

MAGNA

On-Demand Quarterly

June 2009

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MAGNA On-Demand Quarterly: June 2009

- Overview
- Video Platforms in Latin America
- Law & Order (& DVRs)
- Battle of the Network (DVR) Stars Part III
- DVR and VOD News
- Appendix 1: DVR and VOD Forecast Data
- Appendix 2: DVR Forecast Chart
- Appendix 3: VOD Forecast Chart
- Appendix 4: Internet Access Forecast Data
- Appendix 5: Internet Access Forecast Chart



Overview

Updated DVR, VOD and Broadband forecasts through 2014

- Our year-end 2014 forecast for **DVR subscriber households** is 51.1 million (42% of TV households), up from 31.0 million (27% of TV households) as of the end of the first quarter of 2009. We note that the aggregated impact of DVRs will likely continue to be outpaced by a rising population and increases in consumption of conventional TV
- By 2014, we expect that true **Video-on-Demand** will reach 66.6 million households (approximately 64% of television households). This compares with 43.1 million VOD households (42% of total TV households) at the end of the first quarter of 2009
- We estimate that 71.0 million households had **broadband access** as of the end of the first quarter of 2009, 60% of the country's 118 million households. We expect that total broadband access will rise to cover 87.4 million households by the end of 2014



Video Platforms in Latin America

Multichannel video continues to grow in Latin America, but services penetration of all types remain low

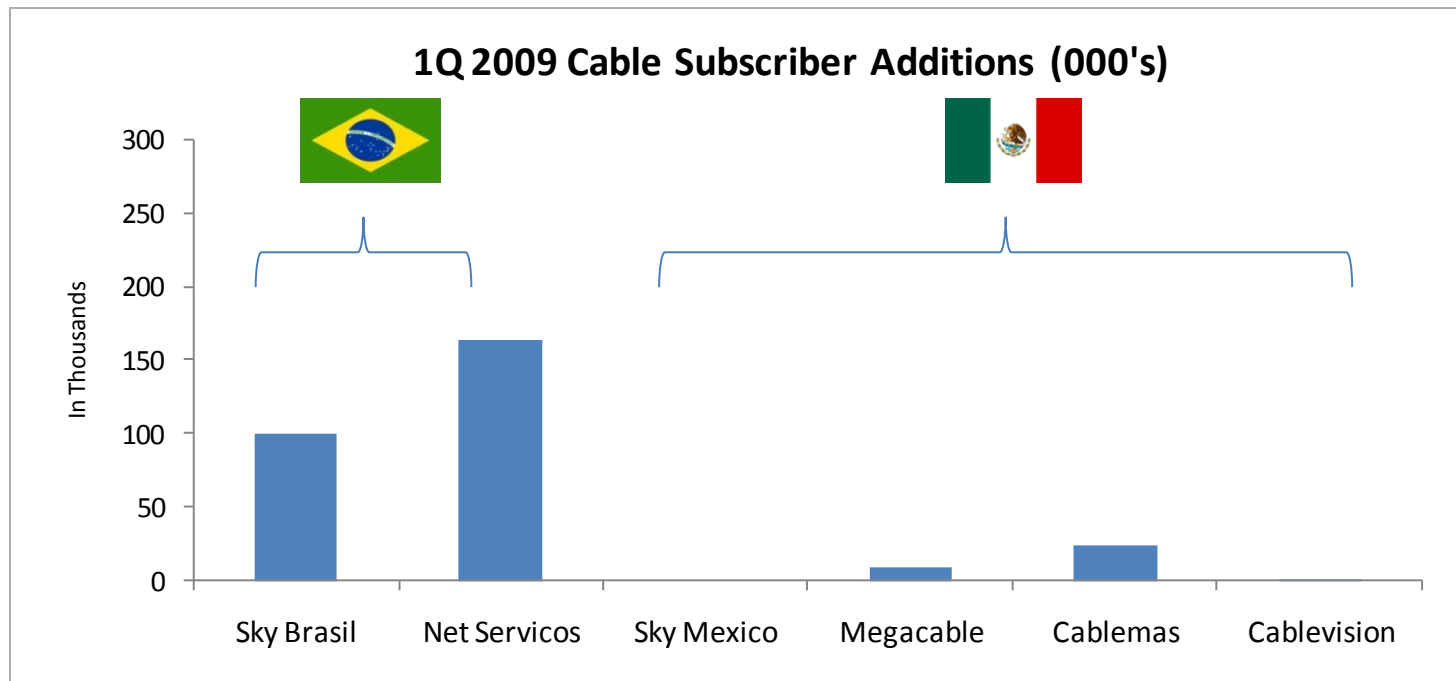
- In our ongoing review of multichannel video and advanced video services trends around the world, Latin America stands out for the continuing dominance of broadcast TV, both in terms of programming content production and distribution platforms
- Multichannel video is generally subscribed to by a minority of the population in these markets, and the use of advanced video services are not common. But some stand-out applications of new video platforms exist:
 - **DirectTV Latin America's** regional businesses (including a controlling stake in **Sky Brasil** and a minority stake in **Sky Mexico**) offer DVRs to its 5.8 million subscribers across the region, and also provide other features offered in the United States, including interactive program guides and mosaic screen-viewing options. During a recent investor presentation, company management indicated that DVR penetration is approximately 15%, as 20% of new subscribers are taking DVRs when they begin service
 - Brazil's **TVA** – owned by Spain's Telefonica – has offered an installed SlingBox to its half million customers since 2006 as a means of allowing customers to view the content they subscribe to on any computer
 - Mexico's **Cablevision** – controlled by Grupo Televisa, which also has a dominant stake in Mexico's second largest cable operator, CableMas and a controlling stake in Sky Mexico – has offered TiVo DVRs and Video on Demand for several years. However, the total number of subscribers to DVRs is low, likely in the tens of thousands across the company's 576,000 subscriber base. More recently, Cablevision announced a deployment with US-based Ligos to offer a mosaic-style video navigation experience which could also include new advertising units
- Across Latin America the absence of widely available (and widely utilized) high-capacity, two-way infrastructure ultimately limits the potential for new video services. In turn, this reinforces the importance of traditional media platforms. For many of the countries in the region, limited fragmentation and limited deployments of new technologies (such as DVRs and Video on Demand) will allow traditional forms of television to retain the dominance they have maintained in recent years



