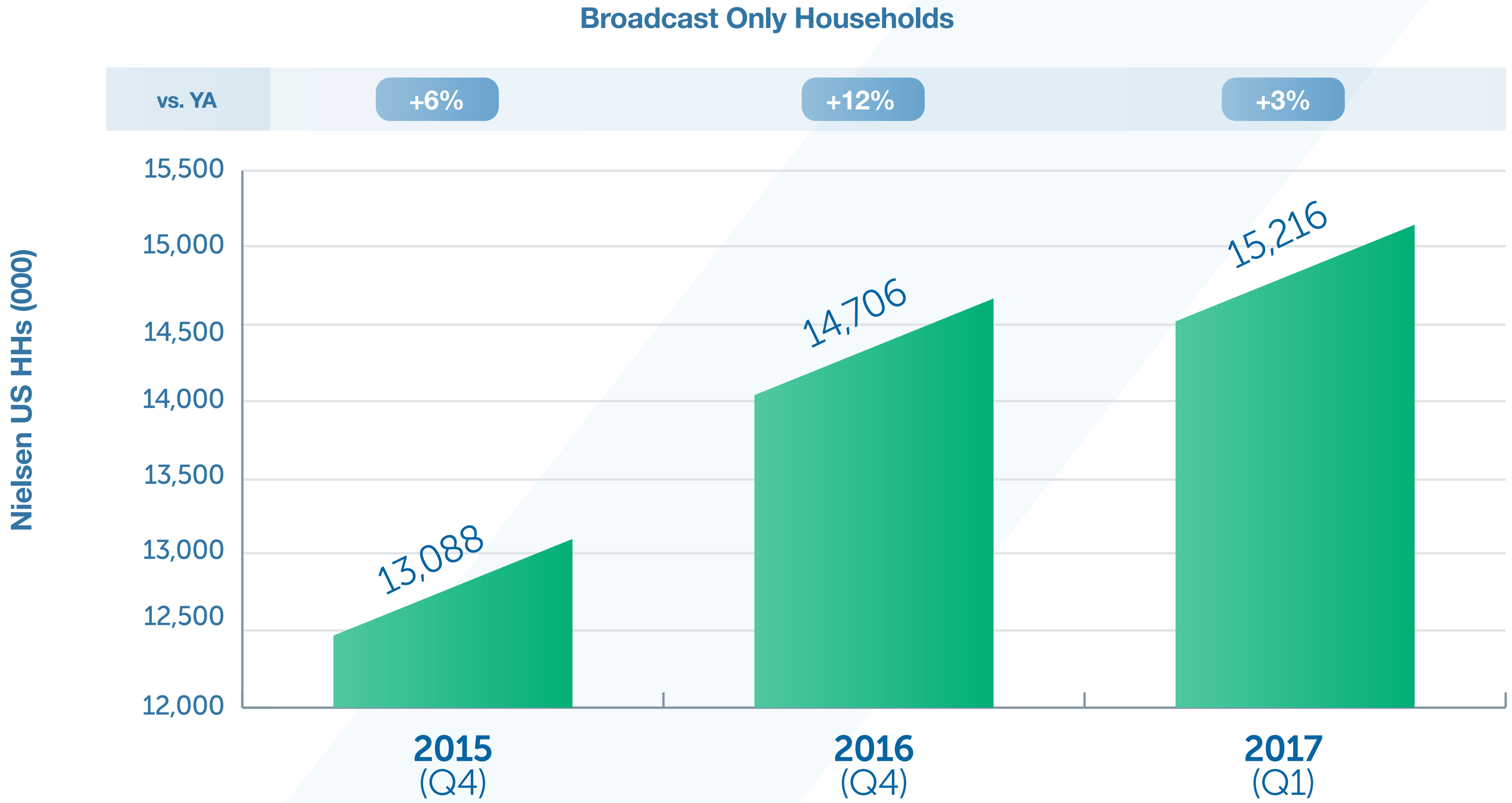
Although The Number Has Risen, *Broadband Only* Represents Only 5.4 Million Households (4% of all TV HHs)



Source: Nielsen Total Audience Report, Q4 '14, Q4 '15, Q4 '16, Q1 '17

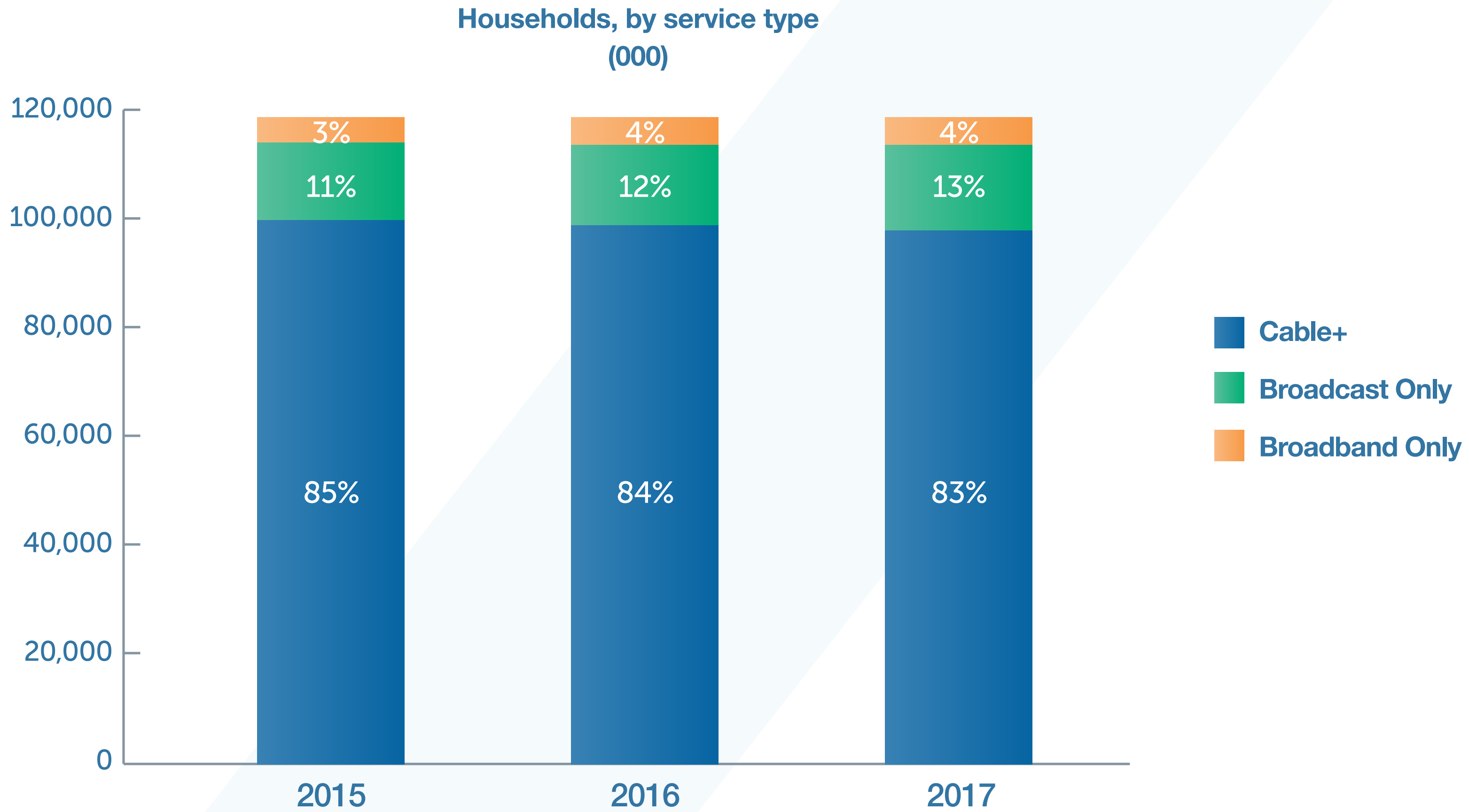
VIDEO ADVERTISING BUREAU

Similarly, *Broadcast Only* Households Are Increasing, But Still Only Represent 13% Of TV Households



Source: Nielsen Total Audience Report, Q4 '14, Q4 '15, Q4 '16, Q1 '17

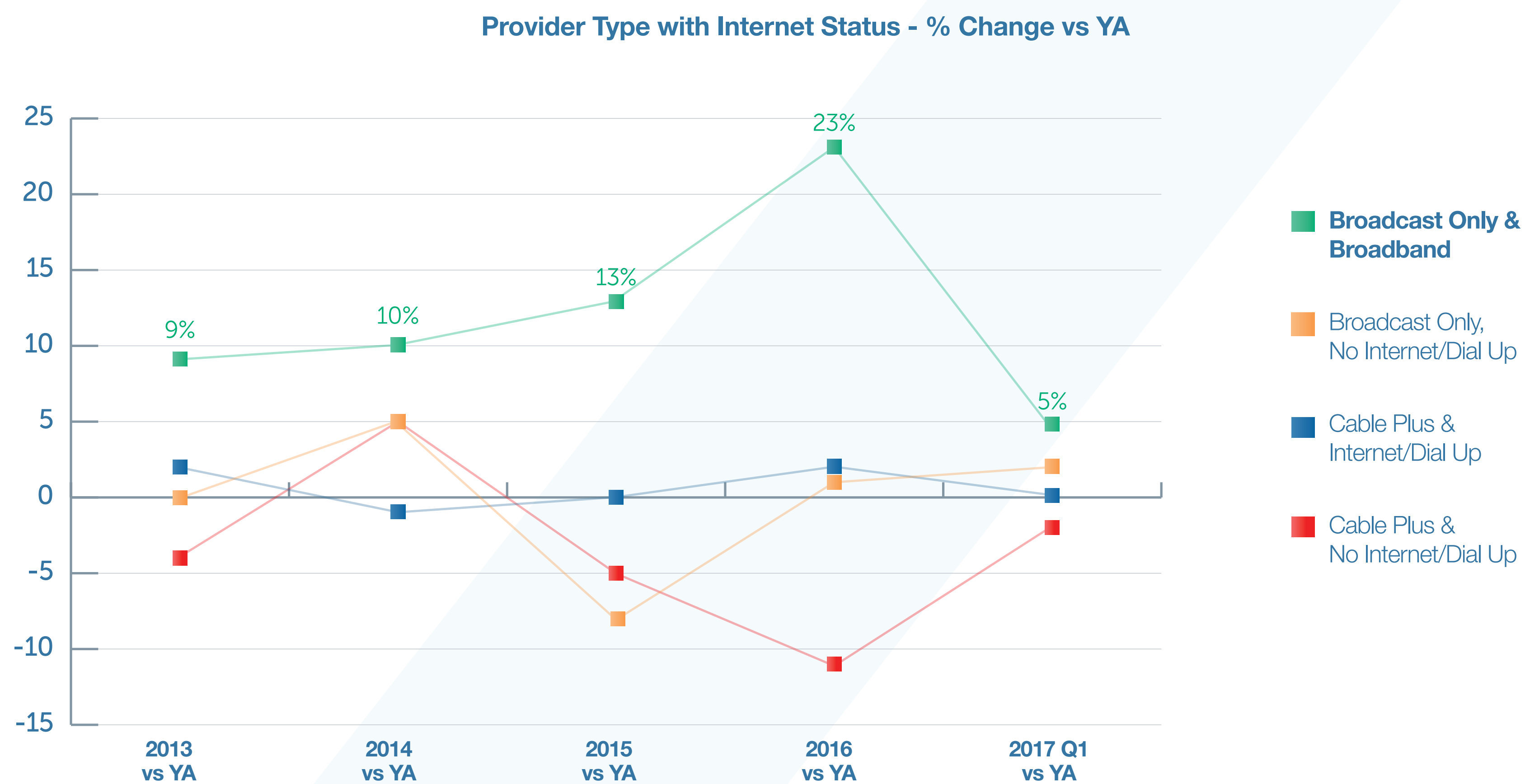
In Short, The Increase in Broadband And Broadcast Only Homes Has Not Come At The Expense of Cable+ Households



