

# Cablefax Daily™

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What the Industry Reads First

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## Blurred Lines: OTT Players See Themselves as Distributors' Partners

The OTT guys are knocking and they want to go right through the middle and ride on cable operators' networks. Take **Cheddar's** recently announced **NCTC** deal. Members can carry the channel pretty much however they want for free. "Because we're nobody and we can't ask for anything anyway," Cheddar founder *Jon Steinberg* said during an Independent Show session Tuesday. "However you want to work with us, we're good to go. We're like the anti-conglomerate." NCTC pres/CEO *Rich Fickle* confirmed that there's no requirement to offer the linear net on expanded basic, etc. Where's Cheddar making the cheddar? Branded content, which Steinberg said will hit \$25m in this year. Virtual MVPD **Philo** also sees the benefits of partnering with operators. "The main thing holding services like ours back from being the mass market way people watch TV... is that it's still too hard," said CEO *Andrew McCollum*, describing the process of understanding what the service is, then getting a streaming device and installing an app. "That's the thing the providers in this room are really the best at. I've always been so impressed [that when cable comes out on an install] when they leave, I press the power button and it's on. It has to be that easy." *John Hendricks*, whose SVOD service **CuriosityStream** is making the transition from direct-to-consumer to carriage with distributors such as **Comcast**, **NCTC**, **Cox** and **Sling**, said it's time to abandon the term over-the-top in favor of TTM—through the middle. "A lot of services like Netflix, **Hulu**, **CuriosityStream**—we got started going direct to consumer because they can subscribe to us over the internet. The challenge of that, of course, is promotion," Hendricks said. "Those of us that have a history with cable television have the comfort of being in a bundle with cable operators supporting us so we didn't have to spend enormous sums of money in advertising." He saw a sea change of sorts last fall with operators such as Comcast viewing themselves as an aggregator of OTT content, with the key being that is has to be very compelling content. Hendricks' advice was to look for opportunities to be a solutions provider, suggesting that cable could have offered the solution for how people get content from their computer to the TV instead of **Roku** and **Chromecast**. "You become the best friend of a consumer who is trying to get content any way they can," he said. McCollum, who is working to sign deals with those indie operators, said that more than 1/3 of Philo's customers had no TV service before and that 90% of its college customers want to continue to subscribe after graduating. Steinberg paints Cheddar as the post-cable network, but that doesn't mean it's abandon-

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ing linear. “We love linear because I think news needs to be linear,” he said. “We give you the full VOD thing, but I think you want the linear feed as well.”

**Tensions Build:** It doesn't look like tensions between **Charter** and the **New York PSC** will come to a close anytime soon, with CEO *Tom Rutledge* reaffirming that the company is “in compliance” and has “a very strong legal case and ability to defend ourselves” on Tuesday's 2Q earnings call. “We're operating in 41 state. We have thousands of franchise agreements and, generally, we have good relationships with the communities we serve and live up to our commitments, and we have in New York state,” Rutledge said. “In fact, we're well ahead of our obligations in terms of speed upgrades and in buildout itself.” Charter is also experiencing labor issues in NYC and is concerned that it “will politicize the actions of the PSC,” but is hopeful that an agreement will be reached with the labor union. The union, **IBEW Local 3**, began striking in late March 2017, saying Charter refused to bargain with them in new contract negotiations. Looking beyond the potential legal drama, **MoffettNathanson** commented that the financial results “should go a long way towards putting some of the more hysterical bear arguments to rest.” Charter reported revenues of \$10.9bln, +4.8% compared to 2Q 2017. Adjusted EBITDA was \$4.1bln, growing 5.3% YOY and 6.2% without 2Q mobile costs. Charter also bought back about 6.4mln shares of Charter Class A common stock and Charter Holdings common units for about \$1.9bln. Residential customer relationships grew by 141K, residential PSUs increased by 100K and Charter added 218K residential internet customers. Video customers dropped by 73K compared to 91K last year. Although **Fox** RSNs will be popping onto the market soon, Charter has no interest in getting into the content game. “We like our connectivity business,” Rutledge said. “It doesn't mean that there isn't a possible content business that would be priced right for us, but there's no direct synergy in most cases for us in owning content.”

**Want to Sell or Buy a Cable System?:** A panel at the Indy Show Tuesday tackled the current market for cable systems. The good news? “The view of the market is extremely positive... The reason for that is broadband penetration,” said **Lazard Middle Market** managing director *Garrett Baker*, who works with mid-market size operators. Broker *Pat Thompson* said the market for the small operator has been “really pretty good” the last couple years. A 750Mhz system, even very rural, is likely to pull an 8x or 9x cash flow multiple, while a system below that capacity could go in the 5-7x range depending on the shape of the system, she said. On the large cap side, there's a “panic” to create scale, but they generally aren't looking at middle market systems like they once were because they don't move the needle, Baker said. There's pretty much an overall free in the large cap market as people try to determine what the Trump administration will allow to get through DOJ, he added. “My view of that changes every month,” he said. Thompson said big and mid-size

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ops always going to be the most logical buyers for her clients. “Buyers are usually within 25, 50, 100 miles from a small op. They don’t care if it’s 5000 or 2500 subs. If they can interconnect, they’ll most likely be purchasing.” One active buyer has been **Vast Broadband**, which has an experienced operational team backed by private equity. “I think we are pretty optimistic about the climate, even if there are not a lot of things on the market,” said Vast COO *Larry Eby*. He quipped that Vast often buys “messed up systems,” looking for areas it can approve. “We are looking for upside,” he said. “Is it undercapitalized? A marketing problem or leadership problem? Those are things we feel like we are good at turning around.”

