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October 26, 2020

Research Coverage

Stock Ticker	Oct 22 Price	Chg in 2019	YTD Chg in 2020
AMC	$3.04	-41.0%	-58.1%
CCO	$1.03	-44.9%	-64.0%
CNK	$8.93	-5.4%	-73.6%
DISCA	$21.09	32.3%	-35.6%
DLB	$70.62	11.3%	2.6%
FLNT	$2.66	-83.6%	268.8%
GTN	$13.26	45.5%	-38.2%
IHRT	$8.42	#N/A	-50.2%
IMAX	$11.45	8.6%	-44.0%
LGF.A	$7.52	-33.8%	-29.5%
MCS	$8.02	-19.6%	-74.8%
NCMI	$2.14	12.5%	-70.6%
NXST	$91.30	49.1%	-22.1%
OUT	$14.47	48.0%	-46.0%
QNST	$16.80	-5.7%	9.7%
SIRI	$5.97	25.2%	-16.5%
TGNA	$12.83	53.5%	-23.1%
TSQ	$4.70	144.4%	-52.9%
TZOO	$8.45	8.9%	-21.0%
VIAC	$29.15	-4.0%	-30.6%
S&P 500	3,431.03	28.9%	6.2%
DJIA	28,194.83	22.3%	-1.2%
NASDAQ	11,421.41	35.2%	27.3%
Russ 2000	3,985.79	23.7%	-3.9%
S&P Media	642.78	33.3%	-3.0%
S&P Bdcst	380.24	7.6%	-30.6%
S&P Movie	536.73	25.7%	8.9%

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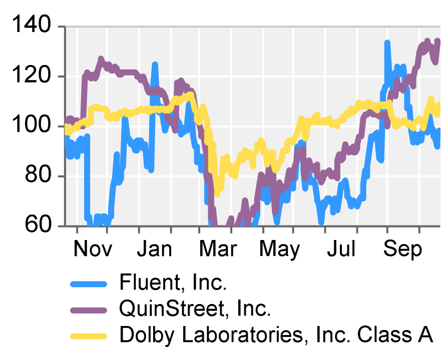


Media Trends

Special Report – Presentation to Media Financial Management Association on October 20, 2020

Overview of the Media Outlook, Including the Impact of the COVID-19 Pandemic

Participation in a recent Virtual Conference for the Media Financial Management Association included a presentation that included most, but not all of the following text. We include the slides used in the presentation along with results of some polling questions (presented as pie charts in text boxes) to which the attendees were able to respond live during the course of the presentation. The text follows:

The Only Constant is Change

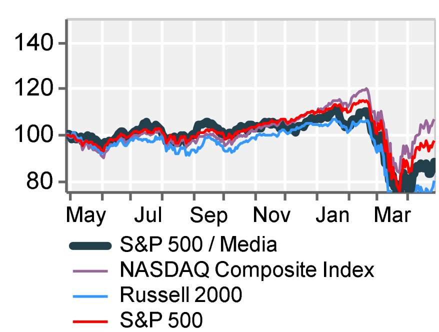
This has never been more true. My coverage of the Media & Entertainment space dates back 35 years to 1985. Things were arguably simpler then. Newspapers (yes, the physical versions) were more pervasive and commanded about 40% of domestic ad spending. Broadcast television produced a similar share of domestic ad dollars through three networks and their owned and affiliated stations that accounted for more than 95% of all TV viewing.

The 2 ½ network economy – a one-time buzzword characterization – suggested that all three networks could not simultaneously be profitable, with most returns generated at the station level. The networks paid affiliate compensation to hold together an alliance of local stations to command a national reach to sell to advertisers.

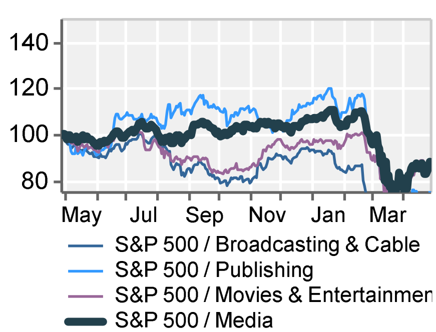
Cable television was in its relative infancy, predominantly a means of providing a stronger and more reliable signal for the broadcast channels. Radio was a significant but smaller revenue generator, generally arguing that more of the local ad dollars directed to newspapers would generate better returns for advertisers if rerouted to its medium. And the old saw still seemed true that half of all ad dollars are wasted, we just don't know which half.

Price Performance Charts (Source: FactSet Research Systems)

Market vs Industry Indices



Industry vs Subsector Indices



NOTE: Please refer to page 20 of this report for important disclosures.

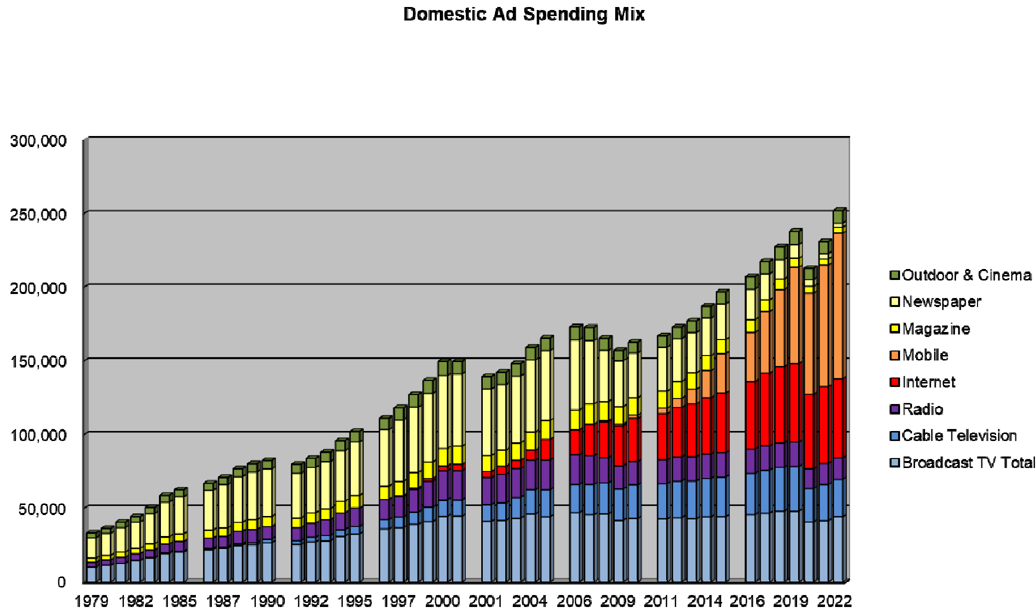
Many factors have shaped the dramatic and continuing transformation in the media and entertainment industry over the past several decades. Broader influences include consumer interests and usage, the success of competing alternatives in meeting these needs, the overlay of regulation from the FCC to the Justice Department, exogenous variables, with the global pandemic the latest example, overall economic trends, and globalization in some cases.

The ultimate measuring stick of monetization success has been largely in terms of subscription and ad dollars. I would like to take us from the earlier stage to the present, less as a history lesson than as a contextual framework to where we stand now in the key media and entertainment verticals, and how each is positioned for the challenges to come.

Dramatic changes occurred almost immediately during my experience in the media and entertainment space. The pace of change began to accelerate and has yet to let up. The ownership structures of the three major network operators changed, including the purchase of ABC by Capital Cities, with the combined Capital Cities/ABC itself then becoming a prize for Disney a decade later.

