

Cablefax Daily™

Tuesday — August 1, 2017

What the Industry Reads First

Volume 28 / No. 145

Sharks & Shiplap: Is Bigger Better for Discovery-Scripps?

This isn't the first time **Discovery Communications** has kicked the tires on **Scripps Networks Interactive**, but everything at last aligned for a \$14.6bln deal expected to close in 1Q18. It's fair to say pursuit of a non-sports bundle, international expansion and the launch of direct-to-consumer platforms played a huge role, but that doesn't mean they're walking away from traditional distribution routes. "When you put [the two] together, it's about 20% viewership on cable, but we're less than 10% of the economics. We're very low priced," said Discovery CEO *David Zaslav*. "I think it gives us some opportunity and headroom to move that up. But more importantly, as people are choosing content to put on a platform, our content together way over delivers in a way that's not just over delivering in terms of a passionate audience or ratings, but in terms of the economics that's being paid for in the marketplace today." Eventually, Discovery-Scripps is betting on consolidation creating a distributor who provides mobile, broadband, multichannel and phone. "More and more, you're seeing these distributors want to de-commoditize that pipe," Zaslav said, arguing that, with possibly "more IP than any other media company," the combined offering will be in a great position to provide exclusive content or other interesting IP (already happening for Discovery in Europe). And the Discovery CEO has made no qualms over the past several months of his interest in a direct-to-consumer, entertainment only offering. "Direct-to-consumer is a huge part of our future," he said during Monday's call, pointing to **Euro-sport**. Also of note in the deal is all that data, which Scripps has been deeply involved in. Take the 130mln entries into **HGTV's** Dream Home sweepstakes. "Those are opportunities to get direct communication with consumers, where we can bore deeper on data," explained Scripps CEO *Ken Lowe*. "Find out viewing patterns, find out behavior patterns and most importantly buying patterns. And that's why we've been able to over index on advertising." Internationally, Discovery has the opportunity to introduce Scripps into the 220 countries it already exists in today. Scripps is still early on in its international play. From a regulatory standpoint, it's expected that the **DOJ** will review the deal and the **FCC** won't get involved, but that won't be known until about 10 days after the merger application is filed. The cash-and-stock deal is valued at \$14.6bln, or \$90/share based on Discovery's Friday closing price. Shares of Discovery closed down 8% Monday, while SNI inched up about half a percent. Cost synergies are estimated by

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CABLEFAX DAILY (ISSN 1069-6644) is published daily by Access Intelligence, LLC ● www.cablefax.com ● 301.354.2101 ● Editorial Director: Amy Maclean, 301.354.1760, amaclean@accessintel.com ● Publisher: Michael Grebb, 323.380.6263, mgrebb@accessintel.com ● Community Editor: Alex Silverman, 212.621.4951, asilverman@accessintel.com ● Dir. of Bus Dev.: Rich Hauptner, 203.899.8460, rhauptner@accessintel.com ● Acct. Exec: Olivia Murray, 301.354.2010, omurray@accessintel.com ● VP Marketing: Amy Jefferies, 301.354.1699, ajefferies@accessintel.com ● Marketing Manager: Charlotte Clay, 301.354.1710, cclay@accessintel.com ● Production Manager: Joann Fato, jfato@accessintel.com ● Diane Schwartz, SVP Media Comms Group, dschwartz@accessintel.com ● Group Subs or Subscription Questions, Client Services: 301.354.2101, clientservices@accessintel.com ● Annual subscription price: \$1,699.97/year ● Access Intelligence, LLC, 9211 Corporate Blvd., 4th Floor, Rockville, MD 20850

Discovery at \$350mln. Way too early to say what happens with Scripps' Knoxville HQ and Discovery's Silver Spring, MD, base. Scripps management met with employees in Knoxville Monday to answer concerns and were slated to do the same in NYC Tuesday. "There will be a lot that we don't know at this point, but I want to be sure that we listen to what you have to say, and that we always make sure that you hear from us directly," Lowe said in a memo to staffers.

