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MEDIA & TELECOM

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U.S. Media & Internet

U.S. Media & Internet: Now Everyone Is A Winner?

Summary

After a roller coaster end to 2018, fourth quarter media and internet earnings season was essentially a snoozer that proved December's dramatics didn't show up in negative revisions. To that point, as we process our post-4Q earnings takeaways, we see very little changes to 2019 expectations. Of the twelve companies that we summarize in this note, eleven saw CY 2019 EPS revisions between +1% and -3%. Only the loss-making Snap had earnings revisions outside that range.

Given the modest revisions in CY 2019 EPS, it is not surprising that we have not seen ANY material changes to CY 2019 revenue estimates! In fact, since the beginning of this year and through earnings season, consensus revenue estimates have not changed by more than +/- 2% for any of our covered companies.

This broadly stable earnings season has generated a massive relief rally for P/E multiples. With two-thirds of the first quarter behind us, the S&P 500 index has increased +12%, driven by an +11% expansion in forward CY 2019 P/E multiple (14.7x to 16.3x) and a only +1% revision to aggregate CY 2019 estimates. In essence, the market went up because numbers didn't go down.

After a period of unusual media stability and internet volatility, the media and internet sectors now appear to be playing back to prior form. The single biggest media risk is the sequential deceleration in cord-cutting due to sharp drops in satellite subs and the maturation of certain vMVPDs. In addition, linear ratings continue to set new levels of weakness. In contrast, revenue results at Facebook and Google yet again posted impressive growth. For the moment, these stocks are being held back by ramped up CAPEX and OPEX spending and increased regulatory risk for social media.

Investment Implications

Just as we noted in our piece on linear ratings (see U.S. Media: Watching the Slow Death of Linear TV…Live, February 21) and the 4Q cord cutting monitor (see Q4 2018 Cord-Cutting Monitor: Is It Time to Panic Yet?, February 22), the short-term and long-term trends of the media industry continue to reinforce our belief in owning the biggest diversified networks that dominate in sports and news, and thus have pricing power during the ongoing shift to smaller bundles and on-demand content consumption.

We reiterate our Buy ratings for The Walt Disney Company ($132 target price), 21st Century Fox ($52 target price), and CBS Corp ($65 target price). We reiterate our Neutral ratings of Viacom ($40 target price), Discovery Communication ($36 target price), and AMC Networks ($66 target price). We reiterate our Neutral rating on CNK ($37 TP).

U.S. Media & Internet Research

In our Internet coverage, we maintain our Buy rating on Alphabet ($1,380 TP). We reiterate our Neutral ratings on Facebook ($175 TP), Snap ($7.50 TP) and Netflix ($275 TP), but note we see significant downsides to Netflix's current valuation. Finally, we maintain our Sell rating on Twitter ($22 TP).

Analysis

After a roller coaster end to 2018, fourth quarter earnings season was essentially a snoozer that proved that December's dramatics didn't show up in the form of negative revisions. To that point, as we process our post-4Q earnings takeaways, we see very little changes to 2019 expectations. Of the twelve companies that we summarize in this note, eleven saw CY 2019 EPS revisions between +1% and -3%. Only the loss-making SNAP had earnings revisions outside that range.

In fact, this broadly stable earnings season has generated a massive relief rally for P/E multiples. With two-thirds of the first quarter behind us, the S&P 500 index has increased +12%, driven by an +11% expansion in forward CY 2019 P/E multiple (14.7x to 16.3x) and a only +1% revision to aggregate CY 2019 estimates. In essence, the market went up because numbers didn't go down.

Four of the seven media names in our coverage have outperformed the market quarter-to-date, with AMCX leading the way, up +21% and Disney lagging at +4% (see Exhibit 1). Despite worries about worsening industry headwinds (more on that later), four out of these seven stocks have CY 2019 P/E multiples in the single digits, which makes further meaningful equity price erosion a challenge without highly negative earnings revisions. After having had many Sells in this group over the past few years, as 2018 started we decided that valuation and fundamentals no longer warranted such a negative stance. In 2019, we added CBS to our Buy list. As such, we now have three Buys (Disney, Fox, and CBS) and four Neutrals.

After plummeting in the fourth quarter, three of the five Internet names in our coverage have outperformed the S&P 500, with Snap up a staggering +78%, Netflix up a usual +33% and Facebook up +24%. Twitter and Alphabet have had relatively more muted performance this quarter, up +7% and +10%, respectively. Among this group, we have one Buy (Alphabet), one Sell (Twitter) and three Neutrals (Facebook, Snap and Netflix), all for vastly different reasons.

Exhibit 1

Consensus Earnings vs. Multiple Revisions

	12/31/2018			3/1/2019			Change		
	Price	CY19E Earnings	Multiple	Price	CY19E Earnings	Multiple	Price	CY19E Earnings	Multiple
S&P 500	2,506.85	170.45	14.7x	2,803.69	172.49	16.3x	12%	1%	11%
AMC Networks	54.88	8.51	6.4x	66.39	8.67	7.7x	21%	2%	19%
Discovery	24.74	3.47	7.1x	29.08	3.51	8.3x	18%	1%	16%
CBS	43.72	5.77	7.6x	50.79	5.66	9.0x	16%	-2%	19%
Viacom	25.70	4.27	6.0x	29.45	4.24	6.9x	15%	-1%	15%
Cinemark	35.80	2.34	15.3x	38.49	2.29	16.8x	8%	-2%	10%
21st Century Fox	48.12	1.99	24.2x	50.61	1.98	25.5x	5%	0%	6%
Disney	109.65	7.09	15.5x	114.01	7.05	16.2x	4%	-1%	5%
Snap	5.51	(0.37)	-15.0x	9.80	(0.30)	-32.8x	78%	na	na
Netflix	267.66	4.16	64.4x	357.32	4.05	88.2x	33%	-2%	37%
Facebook	131.09	7.43	17.7x	162.28	7.59	21.4x	24%	2%	21%
Alphabet	1,044.96	47.17	22.2x	1,148.52	46.99	24.4x	10%	0%	10%
Twitter	28.74	0.89	32.2x	30.62	0.86	35.5x	7%	-3%	10%

Source: Eikon, MoffettNathanson analysis

Given the modest revisions in CY 2019 EPS, it is not surprising that we have not seen ANY material changes to CY 2019 revenues! In fact, since the beginning of this year and through earnings season, consensus revenue estimates have not changed by more than +/- 2% for any of our covered companies (see Exhibit 2). Discovery saw the biggest negative revision of -1.5% while Netflix and Twitter top-line estimates both rose +1.8%. We would argue that these minor revisions are essentially a rounding error.

