WEDNESDAY, APRIL 28, 2021 VOLUME 32 | NO.080

Cablefax Daily™

WHAT THE INDUSTRY READS FIRST

Two Sides: Discovery Says DTC Efforts are Positive for Distributors

Discovery has surpassed the 15 million direct-to-consumer subscriber mark thanks in part to recent distribution deals, and the company doesn't think streaming deals are cannibalistic to its existing partnerships with folks like **Comcast**.

"Effectively, we have two sides of a terrific partnership. They're getting value in and we're talking to a number of other distributors that we'll be following on. But it's not cannibalistic at all with Comcast," Discovery Networks International pres/CEO *JB Perrette* said during Wednesday's earnings call. "They're able to create value for us and for them, and I think they have some real entitlement. They're a broadband leader… and between Flex and X1, it could be a real generator of value for both of us."

CEO *David Zaslav* added that the company isn't seeing any push-back from the launch of **discovery+** with its domestic affiliates and continues to be happy with what it is seeing in terms of distribution across the pay TV and streaming ecosystems. "We are continuing to get fee increases. That's one of the reasons we have been able to continue the growth that we have delivered in the fourth quarter now in the first quarter, and we have been seeing very positive discussions for the past renewals and for upcoming renewals as well," Zaslav said. "As you have heard, clearly, discovery+ is an argument in those discussions, but it's one of many."

He also offered up some insights on discovery+ subscriber activity. Engagement amongst discovery+ subs is at approximately 3 hours/day per viewing subscriber and is well ahead of trends he's seeing at the company's linear networks. Subscribers to discovery+ are trending 15 years younger than those that are watching on pay-TV, and approximately half still subscribe to a cable service. He wouldn't offer specific churn numbers, but said early monthly numbers are trending towards low single digits.

"We don't have the one hit show, or the one hit movie, but I think as a result of that we're seeing much lower churn than our peers and usage that is a lot more," Zaslav said. "That's generating real economics for us on the advertising side." Even so, Discovery saw US ad revenue drop 4% in the quarter. That's primarily due to lower overall ratings along with declines in the pay TV ecosystem and lower inventory. US distribution revenues rose 12% YOY, carried by the discovery+ launch and the subsequent ramp-up in subscribers. Overall, total revenues came in at $2.79 billion, a 4% increase from 1Q20.

When it comes to content, the company is still experimenting on placing programming across discovery+, its GO platforms and the linear networks. Zaslav said that the company is learning a lot from the originals it has already placed on discovery+, and the work now is on determining what is a flop.

"We're experimenting in different ways to try and see what the data tells us. We're experimenting with some early windows or having talent that's been doing stuff on linear do some additional stuff for us on DTC," Perrette said. "It's another strength of our unique content model that doesn't make it such an either/or, and we're continuing to experiment with some of the windows and see what the data tells us."