Source: Nielsen Total Audience Report, Q1 ’17, Q4 ‘16, Q4 ‘15

The Fastest Growing Segment Is "Broadcast Only Homes With Broadband"

In an effort to hold on to as much linear TV programming as possible but keep costs down, consumers are embracing antennas



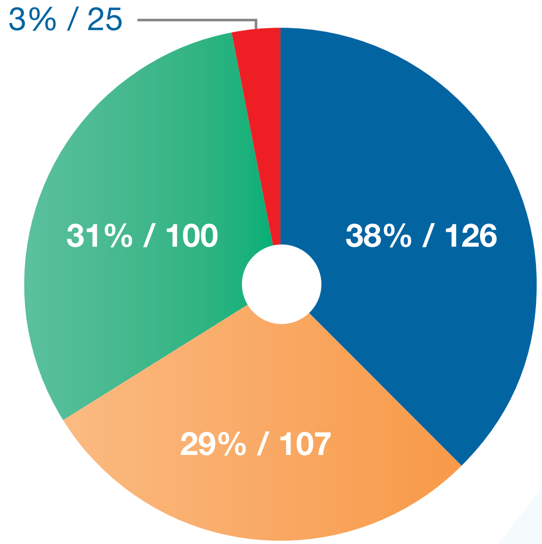
Source: Nielsen Total Audience Report, Q1 '17, Q4 '16, '15, '14, '13, '12
Broadcast Only: A mode of television content delivery that does not involve satellite transmission or cables (i.e. a paid service). Also commonly referred to as "over the air"

Who Is Cord Cutting And Why?

VIDEO ADVERTISING BUREAU

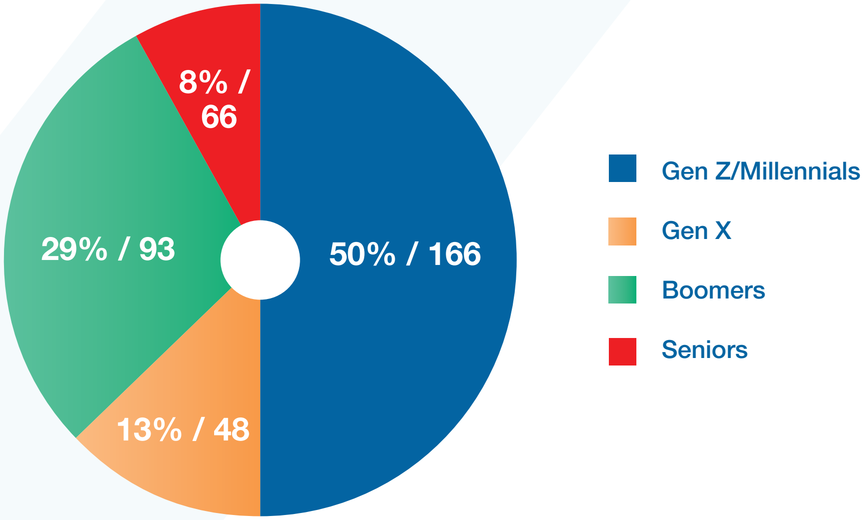
Cord *Cutters* Exist Across Generations, Whereas Cord *Nevers* Are Typically Millennials

Cord Cutters, by age generation



% and Index vs. pop size

Cord Nevers, by age generation



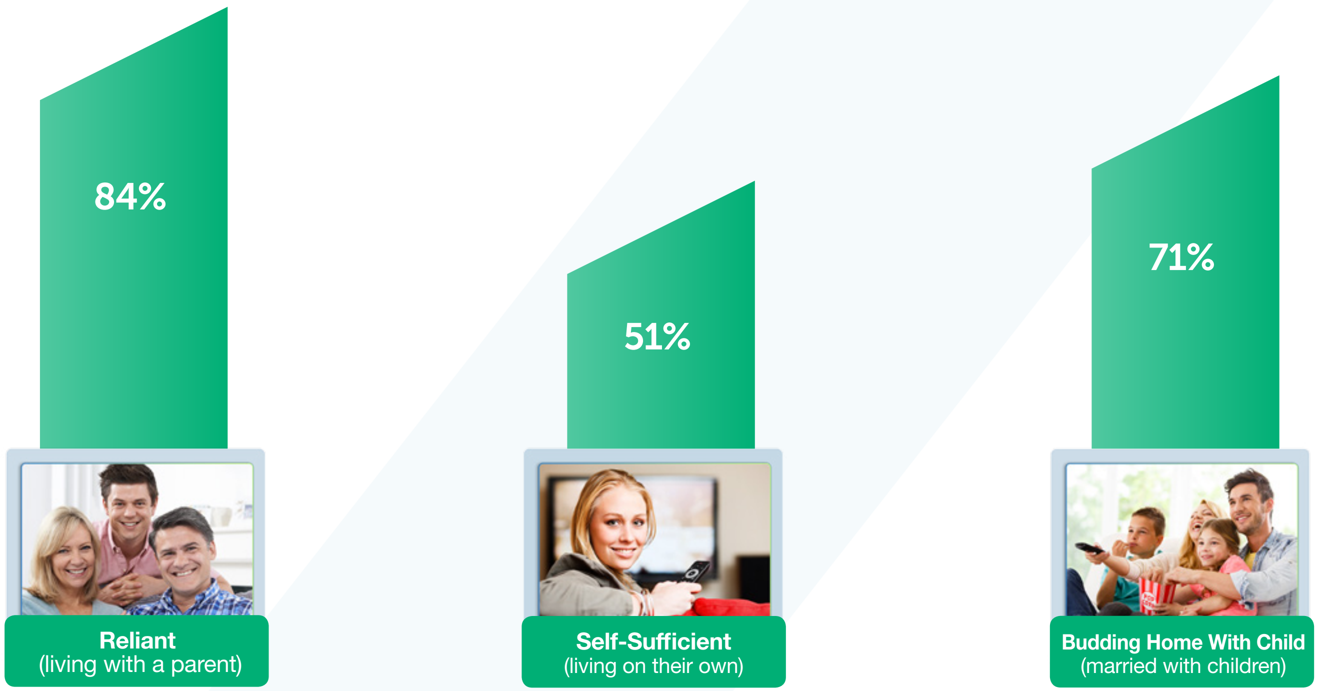
Cord cutters are fairly evenly represented across all generations indicating that age isn't a primary driver

In contrast, Gen Z / Millennials encompass the majority of Cord Nevers. They view streaming as an attractive option at a time when they have lower disposable income and a more on-the-go lifestyle

Source: SNL Kagan, S&P Global Market Intelligence, 2017; Age groupings: Gen Z/Millennials – 18-36, Gen X – 37-51, Boomers, 52-71, Seniors – 72+

Although Millennials Have The Highest Likelihood To Be "Cord Nevers," Most Plug Back Into Cable As Their Age And Income Increase

Cable Penetration by Millennial Life Stage



"A quarter (27%) of Millennial Cord Nevers say they intend to subscribe to a traditional TV service in the next 6 months – once they are better able to afford it and for the ability to channel surf"*

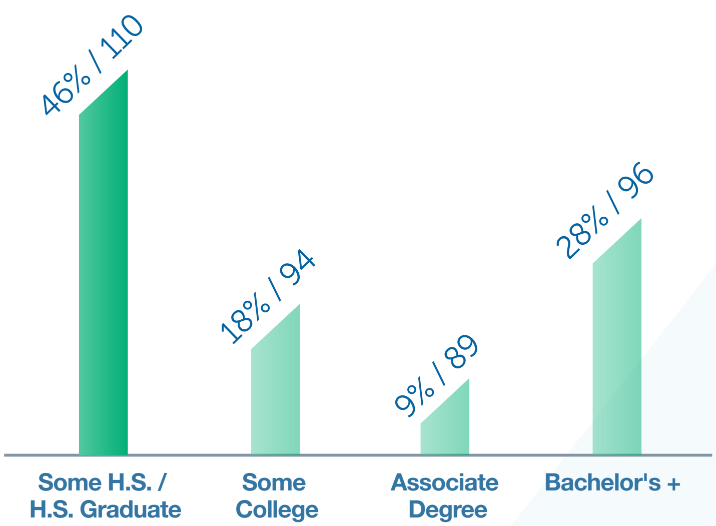
Source: MRI Doublebase, cable= defined as cable tv service watched past week; reliant = respondent A18-34 lives with one or more parent; self-sufficient A18-34 lives in one person HH; Budding home= A18-34, married with kids at home; * GFK, MRI Cord Evolution New York, NY, 24.04.2017

VIDEO ADVERTISING BUREAU

Cord Cutters & Nevers Tend to Be Less Educated and More Likely To Work Part-Time

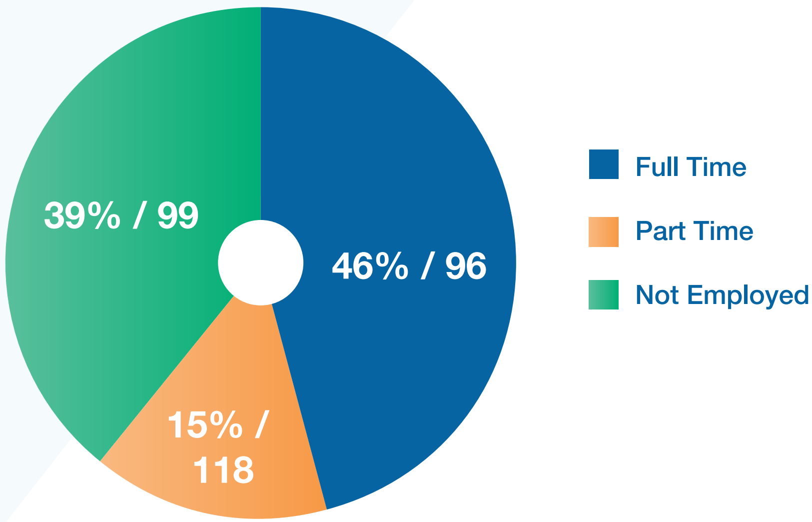
The below chart reflects the shifts in spend and online traffic for brands that were active on TV nearly every month for the last two years