Exhibit 2

CY 2019E Consensus Revenue Revisions

CY2019 Consensus Revenue	12/31/2018	3/1/2019	Var.
Disney	60,360	60,491	0.2%
AMC Networks	3,102	3,102	0.0%
21st Century Fox	31,525	31,495	-0.1%
CBS	15,683	15,616	-0.4%
Cinemark	3,291	3,279	-0.4%
Viacom	13,260	13,082	-1.3%
Discovery	11,342	11,173	-1.5%
Netflix	19,875	20,226	1.8%
Twitter	3,418	3,479	1.8%
Alphabet	162,808	163,547	0.5%
Facebook	68,855	68,937	0.1%
Snap	1,537	1,537	0.0%

Source: Eikon, MoffettNathanson analysis

The recovery in stock prices is essentially, to varying degrees, a reversal of the 4Q sell-off. The relative winners are stocks that have retraced the entire 4Q. Looking at the recovery in stock prices, we see that the S&P 500 is back to where it was on December 3 (see Exhibit 3). Both Discovery and Disney are currently trading at their 12/3 prices now, as well. CBS and Viacom both currently mirror their 12/7 valuations. AMC Networks hasn't had a price tag this high since October 3. Our internet coverage is trading closer to its Fall valuation with Snap having not seen its current level since September 11, with Facebook (10/1) and Alphabet (10/8) close behind. Netflix is trading where it was on October 17 while Twitter looks more like a media company at 12/18.

Exhibit 3

Prior Date of Current Stock Prices

	Current Price	Previous Date
S&P 500	2,803.69	12/3/2018
AMC Networks	66.39	10/3/2018
Discovery	29.08	12/3/2018
Disney	114.01	12/3/2018
CBS	50.79	12/7/2018
Viacom	29.45	12/7/2018
Cinemark	38.49	12/18/2018
21st Century Fox	50.61	na
Snap	9.80	9/11/2018
Facebook	162.28	10/1/2018
Alphabet	1,148.52	10/8/2018
Netflix	357.32	10/17/2018
Twitter	30.62	12/18/2018

Source: Eikon, MoffettNathanson analysis

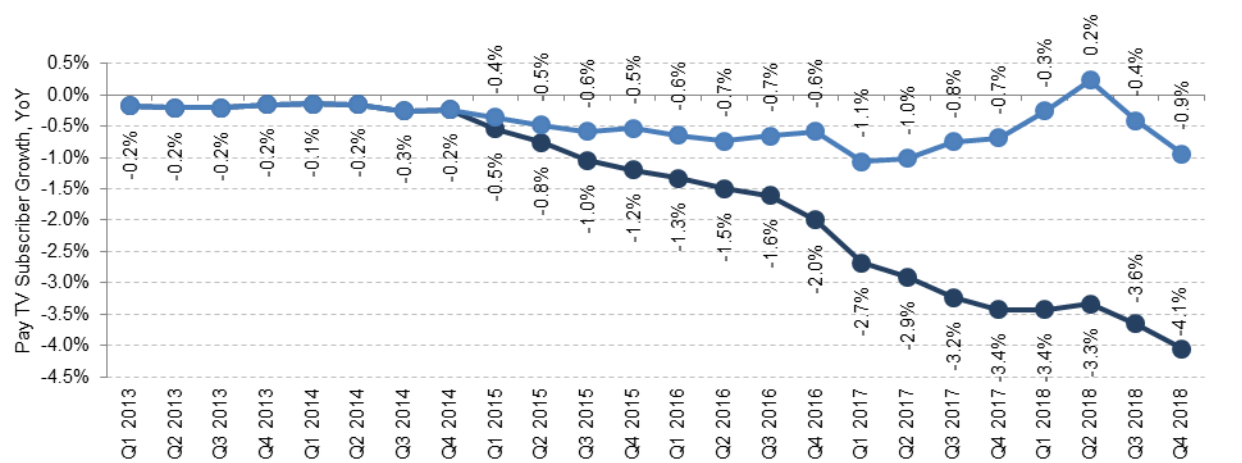
So what did we learn in the fourth quarter earnings cycle? For media stocks, core affiliate and advertising revenue trends were both largely in line with expectations going into the quarter. However, given continued negative trends in both ratings and cord-cutting, we remain concerned about potential negative revisions in the upcoming quarters. For internet, domestic business trends for the two biggest companies hardly looked like they missed a beat.

Affiliate Fees – Hanging in There Despite Troubling Sub Trends

After a seeming recovery of subscriber trends to growth in 2Q 2018, declines continued to worsen through the second half of the year with traditional subscribers from cable, satellite and telecom dropping an all-time low -4.1% in the fourth quarter (see Exhibit 4). Even when including vMVPD sub estimates, total subscribers were down -0.9% vs. 4Q last year. We continue to see a widening gap between traditional MVPD declines and aggregate declines which include the new virtual platforms.

Exhibit 4

Pay TV Subscriber Growth



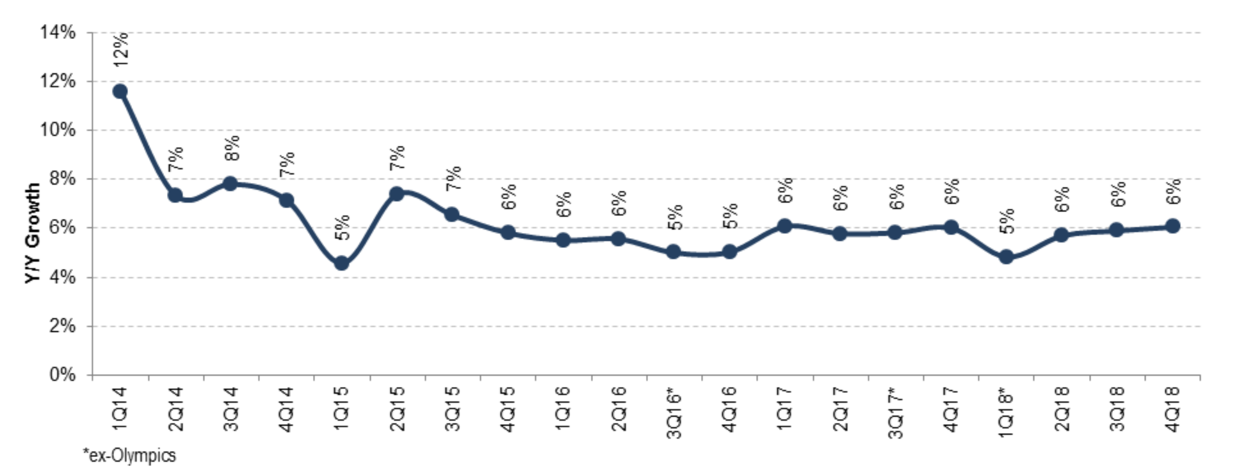
Source: Company reports, MoffettNathanson estimates and analysis

The divergence in growth rates between traditional MVPDs and the aggregate market is obviously troubling for those companies that are not on every vMVPD platform or have a plethora of long-tail cable networks that have benefited from the big-bundle universe. We continue to believe that over time, this trend will further separate the operators as those networks that are largely distributed on the vMVPDs should see more stable subscriber trends.

Despite the weaker subscriber trends, 4Q 2018 core U.S. basic cable network affiliate fee growth was consistent with 3Q (see Exhibit 5). Digging into the numbers across the major cable network portfolios, we estimate 4Q growth of +6%. Total affiliate fees over the past few years have seen a -100 to -200 bps deceleration in growth rates as a result of subscriber declines, consolidation pricing pressures, and mix-shifts. With that said, since 3Q 2015, U.S. basic cable affiliate fee growth has averaged between +5% and +6%.

