



*Highlights from  
Economics of Basic Cable Networks*

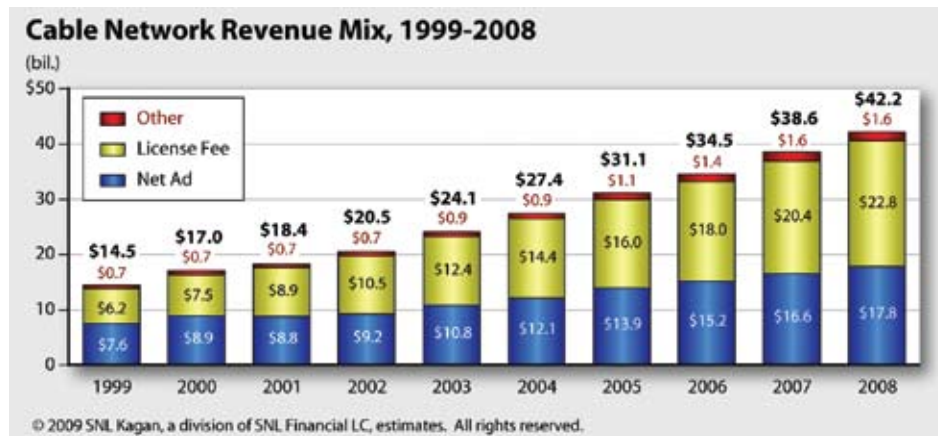
By Derek Baine, Associate Director, SNL Kagan, October 2, 2009

# Highlights from Economics of Basic Cable Networks



This year's study shows that overall results for national cable networks in 2008 were robust, despite the weak economy. Few industries could boast the kind of performance in such a tough sales environment, but highlights from **Economics of Basic Cable Networks** show:

- Ad revenues grew 7.3% to \$17.8 billion
- Affiliate revenues were up 11.8%
- Total revenues up 9.4%



Large incumbent cable nets can generate cash flow margins in the 40-60% range. The highlights from our findings conclude that these fat margins are what make the sector so attractive for investors. Going forward, we expect the recession will hinder bottom-line growth, but margins won't be crushed as we have seen happen in other media industries like TV, radio and print. Over the next five years, we estimate industry revenues will grow, on average, 8.1% per year, while cash flow will grow 9.6% per year. If we're right, by 2013 cable networks will be generating more than \$60 billion a year in revenue and almost \$23 billion in cash flow.

For the second year in a row, TBS reported the most cable TV households, followed closely by The Weather Channel and Discovery. The Weather Channel was the only channel among the top ten to report year-over-year growth of more than 2.1%.

There are several factors that contribute to the success of the cable networks, including distribution growth, ratings, license fees and advertising. Channels that broadcast news content, children's programming and special events have emerged as the ratings and household leaders in 2008. Among the channels offering children's programming, Disney and Nickelodeon rank among the top ten performers in both ratings and households. In the news sector, FOX News has come to dominate, while ESPN has remained the go-to channel for exclusive sports content. A few other channels that eked out a top spot in ratings and households were USA, TNT, TBS and Lifetime. Interestingly, these four all class themselves as general entertainment programming; however, Lifetime is geared more toward women's programs, TNT focuses on drama and TBS specializes in comedy. It is

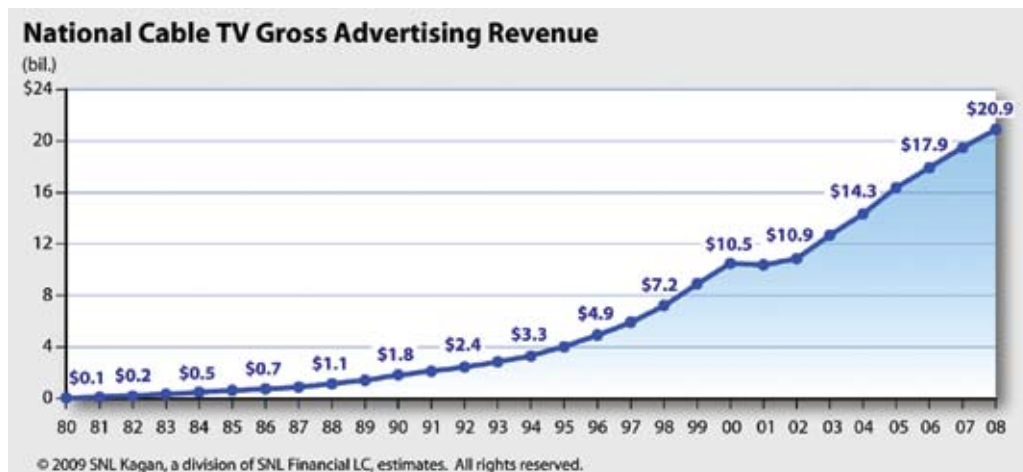
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interesting to note that only three out of the top ten rated networks in 24-hour ratings reported growth and none of the top ten reported growth in prime-time ratings.

In regards to the success stemmed from license fees, sports-based channels continue to dominate the license-fee landscape. Due to their exclusive content rights, sports-based channels can command ever-increasing license fees. Seven of the top 20 channels ranked by monthly license fee per sub are sports-based. Another important factor in achieving license-fee growth is the ability to bundle channel offerings. Content from Disney, ESPN and ESPN2 is often sold together, giving the Walt Disney Company some muscle in price negotiation. A similar technique is used by News Corp., the owner of FSN, FOX News and FX Network, as well as a minority stakeholder in Big Ten and other majors like Time Warner and Viacom.

The performance of the cable TV ad market has been nothing short of phenomenal over the past decade, although the recent economic downturn has taken its toll. Despite a near-complete economic implosion and with unemployment creeping toward 10%, 2008 was actually a banner year for national cable ads, generating an estimated \$20.9 billion, up 7.3% from 2007. However, growth has been decelerating for three years. After recovering from the last recession, when ad revenue dipped a modest 1.1% in 2001, national spots grew 4.6% in 2002 before posting three years of double-digit growth, which began to slow in 2006 to 9.6%, and again to 8.7% in 2007. Still, that slowdown doesn't look so bad compared to the difficulty broadcast networks have faced. The disappointing news is that although cable continues to take share from broadcast, the closing of the CPM gap hasn't happened as quickly as many had hoped. The average cablenet CPM grew only 2.1% in 2008, just slightly behind the 2.7% rate posted in both 2006 and 2007.



For this exhaustive study, we surveyed industry executives from virtually every cable network on the air to get their outlook on the economics of the channels they own and operate. **Economics of Basic Cable Networks** is the most comprehensive network-by-network dissection of the cable programming industry available. The results of the survey are then rolled up to support our industry aggregate model.

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