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Rough Start: AT&T Struggles with Sub Loss, Still Confident in SVOD

AT&T didn't quite kick off 2019 with the bang it wanted. It lost 544K subscribers between **DirecTV** and **U-verse** in 1Q, leaving it with 22.4mln premium TV subs. Another 83K dropped **DirecTV Now**, giving the service 1.5mln remaining subs. The losses came as part of a 1-2 punch, with AT&T continuing its initiative to get customers off of promotional pricing plans while also restructuring its DirecTV Now plans and raising the prices for all current subs by $10/month. AT&T CEO/pres *Randall Stephenson* said on the company's earnings call that he expects losses at DirecTV Now to moderate in 2Q, but traditional DirecTV will continue to bleed through the end of the year. To fight that, he said AT&T would be attempting to lower churn at DirecTV in the second half by introducing a thin client, giving it an opportunity to get in at a better price point. It'll also be pushing some of its customers to migrate to DirecTV following **NFL Network** being taken down from U-verse. Stephenson said the decision was made to save content costs, especially with certain games and the NFL Draft being available on other offered networks. With NFL Sunday Ticket rights up at the end of the season, Stephenson expressed confidence that DirecTV will continue to maintain its exclusivity. We can't talk about AT&T without mentioning the upcoming **WarnerMedia** SVOD. Like most others, Stephenson watched closely as **Disney** unveiled its streaming plans to the world this month. But instead of shaking in his boots at the new threat, he was impressed and saw the market's reaction as proof that a streamer built on a powerful content library would be viable in the DTC space. "Think about the **HBO** brand. Consider the **Warner Bros** library," Stephenson said. "We're quite optimistic that we have something from both a magnitude, breadth, depth of content and new and original creation capabilities that we can bring to market and have significant customer uptake." WarnerMedia is planning a reveal event of its own in September or October where the content lineup and ever-important pricing details will be announced. There's a lot riding on the event, as the overall picture painted by the Entertainment Group isn't looking that pretty for analysts as WarnerMedia moves ever closer to its SVOD launch. "Top-line growth may slow further as content is held back for the company's DTC launch, and it's unclear if AT&T is willing to stomach the kind of content investments that competitors are making for their own DTC businesses," **NewStreet** said in a research note. And in regards to AT&T's guidance that it would achieve flat EBITDA and stable subs by the end of the year, **MoffettNathanson** is finding it dif-

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ficult to see AT&T achieving its sub goals. "The story of the Entertainment Group is precisely what we expected it to be; a Rorschach test of higher and higher prices fueling temporarily better margins… but horrific subscriber losses," analysts wrote. HBO, the holy grail on which the upcoming service is centered upon, continued to be affected by its now 6-month carriage dispute with **DISH**. Revenues fell to $1.5bln, but management would rather have everyone looking ahead to next quarter. Those results would include activity surrounding the record-breaking premiere of the final season of "Game of Thrones." More than 17mln people tuned in on April 14, and CFO *John Stephens* said the company added more HBO Now subscribers in the week before than in any other week in the service's history. **Turner's** ad revenue dropped 6% in the first quarter due to the shift of **NCAA** Final Four games with **CBS**. Turner's revenue remained stable, only dropping 0.4% to $3.4bln. AT&T stock was down four points at the close of the market Wednesday.

Dropping Debt: **WarnerMedia** said goodbye to another of its nonessential assets Tuesday, selling its space at 30 Hudson Yards for $2.2bln. No moving boxes needed as it'll lease back the space. The deal, expected to close in late 2Q19, comes just one week after **AT&T** sold its minority stake in **Hulu** back to the streamer for $1.43bln. The funds from both deals will help AT&T pay down the $40bln in debt it took on to acquire **Time Warner**. AT&T said during its 1Q19 earnings call that it expects to pay off 75% of that debt by the end of the year. Achieving that goal would bring the company's total debt to approximately $150bln, down from $169bln at the end of the first quarter.

Latman Rising: **Discovery** vet *Jane Latman* was selected as the new president of **HGTV**, replacing *Allison Page* who was recently named president of the company's unnamed jv with *Chip* and *Joanna Gaines*. She'll report to Chief Lifestyle Brands Officer *Kathleen Finch*, overseeing all programming, development and overall strategy and operations for HGTV. The promotion leaves an opening (openings?) for her tandem roles as gm of **Travel Channel**, evp, development and research for **Investigation Discovery** and **American Heroes Channel**, and gm of **Destination America**. It's only been a year since Latman took on the role as gm of Travel, which posted its best year ever in 2018 among 25-54s, P2+ and households in prime. It also was a record year for Travel among women 25-54—an important demo for HGTV. Latman will relocate from Silver Spring, MD, to NYC later this year.