Exhibit 5

Quarterly Core U.S. Basic Affiliate Fees (ex-SVOD)



Source: Company reports, MoffettNathanson estimates and analysis

Broadcast retrans revenues continue to be on fire with growth of +24% which was over +600 basis points better than our estimates. Across the four broadcast networks, 4Q aggregate retrans revenues reached $1.65 billion. Including broadcast retransmission fees, aggregate U.S. affiliate fees for 4Q 2018 came in +90 bps above our estimates going into the quarter, with total growth of +8%, as broadcast grew above our forecasts while cable was in line (see Exhibit 6). NBCU's cable networks led the group, growing +10%, in line with our pre-quarter estimate. Viacom (+2%), AMCX (+6%), and Disney (+5%) beat our estimates while Fox (+8%) and DISCA (+1%) came in lower.

Note that all the affiliate fee data points have a 30 to 60 day reporting lag so there is a risk that the 4Q deceleration in subscriber trends will show up in 1Q affiliate fee revenues. For now, while the actual results create a sense of stability, we are worried about the deceleration in revenue growth from the slowdown in 4Q net video additions.

Exhibit 6

4Q Core U.S. Basic Affiliate Fees (ex-SVOD) Compare

				Prior Estimate		
in $, mns	**4Q17**	**4Q18**	**Y/Y**	**4Q18**	**Y/Y**	**Variance**
Core U.S. Basic Affiliate Fees (ex-SVOD)						
NBCU	1,506	1,660	10.2%	1,661	10.3%	-7 bps
FOXA	2,258	2,438	8.0%	2,450	8.5%	-52 bps
AMCX	246	260	5.6%	258	5.0%	59 bps
TWX	1,458	1,532	5.0%	1,532	5.0%	0 bps
DIS	2,582	2,705	4.8%	2,685	4.0%	76 bps
VIAB	897	914	1.9%	901	0.4%	145 bps
DISCA	636	644	1.3%	651	2.3%	-102 bps
Total	**9,583**	**10,153**	**5.9%**	**10,138**	**5.8%**	**16 bps**
Retrans						
DIS	285	370	29.8%	340	19.3%	1,053 bps
CBS	354	434	22.6%	410	15.9%	670 bps
NBCU	360	440	22.2%	427	18.6%	361 bps
FOXA	335	406	21.0%	390	16.3%	471 bps
Total	**1,334**	**1,649**	**23.6%**	**1,567**	**17.4%**	**618 bps**
Total Affiliate Fees	**10,917**	**11,802**	**8.1%**	**11,705**	**7.2%**	**89 bps**

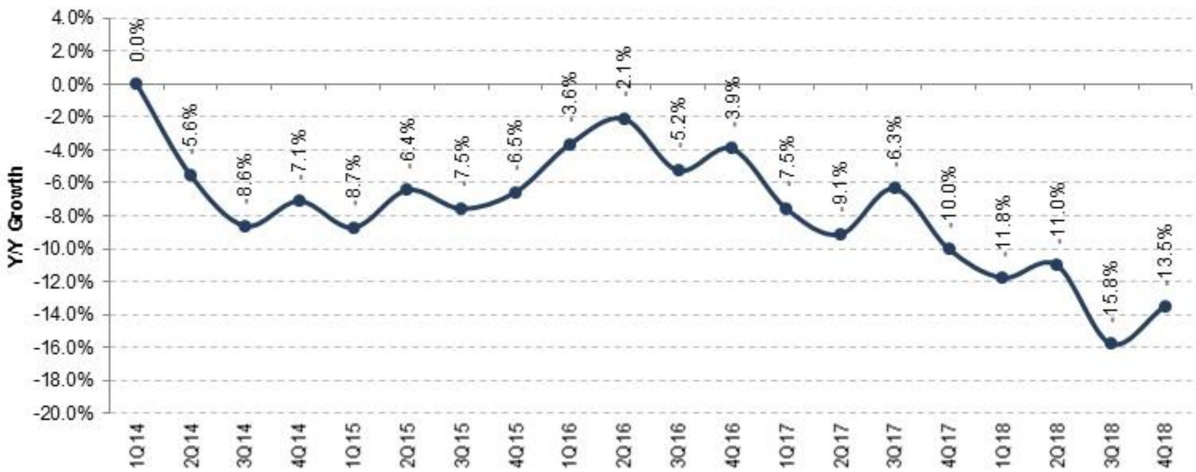
Source: Company reports, MoffettNathanson estimates and analysis

Advertising – Broadcast Strength Made Up For Cable Miss

Coming into the quarter, we were worried about advertising trends as ratings continued to struggle. With the exception of 3Q 2018, 4Q had the worst decline we have ever seen in total day cable ratings, down -14% (see Exhibit 7).

Exhibit 7

Cable Networks C3, TD P18-49 Ratings Growth

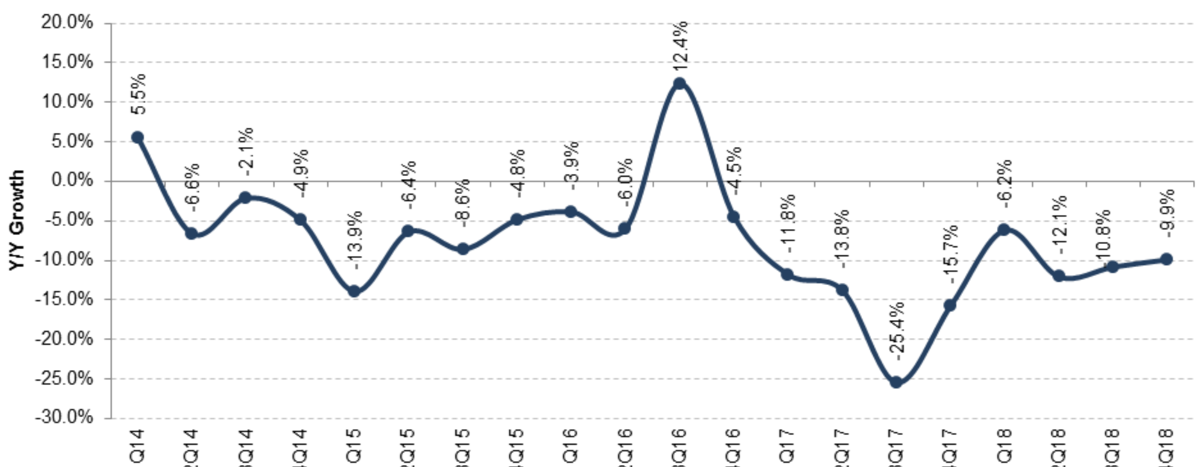


Source: Nielsen, MoffettNathanson analysis

Thanks almost entirely to the recovery in NFL ratings, broadcast did relatively better than cable, down -10% (see Exhibit 8). This represented a sequential improvement over the prior two quarters.

Exhibit 8

Broadcast C3, TD P18-49 Ratings Growth



Source: Nielsen, MoffettNathanson analysis

After the first non-recession and non-war year in which national advertising declined in 2017, 2018 turned out to be a better year for some players. For the fourth quarter, advertising on the broadcast networks grew by +3.5% (+155 bps above our estimate), with three of the four major networks beating our pre-quarter estimates (see Exhibit 9). FOX (+15%, -800 bps below) missed while CBS (flat, +800 bps above) beat. ABC (-2%) was +100 bps above while NBC (+2%) came in +300 bps better.