More Deal Particulars: Of the \$14.6bln price tag, \$2.7bln is **Scripps** debt that **Discovery** would assume. Scripps will pay a termination fee of \$356mln if the deal is nixed due to the board changing its mind or if it terminates the deal to enter into another agreement. Discovery would pay the same break-up fee if the board changes its recommendation. Lowe would join the board of the combined company. *John Malone*, **Advance/Newhouse** and members of the *Scripps* family have entered into voting agreements to vote in favor of the transaction. Ahead of the deal announcement, Scripps amended the employee agreements of *Burton Jablin* and *Mark Hale*, providing a one-year extension through the end of 2018 for both. Under Jablin's amendment, he will receive an annual base salary of no less than \$1.5mln with a target annual incentive opportunity of 150% of his base salary. Scripps also entered into a new agreement with *Lori Hickok*, appointing her evp, CFO & chief development officer (she previously was CFO) in a contract that runs through the end of 2020 and includes a base salary of no less than \$875K.

Analysts on Discovery-Sinclair: At last week's **ACA/NCTC Independent Show**, **Bernstein** analyst *Todd Juenger* expressed skepticism over the economics of a **Discovery-Scripps Nets** deal. Of course, he's been pretty bearish on the programming business for some time now, arguing that approximately 40% margins aren't sustainable. While he said it's good for the Scripps family, he didn't think it made things better for Discovery. "Imagine if Discovery and Scripps are together and they come to [distributors] with 20 networks... It gives you so much more license to give a little and take a lot more," he said, suggesting operators could push not to carry 10 of those channels. "Not to mention [Discovery] will have to take up its leverage 4-5x, which is 2-3x too much," he said. **Wells Fargo Securities** noted Monday that Discovery's 2Q results and early release of Scripps's numbers "suggests how tough the cable net business has become." Discovery revenue growth of 2% missed consensus estimates of 3%, while EBITDA growth of 2% was in line. Scripps' 2% ad growth missed on analyst estimates of about 4%. The company lowered 2017 guidance, projecting revenue growth of 4% vs 6% and flat segment profit vs +3%. "This shotgun marriage is a clear sign that the cable network industry has seen the future, and that future requires deep cost cutting and increased scale to mitigate both the current headwinds and the inevitable painful changes that lie ahead," concluded a **MoffettNathanson** note to clients.

Pole Attachment Win: The 8th Circuit affirmed the **FCC's** 2015 decision amending its pole attachment rate formulas to ensure that the telecommunications formula and the cable formula produce equivalent pole attachment rates. The FCC decision was based on a 2011 petition filed by **NCTA** asking that rates for cable and telecom see parity. The issue came to a head after the FCC approved its Open Internet Order, opening the door for higher rates for cable because broadband is classified as a telecom service. Utilities and pole owners challenged the FCC order, arguing that Congress' intent was to establish two different rates. The court said that statute permits, but does not require, the cable and telecom rates to diverge.

AT&T-TWX Leadership: With **AT&T's Time Warner** deal expected to close any day now, the company has shuffled around some senior management. As of Aug 1, *John Stankey*, previously AT&T Entertainment Group CEO, will assume the lead of AT&T's Time Warner Merger Integration Planning Team, working closely with TWX CEO *Jeff Bewkes*. Stankey will transition to CEO of AT&T's media company once the merger is complete. *John Donovan* will serve as CEO of AT&T Communications, which includes AT&T's Business Solutions, Entertainment Group and Technology & Operations groups. In addition to her responsibilities as global marketing officer, *Lori Lee* will assume leadership of AT&T International. All will continue to report to AT&T chmn/CEO *Randall Stephenson*.

