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What the Industry Reads First

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Discovery 2Q: Zaslav Details Skinny Bundles, VR and TVE

Want to offer a skinny bundle? Go talk to **Discovery Comm**. “With 85% of our economics coming from our top 6 networks, we could even benefit from smaller bundles, especially if they attract new audiences, which has been our experience in markets around the world where we have been on skinnier bundles,” CEO *David Zaslav* said during the programmer’s 2Q earnings call Tues. Discovery used its financial results to announce a new long-term, comprehensive affiliate deal with **Liberty Global**. The deal covers 12 European countries and includes new linear distribution for some networks. Zaslav said that the deal as well as favorable rate increases in recent domestic renewals make for guaranteed revenue growth for the company. For 2Q, Discovery posted distribution revenue growth at the US nets of 8% or \$386mln, with the company noting that it was driven by higher rates partially offset by “slight declines” in subs. Total US portfolio subs are down 2% vs 1% a year ago, with CFO Andrew Warren blaming a combo of cord cutting and shaving. Even with that decline, Discovery still had 8% growth, which “speaks to the extent at which our affiliate pricing contracts have been sustained,” Warren said. **BTIG’s Rich Greenfield** has some doubts. “With the price/value of multichannel television weakening, a rise in antenna households who are supplementing broadcast TV with over-the-top video and an array of new smaller bundles coming, Discovery’s sub losses are highly likely to accelerate over the next couple of years,” he predicted. In the US, Zaslav focused on OWN’s growth and the programmer’s dabbling in new tech such as VR. One-year-old Discovery Virtual Reality has more than 1.4mln downloads and 60mln+ streams. “We are leaning more into short-form, streaming and virtual reality platforms that appeal to millennial digital natives,” the CEO said. He also threw out some stats on Discovery GO, the programmer’s authenticated TV Everywhere app that is available to approx 30mln cable homes in the US. First: it’s a young demo, with some 60% of the viewership coming from 15- to 25-year-olds. And female-skewing content is doing really well. “We really thought it was going to be mostly our male content [like **Velocity**],” Zaslav said. “We’re going to roll that out probably everywhere in the US probably by the end of the year, and I think that will be a helper to us in terms of economics. But we’re also getting to see what are people watching when people can watch anything.” Zaslav specifically called out **Charter’s Tom Rutledge** as an aggressive proponent of TVE, which he thinks will be good for the brand. For the Eurosport app in Europe, Discovery’s seeing a lot of churn as customers are using it for specific

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sports events and then leaving. “One of the things we’re learning is that it may be that these niches... might be a more interesting product,” Zaslav said, suggesting something like a season pass for all tennis majors or all winter sports. On the ad side, a bit was made about Shark Week being down this year—which Zaslav blamed on its early date (before July 4) as Discovery attempted to get it out of the way of the Olympics. He said it was still probably the 4th most successful Shark Week, “but we think we should be much better.” As for the upfront, mgmt described it as very strong, with pricing in the high single range. “We were able, given that pricing dynamic, to sell out a little more of our inventory while still leaving room for the strong scatter,” Warren said. During 2Q, US network ad growth was up 5%, with Zaslav noting that the strong ratings for new nets (see “July Ratings” below) has hurt it some. Financially, 2Q was good to Discovery, and that showed in the stock closing up more than 6.6% Tues and the company’s decision to increase its adjusted earnings guidance for the year to at least 20% growth from high-teens. Revenue was up 3% to \$1.71bln on a profit of \$408mln.

WOW! Buys GA Operator: Overbuilder **WOW!** entered into a deal to acquire substantially all of the operating assets of **HC Cable Opco**, doing business as **NuLink**, a privately held company based in Newnan, GA. **WOW!** will pay \$53mln in cash, according to an **SEC** filing. NuLink offers services to 34K+ homes and businesses. The transaction is expected to close by year-end. NuLink, a spin-off from Newnan utilities in 2008, upgraded its network in 2011 to provide a full suite of Internet, cable TV and phone services. **Kirkland & Ellis** acted as legal advisor to **WOW!**, while **Waller Capital Partners LLC**, **Garrett M. Baker Advisors LLC** and **Locke Lord LLP** acted as financial and legal advisors respectively to NuLink.