The cable network story was a bit more complicated. Among cable networks, Fox's portfolio led the group (+6%, +200 bps better), followed by Discovery (+2.6%, -50 bps lower). Disney and NBCU were both flat and roughly -400 bps lower than our prior forecasts. Viacom was down -3%, virtually in line, while Turner fell -6%, -600 bps lower. All in, cable network advertising posted a -0.5% decline (-200 bps lower than our prior forecast), which, combined with broadcasting, drove total National TV ad growth of +1.5% (-40 bps below our pre-earnings estimates).

Exhibit 9

4Q Domestic National TV Advertising Compare

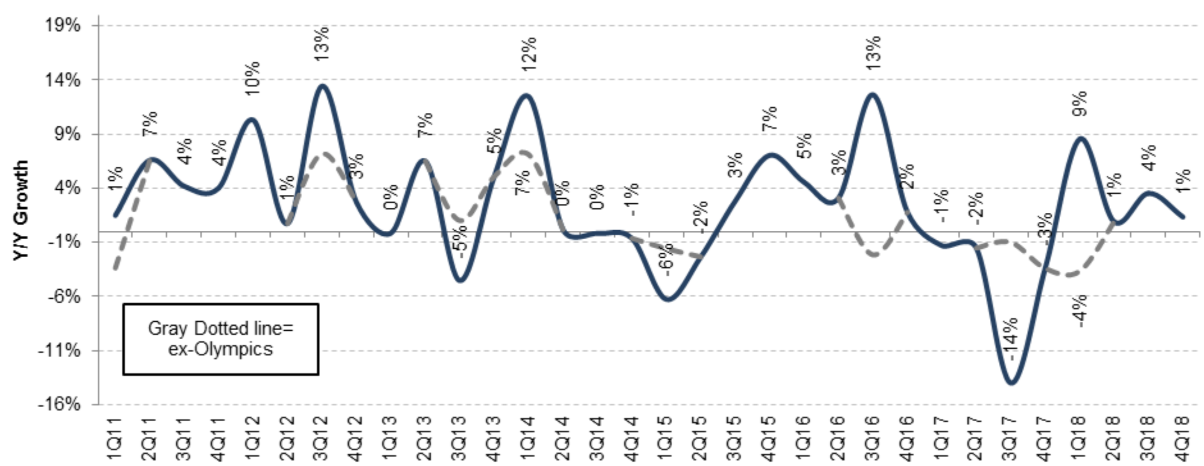
				Prior Estimate		
Domestic Advertising ($, mns)	**4Q17**	**4Q18**	**Y/Y**	**4Q18**	**Y/Y**	**Variance**
Broadcast						
FOX	1,039	1,194	15.0%	1,282	23.4%	-841 bps
NBC (incl. TV Stations)	1,864	1,903	2.1%	1,845	-1.0%	312 bps
CBS	1,206	1,201	-0.4%	1,107	-8.2%	782 bps
ABC	800	787	-1.7%	776	-3.0%	133 bps
Total	**4,909**	**5,085**	**3.6%**	**5,010**	**2.1%**	**154 bps**
Cable Networks						
Fox	557	590	6.0%	579	4.0%	197 bps
Discovery	1,015	1,041	2.6%	1,045	3.0%	-44 bps
AMC Networks	269	272	1.4%	258	-4.0%	540 bps
Disney	1,001	1,007	0.6%	1,051	5.0%	-440 bps
NBCU	867	869	0.2%	900	3.8%	-358 bps
Viacom	937	907	-3.2%	909	-3.0%	-21 bps
Time Warner	1,033	971	-6.0%	1,033	0.0%	-600 bps
Total	**5,678**	**5,657**	**-0.4%**	**5,775**	**1.7%**	**-208 bps**
Total National TV	**10,587**	**10,743**	**1.5%**	**10,785**	**1.9%**	**-40 bps**

Source: Company reports, MoffettNathanson estimates and analysis

Stepping back, 4Q's +1% growth was a sequential step down from 3Q but still represented the end of a strong recovery year for National TV advertising (see Exhibit 10).

Exhibit 10

Quarterly National Advertising



Source: Company reports, MoffettNathanson estimates and analysis

Comparing the 4Q U.S. TV advertising results to revenue-weighted target demo ratings shows a wider disparity of CPM inflation, sell-out ratios and network mix within the group. On the top end of the group is Fox, with a variance of nearly +2,000 bps. NBCU, Turner, Viacom, and Disney all fell in the +1,000-1,500 bps range while Discovery had a +770 bps gap (see Exhibit 11). AMCX had the only negative gap (-25 bps) due to the negative mix shift of declining high CPM *Walking Dead* ratings and low CPM film ratings.

Exhibit 11

Variance Between 4Q Advertising and Rev. Weighted Target Demo Growth

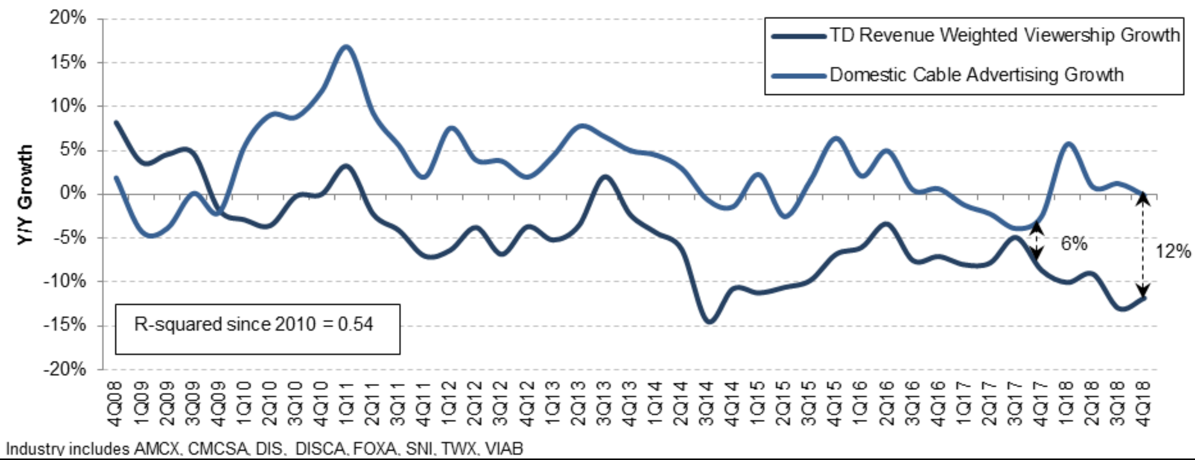
C4Q18	U.S. Cable Ad Growth	Rev. Weighted Target Demos	Variance
Fox	6%	-14%	1,964 bps
NBCU	0%	-15%	1,513 bps
Time Warner	-6%	-19%	1,276 bps
Viacom	-3%	-13%	979 bps
Disney	1%	-9%	959 bps
Discovery	3%	-5%	770 bps
AMC Networks	1%	2%	-25 bps

Source: Nielsen, Company reports, MoffettNathanson estimates and analysis

In aggregate, as we have always argued, there is a somewhat imperfect correlation between ratings and advertising. The change in cable network ratings has a relatively low 0.54 R-squared correlation with the change in total cable networks ad revenues (see Exhibit 12). This quarter's gap of 1,200 basis points is substantially higher than the 600 basis point gap from the fourth quarter of last year and likely reflects the impact of stronger NFL ratings on pricing and a healthier scatter market.

