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Up Ahead: AT&T CEO Bullish on DirecTV Now

AT&T's CEO touted the upcoming next-generation version of **DirecTV Now**, set to debut this spring, as a way to open up a new market for the vMVPD service. "With new functionality, we think we can get higher penetration," *Randall Stephenson* said during the company's 4Q earnings call Wednesday. "We're actually very bullish on DirecTV Now. We're convinced the economics will continue to improve as we move over the next couple of years." The updated version will include features such as a cloud DVR, a third stream and enhancements to the user interface. DirecTV Now is already outpacing linear customer accounts in terms of net additions, with 368K adds in 4Q for 1.2mln customers total. DirecTV lost 147K subs in 4Q, while U-verse shed 60K. Execs said the DirecTV Now sub base has a disproportionate number of millennial and MDU customers, but said there was no dramatic uptick of existing full-product customers making the shift. Before year-end, DirecTV plans to roll out the next-gen product in a home-centric configuration, with a thin hardware client. Stephenson said it'll be small, inexpensive and able to connect to any broadband service. It'll also have a voice controlled UI and integrated search feature across any streaming service subscribed to. Washington led the start of AT&T's earnings remarks, with Stephenson reiterating the company's call for a legislative fix to keep the "regulatory pendulum" on Title II from swinging back and forth and to provide clarity. But he said the biggest development that came out of DC last year was unquestionably tax reform, noting that AT&T was the first company to announce $1K bonuses for frontline employees and increased cap ex for 2018 by $1bln. Stephenson brought the call back to Washington at its close, declaring, "2017 was truly a unique year for US business. I think 2018 is going to be a really good year for the realization of the implications of what was done in 2017," he said. "I think the consumer is going to be better off. I think wages are going to be higher as businesses invest more, and as a result, AT&T being a very US-centric company, we think we're going to have a very good year ahead of us as well." No new details on its $85bln deal to acquire **Time Warner**, which the **DOJ** has sued to block. It's set to go to trial March 19, with Stephenson expressing optimism that AT&T will prevail. For the quarter, AT&T's net income was $19bln, up from $2.4bln a year ago, with revenue of $41.7bln. Revenue in the Entertainment Group came in at $9.4bln, down from $9.6bln in 4Q16. Operating expenses were $11.7bln, down 1.4% from a year ago as cost synergies offset annual content-cost increases, higher

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deferral amortization expense, an extra week of **NFL** Sunday Ticket and new video platform expenses. The group had a net gain of 95K IP broadband subs as DSL losses totaled 76K for total broadband sub growth of 19K.

TNF to Fox: Here's what **Fox's** reported $660mln/year Thursday Night Football deal means for distributors: more retrans leverage. Hat tip to *SBD's John Ourand* for the scoop that a Fox deal was coming. There's some discrepancy in price, with SBD pegging it as $550mln for the 11 games annually. Either way it's up significantly from the reported $450mln being paid collectively by **CBS** and **NBC** for the rights last year. Both broadcasters said they made competitive bids. While some are scratching their heads at the price tag, others argue that it is a needed boost to Fox's primetime schedule. **Standard Media Index** reports that the **NFL** saw a 3% YOY decline in total revenue during in-season TNF games. The ad intelligence firm estimates TNF contributes about 20% of the gross ad spend for in-season games, with paid unit rates for it up 7% in 2017 (makegoods increased by 6% for in-game coverage). As for the impact on retrans, **Evercore ISI** analysts it's possible to make the case that the property could be at least EBITDA-neutral for Fox over the long term. "Rights expense amortization would likely grow at an annual escalator, so annual growth in advertising revenue and retransmission fee escalators would be more or less matched, allowing for stable margins, at a minimum," the analysts wrote. Evercore estimates that every $0.01 increase in the company's per-subscriber retransmission rates translates to a ~$10M step-up in annual broadcast subscription revenues (retrans plus reverse retrans). **Amazon** was the digital rights holder for 2017. The deal gives NFL and Fox expanded digital right, including on mobile, but digital rights are still in play.

