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Media Earnings: Concerns over Sub Losses Trigger Stock Sell-off

Several big media stocks were down Wed after **Disney** lowered its earnings forecast for its cable nets late Tues. Despite better than expected 2Q earnings results, **Time Warner** shares sank more than 8% at mid-day Wed. The company posted earnings of $1.16 a share during 2Q, up from 95 cents a share a year earlier. Analysts expected earnings of $1.03 a share. Disney shares were down more than 10% Wed pm. **Viacom**, which is set to report earnings Thurs morning, was also down approx 7% Wed pm. Disney, which reported earnings late Tues, said operating income at its cable nets through the fiscal year ending Sept 2016 will grow in percentage by a mid-single-digits. That's down from its previous projection for high single digit growth. Disney CEO *Bob Iger* addressed sub losses at **ESPN** during the company's 3rd fiscal quarter earnings conference call. **Nielsen** data suggests the sports net lost 3.2mln HH in just a little over a year. Actual numbers are smaller than Nielsen reported, according to Iger. And the company isn't ready to give specific numbers yet, he said. Despite the expansion of OTT services and skinny bundles, cable is still the dominant form of television viewing, especially for sports viewing, the exec said. "So when we look at the universe we don't really see dramatic declines over the next, say five years or so, and therefore we are not taking what I would call radical steps to move our products into over-the-top businesses to disrupt that business, because we don't think right now that is necessarily the greatest opportunity. We just don't think it's necessary," he said. At Time Warner, revenue grew 8.2% YOY to $7.35bln in the quarter. Despite some "modest" sub declines in the US, "we have not seen any acceleration in the declines," **Turner** CEO *John Martin* said during the company's earnings conference call Wed. And Turner's affil revenue growth expectations remain on track, he said. As for **HBO** Now, the new streaming service launched in April, "we are extremely pleased with how it's been received," CEO *Jeff Bewkes* said. The company is "already investing in additional programming to support the service... You'll see additional announcements in the coming months." The streaming service isn't hurting linear TV. "We've seen less than 1% of HBO subs leave the bundle to get HBO Now," HBO head *Richard Plepler* said. Without detailing sub figures, Plepler said "everything we are seeing, both from sampling and from subscriber satisfaction has exceeded our expectations." Together, HBO Go, the TVE service, and HBO Now have made HBO "an even more attractive outlet, and you will see additional announcements demonstrating

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that in the coming months," Bewkes said. Revenue at Turner grew 2.8% to $2.83bln, helped by a 48% YOY growth in content and other revenue and 2% growth in subscription revenues, partially offset by a small decline in ad revenues. HBO revenues were up slightly to $1.4bln, due to an increase of 4% in subscription revenues, partially offset by a 7% decline in content and other revenue. Other than the positive comment that affil revenue growth remains on track with prior expectations, the tone around investments and currency as well as the "no comment" approach to questions on long-term estimates is clearly weighing on Time Warner stocks Wed, **Wells Fargo** analysts wrote in a research note.

DISH 2Q: While **DISH** saw a 3.7% YOY increase in its earnings in 2Q, it lost 81K video subs compared to a loss of 44K in the year-ago quarter. That sub loss would have been even greater if DISH had excluded Sling TV sub numbers, **MoffettNathanson** analyst *Craig Moffett* wrote in a research note. "The inclusion of Sling TV leaves results as clear as mud. Through some very, very rough estimates (with admittedly high margin of error) we estimate Dish may have lost as many as 187,000 video subscribers in Q2. Yikes," he wrote. And the Sling "distortion is potentially a very large one," according to Moffett. He estimates that in 1 month of paying subs in 1Q, DISH added 169K paying Sling subs. In 3 months of 2Q, when DISH first started actively marketing the service, the number could be "quite a bit larger." DISH closed the quarter with nearly 14mln TV subs, vs 14.05mln a year ago. The good news is subs are spending more money each month. Pay-TV ARPU totaled $87.91, compared to last year's $84.15. DISH added approx 4K net new broadband subs, bringing its total broadband sub base to approx 595K. Much of the call was devoted to spectrum. DISH chief *Charlie Ergen* has been clear about his appetite for spectrum to launch a wireless service. The company participated in the **FCC**'s AWS spectrum auction and reportedly won nearly half of the spectrum licenses in the auction. The FCC circulated an order last month proposing to deny DISH $3.3bln in bidding discounts. Unhappy about the order, Ergen said paying the difference could limit the company's M&A options. The exec repeatedly said he's interested in partnering with a carrier to offer mobile services and the company's reportedly in talks with **T-Mobile** for a potential tie-up. While praising FCC chmn *Tom Wheeler* and his team for their work ethic, Ergen said the agency "picks winners and losers" in the spectrum auction. If the credits are denied, DISH might be forced to lease or sell its spectrum though it is "not in our heart where we wanted to go," Ergen said.