Exhibit 12

Change in U.S. Cable Net Advertising vs. Change in Target Demo Cable Ratings



Source: Nielsen, Company reports, MoffettNathanson estimates and analysis

The widening of the gap is being driven also, in part, by the fact that 4Q commercial loads were up +2% with most major cable parents increasing their commercial time in the low to mid-single digit range (see Exhibit 13). A&E (+7%) increased the most, followed by DISCA (+3%) and Turner (+3%). AMCX (+2%) and Viacom (+1%) both grew low-single digits while NBCU and Fox were roughly flat. Disney (-2%) was the only group to decrease ad load in the quarter. However, on an absolute basis, Viacom remains the highest with over 14 minutes of every hour devoted to commercials, followed by A&E at 13.7.

Exhibit 13

TD Cable Commercial Minutes per Hour

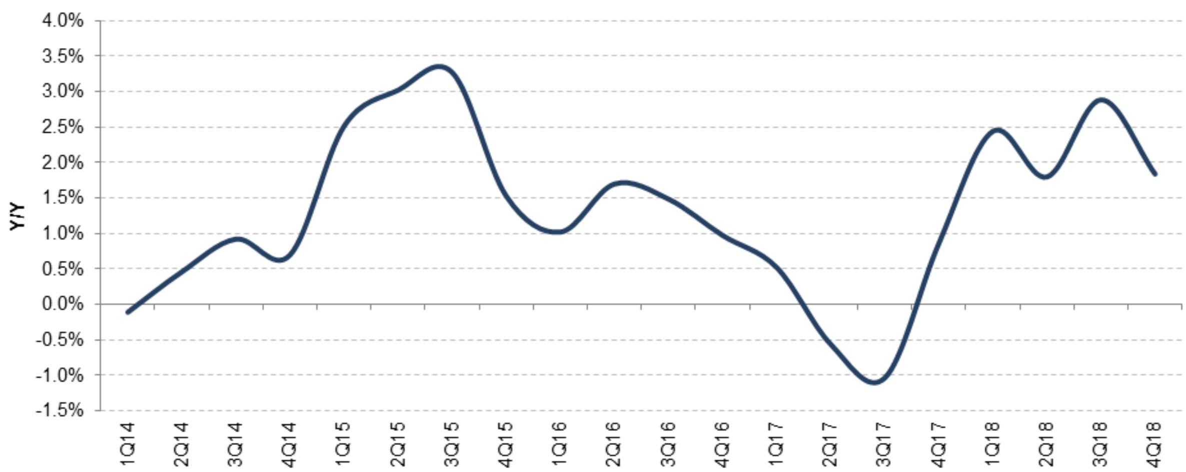
Commercial Minutes/Hour	4Q17	4Q18	Y/Y
A&E	12.8	13.7	6.5%
INDEPENDENTS	11.5	11.8	3.3%
DISCA	11.0	11.3	2.5%
TWX	11.9	12.2	2.6%
AMCX	12.5	12.8	2.1%
VIAB	14.0	14.2	1.2%
NBCU	11.9	11.9	0.2%
FOXA	10.5	10.5	-0.2%
DIS	10.8	10.6	-2.2%
Total	**11.8**	**12.0**	**1.8%**

Source: Nielsen, MoffettNathanson analysis

We also note that after efforts to reduce ad loads through 2017, aggregate cable commercial minutes per hour grew every quarter through 2018 (see Exhibit 14).

Exhibit 14

Change in TD Cable Commercial Minutes per Hour



Source: Nielsen, MoffettNathanson analysis

Without a doubt, the improving macro conditions of 2018, driven by tax cuts and better consumer sentiment, helped drive advertiser demand above recent trend. Adding more inventory also helped. Heading into 2019, we are increasingly cautious about the pricing/demand side of the equation and worry that a slowing U.S. economy will create the opposite effect.

Digital Advertising – Strong and Steady

As our readers know, we expected a deceleration of U.S. digital advertising growth in 4Q vs. 3Q due to our channel checks with branded and performance advertisers. Instead, 4Q revenue trends came in better than expected, in aggregate, driven by strength at Google and Facebook (see Exhibit 15).

Heading into the quarter, we expected digital ad spending to decelerate to +21% (from +25% in 3Q), primarily driven by continued erosion of growth at Facebook. By region, we expected +18% growth for the U.S. and +23% growth for international markets.

In the U.S., actual digital ad growth of +23% was +500 bps higher than our forecast due to stronger than expected growth at Google (+21% vs. our forecast of +16%) and Facebook (+27% vs. our forecast of +22%). While Twitter had weaker than expected domestic ad growth (+24% vs. our forecast of +26%), it still posted solid results due to the recovery in its U.S. business last quarter. Meanwhile Snap recorded just +13% domestic ad growth in the quarter (-200 bps lower than our forecast of +15%), by far the weakest amongst the online advertising companies we cover. International digital ad growth of +26% was +300 bps faster than our forecast due to stronger growth across the board, with Snap up +600 bps (albeit off a small base), Facebook up +500 bps, Google up +250 bps and Twitter up +250 bps.

In total, digital advertising grew +25% in the quarter – about +400 bps above forecast driven by Google and Facebook. Given the resilience of these leading digital giants, online advertising growth has stabilized in the mid-20s for the past two quarters, after falling from +30% in 2Q 2018.

Exhibit 15

4Q Digital Advertising Compare

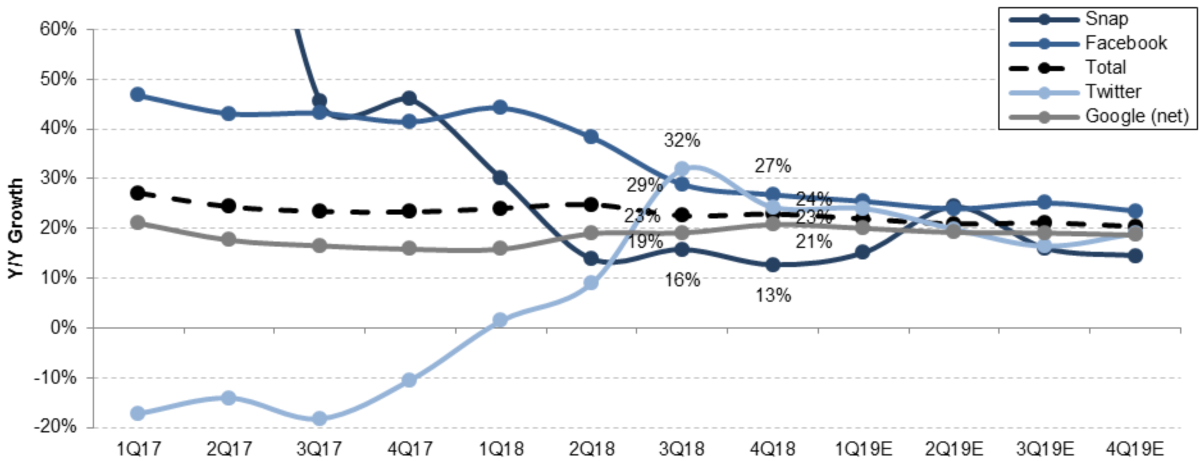
Digital Advertising ($, mns)	4Q17	4Q18	Y/Y	Prior Estimate 4Q18E	Prior Estimate Y/Y	Variance
Domestic						
Google (net)	9,917	11,978	20.8%	11,483	15.8%	499 bps
Facebook	5,769	7,314	26.8%	7,028	21.8%	496 bps
Twitter	342	425	24.3%	431	26.0%	-173 bps
Snap	211	238	12.7%	243	15.1%	-245 bps
Total	**16,239**	**19,954**	**22.9%**	**19,184**	**18.1%**	**474 bps**
International						
Google (net)	10,860	13,221	21.7%	12,949	19.2%	251 bps
Facebook	7,010	9,326	33.0%	8,977	28.1%	498 bps
Twitter	302	366	21.2%	359	18.7%	246 bps
Snap	75	152	103.2%	148	96.9%	627 bps
Total	**18,247**	**23,066**	**26.4%**	**22,432**	**22.9%**	**347 bps**
Global						
Google (net)	20,777	25,199	21.3%	24,432	17.6%	369 bps
Facebook	12,779	16,640	30.2%	16,005	25.2%	497 bps
Twitter	644	791	22.8%	790	22.6%	24 bps
Snap	286	390	36.4%	390	36.6%	-16 bps
Total Digital Advertising	**34,486**	**43,020**	**24.7%**	**41,616**	**20.7%**	**407 bps**