Video Platforms in Latin America

Basic cable subscriptions continue to rise in Mexico and Brazil

- Across the two largest markets – Brazil and Mexico – basic multichannel services reach a minority of households, but are generally growing as their citizens become more affluent (despite the current economic downturn). Data below reflects basic video subscriber additions during the first quarter of 2009 (vs. the fourth quarter of 2008) at the primary MSOs in these two markets



(1) Net Servicios figures exclude acquisition of Big TV



Law & Order (and DVRs)

TiVo and EchoStar nearly concluded a legal battle, reshaping the DVR landscape – but delay struck again

- Beginning with a complaint filed in 2004, TiVo and EchoStar (the former parent company of satellite operator DISH Network) have been engaged in ongoing legal proceedings related to EchoStar's infringement of TiVo's DVR patents. Court rulings led to EchoStar paying \$105 million to TiVo in damages last year and a permanent injunction intended to prevent EchoStar from continuing to use TiVo's intellectual property. But in lieu of an ongoing agreement between EchoStar and TiVo to license the patents, EchoStar instead pursued development of a patent work-around. This was intended to allow DISH Network to continue offering its almost 7 million DVR subscribers continued DVR services on DISH's own terms
- However, at the beginning of this month the Texas court which earlier ruled on the patent violations found EchoStar in contempt of the permanent injunction, ordered an additional \$103 million in fines and effectively demanded EchoStar immediately cease offering its DVR services to the bulk of its subscribers within 30 days. But days later, EchoStar was (to the surprise of many) able to convince a Federal Appeals Court to temporarily stay the Texas court order
- Although it remains to be seen if EchoStar and DISH will be able to continue offering DVR services in their current form beyond the (eventual) conclusion of this legal episode, a number of outcomes are of particular interest:
 - **EchoStar/DISH submits to the court ruling and temporarily ceases offering DVR services in any form to its subscribers.** This outcome would result in potentially significant subscriber loss (to the benefit of other MSOs) but would be mitigated in the long-term as DISH would likely find a new content storage solution at a later date
 - **EchoStar/DISH is successful at deploying a work-around DVR solution** – resulting in a more-or-less status quo outcome
 - **EchoStar/DISH agrees to terms with TiVo to license TiVo's patents.** Any agreement would presumably result in higher fees to consumers for DVR services (EchoStar's are currently among the lowest in the industry) and in part retard DVR growth. But TiVo's platform – and advertising solutions, which are not otherwise available through other DVR services – would ultimately see growth to a more meaningful scale compared to its current footprint of less than 3.2 million subscribers.



