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Necessary Evil: AT&T Reports Major Sub Losses After Price Increases

AT&T's optimism for its fiber buildout, 5G rollout and the introduction of **WarnerMedia's** streaming service coming in 2019 wasn't enough to stop stocks from dropping more than four points amidst huge subscriber losses in its entertainment group. AT&T reported a loss of 267K subs at streaming service **DirecTV Now**, far beyond the consensus of a 19K loss. AT&T guided for losses in the quarter as a price increase in July led to a major slowdown in subscriber adds (63K in 3Q18 versus 325K in 2Q18). OTT wasn't the only area hurting, with **DirecTV** losing 403K subs. **U-verse** actually stood out as the success in the group, showing a 12K boost in subs. Both linear and OTT were affected by AT&T rolling back its promotional pricing offers, but the significant losses aren't going to trigger a switch in strategy. "We're not going to be terribly promotional to try to drive growth in this except where we have a good strong broadband footprint, particularly a fiber footprint," AT&T CEO/pres/chmn *Randall Stephenson* said, adding that the lion's share of that fiber buildout will be complete by midyear. Stephenson isn't focused on growing subscriber bases, instead putting energy towards building profitability through fiber. He called it an element to how AT&T will achieve one of its biggest promises to investors: getting the entertainment group to a flat EBITDA in 2019. In 4Q18, EBITDA decreased 15.6% YoY, showing some improvement over 3Q18's 17% drop. Still, with AT&T issuing guidance of a $1bln hit to EBITDA from the accumulated subscriber losses, the climb to stability has only become that much steeper. Both Stephenson and CFO *John Stephens* emphasized that the churn was a necessary evil when it comes to getting AT&T's products to market value. **MoffettNathanson** summed up the entertainment group's story as "a push-pull between accelerating subscriber losses on the one hand, and higher and higher prices on the other." While the company's financials are okay in the short-term, **Newstreet** remains cautious of the company's plans both for the entertainment group and AT&T as a whole. **Evercore** echoed the sentiment, saying it doesn't "see anything in the results that is likely to assuage investor concerns about the company's Entertainment segment." The mobility business proved as something of a bright spot, with adjusted EBITDA beating expectations by growing at 19.4% YoY. It failed to meet sub expectations, reporting post-paid phone net additions of 134K. There's still work to do in reducing churn in the segment as well, with total post-paid churn at 1.24%. AT&T closed down Wednesday 4.3% to $29.37.

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Full House for FCC: January's **FCC** meeting included no action items, but it did provide the first glimpse of new commissioner *Geoffrey Starks*. The Democrat was sworn in moments before the meeting, which lasted about 20 minutes. The agency had to move agenda items to next month because the government shutdown interfered with the process for preparing and voting. "I have to say first off that given the agenda we have today, I have a broad bipartisan voting record," Starks joked during the gathering. He joined the other commissioners Wednesday on **Twitter**, launching his own account. With no business conducted, commissioners used the meeting to praise FCC staffers, many of whom worked during the shutdown. "Working here is not just a job. It's a public service," chmn *Ajit Pai* said, detailing how public safety personnel helped to address 176 events where law enforcement and national security needed radio frequency-related support during the shutdown. The **Enforcement Bureau's** field office worked "with skeleton crews to investigate multiple spectrum interference complaints" from the **FAA**. And of course, there was the team that concluded the FCC's first mmWave spectrum auction and have been preparing for the 24Ghz auction. Pai also called out staffers by name who worked all weekend to make sure furloughed FCC employees will receive a paycheck by the end of this week. Democratic commish *Jessica Rosenworcel's* thank-yous included the contractual food services and janitorial staff, for whom she said there is no back pay. Calling the shutdown "unfortunate and reckless," she said the agency is "still digging out from the effort to identify what deadlines were missed, what issues fell by the wayside and what complaints and inquiries went unanswered." In a press briefing, Rosenworcel said she's been told there's an investigation into the issue of wireless carriers providing customer geolocation data to third parties, but that the Enforcement Bureau hasn't provided her with the letter of inquiry that starts an investigation. She fielded a question on letters sent last year to **Comcast**, **Verizon** and others asking them to adopt a system to prevent illegal robocalls. "We're combing through those letters right now. We've got a variety of different responses," she said, adding the agency has made the replies public. "We are open to good ideas going forward."

