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What the Industry Reads First

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Bundle Up: Discovery Encourages More to Enter the Skinny Bundle Business

An announcement that **HGTV** is restoring the “Brady Bunch” home to its 1970s prime wasn’t the only thing worth talking about from **Discovery’s** 2Q earnings call Tuesday. Much of the talk surrounded the company’s direct-to-consumer strategy, especially with the hiring of **Amazon** veteran *Peter Faricy* as the first CEO, global direct-to-consumer. Discovery pres/CEO *David Zaslav* called Faricy a digital native who focuses on what the consumer wants. When it comes to developing a Discovery DTC product in the US, Zaslav says the market is different from any other around the world. “It’s just been driven by the aggressive push of retransmission consent networks and sports, and it kind of bullied the marketplace to carrying onto every platform at very high rates,” Zaslav said, declaring that the consequence has been a drop in subscribers. The good news now, he said, is that customers are saying ‘enough.’ He continually applauded **AT&T Watch**, where Discovery claims 8 of the 30 networks, and AT&T CEO *Randall Stephenson’s* “courageous” choice to launch a “real skinny bundle.” “We’ve seen in other markets, when we can get that kind of share, that we end up with a massive increase in the viewership we get on those platforms and it drives much younger people coming on,” Zaslav said. He wants more distributors to get into the business of skinny bundles and for Discovery to be on every one of them. For now, the company is keeping its optionality open. Beyond DTC, Zaslav had full confidence that Discovery would continue to be the home of networks that viewers couldn’t live without. Now that it’s combined with **Scripps**, Zaslav said Discovery’s share of total TV viewing has grown to become the second largest in the US, just behind **NBCU**. When it comes down to the financials, the numbers weren’t so sweet as the company absorbed the integration costs associated with its \$14.6bln purchase of Scripps in March. Discovery reported 2Q revenues of \$2.845mln, up 1% over last quarter. Pro forma domestic ad revenues and distribution revenues each only saw a +1% boost in the quarter. Shares closed down 5% Tuesday. “We honestly struggle to see a silver lining here,” **Bernstein** analyst *Todd Juenger* said of the earnings. “It looks like the SNI acquisition came just in time, as pro forma growth rates including SNI are higher than legacy DISCA.” **Pivotal** agreed that the results and outlook for the company were slightly worse than previously expected, but did not see it as something terribly significant. “We continue to see the television business as a ‘melting iceberg’ with gently declining ad revenues, slightly increasing distribution revenues and gradually

Cablefax: What's Happening in August

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AUGUST

Fall Programming Guide

The days of broadcast owning the fall premiere season are long gone. Here’s a look at the trends among fall cable programming as well as a breakout of shows debuting on streaming services.

The Gatekeepers

A series of Q&As with MVPD programming and technology gatekeepers.

Happy Birthday, Hip Hop

Hip hop turns 45 this summer. The genre’s role extends way beyond the radio, influencing essentially every aspect of pop culture and becoming a source of self and community empowerment. Cablefax takes a look at how hip hop is celebrated and incorporated into programming—from shows and specials specifically dubbed “hip hop” to the genre’s bleed into other areas, including politics and sports.

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worsening underlying margins,” Pivotal’s *Brian Wieser* said. “Direct-to-consumer activities probably won’t make up for losses through traditional business models as network groups— especially including Discovery—will be less able to persuade consumers to take as many channels as they have previously, while there will be higher costs for marketing and content delivery vs. traditional approaches.”

Disney DTC Coexist?: The launch of **Disney’s** direct-to-consumer service will be the company’s biggest priority in 2019. But that doesn’t mean linear is forgotten. CEO *Bob Iger* predicted in Tuesday’s 3Q earnings call that the streaming services shouldn’t complicate negotiations with MVPDs. “The traditional distributors are very interested in distributing our direct-to-consumer products as they do right now with **Netflix**. We believe they can live side by side as part of negotiation and not necessarily create issues,” he said. “There’s a reality that has set in on the distribution side of the business that the business is changing, that consumer habits have changed and that the over-the-top, SVOD product is here to stay... and is probably either going to compete with the more traditional platforms or complement more traditional platforms.” Iger stressed that Disney has no interest in being a content aggregator, however, he noted that if consumers want to take the upcoming Disney DTC service along with **ESPN+** and **Hulu** (which Disney will own 60% of post **Fox**), there could be a discount. The CEO said ESPN+, which debuted in April, has exceeded expectations in terms of converting free subs to paid, though he offered no numbers. **BAMTech** recorded an operating loss in the quarter that reflects higher content and marketing costs and ongoing investments in the technology platform, including costs associated with ESPN+. On the \$71bn Fox acquisition, Iger revealed that conversations are already underway for the Fox RSNs that Disney agreed to sell to gain **DOJ** approval. Iger spoke highly of **FX’s** “renowned” programming, pledging to provide more resources to supports its existing business and the FX brand. He also called it a “critical supplier” for the DTC platforms. **Nat Geo** also got a shout out, with Disney’s goal to support its expansion around the world. In addition to DTC content, Iger said opportunities with Nat Geo include the ecotourism space. Disney 3Q revenues rose 7% to \$15.2bn, missing analyst estimates of \$15.34bn. Free cash flow declined 25% to \$2.4bn. Cable networks were down 5% in operating income (\$1.4bn), with rev up 2% to \$4.2bn. Lower operating income was due to a loss at **BAMTech** and a decrease at **Freeform**, partially offset by an increase at ESPN due to affiliate revenue growth and the comparison to severance and contract termination costs incurred in the prior-year quarter.