Source: Company reports, MoffettNathanson estimates and analysis

Looking at sequential trends, growth for the broader U.S. market remained steady at +23% in the quarter. Google continues to power on, with growth accelerating by +200 bps sequentially to +21% in 4Q 2018. Facebook, despite fears about a sharp deceleration, saw a more moderate -200 bps decline in growth to +27% in 4Q. Twitter, coming off a remarkable turnaround in its U.S. business in 3Q, saw growth decelerate to +24% in 4Q, strong results yet no longer the top of the group. Meanwhile, Snap's U.S. business has sure fallen from grace, with growth stuck in the mid-teens for the past three quarters (see Exhibit 16).

Exhibit 16

U.S. Online Advertising Revenue Y/Y Growth

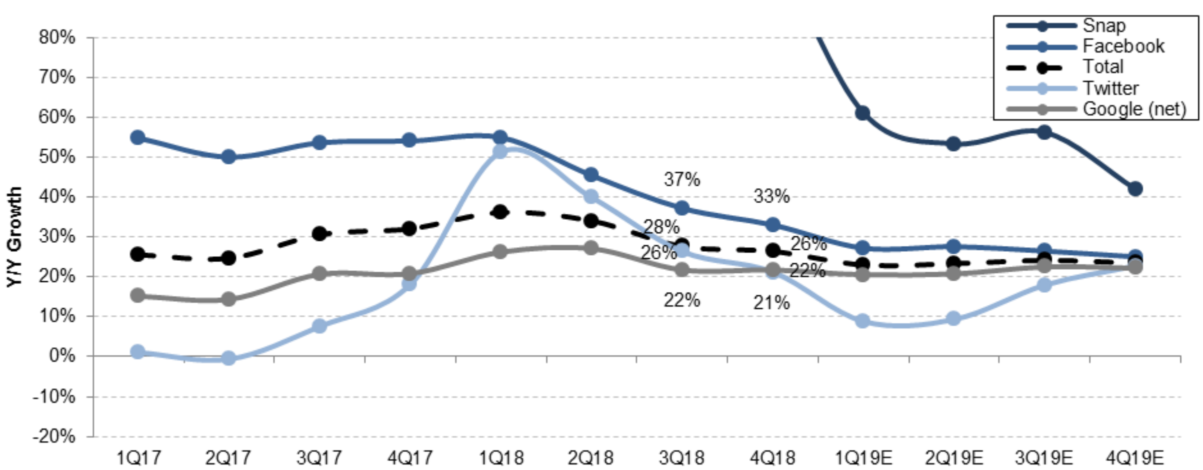


Source: Company reports, MoffettNathanson estimates and analysis

Internationally, aggregate ad revenue growth (which includes the impact of currency in our results), decelerated to +26% in 4Q 2018 from +28% in 3Q 2018 (see Exhibit 17). Google's international growth, despite stronger FX headwinds in the quarter, remained steady at +22%. Facebook also posted stronger than expected results, with international growth decelerating by just -400 bps to +33% in 4Q, compared to a sharper -800 bps drop in 3Q. Twitter, since turning around its International business at the start of the year, has seen growth steadily decline to +21% in 4Q. Given a small base, Snap's international growth has previously been off the charts, but is set to fall closer to peer levels in 2019.

Exhibit 17

International Online Advertising Revenue Y/Y Growth

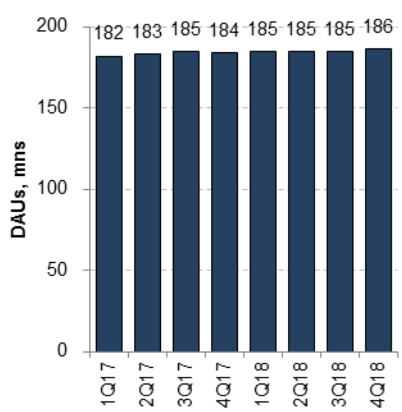


Source: Company reports, MoffettNathanson estimates and analysis

Along with relatively stronger U.S. ad revenue growth across our coverage, user trends showed some improvement this quarter, yet remain quite modest. Facebook's U.S. & Canada DAUs increased by 1 million in 4Q, after being nearly flat for the prior five quarters, while Snap was able to stem the erosion in its North America DAU base (see Exhibits 18 and 19). Twitter, after previously just reporting MAU counts, released a new "monetizable" DAU metric on its 4Q 2018 earnings to capture daily users able to see advertisements. As Twitter removes spammy and suspicious accounts, it wants to divert attention away from its falling MAU metrics. Indeed, mDAUs on Twitter increased by 1 million in 4Q 2018, yet remain a fraction of the size of the DAUs on Facebook and Snap (see Exhibit 20). It is safe to say that the leading U.S. social platforms are reaching the limits of user growth in their home markets.

