

# Cablefax Daily™

Tuesday — July 19, 2016

What the Industry Reads First

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## That's a Miss: Netflix Falls Short on 2Q Subs, Stock Plummet

Netflix shares plunged after it missed its mark on 2Q net adds, adding 1.7mln members globally. That's 33% less than its forecast of 2.5mln, a number that already was below Q215's 3.3mln additions. The company is blaming a delayed \$2 price increase for long-time members, specifically media reports about the price change. Netflix said it thinks media reports in April that it will "un-grandfather" longer term members to its \$9.99 price hike that took place in 2014 was perceived by some "an impending new price rather than the completion of two years of grandfathering." "People don't like price increases. It's a necessary phase for us to get through," CEO *Reed Hastings* said during the company's 2Q earnings interview Mon. "In terms of new members, which is what drives growth, the new pricing is working great." He dismissed the idea that the churn was from other factors, such as competition or saturation, saying that there was an uptick in churn in multiple countries in the same week. The stock was down more than 14% in after-hours trading. The "un-grandfathering" of customers will continue through mid-4Q. The SVOD player didn't fare any better in the US, where net additions were 160K vs a forecast of 500K. However, US revenue rose 18% YOY. Hastings said that Netflix's integration with **Comcast's** X1 platform is on schedule for the 2nd half of the year, but he doesn't anticipate it having a huge impact on sub additions. "It will help modestly," he predicted, tempering its effect by the number of people who already have smart TVs, **Roku** boxes, etc. All told, Netflix has partnered with more than 40 MVPDs throughout the world. As for the added revenue from the price hike—errrrr, make that "un-grandfathering"—Netflix will pump that into content. Fresh off 54 Primetime Emmy nods, it's clear original content will continue to be a priority. Overall revenue of \$2.1bln in 2Q was up from \$1.6bln a year ago, while earnings of \$41mln outpaced \$26mln last year. Earnings per share of 9 cents are above Wall St forecasts of 2 cents. The message from Hastings was to hang in there, with this a short-term phenomenon. "We apologize for the volatility. I know it's not easy on everyone. The big picture is very much in tact, and we're very excited about it," Hastings said. Traditional pay TV providers begin reporting in the coming days, with **AT&T** up to bat on Thurs and Comcast reporting next week. **Wells Fargo Securities** believes Comcast may be a standout in what's generally a seasonally weak quarter. Comcast will likely benefit from the disruption in the Q, which includes the closing of **Charter-Time Warner Cable-Bright**

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**House**, the **Verizon** strike and the continued **AT&T-DirecTV** integration, the analysts said.

**Nationwide EAS Test:** Sept 28 has been set as the primary date for a nationwide test of the Emergency Alert System. A secondary test is set for Oct 5, if necessary. The test, conducted by **FEMA** and the **FCC**, will assess the effectiveness of the EAS since the 2011 Nationwide EAS Test. All EAS participants must register with the EAS Test Reporting System and complete ETRS Form One before Aug 26. "Day of Test" info must be filed by 11:59pm ET on the day of the test.

**Retrans Ruckus:** Just days after **FCC** chmn *Tom Wheeler* announced he wouldn't move forward on a proceeding that could revamp retrans consent rules, **DirecTV** finds itself without **Sunbeam** stations. The broadcaster—the parent company of **WHDH** in Boston, which is set to lose its **NBC** affiliation in 2017—also is warning **DISH** customers that they could lose stations if a renewal agreement isn't reached by Fri. **AT&T U-verse** lost Sunbeam's **WSVN** in Miami in Jan for 33 days, and DirecTV lost Sunbeam stations in Jan 2012 for 13 days. "We want to get these three stations back into our customers' line-ups and share their frustration. The stations' owner, Sunbeam Television, is prohibiting WHDH and WLVI in Boston and WSVN in Miami from reaching their homes unless they receive a significant increase in their current fees just to let the same families keep watching shows that remain available for free over-the-air and often online," DirecTV parent AT&T said. DISH said it's actively working to reach a deal with Sunbeam before the contract expires. In other retrans fallout, DISH is going into its 5th week without **Tribune** stations. In the meantime, DISH has put together a handy guide for where you can watch programming on **WGN America** and Tribune Superstations (ie, "Underground" is on **iTunes** and **Amazon**, while eps of "Raising Hope" are also on **FX** and **CMT**).

**Buyout Club: AMC Networks**, c'mon down... The programmer is the latest to offer up voluntary buyouts to staffers, following similar moves recently at **Fox** and **Discovery**. AMCN is offering buyouts to employees with at least 10 years at the company, which would make about 200 employees eligible for the packages.

