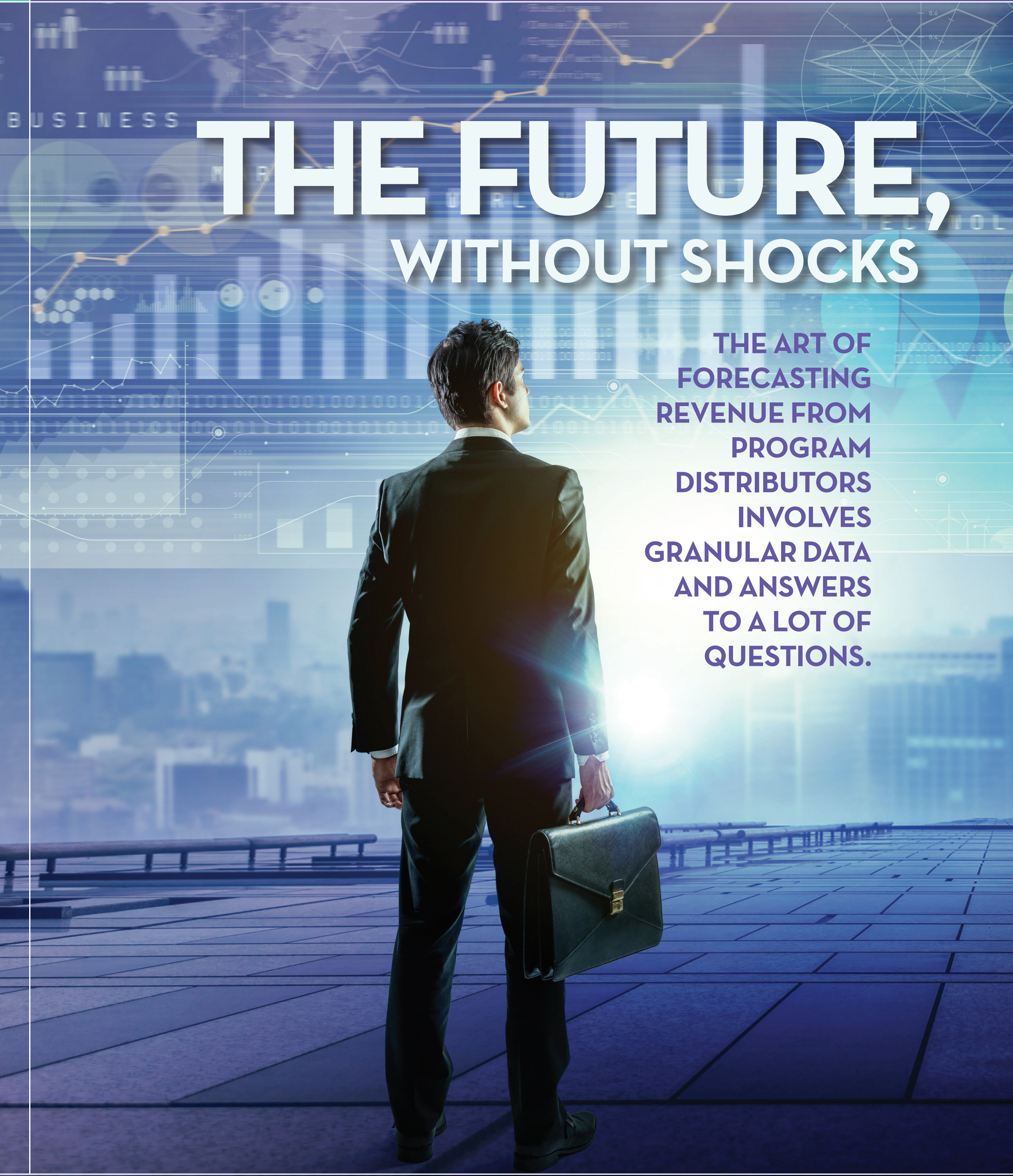


# THE FUTURE, WITHOUT SHOCKS

## THE ART OF FORECASTING REVENUE FROM PROGRAM DISTRIBUTORS INVOLVES GRANULAR DATA AND ANSWERS TO A LOT OF QUESTIONS.

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**THE FIRST EXPERIENCE** that many of us have with forecasting happens with a psychic at a local carnival or storefront fortuneteller operation. For $10, most psychics will read your palm and forecast the future, all in 30 minutes.

What many people come to realize in their personal and professional lives is that everybody wants to know the future and almost everyone is willing to offer up a prediction. Some even get paid for it. But, as with most psychics, very few are accurate and even fewer are consistently accurate.

However, for business professionals with immense data at their fingertips to serve as a baseline for future projections, forecasting can actually be done accurately and consistently. So why is it so difficult? The answer is simple: adequately (and legitimately) forecasting – particularly in the dynamic media finance market space – is incredibly complex. And far too often people assume the opposite.