More on Disney Earnings: During 2Q, operating income at **Disney**'s cable nets increased 7% YOY to $2.1bln. The increases at the domestic **Disney Channels** and **ABC Family** were because of higher program sales and increased affil revenue, driven by contractual rate increases. Operating results at **ESPN** were driven by growth in affil revenue, partially offset by lower ad revenue. Despite overall sub loss during the past 12 months, ESPN grew its subs during the quarter thanks to the new SEC Network launched in Aug, 2014. Overall, Disney recorded $2.5bln in earnings for the quarter, versus $2.2bln in the prior-year quarter.

Discovery 2Q: **Discovery Comm**'s 2Q net income decreased to $286mln compared to $379mln in the year-ago quarter, mainly due to higher foreign currency losses, a lower gain on disposition, a gain on the consolidation of **Eurosport** in the prior year, and higher restructuring and other charges due to content impairments, partially offset by lower income tax expense. Revenue was up 3% YOY, led by 5% growth at US nets and 1% growth at international nets. CEO *David Zaslav* expects the 3 landmark deals—the Eurosport acquisition, the historic agreement for the Olympics Games in EU, and the long-term contract renewal with **Comcast**—to boost "Discovery's position and market share for years to come," he said in a release. For the full year 2015, Discovery expects revenue excluding currency to grow in the high single to low double digit range.

Universal Sports Goes OTT: **Universal Sports Network** launched WatchRWC2015 Wed, a digital streaming pay-per-view service designed for the upcoming Rugby World Cup 2015. Live streaming and on-demand access to all of the 6-week tournament's 48 matches will be available both in and out of the home and on multiple platforms in the U.S. and US territories. The OTT service offers a 48-match tournament package for $199.99 or individual matches at $27.95 per game. All purchases will be available on-demand through Dec 1.

Ratings: The July 30th season 4 debut of **WEtv**'s original series "L.A. Hair" delivered more than 1.5mln total viewers to its 10pm premiere and 2 encores, making this the show's most-watched season debut. The 10pm premiere ranked in the top 5 among women 18-49 and 25-54 and in the top 10 among AD 18-49 and 25-54 across all of cable for the time period (10-11 pm ET).

BUSINESS & FINANCE

Programming: **TLC** premieres "Suddenly Royal" on Sept 9, a new series that follows David, his wife Pam, and 12-year-old daughter Grace as they travel 3,000 miles away to unveil what it really means to be heir to the throne of the British Isle of Man. TLC ordered 7 1-hour episodes. -- **IFC** booked pilot presentations of 3 new comedy series, which will take the net outside the scripted space and into the world of panel and late-night talk. The shows are comedic panel series "Great Minds," an untitled half-hour, late-night talk show hosted by comedian *Jim Norton,* and satirical news-magazine show "1320 Seconds."

People: **Viacom** added 3 execs to its advanced analytic and marketing team: *Bryson Gordon* as svp, data strategy and Viacom Vantage; *Gabe Bevilacqua* as vp, product management for Viacom Vantage; and *Kodi Foster* as vp, data strategy. Bevilacqua and Foster report to Gordon, who will manage the team under *Kern Schireson*, Viacom evp of Data Strategy and consumer intelligence. – **Comcast California** tapped *Joe Bell* as the new area vp for the South Valley Area, reporting to *Amy Lynch,* regional vp, technical operations. -- **Crown Media Family Networks** appointed *Jill Underhill* as svp, on-air promotions. She will report so *Susanne McAvoy*, evp of marketing, creative and communications.

