

# CableFAX Daily™

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What the Industry Reads First

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## DirecTV 1Q: CEO Won't Discuss Merger Rumors, Slams Dodgers Price

DirecTV pres/CEO *Mike White* addressed the elephant in the room at the start of the company's 1Q earnings call Tues: All the recent merger rumors about DirecTV "are not based on official sources of information," and he won't comment on them. **AT&T** reportedly approached DirecTV about acquiring the company to better compete against a bulked-up **Comcast**. But *Craig Moffett* with **MoffettNathanson** wrote in a research note that such an acquisition would be a bad idea. Although AT&T could potentially boost broadband speeds in **U-verse** markets if it could take video off its network and send it via satellite instead, it would be "a purely defensive benefit and in only 25% of the country," he said. "The M&A stage appears ripe for DirecTV and **DISH**" as the combined company would have some 34mln subs, giving them significant scale to lower programming and other costs, **Macquarie** analysts wrote. And although DirecTV is still interested in carrying the Dodgers net **Time Warner Cable SportsNet LA**, White balked at its price. "We recognize sports are valuable assets. We are in the RSN business," White said. However, "frankly prices we have been quoted so far are beyond the market rational... It's not reasonable for pay-TV customers," he said. So far, the satellite pay-TV provider's churn in L.A. has been "immaterial," he said, noting that discussions continue, and he hopes they'll get to "a sensible place." Meanwhile, White seemed supportive of offering a lower tier option with fewer channels than the basic tier. It's not that difficult to launch such an option as "we are all concerned about millennials and people who can't afford pay-TV," he said. As for financials, it was a solid quarter. It grew its 1Q revenue in the US to \$6.09bln, up 5% YOY. Net adds of 12K in the US were lower than the prior year period primarily due to a more subscriber disconnections. US gross additions of 891K and the average monthly churn rate of 1.45% were relatively unchanged, with the company ending the quarter with approx 20.3mln subs. Adjusted net income increased 2% YOY to \$842mln. Latin American revenues and ARPU were down partially because of "macroeconomic headwinds."

**Same Sandbox:** **Verizon** is staying on the sidelines of the **Comcast/Time Warner Cable** merger. "We don't really publicly state for or against anything," Verizon CFO Fran Shammo said at the **Jefferies** 2014 Global Technology, Media and Telecom Conference. "We compete with Comcast today; we compete with Time Warner Cable today. One replaces the other, and we compete with each other," the exec said. "We will see how it plays out." The telco is focused on wireless, "which will in essence enable us to give you 24-hour programming extremely efficiently," he said. The telco also loves the OTT game,

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acquiring streaming assets like **Intel Media**, as well as content-delivery-network company **EdgeCast** and video coding tech provider **upLynk**. Shammo envisioned an ecosystem in the next 1-2 years in which content can be offered real-time across platforms without affecting the linear pay-TV model. The telco saw some weakness in net adds in 1Q due to rough winter weather. That shouldn't stop Verizon from hitting its 600K net adds target for the full year, Shammo said.

**Discovery 1Q Profit Flat:** **Discovery** shares tumbled, closing down 3.9% Tues after the company reported flat earnings for \$230mln in 1Q and EPS below analyst expectations (63 cents vs 71). The culprit? Costs associated with strengthening its intl portfolio. It's clear that's where the programmer is hedging its bets. "While our investment domestically is clearly paying off in terms of market share gains, new avenues of growth and sustained financial momentum, there is no question that the US is a more mature market," **Discovery** CEO *David Zaslav* said during an earnings call. "The faster growth today and the greater opportunity moving forward certainly lies internationally." **Bernstein Research** chalked up the EPS miss to almost every revenue line item missing by a little bit (except intl advertising). Revenue for the company rose 22% to \$1.4bln, with US network rev up 4% to \$319mln. Zaslav acknowledged that **Discovery Channel** ratings did decline YOY during the Q, putting the blame primarily on the Olympics. He said the net has regained momentum, with Apr viewership in prime up 12% vs last year. **OWN** continues to gain surer footing. It repaid **Discovery** \$16mln in 1Q vs receiving \$14mln of funding in 1Q13. "The performance of **OWN** right now is ahead of our expectations, both from an earnings perspective, in particular, and a cash flow perspective," said CFO *Andrew Warren*.

**Viacom Blockade:** When **CBS** blocked **Time Warner Cable** subs from viewing its programming online (even in markets that still had local CBS stations), it opened a can of worms. Now after failing to renew with **Viacom**, **Cable One** and **Liberty Cablevision of Puerto Rico** report the programmer is blocking their subs from accessing its websites. "As part of its retaliatory efforts, Viacom's action is impacting access to a subset of broadband customers, also known as 'cord cutters,' who are not video customers of these companies," **ACA** pres/CEO *Matt Polka* said in a statement condemning the action. "We fully expect the list of small cable operators targeted by Viacom to grow based on preliminary information from dozens of ACA members who did not renew with Viacom." ACA believes Viacom's moves violate Internet openness in a way that should draw the attention of lawmakers and the **FCC**.