Cap Cities/ABC had a unit known as ESPN that was its largest profit generator, as it was initially for Disney, and was the most significant of the then-emerging cable programming franchises. Like clockwork, the other major networks underwent structural and/or ownership changes at those same 10-year, mid-decade intervals. Many of these actions created significant reactions that have evolved into the current state of affairs.

I have a visual link between those earlier situations and the present, somewhat setting the stage for what is currently underway, though we all may have a best guess as to what is truly to come, even if our vision is only partly realized in the fashion we expect. I previously spent some time analyzing oil services, and the link between a variety of related but disparate sub-industries was the level and trend in the price of oil. With media, an analogous situation exists with advertising spending, though certainly the emergence of subscription dollars must be factored in as well since subscriptions have become an increasingly large revenue contributor also. The graphic on the screen provides a visual overview characterization of these changes.



I have been tracking total domestic ad spending since taking over this sector in 1985 and have attempted to extend these figures through the present time, though the consistency of data availability has been lacking over time. During the 1980s, a gentleman named Bob Coen tracked domestic ad spending for a major ad agency, McCaan Erickson, but his eventual retirement created a void in consistency in numbers that even for him involved new and revised estimates even in the best of circumstances.

Our objective has been to create a broader sense of the growth and mix of ad spending categories over time. Importantly, this is a market share game, since aggregate numbers tend to reasonably closely track GDP trends.

The most striking observations are the development of Internet advertising about two decades ago followed by the emergence of mobile advertising a decade later, with those two categories now accounting for more than half of all domestic ad spending.

Television – broadcasting and cable combined – has held its own, declining much less significantly in overall share to a still-meaningful 30%. The give has been from print media – newspapers and magazines, which have now dropped enough that radio, while declining somewhat, now actually exceeds newspapers in terms of ad spending share.

Let’s now examine the dynamics of key sectors one by one. I will be focusing on the sectors we at Barrington Research include in our active coverage list. Our three broad groupings are Content, Cinema and Media Technology, though some diversified companies can easily be categorized in more than one of these broader groupings.

More specifically, they include content creation and distribution, broadcast television, radio and other audio services, digital marketing services, theatrical exhibition and related cinema services including cinema advertising and enhanced audio and video technologies plus out-of-home advertising, a category that began as billboards and other static displays but has evolved to embrace a growing digital element in displays, ad sales opportunities and measurement.

Content

Content creation has changed in various ways over the years reflecting changes in audience tastes, plus the application of technology to both streamline certain processes and create otherworldly imaging. Ultimate distribution vehicles have also impacted this process.

Very specific time parameters plus requirements in terms of numbers of episodes frame expectations for shows targeted for network television and the creation of ultimate syndication value.

On the other extreme, significant freedom characterizes programs created for binge viewing on streaming services, such that the number of episodes and the length of each episode are not bound by any such requirements, particularly in the absence of ad support. Animation has also changed dramatically, including the potential to create exceptionally sophisticated and realistic imaging.

Broadcast television networks are now structured to be profitable enterprises. Several decades ago, the networks only partly covered programming costs with network ad dollars while creating benefit from their owned and operated stations. They also created wonderful opportunities for their non-owned affiliated stations who received highly valuable programming in return for help in providing a national platform for ad sales and actually receiving affiliate compensation for access to their platforms.

Major network affiliate group broadcast television stations were highly valued, and still are, as the attention drawn to them by top tier network affiliation supported their branding plus their efforts to monetize their advertising on largely news-focused local programming they produce and own.

I always felt Time Warner's creation of the WB network restored some better logic to this relationship. It was able to utilize the Warner Bros. programming expertise to create a highly targeted new network. Since Time Warner owned no stations, the notion of network compensation had to shift to programming fees in a sharing relationship, or reverse-comp, if you will, while recruiting the largely independent Tribune station group as the flagship station group for the WB and later CW. Tribune was the only non-O&O group with large VHF stations in the three largest markets of New York, Chicago and Los Angeles.

Cable television, which had initially emerged as a higher-quality means of receiving broadcast signals, began to develop its own programming and commanded affiliate carriage fees with other cable and satellite signal providers. Subsequent development of a dual revenue source of subscription fees and advertising eventually prompted broadcast television stations to demand their version of affiliate fees – dollars referred to as retransmission fees.

In my opinion, this development helped save the existence of local broadcast television stations and the network/affiliate relationship structure. Rather than move network programming entirely to Internet and streaming access, it sustained local touch points of local broadcasters, while creating a new and stable revenue source that actually improved the economic model of local television broadcasters by not only growing revenues but simultaneously insulating the revenue trend from advertising-driven variability (aside from political revenues, of course).

As many of you may recall, in 2006, Viacom separated its cable network and broadcast television businesses under the hypothesis of unlocking value by giving investors the ability to invest in the high-growth cable network assets and not be weighed down by the cumbersome broadcast network. Less than a decade later, they have recombined, as a result of the generally positive trends for the broadcast network, and the cable networks particularly facing uphill challenges from the increasing diversity of streaming assets that were particularly attractive to younger demographics.

It turned out that the stodgy old network actually possessed significant growth opportunity, while the hotter property faced unexpected challenges. Interestingly, Viacom's cable networks have always been especially effective in reaching the desired younger demographics. However, the younger demographics have also typically been the most resistant to viewing ads and best equipped in figuring out ways to accessing the programming and other content forms while avoiding the ads.

In the early part of the last decade, live & time-shifted television viewing peaked. For some age demographics, such viewing has declined by over half as consumers migrate to various non-linear television services. Cable networks helped create their own challenging environment, of course, but many elements of the new forms of distribution – including price points – were particularly advantageous, to the point at which the most widely distributed SVOD services may have greater reach than linear cable, notably Netflix.

HBO GO was among the earlier efforts from the traditional media companies to create authenticated access to premium content via remote devices like iPhones and iPads. With nearly every major content company plus many smaller ones entering into the arena with their own service, consumers can assemble their own customized bundle, though at price points perhaps above where they would be with a traditional bundle. A major concern entering 2020 was how all these services could compete, since there is a limit to how many services consumers would subscribe to.

Present Era for Content and Broadcasting, and Influence of the Pandemic

Over the Top Options Have Become Increasingly Important

Cable television and direct broadcast satellite, as you well know, are no longer the only access points for broadcast television stations and other programming. Some services and even some types of hardware serve multiple purposes. Smart TVs from Samsung, Vizio and others enable access to various programming services without a package provider such as Comcast, Charter or DirecTV. However, they do require broadband access, which has become the bigger business opportunity for companies like Comcast and Charter.

Various subscription fee, ad-based and hybrid providers are competing for market share in program delivery including Hulu, fuboTV, PlutoTV and others. Premium streaming offerings that began with Netflix and Amazon Prime have been joined by Apple TV, Disney+, CBS All Access (transformed into Paramount+) and Peacock. These last three include access to ABC, CBS and NBC, respectively.

1985	2000	2020

•Newspapers
•Broadcast and Cable TV
•Direct Mail
•Radio
•Billboard and Transit
	•Newspapers
	•Broadcast and Cable TV
	•Direct Mail
	•Radio
	•Billboard and Transit
	•Internet
	  •Display
	  •Search
		•Newspapers
		•Broadcast and Cable TV
		•Direct Mail
		•Radio
		•Billboard and Transit
		  •Static
		  •Digital
		•Search
		•Internet
		  •Desktop
		    •Display
		    •Search
		    •Social
		  •Mobile
		  •Connected Devices

These have all served to complicate what used to be a more straightforward set of consumer choices in terms of programming options. Good old rabbit ears and other types of antenna also play a role.