Battle of the Network (DVR) Stars Part 3

Network DVR technology clears a significant legal hurdle towards live consumer deployment

- **Network DVRs** have long been a source of interest and concern throughout the media industry because of a) the apparent speed with which DVR services could be deployed, b) the potential for lower costs to deliver DVRs (to cable operators, if not consumers) and c) expected increases in DVR penetration. After many years of court battles, a court decision made during the last week of May has likely cleared the way for cable operator **Cablevision** to offer this technology to its 3.1 million New York-area subscribers
- **Time Warner Cable** demonstrated proof-of-concept for Network DVR through a project known as “Maestro” almost 10 years ago. TWC shelved the project due to the very legal concerns that ultimately delayed Cablevision’s deployment . Following various rulings and appeals regarding the product's legality, on May 29 the US Solicitor General denied a Supreme Court hearing for content producers (including **Time Warner, News Corp** and **Walt Disney**). With this step, Cablevision appears free to launch its Network DVR service commercially
- But is this news cause for attention from advertisers? Not initially. As we have written previously, it is unclear if Network DVR will turn out to be either a superior product compared to set-tops with DVRs, and most likely will not be cheaper to consumers as long as MSOs lack a competitive reason to constrain pricing. **At most, the availability of Network DVR services will contribute to a minor increase in DVR penetration.** Network DVR will more likely have a significant long-term impact on cost savings to MSOs
- **Another potential impact may be the eventual deployment of new advertising units**, mooted by Cablevision management at an investor conference last week. Programmers may be incentivized to work with Cablevision to deploy new forms of sponsoring time-shifting – more easily enabled with ad-insertion at the head-end rather than at the set-top
- **Finally, consumer churn may also be positively impacted by novel applications of the technology.** Another product referenced by Cablevision management would allow for all consumers (DVR users or not) with Cablevision-supplied telephone services to see Caller ID on the TV set when the phone rings and allow for a simple pause of the program until the phone call is over. Higher levels of customer satisfaction with overall communications services will likely be the most significant consequence of this ruling



DVR and VOD News – United States

During 1Q09, DVRs were added to 1.2 million homes while 1.3 million new homes gained access to VOD

- We estimate that **DirectTV** now has 6.8 million DVRs, as more than 60% of new subscribers took either HD and/or DVR boxes during the quarter. This figure compares to the 6.7 million at DISH Network. Approximately 43% of DBS (satellite) subscribers now have DVRs by our estimates
- Meanwhile, **Comcast** added 452,000 advanced service customers during the quarter, for a total of 8.2 million HD and/or DVR subscribers, and now has approximately 4.8 million DVR subscribers by our estimates – 20% of the company's total subscriber base. The company stated during its recent earnings conference call that video on demand averaged 300 million views per month during the first quarter. This equates to approximately 18 VOD streams per VOD subscriber per month, down from approximately 20 a year earlier
- **Time Warner Cable**'s DVR growth continued to moderate somewhat with DVR subs increasing by 119,000 in the quarter, vs. 242,000 in last year's first quarter and 87,000 in the fourth quarter of last year. Total DVR subscribers totaled 4.1 million at quarter's end, 32% of the company's subscriber base of 13.1 million basic subscribers. During its recent earnings conference call, the company stated that its Start-Over service is now available to more than half of its digital video subscribers – 5 million in total, up from 3.2 million during the end of the prior quarter. Start Over enables any digital cable subscriber to start certain programs (those for which Time Warner negotiates appropriate rights) from the beginning of its airing if a special button is selected prior to that show ending. Commercials are aired in their entirety with this service
- At **Charter**, video on demand orders increased nearly 40% during the first quarter of 2009 compared to the year ago quarter. As the number of subscribers with access to VOD likely increased by only 10%, this represents a substantial increase in number of VOD views per subscriber. We estimate that Charter has 635,000 DVR subscribers, equal to 13% of its subscriber base
- **Mediacom** stated during its quarterly earnings call that 35% of its 650,000 digital customers take either HD or DVR services, up marginally from recent quarters. We estimate that Mediacom has 162,000 DVR subscribers, or 12% of its subscriber base

