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What the Industry Reads First

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Slinging It: DBS Drags as More Viewers Turn to OTT

DISH 4Q results were all about **Sling TV**, which analysts estimate offset DBS losses. It's tricky math since DISH doesn't break out the numbers, but **Evercore ISI** estimates the DBS business lost between 216K-259K video subs, with Sling adding between 244K-287K. **MoffettNathanson** analysts pegged Sling adds at net 273K and DISH's traditional sub loss at 245K, compared to an estimated 141K a year ago. Those calculations jive with DISH's stat it returned to pay TV growth with 28K subs in the quarter. **Macquarie Securities** said the company has only added subs twice in the past three years. "OTT today is becoming a direct replacement for cable and satellite," DISH CEO **Charlie Ergen** said during Wednesday's earnings call. That's not what everyone wants to hear. The rapid substitution of low value OTT subs for high value DBS customers "flatters short-term financial metrics even as it erodes longer economic value," **MoffettNathanson** analysts said. **Wells Fargo Securities** was more upbeat, calling it a "rock-solid quarter" with beats and positive trends pretty much everywhere. The introduction in late November of **AT&T's DirecTV Now** didn't have any impact on Sling's momentum, according to Sling head **Roger Lynch**. "We've been expecting more competition for quite a while for Sling TV. Our expectation has been that as new entrants enter the market, the market will expand faster, which is typically what you see in early stage markets like this." When DISH launched Sling in 1Q15, it was a \$20 month service with only one stream and no local channels. It also had a much skinnier channel offering. Now, it's grown to include more than 100 channels, local in many markets and the option for multistreams. With that, the target audience has expanded from young, male early adopters to a more mainstream crowd (Lynch said he got a letter recently from an 85-year-old Sling subscriber). "**Netflix** sort of helped plow the road for us on that front by bringing more and more people who are less technically inclined into the market," he said. Just because Sling has launched more content, don't expect it to get much bigger. Management emphasized that they do not want to replicate the big bundle with it. Programmers have been increasingly aware of the need to trim the fat, with **NBCU** recently moving **Esquire** to digital and **Viacom** announcing a plan to focus on six core networks. Ergen called Viacom's move smart. "I think they aren't giving up on those [other] channels, but are going where the eyeballs are going," he said. "I think you'll probably see other content providers focus on fewer channels, but make them better. If they don't, they will be eaten up by new



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entrants.” Ergen predicted the decline of linear TV will probably be driven by how programmers act, ie, raising prices and have 16-18 minutes of advertising in an hour. “There are certainly things we can do to beef up linear TV if programmers are willing to do that. And to the extent that they’re not, OTT trends will probably accelerate,” the CEO said. His list of linear recommendations include making it look more like an OTT product, such as binge viewing and being commercial free. Recall some of this isn’t new territory. DISH was sued for its ad-skipping feature on the Hopper, with the big broadcasters and DISH reaching a settlement that limit ad skipping until several days after an initial broadcast. The last of those settlements came just last year. Net income for the quarter topped \$342.7mln vs a net loss of \$125.3mln a year ago, while revenue totaled \$3.72bln vs \$3.78bln for 4Q15.

Arris/Broadcom Buys Ruckus Wireless: Arris is upping its networking game. It agreed to acquire **Brocade Communication Systems’ Ruckus Wireless** and **ICX Switch** business for \$800mln, plus the additional cost of unvested employee stock awards. The deal is contingent on the closing of **Broadcom’s** acquisition of Brocade, which was announced in November. Arris expects the acquisition to be accretive to its earnings in the first 12 months. The deal is expected to expand Arris’ presence in converged wired and wireless networking technologies beyond the home and into education, public venue, enterprise, hospitality and MDU segments. The vendor plans to create a dedicated business unit within the company focused on wireless networking and wired switching technology that will be led by Ruckus COO *Dan Rabinovitsj*. “The next five years will see exciting changes as every service provider will become a wireless operator of some fashion. Enterprises and venues will upgrade their broadband networks to provide new innovative value-added services and faster, more seamless internet access,” Arris’ new CEO *Bruce McClellan* said in a statement. As part of the deal, 1,600 Ruckus employees will join Arris. The closing of the transaction is subject to regulatory approvals in various jurisdictions and other customary closing conditions but does not require shareholder approval by either company. It’s expected to close about 1 month following the closing of Broadcom’s acquisition of Brocade, which should wrap by the end of July.

