MONDAY, MAY 17, 2021 VOLUME 32 | NO.093

Cablefax Daily™

WHAT THE INDUSTRY READS FIRST

Content King: Zaslav on Top With AT&T-Discovery Merger

Discovery CEO *David Zaslav* has spent the last 15 years building a factual content empire, but a $43 billion merger with **WarnerMedia** will soon have him overseeing a dynasty with more than 20 traditional cable networks, two young streaming services, and probably a partridge and a pear tree.

To those of us in the outside world, the last several months saw Zaslav guiding Discovery through the launch of factual streamer **discovery+**, carriage negotiations and planning for the 2021 upfronts. We now know how he spent his off-hours—at home in his Greenwich Village brownstone, talking shop with **AT&T** CEO *John Stankey*. One of those conversations sparked the idea behind the merger, and it's been smooth sailing from there. Zaslav will lead the new company when the deal closes in mid-2022, and he's on track to have all the tools to build a global content powerhouse at his fingertips.

"For us to have tried to do scripted here in the US, we were very late and we were sub-scale," he said on a press call Monday. "It didn't make sense for us to try to build that, but the chance to get the top of the pyramid, the very best IP in the world, and put that together with all of our global IP in-language, that was like an explosive combination to me and to [Stankey]… it's a home run for us to take what we do and grab all this great IP from the creatives that know how to do it better than anybody else."

While streaming and bundling options dominated much of the conversation surrounding the merger that will put **HBO Max**

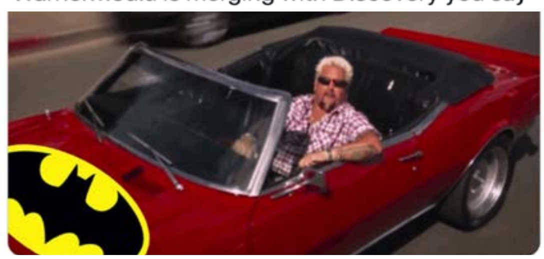
What You're Saying...

Michael Copps @coppsm

Some of us warned that the AT&T/TW deal not only failed the public interest test but didn't make business sense either. Now, AT&T's attempt to spinoff TW in a merger with Discovery is being touted as good for 'scale' despite costing workers jobs and companies billions in debt.

Vinnie Mancuso @VinnieMancuso1

WarnerMedia is merging with Discovery you say



Brandon Katz @Great_Katzby

I just naturally assume that Jeff Zucker is going to end up running WarnerMedia under David Zaslav and Jason Kilar is going to join forces with Kevin Mayer for some sort of new digital media initiative and not let Bob Greenblatt join.

and discovery+ under the same roof, Zaslav said the deal ultimately gives Discovery a better seat at the table when it heads into carriage negotiations with advertisers and distributors. That comes down to the variety of assets the new company will hold, and he was quick to say that the flipside of that is that these new content assets will allow Discovery to better support the traditional bundle for years to come.

"The scale will give us a chance when we sit down with distributors. [**Charter** CEO *Tom Rutledge*] is focused on how do I hold onto the bundle. [**Comcast** CEO *Brian Roberts*] is focused on how do I hold onto the bundle. What we have is going to be very friendly and very positive, and if we continue to invest in it, which we will, it should give some additional legs to the bundle," Zaslav said.

Investors aren't so sure about that notion. Discovery has long been a key partner to cable providers, and it is rare for it to be engaged in any sort of carriage battle with a distributor. How it will use its newfound leverage in the marketplace will be something to watch in the next renewal cycle. Zaslav's obvious excitement over the opportunity to take brands like **CNN** direct-to-consumer has investors making the early call that the biggest beneficiary of this deal will be discovery+.

"While we rightly worry about the long-term health of **TBS** and **TNT**, we would assume that Discovery will move key **Turner** sports and news content to Discovery+, to make it a broader and more attractive offering which will help their ability to grow those more valuable impressions. Internationally, Discovery's linear and SVOD offerings will be strengthened by the inclusion of **CNN** and **Cartoon Network** into their offerings," **MoffettNathanson** said in a research note. "Simply put, Discovery+ becomes a more relevant service for a wider group of people in the world."