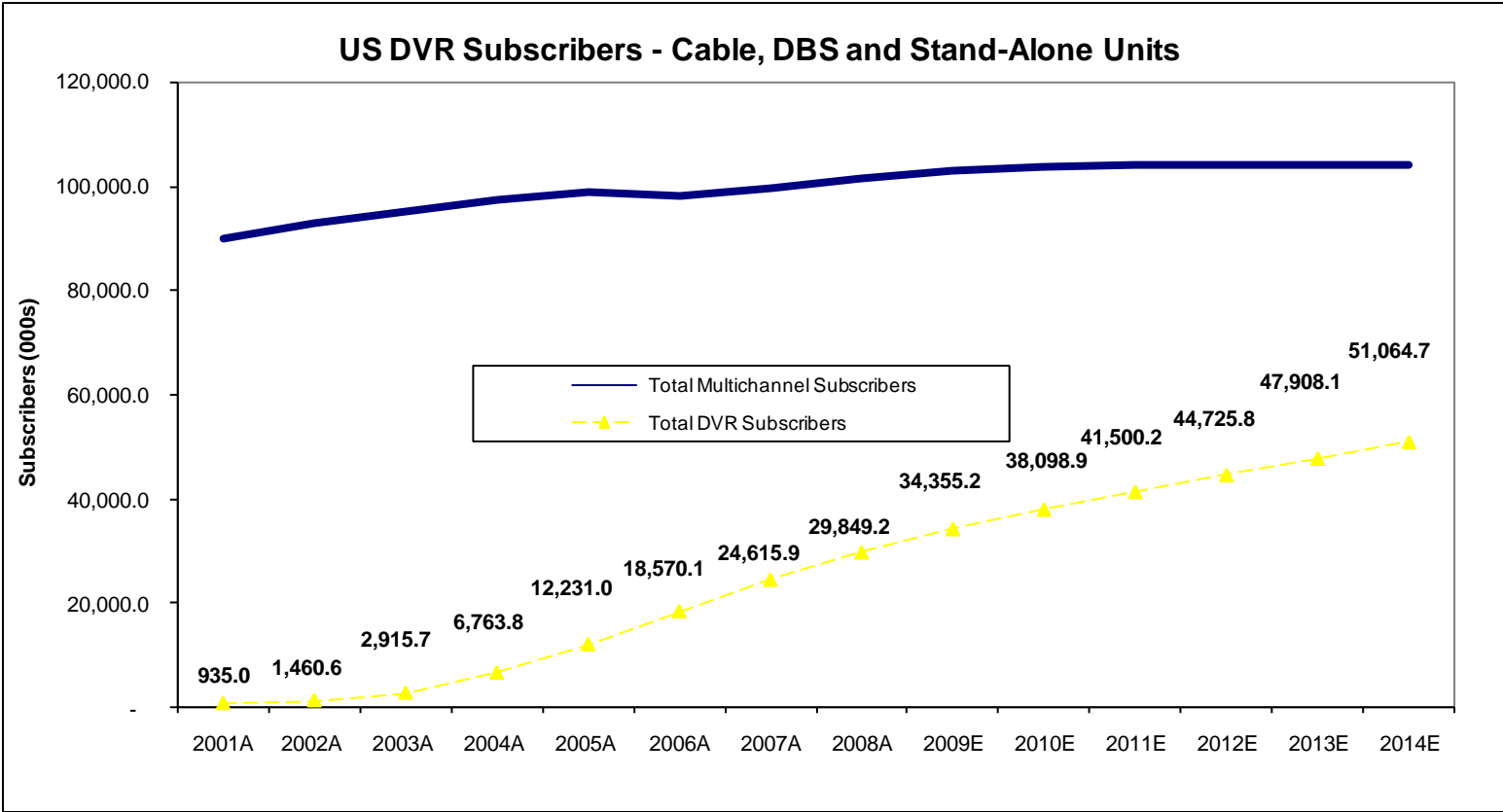


Appendix 1: DVR and VOD Forecast Data

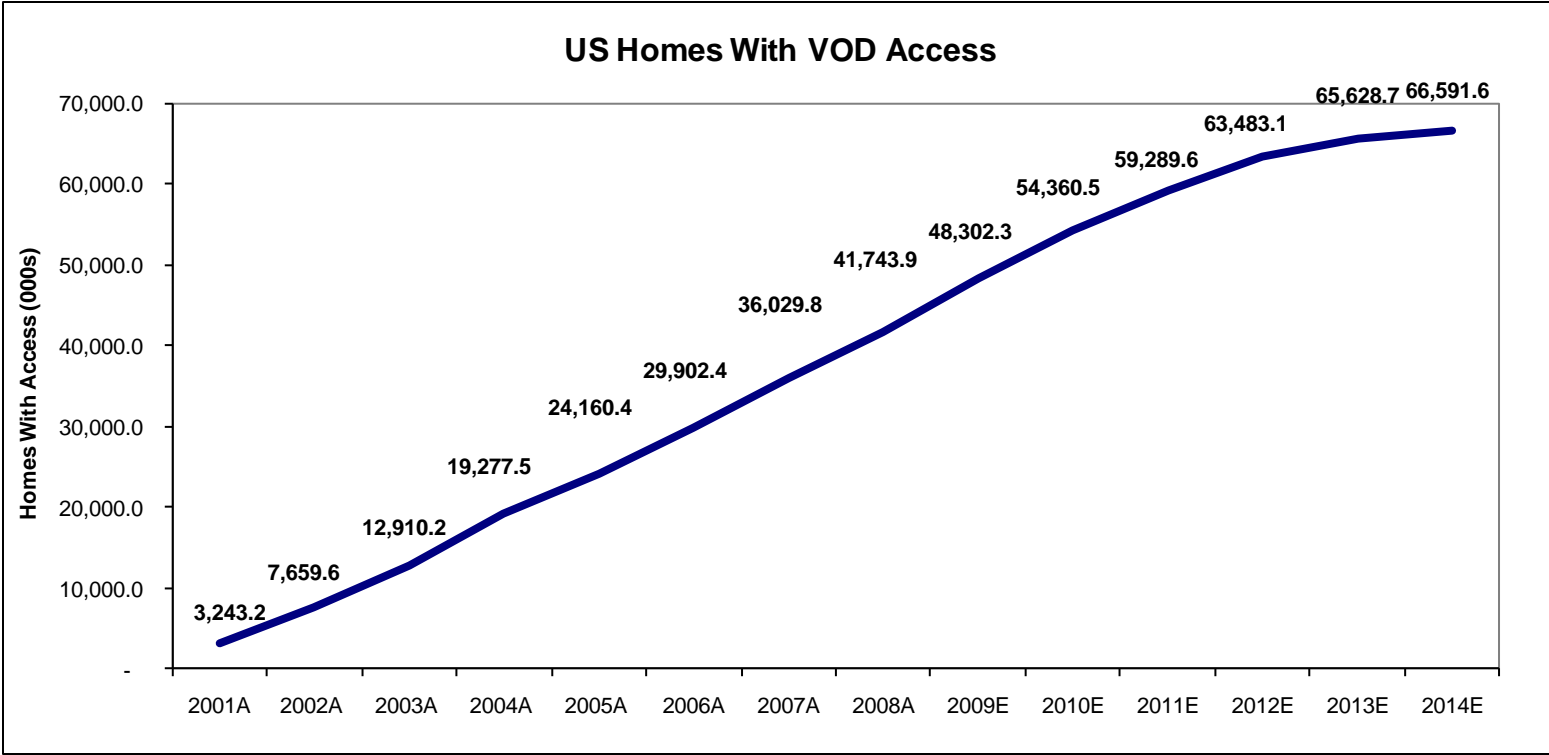
		MAGNA On-Demand Deployment and Subscriber Estimates																	
Brian Wieser, CFA MAGNA Director of Global Forecasting (646) 865-2260		2001A	2002A	2003A	2004A	2005A	2006A	2007A	2008A	1Q09A	2Q09E	3Q09E	4Q09E	2009E	2010E	2011E	2012E	2013E	2014E
Total US TV Households		102,200	105,500	106,700	108,400	109,600	110,200	111,400	112,800	113,290	114,617	113,408	115,645	114,500	115,645	116,801	117,969	119,149	120,341
• YOY Growth		-----	3.2%	1.1%	1.6%	1.1%	0.5%	1.1%	1.3%	1.5%	2.5%	0.9%	2.5%	1.5%	1.0%	1.0%	1.0%	1.0%	1.0%
Total Multichannel Subscribers		89,980	92,881	95,003	97,562	98,698	98,114	99,769	101,523	101,954	102,138	102,957	102,906	102,906	103,747	104,065	104,052	104,023	103,971
• YOY Growth		-----	3.2%	2.3%	2.7%	1.2%	-0.6%	1.7%	1.8%	1.6%	2.0%	1.6%	1.4%	1.4%	0.8%	0.3%	0.0%	0.0%	0.0%
• % of TV Households With DBS, Cable or TelcoTV		88.0%	88.0%	89.0%	90.0%	90.1%	89.0%	89.6%	90.0%	90.0%	89.1%	90.8%	89.0%	89.9%	89.7%	89.1%	88.2%	87.3%	86.4%