What Bundle Do You Want?

Traditional MVPD

Service	Plan	Cost
xfinity	Extreme + Extra	$80 ($133)*
Total		$80 ($133)*

vMVPD + Netflix

Service	Plan	Cost
xfinity	Performance	$40 ($63)
NETFLIX	Standard	$13
YouTube TV	YouTube TV	$65
Total		$108 ($131)

Collection of SVOD

Service	Plan	Cost
xfinity	Performance	$40 ($63)
NETFLIX	Standard	$13
hulu	Ad-supported	$6
CBS ALL ACCESS	Ad-supported	$6
prime video	Amazon Prime	$10
peacock	Ad-supported	Free
Total		$65 ($88)

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The impact on broadcast television is also more complicated. Consumers who are cord cutters or cord nevers who access network television affiliates outside of the cable/satellite platforms count in terms of ad dollars, but not in terms of the increasingly important retransmission dollars. Shifts in access to streaming cause adjustments in retrans dollars such that any gains in retrans fees per subscriber are offset by slippage in total sub counts.

Content Creation Constrained by Combating Coronavirus

In many states, reopening has enabled companies to submit proposals to regulators for restarting filming activity, and shooting in international locations has resumed, and in some cases been re-suspended, for theatrical productions in the pipeline for 2021 and 2022. On a hopeful note, the local news in Chicago has been highlighting that Chicago is once again starring as Gotham in a new Batman production for which filming is now resuming in the Loop.

As content creation resumes, various restrictions and safety requirements including health screening and cleaning procedures and testing along with other measures will add meaningful costs to the production process. Indications from trade press suggest it could provide a 20% hike to the cost of production. This would meaningfully squeeze margins for all parties involved as those costs are ultimately passed on in some form to content outlets, particularly in the cost-plus model of many SVOD programming arrangements. However, there are some mitigation steps that can potentially offset the impact of these potential cost increases, and some of our companies are taking such steps, such as reducing the number of days of production.

While in-home produced content has been particularly valuable and cost-effective for unscripted/reality programming on Food Network and late-night talk shows, studios are more than ready to return to something approaching normal working conditions to replenish the content pipeline. Ahead of scripted programming restarts, there are encouraging signs from the ability of the networks to produce sports content in a relatively safe environment for production staff. Sports leagues domestically underway include MLB, PGA, NBA and the NFL season.

Ratings for sports content highlight consumer desire for something new to watch given the reduced OOH activity by consumers, particularly during the second wave that has caused reinstatement of more restrictive actions towards the economy. However, the NBA Finals ratings lagged expectations and compared poorly with year-ago levels.

This issue also extends to production of content slated for theatrical distribution, or at the very least, feature film length. As it relates to the theatrical distribution calendar, by delaying films, studios are more or less able to defer the need to restart production until films are viable in a theatrical setting, if they desire. While some production has restarted, stoppages are not uncommon.

There is a risk that a crunched period to create content provides additional cost pressures on top of increased cleaning procedures with many services in high demand for this process. There are general indications that many services have limited content that has been produced and not yet released to viewers, suggesting an elevated need to produce content to continue to attract viewer attention or retain subscribers.

Pushing theatrical content directly to SVOD services is an option, but has not been taken up on many large pictures thus far. However, it has definitely happened, most recently by Disney's announcement that animated feature *Soul* would be placed on Disney+, and Disney has been regarded as a firm supporter of theatrical windows, though as I will note later, some recent actions by Disney are potentially must less supportive of windows.

Optimism Regarding Political Ad Spending Remains High

As you all know, political dollars tend to be concentrated in local television broadcasting, displacing some ad dollars that would typically be spent on those stations. We have observed additional spending directed to other options including more modest amounts to radio broadcasters, for which political dollars are especially incremental in terms of profit contribution. Digital and social media are also becoming increasingly large political targets.

Despite a weaker ad spending environment resulting from the pandemic, political spending remains on track to meet or even exceed original expectations, especially in the context of contentious political races. Fundraising at a national level for both parties has been at high levels, and we sense those funds are being spent.

This contrasts sharply with the 2016 presidential race during which Donald Trump received significant attention without such ads and Hillary Clinton spent less than expected. The fourth period captures the largest share, specifically the first five or six weeks after Labor Day and running through Election Day.

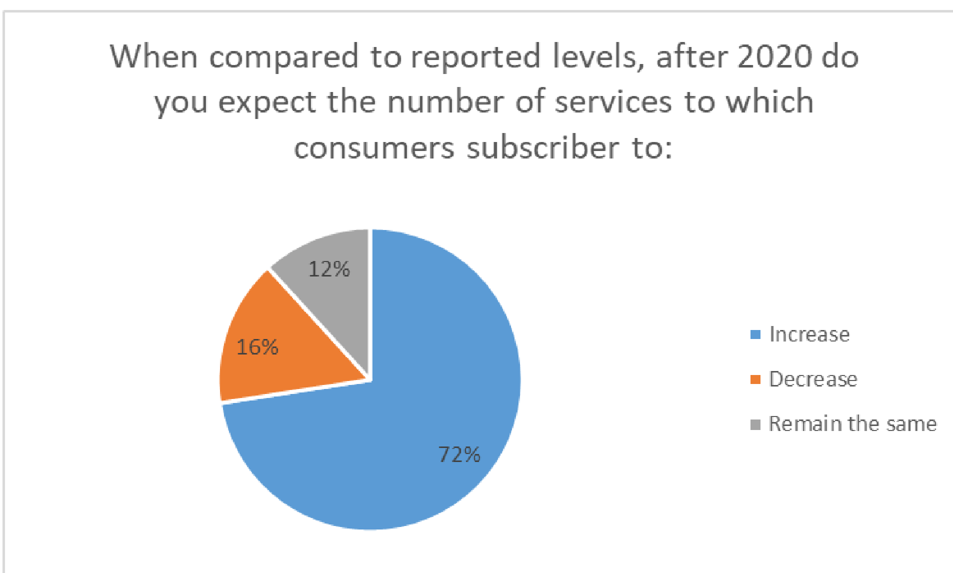
The Silver Lining – Never Let a Crisis go to Waste

As major events have transpired, changes for the better have accompanied unfortunate events, providing at least somewhat of a set of mitigating elements. It may be a pain to go through heightened airport security since 9/11 but the benefits of reduced risk are hopefully worth it.

Increased cleanliness will hopefully moderate risks of disease such as regularly recurring flu in the wake of COVID. As regards the broadcasting business, usage trends were very favorable as the pandemic asserted itself, including an appeal of news and information and entertainment to demographics that had typically not used many of these options when there were other things to do.

While the ability to monetize these higher usage patterns was constrained by reduced ad spending, the opportunity for improved potential as the pandemic effects eased creates a clear opportunity if broadcasters are able to sustain appeal to these incremental viewers and retain a decent subset of them as trends return to a more normalized environment.