Still Not Friends: **ACA Connects** and **Nexstar-Tribune** continue their back and forth over whether the $4.1bln merger would really be in the public interest. But in ACA Connects' latest filing, the group of independent operators acknowledges it misspoke about one thing. In previous FCC communications, ACA described Nexstar as "syndicating out-of-market newscasts from stations owned by smaller groups instead of producing their own" in parts of the Albuquerque market served by **TDS**. "Here, however, ACA Connects misunderstood the facts as they had been conveyed by TDS," the association told the FCC this week. "Nexstar's stations located in the Albuquerque DMA generally do not cover the news at the edge of the local market, where several of TDS's systems are located. TDS thus has to import nearby stations from the neighboring Denver, Odessa-Midland, and El Paso markets in order to provide viewers with local newscasts that are more immediately relevant to the interests of TDS's customers. In other words, TDS itself (and not Nexstar) imports out-of-market newscasts in order to remedy Nexstar's lack of local coverage." The rest of ACA's filings however were to support claims under dispute, such as **Shentel** exec *Chris Kyle* calling Nexstar "the most difficult party" with whom he negotiates. The broadcasters described the statement as "fallacious," saying Nexstar didn't negotiate with Kyle but with a consultant engaged by Shentel. ACA said Kyle has had multiple experiences negotiating with Nexstar, both directly and through a consultant. "Mr. Kyle's opinion is, of course, his own and he stands by it… While Mr. Kyle did not negotiate directly with Nexstar in Shentel's last negotiation, he did maintain daily contact with his consultant, *Lew Scharfberg*," ACA said in its reply comments.

DOJ Ad Competition Workshop: There's an impressive lineup of presenters for next week's **DOJ** workshop in DC on the dynamics in media advertising as well as implications for antitrust enforcement (including merger enforcement). Assistant Attorney General for Antitrust *Makan Delrahim* will open the workshop on May 2. Panelists for the two-day event include **Comcast Cable** ad pres *Marcien Jenckes*, **Sinclair** CEO *Chris Ripley*, **DISH Network's** svp, media sales *Kevin Arrix* and **Viamedia** pres/CEO *Mark Lieberman*.

Ratings: After an eight-year hiatus, the viewers are still there for **Telemundo's** most successful series, "La Reina Del Sur." Monday's premiere netted 1.26mln 18-49 viewers to rank as the #1 broadcast show in America among the demo at 10pm. The premiere, which offered English closed captioning, delivered 2.36mln total viewers. Telemundo has Reina's exclusive rights in the US and Puerto Rico, while co-producer **Netflix** has the rights for the rest of the world for OTT. -- Tuesday night's two Stanley Cup Playoff Game 7s gave **NBSCN** its most-watched first round doubleheader on record. The overtime matchup between the **Golden Knights** and the **Sharks** averaged a total audience delivery of 1.138mln, the most-watched first round late game on cable in 16 years. In the earlier game between the **Maple Leafs** and the **Bruins**, the net averaged TAD of 1.378mln viewers, making it NBCSN's third-most watched first round cable game on record. Throughout the 14 days of the Playoffs so far, NBC Sports cable and streaming platforms are averaging a TAD of 633K, up 11% over 2018.

Fraud Prevention: **Spectrum Reach**, **Charter's** ad sales division, says it was recertified for the TAG Certified Against Fraud Seal by the **Trustworthy Accountability Group** (TAG). This is the ad industry initiative to fight criminal activity in the digital advertising supply chain. Spectrum Reach isn't alone, with TAG reporting that the number of recertified companies in 2019 nearly tripled from 37 to 102 over the prior year. Among those receiving recertification in 2019 are **A+E Networks, Facebook, Freeform, Google, Hulu, NBCU, Oath, Rogers, The Weather Company** and **Turner**.