ALTICE POSTS HSD ADDS, LOOKS FOR MORE M&A

Altice USA, the first large cable operator to report 1Q21 results, saw quarterly residential broadband net additions of 12,000 (+20,000 when adjusted for storm-affected customers who are current again) vs adds of 50K in 1Q20. That's pretty much in line with analyst expectations. With strong broadband growth in 2020 due to the pandemic, 2021 additions are expected to look more like 2018 and 2019 levels across the industry—although there are some federal subsidy programs coming online, including the Emergency Broadband Benefit program, that could impact volume. "We do think it's a very attractive opportunity that we are going to be pushing very strongly… It's just too early to tell," the impact federal programs will have on subscriber adds, CEO *Dexter Goei* said during the company's earnings call late Wednesday. Altice USA's 1Q21 video net losses were -54k vs -42k in 1Q20. Goei said less video subs will help profitability numbers and free cash flow with lower direct costs on programming, field service, etc. Altice Mobile added 5,000 net additions in the quarter, with substantially all mobile customers migrated from the **Sprint** network to **T-Mobile** by the end of March. Altice is crediting improved network quality with contributing to a 20% reduction in churn vs 4Q20. The company had 174,000 mobile lines at the end of 1Q, equivalent to 3.7% penetration of its residential customer base. Mobile recorded $11 million in EBITDA losses for 1Q vs $15.6 million a year ago. For the full year, Altice anticipates mobile EBITDA losses to continue to improve year on year. Fresh off its acquisitions of **Service Electric NJ** and **Morris Broadband**, Altice continues to look for cable M&A opportunities. "Based on our estimates, we've already more than doubled Service Electric's adjusted EBITDA margin to approximately 40% in less than a year," Goei said. The Morris transaction just closed on April 6, with Goei seeing growth potential through its low penetration and build growth opportunities in surrounding areas. "This is one of the fastest growing cable businesses we've seen in the US market with relatively low margins, and the network recently fully upgraded to DOCSIS 3.1," he said. "By executing on very similar efficiencies to what we've achieved with Service Electric, including programming synergies, we are targeting 60% margins by next year."

CABLE ONE PRELIM NUMBERS

Cable One offered up preliminary estimated results for 1Q21 Wednesday, and residential data subscribers grew by 22K sequentially. Revenues are expected to fall in the $335-341 million range. Net income will fall between $65-69 million while adjusted EBITDA should be anywhere from $176-180 million. The company will hold its 1Q21 earnings call on May 6.

LOCAST BATTLE HEATS UP

ABC, **CBS**, **Fox** and **NBC** brought new life to their court battle against streamer **Locast** last week, penning a letter outlining why the service should be shut down. In the message to US District Court Judge *Louis Stanton*, the Big 4 claimed that Locast employs a "freemium" business model like many other for-profit companies, offering service that is interrupted by its own advertisements and charging monthly fees for an upgrade to uninterrupted services. "Although Locast calls the amounts it extracts from users 'donations,' courts 'look beyond mere formal labels and consider the substance of the transaction.' Here, the substance of the transaction is clear: Locust demands users pay a monthly fee in exchange for uninterrupted

Cablefax Daily (ISSN 1069-6644) is published daily by Access Intelligence, LLC | www.cablefax.com | 301.354.2101 | Editorial Director: Amy Maclean, 301.354.1760, amaclean@accessintel.com | Publisher, Cablefax and Cynopsis: Robbie Caploe, 917.974.0640, rcaploe@accessintel.com | Managing Editor: Sara Winegardner, 301.354.1701, swinegardner@accessintel.com | Assoc Editor: Theresa Maher, 301.354.1704, tmaher@accessintel.com | Executive Director, Strategic Partnerships: Albert Nassour, 917.545.3129, anassour@accessintel.com | Dir of Marketing: Kate Schaeffer, kschaeffer@accessintel.com | Production Manager: Joann Fato, jfato@accessintel.com | Kerry Smith, Divisional President, Marketing & Media Group, ksmith@accessintel.com | Group Subs/Subscription Questions, Client Services: 301.354.2101, clientservices@accessintel.com | Annual subscription price: $1,799.00/year | Access Intelligence, LLC, 9211 Corporate Blvd., 4th Floor, Rockville, MD 20850

services," **Williams & Connolly LLP** partner *Gerson Zwelfach* said on behalf of the broadcasters. "Thus, there is no genuine dispute that it imposes 'charges.' And those charges neither are 'assessments' (which are community-based charges), nor are they 'necessary' to defray the costs of maintaining and operating Locast's services." Counsel for Locast founder *David Goodfriend* and **Sports Fans Coalition NY** filed its own letter, arguing against claims that it should be treated as a for-profit organization. It also fought against the idea that Locast was created to the benefit of pay-TV providers and their positions during retransmission consent negotiations with broadcasters. "Plaintiffs have been unable to quantify or identify any specific impact on retransmission consent negotiations. Even if they could, the bulk of the evidence shows that the Locast service likely harms pay-TV platforms because it encourages cord-cutting, which plaintiffs admit harms companies like **DISH** and **AT&T**," counsel *David Hosp* wrote. "The undisputed evidence shows that Mr Goodfriend never consulted with multichannel video programming distributors in launching SFCNY, was never asked to start SFCNY, and no MVPD provided any funding for the first year and a half of its operation, notwithstanding Mr Goodfriend's solicitation of MVPDs (as well as broadcasters and private foundations) for support."

