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What the Industry Reads First

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The Day After: Dissecting the Viacom-CBS Merger

For a deal that's been expected for years, there sure is a lot to say about **Viacom** and **CBS'** proposed merger. With recession concerns sending the markets into a tizzy Wednesday, we won't try to read the tea leaves of their stock prices. **Moody's** placed **CBS'** ratings, including its Baa2 senior unsecured rating, on review for downgrade, citing the move to merge with a "lower-rated and more weakly positioned Viacom" given that the cabler faces structural headwinds from accelerating pay TV sub losses. On the flipside, Moody's is reviewing Viacom for an upgrade. Man of the hour **Bob Bakish** told **CNBC's** "Squawk Box" Wednesday that he's confident **ViacomCBS** will be a united front, harkening back to how siloed Viacom was when took the job of acting CEO at the end of 2016. "It had a lot of issues. **Paramount** was an island. By the way, it had lost half a billion dollars. The networks even in the US weren't that collaborative in terms of running together. But today we run one Viacom," Bakish, who will serve as CEO of the combined company, told the cable newser. Wall Street reaction was mixed. **Wolfe Research** is a fan, impressed that ViacomCBS bucks the trend of pulling libraries in-house and will remain a global provider of content. "The second most underappreciated aspect, in our view, is the size of the combined library," the firm said, citing the combined 140K TV eps, 750 series, 43K hours of content in 183 countries and 45 languages. "We think the combined company can specifically leverage its library in DTC, whether it's **Pluto**, adding more content to **CBS All Access**, etc." Wolfe said in a note to clients. Wolfe did reduce Viacom's price target to \$38 from \$42, given that Viacom got a lower exchange ratio that it had expected. **MoffettNathanson's** analysts found a lot of similarities in the deal to **NBCU**. Both have a strong broadcast network with a portfolio of weaker cable nets. "Looking back since 2010, we see that NBC's cable networks affiliate fees have out-grown Viacom's by +300 bps. While NBC was slower to start establishing retransmission fees than CBS, they have quickly caught up," MoffettNathanson noted, estimating NBCU cable affiliate fees of \$3.96bln in 2010 rising to \$6.82bln in 2018. Retrans during that same period went from \$0 to more than \$1.7bln, according to the firm's estimates. MoffettNathanson puts Viacom's 2010 affiliate fees at \$2.6bln vs \$3.7bln last year, while CBS retrans fees jumped from \$110mln to \$1.6bln in that period. The broadcaster has said publicly it expects to hit \$2.5bln in retrans fees by 2020. **Barclays** raised questions about the impact of recent Viacom affiliate deals, saying it appears to have taken price cuts on some

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of them. “Post the deal, it is unclear if renewal cycles will come back into sync soon enough to add to synergies,” a Barclays note read. “Also, it is unclear if CBS would be able to push as aggressively on retransmission fee growth if it also has to push up the affiliate fee trajectory at Viacom, despite the rebasing of Viacom’s affiliate fee trajectory.” While the deal needs regulatory approval, there doesn’t appear to be much concern that **DOJ** and **FCC** will make waves. Shareholder lawsuits could be more of an issue, with Wolfe Research musing Viacom’s lower exchange ratio may have been to stave off such suits and asking if CBS shareholders are scarier than VIAB’s.

Order Approving T-Mobile/Sprint Moves Around FCC: More than three months after **FCC** chmn *Ajit Pai* announced his support for the merger of **T-Mobile** and **Sprint**, the chmn distributed a draft order that would approve the deal. The major changes present in the draft order reflect the **DOJ**’s decision to have **DISH** acquire **Boost Mobile**, addressing certain extensions, commitments and modifications to DISH’s spectrum holdings to help ensure that it meets its deadlines to deploy a nationwide 5G network. DOJ antitrust chief *Makan Delrahim* commended the FCC on completing their review of the deal, saying in a statement “we are now one step closer to strengthening competition for high-quality 5G networks that will benefit American consumers nationwide.” The eventual vote is likely to fall along party lines. Back when Pai initially voiced his support, Republican commish *Brendan Carr* was quick to stand alongside him. Commish *Michael O’Rielly* didn’t reveal his official stance, but tweeted on May 20 that he was “inclined to support” the proposed merger. Democrat commish *Jessica Rosenworcel* also took to Twitter to voice her continued opposition to the deal Wednesday, saying too much has been negotiated behind closed doors. “I am not convinced that removing a competitor will lead to better outcomes for consumers,” Rosenworcel tweeted following the draft order’s circulation. “But what I am convinced is that before the @FCC votes on this new deal negotiated by Washington the public should have the opportunity to weigh in and comment.” Fellow Democrat commish *Geoffrey Starks* said he was surprised that the FCC was ignoring past precedent by failing to seek public input. “Sprint/T-Mobile will alter the future of wireless service in this country and will impact everyone with a cell phone,” Starks said in a statement. “Given its size and scope, and bipartisan litigation pending by State AGs, we shouldn’t rush our ruling without public comment.”