Highest Education Level Completed
(% and Index vs. adults)



Cutters/Nevers tend to cluster at the lowest end of the educational levels. Nearly half have only a high school education or less

Employment Status
(% and Index vs. adults)



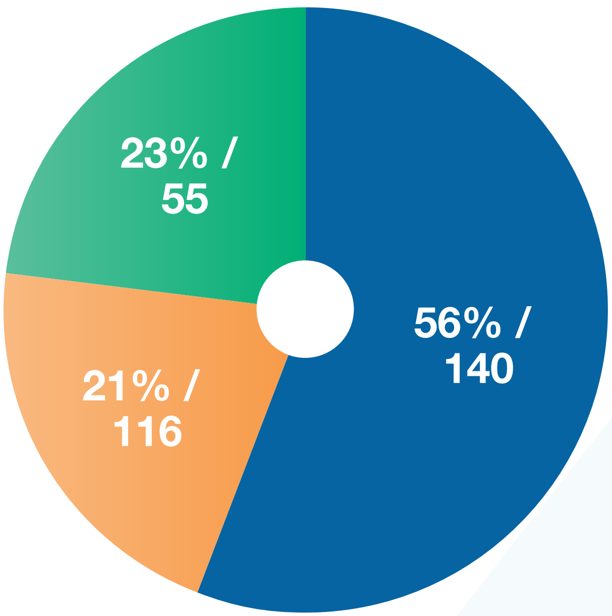
They are more likely to be employed part time, largely reflective of school-age Gen Z/ Millennials and retired Boomers

Source: 2016 MRI Gfk Doublebase; Target group defined as Household that does not subscribe to Cable, Satellite or Fiber Optic TV; Index is vs. Base of Adults A18+

VIDEO ADVERTISING BUREAU

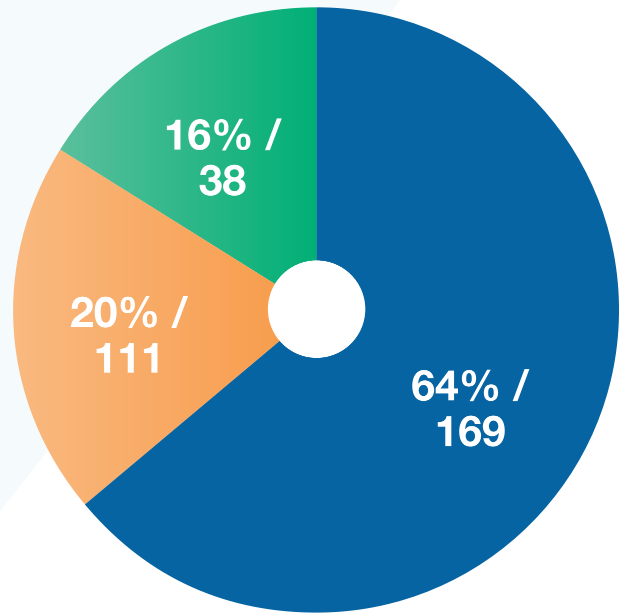
They Sit Lower On The Income Scale

Cord Cutters
Average Household Income - **$52k**



Less than $50k
$50k-$75k
$75k+

Cord Nevers
Average Household Income - **$41k**

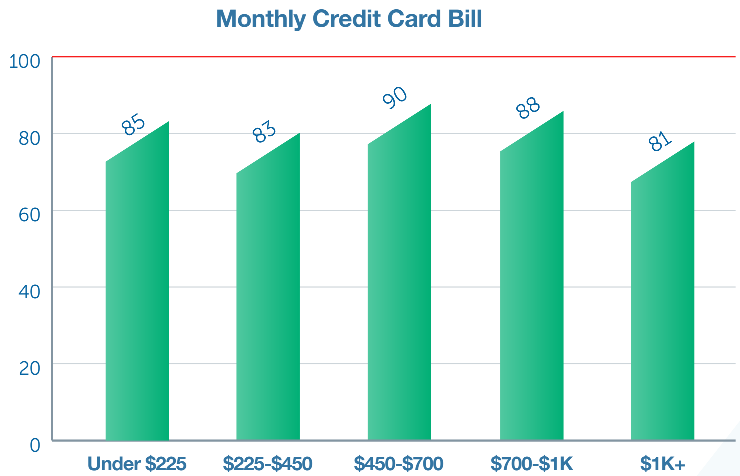


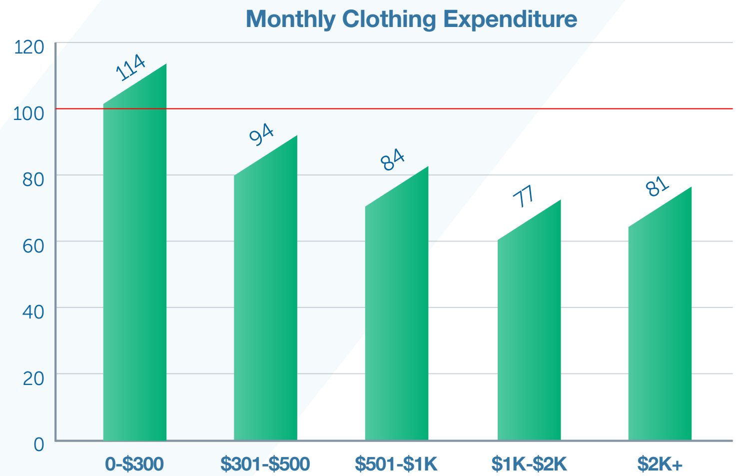
Source: SNL Kagan, 2017 S&P Global Market Intelligence, 2017 cord cutter and cord never updates, May 2017; Gfk MRI "Cord Evolution", 4/24/17; Index is vs. Base of Adults 18+

VIDEO ADVERTISING BUREAU

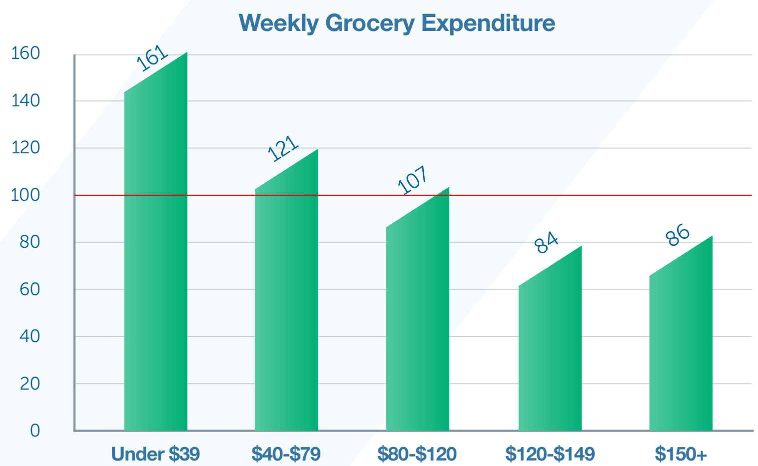
Due To Their HHI, They Have Lower Disposable Income Than The Average Household

Index vs. Adults





In each case, they over-index at the lower expenditure amounts, except for credit card bill where they under-index across all increments

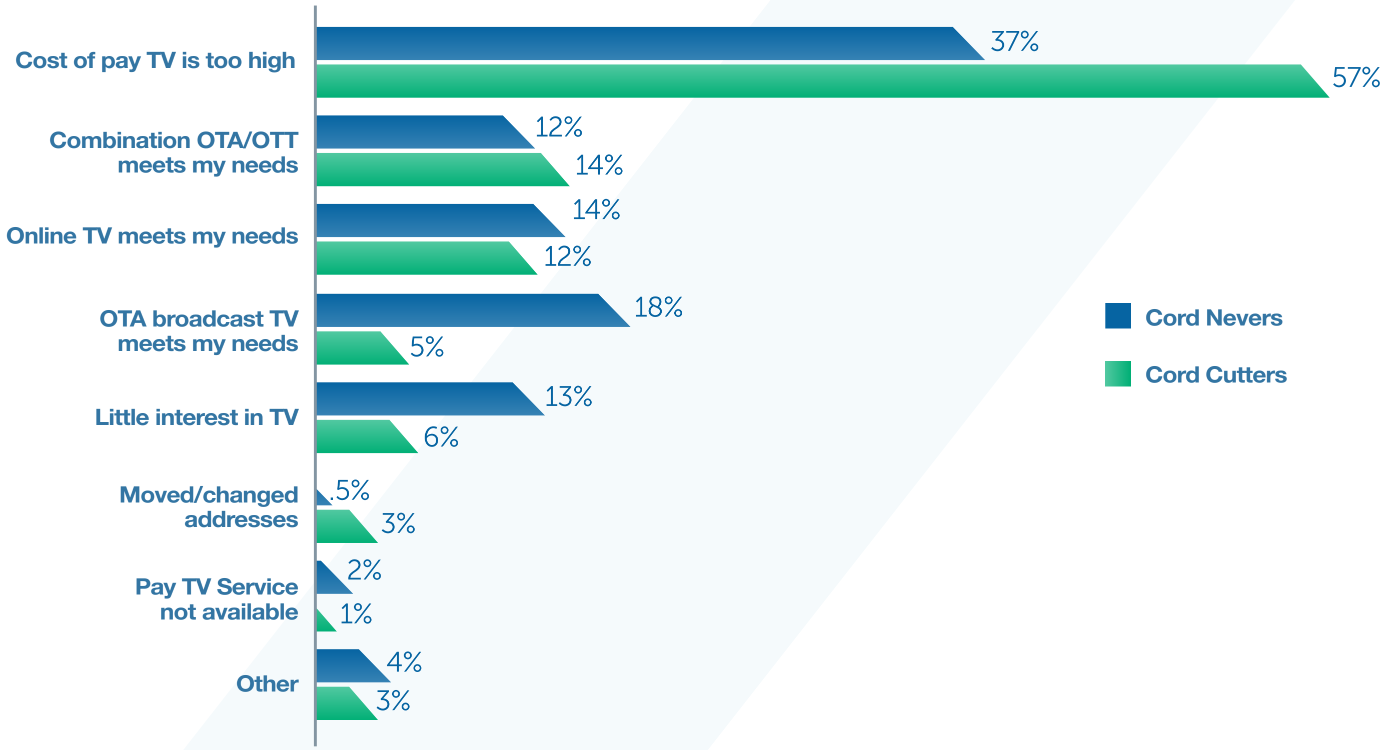


Source: 2016 MRI Gfk Doublebase; Target group defined as Household does not subscribe to Cable, Satellite or Fiber Optic TV; Index is vs. Base of Adults 18+

VIDEO ADVERTISING BUREAU

Not Surprisingly, For Both Cord Cutters And Cord Nevers, The Decision To Not Have A Pay TV Subscription Is All About Cost Savings

“Which of the following statements best reflects why you do not have a Pay TV service subscription?”

