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What the Industry Reads First

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Rise of the Machines: FX Networks' Landgraf Drills Deep at TCA

The interplay between traditional media and Silicon Valley is becoming a “titanic struggle” as the cultures collide in ways that “grind the margins out of brands” trying to produce quality content, warned *John Landgraf*, CEO of **FX Networks** and **FX Productions**. Landgraf told critics at TCA on Wednesday that “the volume of output, particularly by our new Internet competitors, is quite daunting.” He argued Silicon Valley’s culture valuing market dominance over sound financials has added to “a glut of content” with “endless volume of relative mediocrity.” In a way, it’s like fighting the same battle under different rules. “**Netflix** is negative \$2.5 billion free cash flow a year, right?,” he said. “If we could be negative \$2.5 billion free cash flow a year, we could spend nine and a half billion dollars more on content than we are... That resource could be deployed to basically take market share.” Landgraf even invoked the larger deregulatory wave that started in the late 1970s, saying, “This new structure has crushed opportunity and wage growth for many of America’s middle-class families... We’re experiencing something that’s part of a much larger theme in America.” It’s not just programmers moving to adapt. Landgraf noted **Comcast** was actually the one that approached FX to create its ad-free **FX+** product announced earlier this week (**CFX, Aug 8**)—although he said FX Networks had already been working on a similar initiative. “They pitched to us what we were going to pitch to them,” he said, responding “not yet” when asked if FX+ will result in less FX content available on **Hulu**. While cord cutting and changing consumer behavior are fueling new arrangements, Landgraf cautioned it’s too early to start planning the funeral for linear TV. “The linear channels’ ecosystem cannot port over to the Internet yet,” he said. “We’re nowhere near the Internet being able to serve 110 million streams” as would be required to broadcast a big event like the Super Bowl. In the end, he said the content industry is best served when no one or two companies dominate the market, creating a “monopsony” where buying power is highly concentrated. “I don’t want to see that outcome in entertainment,” he said. “I don’t want to find us in a situation in which only two buyers matter.” He said he and other TV execs are all in the same boat. “We’re *Garry Kasparov*, and we’re playing Deep Blue—and I want the humans to be able to hold their own against the emerging strength of the machines,” he said.

New Charter Suitor: Altice is working on a bid to acquire **Charter**, according to sources cited Wednesday by **CNBC**. The report states Charter could command almost \$200bln. The news linking Altice to Charter follows reports late last



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month that **Sprint** majority owner **SoftBank** was pursuing Charter. In the wake of the Altice news, **Telsey Advisory Group** upgraded its recommendation on Charter to “outperform.” Telsey wrote Altice likely “has the edge” over Sprint in consolidating cable, adding **Liberty Media** and chmn *John Malone* “would prefer to be aligned” with Altice (Liberty owns 27.3% of Charter). Telsey also wrote an Altice-Charter merger would likely be approved as there is “little market overlap.” The most notable overlap point is the New York metro area. In other Charter news, the company on Tuesday announced it closed on the sale of \$1.5bln worth of senior unsecured notes due 2028, which bear interest at a rate of 5% annually.

Latest on Sinclair-Tribune: **Tribune Media** CEO *Peter Kern* said Wednesday that the company’s pending merger with **Sinclair** remains “on track” despite the **Department of Justice** requesting information from both parties for the second time. “We are confident that the proposed deal will be approved by our shareholders and the regulators,” Kern said during the company’s 1Q17 earnings call. Sinclair and Tribune have previously indicated they expect the deal to close by the end of 2017. The FCC has received hundreds of comments over the past several days in opposition of the deal, which would expand Sinclair’s reach to more than 70% of US households. **T-Mobile** filed a comment Tuesday, writing the deal would enhance Sinclair’s “incentive and ability to delay the post-incentive auction repacking of broadcasters to the TV band below channel 37.” A group of independent cable programmers also filed a joint comment Tuesday. The contingent includes **Cinemoi**, **AWE**, **One America News**, **Eleven Sports**, **RIDE TV**, **MAVTV** and **TheBlaze**.

Enjoy Your Stay: **Cox Communications** finalized its acquisition of **Blueprint RF**, a network solutions provider serving hotels across the US. Financial terms were not disclosed. The acquisition complements Cox’s existing presence in hospitality, as it currently provides hotel-specific solutions for telecom, in-room entertainment and WiFi.

Discovery Invests in VR Shop: **Discovery** led a \$10mln Series A investment round in immersive technology studio **Here Be Dragons**. The outfit specializes in the creation of virtual reality and augmented reality content. Discovery svp emerging platforms and partnerships *Rebecca Howard* will join the Here Be Dragons board of directors. *David Droga* of marketing agency **Droga5** and *David Jones* of brand tech company **You & Mr. Jones** also participated in the funding round.

California Dreaming: **Comcast**, **Cox** and **Level 3** all picked up new contracts with the **CA Dept of Technology** through its CALNET Telecommunications Program to begin contracting with public agencies. The three can now offer Category 3 ethernet services to more than 2000 state and non-state agencies. **CenturyLink**, Comcast, Cox, Level 3 and **Verizon Business** also received new deals for Category 5 internet services.