ATSC 3.0's Spectrum Co: Well-known communications lawyer *John Hane* was named president of **Spectrum Co**, the ATSC 3.0 spectrum consortium founded by **Sinclair** and **Nexstar** and for which **Univision Local Media** has signed an MOU to join. Not to be confused with **SpectrumCo**, the former cable/**Sprint** jv representing the owners of 137 licenses from the FCC's advanced wireless services auction that concluded in 2006. Hane most recently was a partner at **Pillsbury Winthrop Shaw Pittman**, where he worked on matters related to the development and approval of the NextGen broadcast standard. Part of his mission will be to develop new sources of revenue and other opportunities for the standard, which should allow for on-demand content and other enhanced features. Earlier this month, the three Spectrum Co companies inked a deal with **American Tower** to jointly construct Single Frequency Network sites to broadcast ATSC 3.0 signals within the Dallas DMA.

Ericsson's Strategic Shifts: **Ericsson** announced a partnership with private firm **One Equity Partners** to develop **Media Solutions**, with Ericsson retaining 49% of the company's shares. The deal will also see Ericsson and One Equity Partners developing an independent company in line with its revamped business plan. Media Solutions employees will transfer to the new company upon the deals closing along with specified assets and liabilities. The transaction is expected to close in Q3. Ericcson has decided to retain its ownership of **Red Bee Media**, continuing to develop it as an independent and focused media services business.

State of FNC: **FNC** was the top-rated network in all of television for its coverage of the State of the Union address Tuesday night, according to early **Nielsen** numbers. Averaging 11.5mln in total viewers and 3.3mln in the 25-54 demo for the duration of the address, FNC surpassed broadcast networks in both categories. The coverage marked the highest-rated State of the Union address the cable news history, and beat out FNC's last record of 6.5mln total viewers in 2006. **CNN** delivered 3.1mln total viewers/1.3mln 25-54s for the address (9-10:30pm), with **MSNBC** notched 2.7mln total viewers and 663K 25-54s.

Super Bowl Blackout: With the Super Bowl days away, **DISH** is advising customers who lost **NBC** affil **KTEN** in Sherman of alternative ways to watch the big game. It can be viewed without authentication through NBC's Sports Live Extra apps. KTEN is one of six **Lockwood Broadcasting** stations that went dark last week after the two couldn't agree on new retrans terms. DISH said a broadcaster has never blocked access to the Super Bowl before. Meanwhile, **AT&T** checked the box on one of its outstanding blackouts, reaching a deal Tuesday with **American Spirit**. Seven of the broadcaster's stations have been dark on **DirecTV** and **U-verse** since Sept 21. DirecTV still has a couple outstanding blackouts—**Rapid Broadcasting's** NBC affil in Rapid City, SD, has been dark on its lineup since Dec 31 and **MyNetwork TV's KFVE**, owned by HITV, has been off since Oct 19.

Olympics and Super Bowl Ready: **Hulu's** personalized Winter Olympics experience is now live. When the Games begin, viewers will have the option to select which sports they prefer to watch with the streamer sending personalized streams and clips. -- **Xfinity X1** is introducing new voice commands in conjunction with the Super Bowl. Viewers will be able to access an on demand destination with postseason news and analysis, team comparisons for the Eagles and Patriots and replays on demand. Additionally, halftime show hype will be built with video playlists featuring music from past and present performers, and a tie-in with the X1 Sports app will allow customers to track the action live with real-time stats. Meanwhile, **NBC Sports** is celebrating the Super Bowl and the Olympic Winter Games with "Best Feb Ever" fan activations across the country. From February 1-3 in NYC, LA, Minneapolis and Philadelphia, large-scale mystery boxes with countdown clocks will be displayed. When the timer hits zero each day, a special guest will either host fan activities or an impromptu concert. Fans will have the opportunity to win prizes including tickets and Super Bowl and Olympics merchandise. ***Cablefax*** got our own box, complete with a lock counting down when it can be opened.

Esports Viewership Spike: **Turner** and **IMG's ELEAGUE** broke **Twitch** records with "The ELEAGUE Major: Boston," its second major championship, surpassing the bar set by last year's Major Grand Final. Sunday's Grand Final showing **Cloud9's** win over **FaZe Clan**, the first time an American Team captured a Major Championship, peaked at 1.13mln viewers, an unprecedented number for peak concurrent streams on a single channel. Coverage will move to **TBS** for "ELEAGUE: Road to the Boston Major," an episodic series debuting Feb 9 at 10pm.

