

Cablefax Daily™

Tuesday — January 23, 2018

What the Industry Reads First

Volume 29 / No. 014

Courage to Grow: Netflix Crushes 4Q Earnings with Record Subscriber Adds

It might seem like everyone you know already has **Netflix**, but customer acquisition isn't showing any signs of plateauing. In fact, the streaming service had its best-ever quarterly sub additions with 8.4mln worldwide in 4Q17—the consensus estimate was 6.34 (its own guidance was virtually the same)—for a 25% YOY increase. That figure broke down to 1.98mln US subs and 6.36mln international subs. The quarterly results are a fitting ending to a banner year at Netflix, which added a total of 24mln new memberships in 2017, up 26% YOY from 19mln adds in 2016. In its quarterly letter to investors, the company asserted its big investments in content are paying off, as average streaming hours per membership grew 9% YOY in 2017. It specifically pointed to the polarizing feature-length film "Bright," which critics panned but audiences seemed to enjoy. The company wrote the movie "drove a notable lift in acquisition" and indicated a sequel is in the works. Look for Netflix to invest more in original film, an evolution from its episodic TV-style content. Based on its 2017 success, the company said it now plans to spend \$7.5-8bln on content this year, which represents the higher end of its previous estimate. It wants to move toward self-producing original content, a strategy that has driven deals with several big-name producers, including *Shonda Rhimes*. The company also plans to accelerate its marketing spend based on test results that such efforts drive membership growth. Netflix touted the success of its partnerships with MVPDs and ISPs in making customer acquisition, product use and payment/billing more efficient. This past quarter, the streamer struck deals with both **Cox** and **Verizon**. The company in its shareholder letter acknowledged growing competition in streaming video, pointing to the efforts of tech giants **Amazon** and **Apple**; social media stalwarts **Facebook** and **YouTube**; and traditional media brands like **Disney** with its acquisition of **Fox**. Netflix believes there's room for plenty of OTT services and that they are often complimentary. "We believe this is largely why both we and **Hulu** have been able to succeed and grow," the company wrote. Netflix brought in revenue of \$3.3bln in 4Q, up 33% from the same period last year. Its annual revenue of \$11.7bln marked a similar 32% YOY increase. Net income was \$186mln for the quarter and \$559mln for the year. For all its customer acquisitions, it's also worth noting the company had \$2bln worth of negative free cash flow on the year. Netflix addressed both operating margins and cash flow, saying, "We are increasing operating margins and expect that in the future, a combination of rising operating profits and slowing growth in original content spend will turn our business

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FCF positive.” On the housekeeping side, the company added the CEO of French satellite operator **Eutelsat**, *Rodolphe Belmer*, to its board. Netflix was scheduled to stream its earnings interview, in which **Bernstein** analyst *Todd Juenger* asks questions of top execs, after press time Monday.

In Your Face: *Rupert Murdoch* put **Facebook** in his crosshairs Monday, asserting in a statement that the social media platform should pay content publishers “a carriage fee similar to the model adopted by cable companies.” Murdoch proposed the change as a remedy to the so-called “fake news” problem that has plagued the site since the run-up to the 2016 election by improving the prospects of trusted news outlets. “The publishers are obviously enhancing the value and integrity of Facebook through their news and content but are not being adequately rewarded for those services,” Murdoch wrote. “Carriage payments would have a minor impact on Facebook’s profits but a major impact on the prospects for publishers and journalists.” The only other company Murdoch referenced was **Google**, which he said shares responsibility with Facebook for popularizing “scurrilous news sources through algorithms that are profitable for these platforms but inherently unreliable.” He also suggested Facebook itself has a political bias. “I have no doubt that *Mark Zuckerberg* is a sincere person, but there is still a serious lack of transparency that should concern publishers and those wary of political bias at these powerful platforms,” Murdoch wrote.

Carriage News: **CBS** and **Sony** agreed to a new distribution deal that allows PlayStation Vue to continue carrying CBS O&Os, broadcast affiliates and cable nets (**Showtime**, **CBS Sports Network**, **CBSN** and **Pop**). Financial terms of the deal were not disclosed. -- **Sportsman Channel** has been added to **DirectTV Now’s** Go Big streaming package.