RUMOR MILL

HBO Max's ad-supported tier will be priced at $9.99/month when it launches, according to a **CNBC** report. **AT&T** said during its earnings call last week that it sees the ad-supported solution as key to subscriber growth in younger demographics and with low-income households. HBO Max's premium tier still sits at $14.99/month and AT&T is expecting to count between 120-150 million subs across HBO Max and HBO in 2025. Sources said that **WarnerMedia** had originally considered selling an ad-supported tier that only featured HBO Max content for $4.99/month, but plans for that have been scrapped. – **Verizon** is exploring a sale of its media assets, the *Wall Street Journal* reported Wednesday. The unit includes **Yahoo** and **AOL**, and sources believe that should there be a deal, it could be valued in the $4-5 billion range.

CES, INDY SHOW SET LIVE DATES

Live events are on their way back, and **CES** is returning to Vegas in 2022. The **Consumer Technology Association** announced Wednesday that the tech show will be convened in-person and digitally Jan 5-8, and more than 1,000 companies, including **Amazon**, **AT&T** and **Google**, already committed to the event. Digital audiences will have access to conference sessions, keynotes and product announcements through the CES anchor desk, which was introduced during the 2021 virtual show. New content will be added to the digital platform following the show's conclusion. – **NCTC** and **ACA Connects**' **Independent Show** is also planning on being an in-person event, with plans to gather Oct 4-6 in Minneapolis, Minnesota. There will be a livestream component for those not willing to travel.

NETFLIX LAUNCHES NEW FEATURE

Netflix announced its "Play Something" button as a new account feature for all subscribers. When the button is pressed, the service will decide what you'll watch based on content you've watched before. One more click will launch "Play Something Else," which will give you a brand-new show or film, something you're already watching, something on your list or an unfinished program you might want to revisit. The tool also supports Text-to-Speech as an accessibility feature.

ANOTHER FIBER ACQUISITION

Rural Telecommunications of America Inc acquired nationwide fiber wholesale network **Fusion Network**. With that acquisition, RTA will be able to expand its gigFAST Network to provide services to America's rural communities. The company already began upgrading this network in Texas with a 100 gigabit ring between Austin, Dallas and Houston, which it says will provide greater reliability and capacity for its customers.

PROGRAMMING

Series "40 Year Old Property Virgin" will be available to stream on **discovery+** May 26. – Season 2 of "Betty" will premiere on **HBO** in June and will stream on **HBO Max**.

PALEY CENTER ANNOUNCES NEW BOARD MEMBERS

Several industry leaders have been newly appointed to the Paley Center for Media's Board of Trustees and Los Angeles Board of Governors. The Board of Trustees will now include **Pearson** CEO *Andy Bird CBE*; **Univision** CEO *Wade Davis*; **John S and James L Knight Foundation** pres/CEO *Alberto Ibargüen*; **Spotify** chief content and advertising business officer *Dawn Ostroff*; **Procter & Gamble** CBO *Marc Pritchard* and **Grupo Salinas** founder/chmn *Ricardo Salinas*. Joining the Los Angeles Board of Governors will be **Conde Nast Entertainment** pres *Agnes Chu*; **Warner Bros Television Group** chmn *Channing Dungey*; **WME** pres *Ari Greenburg*; **Ziffren Brittenham LLP** partner *Matt Johnson*; Blue Marble founder/CEO *Theresa Kang-Lowe*; **End of Episode Productions** writer, producer and founder *Courtney Kemp*; **Exile Content** executive chmn *Isaac Lee*; **Verizon** svp/chief media officer *John Nitti* and **M88** pres/managing partner *Phillip Sun*.