Stream City: More streamers are joining the rat race every day, but that's not discouraging **AT&T** ahead of the launch of its **WarnerMedia** streaming service. "We don't think there's going to be a proliferation of these that will succeed over time, but those who have very strong IP, deep libraries of IP, are the ones that we think are going to succeed over time," AT&T CEO/pres/chmn *Randall Stephenson* said on the company's 4Q18 earnings call. He provided more detail on the upcoming OTT offering, calling it a two-sided model with a heavy subscription service as well as some ad-supported elements supported by **Xandr**, AT&T's advertising business. WarnerMedia won't be opposed to licensing out its content, but when it does, it'll be on a non-exclusive basis so the company can host it on its platform as well.

State by State: If you live in Idaho, there's a 72% chance you've already cut the cord. But if you're in New Jersey, you likely still have cable, according to research from consulting firm **Waterstone** analyzing state-level data regarding cord-cutting. Idaho topped the list, followed by Kentucky (70% cut), Tennessee, Wisconsin, Nevada and Arizona all with 68% of respondents canceling cable. New Jersey bottomed out the list, with 36% of respondents cutting the cord. Mississippi saw 47%, and Connecticut, Hawaii and Pennsylvania all hit 49% (there is no data available for Alaska, Wyoming, Louisiana, Montana, North Dakota, Vermont and Rhode Island). Overall, survey results of 5K Americans found 59% have cut the cord and 29% are thinking about it.

FreeWheel Ads: **FreeWheel** and **NBCU** completed the first stage of a technology unification initiative to extend FreeWheel's ad decisioning capabilities to traditional TV inventory. Now, NBCU's digital and linear ad delivery systems are connected, laying the foundation for NBCU to more effectively sell and execute inventory across all screens. The companies will roll out the capability across all their channels throughout 2019. They are also working on enabling delivery based on additional criteria chosen by the advertiser, following trends of more audience-based, results-driven advertising. The next stage will include the ability to optimize campaigns in-flight across linear and digital.

Year of the AVOD: AVOD service **Tubi** had plenty to celebrate Wednesday, revealing its customers watched 4.3 times the amount of content in the past year compared to 2017. December alone saw Tubi viewers streaming nearly as much as they had in all of 2017. The success wasn't all in viewing, with ad revenue rising over 180% in 2018 with 4Q bringing in totals greater than all of 2017 combined. The company was profitable in 4Q18 as well, and those profits will be reinvested into additional content acquisitions in 2019. Those funds will be added to the $25mln growth capital facility Tubi closed with **Silicon Valley Bank** to grow its content portfolio and marketing initiatives. Speaking of next year, Tubi announced plans to launch in additional territories beyond the US and Canada with the first expected to be revealed in 1Q19. **Viacom**, which is paying $340mln to acquire AVOD **Pluto TV**, had reportedly kicked the tires on Tubi.

ESPN Playing Ball: **ESPN** is negotiating with **MLB** for an extension to keep its rights to live games, *Forbes* reports. The programmer's current deal runs from 2014-2021 and carries a widely reported $5.6bln price tag.

The Doctor is In: **Airties** plans to acquire **Technicolor's** in-home WiFi management software business along with approximately 30 employees. Technicolor's Wireless Doctor software will live alongside and complement AirTies Remote Manager cloud-based optimization suite. The Wireless Doctor team will remain based in Belgium when the deal closes. Along with the acquisition plans, AirTies revealed it will open a new product innovation and operations office in Paris. Following the closing of the deal, the pair plans to partner across tech and sales to offer smart WiFi solutions to service providers around the globe. Financial terms were not disclosed.

Press Clippings: What does **Comcast** have to do with an indictment against Philly union boss *Johnny Dougherty* and City Councilman *Bobby Henon*? The company plays a small part in a much bigger corruption probe that resulted in a 116-count indictment Wednesday. Henon reportedly used his office to pressure Comcast and others in Philly to use union labor. "We have cooperated fully in the government's investigation and will continue to cooperate as needed. The **US Attorney's Office** has informed us that our only involvement in the case is as a fact witness. We can't comment further, so any other questions should be directed to the US Attorney's Office," a Comcast spokesperson said.