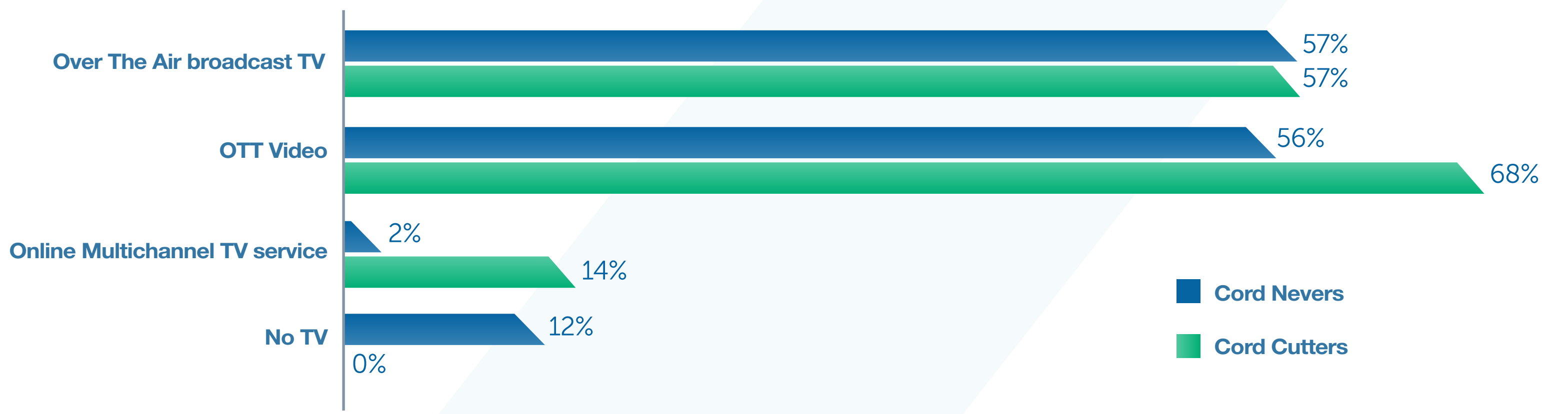


Source: SNL Kagan, 2017 S&P Global Market Intelligence, “2017 US video cord cutting update” 5/2/17; “2017 US video cord never update”, 5/15/17. “Pay TV service” defined as a subscription to a multichannel TV service. Base: 325 each of Cord Cutters & Cord Nevers

VIDEO ADVERTISING BUREAU

The Desire For Cost-Savings Is Also Reflected In Their Replacement Options, As 57% Are Substituting With (Free) OTA Broadcast TV

"Which of the following are methods your household uses to receive television?"

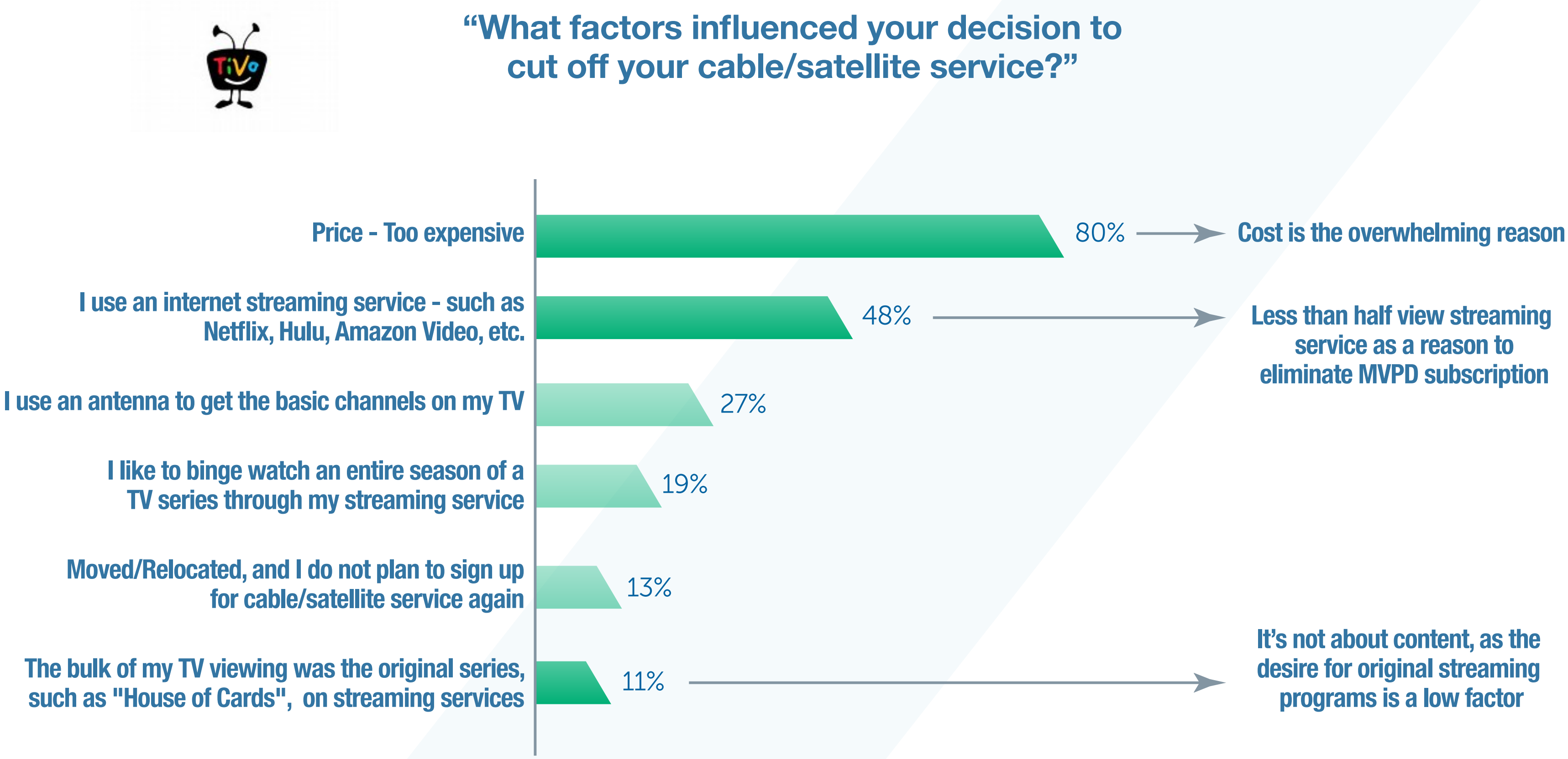


Households are using OTT Video at the same rate as OTA broadcast TV, with only 2% (Nevers) and 14% (Cutters) employing a vMVPD

Source: SNL Kagan, 2017 S&P Global Market Intelligence, "2017 US video cord cutting update" 5/2/17; "2017 US video cord never update", 5/15/17 Base: 325 each of Cord Cutters & Cord Nevers

VIDEO ADVERTISING BUREAU

Studies Continue to Validate That Cost, Not Content, Is The Reason People Are Cutting Their MVPD Service



Source: TiVo; Q4 2016 Video Trends Report

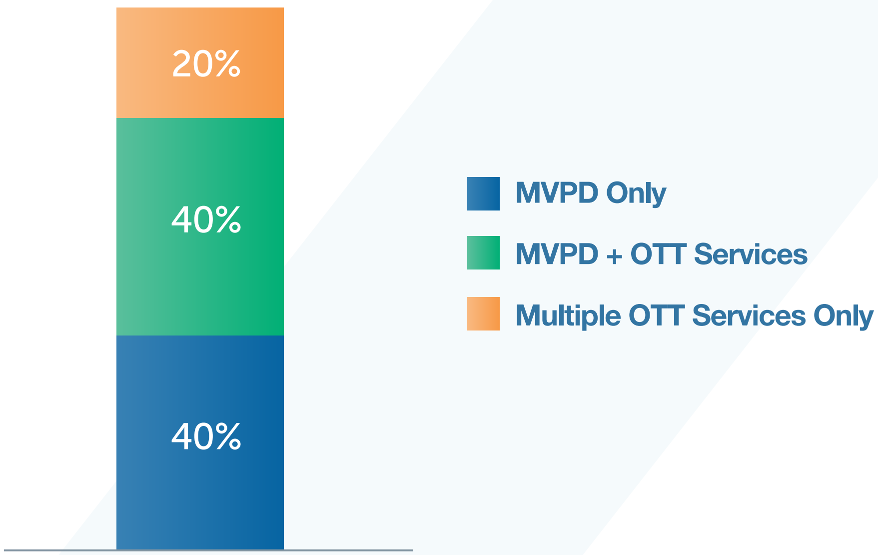
VIDEO ADVERTISING BUREAU

Not Surprisingly, If They Had Their Choice (If Cost Weren't A Factor), 80% Of Cord Cutters/Nevers Would Prefer An MVPD Subscription

Indicates their preference for both the content they want and how it's delivered

Cord Cutters / Cord Nevers

"Which represents your preferred method of acquiring TV entertainment?"



Almost one-quarter (22%) of Cord Nevers intend to subscribe to a traditional TV service in the next 6 months, reflective of Millennials aging out of income constraints

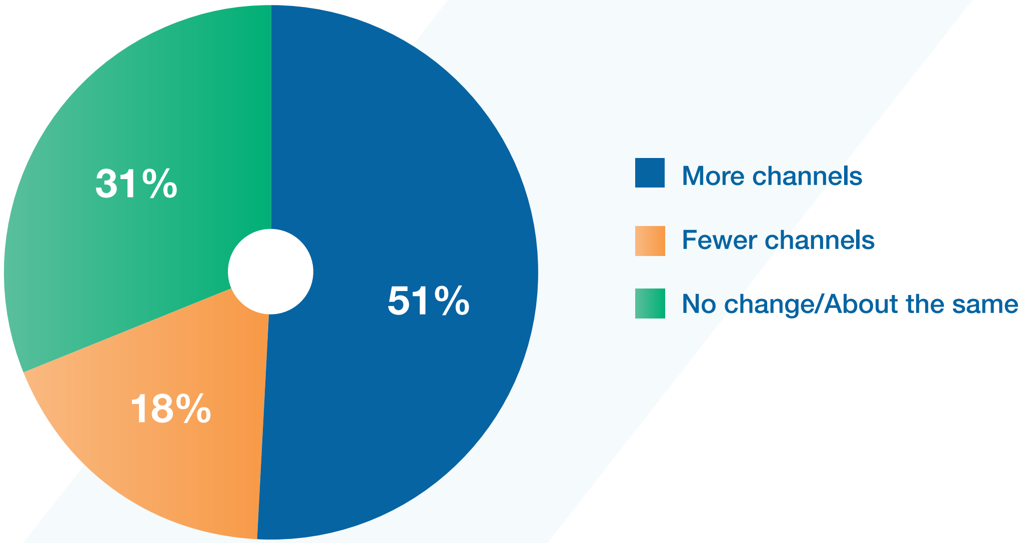
Source: SNL Kagan, 2015 S&P Global Market Intelligence; GFKMRI "Cord Evolution" 4/24/17

VIDEO ADVERTISING BUREAU

In Fact, Among Those Who Recently Changed From One MVPD Provider To Another, The Majority Added Channels

Only 18% reduced the number of channels they received

"Has there been any change in the number of channels you receive from your TV provider in the past 12 months?"