Dynamic Duo: **DISH** on Monday released a new dual-tuner HD set-top box for one- and two-TV households called the Hopper Duo. It offers many of the same features as the Hopper 3, but for smaller-scale entertainment setups. In introducing the box, the company cited a statistic from **Leichtman Research Group**: the average number of STBs per US household is only 1.7. The device is WiFi capable and includes a 500 GB hard drive, Alexa voice control, universal search and Bluetooth audio support.

Charter-Viacom Takes Effect: It’s already been announced that **Charter** will move eight of **Viacom’s** most-viewed channels to its least expensive tier (Select) as a result of their recent distribution agreement. What we didn’t know, however, is that Charter also plans to move 11 other Viacom networks to its most expensive tier (Gold), according to *TV Answer Man*. The 11 channels—**BET Her**, **BET Jams**, **BET Soul**, **MTV2**, **MTV Classic**, **TeenNick**, **NickToons**, **Logo**, **MTV Live**, **MTV Tres** and **Nick Music**—were previously available on the less-expensive Silver plan as well as Gold (the Gold plan costs \$20 more per month than Silver). The report stated the channel rearrangement will happen this Thursday.

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Virtual MVPD Sub Counts: Hulu and YouTube TV have 450K and 300K paying subscribers for their respective virtual MVPD services, according to numbers cited by **CNBC**. Those figures put the services, both of which launched last year, behind **Sling TV's** estimated 2mln subs and **DirecTV Now's** count of more than 1mln. It likely puts them ahead of **FuboTV**, which announced that it surpassed 100K subs last October. It's unclear at this time where in that mix **Sony's PlayStation Vue** falls. Both Hulu and Youtube have declined to comment on specific sub numbers for their live TV services. Hulu announced during **CES** that it had passed 17mln total subs, but didn't specify how many were paying for the live TV experience versus just SVOD.

No Access Pass: ACA pres/CEO *Matthew Polka* called upon the **FCC** to strengthen its program access rules following the expiration of the merger conditions that **Comcast** and **NBCUniversal** had to abide by. "ACA believes it is in the best interests of consumers and competition for the FCC to examine and then address the harms that a 'vertically integrated' Comcast-NBCU can cause—the same harms that led the Department of Justice (DOJ) to seek to block the **AT&T-Time Warner** merger," Polka said in a statement. With the conditions expiring, Comcast and NBCU still have to follow the program access rules, but the ACA doesn't believe those rules go far enough to deter anticompetitive behavior. It suggested the FCC should look into whether an arbitration remedy and standstill condition—like the ones in the Comcast-NBCU deal—should be made available as part of standard program access rules. In addition, ACA claimed the current rules' flawed definition of a "buying group" gives large MVPDs more protection than small- and mid-tier operators. It suggested changing that classification to include the **NCTC**. Comcast responded in a statement, saying in part, "For nearly seven years, Comcast has met or exceeded all of the commitments and obligations under the NBCUniversal transaction. We have filed six annual compliance reports with the FCC setting forth in detail our exemplary compliance track record, none of which has been challenged or objected to by the Commission or any third parties, or any member of Congress."

For Pete's Sake: Facebook isn't going to bid on the **NFL's** "Thursday Night Football" rights for 2018, but *Variety* reported the social media giant is bringing in **Eurosport** CEO *Peter Hutton* to lead its efforts to acquire live sports rights. The publication cited sources as saying Hutton will be based in Silicon Valley and will start following **Discovery**-owned Eurosport's coverage of the upcoming Winter Olympic Games in South Korea.

No Vacancy: Choice Hotels designated **Cox Business/Hospitality Network** as one of its Qualified Vendors to service its franchised lodging establishments. The hotel chain recently mandated new connectivity, speed and WiFi network support standards for many of its franchises to meet by the end of 2018. Cox is one of five qualified vendors that will help Choice Hotels meet those requirements. Choice Hotels didn't respond to requests for the other four vendors.

Ratings: **BBC America's** "Planet Earth: Blue Planet II" delivered 2.95mln viewers Saturday night in a five-network simulcast (L+SD). That figure makes it the most-watched nature program on ad-supported TV in nearly eight years and represents a 45% increase in viewers for last year's three-net simulcast of the "Planet Earth II" premiere. In addition to BBC America, **AMC Networks** aired the program on **AMC, IFC, WE tv** and **SundanceTV**. The aforementioned figures reflect the 9pm premiere on the five nets, as well as BBC America's encore showing at 12:30am.