Digital Multichannel Subscribers		33,747	41,025	46,462	52,485	58,178	63,972	71,205	77,549	79,131	81,417	83,175	84,062	84,062	90,675	95,984	100,414	102,652	103,439
• Digital Penetration		37.5%	44.2%	48.9%	53.8%	58.9%	65.2%	71.4%	76.4%	77.6%	79.7%	80.8%	81.7%	81.7%	87.4%	92.2%	96.5%	98.7%	99.5%
VOD-Enabled Subscribers		3,243	7,660	12,910	19,278	24,160	29,902	36,030	41,744	43,057	45,562	47,350	48,302	48,302	54,361	59,290	63,483	65,629	66,592
• YOY Growth		-----	-----	68.6%	49.3%	25.3%	23.8%	20.5%	15.9%	14.1%	17.0%	17.0%	15.7%	15.7%	12.5%	9.1%	7.1%	3.4%	1.5%
• % of Cable Footprint Enabled With VOD		19.4%	35.3%	52.0%	69.7%	76.6%	85.6%	88.8%	90.3%	90.7%	91.6%	91.9%	92.4%	92.4%	93.7%	94.3%	94.3%	94.3%	94.3%
MSO DVR Subscribers		620	1,018	2,212	5,495	10,610	16,719	22,795	28,160	29,359	30,482	31,575	32,766	32,766	36,562	40,013	43,289	46,521	49,728
• YOY Growth		-----	-----	117.3%	148.4%	93.1%	57.6%	36.3%	23.5%	21.0%	19.6%	17.6%	16.4%	16.4%	11.6%	9.4%	8.2%	7.5%	6.9%