Weekly Ratings Notes: Despite its 11:30pm ET time slot on Sunday nights, **Adult Swim’s** “Rick and Morty” has become appointment viewing for a valuable audience. The animated sci-fi show has been the second most-viewed cable program in the A18-49 demo each of the past two weeks behind **HBO’s** “Game of Thrones.” The show resumed its second season on July 30 after kicking off the season a few months back as part of an April Fool’s prank. The return of “Rick and Morty” 2.9mln viewers P2+, 1.9mln of were A18-49. This past Sunday’s ep, technically the third of the season, drew 2.3mln P2+ and 1.6mln A18-49. For its total programming day, which is different than most nets (M-Sa 11pm-6am; Su 10pm-6am), the net averaged 823K viewers last week. -- **Fox News** maintained its dominance among basic cable nets in both total day and primetime viewership, notching its 31st and 11th weeks on top, respectively. In total day, Fox News led the way with an average of 1.3mln viewers, followed by **Nickelodeon** (1.2mln), **MSNBC** (986K), **HGTV** (828K) and **Disney** (826K). In primetime, Fox News’ 2.2mln viewers topped **MSNBC** (1.8mln), **USA** (1.5mln), **HGTV** (1.5mln) and **TBS** (1.2mln).

Programming: **FX** renewed “Snowfall,” its drama series about the crack epidemic in LA, for a second season. -- David Letterman is coming back to television, sort of. The longtime “Late Show” host will launch a **Netflix** series featuring both in-depth conversation and in-the-field segments. The six one-hour eps will premiere in 2018. -- After seeing record viewership for two of its summer shows, **HBO** has renewed “Ballers” for a fourth season and “Insecure” for a third. -- **WGN America** has secured the US rights to three crime series: “100 Code,” “Shoot the Messenger” and season one of “Pure.” The scripted series join the recent pickup of the *Anna Paquin*-led drama series “Bellevue.” -- **DirectTV** will offer its customers some holes from the 2017 **PGA** Championship in 4K. The event tees off Thursday in Charlotte. -- **CMT** will pay tribute to the late *Glen Campbell* (who passed away Tuesday of Alzheimer’s) with a 30-minute special Thursday at 8:30am ET.

People: **Comcast** hired *Steve Lee* as deputy general counsel, effective Sept 6. Lee will leave the public sector to accept the position, as he currently serves as director of the **NJ Division of Consumer Affairs**.

Think about that for a minute...

One Bar

Commentary by Steve Effros



I just got back from several disconnected weeks in Maine. I actually got back in the middle of last week. Things were so mellow and unhurried that I totally lost track of what day it was. By the time I realized it was late Wednesday afternoon (the deadline for my column), it was already too late! No column last week. And so it goes, when you manage, even for a little while, to be disconnected.

Some of us work hard all year to get the opportunity to disconnect. But as I found out on the Maine coast, some of us are essentially disconnected all the time. That's not good either. Of course I am referring to our almost ubiquitous cell phones, tablets, WiFi, 4G and the rest. When you are totally addicted to being able to check the news, weather, your calendar and all that with the push of a button, when that button doesn't work it's both a blessing and a curse.

In some parts of "rural" America, they have to deal much more with the curse than the blessing. To be sure, it's nice to disconnect. To not have to worry about what the latest "tweet" is, or be fully briefed on the latest world crisis. But in reality, that ability to "be in touch" has become vital.

We are in an information economy. Even if you are farming or fishing you need to know what the situation is with the local shippers or the rail line or what the given commodity market is doing to gauge when to act and when to hold back. Being informed is vital to our health, our kids' futures and lots of other stuff. So why is it that in the truly rural areas connectivity is so hard?

Kudos to the cable industry for having more broadband wire spanning rural America than anyone else. But there are places, like the house on the isle I was on, where it

just doesn't make sense to continually run new, state-of-the-art wire.

Yes, we had broadband, and yes, we had WiFi. so when I was "home" I could check in. But as I moved around the Maine coast there were lots of places where my cell phone simply didn't have more than "one bar." At that signal strength, you can forget about reliable data.

We've heard cries about the "digital divide" for years, and here I was, looking it straight in the signal meter. Those folks deserve good, reliable cell service. Heck, from a safety point of view it's more critical in those woods, or on those shores than it is almost anywhere else.

But it's not there. Why? One reason, I think, is that some of the most vocal advocates for eliminating the "digital divide" are actually helping to maintain it by demanding too much.

Would it be nice to have fiber to the node, or the home everywhere? Sure. But it's too expensive and not likely to happen for a long time. Meanwhile, a robust 4G cellular system with adequate towers dotting the rural areas would give most folks all they will ever need in the way of connectivity and data.

OK, it may not serve a house with five "ultra HDs" running at the same time on Netflix, but for the rest of us it would be just fine, thank you. It's doable. The successful cellular companies have the money, but not the governmental push because the "advocates" are holding out for broadband fiber "perfection." A disconnected "one bar" strategy.

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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