No Do-Overs: **AT&T** does not expect the **DOJ** to succeed in its appeal of the company’s \$85bn purchase of **Time Warner**. “This isn’t a chance for a do-over, it just doesn’t work that way,” said AT&T CFO *John Stephens* at the **Oppenheimer Technology, Internet & Communications Conference** Tuesday. The government is appealing the merger

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because it claims the judge ignored “mainstream economics” in his decision. Stephens disagrees, stating “We feel very comfortable that the judge did a very detailed, thorough review. And from that perspective we feel very good about where we stand and we’re expecting to continue to move on in the current state with the deal closed.” Time Warner has been a successful investment for AT&T. **HBO’s** revenues went up 13% this quarter, Turner’s up 4%, and Warner up 11%. “It’s the quality asset that we thought it was when we looked at it, it’s the quality management team that we thought, so we’re really encouraged. We look forward to a good rest of the year,” Stephens said. -- In other news, AT&T acquired **The Chernin Group’s** controlling interest in **Otter Media**, a joint venture between the two companies. A subscription and content company, Otter Media is comprised of **Ellation**, an online video service provider, with offerings under the **Crunchyroll** and **VRV** brands. It also includes digital media company **Fullscreen** and the **Rooster Teeth** brand and has ownership stakes in content studio **Gunpowder & Sky** and media company **Hello Sunshine**. Otter Media will be part of the **WarnerMedia** Unit while Otter CEO *Tony Goncalves* will continue running the operation.

A Billion for NewTV: There’s just not enough streaming TV options out there apparently, hence the launch of **NewTV** from former *Disney Studios* chmn *Jeffrey Katzenberg* and ex **Hewlett-Packard** CEO *Meg Whitman*. The mobile video startup, expected to launch late next year, has the backing of all eight major Hollywood studios. It’s a bit different in that it is short-form content with a subscription fee. What makes them think people will pony up for the service? “There’s many use cases in the past exemplify why when you come along with something that is exceptional and convenient and premium, people will migrate to it,” Katzenberg said in an interview with **CNBC**. He pointed to **HBO** along with **Spotify** and **Apple’s** music services. In addition to the content being differentiated, the tech platform will be optimized, the execs promised. NewTV has raised \$1bln in funding, with technology investors **Alibaba** and **Google** joining studios **Disney, Fox, Lionsgate, MGM, NBCU, Sony, Viacom** and **Warner Media**. Other investors include **JP Morgan, Liberty Global, Madrone Capital** (the largest investor), **eOne** and **ITV**.

CableLabs Summer Conference: **CableLabs’** penultimate Summer Conference is underway this week in Keystone, CO. Next year’s conference in Keystone will be the final summer gathering with an expanded event planned for June 2020 in Denver. CableLabs used the event to announce three connectivity startups for its **UpRamp** Fiterator accelerator program—public edge cloud firm **Mutable**, security authenticator **Averon** and **Blitzz**, which has an AI-powered platform for field techs.

Advertising On the Road: **Spectrum Reach** is really reaching out—with **Charter’s** advertising arm launching a truck tour that will visit 24 of its markets. Dubbed “Driven By Data,” the tour kicks off next week in Greenville, SC, and ends in November in Bakersfield, CA. The truck is decked out with interactive screens, product emulator/demos, VR, and WiFi as the crew courts clients with info on audience targeting and more.

Sinclair in the Game: **Sinclair** announced it is launching an OTT platform focused exclusively on advertising. **Com-pulseOTT** will offer advertisers commercials in 15 and 30 second lengths on OTT distribution platforms, including **Roku, AppleTV**, gaming consoles, SmartTV’s and streaming sticks. It has over 2,000 individual segments to be used in granular targeting.

Swinging Slingers: **Sling TV** launched a campaign “Slinging with Dr Ruth,” featuring a well-known “sexpert” *Dr Ruth Westheimer*. The relationship expert’s first three spots of the campaign launched Tuesday across broadcast and digital, and are titled “Positions,” “Don’t Fake It” and “Seven Night Stand.” In the 15 and 30 second spots, Westheimer made sexual puns about streaming to advertise the service. The “We Are Slingers” campaign first launched in March 2018 and focused on cutting cords on traditional cable.

Ratings: **MLB Network** saw its best 7-day stretch during the regular season in three years. The network’s telecast of the Milwaukee Brewers at LA Dodgers averaged 413K viewers and was MLB’s most-watched late-night game in history. MLB Network’s Showcase telecasts saw a 12% increase in viewers compared to 2017.

Programming: **Showtime** announced a three-part documentary series “Shut Up and Dribble,” to be produced by *LeBron James* and *Maverick Carter*. The show’s name comes from conservative pundit *Laura Ingraham’s* insults to James in February after players from the Golden State Warriors declined an invitation to the White House. The net also ordered a four-part doc series titled “Enemies: The President, Justice & the FBI” examining the clashes between American presidents and the FBI. Showtime announced a 14-ep order for Season 9 of “Shameless,” and the eighth and final season of “Homeland.” -- **E!** greenlit Season 4 of “Total Bellas” after the previous season finished at its highest rated to date in all key demographics. -- **Outside TV’s** online SVOD offering boasts distribution gains by adding top providers such as **Com-cast’s Xfinity X1, DISH** and **Sling TV** this summer.