**Netflix for Suddenlink:** About a week after announcing its 1st US operator deals to bundle **Netflix** with cable op's integrated **TiVo** set-tops, **Suddenlink** said it will make the Netflix app available through its TiVo devices the summer. It's the largest US MVPD to do so to date. "I think what we've demonstrated is that over-the-top can be a friend of cable," TiVo CEO *Tom Rogers* said during an investor's conference appearance Tues. "For the most part, operators here and around the world are going to need a 3rd party to provide the innovation and ongoing product development." Exceptions include **Comcast**, which is spending a lot of its own money in that space, he said.

**Record Earnings for Disney:** After the bell Tues, **Disney** reported strong results with diluted EPS of \$1.08—a 30% increase from \$0.83 a year ago (much from the box office success of *Frozen*). Rev rose 10% to \$11.6bln. At the media networks segment, operating income climbed 15% to \$2.1bln and rev rose 4% to \$5.1bln. Cable net operating income grew by \$250mln to \$2.0bln for the q from growth at **ESPN** and domestic **Disney Channels**, as well as **AETN** equity income.

**STELA Deal Struck:** House Comm and Tech Subcmte chmn *Greg Walden* (R-OR) on Tues announced a bipartisan deal on a 5-year reauthorization of the Satellite Television Extension and Localism Act (STELA), with passage out of the full committee expected this week. Deal points include limits on joint retrans negotiations, modifications to create "stability" for broadcasters in light of the **FCC's** changes to JSAs under its media ownership rules, elimination of the ban on sweeps week signal changes and a nixing of the set-top box integration ban. Walden said the deal would "ensure that 1.5 million Americans in rural areas will continue to receive the satellite television services on which they rely" and called it "imperative" to get legislation to *President Obama* by year-end.

**Ratings:** Basketball may have entered playoff land, but that didn't stop **HBO's** "Game of Thrones" from once again ranking as the most-watched program on cable for the week. Sun's ep averaged 7.2mln viewers ahead of the 6mln viewers for the Clippers-Warriors NBA game on **TNT** Sat. TNT still won the week in prime, averaging 3.6mln total viewers. Runner-up **USA** had 1.9mln. **Nick** and TNT were in a virtual deadlock for the total viewer, total day win, with both averaging 1.5mln. Other HBO shows had good night's Sun, with "Silicon Valley" scoring its best performance since its debut (1.8mln viewers)



# BUSINESS & FINANCE


and "Veep" tallying a season-high 1mln viewers. The 2nd ep of "Last Week with John Oliver" grew 8% to 1.2mln viewers. -- **ESPN** said its 1st round coverage of the NBA playoffs was its 2nd most-watched and 2nd highest-rated ever, with the 9 games posting double digit increases (3.5mln viewers up 12%, 2.2 HH rating up 10%).

**Programming: WE tv** set July 16 as the premiere for its 1st scripted, "The Divide," opening with a 2-hour premiere before it moves to its regular 10pm timeslot on July 23. -- **Fox Sports 1** bows 6-parter "The Pecos League" following the indie professional baseball league (players are given a jersey, hat and \$50 a week), May 13, 9:30pm ET. -- **Weather Channel** renewed "Secrets of the Earth" for a 2nd season. -- **Starz** ordered a 3rd season of "Da Vinci's Demons."

**People: Cablevision** vet *Gemma Toner* was named svp, business insights and strategy for the MSO. -- *Ruben Mendiola* becomes pres of **mun2**, reporting to *Joe Uva*, **NBCU** chmn, Hispanic enterprises and content. Mendiola had been svp, gm of multicultural services for **Comcast Cable**. He fills the post vacated by evp, gm *Diana Mogollón* in Feb. -- **Fox Intl Channels** hired *Stuart Tenzer* as svp, business and legal affairs. -- **Viacom Intl Media Nets - The Americas** promoted *JC Acosta* to evp, CFO and exec-in-charge of production. -- **Fox Sports** elevated *Mike Davies* to svp, technical and field ops.