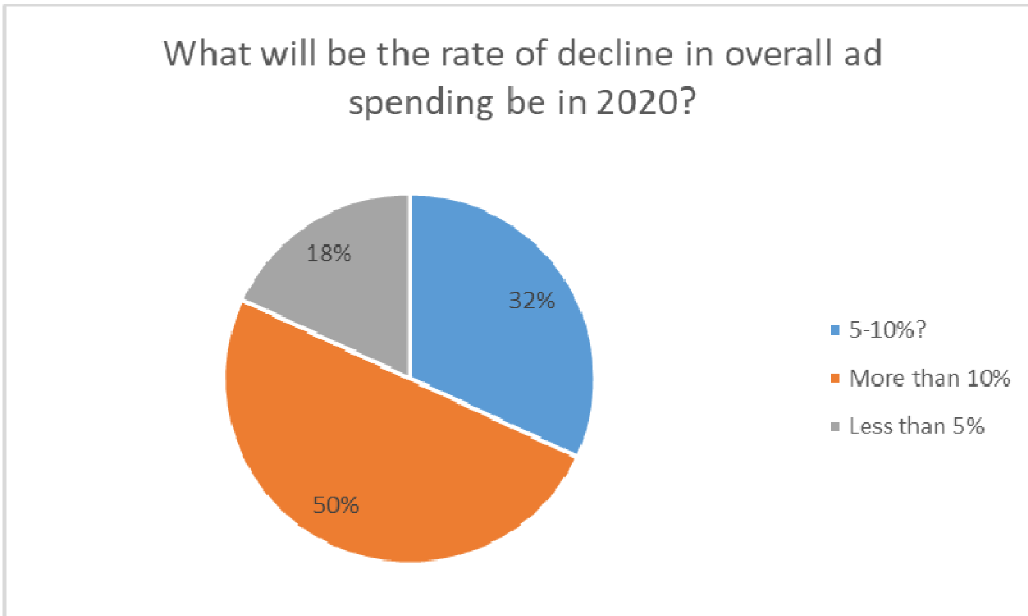
Increasing Engagement Without Benefit

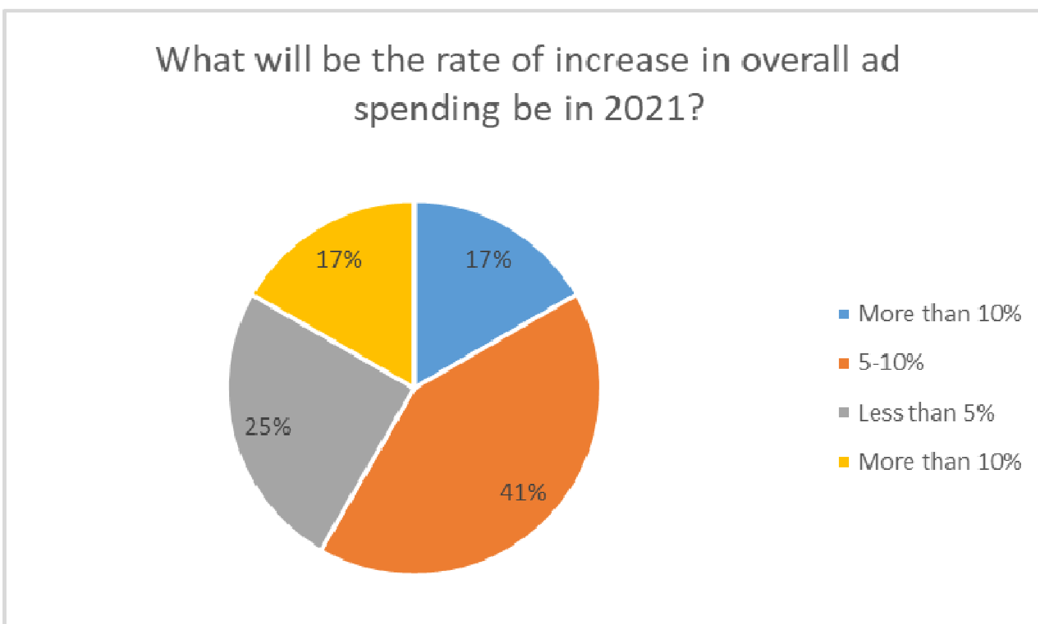


Increasing media consumption across various distribution methods has not only occurred for audience members already inclined to utilize these media forms. A potential plus has been increased sampling for some who have not tended to focus on television for news. Whether or not this pattern holds as the pandemic eases will be very important.

The social distancing environment has been beneficial for subscription services in increasing consumer awareness and driving account levels higher. The stability of those sign-ups will be tested in the months ahead, but indications are that consumers have been more likely to keep or add subscriptions to Netflix, Disney+ and other new service offerings.

Ad Spending Showing Continuing Signs of Recovery since April Bottom





Radio and Podcasting

- Radio has surpassed TV in Terms of reach
- Nielsen Total Audience Report (Q1/20)
  - 91% of adults use Radio weekly (1:39 weekly usage)
  - 85% of adults use TV weekly (3:43 weekly usage)
- Podcasts reach younger audiences

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Many ad categories saw declines in spending of roughly 50% or more at the worst points in the pandemic, primarily in legacy media such as television and radio, and out of home advertising was also hit particularly hard, particularly in transit, with fewer people leaving their homes. We currently see a recovery in traditional categories potentially taking some time due to changes in consumer behavior or disruption in content availability and the shift to different services.

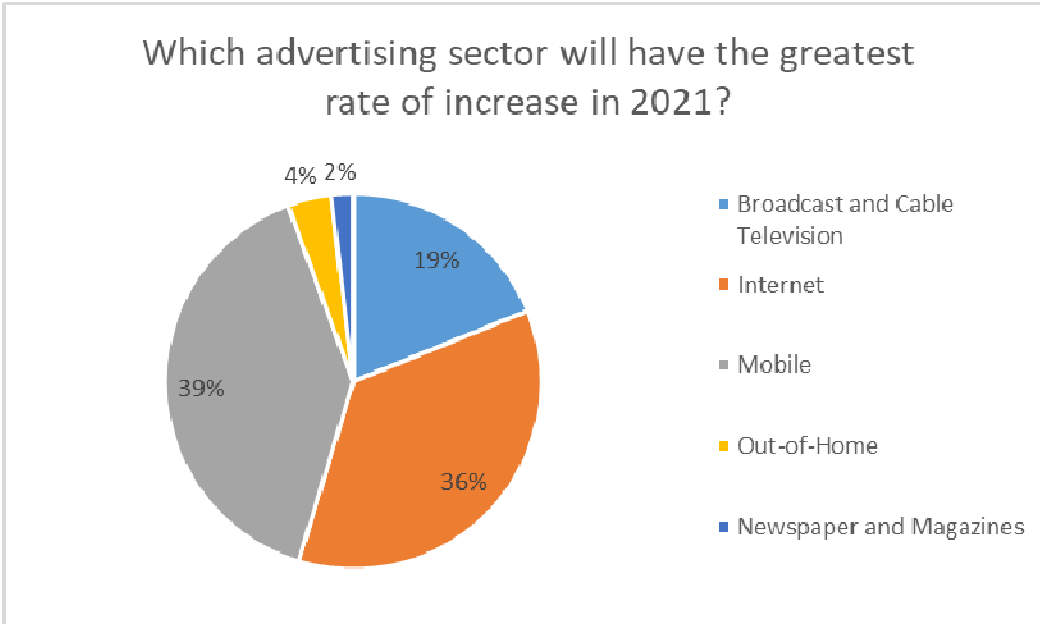
Radio and Other Audio Services

Broadcast Radio. The first electronic medium, broadcast radio dates itself to advertising sold on KDKA – AM in Pittsburgh, a Westinghouse property broadcasting during the presidential election year of 1920. I always found it interesting and ultimately appropriate that James M. Cox was the Democratic presidential candidate (he lost to Warren G. Harding, despite having FDR as his vice-presidential running mate). Mr. Cox created ad-supported media company Cox Enterprises, so was therefore an influential participant in a business in which he played a role in creating.