Exhibit 18

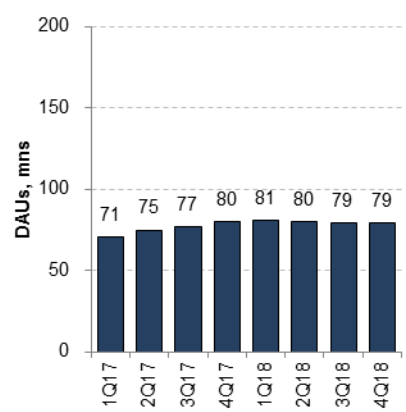
Facebook U.S. & Canada DAUs



Source: Company reports, MoffettNathanson analysis

Exhibit 19

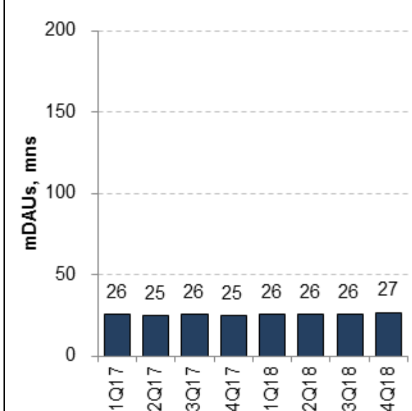
Snap North America DAUs



Source: Company reports, MoffettNathanson analysis

Exhibit 20

Twitter U.S. mDAUs

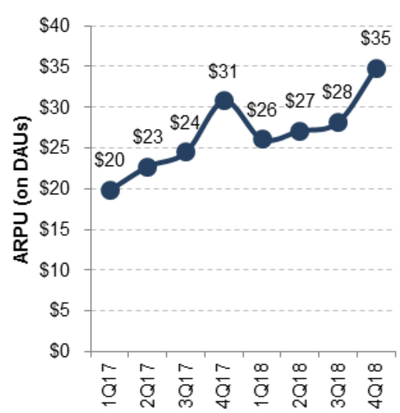


Source: Company reports, MoffettNathanson analysis

As user growth stalls in domestic markets, the leading digital platforms are turning to increased monetization to drive revenue growth. There remains a significant gap in monetization rates among our online advertising coverage group, as we estimate core Facebook (ex. Instagram) earns around $35 in ad revenue per daily user compared to just $3 for Snap in North America (see Exhibits 21 and 22). Twitter, despite having the smallest user base, is seeing stronger monetization potential relative to Snap, but still is earning rates that are less than half of Facebook's domestically (see Exhibit 23). We believe that relying just on higher monetization of existing users will put pressure on the sustainability of revenue growth going forward. We would also argue that pricing-led growth stories usually trade at lower relative multiples vs. unit growth stories.

Exhibit 21

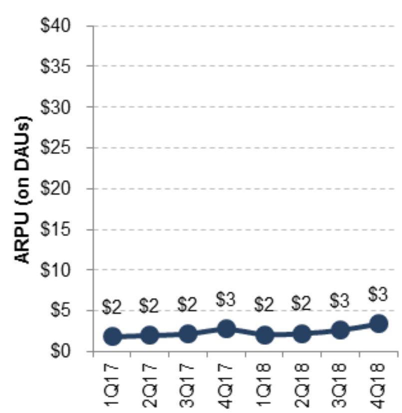
Facebook U.S. & Canada ARPU (on DAUs)



Source: Company reports, MoffettNathanson estimates and analysis

Exhibit 22

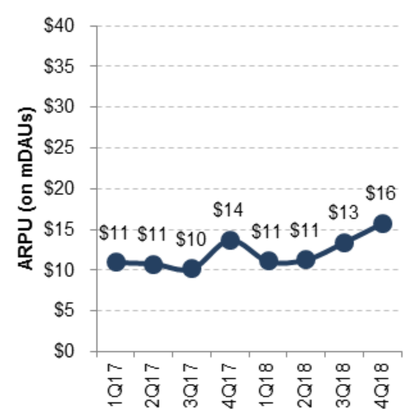
Snap North America ARPU (on DAUs)



Source: Company reports, MoffettNathanson estimates and analysis

Exhibit 23

Twitter U.S. ARPU (on mDAUs)



Source: Company reports, MoffettNathanson estimates and analysis

What Do We Like From Here?

We remain most excited about the spin out of New Fox (see New Fox: Ask Enough and You Shall Receive, January 9). After Brazil approved the deal last week, we are one step closer to the separation. We also think Disney will be well positioned after the deal closes and look forward to learning more about their DTC ambitions at the investor day in April (see Disney: How Does Disney "Work" in 2019?, January 14). Earlier this year we upgraded CBS (see CBS & VIAB: What's the Downside? Upgrade CBS to Buy, January 17) based on the belief that the stock has simply gotten too cheap and that a deal with Viacom could provide meaningful upside for the combined entity.

For Facebook, we remain concerned that the shift in monetization from News Feed to Stories coupled with increasing regulatory scrutiny will limit multiple expansion. Although Facebook had relatively strong 4Q 2018 earnings, we await further evidence that organic growth erosion is subsiding before getting more positive on the stock (see Facebook: How'd They Do That?, February 19). For Snap, having been extremely negative since the IPO, while the current valuation remains stretched, we no longer believe it will run out of cash and need to raise funding due to recent cost cutting initiatives. However, we continue to be hesitant around Snap's user growth potential due to rising competition from Instagram, Facebook and new entrants like TikTok (see Snap: Flanked On All Sides, January 16). For Netflix, we currently have a target price of $275 and have, for the longest time, had difficulty supporting the equity value with traditional valuation approaches including a discounted cash flow. We are above consensus on subscriber metrics, which keeps us at Neutral.

Risks

21st Century Fox

Upside risks for 21st Century Fox include: Better advertising and affiliate fee growth at its cable networks, and new OTT players looking to pay above market rates for new content.

Downside risks for 21st Century Fox include: The FOX Network continues to struggle from a ratings perspective leading to advertising declines that offset upside from retrans. In addition, the underperformance of its competition shows could increase the likelihood of higher program investment in the future years. The secular struggles of local TV stations (in non-election years) could continue to impact the company. 21st Century Fox's studio faces risk from any write-downs related to its future theatrical release slate. The company's cable networks also will from time to time go through additional cable network affiliate renewals and could be negatively impacted by any disputes with distributors. DIS deal fails to close.

AMC Networks

Upside risks for AMC Networks include: Better than expected growth in advertising and from future affiliate fee negotiations as well as higher SVOD dollars.

Downside risks for AMC Networks include: Volatility in advertising with the big hit nature of a few shows driving a large percentage of primetime ratings. As a pure play cable network, the company is heavily exposed to upturns and downturns in the U.S. advertising market. The company could also find difficulties matching the current success levels of its hit programming when launching new originals and its older shows finish.

AT&T

Upside risks for AT&T include: Wireless revenue growth could prove stronger than expected due to reduced competitive intensity and firmer pricing, the impact of network improvements, higher penetration of non-traditional devices, or increased monetization of increased traffic from consumers or content providers; Wireless margins could exceed expectations due to restrained competition or successful efforts to curb equipment subsidies; Pair bonding, VDSL upgrades, and deeper fiber deployment could improve U-Verse's competitiveness and longevity; A stronger macroeconomic recovery would bolster the performance of the Enterprise segment; Aggressive cost cutting and labor flexibility could help sustain Wireline margins; Cable's market share gains against legacy DSL may be less than forecast; Returns on Project VIP may exceed expectations, driven by better than forecast customer acquisitions or capex efficiencies; Intelligent tax planning could help sustain free cash flow; AT&T could engage in value-enhancing M&A activity; Capital spending may be less than expected; Low interest rates could make its relatively high dividend yield attractive to investors; Benefits from the DirecTV transaction could exceed expectations; The Time Warner acquisition could result in higher synergies than expected.