Source: SNL Kagan, 6/13/17, US consumers switching multichannel service providers remarkably steady; Survey Group – those who had changed their MVPD provider in the last 12 months; Sample Size – 5,968

Why? Because Consumers Are Passionate About TV's Iconic Programming

Sports

Awards & Specials

Drama

Reality

Comedy

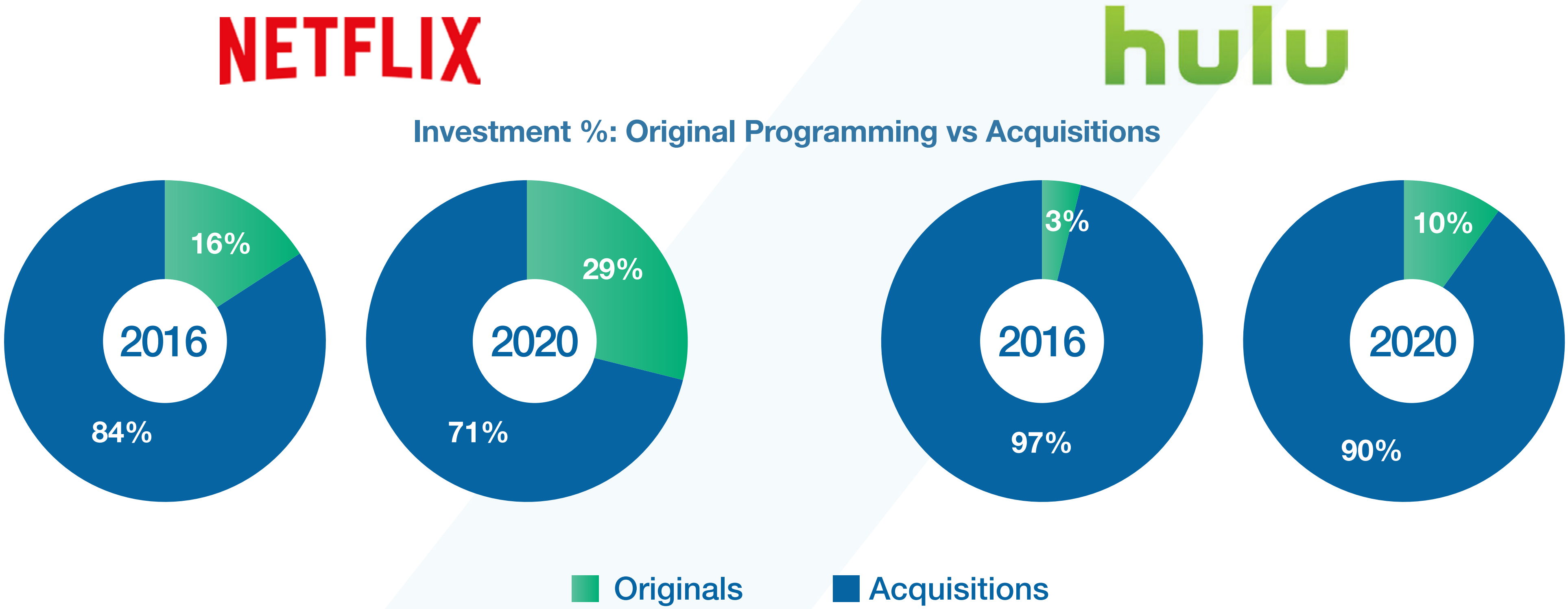
News

VIDEO ADVERTISING BUREAU

SVODs Understand The Passion Consumers Have For TV Content And So They Invest Heavily In It

Library Cable and Broadcast content are the backbone of streaming services, therefore all major services continue to invest heavily in them

Investment %: Original Programming vs Acquisitions

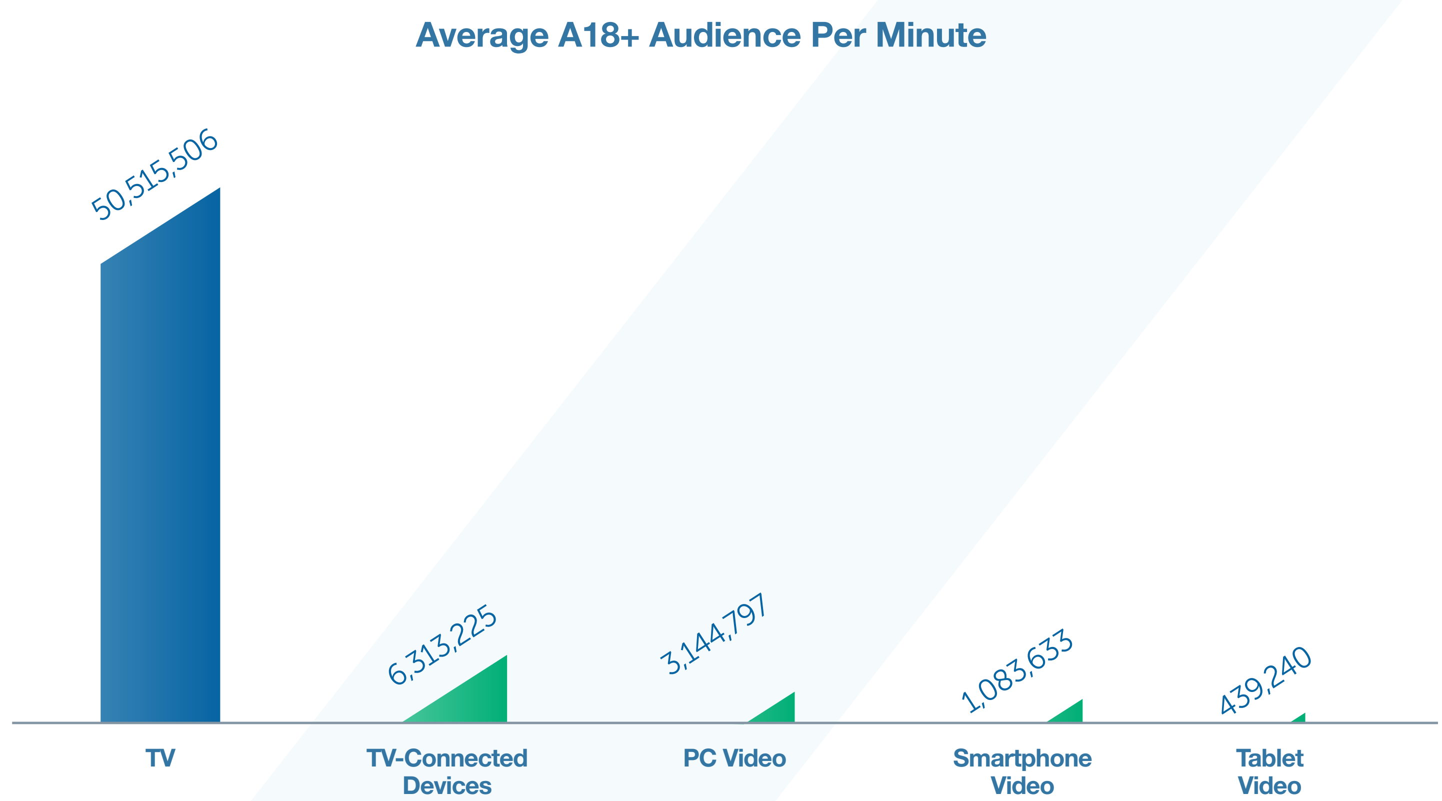


Source: SNL Kagan, 2016, costs are amortized to reflect annual amounts; Netflix includes global content costs

Brace for Minimal Impact: Does Cord Cutting Affect TV Reach?

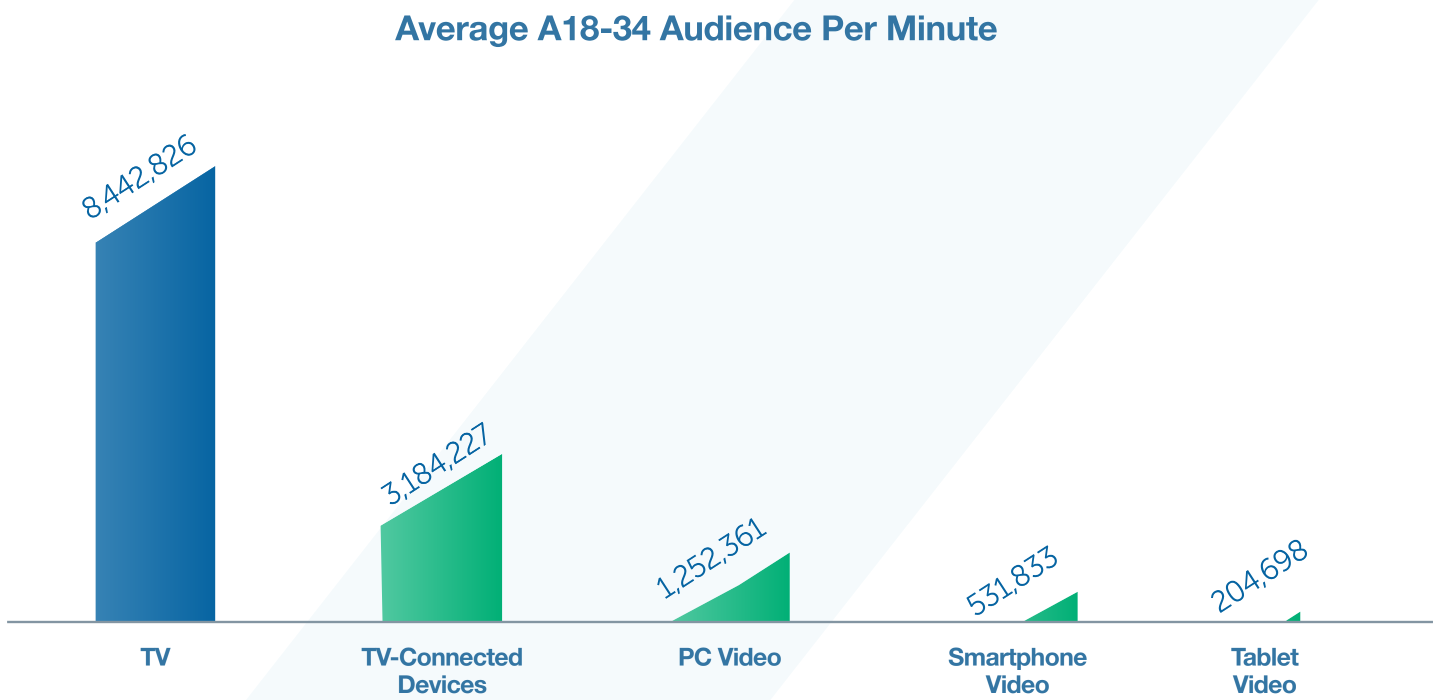
VIDEO ADVERTISING BUREAU

In *Any Given Minute*, Television's Audience Far Surpasses That Of Any Video Device