AM and later FM were and remain ad-supported businesses, though some digital revenues have become included in the roughly $15 billion or more of annual revenues that have been accruing to this sector. The pandemic has been costly to the radio sector, with industry ad revenues likely to fall to around $10 billion this year.

Satellite Radio, primarily a subscription revenue generator, joined the fray in around 2000, with XM getting a jump on Sirius, with the two later merging. Their ability to sell advertising has always been restricted by the need to identify national advertisers that would match up with the varied programming targets. Sirius XM eventually acquired Pandora, which has been a primarily ad-driven streaming service that can target many types of advertisers but has the complication of the customized individually-created programming its music genome generates.

Bottom line is that monetization elements for audio services continue to include ad dollars, but the process of securing those dollars is adjusting to the digital world, which provides benefits to ad sales, ad placement and ad measurement. As we get to know which 50% of ad dollars are wasted, the pricing for the ad dollars that are secured can more accurately reflect the target audience. Television broadcasters are also taking advantage of programmatic ad placement opportunities.



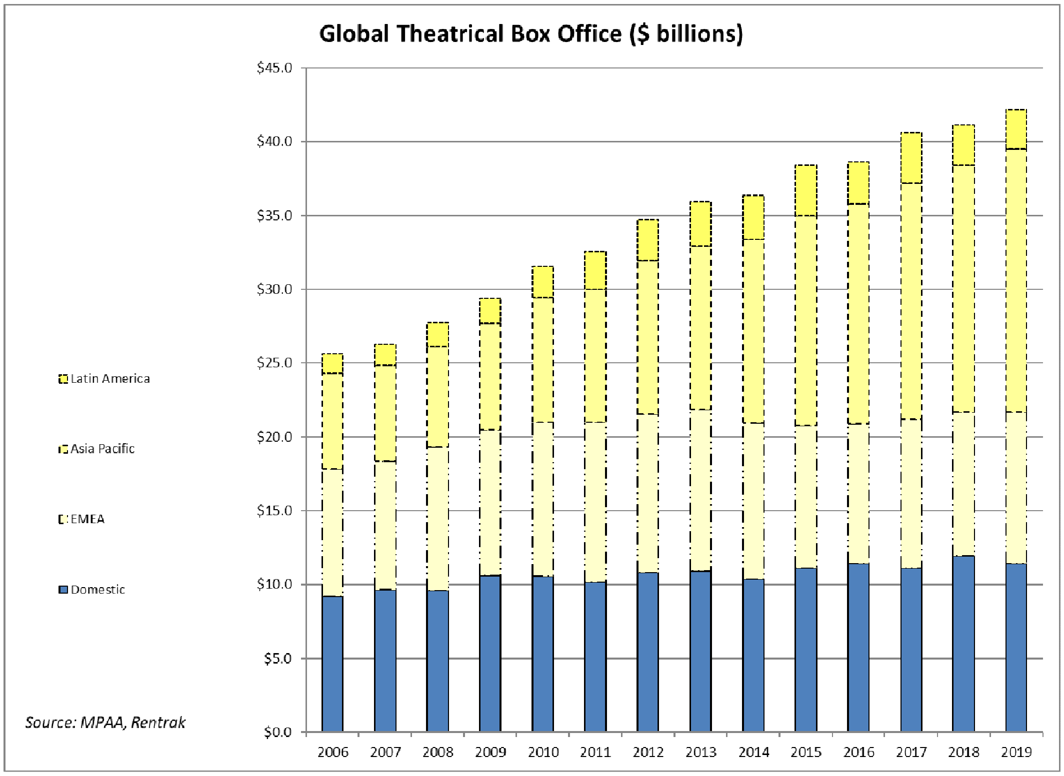
As a media format with increased adoption, ad spend on podcasts is expected to increase markedly in 2020, despite the economic and listenership headwinds that various content types have faced this year. Some forecasts call for podcast ad spend to increase by nearly 15% to over $800 million in 2020, and likely reach $1 billion in 2021, reaching that mark a year later than initially expected due to the pullback in ad spend in general in response to the Coronavirus. As with radio, the connections between listeners and hosts contribute significantly to the value proposition of the medium for advertisers. iHeart, NPR, Sirius/Pandora and Spotify are all increasingly engaged in the podcast space, including the acquisition of Stitcher by Sirius XM from Scripps for $325 million.

Cinema

I write a regular column for a professional magazine (screentrade Magazine, published in the U.K) focused on the theatrical exhibition sector, and the latest one is titled “Shifting sands threaten to realign distribution.” Many of these changes are ongoing.

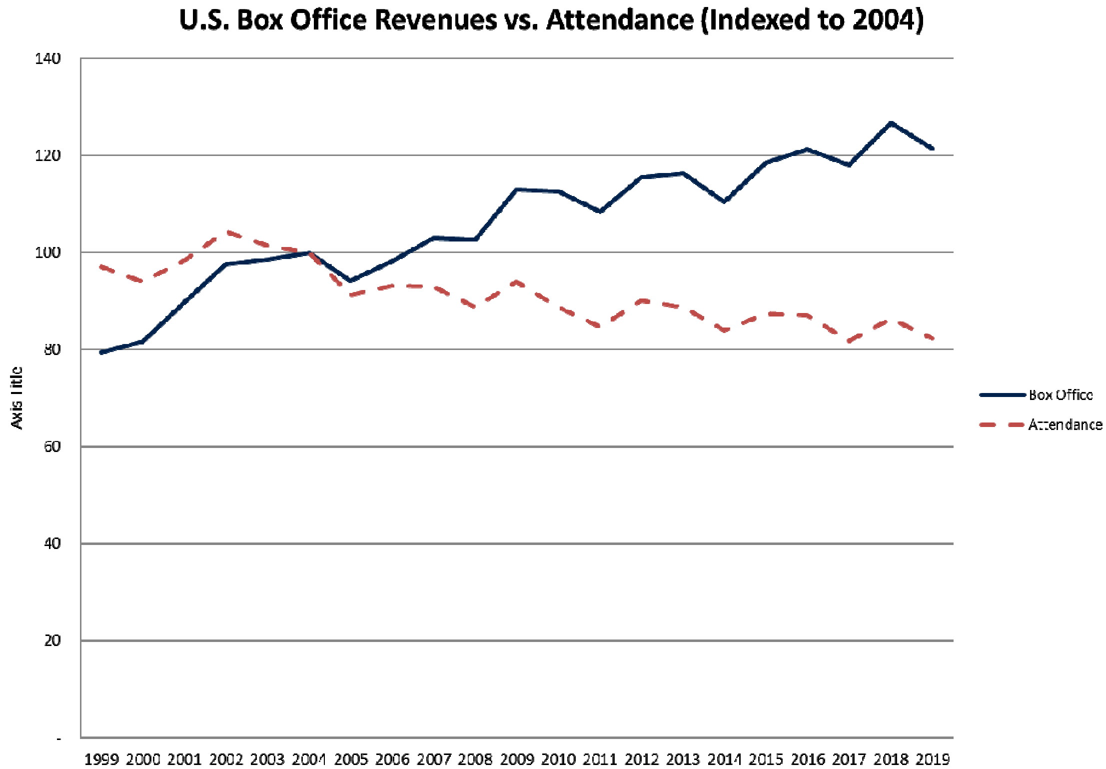
Some issues that have pitted the interests of the studio/exhibitor frenemies against each other have received additional impetus from both a regulatory change and the global pandemic.