As we've met with colleagues to discuss projections for video channel license fee revenues, many questions were raised about the best way to approach forecasting and what details should be included in the forecast.

How can we most accurately project license fee revenues one month, three months or six months out? What about a whole year? And, perhaps more importantly, at what level of granularity should we forecast? What variables should we include and exclude?

Should we factor in seasonality? Growth of over-the-top (OTT) distribution platforms and their effect on the subscriber churn of more traditional cable, satellite and telecoms operators?

Do we forecast by market? What if a new cable system launches and/or a system drops our channel signal? Do we analyze 10-K filings for more insight? What about hurricanes and other *force majeure* events?

When faced with all these questions, we quickly realized that forecasting was not going to be simple. Before considering how to get at the best answers, let's address the mother of all forecasting questions.

### WHY DO IT AT ALL?

Financial planning and analysis related to license fee revenues is crucial to a content company's long-term success. When done correctly, forecasting can be a very powerful tool as historical data trending should be a factor in driving future business decisions.

Projecting revenue and financial statements are

## BEST PRACTICES FOR PROJECTIONS

**FORECAST OFTEN —** In the pay-TV landscape, a forecast in the first quarter will be very different than a forecast in the third quarter. In fact, in some ways, as soon as a forecast is finished and a new remittance is received, the initial forecast is now obsolete.

Seasonality, system drops and launches, MVPD rebranding and package restructuring are some examples of things that can change monthly. Market factors also have a significant impact on future projections, which reinforces the importance of regular forecasting.

Merger and acquisition activity, OTT growth (and the corresponding impact on linear MVPDs) — along with big TV events like the Super Bowl, World Series and World Cup — also impact subscriber numbers. If forecasting models aren't constantly updating projections based on the most recent available data, the integrity of the forecast is jeopardized.

**HAVE A PLAN —** Methodically and carefully create forecasting plans with team members and other key stakeholders. Consider the following questions:

Are forecasts based on recent, reliable and routinely updated data? Is this data the most granular that it can be? When an adjustment is made to the books and records, is the corresponding update also made to your forecasting model? What is the basis of the forecast? Should trending of the last three months, six months or more be leveraged? Why?

What other data points are being used? Are projections tied to remittances and updated automatically each month? What other assumptions are being considered? Are you forecasting with the same assumptions by system and MVPD? Why or why not?

**RELY ON SENIOR-LEVEL INSIGHTS —** The best forecasting is done with data driven, logic-based projections and managed or overseen by experienced media finance professionals with credible industry insight.

critical to adequately running a business. After all, most media pros operate according to budgetary decisions. But in order to adhere to a budget, we must know what our revenue is likely to be in the foreseeable future.

This is no different than our personal budgets and why people plan monthly bills based on their payday. Businesses make decisions in real-time based on projected revenues, but on a much larger scale. It is much easier to plan finances when you have a reliable, forecasted revenue stream.

Ultimately, integrating company business strategies into forecasting can help refine projections. There is also downside in not forecasting, as it can result in a misallocation of resources. Very simply, programming companies are worth too much to not invest in forecasting that is as accurately constructed as possible.

What separates the best forecasters from the rest is the ability to obtain reliable data that is reviewed and refreshed on a consistent basis.

## GRANULARITY IS KEY

For cable channels and stations, forecasts derived solely from the aggregated multichannel video programming distributor (MVPD) level is insufficient. Because subscribers are reported and booked at the individual systems that make up MVPDs, forecasting at that level is a must as it is the most granular data available.

"The Devil is in the details," said Bruce Lazarus, CEO of Media Audits International. "System-level reporting unmasks trends that are not always visible at the MVPD-level." This detailed analysis allows forecasters to account for such factors as seasonality, channel launches or drops, distributor consolidations, changes in tiering and rate variances between services. It will also make factoring in business strategies much easier, as they may include projected acquisitions and divestitures as well as known rate changes or expected future growth.

Many variables contribute to sub growth and decline, but without system-level detail, it is extremely difficult to anticipate them with any amount of confidence. Further, forecasting at the system-level allows for easy roll-up to the MVPD-level. But the inverse is not true.

In addition, system-level forecasting allows for a commensurate month-to-month period comparison in the previous year, or for years earlier. And it allows for the identification of outlying circumstances that should potentially be excluded from the analysis. Programmers can review trends at both the macro and micro level, both of which help financial decision-makers predict where revenue will be in the future.

What's more, analyzing historical, system-level data trends provides retrospective insight on where previously uncovered financial inconsistences may reside, so that they may be properly addressed into the future.

Forecasting is complex, but it is well worth the investment for media professionals if we take advantage of the data at our disposal. Because it is only as good as what we do know, it is good that we know a lot.

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