Source: Nielsen Comparable Metrics Report Q4 2016; Data based on average week between September 26, 2016 – December 25, 2016. A18+ UE = 245,740,000. Video is a subset of each device's (App+Web)

More Than Twice as Many *Millennials* Are Tuning Into TV Than Into A TV-Connected Device In *Any Given Minute*

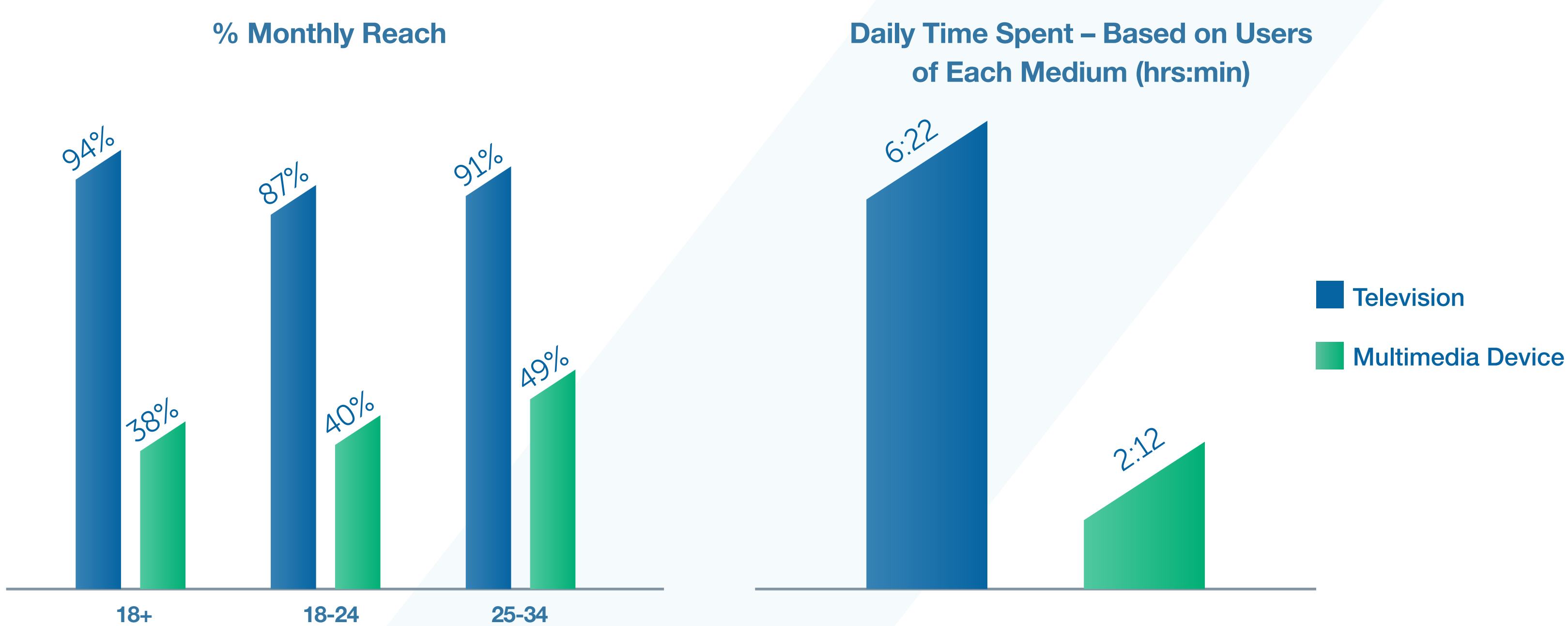


Source: Nielsen Comparable Metrics Report Q4 2016; Data based on average week between September 26, 2016 – December 25, 2016. A18+ UE = 245,740,000. Video is a subset of each device's (App+Web)

VIDEO ADVERTISING BUREAU

More People Spend More Time With TV Than Multimedia / Internet Connected Devices

TV delivers a larger audience in terms of reach and time spent



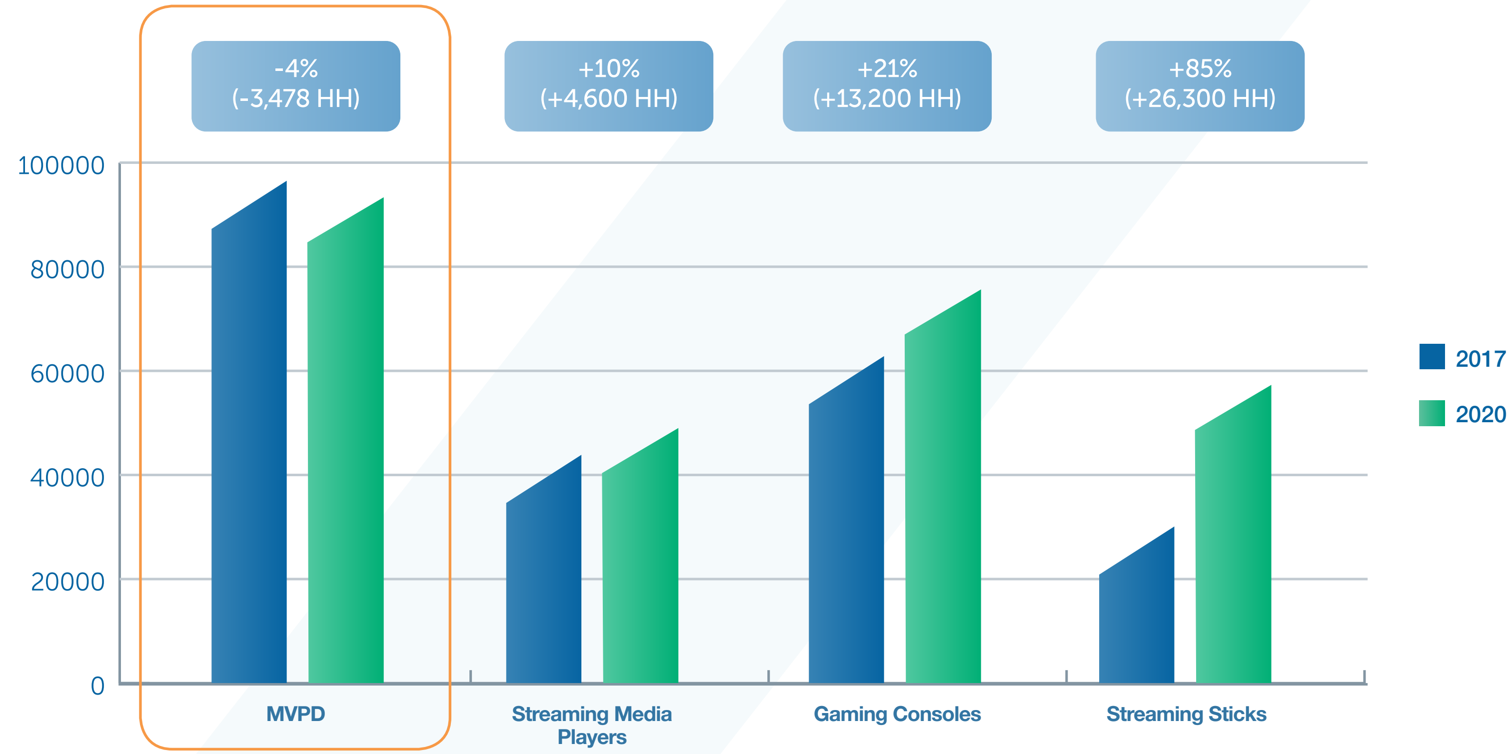
Multimedia Device:
A combination of usage of the Internet Connected Device's viewing source and Audio-Video viewing sources. Includes viewing on an Apple TV, Roku, Google Chromecast, Smartphone, Computer/Laptop, etc. connected to the TV.

Source: Nielsen Total Audience Report, Q1 '17 Television: Live + DVR/Time shifted TV

VIDEO ADVERTISING BUREAU

Looking Towards The Future, Although Connected Devices Will Grow, They Aren't Projected To Come At The Expense Of Multichannel Subscriptions

Multichannel Subscribers and Connected Devices
2017 vs 2020 Projected (in Millions)



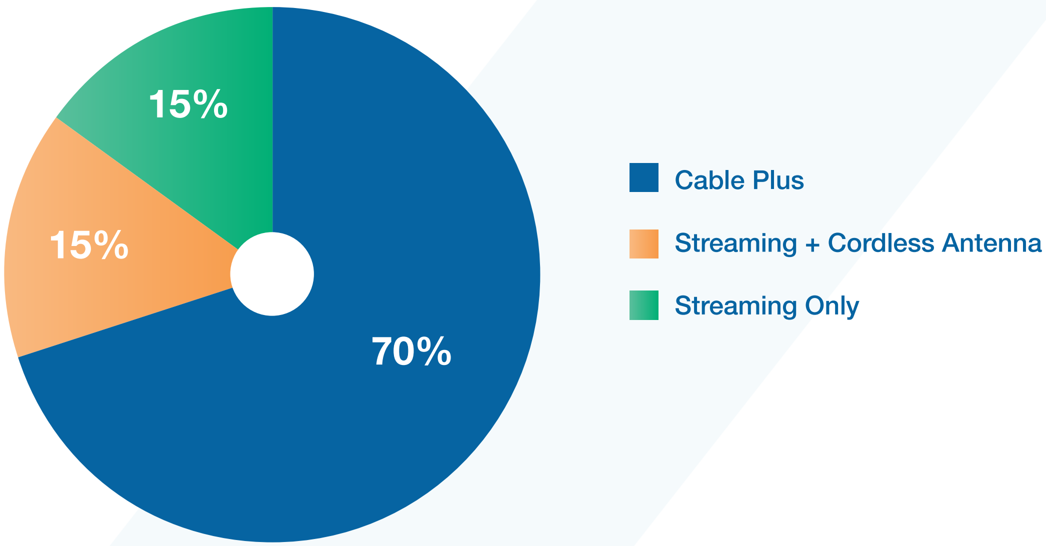
Source: SNL Kagan, US Connected Video Devices, 12/20/16

VIDEO ADVERTISING BUREAU

This Is Because The Overwhelming Majority Of OTT HHs Also Have A Cable Or Satellite Subscription