• % of Basic Subscribers with DVRs		0.7%	1.1%	2.3%	5.6%	10.7%	17.0%	22.8%	27.7%	28.8%	29.8%	30.7%	31.8%	31.8%	35.2%	38.5%	41.6%	44.7%	47.8%
Stand-Alone DVR Subscribers		315	443	704	1,269	1,621	1,851	1,821	1,689	1,654	1,604	1,569	1,589	1,589	1,537	1,487	1,437	1,387	1,337
• YOY Growth		-----	-----	58.9%	80.3%	27.7%	14.2%	-1.6%	-7.2%	-7.9%	-8.1%	-8.3%	-5.9%	-5.9%	-3.3%	-3.3%	-3.4%	-3.5%	-3.6%
• Net Additions		-----	128	261	565	352	230	(30)	(132)	(35)	(50)	(35)	20	(100)	(52)	(50)	(50)	(50)	(50)
Total DVR Subscribers		935	1,461	2,916	6,764	12,231	18,570	24,616	29,849	31,013	32,086	33,144	34,355	34,355	38,099	41,500	44,726	47,908	51,065
• YOY Growth		-----	-----	99.6%	132.0%	80.8%	51.8%	32.6%	21.3%	19.0%	17.8%	16.1%	15.1%	15.1%	10.9%	8.9%	7.8%	7.1%	6.6%
• DVR Subscribers as % of TV Households		0.9%	1.4%	2.7%	6.2%	11.2%	16.9%	22.1%	26.5%	27.4%	28.0%	29.2%	29.7%	30.0%	32.9%	35.5%	37.9%	40.2%	42.4%
• DVR Subscribers as % of Multichannel Households		1.0%	1.6%	3.1%	6.9%	12.4%	18.9%	24.7%	29.4%	30.4%	31.4%	32.2%	33.4%	33.4%	36.7%	39.9%	43.0%	46.1%	49.1%



