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Mighty Mouse: Disney Adopts Direct-to-Consumer Strategy with BAMTech Buy

There aren't too many institutions that can dramatically alter the media landscape at the drop of a hat, but **Disney** is certainly one of them. The impact from its series of announcements Tuesday afternoon aimed at bringing content directly to consumers is already being felt. Just ask **Netflix**. Disney, which last year purchased a 33% stake in streaming powerhouse **BAMTech** for $1bln, took majority control of the company Tuesday with a $1.58bln acquisition of an additional 42% stake. Disney now plans to leverage its 75% position in BAMTech—**MLBAM** and the **NHL** still own minority stakes—to launch **ESPN** and Disney-branded OTT services, slated for early 2018 and 2019, respectively. The Disney-branded service will be the exclusive home in the US for Disney and **Pixar** movies, beginning with the blockbuster 2019 slate, which includes sequels to "Frozen" and "Toy Story," as well as a live-action "Lion King" flick. With the move, Disney is ending its licensing deal with Netflix, effective at the end of 2018. The streaming service's stock dropped 2.72% in after-hours trading. Disney's streaming service, which will be ad free, will also include a wide range of titles from Disney's library of movies and TV material, as well as original content created specifically for the platform. Disney CEO *Bob Iger* pointed to the rise of app-based media consumption as the impetus for the strategy shift, noting a direct-to-consumer offering will allow the company to leverage affinity for its brands and franchises. Disney is betting that delivering content directly to the consumer will be more profitable than licensing it to third-party services. As for ESPN, the sports net had already been working with BAMTech on an OTT product, which was initially expected to feature a modest slate of college sports, tennis, soccer and global sports. Now, however, Disney has drastically expanded its vision for the service, saying it will offer consumers 10,000 live sporting events a year, including **MLB**, NHL, **MLS**, Grand Slam tennis tournaments and college sports. The subscription service, which will feature ads, will be integrated into the existing ESPN app, which fans currently use to access news, highlights and scores. Pay-TV customers will also be able to access ESPN's linear nets on an authenticated basis through the app. Asked what the OTT push means for the company's appetite for sports rights acquisitions going forward, Iger said the new avenue to incrementally monetize rights only increases opportunity. He said the company has yet to determine price points for either of the new services. Plans are for the services to be available for purchase directly from Disney and ESPN, as well as from app stores and authorized MVPDs. There will be plenty of discussion in the coming

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days about what Disney's direct-to-consumer push means for the industry at large, but Iger said he doesn't anticipate the new offerings impacting the health of the multi-channel ecosystem one way or the other. He still believes ESPN is a "must-have" for MVPDs. Operating income for Disney's cable nets in 3Q decreased 23% YOY because of declines at ESPN.

Seeing Eye: **CBS** seems happy with the progress of its OTT strategy and plans to take another major step later this year with the launch of a 24/7 streaming sports channel. The channel will be similar to **CBSN**, the company's digital news net. CBS pres/CEO *Les Moonves* cited cost synergies between CBSN and the yet-to-be-named sports service, as they will share infrastructure. "We are going to look to differentiate ourselves from **ESPN** and **Fox Sports**, as well, and we think we have a good opportunity to succeed." The company also noted its **CBS All Access** and **Showtime** OTT services are set to exceed 4mln combined subs by the end of the year, which puts CBS on pace to meet its goal of 8mln by the end of 2020. CBS All Access will expand to Canada early next year and to other countries later in 2018. On the heels of its deal to distribute its broadcast and cable nets on **DirecTV Now**, Moonves said the company's wide distribution on vMVPDs has put it in a position to benefit from both increased affiliate fees and increased advertising from ratings as Nielsen integrates new platforms into its measurement. Meanwhile, the company's 2Q retrans and affiliation fees grew 25% YOY. **Wells Fargo Securities'** *Marci Ryvicker* expects CBS to "be even more aggressive" when it renegotiates all of its retrans and reverse comp deals between now and 2020. She noted CBS generates 10% of all viewership, including cable, while only receiving 2% of distribution fees (retrans/affiliate). She said strong demand for All Access at $6/month gives CBS "leverage at the retrans negotiating table."

Pai in the Sky: **FCC** chmn *Ajit Pai* expressed his satisfaction Tuesday with a federal court's decision to deny a motion to stay the Commission's deregulation of business data services. Monday's decision by the Eighth Circuit Court of Appeals follows an April vote by the FCC to deregulate the rates incumbent providers can charge for special access services, such as wireless backhaul. The FCC's Wireless Bureau in June shot down a request from **INCOMPAS** and others for a stay.

One for the Money: In the wake of its acquisition of **NewWave Communications**, **Cable One** reported 2Q revenue growth of 17.8% YOY to $241mln. **Wells Fargo Securities'** *Stephan Bisson* noted revenue growth would have been 2.1% excluding NewWave. As has been the trend in past quarters, Cable One continues to shift its focus away from video and toward broadband. **MoffettNathanson's** *Craig Moffett* noted that video has declined from accounting for 50.3% of the company's revenue to just 42.6% over the past 12 months. The company has "actively deemphasized video, dropping programming, losing subscribers, and dramatically raising video rates," he wrote. Cable One lost 9.2K legacy video subs in Q2, with residential subs down 12.4% YOY. Non-video customers make up 54.4% of its legacy customer base. The legacy business also lost 2.6K residential broadband customers. Moffett noted, however, that Cable One continues to make up for sub losses with ARPU increases based on higher prices. Residential video ARPU was up 9.5% YOY for the legacy business, while residential broadband ARPU grew 5.2%.

Chips In: Virginia-based cable operator **Shentel** deployed a new fiber optic network for snack company **Utz Quality Foods**. The operator provided dedicated internet access to the company's HQ in Hannover, PA, as well as dark fiber to connect an additional facility. The Utz project follows Shentel's recent $5mln expansion of its fiber network into central Pennsylvania.