For the Children: **PlayKids**, an ad-free online SVOD service designed for young children, is now available to customers through **Comcast's** Xfinity X1 platform. The service's content, including read-along stories and educational games, are designed to foster literacy and promote motor coordination. Customers will be able to access the service by saying "PlayKids" into their voice remote or in the networks section of Xfinity On Demand.

ACA Board Changes: **ACA** named **Service Electric Cablevision** exec *Robert Wieand* as treasurer, while **Armstrong Utilities'** *Shawn Beqaj* and **Cable One's** *Mike Bowker* have been elected as new members of the ACA board. Wieand replaces Armstrong exec *Bryan Cipoletti*, who was recently named pres of **Guardian Protection Services**.

Ratings: **TV One's** "40th Annual NAACP Image Awards" earned a spot as a Top 5 telecast on cable in its premiere time slot among African-Americans households (No 4), AA W25-54 (No 4) and AA total viewers (No 5), marking it as the net's No 4 most watched telecast in the last two years.

People: **Katz Networks** tapped *Bruce Levinson* for the newly-created position of svp, distribution. He will use his 25 years of experience to negotiate agreements for the company's portfolio, including **Bounce**, **Grit**, **Escape** and **Laff**, with multi-channel video providers and new media distributors within the US. He last acted as vp of content distribution for entertainment and news net **TheBlaze**. -- **Pluto TV** named *Mike Drath* to the dual role of COO/CFO and *Jeff Shultz* to CBO. Both have been placed in newly-created roles and will report directly to CEO/co-founder *Tom Ryan*. Drath previously served as CFO/COO for social media company **theAudience** while Shultz has held digital business development roles at **NBC** and **CBS**.

Think about that for a minute...

Of Geese and Ganders

Commentary by Steve Effros

I read an interesting column in the *New York Times* a few weeks ago by Neil Irwin, one of their senior economics writers. He focused on the issues surrounding surge, variable and congestion pricing, and how consumers react to those pricing policies. I recommend you read it, particularly about the concept of "fairness." Broadband service pricing is likely to go in the same direction soon. We need to know how to do it.

We're all familiar these days with different approaches to variable pricing. In some locations when demand starts to peak for electricity during the coldest or hottest days variable "surge" pricing gets triggered. A 4-cent kilowatt-hour of electricity may jump to 10 cents or more. The objective, as Irwin points out, is obvious; producing electricity to satisfy peak demand usually costs a lot more than at normal-load times. The electric companies want to create an incentive for folks to limit their use at high-peak times thus saving everyone money in the long run.

Other examples of surge pricing abound. Many of us, particularly in major cities, are familiar with what happens to Uber prices at rush hour or during a rainstorm. The prices go up to limit demand so that there are sufficient providers of service. The same thing now happens on the superhighway on one of the main roads between my house and downtown Washington DC. During rush hour (now extended to 4 hours from 2 when it used to be HOV2 only) you either have to have a minimum of two people in the car or you have to pay a fee to use the road. That fee is variable. Algorithms are used to adjust the price, and theoretically thus the number of folks willing to pay it and use the road, to assure that the cars using that road can travel at a minimum of 45 miles per hour.

Unfortunately, when the new rules were instituted just a few months ago it wound up that fees for the fifteen-mile trip were peaking at over $40 dollars! Folks are still howling. On other roads around Washington there are "Express Lanes" that are only available for an extra fee. They have been added to the superhighway system, sometimes financed by private companies with very long-term agreements, and once again, the argument is that while these priority lanes cost the user more, they benefit everyone because they siphon some of the traffic off the "regular" lanes and thus those lanes speed up too! A win-win.

Wait a minute. Does something sound familiar in all that? Remember the "information superhighway?" Aren't we going through yet another round of bitter accusations about the "death" of the Internet if broadband is not regulated as a common carrier because without that someone might institute "fast lanes" (paid priority) and thus disadvantage everyone else by necessarily and intentionally dooming them to "slow lanes?"

How is it that the same Attorney Generals in some States can institute and join appeals to try to force broadband "common carrier" status using the "fast lane, slow lane" rationale and at the same time have other State officials in the same State explain that their superhighways will actually benefit all by having paid priority?

I know, I know, I'm asking for integrity, rationality and consistency. After 40 years dealing with these issues I should know better. But I'm still a believer, in most policy issues including explaining information superhighway economics that "...what's good for the goose is good for the gander!"

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.)