Appendix 2: DVR Forecast Chart



Appendix 3: VOD Forecast Chart



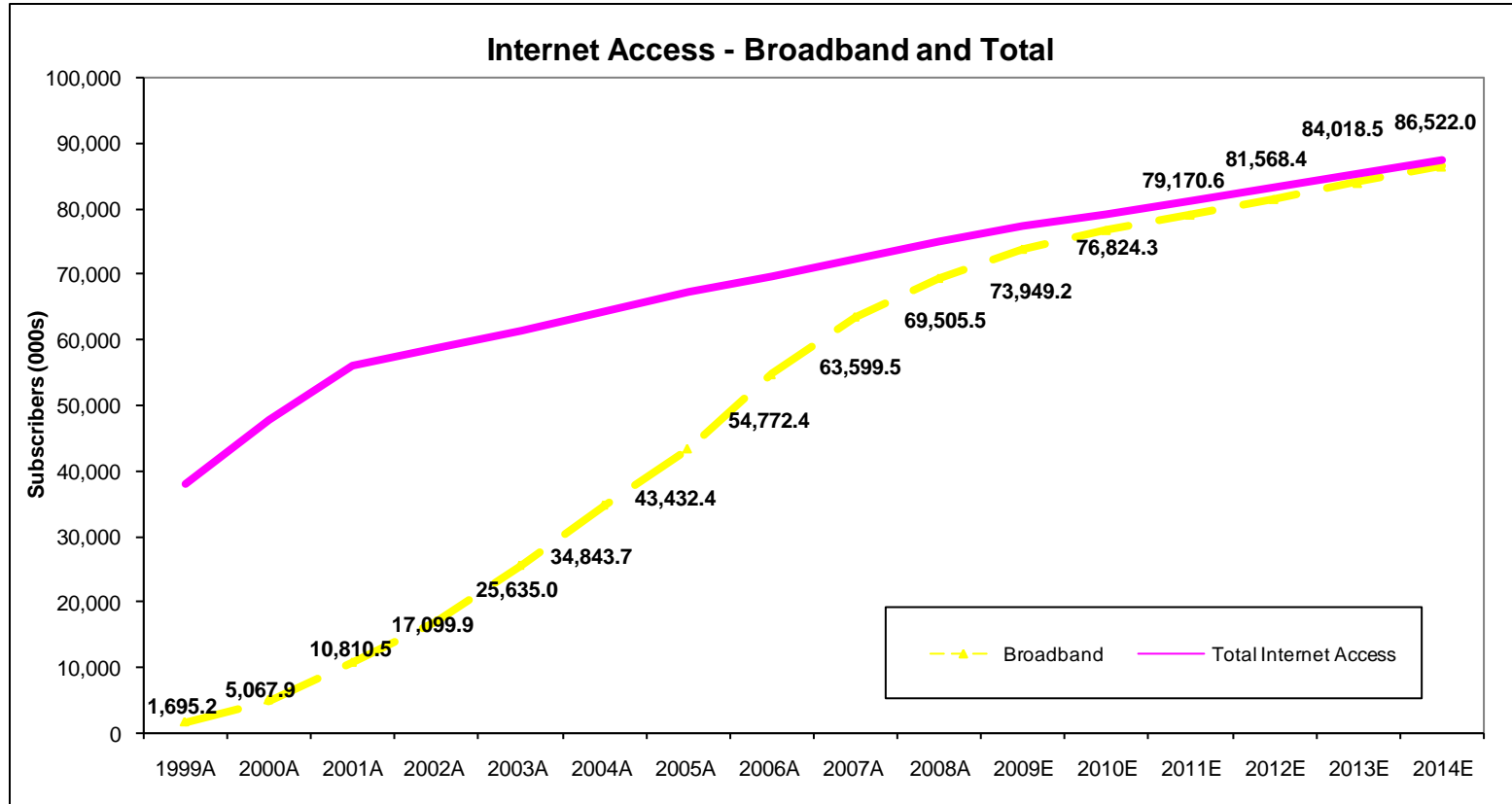
Appendix 4: Internet Access Forecast Data