Programming: Netflix picked up the rights to stream the first ten episodes of **TNT's** new drama, "The Alienist," beginning April 19. Slated to premiere Monday (1/22) on TNT, the show takes place in the late 19th Century, focusing on a psychological professional in the controversial new field of treating mental pathologies in violent criminals. Meanwhile, the streaming service is also debuting the first three episodes of soccer docuseries "First Team: Juventus FC" on Feb 16. The second part will follow later this year. The series follows the Italian soccer club during its 2017-2018 season.

On the (Book) Circuit: PR man *Bob Gold* has told many cable and tech company stories over the years, concentrating on the big money opportunities for the industry. In his spare time though, he's focused on a single cent... Gold recently authored children's book "The Shiny Penny," illustrated by his wife *Marcia Gold*, which tells the interesting journey of one coin and the impact it can have. Leave it to the well-known image maker to give copper a "Gold" makeover.

Obituary: **The Weather Channel** co-founder *John Coleman* died Saturday evening at the age of 83. The net in a statement said, "Thirty five years ago John Coleman and others founded The Weather Channel to answer a demand for around-the-clock weather information. We will forever appreciate his vision that we continue to this day as the demand for severe weather coverage and hyper-local forecasting is at an all-time high." Coleman spent a year as the net's pres/CEO before reportedly being forced out. He spent most of his remaining years as a TV meteorologist before retiring from San Diego's **KUSI-TV** (independent) in 2014 after two decades there.

CFX TECH

WiFi Everywhere

There's been no slowdown in the growth of WiFi, with 2018 sure to continue the upward trend as more devices become connected to the internet. With the next generation of WiFi, 802.11ax, hitting the scene and the **Wi-Fi Alliance** predicting cumulative device shipments surpassing 20bln units in the next year, the value of a reliable, speedy connection is higher than ever. It hasn't gone unnoticed, and ISPs are dedicating time and money to introducing new services that promise high speeds throughout the home, no matter how many devices are looking to connect.

Comcast closed out 2017 with the rollout of its xFi Pods, signal extenders designed for homes posing unique challenges for traditional gateways. This week, **AT&T** announced its Smart Wi-Fi Extender, boasting the ability to boost by up to 1,000 square feet. The technology is designed to automatically select the best connection for each in-home device while the accompanying AT&T Smart Home Manager app manages the name and passwords associated with the network. **Cox** has seen success with its own efforts, reporting its Panoramic WiFi service surpassed 1mln customers in December—14 months after its launch.

Cox vp of product marketing *Jonathan Freeland* said the development of the solution was spurred by research showing customer complaints widely surrounded the unpredictability of the signal throughout their homes. "At the end of the day, they want coverage everywhere," Freeland told **Cablefax**. "This is not only among our own customers, but also competitors' customers we surveyed, so it was pretty much a marketplace-wide opportunity area."

How big of an issue is this? Nearly half of Cox's customers were reporting having issues surrounding connectivity with their devices, according to Freeland. Connecting multiple devices highlights opportunity for ISPs. "When we were doing the installation, it was primarily oriented

around making sure the signal strength was strong and the modem was connected, and what we learned in the research was that consumers really look to us as the broadband provider to connect the devices in their home and make sure they have good WiFi in the home," he said. San Diego was the first test market, with one of the key learnings being the importance of making sure consumers understand how Panoramic WiFi differs from the internet installs from several years ago.

"We doubled-down on the training. We modified some of the marketing materials to really be clear about what it is that we're offering... that it really is about the connectivity experience," Freeland said.

Technicians literally go through the house with customers to find the important areas for WiFi and to check signal flow. In the past, like many operators, Cox wasn't using extenders to boost signal in the home; it was primarily just installing a modem.

Now that Cox has established Panoramic WiFi, the next steps are all about enhancing customer engagement and understanding of the technology. "It's moving past connectivity and getting into the control and engagement side," Freeland said.

Cox may opt to leverage its My Wifi app to help with engagement given that many Panoramic customers use it to monitor device Internet status, including individual signal strengths.

The need for more ubiquitous WiFi will only continue to grow as more Americans get connected through the closure of the digital divide. The 2016 FCC Broadband Report found 39% of rural America (23mln people) lack access to 25Mbps/3Mbps broadband. Last year, we saw efforts from **Microsoft** to address the issue of broadband in rural areas with its white spaces plan and **Google** has jumped in with its Project Loon, which uses high-altitude balloons to create an aerial wireless network. — *Sara Winegardner*

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