Only 15% of HHs are streaming only

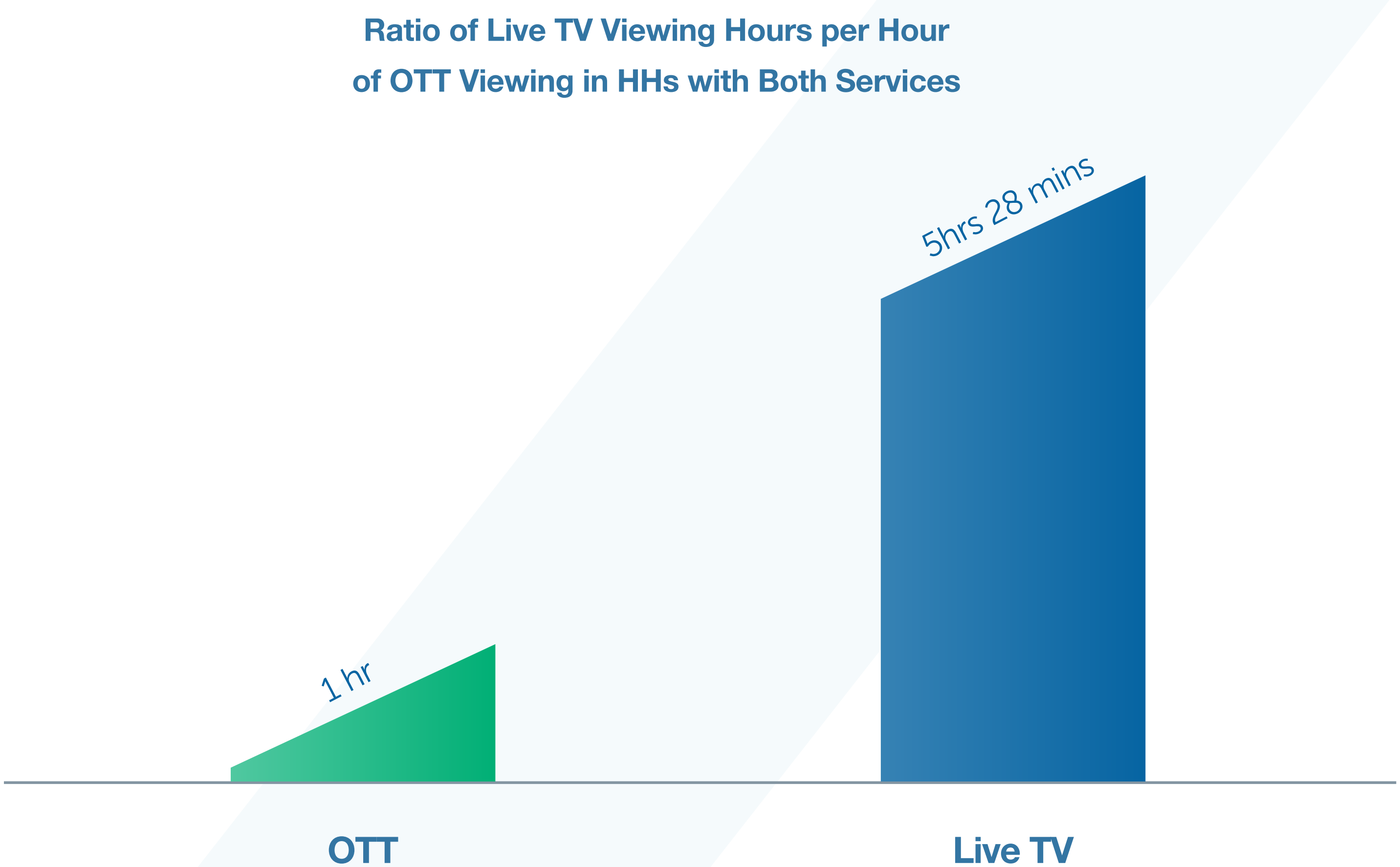
Over-the-Top (OTT) Households by Service Type



Source: ComScore Total Home Custom Reporting, U.S. December 2016; comScore Single-Source (TV+OTT) Custom Reporting, U.S. December 2016

VIDEO ADVERTISING BUREAU

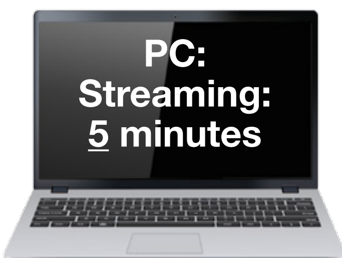
Households With Both TV and an OTT service watch 5x more TV content than OTT content



Source: ComScore Total Home Custom Reporting, U.S. December 2016; comScore Single-Source (TV+OTT) Custom Reporting, U.S. December 2016

And Even The Most "Unlikely" TV Viewers – Heavy Streamers And Light TV Viewers – View More TV Than Streaming Video

The **Heaviest Streamers** are watching 8x more TV a day than streaming video on a PC



The **Lightest TV Viewers** are watching 15x more TV a day than streaming video on a PC

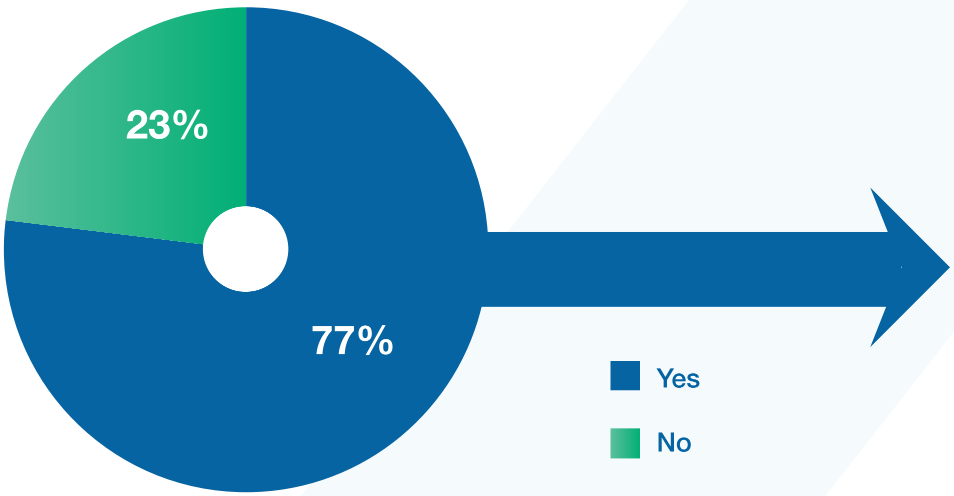
Source: Q1 '17 Nielsen Total Audience Report. Streaming based on home PC only. Chart based on "average daily minutes". Heaviest Streamers (Quintile 1 – they represent 90% of all minutes streamed). Lightest TV (Quintiles 4/5 – they represent 8% of all TV minutes viewed)

"The Skinny" On The Reality Of Cord Cutting

Consumers Are Eager For "Skinny Bundles" - Customized Content Packages Tailored To Specific Interests/Genres

77% of consumers would like a customized TV package

"Would you like to choose only the channels you want to watch?"



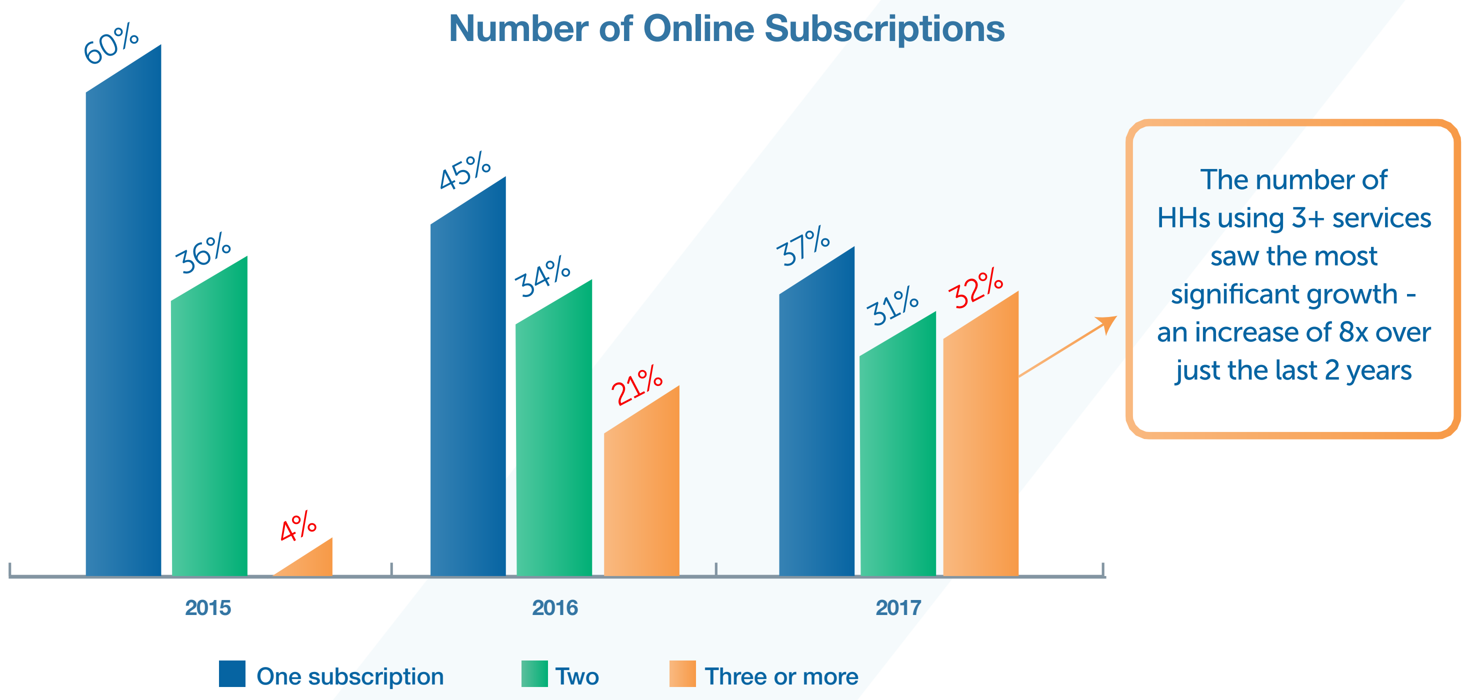
64% of those looking for customization would re-consider leaving their cable/satellite/telco provider if allowed to choose and pay for only the channels they typically watch

Source: TiVo Q4 2016 Video Trends Report

In Looking To Adopt "Skinny Bundles" At Lower Costs, Consumers Often Face Challenges Replicating The TV Programming They Want

VIDEO ADVERTISING BUREAU

In Order To Get Their Desired Programming, Consumers Are Increasingly Subscribing To Three Or More Streaming Services, Driving Up Costs And Complexity



Top OTT services (# of U.S. subscribers) NETFLIX **47.9M** amazon Prime **40.9M** hulu **11.7M**

Source: Hub Report; Online Subscription includes Netflix, Hulu, Amazon, Network Standalones (HBO Now, CBS All Access, etc.) and vMVPDs (Sling, YouTube TV, etc)
SNL Kagan for # of Subscribers (2016) – Economics of Internet, 4/17/17