Taking Care of Business: **Altice USA** is bringing its **Lightpath**, **Optimum Business** and **Suddenlink Business** brands together under one group called Altice Business, which will provide data, voice, video and managed services for business customers. The Altice Business leadership team comprises execs from all three subsidiaries, and the company will standardize its product offerings across its footprint. As a result of this process, DOCSIS and optical

data products will be available to all customers. In addition, the company will offer managed WiFi and Cloud Backup across its footprint. Altice currently serves about 375K US businesses across 21 states, including more than 8K in the New York metro area.

HBO Cyber Attack: HBO acknowledged Monday that it was the victim of a recent cyber-attack, which resulted in proprietary material, including programming, being compromised. HBO chmn/CEO *Richard Plepler* in an email to employees wrote, “I can assure you that senior leadership and our extraordinary technology team, along with outside experts, are working round the clock to protect our collective interests.” EW [reported](#) upcoming episodes of “Ballers” and “Room 104” have already been put online and that the breach also included written material related to the next “Game of Thrones” ep.

Sprint-Charter Talk: Charter has rebuffed **SoftBank** chmn *Masayoshi Son*’s proposal to merge with Sprint, but Son is now preparing an offer for the company to buy Charter outright, [according to a source](#) cited by *Bloomberg*. **Wells Fargo Securities** in a research note writes Sprint’s interest in Charter—as well as **Verizon** and **Altice’s** rumored interest in the operator—“tells us that cable is clearly the superior business model to wireless.” The analysts believe interest from several potential suitors “presents a creeping floor” for Charter, but is keeping its rating of the company at “Market Perform.” Charter’s stock price shot up 5.85% on Monday to \$391.91.

Facing Reality: **AltspaceVR**, a VR social network, will hold its final virtual gathering on Aug 3 before shuttering operations. The company, which counted **Comcast Ventures** as an investor, cited “unforeseen financial difficulty” as the driving factor in its decision to call it quits, noting its planned next round of funding fell through. “Some combination of this deal falling through and the general slowness of VR market growth made most of our investors reluctant to fund us further,” the company wrote in a blog post. AltspaceVR’s demise comes amid enthusiasm about social VR. **Facebook** earlier this year launched a beta platform for social VR called Spaces, and **Fox Sports** last week became the first media outlet to employ social VR in the broadcast of a sporting event during the **CONCACAF** Gold Cup.

Programming: **NBC Sports** announced its slate of **NHL** action for the 2017-18 regular season will include 99 games, including 90 on **NBCSN**. The group aired 106 games last season, which was a non-Olympic year. While the NHL for the first time in decades will not incorporate an Olympic break into its schedule for 2018 PyeongChang Games, NBC doesn’t plan to air any NHL games during the Olympics. NBCSN will be home to 23 Wednesday Night Rivalry games, five Wednesday nightcaps, five Sunday Night Hockey contests and the NHL All-Star Skills Competition. -- **Starz** is developing “Sweetbitter,” a half-hour drama series based on the best-selling book by *Stephanie Danler*. Danler has also written the script for the first episode, which will follow 22-year-old Tess as she comes of age in the restaurant world of New York City. -- **WGN America** has acquired the US rights to drama series “Bellevue,” set to air in 2018. “Bellevue” made its debut in Canada on **CBC**, which cancelled the show after one season. *Anna Paquin* stars as a detective trying to solve a 20-year-old murder when the killer seemingly reappears in town.

People: **Rohde & Schwarz** has added *Devin Wickham*, *Don Backus* and *Faizal Iqbal* to assist with the **FCC** repack, helping the company support new and existing customers. Wickham and Iqbal are application engineers focusing on field service and installations while Backus is an account manager for radio products. -- **WWE** has placed *John Brady* in charge of its international division as evp, global sales & head of international. He will oversee the global sales team and WWE’s regional general managers. -- **Comcast** named *Sharon Desmond* vp, finance for the company’s Houston region. She most recently led financial and business operations for the Technology and Product team at Comcast’s corporate offices in Philly.



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