**Q&A with Synacor’s John Kavanaugh:** *With the annual ACA-NCTC Independent Show upon us, Cablefax spoke with Synacor vp, product management, John Kavanaugh on challenges facing smaller operator. An excerpted interview follows.* **How are you working with smaller operators to make sure they’re competitive when media giants are merging and gathering an immense amount of resources?** It boils down to economies of scale. When you add up all the subscribers that we’re helping out across multiple customers, we would make a Comcast or larger-scale enterprise. Any one individual small operator’s not going to build Netflix-level security and user experiences, but when they’re able to leverage a platform and activate that as a tenant in the cloud, it can really leap ahead with the experience and the security they can offer their subscribers. That’s what Synacor tries to bring to any one of our individual customers: the collective resources of dozens and dozens of different operators using the same platform in our data centers. **How are you going about tackling issues surrounding security for smaller operators?** One of the moves that we’ve made together with our Tier II and Tier III customers is helping them consolidate the identity that they give to their subscribers, sawing that down to one identity. Once you get into that diverse of a multiple services business... suddenly one household ends up having five or six different sets of credentials to manage different parts of services coming from the same vendor. That fragmentation and complexity led to a lot of different ways of security getting exploited and, at the same time, opportunities for fraud and opportunities for the customers to have a much poorer experience. **How do you combat password sharing?** The business model is in jeopardy when you have casual theft or casual usage beyond the acceptable terms of service. We have our core NCTC Tier II, Tier III customers and we also have vMVPDs we’ve been working with for years like PlayStation Vue and Sling TV. Some of those vMVPDs have been much more willing to experiment with new technologies and new approaches with us that once we proof it out... it’s just becoming a lower risk idea and a lower risk technology to have adopted with the regular MSOs and MVPDs. One of these approaches was treat the device as something that should be trusted when you can verify the individual who’s always holding the device.

**Media Mania:** Nielsen released its Total Audience Report from Q1 and found that US adults spend 11 hours daily, nearly half a day, connected to linear and digital media and almost six hours a day with just video alone. It also found that two-thirds of US TV households have devices capable of streaming content to the TV set, and nearly 3% of TV homes subscribe to a vMVPD. Young adults 18-34 spend the largest percentage of time with digital devices, at 43%. The report has an enhanced methodology and added new sources and sections looking at virtual and the status of subscription streaming services. It found 15% of homes that subscribe to a vMVPD also subscribe to traditional cable services, 36% are over the air and 49% are broadband only households.

**Throughout the Home:** WOW!’s Whole-Home WiFi solution is now available across its entire footprint. The mesh network solution is the company’s answer to dead spots in the home, using multiple “eero” branded access points to bring reliable, fast internet to every part of the home. The solution was initially rolled out to Columbus, OH, and Pinellas, FL on July 10.

**RCN Upgrades:** RCN announced the availability of its new **TiVo** interface. The platform now offers a voice command remote control, tailored viewing recommendations as well as upgraded speed in content navigation. The service is now available in New York, Boston and parts of Pennsylvania and will be rolled out to Chicago and DC by the end of the summer.

**Coming Soon:** comScore’s looking to tackle cross-platform video ad measurement, launching a pilot program for its Campaign Ratings solution. The beta will come in September, with **ABC, CBS, CNN, Disney, Fox, Freeform, GroupM, NBCU, The CW, Turner** and **Viacom** participating. It promises to give media buyers and sellers unduplicated measurement of ad campaigns across linear TV, OTT, desktop and mobile platforms. Streaming measurement will be powered by Hulu.

**Tee Time:** **PGA Tour** and **NBC Sports Group** announced a partnership beginning in 2019. **NBC Gold** will distribute **PGA Tour Live**, the PGA Tour’s OTT service, as a standalone subscription offering. The partnership includes the rights to all of PGA Tour Live’s Thursday and Friday morning coverage from 28 events.





*Cablefax*

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**Rich Fickle**  
President | NCTC

Great forum to help improve the collaboration in the industry, understanding differences, making it better. It provided me with several great ideas and created new relationships that will be highly valued. The venue and vibe were terrific...

**Jim Gleason**  
CEO | Vast Broadband

The Cablefax Retreat was a great way to hear a wide variety of opinions on industry issues and challenges. I was really impressed with the people who attended as well as the topics of discussion. I definitely had good takeaways from the meeting.

**Dave Shull**  
CEO | The Weather Channels

The Cablefax event was unique — a beautiful, low-key event where I was able to have honest, interesting conversations with peers in the industry. This is a type of event that has been sorely missing in the cable world.

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