**Charter's Counterclaim:** After **Frontier** filed suit against **Charter** alleging false advertising and unfair competition, Charter returned the favor. In a counterclaim, Charter accused the telecom provider of a "campaign of false advertising." The MSO takes issue with Frontier ad claims that Charter's advertised speeds are fraudulent and not actually available in ordinary usage situations. "Frontier is also telling consumers that Charter's Internet speeds 'slow to a crawl' during the busy hours when more people are online, but that Frontier's Internet speeds are consistent through all hours of the day, including the busy hours," Charter said. Frontier's lawsuit, filed June 20, claims Charter engages in false advertising by claiming its data offering is 10x faster, that Frontier charges extra for HD and that it doesn't offer unlimited domestic phone service (**CFX**, 6/21).

**Roger Out?:** Tongues were wagging Mon over a *New York Magazine* piece by *Gabriel Sherman* that claims *Rupert Murdoch* and sons *Lachlan* and *James* want to remove *Roger Ailes* as head of **Fox News**. The story cites 2 sources briefed on a sexual harassment investigation of Ailes being conducted by a NY law firm. Sherman, author of a book on Ailes, writes that *Gretchen Carlson's* sexual harassment suit sparked the investigation, but it has expanded into his management style. In a statement, **21st Century Fox** said only that "this matter is not yet resolved and the review is not concluded."

**Effective Competition Win:** The **FCC** on Mon granted **Charter's** petition to reconsider whether Lane and Lincoln County, OR, qualify as having effective competition and thus should not be subject to rate regulation. The Media Bureau denied such status last July because Charter used homes passed by its systems rather than data from the 2000 household US Census. On review of Charter's petition, the Bureau said the operator justified why using different stats makes sense and granted effective competition status to the communities. The move was unopposed. There aren't as many effective competition proceedings at the FCC these days, thanks to an order adopted in June 2015 that takes a rebuttable presumption that cable operators are subject to effective competition.

**Headed to The Indy Show?:** The **Cable TV Pioneers** will celebrate its 50th Anniversary with a reception during The Independent Show in Orlando on July 26 at 6pm. The event is open to each Cable Pioneer and a guest. "The convention is a timely opportunity for Pioneers who may have been unable to attend the 50th Anniversary Banquet to reconnect and celebrate their accomplishments and friendships," Pioneers chmn *Susan Bitter Smith* said in a statement.

**People: Crown Media Family Nets** named former **Charter** exec *Erin McIlvain* as evp, content distribution and

# BUSINESS & FINANCE

strategy. At the MSO, she served as vp, broadcast relations and programming. Additionally, CFO *Andy Rooke* will add operations to his title, and *Casey Gould* was promoted to vp, advertising and digital sales. The company said the new positions were created to expand **Hallmark Channel** and **Hallmark Movies & Mysteries**’ digital business and footprint. -- *Terry Holmstrom* was elevated to svp, client solutions for **UP**, and *Heather Symmes* was promoted to vp, content distribution and marketing. -- With **ESPN** evp, programming & production *John Wildhack* leaving this month to become athletic director at Syracuse, the sports programmer said 5 execs will lead programming and productions efforts, with all reporting to pres *John Skipper*. *Stephanie Druley* becomes svp, event & studio production. *Rob King* will continue oversight of ESPN’s most important franchise as svp, “SportsCenter” and news. *Burke Magnus* will continue in his role of evp, programming and scheduling, while *Connor Schell*, svp, ESPN Films and original content, will add production of the **ESPN2** daytime lineup to his responsibilities. Lastly, *Norby Williamson* will serve as evp, production, adding production and media sponsorship integration to his role. -- *Richard Irving*, previously partner group program manager for **Xbox One**, was named vp, product management for **Hulu**.