Charter NY Beat: New York continues to be a hot potato for **Charter**. Freshman congressman *Anthony Brindisi* (D-NY) wants the **FCC** to hold Charter accountable for ensuring Upstate New Yorkers have access to affordable broadband. In a letter this week, he asked chmn *Ajit Pai* how the agency intends to monitor and enforce a 2016 **Time Warner Cable** merger requirement that Charter expand broadband to 2mln new customers. He also wanted to know if the FCC would commit to immediately revoking agency approval of the merger if the MSO doesn't meet the merger conditions by the 2021 deadline. "Since that merger, and the transition from Time Warner to Charter/Spectrum hundreds of my constituents have contacted me to share stories of exorbitant rate increases. Some people who were paying just over $100 a month for cable and internet service were paying about $200 a month for the same service just two years later. For working families and seniors living on a fixed income, these rate increases are unacceptable," Brindisi wrote. Last month, the **NY Attorney General's Office** announced a $174mln settlement with Charter related to claims over internet speeds that date back to TWC. In July, the **NY PSC** revoked its approval of the Time Warner Cable merger, claiming Charter has failed to meet buildout requirements. Charter, which disagrees with the PSC, has received several extensions to request a rehearing and file a plan to exit the state, with the company just this week saying it may seek additional time.

Dark Out: **Hargray**, a regional communications provider and metro-fiber over-builder, is acquiring **Dark Fiber Systems**, a dark fiber provider in Jacksonville, FL. The news comes on the heels of Hargray's acquisition of **USA Communication's** Alabama assets and several colocation facilities.

Think about that for a minute...

Read This Book

Commentary by Steve Effros

It's obviously very difficult these days to steer a course that doesn't veer at some point into the overheated political lane of conversation. That goes doubly for someone like me who not only writes a column primarily focused on the intersection between policy and technology, but, as you might guess, has pretty strong views about what's going on these days in "my town" of Washington, DC! I think it's tragic.

But in the context of this column, I primarily just try to look at what makes sense. For instance, I don't care if you consider it "liberal" or "conservative" to favor something like "a la carte" programming. I could, and did tell you it was going to wind up being more expensive for consumers despite the fact that the "liberal" consumer groups promoted it and the anti-regulation "conservatives" preferred to let the marketplace control. At least, I might note, until things like the unfettered "retransmission consent" marketplace got out of control, then the "conservatives" became "liberals" and wanted government intervention! I've taken shots at both the Bush/Kevin Martin administration and certainly the Obama/Wheeler FCC as well.

So labels aren't terribly helpful. The troubling point here is that uninformed political action usually fails to consider inevitable "unintended consequences" until it's too late. That's the challenge for serious policy wonks; figure that stuff out before too much damage is done! That's what a lot of long-time government policy folks try to do every day, and that's why they are so vital. We found that out this past month when many were needlessly barred from work. Suddenly the career government worker had a spotlight shined on him or her and we all found out how important they really are.

In that context, and I stress the context, I strongly recommend you go out and get a short, well written book entitled "The Fifth Risk" by Michael Lewis. He's a reporter. You may know the name since he also wrote the book that became a movie; "The Big Short." He takes complex things like the stock market or government "deep states" and makes them understandable. He certainly did so in this tome. But the most important parts of the book are the stories that illustrate why long term thinking, planning, and consistent, well documented expertise is critical.

Spoiler alert! And this is why I started this column by alluding to the current political miasma; Lewis writes about all this with the journalistic "hook" of exploring the effectiveness of the organized, or in this case disorganized "transition" from the Obama to the Trump administration. It's not pretty. I don't recommend this book because it's "pro" or "anti" Trump. I think you should read it for the focus on the importance of consistent, long-term, informed, critical management of all the complex policies and issues we deal with in our business.

I sincerely hope that anyone reading this book, especially those who favored a change in the way things were "always" done, appreciates the underlying message that Lewis delivers; we make a big mistake if we reject planning, consistency and expertise. We can have policy and regulatory differences, and we certainly always do in the business of telecommunications. But intentionally, or unintentionally depleting our business or government human resource of long-term planning and expertise is a very dangerous approach, regardless of what "side" you are on.

Read this book. It will give you a much better understanding of all those "pointy headed bureaucrats" that folks love to deride. We need them.

Steve

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