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Long Gone: DISH Programming Disputes Haunt 4Q18

DISH stocks fell more than seven points Wednesday with the release of disappointing 4Q18 earnings numbers on the heels of its continued blackouts with **HBO** and **Univision**. The company reported net income from DISH Network at $337mln for the quarter compared to $1.39bln in 4Q17, which included a $1.2bln tax benefit. DISH pres/CEO *Erik Carlson* predicted that the programming disputes accounted for approximately half of the 334K drop in net pay TV subs in 4Q (compared to net additions of 39K YOY). DISH closed the quarter with 12.32mln pay TV subs, 9.9mln from DISH TV and 2.42mln from Sling TV. The blackouts also have taken a toll on churn in its traditional satellite TV segment. The number spiked to 2.07%, surpassing the consensus of 1.81% and far above the 1.56% reported a year ago. Management addressed the disputes at the top of DISH's earnings call, saying there has been no meaningful movement in negotiations with HBO. "HBO is demanding a contract that would have forced DISH customers to subsidize both HBO and **Cinemax** even if customers chose not to subscribe to those services," Carlson said. DISH chmn *Charlie Ergen* echoed Carlson, blaming the **AT&T-Time Warner** deal for the lack of progress in reaching a deal. "HBO was acquired by AT&T and AT&T has taken a very anti-competitive approach to carriage because they view DISH potentially as one of their larger competitors," he said. "They've made a decision not to engage in any kind of conversation that any company would realistically take." While both assume DISH will see additional sub losses around the April premiere of HBO mega-hit "Game of Thrones," they're expecting to see the majority of customers maintain their DISH subscriptions while finding alternative ways to watch the battle for the Iron Throne. On the Univision front, relations remain friendly between DISH and Univision management, but Ergen said the DISH customers that loved Univision the most had already left or found alternative means of viewing the content. So although Univision is trying, the surviving DISH customer base "makes it hard to put Humpty Dumpty back together again," according to Ergen. Despite the bleak outlook, management made clear that their ongoing programming battles are "not an excuse to continue to lose subs." Ergen said losing Univision channels would allow DISH to charge anywhere from $10-$15 less for DISH Latino while also providing customers with antennas to access Univision's OTA signal. Sure, DISH will do what it can to keep customers happy, but it certainly raises red flags as the company faces another round of negotiations in 2019. "Customers are being taught to expect that programming will go

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away from time to time… and that it may not come back," **MoffettNathanson** wrote in a research note. Sling TV offered one of the few positive notes in the quarter, posting subscriber additions of 47K. With its focus on retaining subscribers, DISH can't forget that it needs to continue spending on its planned narrowband IoT network to complete the first step in building a 5G-capable network by the **FCC's** March 2020 buildout requirement. **Pivotal** identified this as a major area of opportunity for DISH, especially should the **Sprint/T-Mobile** deal not be approved by regulators. "If the deal is not approved by regulators we believe that DISH shares would VERY attractive at current levels given the reasonable odds of a TMUS vs VZ play for DISH (and their spectrum)," Pivotal wrote in a research note.

Democratic Challenge: Debate around the proposed $26bln **Sprint/T-Mobile** merger continued Wednesday at the **House Commerce** hearing, where T-Mobile CEO *John Legere* faced a grilling from Dems on the company's promises not to raise prices, hurt competition or eliminate jobs should the deal be approved. Chmn *Rep Frank Pallone* (D-NJ) questioned if the merger would hurt consumers who rely on pre-paid plans, typically minorities and low-income consumers, echoing concerns from several lawmakers. *Rep Darren Soto* (D-FL) questioned if Sprint chmn *Marcelo Claure* and Legere could commit in writing to these promises, to which Legere responded "I'll make those commitments in any fashion that's necessary." Concerns continued to swirl around 5G implementation and potential job losses stemming from a merger. Legere and Claure remained adamant that the merger is necessary in order for Sprint and T-Mobile to effectively compete with **AT&T** and **Verizon** in 5G, and that the merger would in fact accelerate deployment. "My goal has been not just to differentiate myself, but to force AT&T and Verizon to change so the wireless industry would adapt," Legere said. "The goal here is to supercharge that uncarrier and to force them to invest more in 5G." However, not everyone is convinced. **Rural Wireless Association's** general counsel *Carri Bennet* has little faith in T-Mobile's promises. "This merger is bad for consumers, especially in rural areas. T-Mobile has a poor track record in rural America," she said. "We have no reason to believe that this will change if the merger is improved. In fact, we think it will get a lot worse." Legere attempted to ease Bennet's concerns, saying that he himself spends a significant amount of time in rural America. Worries over how the merger would affect competition were also heavily present, as the merger would reduce the number of major players in the marketplace to three. Legere pointed to the majority control from AT&T and Verizon. "The wireless industry is a duopoly controlled by AT&T and Verizon. After the merger they will still have almost 70% market share," he continued. "You will see users have an 87% decrease in the price per gig of data. We expect to take that competition also to the cable industry, which is not only a duopoly, it's a monopoly. We plan on entering that market."