Cablefax Daily Stockwatch

Company	08/05 Close	1-Day Ch
BROADCASTERS/DBS/MMDS		
DIRECTV:	93.55	1.36
DISH:	68.22	2.82
ENTRAVISION:	7.39	(0.12)
GRAY TELEVISION:	15.80	(1.24)
MEDIA GENERAL:	14.65	(1.06)
NEXSTAR:	53.94	(2.02)
SINCLAIR:	27.39	(1.14)
TEGNA:	27.45	(0.49)
MSOS		
CABLE ONE:	417.00	2.38
CABLEVISION:	27.60	(0.34)
CHARTER:	188.55	(2.95)
COMCAST:	59.81	(2.93)
COMCAST SPCL:	59.69	(2.91)
GCI:	19.06	1.31
LIBERTY BROADBAND:	54.54	(1.51)
LIBERTY GLOBAL:	54.27	1.76
SHAW COMM:	20.96	(0.22)
SHENTEL:	35.51	0.23
SHENTEL:	35.51	0.23
TIME WARNER CABLE:	191.50	(1.51)
PROGRAMMING		
21ST CENTURY FOX:	31.92	(2.41)
AMC NETWORKS:	78.51	(6.12)
CBS:	50.42	(2.44)
CROWN:	5.08	0.17
DISCOVERY:	28.87	(3.99)
DISNEY:	110.53	(11.16)
GRUPO TELEVISA:	33.17	(1.84)
HSN:	74.57	1.04
LIONSGATE:	37.42	(1.36)
MSG:	77.72	(5.56)
SCRIPPS INT:	57.54	(3.63)
STARZ:	38.04	(0.56)
TIME WARNER:	79.80	(7.85)
VIACOM:	51.67	(4.18)
WWE:	23.01	0.78
TECHNOLOGY		
ADDVANTAGE:	2.21	(0.04)
AMDOCS:	58.83	0.64
AMPHENOL:	56.09	0.49
APPLE:	115.40	0.76
ARRIS GROUP:	29.20	(0.95)
AVID TECH:	11.41	0.06
BLNDER TONGUE:	0.81	(0.02)
BROADCOM:	50.47	0.27
CISCO:	28.27	0.24
COMMSCOPE:	26.06	(0.03)
CONCURRENT:	5.46	0.10
CONVERGYS:	24.10	(0.93)
CSG SYSTEMS:	30.69	0.11
ECHOSTAR:	47.17	0.18
GOOGLE:	643.78	14.53
HARMONIC:	5.88	0.05
INTEL:	29.12	0.23
INTERACTIVE CORP:	76.72	(0.16)
JDSU:	10.87	(0.22)
LEVEL 3:	50.35	0.28
MICROSOFT:	47.58	0.04
NETFLIX:	123.71	2.56
NIELSEN:	48.05	0.10
RENTRAK:	66.43	(4.83)
SEACHANGE:	6.65	(0.05)
SONY:	27.11	(0.25)
SPRINT NEXTEL:	3.15	(0.34)
TIVO:	9.92	0.14
UNIVERSAL ELEC:	51.77	1.26
VONAGE:	6.41	0.15
YAHOO:	37.25	0.13
TELCOS		
AT&T:	34.57	(0.01)
CENTURYLINK:	28.56	0.13
FRONTIER:	5.11	(0.14)
TDS:	29.16	(0.23)
VERIZON:	46.64	(0.03)
MARKET INDICES		
DOW:	17540.47	(10.22)
NASDAQ:	5139.95	34.40
S&P 500:	2099.84	6.52

Think about that for a minute...

Blame the Staff

Commentary by Steve Effros

The headlines were dramatic, just like some folks wanted them to be: TiVo is in trouble! So is Apple TV! It's all because a "cable standard" is about to "expire," and the industry will no longer support CableCARD-enabled devices. Those expensive units folks bought may just become scrap! The headlines had one other thing in common: they were totally wrong. Will a correction ever catch up with the headlined spin?

It all started with a "report" issued by Senators Markey and Blumenthal about set top boxes. Not coincidentally, that "report" was issued just a few days before the scheduled seminal meeting of DSTAC, the "Downloadable Security Technical Advisory Committee" being run by the FCC. That committee, it turns out, is not really talking very much about downloadable security, but I'll get to that in next week's column. For now all you need to know is that Senators Markey and Blumenthal and those who are supporting their push for more government standards to force the creation of a "retail market" for competitive user interfaces were apparently not terribly happy with the way things were going in the advisory committee. Stirring up some headlines, it would appear, was thought to be a good idea.

All sorts of numbers were thrown out on how much cable customers pay for leasing set top boxes. The assumption was that if there was a vibrant, competitive retail market the costs would be lower. That may be. But the CableCARD rules have been in place for many years, and the retail set top box market never materialized. Too complicated, not sufficient scale, and the exponentially increasing competition from other video delivery devices, like Roku, Xbox, Chromecast, AppleTV etc., makes that theoretical market less and less appealing every quarter. So apparently someone decided that not only should there be a PR blast about promoting new government industrial policy to create a retail market, there should also be a headline-grabbing scare that the current growing market would be destroyed if something wasn't done immediately!

Bull. The "report" said that last year's Congressional action in the STELAR satellite bill also resulted in the big bad cable companies being allowed to ditch support for competitive products like TiVo and Apple TV in 2016. Quick! We have to do something to save the consumer! The only problem with all that is that the legislation did no such thing. Cable companies are still required to support CableCARD devices. That part of the rules was not touched by the legislation. The only requirement that will be eliminated in 2016 is the "integration ban," the one that says cable companies have to put unused and expensive separate CableCARD electronics into their own leased boxes that are provided to customers. This, of course, raises the cost for customers (something the Senators decried... cost increases, that is) but gave the customer no benefit, and has absolutely nothing to do with still having to support CableCARD devices purchased directly by consumers. The whole thing was just dead wrong. But it sure did get the headlines!

So I guess it worked as intended. No corrections have been issued, even though, to TiVo's credit, they have made it clear that the legislation does not, in fact, threaten them. Neither Senator Markey nor Senator Blumenthal have come out and said they were simply mistaken and did not understand the language of the legislation or the rules they were complaining about. Somehow I don't think that will happen, and it if does, they'll likely blame the staff.

Steve

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