LTE-U: The **FCC** authorized its first ever LTE-Unlicensed (LTE-U) devices in the 5 GHz band. The voluntary industry testing has proved that both LTE-U devices and WiFi operations can co-exist in the GHz band, chmn *Ajit Pai* said in a statement Wed. “This heralds a technical breakthrough in the many shared uses of this spectrum...I remain committed to ensuring a competitive and vibrant unlicensed ecosystem that fosters innovation and promotes the efficient use of spectrum,” he said. LTE-U allows mobile carriers to provide mobile data services using unlicensed spectrum while sharing the band with WiFi. Companies offering WiFi services, including cable ops, initially worried that sharing the unlicensed band might cause interference. The **Wi-Fi Alliance**, collaborating with other groups and companies, launched the industry’s Coexistence Test Plan last year to help ensure LTE-U devices can demonstrate they share unlicensed spectrum fairly. **T-Mobile USA** said the devices certified by the FCC are from **Ericsson** and **Nokia**. The move will allow T-Mobile to launch new services and devices this spring, it said. LTE-U will eventually allow T-Mobile to offer gigabit LTE to more places across the country, it said. The carrier started testing LTE-U equipment as part of early field trials starting in Dec.

5G from Verizon: The 5G race is on. **Verizon** will offer 5G pre-commercial services to select customers in 11 markets throughout the country on its newly built 5G network, the telco said Wednesday. Starting in the first half of 2017, Verizon will deliver 5G pilot services in the following metropolitan areas: Ann Arbor, Atlanta, Bernardsville (NJ), Brockton (MA), Dallas, Denver, Houston, Miami, Sacramento, Seattle and DC. The rollout is a result of collaboration with Verizon’s 5G Technology Forum (5GTF) partners, including **Ericsson**, **Intel**, **Qualcomm** and **Samsung**. The partners are “well on their way to commercializing chipsets, infrastructure products, and consumer devices based on the 5GTF specification,” Verizon said. Outside of the US, Verizon is working with telecom providers in Japan, Korea and Canada to accelerate global commercialization of 5G, capable of delivering gigabit speeds.

Viacom Update: **Viacom** said *Brad Grey* is stepping down as chmn/CEO of **Paramount Pictures**. The company has started to search a successor. Grey will remain for a while to support the transition.

Charter Downgrade: **MoffettNathanson** downgraded **Charter** to “neutral” and a price target of \$337, declaring that it is finally fairly valued at 10.1X forward EBITDA. “Mostly, this is simply the case of the market catching up to what has been a

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great story all along," the analysts said in a research note.

Programming: In a new deal with Lionsgate, Hulu acquired the subscription streaming rights to **Starz** original series "Black Sails." All past eps from previous seasons are available to stream starting Wednesday. Hulu also purchased the rights to the fourth and final season when it becomes available.

People: **NBC Sports Regional Networks** and **NBCU Owned Television Stations** upped *Walter Cade* to svp of sales, NBC Sports Regional Networks. He will report to *Frank Comerford*, chief revenue officer and pres of commercial operations for NBCU Owned Television Stations. Last year, NBCU's owned television stations and RSNs' local ad sales teams were aligned together. Cade was most recently vp of ad sales and national sales manager at **CSN Chicago** for more than a decade.

-- *Soumya Sriraman* was appointed pres, North America of the soon-to-launch SVOD service **BritBox**, a joint venture between **BBC Worldwide**, and **ITV**, the UK's largest commercial broadcaster. She was most recently evp of franchise and digital enterprise at BBC Worldwide, North America. BritBox will launch in 1Q. -- Former **Suddenlink** exec *Gregg Grigaitis* has joined **Layer3 TV** as chief product officer. The gig reunites him with his former **Broadbus** boss *Jeff Binder*, CEO of Layer3.