Downside risks for AT&T include: Wireless revenue growth could deteriorate due to increased competitive pressure affecting subscriber or ARPU performance, lower than forecast adoption of non-traditional devices, or a failure to monetize increased traffic; The cable industry's WiFi offering could prove disruptive; Wireless margins could be pressured by heightened competition or equipment subsidies; By relying on twisted pair copper, U-Verse may become obsolete sooner than expected; Absent a macroeconomic recovery, the Enterprise segment may continue to be a drag on performance; The fixed cost nature of AT&T's Wireline infrastructure could make cost cutting challenging, hurting margins; Cable's share gains in the broadband market could be greater or more sudden than expected; Project VIP may fail to achieve its goals, or its scope and investment requirements may be expanded; Free cash flow could be pressured as the company's significant deferred tax liabilities unwind; AT&T may make a value-destructive acquisition; Capital intensity may rise to support traffic volumes; An increase in interest rates could make the company's shares less attractive relative to alternatives; Benefits from the DirecTV transaction could fail to meet expectations; The Time Warner acquisition could result in fewer synergies than expected.

CBS Corp

Upside risks for CBS Corp include: Better than expected retrans revenues, OTT subscriber penetration and SVOD dollars plus stronger TV advertising and syndication revenues. CBS could also benefit from skinny bundle opportunities and more efficient audience monetization.

Downside risks for CBS Corp include: CBS, still with a large portion of its revenue from advertising, is affected (positively and negatively) by the upswings and downturns of the U.S. advertising market and economy. The secular struggles of local TV stations (in non-election years) are a source of risk to long-term earnings. In addition, broadcast ratings at the CBS Network could look to slow with changing consumer habits and added cable networks competing more aggressively for viewers.

Comcast

Upside risks for Comcast include: TelCo competition could prove weaker than forecast, particularly in FTTN markets, resulting in larger than expected share gains and enhanced pricing power across product categories; The rate of programming cost increases could slow, mitigating pressure on the profitability of the company's video service; Concerns regarding a less favorable regulatory environment could prove unfounded, giving the company additional flexibility to price its services and manage its network; Growth in the commercial services segment could be sustained for a longer period of time than forecast; The continued densification of the company's WiFi network could lower customer churn and present new business opportunities; Comcast could adopt a cash-return strategy thought of as being more favorable by investors; Actions taken to improve performance across NBCUniversal could yield larger than forecast improvements in profitability.

Downside risks for Comcast include: TelCo competition could prove more aggressive than forecast, particularly if technology enables more robust FTTN performance or if new FTTH builds are undertaken, resulting in smaller than expected share gains and reduced pricing power across product categories; Growth in programming costs could remain elevated for longer than expected, increasing pressure on the profitability of the company's video service; The regulatory environment could become harsher than it has been historically, resulting in less flexibility to price services and manage the network; Growth in the commercial services segment could tail off sooner than forecast; The company may not be able to implement usage based pricing, exposing it to the risk of competing with Internet-delivered video; Hoped for improvements at NBCUniversal may not pan out, resulting in multiple compression.

Discovery Communications

Upside risks for Discovery Communications include: Better advertising growth, higher expected growth in affiliate fee revenue from its renewals and new OTT players looking to pay above market rates for new content. SNI deal may be more synergistic than anticipated (costs, negotiating leverage, international growth).

Downside risks for Discovery Communications include: Discovery's results are dependent on the performance of its three core networks: Discovery Channel, TLC and Animal Planet. Therefore, a significant ratings decline at any of these networks would affect future profitability. In addition I.D. has benefited from a few years of significant growth and could start to slow in the ratings as well. Discovery is also going through its cable network affiliate renewals and could be negatively impacted by any disputes with distributors. Discovery's leading international networks raises its exposure to the weaker macroeconomic trends, especially in Europe. While the success of OWN has improved, it will require a consistent audience, which will require programming investment. SVOD dollars are also at risk as SVOD players focus more on original content and exclusivity. SNI deal integration could be harder than expected and result in less synergies than projected.

The Walt Disney Company

Upside risks for The Walt Disney Company include: Better advertising and affiliate fee revenue growth, faster retrans revenue growth, new OTT players looking to pay above market rates for new content and better margin expansion at its Parks and Resorts.

Downside risks for The Walt Disney Company include: Negative impact by any disputes with distributors surrounding ESPN and its other networks in upcoming affiliate renewals. Any weakness in consumer spending or other macroeconomic factors could have an adverse impact on Disney's Parks and Resorts business. Disney's original live-action film slate faces the risk from additional write-downs related to its future theatrical release slate. FOXA deal integration could be harder than expected and result in less synergies then projected.

Viacom

Upside risks for Viacom include: Better advertising growth, higher expected growth in affiliate fee revenue from future renewals and new OTT players looking to pay above market rates for new content.

Downside risks for Viacom include: Volatility in Viacom's ratings, which is dependent on the company's ability to successfully program to its target audience. Viacom is highly dependent on the performance of Nickelodeon and MTV. Ratings struggles in these networks could adversely impact advertising results. Viacom also will from time to time go through additional cable network affiliate renewals and could be negatively impacted by any disputes with distributors. Moreover, Viacom's studio faces risk from any write-downs related to its future theatrical release slate. SVOD dollars are also at risk as SVOD players focus more on original content and exclusivity.

Alphabet

Downside risks for Alphabet include: Macroeconomic factors impacting broader advertising budgets, an inability to better monetize mobile browser search or app usage, share loss at YouTube driven by video initiatives at Facebook and Snapchat, regulatory risk in Europe, greater adoption of ad-blocking technologies, overinvestment in moonshot initiatives outside of Google's core competencies.

Facebook

Upside risks for Facebook include: Better advertising growth, faster advertising budget shifts from traditional media to digital, faster user growth internationally or engagement growth globally, better monetization from improved targeting, measurement, and attribution as well new formats like video, increased ad loads and ultimately revenue from properties such as Instagram, WhatsApp, or Messenger, better expense controls.

Downside risks for Facebook include: Macroeconomic factors impacting broader advertising budgets, user fatigue on the core Facebook platform, an inability to monetize properties like Instagram, WhatsApp, or Messenger, revenue share losses in native or video to companies like Google, Twitter, or Snapchat, regulatory risk (particularly around privacy), overinvestment in moonshot initiatives like Oculus Rift.

Twitter

Upside risks for Twitter include: Better advertising growth, faster advertising budget shifts from traditional media to digital, faster user growth and engagement (both on and off-platform) from improved onboarding and education initiatives, significantly improved targeting, measurement, and dynamic creative mechanisms for advertisers, engagement and monetization upside from new ad formats like video, higher ad loads, faster than expected cost leverage, acquisition.

Snap, Inc.

Upside risks for Snap, Inc. include: Better advertising growth, faster advertising budget shifts from traditional media to digital and from other digital platforms to Snap, faster user growth, significantly improved targeting and measurement mechanisms for advertisers, engagement and monetization upside from new creative tools, better onboarding for older cohorts, new ad formats, and higher ad loads, faster than expected cost leverage, acquisition.
Downside risks for Snap, Inc. include: Macroeconomic factors impacting broader advertising budgets, slowing user growth driven by an inability to improve its appeal to older demographics or an inability to grow outside of developed markets due to bandwidth constraints, existing user fatigue and share losses to other social networks driven by initiatives like Stories on Instagram, advertiser losses driven by frustration with Snap's scale, overexposure to younger demographics, or less robust direct response tools, inability to generate leverage and achieve profitability due to high infrastructure and bandwidth costs, execution risk driven by all voting control belonging to two inexperienced co-founders, user generated content risk.

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