## CableFAX Daily Stockwatch

| Company                      | 05/06 Close | 1-Day Ch | Company               | 05/06 Close | 1-Day Ch |
|------------------------------|-------------|----------|-----------------------|-------------|----------|
| <b>BROADCASTERS/DBS/MMDS</b> |             |          |                       |             |          |
| DIRECTV:                     | 81.74       | 1.90     | CONCURRENT:           | 8.02        | (0.13)   |
| DISH:                        | 62.45       | (0.35)   | CONVERGYS:            | 21.48       | (0.24)   |
| ENTRAVISION:                 | 5.28        | (0.16)   | CSG SYSTEMS:          | 27.00       | 0.06     |
| GRAY TELEVISION:             | 10.99       | (0.69)   | ECHOSTAR:             | 46.04       | (0.23)   |
| MEDIA GENERAL:               | 16.70       | (0.64)   | GOOGLE:               | 515.14      | (12.67)  |
| NEXSTAR:                     | 41.86       | (0.71)   | HARMONIC:             | 7.02        | (0.13)   |
| SINCLAIR:                    | 28.71       | (0.26)   | INTEL:                | 26.20       | 0.03     |
| <b>MSOS</b>                  |             |          |                       |             |          |
| CABLEVISION:                 | 16.92       | (0.08)   | INTERACTIVE CORP:     | 63.31       | (2.11)   |
| CHARTER:                     | 138.42      | 0.01     | JDSU:                 | 10.61       | (0.28)   |
| COMCAST:                     | 51.81       | (0.65)   | LEVEL 3:              | 43.11       | (0.98)   |
| COMCAST SPCL:                | 50.93       | (0.66)   | MICROSOFT:            | 39.06       | (0.37)   |
| GCI:                         | 10.56       | (0.18)   | NIELSEN:              | 47.10       | (0.01)   |
| GRAHAM HOLDING:              | 668.13      | (2.55)   | RENTRAK:              | 57.10       | (1.98)   |
| LIBERTY GLOBAL:              | 42.69       | (0.01)   | SEACHANGE:            | 8.84        | (0.2)    |
| LIBERTY INT:                 | 28.72       | (0.43)   | SONY:                 | 17.51       | (0.13)   |
| SHAW COMM:                   | 24.73       | 0.17     | SPRINT NEXTEL:        | 8.68        | (0.08)   |
| TIME WARNER CABLE:           | 141.21      | (1.57)   | TIVO:                 | 11.85       | (0.18)   |
| <b>PROGRAMMING</b>           |             |          |                       |             |          |
| 21ST CENTURY FOX:            | 32.41       | (0.41)   | UNIVERSAL ELEC:       | 40.30       | 0.02     |
| AMC NETWORKS:                | 65.88       | (0.78)   | VONAGE:               | 3.78        | (0.3)    |
| CBS:                         | 56.79       | (1.4)    | YAHOO:                | 36.49       | (0.42)   |
| CROWN:                       | 3.44        | (0.1)    | <b>TELCOS</b>         |             |          |
| DISCOVERY:                   | 74.71       | (3.06)   | AT&T:                 | 35.49       | (0.27)   |
| DISNEY:                      | 81.03       | (0.19)   | CENTURYLINK:          | 34.46       | (0.38)   |
| GRUPO TELEVISA:              | 33.42       | 0.52     | TDS:                  | 27.42       | 0.19     |
| HSN:                         | 53.61       | (1.07)   | VERIZON:              | 47.47       | 0.08     |
| LIONSGATE:                   | 26.18       | (0.24)   | <b>MARKET INDICES</b> |             |          |
| MADISON SQUARE GARDEN:       | 49.55       | (1.03)   | DOW:                  | 16401.02    | (129.53) |
| SCRIPPS INT:                 | 74.60       | (1.37)   | NASDAQ:               | 4080.76     | (57.3)   |
| STARZ:                       | 30.17       | (0.23)   | S&P 500:              | 1867.72     | (16.94)  |
| TIME WARNER:                 | 67.49       | 0.02     |                       |             |          |
| VALUEVISION:                 | 4.73        | (0.28)   |                       |             |          |
| VIACOM:                      | 83.23       | (1.15)   |                       |             |          |
| WWE:                         | 18.12       | (0.59)   |                       |             |          |
| <b>TECHNOLOGY</b>            |             |          |                       |             |          |
| ADVANTAGE:                   | 3.21        | (0.14)   |                       |             |          |
| ALCATEL LUCENT:              | 3.98        | 0.09     |                       |             |          |
| AMDOCS:                      | 47.17       | 0.16     |                       |             |          |
| AMPHENOL:                    | 95.32       | (1.22)   |                       |             |          |
| AOL:                         | 43.90       | 0.36     |                       |             |          |
| APPLE:                       | 594.41      | (6.55)   |                       |             |          |
| ARRIS GROUP:                 | 25.72       | (0.63)   |                       |             |          |
| AVID TECH:                   | 7.49        | (0.01)   |                       |             |          |
| BLNDER TONGUE:               | 0.98        | -0.00    |                       |             |          |
| BROADCOM:                    | 29.76       | (0.68)   |                       |             |          |
| CISCO:                       | 22.72       | (0.23)   |                       |             |          |



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