Frontier’s Focus: **Frontier** expects to have video available to about a 500K additional households by the end of this year. Non-**FIOS** areas will see its new Vantage TV product, with video expansion expected to exceed the initial 3mln homes previously announced. Also on tap is an upgrade for high-speed offering from 7Mbps to 50Mbps and 100Mbps. Once upgrades are complete, more than 40% of Frontier households will be able to get speeds topping 50Mbps. Acquisition marketing started in the former Verizon markets on July 1, with the company blaming higher churn on the cutover. “You don’t just turn on marketing and start to get similar levels of gross additions as a well primed program,” said pres/CEO **Daniel McCarthy** on Frontier’s 2Q earnings call. This marked the 1st earnings call since Frontier took over **Verizon’s** operations in FL, TX and CA. The company reported \$2.6bln in revenue, up from \$1.3bln a year ago, and posted a net loss of \$80mln.

Weather to Sinclair?: **WSJ** reported Tues that **Sinclair** is showing interest in acquiring **Weather Channel**, with sources saying the deal could be valued around \$100mln. Earlier this year, Sinclair closed its \$350mln acquisition of **Tennis Channel**, gaining new distribution for the net. This sounds far from certain, with the story noting that the 2 have talked off and on for about a year. The net’s has put up the for sale sign before without success. IBM opted last year to buy Weather Company’s digital assets only, leaving the channel solo and facing competition from online and linear, such as **AccuWeather**. **Verizon FIOS** dropped the channel in March 2015. It remains off the system with AccuWeather taking its place.

Cox’s OTT Play: **Cox** confirmed it’s launching a Hispanic-focused video streaming service dubbed **Glosi**. A pilot offer is set to debut in Aug, a rep said. The **Donohue Report** first broke the news of the service, which it said will retail for \$9.99/month. The ad-free, subscription-based destination lets multiple users on one account watch and share shows. Get a peek at Glosi.com. The MSO describes it as mix of compelling content with the look and feel of a premium magazine.

Mediacom 2Q: **Mediacom’s** lost 11K video subs in 2Q, better than the 12K lost in 2Q15. For the last 4 quarters, it shed 37K video subs, or 4.2%. It added 14K HSD subs in 2Q and 10K phone customers, both better than 2Q15. Ending PSUs and ending customer relationships were up 3.4% and 2.5%, respectively. Rev was up 4.4% to \$450.8mln and OIBDA grew 4% to \$172.7mln. Cap ex rose 12% to \$86.4mln vs the prior year period. Mediacom, **Cablefax: The Magazine’s** MSO of the Year, also posted a \$220mln debt reduction vs. the same time last year. Total debt is now under \$2.9bln.

July Ratings: **CNN** had a great showing for the **Democratic National Convention** last week, but it wasn’t enough to knock **Fox News** off the pedestal for July in P2+. Fox won the month with 2.9mln total viewers, with CNN a distant 2nd with 1.7mln, according to **Nielsen** data. Close behind were **HGTV** (1.59mln) and **USA** (1.58mln). However, CNN was the top-rated new nets in July for 25-54s in prime, marking the 6th time in the last 11 months that the Turner net has beaten Fox News. To give you some perspective, the last time CNN had that many wins over Fox was 14 years ago. Fox News has its own celebrations. For the first time in history, Fox News led basic cable for three months out of a calendar year in both primetime and total day. Additionally, July marks 175 months at #1 in total viewers. The 2

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most-watched cable programs for July were Fox News' RNC coverage, followed by CNN's coverage of *Hillary Clinton's* acceptance speech Thurs. The month's top 20 programs were dominated by the election, but there were a few non-political stand-out, including **TNT's** "Rizzoli & Isles" (6.9mln viewers in L+7) and TNT's "Major Crimes" (6.8mln in L+7).

