www.cablefaxdaily.com, Published by Access Intelligence, LLC, Tel: 301-354-2101

Cablefax Daily™

Wednesday — May 6, 2020 | What the Industry Reads First | Volume 31 / No. 088

Uncertain Times: Disney Takes Billion Dollar Hit in 2Q

All eyes were on **Disney** Tuesday afternoon as investors tried to get a handle on how much of an impact COVID-19 is likely to have on the company. The answer was $1.4bln across all its operations in 2Q20, which included approximately two weeks of US parks being shuttered. The pandemic's impact on operating income at Parks, Experiences and Products segment was approximately $1bln due to revenue lost from closures. As far as what's ahead, execs didn't offer much guidance, instead expressing optimism that the company's strong brands will see it through tough times. "We also have a tremendous collection of assets, and beyond that, what we create has never been more necessary or more important than right now. In fact, it's quite possible, that what we create is appreciated now more than ever because people find comfort and inspiration in our messages of hope and optimism," exec chmn *Bob Iger* said on Tuesday's earnings call. "This is the same reason we believe people will resume familiar activities once this crisis ends. They miss doing the things they enjoy, things that make them feel happy and connected with family and friends, whether it's going to movie theaters to see our films or visiting our theme parks around the world or watching live sports on **ESPN**." Ah, yes… live sports. No real update there, with execs declining to discuss the specifics of cash payments. "We are working very, very closely with the leagues and the conference partners, and we're looking forward to the return of live events. We're in active discussions with them now," said CFO *Christine McCarthy*. If sports comes back without fans, CEO *Bob Chapek* promised ESPN will deliver the same level of innovation it did with the **NFL** draft. Looking ahead to future sports rights, they continue to be viewed as incredibly valuable. Lower advertising and lower viewing due to a lack of live sports impacted the media networks business. That's likely to continue, but for 2Q the business unit saw revenue rise 28% to $7.3bln. Cable networks rev increased 17% to $4.4bln. Disney's Direct-to-Consumer & International revenues for the quarter increased from $1.1bln to $4.1bln and segment operating loss increased from $385mln to $812mln due to costs associated with the launch of Disney+ and the consolidation of **Hulu**. Hulu now has a total of 32.1mln subs, up 27% from a year ago. **ESPN+** has jumped from 2.2mln to 7.9mln during that period. **Disney+** subs totaled 33.5mln at the end of March. While management said they're thrilled with Disney+'s progress, they're not updating guidance or projections on when it will reach profitability. Planned investments in programming for the service will continue. Chapek said Disney's still bullish on Hulu, but given the current

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cash/COVID-19 situation there are no immediate plans to make investments to expand Hulu internationally. He touched briefly on premium VOD windows, saying Disney "very much believes" in the theatrical experience overall, but will make changes on windowing on a case by case basis because of changing consumer dynamics and the pandemic. No update on when US theme parks will reopen, but Shanghai Disney is set to open up May 11 with temperature checks, masks for everyone and other prevention procedures. The Chinese government will allow the park to open at about 30% capacity, which would be approx. 24K guests, but Chapek said it will open "far below" that and eventually ramp up. After a few weeks, Disney expects to hit 30% capacity and possibly even more if the government raises the cap. The Shanghai park has been closed since Jan 25. Disney's board has made the decision to forgo payment on dividend in July, preserving $1.6bln in cash. Total cap ex will be about $900mln lower than prior guidance (partly due to a halt in construction at parks). Diluted earnings per share for the quarter decreased 63% to $0.60 from $1.61 in the prior-year quarter. Revenue was up 21% YOY to $18.01bln, but that's largely due to the year ago comparison, which was before it had acquired the **Fox** entertainment assets.

Ad Sales Grim for AMCN: Folks paid close attention to **AMC Networks** Tuesday as the first of the programmers reported earnings amidst the COVID-19 pandemic. Advertising revenue was down 11% in Q1 YOY, pointing to lower ad delivery and the timing of original program premieres, such as "The Walking Dead" and related programming. CFO *Sean Sullivan* said on an earnings call that increased pricing across its portfolio and the airing of "Better Call Saul" and "Doctor Who" helped partially offset the unfavorable item. Pres/CEO *Josh Sapan* said that the coronavirus absolutely had an impact on ad sales, particularly in categories such as travel, auto and restaurants. The company said that it expects advertising revenue to be down 30% in Q2. "Beyond the second quarter, we're just not in a position to predict when and where shelter-in-place restrictions begin to ease, or make assumptions about the economic conditions in the US and globally, and the impact they'll have on key variables," said Sullivan. In April, AMCN launched its Upfront Connect portal as an online sales hub to offset the cancellation of in-person upfronts. AMCN said it is working closely with its partners, and predicts that much of the ad dollars moving away from the second quarter will be spent in the third and fourth quarters. Revenue was down 6.4% YOY, and adjusted operating income was down 24%. However, it's not all doom and gloom for AMCN. The company continues to focus on its targeted SVOD services, and it's seen significant growth since Americans began sheltering-in-place in mid-March. Sapan said AMCN now expects its four SVODs to end 2020 in the range of 3.5-4mln paid subscribers, two years ahead of previously stated targets. AMCN stock closed down 4.31% to $22.87. Bernstein rated AMCN as "Underperform" and set a target price of $21.