ACC Network Scores Carriage Touchdown With Charter/Disney Deal: Another carriage renewal has come to an end with **Charter** and **Disney** announcing a multiyear distribution agreement that encompasses **ESPN**, **ABC** and Disney nets and the upcoming **ACC Network**. It’s good news for the ACC Network, which still lacks carriage deals with **Comcast**, **Cox** and **DISH** ahead of its Aug 22 launch. The deal also promises Charter customers easy access to Disney’s streaming services with the former planning to integrate **Hulu**, **ESPN+** and **Disney+** into its set-



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top boxes. A key (and unexpected) part of the deal will see Disney and Charter working together on piracy mitigation. The goal of the cooperation is to develop industry standard rules to address unauthorized access to content and password sharing. That could include anything from periodic password resets and further limits on concurrent streams. Charter CEO *Tom Rutledge* has long stood against password sharing, reportedly bringing the issue to negotiations with other programmers. When Charter and Viacom inked their 2017 renewal, the two announced they would collaborate on addressing unauthorized password sharing.

Madden Out Amid AMC Studios Reorg: AMC Studios has a new home at AMC Networks with news coming Wednesday that the production studio will be integrated into the company's entertainment networks group. *David Madden*, pres, programming for the entertainment networks group and AMC Studios, has decided to step down later this month due to the realignment, saying he's "ready to move on and focus on new opportunities in the rapidly expanding content space." *Sarah Barnett*, entertainment networks group pres, who leads **BBC America, AMC, Sundance TV, IFC** and **AMC Premiere**, will assume responsibilities for AMC Studios.

T-Mobile and AT&T Tell You Who's Calling: T-Mobile and AT&T teamed up Wednesday to begin rolling out cross-network call authentication technology based on SHAKEN/STIR standards. The technology will let consumers know that an incoming call is coming from the number listed rather than from a scammer. More calls will be verifiable over time as more device providers participate and network providers implement the FCC-recommended standards, which the FCC expects major voice providers to have accomplished by the end of the year. "Recent announcements indicate that all of the largest voice service providers can meet our deadline—and we will be monitoring them closely to ensure that they do so," Pai said in a statement reacting to the T-Mobile/AT&T news.

Comscore and Xandr Partner for Addressable Ads: AT&T's advertising and analytics division **Xandr** will be using data from **Comscore** for its addressable advertising offering, inclusive of **DirecTV, Altice USA** and **Frontier**. The partnership aims to give advertisers third-party measurement across the national live linear addressable footprint.

T-Mobile Marches Towards 5G: T-Mobile and Taiwanese modem maker **MediaTek** claim they completed the world's first 5G New Radio standalone data call in a multi-vendor environment. The companies say their data call was made using equipment from vendors mirroring the carrier's actual 5G deployment.

Frontier Launches Managed Wireless LAN for Business: Frontier is launching Managed Wireless LAN for medium-sized businesses and large enterprises. The company says the solution includes "one-stop-shop" network installation, management, maintenance and analytics. It is designed to allow a customer's employees and guests to work and interact virtually anywhere within a network.

Programming: Telemundo purchased production company **Underground Producciones**, based in Argentina, expanding its Spanish-language content production. Financial terms of the deal weren't disclosed. -- **NBC Sports Group** and **Mecum Auto Auctions** have extended their partnership through 2024, marking a full decade of collaboration. The multi-year partnership will include continued coverage of Mecum car auctions and extends to media rights on all platforms in the US and **Sky** territories in the US and Europe. NBCSN and NBC will feature at least 12 of Mecum's annual auctions with approx. 200 hours of coverage. -- **Comedy Central** greenlit a 10-episode unscripted interview-based series from comedian *Phoebe Robinson*. Robinson is best known as the co-creator and star of HBO's "2 Dope Queens."