PEOPLE

Federico Garza was appointed svp, research strategy and insights at **NBCUniversal Telemundo**. Garza comes from **iHeartMedia** where he was evp, research and insights. – As part of a restructuring of **INSP**'s creative marketing and promotions department, *Andrea White* was promoted to creative director of promotion and advertising and *Bill Mazzola* was promoted to creative director of digital content and production.

DOING GOOD

Sparklight extended its partnership with the Arbor Day Foundation for a seventh year. Per the agreement, the Foundation will plant trees on behalf of Sparklight customers who switch to paperless billing. So far, 110,000 trees have been planted in Sparklight markets, bringing the foundation closer to its Time for Trees initiative, a commitment to plant 100 million trees worldwide by the 150th anniversary of Arbor Day in 2022.

Think about that for a minute...

Standardization

Commentary by Steve Effros

Ralph Waldo Emerson coined the phrase, often misquoted, that "...foolish consistency is the hobgoblin of little minds." I certainly agree with that, and repeat it often. The key, of course, is determining what is foolish and what isn't! That's the hard part.

As you can tell from the last two columns, I'm very concerned about the government jumping into the fray regarding what the "preferred" technology should be to build out the broadband system. To be sure, all the engineers have different views. The folks who want to sell fiber have done a great job of convincing the "public interest" crowd and some regulators that "fiber to the home" is the only way to go. That's not true from an engineering standpoint, but hey, give them credit, they did a great lobbying job. The 5G folks are working hard to catch up, and the low earth orbit satellite purveyors are right in there, too. Of course, local cable companies already have technology in place that could do the job in most locations, but in rural areas they need to connect to the speedy "middle mile" for it all to work, and that's what's missing. So, everyone has reasonable arguments on how we should go forward.

The important part here, to me, is that there not be an effort to "standardize" by selecting one technology or one requirement, such as the arbitrary call for symmetrical 100Mbps service. Sure, both fiber and HFC cable can already do that, but it may exclude the new satellite systems (although they say that's not true). The problem here is that the "standard" has little if any basis in need or use by almost anyone at home. It appears to have been selected and now become a mantra with the specific intent of excluding competition from other technologies. That's just a mistake.

But that doesn't mean I don't see a need for standardization in some cases. One example is the power cords we all use to rejuvenate the batteries in cell phones, laptops, tablets, earphones and the like. Have you looked in your drawer lately and seen all the incompatible wires sitting there? The USB A or USB mini or micro or C wires, the old Apple wires, the new Apple wires, it's just crazy! The latest cell phones are being delivered without wall plugs ("wallwarts") because the companies know we already have so many of them plugged in uselessly draining power that it's silly (and costly) to keep giving us new ones when the older ones will work just fine!

That's an example of where the industry, or, heaven forbid, the government should have stepped in after the developmental stage and standardized the plug and wire just as we have for electricity so that this incredible waste of resources (and rat's nest of old wires) can be brought under control.

In many cases, and my preferred course, would be to have the commercial entities standardize on their own. The wall plug and wire, after all, are not the competitive aspect of the technology. I helped try to do that many years ago with remote controls when I pointed out to the Zenith folks, who were on the forefront of designing them back in the beginning, that the "mute" button should be a different color. After all, when the baby is crying or you think you hear a strange noise, you want to grab the remote and turn off the sound quickly. How do you do that with dozens of buttons in lots of different places? OK, still design them the way you want, but color one of them orange so we can find it! Quite a few companies did it for a while. But even that minimal standardization waned. That's too bad. There are times when consistency, not foolish, has value.

Steve

T:202-630-2099
steve@effros.com

(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.)