VIDEO ADVERTISING BUREAU

As A Result, Depending Upon The Level Of Service, Cord-Cutting May Not Yield Much Cost Savings

Example Package Scenarios

Scenario: Want Most Choice

	Streaming HH	MVPD HH
Internet	**$44.99** (unbundled)	**$29.99** (bundled with TV)
Live TV	**$75.00** (PlayStation.Vue – "Ultra" - 90 channels, including broadcast + HBO + Showtime)	**$59.99** (125 channels)
Device Required	**$25** (PlayStation)	**$10** (2 DVR Boxes)
Supplemental Streaming	**$12** (Netflix) **$9** (Amazon Prime)	**$12** (Netflix) **$26** (HBO + Showtime)
Total Monthly Cost	**$165.99**	**$137.98**

Scenario: Just the Basics

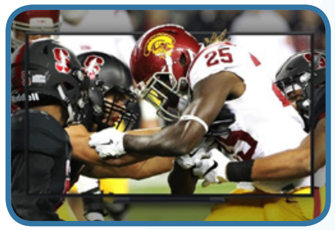
	Streaming HH	MVPD HH
Internet	**$44.99** (unbundled)	**$29.99** (bundled)
Live TV	**None**	**$59.99** (125 channels)
Device Required	**None**	**$5** (1 DVR Boxes)
Supplemental Streaming	**$12** (Netflix) **$9** (Amazon Prime)	**None**
Total Monthly Cost	**$65.99**	**$94.98**

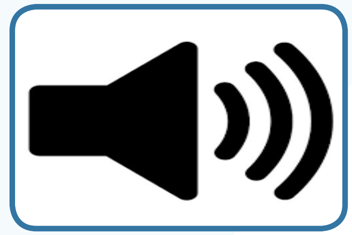
Source: Costs based upon leading MVPD unbundled Internet and TV/Internet packages; Internet 100 Mbps, Costs based on zip code 11211, 6/9/17; Note that while PlayStation.vue can run on a variety of devices, some features are not supported on those devices, initial device cost of $299 (Best Buy, PS4 1 TB Console 6/12/17) is amortized over the first year; Costs do not include taxes or fees. YouTube TV - $35/mo for 6 broadcast nets (CBS, NBC, FOX, ABC, CW, Telemundo) & 42 Cable Networks, Cloud DVR, Showtime at $11/mo; YouTube Red - $10/mo, ads removed from all non-paid Videos

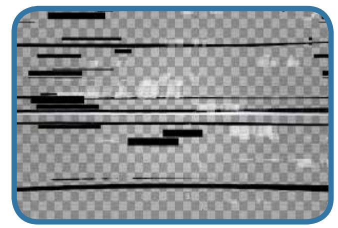
VIDEO ADVERTISING BUREAU

And The Quality Of The Streaming Experience Can Often Be Sub-optimal

Only 24% of those who watch both traditional TV and streaming video believe that streaming from the internet is a better experience







The Issue:	**Low Frame Rates** TV telecasts typically run at 60 frames/second; streaming video often plays at 30	**High Latency** The lag time that occurs between the TV broadcast and the live stream	**Inferior Audio** Surround sound support tends to be nonexistent	**Tech Glitches** Loading, buffering, or authentification issues
Why it Matters:	Picture can look choppy or jittery, particularly disruptive for sports	A frustrating experience if you're hearing viewer reaction after a big play, or reading plot updates on Twitter before anything's even happened on your TV	Less enjoyable viewing experience, particularly for sports and movies	Disrupts the viewing experience

Source: IAB/Maru-Matchbox; Techhive.com/article/3179751/streaming-services/the-quest-for-smooth-60-frames-per-second-sports-in-streaming-tv-bundles.html; http://www.techhive.com/article/3199258/data-center-cloud/streaming-tv-quality-sucks-heres-how-the-industry-intends-to-make-it-better.html

VIDEO ADVERTISING BUREAU

Many MVPDs Are Creating Custom Packages To Retain & Attract Skinny Bundle-Seeking Cord Cutters/Nevers

Also positions them to be ready when HHs want to trade up their subscriptions

Custom TV packages

Pick a Custom TV package that fits your lifestyle:

Action & Entertainment | Sports & News | Kids & Pop | News & Variety | Infotainment & Drama | Lifestyle & Reality | Home & Family

Action & Entertainment

Action, comedy and drama networks, plus news & pop cu

Channels included:

A&E
AMC
Aspire
AWE
BBC America
BET
Bravo
Cartoon Network
CCTV News
Centric
CMT
CNBC World
Comedy Central
Daystar
Discovery Family Channel
Disney Channel
Disney Jr.
Disney XD
Evine Live
Family Net
Food Network
FX
FXM
FXX
Go 4 It
GSN
Hallmark Channel
Hallmark Movies & Mys
HGTV
History
HSN
Lifetime

Action & Entertainment | Sports & News | Kids & Pop | News & Variety | Infotainment & Drama | Lifestyle & Reality | Home & Family

Sports & News

Perfect for super fans. All the most popular sports networks plus other news and general enterta

Channels included:

Accuweather
AMC
American Heroes Channel
Aspire
Big Ten 1
Big Ten 2
Big Ten Network
Bloomberg
CCTV News
CNBC
CNBC World
CNN
C-SPAN
C-SPAN 2
C-SPAN 3
Daystar
ESPN
ESPN 2
ESPN News
ESPNU
Evine Live
Family Net
Fox Business Network
Fox News
Fox Sports 1
Fox Sports 2
FX
FXM
FXX
Go 4 It
Hallmark Movies & Mys
HGTV
HLN
HSN
Liquidation Channel
MLB Network
Mnet
MSNBC
Music Choice
NBA TV
NBCSN
NFL Network
NHL Network
QVC
QVC Plus
RLTV
Regional Sports Networks
SEC Network (National)
SEC Network Ov
(National)
Syfy
TBS
TNT
truTV
Turner Classic M
Up
USA
Velocity

Action & Entertainment | Sports & News | Kids & Pop | News & Variety | Infotainment & Drama | Lifestyle & Reality | Home & Family

Kids & Pop

Great for kids and teens. Popular kids programming plus pop culture and entertainment.

Channels included:

AMC
Animal Planet
BET
Bloomberg
Boomerang
Cartoon Network
Centric
CMT
CNBC World
CNN
Comedy Central
Discovery Channel
Discover Family
Disney Channel
Disney Jr
Disney XD
E!
Freeform
FX
FXM
FXX
Hallmark Movies & Mys
IFC
MTV
MTV2
Music Choice
Nat Geo Wild
Nick Jr
Nick Toons
Nickelodeon
Pop
RLTV
Spike
Sprout
Syfy
TBS
TeenNick
TNT
Travel Channel
truTV
Turner Classic
TV Land
UP
USA
Velocity
VH1
VH1 Classic
WE Tv

Source: VerizonFios Custom TV Packages, 6/12/17, zip code 11211

VIDEO ADVERTISING BUREAU

With The Increased Adoption Of "TV Everywhere" Consumers Have Found Another Way To Access MVPD Content On The Go

TVE is projected to grow 20% by 2020, driven by greater acceptance and more familiarity with authentication process, plus a larger variety of program offerings including sports and new series premieres

Estimated & Projected U.S. "TV Everywhere" Unique Users
(in millions)

Source: SNL Kagan 2016, Reflects individual TV Everywhere users as of August 2016

Connecting The Dots – Common (Mis)perceptions And Realities

Common (Mis)perceptions and Realities

Perception: Cord Cutters/Nevers are making a significant impact on the number of MVPD HHs

Despite the growth of cord cutters/nevers, MVPD HHs represent 83% of all TV HHs. Future CC/CN growth is not forecasted to come at the expense of MVPD HHs, but rather as an additional service.

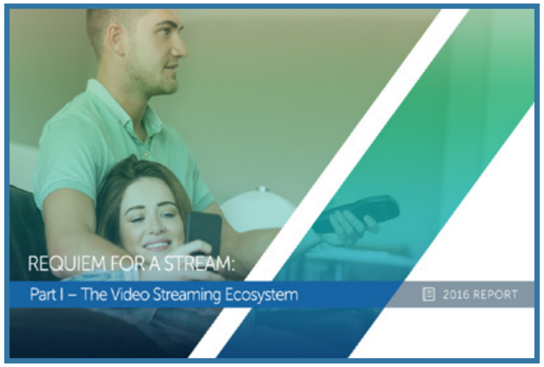
Perception: Cord Cutters/Nevers are Millennials, who are ushering in a new mindset of media/video consumption

Across generations, including Millennials, the majority of video viewing is with Television. The decision to cord cut is tied to income, and not the result of a Millennial generational shift in attitudes towards media consumption. Many Millennials re-engage with MVPDs as their lifestage and income mature.

Perception: The lure of original streaming content is what's driving cord cutting

The shift away from MVPDs towards streaming is unequivocally rooted in cost considerations, not driven by the original content streaming services provide. The viewer's desire for "customization" and flexibility is based upon the belief that it will yield cost savings, which may not always be the case.

Related VAB Reports Of Interest



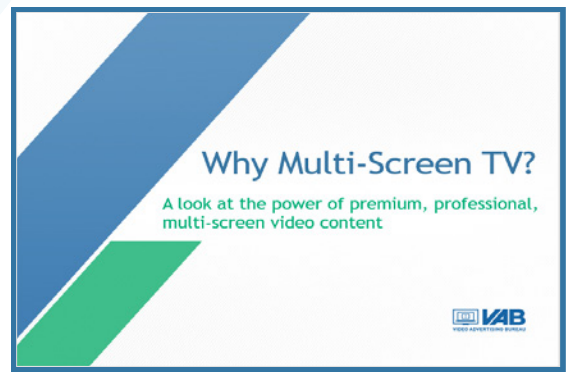
Requiem For a Stream – Part I:
The Video Streaming Ecosystem

Requiem For a Stream – Part II:
Video Streaming Behaviors

Requiem For a Stream – Part III:
The Relationship Between
TV Brands & Video Streaming

Millennials in Transition:
How Media Consumption Evolves
With Each Lifestage

TV Everywhere…
Accessing Premium Video Content
Across Multiple Screens



Why Multi-Screen TV?
A Factual Look At the Power Of Premium,
Professional Multi-Screen Content

CONTACT US

For More Information Visit Us Online

TheVAB.com

Follow us: @VideoAdBureau

Like us: facebook.com/VideoAdvertisingBureau

Sean Cunningham
President & CEO
212-508-1223
seanc@TheVAB.com

Danielle DeLauro
SVP Strategic Sales Insights
212-508-1239
danielled@TheVAB.com

Jason Wiese
VP Strategic Insights
212-508-1219
jasonw@TheVAB.com

Evelyn Skurkovich
VP Strategic Research & Insights
212-508-1220
evelyns@TheVAB.com

Marianne Vita
VP Strategic Insights
212-508-1211
mariannev@TheVab.com

VAB VIDEO ADVERTISING BUREAU

No platform drives business like TV's premium video-at-scale