WOW! Keeps HSD Focus: **WOW!** is bringing its IPTV video offering to two more markets as it accelerates the transformation of its network to all IP-based services. Cleveland and mid-Michigan are getting WOW! tv+ for high-speed data customers. Columbus, OH, was the first market to get the WOW! tv+ offering in January. It's also launched a test of streaming OTT alternatives as a video solution in Charleston, SC, that has since began expanding across its footprint. "We've seen increased improved operational efficiencies in delivering this full-service video offering to our customers,' CEO *Teresa Elder* said on the company's 1Q20 earnings call late Monday "We expect both of these IP-based video services will drive enhance penetration of high-speed data, facilitate long-term reductions to operating expenses and provide more efficient use of capital as we reclaim bandwidth on our networks, ensuring that we have sufficient capacity to meet the multi-gig demands of the future." WOW! posted its best quarter HSD RGU net additions in at least five years, with 16.1K broadband RGU additions. It also racked up its lowest 1Q churn in at least five years. WOW! did sign on to the FCC's pledge to keep customers connected during the pandemic, but Elder said it only applied to the last two weeks of the quarter and had minimal impact on net additions. For the quarter, WOW!'s adjusted EBITDA was down 3.9% YOY to $99.1mln (it would've been flat excluding bad debt reserves associated with COVID-19 that were amended to $3.2mln). While Elder said there's been minimal impact in 1Q on collections and consumer behavior, the future is uncertain. WOW! pulled its full-year guidance. Elder herself spent five days in the hospital after testing positive for COVID-19. She said to-date "only a small handful" of WOW! employees have tested positive, crediting preemptive measures the company put in place, such as moving 1600 workers to fulltime work-from-home status. WOW!'s 1Q net revenue of $284.5mln was down 0.9% YOY.

ViacomCBS Sets Virtual Upfront: **ViacomCBS** announced a new strategy to replace its COVID-canceled update planned for May 13 in NYC. "ViacomCBS Upfront @ Home," its first upfront since the companies merged in December, will take place virtually on May 18-19. *Jo Ann Ross*, pres and chief advertising revenue officer of domestic ad sales, announced the news to clients and agencies in a letter Tuesday afternoon. May 18 will focus on the combined assets of ViacomCBS and content from its cable portfolio, **Pluto TV** and other digital assets. May 19 will see **CBS** announcing its fall schedule, and programming from **CBS All Access**, **CBS News** and **CBS Sports**."This incredible progress gives me optimism for the days ahead. We have already achieved what we hoped to accomplish in bringing our sales organizations together—one team with a unified mission to provide you with the most powerful, seamless advertising solutions in the industry," said Ross. **NBCU** and **Univision** have both scheduled mid-May presentations, but stressed they are not upfronts, but instead conversations about the state of the business during the pandemic.

Starz Says MGM Breached Exclusivity Deal: **Starz** has filed a federal lawsuit against **MGM**, claiming that it breached an exclusivity agreement between the two by allowing library content to run on rival platforms. According to Starz, MGM admitted that it accidentally allowed more than 200 films and TV shows to run on other platforms. Some films were also licensed to **EPIX**. "Through Starz's continuing internal review, it has so far identified nearly 100 additional movies (not included on MGM's list) that appear to have been licensed to third parties during time periods in which Starz enjoyed exclusivity," Starz said in the suit. MGM has called the lawsuit a "transparent effort by Starz to use litigation to deflect attention away from its own competitive shortcomings."

Addressable Advertising: **Verizon Media** and **Ampersand** signed a deal that will make the latter the exclusive seller of **Verizon** Fios' addressable ad inventory. Verizon Media is also providing access to Fios TV's addressable inventory through the Verizon Media DSP, which will be the sole programmatic trading platform for Fios. Ampersand is using Verizon Media's DSP as their primary buying platform for CTV and OTT inventory. Ampersand's addressable footprint now stretches to more than 60% of all US addressable households, reaching over 42mln households.

Doing Good: **RCN**, **Grande** and **Wave** have launched the "Everyday Hero" program, in which residents nominate local heroes in their community. Heroes are entered to win a $250 Visa gift card and a free year of service. The company is also gearing up to launch a partnership with Feeding America to donate 10% of installation fees for 30 days.

Distribution: **Pluto TV** is partnering with **TiVo** to integrate its content into the TiVo+ platform. TiVo customers will be able to access more than 250 live channels along with on-demand TV shows and movies. Pluto TV will be rolling out in the coming weeks to customers on TiVo Edge as well as on the TiVo Stream 4K device.

People: *Dennis Wharton*, always quick with a sound bite (sometimes that takes a swipe at cable), is hanging up his hat as **NAB**'s evp, communications, effective July 1. Wharton has been with the broadcast association for 24 years, making him the longest serving spokesman in its history. He'll continue to serve as senior adviser to NAB. NAB is merging its communications and marketing departments into a new public affairs department that will be led by evp, marketing *Michelle Lehman*. Communications svp *Ann Marie Cumming* will serve as the primary spokesperson of the organization.