Honors: Comcast NBCU and **City Year** will be celebrated at the 36th Annual **Walter Kaitz Foundation** Fundraising Dinner next month. Comcast NBCU will be honored as the organization's 2019 Diversity Champion while City Year will be presented with the Diversity Advocate award. The dinner will be held on Sept 18 at the New York Marriott Marquis with proceeds benefiting the **Emma Bowen Foundation, NAMIC, the T Howard Foundation** and **WICT**.

Ratings: WE tv's series "Love After Lockup: Life After Lockup" pulled in nearly 1.3mln viewers for its season finale on Aug 9. It scored season highs among key demos including W18-49 and total viewers, and was also the highest season average of the "Love After Lockup" franchise among W18-49, W25-54 and A25-54.

People: *Rick Schiavinato* has returned to **ThinkAnalytics** as svp, sales and business development. *Bryan Bossard* has also joined the company's LA team as director, strategic accounts. Schiavinato previously served as vp, sales and development for Latin America at ThinkAnalytics from 2015-2018. Bossard joined from **Conviva**, where he spent four years as a solutions architect. -- **You.i TV** has named *Ken Taylor* CFO of the cross-platform tool developer. Taylor has previously held CFO positions at **March Networks, BTI Systems, Optiva** and the **Ottawa Senators** while continuing to chair Sandvine's audit and governance committees.

Think about that for a minute...

Numbers in Perspective

Commentary by Steve Effros

The breathless headlines strike again! There's just no question about it, inaccurately described "cord cutting" is real, and it's accelerating. A little over 1.5 million MVPD subscribers dropped service in the second quarter of 2019. That's a big jump. It should immediately be noted that over 855,000 of them dropped the two major satellite services, not cable. But still, cable subs dropped off at a record pace of 455,000 compared to 275,000 a year ago.

These numbers, however, hide a lot of things that need exposing. For instance, the major cable providers increased their broadband subscriptions by over 530,000 in the 2nd quarter, and overall broadband subscriptions are about to hit the one hundred million mark! That's in addition to the 86.6 million "pay TV" subscribers. Cable, by itself, has about 46.5 million television subscribers and 66.2 million broadband subs for the largest cable companies. That's almost 113 million subscribers! The "streaming services" which one would get the impression are seriously endangering us at this point currently are estimated to have around 4 million viewers. Which would you rather be?

All of these numbers, by the way, come from our friend Bruce Leichtman, through the very thorough and authoritative Leichtman Report. You can count on Bruce to give you the count, and you can count on the consumer press to misunderstand the underlying reality!

To be sure, we have competition now. And, yes, there is a drop in "pay TV" subscriptions from the traditional cable/telco/DBS providers. The most precipitous drop is satellite subscribers. However the folks who drop are not necessarily linking up with streaming services either. Those numbers have not gone up in lock-step with the drops,



although that's really hard to tell since some of the "virtual Multichannel Video Program Distributors" (vMVPD) don't report their numbers, and new ones are coming on board at a head-spinning rate. We can expect Disney, ATT, YouTube, NBC, and of course Hulu, Netflix, Amazon and others to all be promoting the heck out of their new services in the coming year. And sure, the "traditional" companies will lose "traditional" subs. But of course the term "cord cutting" has always been a misnomer since that same cord is the one almost all folks use to view the streaming services! We are all well aware that the profit margins on a broadband subscriber are higher than on a "pay TV" subscriber, so if there is ultimately a one-to-one switch, again, which service would you rather be?

The sky is not falling. We (the cable industry) are doing just fine, thank you. And as important, folks like Consumer's Union have finally acknowledged that "cable replacements" (their term!) now abound, and it is getting very hard to figure out a package that has the same offerings that doesn't look like it will cost roughly the same for the consumer, either way! What a surprise. The significance, however, is that the main "consumer group" sitting at the table with the FCC now admits that there are perfectly adequate substitutable video offerings. That should make it a lot harder for the FCC and Congress to maintain regulations on cable (like having to carry broadcast signals) when those same requirements don't apply to our competitors! It may be one of the best things that's happened in a while. Maybe programmers may also finally realize they pushed prices too high!

Yes, "...things, they are a-changin', but it's far from very bad news for the cable industry.

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.)

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