Several decades ago, domestic box office revenues accounted for the vast majority of economics for feature films. As more and more revenue opportunities developed, the studios found it desirable to structure these outputs into well-defined timeframes. The initial theatrical window in which box office revenues are generated is split roughly 55% to the studio and 45% to the theatre group. These dollars have long been a key revenue source for studios and the number one source for exhibitors.



The important distinction is that the theatrical window is just one of a number of a film's revenue sources for a studio. In fact, the studio's domestic box office take is typically much less than its international box office dollars. There is clearly a variance by genre, but international box office revenues now account for about three-quarter of global totals.

My sense is that these global dollars typically only provide about half of a studio's revenues from a film. The collective aftermarket windows, including streaming and premium cable channel deals among others, provide the balance. By contrast, the exhibitor's share of domestic box office, which account for the smaller share of a high-teens component of the studio revenue mix, provides the larger share of the exhibitor's revenue mix, with concessions most of the balance.



The first run theatrical window is important in and of itself, but also in terms of setting the tone for subsequent aftermarket opportunities such as ownership, rentals and various television, cable and streaming services. As I just outlined, while this window is meaningful for the studios, it is critical for the exhibitors. Thus, the disconnect, since the interests of the studios and the exhibitors are not completely aligned. However, on a title by title basis, ratings and general consumer sentiment has long been used to value distribution beyond the initial showcasing of a new film.

Theatrical windows have always been a bone-of-contention as they have relentlessly shrunk over the past dozen years. And while most of us are aware of this push, the trickling pace of shrinkage might be viewed more as 'significant leakage' if viewed from the stance of a decade. In 2010, the lag between a release and its exit onto Blu-ray/VOD was 132 days. That gap has since shrunk to 81 days. Thus, a narrowing of five days per year aggregates to about 51 days over the 10 years.

The windows-reduction we describe reflects the clash between studio interest in moving onto the next opportunity versus Exhibition's protection of its exclusivity. And while the vast majority of domestic box office is generated during the first weeks of theatrical release, expectations for an impending release of a film to other forms of distribution is typically assumed to reduce the desire for some consumers to pay to see a movie in a cinema, suggesting that the window must encompass both the immediate theatrical box office plus adequate cushioning to minimize that tendency.

The agreement earlier this year between AMC and Universal to cut windows to as few as 17 days (including three weekends) further threatens established windows, although AMC argues that the potential for some share of subsequent downstream would more closely align studio-exhibitor interests.

Further, in the current environment when many consumers are hesitant to go to a theatre, such a model might be an important means of ensuring a stream of content for exhibitors to cater to those consumers who remain uncomfortable with the theatrical experience.

The latest and perhaps most significant action as it might apply to windows is Disney's very recent announcement of a reorganization to separate distribution from content creation with an eye toward prioritizing consumer desires as to content access. Its CEO noted that consumers are interested in viewing content in a number of ways that include theatrical settings as well as streaming. His interest is in satisfying consumer desires and will consider multiple distribution options.

No doubt his calculus reflects Disney's own monetization potential through these various options, many of which Disney controls or derives benefit from. To the extent that Disney was a reliable partner to the theatrical exhibition chains in terms of the importance of the theatrical window, we do interpret this latest move as having potentially created a crack in this window.

The Paramount Consent Decrees – restricting the ownership of theatres by most studios – ended somewhat with a whimper so that now the question is whether this will force a realignment of the ownership structure of the major and/or minor theatrical exhibitor chains.

I am personally not inclined to think so. While possible, I would note that vertical integrations are often viewed as creating situations favoring one distributor over others. However, I think a bigger issue is that competing theatre chains may not want to provide benefit to a studio that owns a rival theatrical distributor.

If one of the major studios purchased, say, AMC or Cinemark, might other chains be less interested in making their platforms available to output of the parent studio beyond the top tier films to the competing theatre chain? Moreover, this complication is likely intensified as major studio-owners become increasingly diversified conglomerates featuring a growing number of programming and streaming services such as Disney+, HBO Max, Peacock and now Paramount+. These competing elements appear to reduce the likelihood of significant ownership deals involving major studios and large theatrical chains.

Deals that shift the balance for multiple industries that somehow interconnect never totally surprise us; however, the added complications are important considerations, along with the omnipresent laws of unintended consequences that must play a role in the thought-process as the media landscape continues to rapidly evolve.

In the Cinema industry, ad revenues are not the defining component. However, we do follow a related company named National CineMedia. NCM is an advertising company in the theatrical space. Theatrical advertising represents only about 0.5% of domestic ad spending, but does position itself as a premium ad category with high CPMs versus broadcast TV, claiming to be the top network on Fridays and Saturdays.

Present Era for Theatrical Content Creation and Exhibition

Some productions are currently underway in states less severely hit in the Spring. Canada has appeared to offer some production options as well. Granted, with case spikes, there is the risk of reversal of the reopening process underway.

Other issues come to mind. For example, to the extent that some moviegoers who might have been expected to attend the film at the theatre decided to instead view it on PVOD, what is the extent of the impact on first run domestic box office total for that film? Also, to the extent that AMC is able to participate in the PVOD revenues both on its own platform and others, what level of PVOD viewing would be required to generate the same combined revenue base that would have equated to original first run box office expectations? PVOD revenues would both replace theatrical revenues and lower-priced transactional VOD revenues. Conceivably, the rationale is that ensuring some theatrical window is better than risking none and perhaps this removes, or at least limits, a contentious element between the studios and exhibitors.

The biggest questions, of course, are whether other studios will demand similar consideration and what will be the impact on AMC's competitors? What makes sense in the midst of a pandemic may be less acceptable in more normal times. Windows have always been a point of contention. However, it remains true that dollars generated in the first run theatrical window are very important to the studios both in terms of recouping production and marketing costs as well as setting the tone for future windows. The saga continues.

After the Shock

What green shoots should we look for as COVID-19 fears abate?

For movie theatres, the most telling indicator of the impact on industry financial performance and balance sheet health will be the trends in domestic box office revenues. Specifically, in terms of total domestic box office, this measure (that includes the United States and Canada) hung steady in a range of roughly $11.1-11.9 billion over each of the past five years. Attendance levels have eroded modestly over this period, but offsets have been provided by inflationary price increases and upcharges for premium services such as PLF screens.

This long run of success and consistency is being broken in dramatic fashion in 2020. The movie studios continue to adjust film release schedules, and the major focus has turned to 2021 and 2022 as some major markets remain largely closed to operation of movie theatres. Even if all goes exceptionally well, it seems likely it will be late 2021 until there is a return to a new normal, and probably 2022 before a return to pre-COVID-19 crisis levels can have even a hope of being achieved, and more likely beyond.

Significant uncertainty exists regarding likely consumer response to the opportunity to return to theatres, and a rather tepid domestic response to *Tenet* contributed to delays to other major film releases.

Our favorite description of theatre capacity versus usage was that of AMC CEO Adam Aron, who described theatres as churches built for Easter Sunday. For theatres, the equivalent of Easter Sunday is rare (though more frequent than Easter), mostly primetime opening weekend showings for the biggest blockbusters such as new releases in *Star Wars* and *Avengers* franchise series.

This is important since roughly 20% is the average attendance for theatres over the course of the week in normal times. Still, efforts are currently underway to curtail showing times and control costs. The biggest issue right now is continuing theatre closures in large markets like New York and Los Angeles. On a hopeful note, AMC announced just yesterday that Governor Cuomo agreed to allow a number of additional theatres in the state of New York to reopen, though New York City remains closed.