Brian Wieser, CFA MAGNA Director of Global Forecasting (646) 865-2260		MAGNA Internet Access Forecast													
	2000A	2001A	2002A	2003A	2004A	2005A	2006A	2007A	2008A	2009E	2010E	2011E	2012E	2013E	2014E
Total Households (Census)	112,215.0	109,608.9	111,000.0	111,545.8	113,324.5	114,738.6	115,838.7	116,835.6	117,864.0	118,453.3	119,637.9	120,834.2	122,042.6	123,263.0	124,495.6
• YOY Growth	3.3%	-2.3%	1.3%	0.5%	1.6%	1.2%	1.0%	0.9%	0.9%	0.5%	1.0%	1.0%	1.0%	1.0%	1.0%
Total Residential Broadband Access	5,067.9	10,810.5	17,099.9	25,635.0	34,843.7	43,432.4	54,772.4	63,599.5	69,505.5	73,949.2	76,824.3	79,170.6	81,568.4	84,018.5	86,522.0
• % of Internet Access	10.6%	19.3%	29.1%	41.7%	54.1%	64.7%	78.5%	87.8%	92.7%	95.8%	97.0%	97.5%	98.0%	98.5%	99.0%
Total Narrowband Only^(a)	42,623.4	45,189.5	41,619.1	35,854.7	29,553.0	23,718.3	14,991.5	8,838.5	5,456.0	3,282.3	2,376.0	2,030.0	1,664.7	1,279.5	874.0
• % of Internet Access	89.4%	80.7%	70.9%	58.3%	45.9%	35.3%	21.5%	12.2%	7.3%	4.3%	3.0%	2.5%	2.0%	1.5%	1.0%
Total Residential Internet Access	47,691.4	56,000.0	58,719.0	61,489.6	64,396.7	67,150.8	69,763.9	72,438.0	74,961.5	77,231.6	79,200.3	81,200.6	83,233.0	85,298.0	87,395.9
• Internet Household Penetration	42.5%	51.0%	52.9%	55.1%	56.8%	58.5%	60.2%	62.0%	63.6%	65.2%	66.2%	67.2%	68.2%	69.2%	70.2%
• Net Adds	9,687.9	8,308.6	2,719.0	2,770.6	2,907.0	2,754.1	2,613.1	2,674.2	2,523.5	2,270.1	1,968.7	2,000.3	2,032.4	2,065.0	2,097.9

(a) Represents implied number of subscribers to dial-up services who do not also have broadband services



Appendix 5: Internet Access Forecast Chart



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