Vocab Test: **Merriam-Webster** added 640 new words to the dictionary this month, and a few of them relate to our industry. "Screen time" first referred to the amount of time spent in front of a camera in a movie, but has been updated to refer to the time in front of a screen. Merriam-Webster also added "bottle episode," an inexpensively produced episode of a TV series typically confined to one setting, and "EGOT," the acronym for the rare achievement of winning an Emmy, Grammy, Oscar and Tony.

Programming: **Disney Channel** is bidding adieu to "Andi Mack," its most-watched series overall and its highest-rated among kids 6-14, year-to-date. The final episodes of Season 3 debut Fridays from June 21-July 26. The show broke a lot of ground. It was Disney Channel's first serialized show, the first centered around an Asian American family and the first to feature an openly gay main character. -- **Nick** has greenlit an animated "Star Trek" series from Emmy Award-winning brothers *Kevin and Dan Hageman* ("Trollhunters" and "Ninjago"). The CG-animated series will follow a group of lawless teens who discover a derelict Starfleet ship and use it to search for adventure, meaning and salvation. -- **Cinemax** renewed "Warrior" for a sophomore season. The crime drama, which premiered April 5, is based on the writings of martial arts legend **Bruce Lee**. -- Conservative-leaning news channel **One America News Network** is launching a late-night comedy show. "Headlines Tonight with Drew Berquist" will debut May 4 and continue on Saturday nights at 10pm ET.

Feeling UP?: **UPtv** unveiled a programming slate with more than 20 movies, the acquisition of Australian family drama "800 Words," a new season of "Heartland" and an emoji-driven-brand campaign. Christmas will continue to be an important season for UpTV, with over 500 hours of programming lined up for November and December, including the annual "GilMORE the Merrier" marathon.

Think about that for a minute...

I'm Just Sayin'...

Commentary by Steve Effros

As mentioned here last week, the notion that just more and more competition for the delivery of creative video product will automatically result in lower prices for consumers is a chimera. That's true whether the delivery is by a third party, like a cable bundle, or whether it is directly "streamed" by creators who then have to assume the costs of promotion, marketing, billing, customer service and in some cases even delivery.

Most of the "shining examples" of "cord cutting" today mention the cost of the creative package, like YouTube's new $50 price for a limited product, but leave out delivery...the broadband bill that consumers also have to pay. The cable bill bundled all of that together. So now we get to pay multiple separate bills instead of one. Such a deal!

But "competition" and "disruptive technology" are the keywords these days, and there's no lack of activity on that front, regardless of whether it will really benefit consumers or not. In the long run, it may. Let's remember, as also mentioned last week, all the folks in these businesses, the old and the new, are trying to create successful companies. In other words, they have to make money for their financiers, stockholders, etc,. The newest crest on the competitive buzzword wave is 5G and LEO (low earth orbit) satellites.

You already know about the engineering skepticism regarding 5G. It's going to take a lot of time, lots of new cell towers and massive expense to really make 5G both ubiquitous and competitive. But what about LEO?

Well, it's certainly an interesting technology and has moved a long way in the past decade. As a delivery mechanism for broadband worldwide it has great promise, especially for those places like Africa that are yet to be wired. But even though the new LEO satellite interlinks are certainly faster, and have much less latency than the old ones, I'd still rather play a MMOG (massive multiple online game - more on that in another column) using an HFC or FTTH connection than trying to go up and down through satellites! That's not to say it's not a good technology, it has lots of promise, but not as a competitor to an established infrastructure providing the same broadband service.

And there's this other point...just like the 5G issue. It's going to take a lot of money, time and effort to get the whole LEO thing off the ground. Here are some numbers to contemplate: Amazon recently announced its "Project Kuiper," one of about six announced plans to launch a whole lot of small satellites into low earth orbit to supply "gigabit" speed broadband worldwide. Amazon currently is thinking that it may take 3,236 satellites to accomplish their goal. But Elon Musk's "Starlink" division of "SpaceX" is already on the FCC's books with a plan for launching, wait for it, 11,943 satellites into orbit! It took Starlink two years to get FCC approval for their first experimental launch of two.

So with just these major plans accounting for 15,179 satellites, how long do you think it's going to take for that competitive constellation to really get established? I'm not saying it won't happen. It probably will some day. After all, in the 1990s cable pioneer Craig McCaw was part of a group, with Bill Gates, to do the same thing. I'm just sayin'... well, I don't think we should hold our breath for any of this to have significant impact on our business. We already deliver.

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.)