Some changes for the better that might become permanent or at least more widely used:

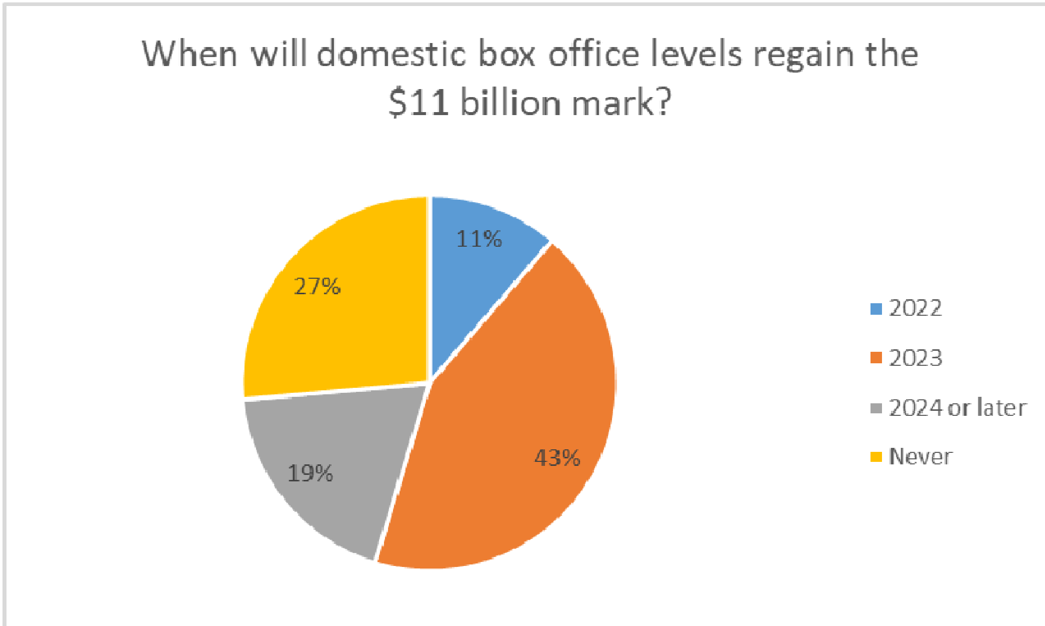
Concessions and tickets: Mobile ordering, contactless ordering and pickup will be even more important for ensuring guest comfort and safety.

Mask mandates: Employees are required to wear masks in addition to undergoing health screenings at the start of shifts and requiring frequent handwashing to help ensure cleanliness. Consumers are in most instances required to wear masks except when in their seats and consuming concessions.

Seating: What seats are available for consumers varies by exhibitor, but spacing is being deployed creatively by all major chains.

Other cleaning efforts: Frequent disinfecting of kiosk locations and backrooms and other points of frequent consumer contact are also emphasized.

Domestic Box Office Forecast Outlook



The investment in production and promoting major releases viewed as having blockbuster potential is so substantial that studios are loath to release such films prior to the potential to lure at least the lion's share of prospective audiences. To some extent, this factor could even work in favor of the limited group of wide releases that might do well within the lesser competitive context that could result.

Most blockbusters necessitate theatrical distribution revenues to enable profitability, hopefully ensuring a robust pipeline when that window reopens for consumers. As a result, content production restarts for theatrical product may be later in the offing, which may pose challenges for content availability in late 2021 and early 2022, as many films in future years' slates have been pushed off.

With recent delays due to COVID-19 case spikes, this may change as services desire new content, potentially making it economically more viable to shift content to streaming platforms.

The encouraging thing to us it that studios appear to remain committed to postponing film openings rather than shifting to VOD and PVOD. Nonetheless, 2020 domestic box office totals remain seriously depressed, though selected international markets are showing some signs of recovery. Box office revenues during most of the second quarter were running close to zero, and third quarter figures do not look to have been significantly better.

We have thought 2021 would represent the first signs of true rebound, though 2022 seems to have the better chance of a return to some sense of normalcy. Still, 2022 does not currently seem to be enough time to reclaim the $11 billion total domestic box office level that the industry generated regularly for many years through 2019.

More specifically, our current expectations are that following 2019 box office topping $11.3 billion, the closing down of theatres in mid-March and the slow reopening that is still being challenged will take 2020 box office to around $2.5 billion, the bulk of which was generated in the first 10 weeks of the year. Our 2021 figure at this early date is about $7.0 billion and 2022 is looking to be around $8.5 billion. Hopefully, we will be surprised on the upside, but this is where we stand today.

Media Technology Sector

Outdoor Advertising

Let's now move to Out-of-Home Advertising. In some ways, this represents the most dramatic shift of all. Communications on Hieroglyphics in caves were in some ways the early predecessors of today's billboards and other displays. Static displays along roadsides, on busses and trains, in airports and on street furniture have remained an important component of advertising, providing very competitively priced options for reaching potential customers in a wide variety of locations with displays that are difficult to avoid.

As someone observed, you can't TiVo a sign. In addition, since the NIMBY impulse is very strong, the chances of additional ad clutter are significantly minimized. Billboards and other well-placed static and fixed displays are so effective in memorable brand building displays that even the large technology companies use them.

My personal favorite is the Eat More Chikin' campaign from Chick-Fil-A, particularly the one in which two three-dimensional cows are placed on a ledge at the bottom of the billboard, one standing on two hind legs supposedly painting that slogan and the other on all four legs with head turned back to stare at the oncoming driver. I also still remember an urban billboard several floors up on a building on State Street near the Chicago Theater with smoke puffing out of a huge cigarette – obviously many years ago but creating a long-remembered image, even for a then-child who has remained a non-smoker.

Enter the world of digital displays. This technology application provides an opportunity to provide seven times as many impressions on a single display. The revenue potential is significantly greater, but so is the cost of creating and operating these displays – though not to the same extent. Other interesting factors exist. One is that the NIMBY issue can enable outdoor companies to secure locations for some new digital displays in return for eliminating some existing static board locations.

Another is that digital displays can work very well in transportation locations. Clear Channel Outdoor has significant expertise and exposure in air terminals and OUTFRONT Media has exposure in rail and bus transit systems. In the case of a still-developing New York City subway system project, the displays are intended for a combination of critical information and advertising.

Importantly, technology is critical to controlling and distributing information and advertising through these digital displays. Another important feature is that digital displays lend themselves very well to certain types of audience measurement that can play major roles in the types of ad sales and the value proposition to advertisers, enhancing pricing opportunities and the financial metrics that can be created.

Overall Conclusions

Developments in this everchanging media and entertainment landscape had already been progressing at a rapid and continuous pace. Changes in one sector would create responses in related businesses. To make things even more complicated, various business combinations created alliances that blurred the lines between competing businesses, such that it has been increasingly challenging to determine which companies are competitors and which are in the same sector.

Case in point, Comcast. With a blend of Xfinity broadband, cable programming and delivery, voice, Universal movies and television production, and the NBC television Network and Station group, some components demand retransmission fees, while others are loath to pay them, and the willingness and interest to go against theatrical windows is higher in an environment in which the Peacock streaming service is created. Disney, AT&T/Warner Media and ViacomCBS offer some similar complications.

Now, the COVID-19 pandemic adds its own wrinkles both from immediate disruptions to business operations of various types to the potential for longer-term adjustments to business strategies and environments. Many aspects of these evolutionary changes are as yet undefined.

