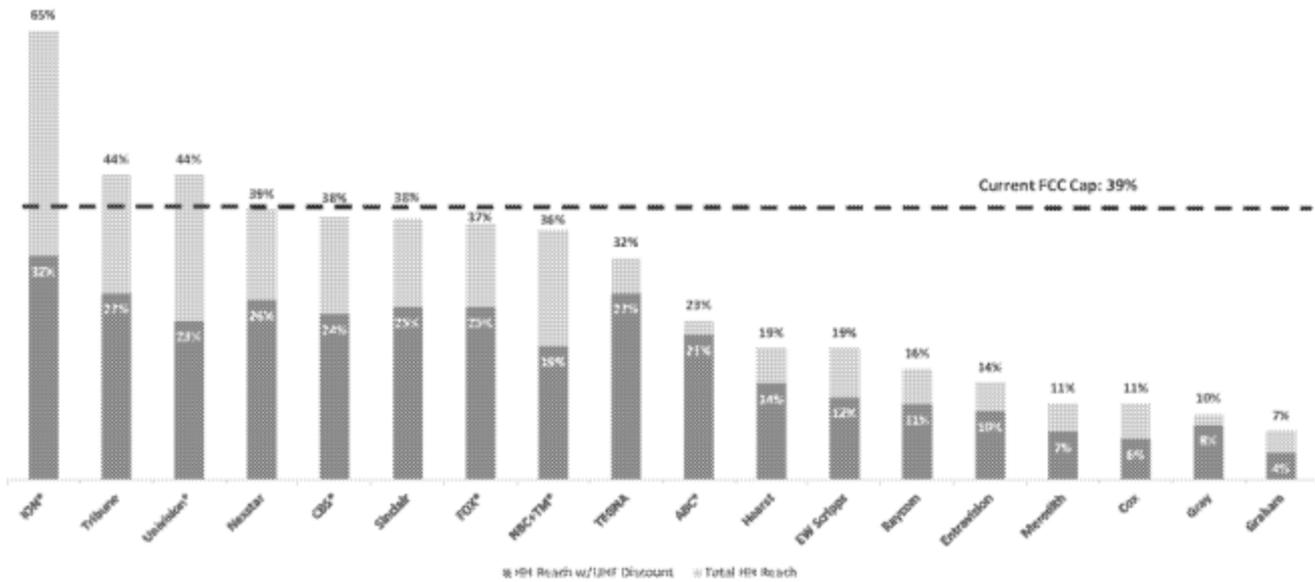




Industry Landscape: U.S. TV Households Reached



Note: Pro forma for acquisitions  
 Source: Deutsche Bank

- Net Retransmission Fees:** Retransmission fees have helped offset slowing core advertising for broadcasters and also provided better visibility and predictability for the sector (contracted revenue vs. more volatile advertising spend). In fact, retransmission fees will account for >30%+ of total revenue for many groups in the year ahead (ex political). To date, the local broadcasters have generally been considered 'must-haves' on traditional MVPD offerings as well as slim/skinny bundles and OTT direct-to-consumer services. That said, the margin on this income stream has been under pressure as network partners extract better terms (reverse comp). We believe margins currently hover at a still healthy ~50% on average, but there will likely be further erosion over time. Over the near-term horizon, we expect net retransmission fees (amount collected by broadcasters from distributors less what is owed to network partners) to grow in the high-single to low-double digit context on average. This gives us comfort, although our longer-term concern is that cord-cutting and cord shaving puts continued pressure on MVPDs revenue and margins, and perhaps constrains their ability to pay rising rates to broadcasters in the future. We acknowledge that this could be offset by fees paid by new entrants into the distribution arena (e.g., digital services like YouTube, Hulu, etc.).

Balancing out all the above plusses & minuses, we shake out positive the High Yield TV sub-sector rolling into 2018 and recommend overweighting TV credits. Positive fundamentals, a lift from cyclical events and political, and the benefits of increased scale (thanks to loosened regulations) set the sector up for a strong year.