## Cablefax Daily Stockwatch

Company	07/18 Close	1-Day Ch	Company	07/18 Close	1-Day Ch
<b>BROADCASTERS/DBS/MMDS</b>					
BROADCASTERS/DBS/MMDS			INTEL:	35.05	(0.02)
DISH:	52.32	0.14	INTERACTIVE CORP:	59.21	0.21
ENTRAVISION:	7.32	0.04	LEVEL 3:	56.73	0.07
GRAY TELEVISION:	11.38	(0.11)	MICROSOFT:	53.96	0.26
MEDIA GENERAL:	17.67	(0.1)	NETFLIX:	98.81	0.42
NEXSTAR:	53.50	UNCH	NIELSEN:	54.03	(0.15)
SINCLAIR:	30.51	0.08	SEACHANGE:	3.19	(0.05)
TEGNA:	24.53	0.10	SONY:	30.30	0.26
<b>MSOS</b>					
CABLE ONE:	521.87	1.21	SPRINT NEXTEL:	4.75	(0.25)
CHARTER:	234.34	(0.64)	SYNACOR:	3.01	(0.01)
COMCAST:	66.86	(0.02)	TIVO:	10.44	0.06
GCI:	16.21	(0.21)	UNIVERSAL ELEC:	73.23	(0.02)
LIBERTY BROADBAND:	61.70	0.11	VONAGE:	6.08	0.10
LIBERTY GLOBAL:	32.11	0.85	YAHOO:	37.95	0.23
SHAW COMM:	19.51	0.27	<b>TELCOS</b>		
SHENTEL:	41.59	0.02	AT&T:	42.85	(0.04)
<b>PROGRAMMING</b>					
21ST CENTURY FOX:	28.02	(0.01)	CENTURYLINK:	30.92	(0.4)
AMC NETWORKS:	56.56	(0.03)	FRONTIER:	5.20	0.03
CBS:	54.69	(1.16)	TDS:	31.34	(0.38)
DISCOVERY:	25.30	0.24	VERIZON:	55.93	0.09
DISNEY:	100.15	0.35	<b>MARKET INDICES</b>		
GRUPO TELEVISA:	27.00	0.20	DOW:	18533.05	16.50
HSN:	51.66	0.15	NASDAQ:	5055.78	26.19
LIONSGATE:	20.47	0.46	S&P 500:	2166.89	5.15
MSG NETWORKS:	16.26	0.05			
SCRIPPS INT:	65.83	(0.28)			
STARZ:	30.27	0.28			
TIME WARNER:	77.91	(0.73)			
VIACOM:	49.19	0.64			
WWE:	20.17	0.11			
<b>TECHNOLOGY</b>					
ADDVANTAGE:	1.83	(0.08)			
AMDOCS:	58.01	0.12			
AMPHENOL:	59.08	(0.01)			
APPLE:	99.83	1.05			
ARRIS GROUP:	24.97	0.06			
AVID TECH:	6.39	(0.1)			
BLNDER TONGUE:	0.51	UNCH			
CISCO:	29.91	0.09			
COMMSCOPE:	31.67	(0.23)			
CONCURRENT:	5.30	(0.28)			
CONVERGYS:	26.54	(0.02)			
CSG SYSTEMS:	41.38	(0.19)			
ECHOSTAR:	39.18	0.05			
GOOGLE:	733.78	13.93			
HARMONIC:	3.08	(0.02)			

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# CFX TECH SPOTLIGHT by Joyce Wang

CFX Tech Spotlight, a once a month feature, profiles companies providing interesting, innovative and sometimes below-the-radar technology across the video and broadband.

## Company: Nomads



The most common engagement for Nomads, which was founded in 2011, is a high scale OTT application (a la Netflix or HBO Now), across a multitude of platforms for the most common mobile, web and connected devices. “Over the years, we found ourselves building these types of OTT products, and recognizing that we could productize this, and offer it to clients who are looking for faster time to market, or lower ROI risk,” CEO/founder Andrej Kostrešević told us. The end result is OTT-as-a-service, a suite of mobile, web and connected device apps, and associated highly scalable backend, which can be very rapidly deployed for new clients. “We think the content is the differentiator for most of our clients. We think technology is essential, but not in a way that offers any important competitive advantage over their content selection. Users won’t switch from Netflix to Hulu because of a marginally different user experience, or a slightly different set of features. They will switch based on the content selection,” Kostrešević said.

## Target Customers

Any content owner or creator looking to deploy a direct to consumer OTT offering (AVOD, SVOD, TVOD). “We have seen a mix of content owner types, including traditional media personalities deploying their own independent brands, niche interest content plays, sports leagues, and many others,” Kostrešević said. The company has worked with cable companies on the service side of the business—custom engagements—but not yet on the NomadTV side.

## Near-term Strategy

Near-term, Nomads is working with a smaller number of clients, with a high-touch approach. “We are getting involved with everything from strategy, through technology

implementation and support, and up to user acquisition, and revenue optimization based on data insights. We are using this approach because we want to ensure that the platform is followed rapidly by a set of success stories, but also because we plan to productize some of these high-touch services, and ultimately make them part of the platform,” Kostrešević said.

## Competitors

Nomads’ clients have a number of alternatives, from distributing their content through Hulu, Amazon, Netflix, to building a custom OTT solution in-house, to using one of many “cross-platform” or “template-based” solutions. They can also license their content to a growing number of vendors that will in exchange release apps on their behalf and split the profits.

## OTT Trends?

The major trend we are observing is a very rapid shift of eyeballs from linear broadcast into VOD, according to Kostrešević. “We are seeing a large number of industry incumbents trying to respond to this consumer shift, with varying degrees of success. One of the major hurdles is the complex licensing landscape which does not always allow for the “what/when/where I want” type of consumption. Many of the newcomers to the industry are dealing with this limitation by producing new content unencumbered by licensing restrictions.” The other trend is the proliferation of smaller players, with smaller content libraries chasing a smaller number of subscribers, with highly targeted offerings. These are the types of niche offerings that would never be able to exist in the linear broadcast world, Kostrešević said. “From what we’ve observed in other industries which have undergone this transformation, the “long tail” of content will inevitably end up being a very meaningful component of the overall market. Cable companies wishing to capitalize on this trend should consider a platform approach allowing for aggregation and easy discovery of this niche content,” he said.

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