Also, we do think some of these changes can be for the better. For example, can an increased opportunity for work-at-home situations actually increase some level of productivity and staffing options, while cutting some brick and mortar expenses involved in running businesses?

Necessity is the mother of invention, and certain of the steps that have been taken would never have been experimented with, at least on a grand scale, were our backs not to the wall.

Near-Term Thoughts on Ad Share Mix Adjustments

We begin with television, ranging from network dollars and exposures from national and local spot through syndication and cable television. As we have described, increasing viewership levels have not been monetized well due to pullbacks in ad spending as potential for consumer purchases were sidelined in the midst of stay-at-home orders followed by slow re-openings in economic activity.

Network, national spot, syndication and cable dollars have all contracted sharply. An offset for local spot has and continues to develop as a result of political advertising. While second quarter political spending is typically modest relative to other quarters, we expect third and fourth quarter spending at record levels, particularly as the election nears.

Looking forward, we would note that while 2018 was ahead of 2016 for many media companies, we do not expect a repeat in the next midterm. Radio ad spending has taken a substantial hit this year for similar reasons. However, we have observed gradual and steady improvement in these trends following the immediate crunch as the pandemic asserted itself.

The only category we feel will likely post a gain this year is Mobile, for which secular growth will likely be sufficient to overcome the cyclical weakness. Even there, the gain is likely to be moderate relative to the huge annual gains since the category began to establish a meaningful presence more than a decade ago.

We would expect decent rebounds in 2021, though with the gains in some cases seemingly meaningful as a result of the comparison against the deep hole dug in most cases during 2020, creating easy comps. The absence of most political in 2021 combined with the return of normal advertisers crowded out during this year’s political season will reverse the distortions in local spot television we observed in that category for 2020.

Pandemics do ultimately end, or at least be brought under control. In the aftermath, we will likely find that certain evolutionary aspects were accelerated, and some of these changes introduced as a consequence of the pandemic prove to be for the better.

END

Barrington Research Media & Entertainment Coverage - Ordered by Market Cap

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10/23/2020

Comparative Evaluations - Current Year Estimates

Grouped by Market Segment and Sorted by Market Cap from Largest to Smallest

Ticker	Rating	Current Price ($)	YTD Change (%)	Price Target ($)	BRAI EPS Estimates ($)	P/E (X)	FCF per Share ($)	P/FCF (X)	Average Basic Shares Outstanding (MM)	Market Cap ($MM)	Revenues ($MM)	Price / Sales X	Debt, Net of Cash ($MM)	Enterprise Value ($MM)	EBITDA ($MM)	EV / EBITDA (X)	Common Dividend per Share ($)	Current Yield (%)
Content																		
Content Creation																		
VIAC	O	29.28	-30.2%	32	$4.00	7.1	2.71	10.8	617.0	18,065.8	27,356.0	0.7	17,997.0	36,062.8	5,122.8	7.0	0.96	3.3
DISCA	O	21.09	-35.6%	28	$1.90	7.1	3.39	6.2	652.9	13,769.7	10,426.0	1.3	13,531.0	27,300.7	4,006.3	6.8	0.00	-
LGF.A	O	7.50	-29.6%	14	($0.01)		0.60	12.5	220.5	1,653.4	3,266.5	0.5	2,863.6	4,517.0	697.3	6.5	0.00	-
Content Creation Averages			-19.1%			4.7		7.4		8372.2		0.6				5.1		0.8
Television Broadcasting																		
NXST	O	90.40	-22.9%	115	$15.00	6.1	22.92	3.9	45.3	4,094.1	4,387.1	0.9	7,585.3	11,731.6	1,789.9	6.6	2.24	2.5
TGNA	O	13.29	-20.4%	15	$2.05	6.9	2.82	4.7	219.0	2,909.9	2,826.0	1.0	4,028.5	6,893.6	911.9	7.6	0.28	2.1
GTN	O	13.28	-38.1%	20	$2.70	5.1	4.49	3.0	99.4	1,319.7	2,219.1	0.6	3,385.0	5,357.7	772.8	6.9	0.00	-
Television Broadcasting Averages			-27.1%			6.0		3.9		2,774.6		0.9				7.0		1.5
Cinema																		
Theatrical Exhibition																		
CNK	M	9.36	-72.3%	-	($3.85)		1.00	9.4	117.7	1,101.4	898.3	1.2	3,081.9	4,189.3	(192.8)	-	0.00	-
AMC	M	2.97	-59.0%	-	($13.81)	-	-5.68	-0.5	129.6	384.9	1,485.4	0.3	9,228.4	9,613.3	(886.1)	-	0.00	-
MCS	M	8.33	-73.8%	-	$1.25		0.20	41.7	23.1	192.7	328.5	0.6	538.4	783.3	(43.4)	-	0.00	-
Exhibition Averages			-68.4%			-		16.8		559.7		0.7				N/A		-
Theatrical Technology & Advertising																		
DLB	O	71.72	4.2%	83	$2.17	33.5	-		102.0	7,315.4	1,134.7	6.4	(971.3)	6,176.5	378.5	16.3	0.88	1.2
IMAX	O	11.56	-43.4%	18	$0.70		-1.27	-9.1	58.9	680.4	132.8	5.1	(3.4)	762.4	(23.8)	-	0.00	-
NCMI	O	2.25	-69.1%	5.5	($0.35)		1.76	1.3	79.6	179.1	123.0	1.5	832.1	1,247.1	(1.3)	-	0.28	12.4
Technology & Advertising Averages			-36.1%			33.5		NM		2,725.0		4.3				5.4		4.6
Media Technology																		
Audio Services																		
SIRI	O	5.98	-16.4%	7.50	$0.23	25.4	0.35	17.2	4,249.5	25,412.0	7,893.9	3.2	8,277.0	33,731.5	2,479.4	13.6	0.05	0.9
IHRT	O	8.85	-47.6%	12	($1.50)	N/A			145.3	1,285.9	2,888.8	0.4	6,221.5	6,807.2	522.9	13.0	0.00	-
TSQ	M	4.71	-52.8%	-	($0.20)	N/A			25.9	122.0	359.1	0.3	524.8	615.9	46.2	13.3	0.00	-
Audio Services Averages			-21.3%			8.5				8,899.3		1.2				8.9		0.3
Outdoor Advertising																		
OUT	O	14.90	-44.4%	21	($0.54)	-27.6	0.43	34.7	144.4	2,151.7	1,274.6	1.7	3,505.2	6,069.0	253.6	23.9	0.00	-
CCO	M	1.00	-65.0%	-	($0.22)	N/A	0.04	25.0	467.3	467.3	2,581.1	0.2	6,249.2	6,737.3	551.9	12.2	0.00	-
Outdoor Advertising Averages			-77.1%			-13.8		29.8		1309.5		0.9				18.1		0.0
Internet Marketing																		
QNST	O	17.16	12.1%	17	$0.60	32.5	-		52.7	903.8	508.0	1.8	(94.6)	806.0	44.6	18.1	0.00	-
FLNT	M	2.61	4.4%	-	$0.19	20.9			76.3	199.2	302.6	0.7	38.0	237.2	35.3	6.7	0.00	-
TZOO	O	8.55	-20.1%	11.00	($1.30)	N/A			11.3	96.7	55.9	1.7	(29.8)	67.0	0.1	606.8	0.00	-
Internet Marketing Averages			-56.7%			17.8		0.0		399.9		1.4				210.5		0.0
Market Indices																		
DJIAK		28,363.66	-0.6%															
SPX		3,465.39	7.3%															
COMP		11,548.28	28.7%															

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