Cablefax Daily Stockwatch

Company	02/22 Close	1-Day Ch	Company	02/22 Close	1-Day Ch
BROADCASTERS/DBS/MMDS					
DISH:	62.40	(0.42)	MICROSOFT:	64.34	(0.15)
ENTRAVISION:	5.50	(0.05)	NETFLIX:	143.86	1.26
GRAY TELEVISION:	13.20	0.65	NIELSEN:	44.88	(0.62)
NEXSTAR:	68.50	1.15	SEACHANGE:	2.47	(0.02)
SINCLAIR:	38.55	1.65	SONY:	31.31	0.08
TEGNA:	24.70	0.11	SPRINT NEXTEL:	9.29	0.02
MSOS					
CABLE ONE:	642.33	2.97	SYNACOR:	3.10	(0.05)
CHARTER:	325.14	(0.01)	UNIVERSAL ELEC:	73.15	(0.85)
COMCAST:	37.94	0.05	VONAGE:	6.05	(0.04)
GCI:	21.12	0.65	YAHOO:	45.98	0.48
LIBERTY BROADBAND:	84.84	(0.37)	TELCOS		
LIBERTY GLOBAL:	36.63	(0.82)	AT&T:	41.59	(0.14)
SHAW COMM:	21.66	0.08	CENTURYLINK:	24.83	0.16
SHENTEL:	29.85	1.05	FRONTIER:	3.35	0.03
PROGRAMMING					
21ST CENTURY FOX:	30.47	(0.08)	TDS:	32.75	0.36
AMC NETWORKS:	57.53	(0.16)	VERIZON:	49.67	0.24
CBS:	67.12	(0.34)	MARKET INDICES		
DISCOVERY:	29.51	(0.11)	DOW:	20775.60	32.60
DISNEY:	110.12	0.11	NASDAQ:	5860.63	(5.32)
GRUPO TELEVISIA:	23.32	(0.08)	S&P 500:	2362.82	(2.56)
HSN:	40.85	2.95			
MSG NETWORKS:	22.30	0.70			
SCRIPPS INT:	82.46	0.96			
TIME WARNER:	96.32	(0.1)			
VIACOM:	47.35	(0.25)			
WWE:	21.64	(0.62)			
TECHNOLOGY					
ADVANTAGE:	1.77	(0.01)			
AMDOCS:	60.27	0.46			
AMPHENOL:	69.82	0.24			
APPLE:	137.07	0.37			
ARRIS GROUP:	30.70	0.75			
AVID TECH:	5.86	(0.11)			
BLNDER TONGUE:	0.75	(0.05)			
CISCO:	34.09	(0.04)			
COMMSCOPE:	40.31	0.33			
CONCURRENT:	5.03	UNCH			
CONVERGYS:	25.05	0.39			
CSG SYSTEMS:	39.68	(0.31)			
ECHOSTAR:	55.53	0.18			
GOOGLE:	830.76	(0.9)			
HARMONIC:	5.65	0.05			
INTEL:	36.07	(0.45)			
INTERACTIVE CORP:	75.35	(0.27)			
LEVEL 3:	57.99	0.17			

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Think about that for a minute...

Limiting Choices

Commentary by Steve Effros

I was so pissed off I decided I just wouldn't fly United any more. Then I found out United is not the only airline introducing a new set of planes without any electronics at every seat. I had just boarded a jet from Washington to L.A. Five hours. It was only after I sat down, or actually squeezed into the seat they provided, that I noticed there was no screen in front of me. There also weren't any earphones, or even an earphone jack!

To be sure, that elimination of the electronics we have all become used to on longer flights has made the new planes lighter, with narrower seats and a significant fuel cost saving. Also, they don't have to pay for the electronics! The assumption they've made, wrong in my view, is that everyone is now bringing their own screen and earphones on board, so why should they bother! Absurd.

Yes, the guy two rows in front of me had a 15 inch Mac Pro (\$1700+) and he had his Bose noise canceling headphones on. He must have been on one of these flights before. But many of the rest of us tried to grapple with our five-inch phones after the flight attendant informed us we could download the United App and then we could get free video and audio that way. But only, of course, after paying for WiFi service to be able to download the app in the first place!

I was furious, especially when I started reading the details that included a note that this new "service" from United was just rolling out, and we were the lucky ones to be on one of the new planes, but oh, it didn't work with the Android telephone operating system yet (more than half the plane's occupants, if sales figures are any indicator)...and oh, even if you had a laptop, it didn't work with the Chrome operating



system either. That was it. United was off my list.

Now it turns out that many airlines are apparently taking this course. It's a mistake. To be sure, there are a lot of folks walking around with little screens these days. But different screens are used for different things, and as I have long opined, folks don't want to watch video on a five-inch screen if they have a choice! The airlines have apparently decided to simply remove that choice. Of course they also want to charge extra if you decide you want to bring your knees and legs with you on the flight, so I shouldn't have been so surprised.

The point I want to make here is that while we are certainly in a great time of transition as folks watch video in different ways, the assumption that the vast majority are making major changes in their viewing preferences in a short period of time is just wrong.

Smartphones are great, but not for watching video if you can avoid that. 4K video may be an "advance" but it is meaningless to anyone with a screen of less than 55 inches. Advertising that a new television can "show" HDR video is not the same as telling the consumer that the set still shows the HDR picture in standard definition. And not everyone carries earphones around with them as a normal course of business.

We know too much. We're too close to all the great new advances. Yes, they're wonderful, but remember; evolution, not revolution. Don't limit your customer's choices, they'll just get angry.

Steve

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(Steve Effros was President of CATA for 23 years and is now an advisor and consultant to the cable industry. His views do not necessarily reflect the views of Cablefax.)



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