Sinclair's a Cubs Fan: **Sinclair's** interest in RSNs has hardly been a secret and it's been assumed for months that it would work with the **Chicago Cubs** on the team's upcoming network. It's now official with the broadcaster forming a jv with the Major Leaguer to own and operate **Marquee Sports Network**, which will launch for the 2020 baseball season. The net will have live games, behind-the-scenes content and other local sports programming. It's an interesting pairing…. The **Dodgers** net in L.A. has shown that even popular teams can't count on carriage. **Charter** remains the only major MVPD to carry **SportsNet LA**. On the flipside, look at all the carriage **Tennis Channel** has picked up since Sinclair acquired it. It's up to 61mln+ homes, adding 5mln in December alone. Retrans leverage could be what makes Marquee a marquee RSN. We're not sure when Sinclair will be throwing out the first pitch, but with **ACA** and **NCTC's Independent Show** being held in Chi-town this July, it feels like a golden opportunity… Sinclair did have a presence at last year's show, with gen counsel *Barry Faber* working the booth and interacting with small and mid-size operator attendees.

Impressive Ads: **Canoe** saw an impressive 2018, servicing over 26bln ad impressions into VOD content throughout the year, up from 23.3bln in 2017. Of the MVPD VOD platforms, 81% coming from ad impressions on traditional QAM set-top boxes. The service also saw that 68% of the time during an episode, consumers saw the same campaign ad one time. Of the impressions, 82% came from external campaigns and 18% from internal campaigns.

Infrastructure Speak: In the wake of President *Trump's* State of the Union call for Congress to pass an infrastructure bill, **Senate Commerce** heard from trucking, railroad and port authorities Wednesday as well as **ACA** pres/CEO *Matt Polka*, who was carrying the telecommunications infrastructure flag. He said access to rights-of-way owned by the government is a barrier to broadband deployment for ACA members, and that private entities can also limit access to rights-of-way. Polka specifically called out "unreasonably high fees" often charged by railroads to install fiber over or under rights-of-ways. He pushed for better broadband mapping that would show specifically which homes are served and which aren't. "We're getting ready to spend a ton of money on these reverse auctions, and it seems to be we don't have the correct information," chmn *Roger Wicker* (R-MS) said, encouraging Polka to send info that could help with any legislative remedy. This week, **NTIA** revealed it is collaborating with eight states—California, Maine, Massachusetts, Minnesota, North Carolina, Tennessee, Utah, and West Virginia—to broaden and update the national broadband availability map. NTIA expects to seek participation from additional states, territories and federally recognized tribes that have broadband programs or related data-collection efforts.

Robocall Remedy: **FCC** *Ajit Pai* repeated his call for carriers to get on board with a robocall preventative measure known as real caller ID authentication, saying that he believes major carriers can meet his 2019 goal of implementing the SHAKEN/STIR framework. "While some carriers committed to rollout these services in the coming months, others hedged, citing concerns that other carriers appear to have already addressed," the FCC said in a release Wednesday. **Comcast** expected to have implemented the capability to sign calls originating from its residential voice customers for its entire residential subscriber base by the end of December 2018. By the end of March 2019, absent any unexpected difficulties, Comcast expects to have implemented the capability to verify calls that contain a SHAKEN/STIR-compliant signature for its entire residential subscriber base. **Charter** told the FCC it views the framework as a priority and began deployment activities in 2018 that will continue, with it expecting to begin signing calls on its network this year. Charter does say there are some issues that need to be addressed—short and long term cost clarity, standards around call forwarding, the need for vendors to define and modify SHAKEN/STIR implementations. **Cox** is transitioning its residential customer base to a new IP Multimedia Subsystem (IMS) platform which will include the capability for deployment of the SHAKEN/STIR solution. The customer base will substantially be migrated throughout 2019, Cox said. **Verizon** expects a "large portion, and possibly a substantial majority," of the voice minutes customers send and receive to be signed this year. **AT&T's** goal of 3Q19 is based on preliminary discussions that took place in November, with the carrier warning that "the aggressive timetable" being considered could encounter delays. AT&T also cautioned against the industry releasing the call/signature displays too early and running the risk of consumers viewing them as inaccurate if a large number of legitimate calls aren't signed.