DISH Notes: DISH plans to offer \$2bln of 10-year convertible notes. It expects to grant the initial purchaser an option to purchase up to \$400mln aggregate principal amount of the notes. Net proceeds are slated for strategic transactions, which may include wireless and spectrum-related ones. "While some investors have suggested that Charlie is looking to buy something small-cell related so that he can build a small cell contingency network, we don't think so," **Well Fargo Securities** said in a note to clients. "He didn't have the best things to say about small cells on this call in general. We have no idea what he might buy—but given he is the largest shareholder by far, it is likely to be accretive and 'inexpensive' given his history."

People: **Stingray** named *Rick Bergan* to the newly created position of head of content distribution for the US. In line with Stingray's expansion efforts, he will be responsible for sales development and generating strategic relationships with US sales agents and TV operators.

Cablefax Daily Stockwatch

Company	08/02 Close	1-Day Ch	Company	08/02 Close	1-Day Ch
BROADCASTERS/DBS/MMDS					
DISH:	49.19	(4.29)	INTEL:	34.56	(0.29)
ENTRAVISION:	7.30	(0.05)	INTERACTIVE CORP:	58.21	(0.51)
GRAY TELEVISION:	9.29	(0.49)	LEVEL 3:	48.82	(0.75)
MEDIA GENERAL:	17.25	(0.23)	MICROSOFT:	56.58	UNCH
NEXSTAR:	49.32	(0.96)	NETFLIX:	93.56	(0.81)
SINCLAIR:	27.43	(0.38)	NIELSEN:	53.20	(0.29)
TEGNA:	20.91	(0.81)	SEACHANGE:	3.20	(0.01)
MSOS					
CABLE ONE:	512.15	(7.84)	SONY:	32.50	UNCH
CHARTER:	235.79	(0.21)	SPRINT NEXTEL:	5.96	(0.16)
COMCAST:	66.90	(0.64)	SYNACOR:	2.96	(0.1)
GCI:	14.63	(0.5)	TIVO:	10.52	UNCH
LIBERTY BROADBAND:	62.38	(0.51)	UNIVERSAL ELEC:	76.61	(0.52)
LIBERTY GLOBAL:	31.43	(0.61)	VONAGE:	6.26	0.43
SHAW COMM:	19.94	(0.02)	YAHOO:	38.57	(0.23)
SHENTEL:	39.59	(1.22)	TELCOS		
PROGRAMMING					
21ST CENTURY FOX:	26.69	0.07	AT&T:	43.16	(0.02)
AMC NETWORKS:	54.75	(0.69)	CENTURYLINK:	30.59	(0.43)
CBS:	51.91	(0.19)	FRONTIER:	4.85	(0.23)
DISCOVERY:	26.42	1.65	TDS:	30.51	(0.61)
DISNEY:	95.01	(0.53)	VERIZON:	54.00	(0.5)
GRUPO TELEVISA:	26.16	(0.07)	MARKET INDICES		
HSN:	50.96	(1.23)	DOW:	18313.77	(90.74)
LIONSGATE:	19.20	(0.58)	NASDAQ:	5137.73	(46.46)
MSG NETWORKS:	15.20	(0.64)	S&P 500:	2157.03	(13.81)
SCRIPPS INT:	66.52	0.72			
STARZ:	29.93	(0.32)			
TIME WARNER:	75.78	(0.96)			
VIACOM:	47.92	(0.59)			
WWE:	19.20	(0.2)			
TECHNOLOGY					
ADDVANTAGE:	1.92	(0.06)			
AMDOCS:	59.18	(0.17)			
AMPHENOL:	58.72	(0.73)			
APPLE:	104.48	(1.57)			
ARRIS GROUP:	26.87	(0.61)			
AVID TECH:	6.59	(0.1)			
BLNDER TONGUE:	0.52	(0.1)			
CISCO:	30.62	(0.11)			
COMMSCOPE:	28.66	(0.93)			
CONCURRENT:	5.17	(0.01)			
CONVERGYS:	26.62	(0.44)			
CSG SYSTEMS:	40.15	(0.59)			
ECHOSTAR:	37.46	(0.88)			
GOOGLE:	771.07	(1.81)			
HARMONIC:	3.03	(0.18)			

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