Ratings: It's not always Christmas at **Hallmark Channel**. With its dash of romance, Valentine's Day is pretty high on the net's calendar as well. Original movie premiere "Valentine in the Vineyard" during its "Countdown to Valentine's Day" averaged a 2.7 household (HH) rating, 2.7mln total viewers and 396K women 25-54. During the two-week event, Hallmark was the highest-rated and most-watched cable network during weekend prime among HH and total viewers.

NAACP: **Netflix** and **HBO** lead the **NAACP** Image nominations, with 22 and 20, respectively, in TV categories. **ABC** followed with 18 nods. The awards will air live on **TV One** March 30.

People: **A+E Networks** promoted *Christian Murphy* to head of enthusiast brands. In the newly created role, he will oversee programming and strategy focusing on creating branded destinations and audiences in enthusiast genres.

Think about that for a minute...

No Surprises

Commentary by Steve Effros

The surprise news came in a blog post last week. Google Fiber has had second thoughts and is pulling out of one of its 12 major builds. Ooops. Sorry. Bye. The City of Louisville, KY is not terribly happy about the whole thing, especially since the town fathers and mothers have already spent hundreds of thousands of taxpayer dollars supporting and propping up the presumed wondrous "Gig" fiber build that Google promoted.

They started building it two years ago, and the PR was similar to what we have seen around the country. For some reason magical economic booms are said to follow the installation of "Gig Fiber." That this has rarely if ever happened, and that in most cases cities have already had broadband delivery at comparable speeds and prices doesn't seem to dull the golden glow that Google had when it swept into towns.

In this case there were already two competitive broadband providers, AT&T and Spectrum. To be sure they accelerated their upgrades when a third provider showed up, but as things turned out, the pricing of service was roughly the same whether Google Fiber was there or not. As we well know, most folks simply don't need "Gig" service. That's just a PR come-on in many cases. The same is true of "symmetrical" service. What, exactly, are folks legally sending from their home that would require such capacity? Anyway, for two years Google got away with the sham.

What they didn't get away with was trying to save lots of money by doing their installations with "micro" cuts in the streets, some as shallow as two inches deep, and "repairing" the streets not by restoring the surface, but by filling in the cut with a rubber-like material. Turns out that didn't work too well. Fiber is popping up out of the micro-cuts, the sealant can't handle very cold or very hot weather, which, with climate change, is happening more and more these days. In other words, Google's effort to be able to make a financial success of its Louisville build was doomed to failure. So they just bailed. They sent out a blog post announcing that they were going to turn off the service in two months. Good luck to everyone in town, and thanks, they said, for helping us learn what not to do in the other towns we work with! Made all the folks in Louisville feel warm and fuzzy.

Of course the cable industry has been saying for a long time that folks who just jump into this business, like Google or most "municipal builds" had better be very careful, because this is a much more difficult infrastructure to build and maintain than most others. It's also expensive. The cost of the service is directly related to that reality, and as Google or the local electric or phone utility finally jumps in and recognizes reality, the pricing, which they had promised would be much cheaper than the "gouging" local cable operator somehow starts moving up to try to recover reasonable costs and profits.

As John Malone suggested after hearing that a major phone company was taking over a cable build, "...eventually the red ink starts seeping under the boardroom door." That may not have been the precise quote, but you get the idea, and now so have Google and Louisville. The best advice for us is to keep the lines of communication open with both officials and customers and always let them know what's going on and why. No surprises.

Steve

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