THE JOHN MALONE FACTOR

While *David Zaslav* in basking in the limelight, make no mistake about it. This deal has *John Malone*'s fingerprints all over it. "John is behind all of this, as you know, through his ownership position in Discovery," said former **AT&T Broadband** CEO *Leo Hindery* during an appearance on **Fox Business**. "It was a good day for Discovery. It got scale instantly. David and his peers get to run the place, which is a compliment to David's management. John Malone continues to accrue value." Zaslav tipped his cap to Malone during a call with investors, praising his extraordinary vision. "He sees the chessboard. He sees things nobody else can see, and when you hang out with him, you get to see things that no one else can see because you start to hear John in your ears," Zaslav said.

DISCOVERY FOUNDER SEES FIVE STREAMER WORLD

When *John Hendricks* worked to get **Discovery Channel** off the ground in 1985, he knew a network dedicated to documentary programming was a good idea. But one question kept nagging him: if a documentary channel was such a smart move, why hadn't *Ted Turner* done it first? Eventually, even Turner had that question and suggested a merger between **CNN** and Discovery. That obviously never happened, but Monday's Discovery-**WarnerMedia** announcement was a bit of history coming full circle. Reached by phone after the announcement, Hendricks sounded especially proud that the company he founded has emerged as one of the big players that he believes will survive the next media shake-out. He predicts that in seven or eight years there will be five big bundles, with **Disney+** and WarnerMedia/Discovery making up two of those slots. Is **Netflix** the third? "Netflix is going to be interesting. Are they just going to keep going alone? Are they going to start looking at a combination? What can they acquire to be part of a future Netflix bundle?" he wondered. Distribution companies like **AT&T** have the pressure of infrastructure development that takes away from spending money on content, particularly with 5G launching. So, who has a big enough wallet? "I think there will be other players like **Sony**, like **Samsung**, who sell devices, but need something that distinguishes their devices from others—whether it's for 4K TV sets, for example. You may see them start making moves, similar to what **Apple** has done," Hendricks predicted. "I think it's going to be the companies that have really good cash resources, that have a good debt position.' Hendricks saw the writing on the wall for linear TV years ago, launching factual programming-focused streaming service **CuriosityStream** in 2015. He believes the merger is evidence of the importance of CuriosityStream's slate of programming. "I think you'll see Disney+, WarnerMedia/Discovery, **Peacock** trying to re-establish a bundle of content that will appeal to the family [like that traditional cable bundle of channels]," he said. "We see this as a positive today because it's just driven home the value of creating a major streaming bundle that includes nonfiction as a key component." If the media world shakes out to only five big bundles, where does CuriosityStream end up? "Long term, the reality for CuriosityStream is we want to be part of one of those winning streaming packages five years from now. We're keeping our options open. We're loving being independent at the moment," he said. "We're just thrilled non-scripted programming clearly has to be part of the consumers' streaming packages in the future."

REGULATORY LANDSCAPE FOR DISCOVERY-WM

Sen *Dick Blumenthal* (D-CT) is already calling for close scrutiny of a **Discovery-WarnerMedia** combo. "Recent lax antitrust enforcement has allowed a dramatic consolidation in the media market that is driving up prices & limiting consumer choice. TV

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 | Director of Business Development, Cablefax: Ellen Kamhi, 917.626.5574, ekamhi@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

viewers & sports lovers deserve more choices about how they get their entertainment, better competition over services & lower prices," he tweeted hours after the deal was announced. Addressing potential regulatory hurdles for a Discovery-WarnerMedia combo is complicated, which might explain why groups like **Free Press** and **Public Knowledge** were quiet as the deal was announced. When **AT&T** bought Time Warner for $85 billion it faced challenges from the **DOJ** and public interest groups that argued the transaction was harmful for consumers and would raise prices. So, de-integrating the WarnerMedia assets from a vertical merger might be seen as a good thing—but on the other hand, it creates a behemoth, horizontal media company. "It's tricky because you have a merger that we opposed that shouldn't have happened—that the only possible way to monetize it would be through anti-competitive means. They eventually realized it was a mistake, so they want to back out of their mistake," Public Knowledge legal director *John Bergmayer* told ***CFX***. "The question really reduces to, 'do you want to stop today's announcement or not' and that's what we still have to think about." With no broadcast stations involved, this deal is probably not going through the **FCC**, though Bergmayer noted there are random satellite uplink licenses and whatnot that big media companies have that need FCC approval. DOJ is expected to be the deal's regulatory reviewer, and even that's a little tricky as no one has been named head of the Antitrust Division yet. Even if no one seeks an outright block of the transaction, there may be some pressure to put conditions on it, particularly when it comes to sports assets. WarnerMedia includes **Turner Sports**, which has **NBA**, **NHL** and **MLB** rights along with **NCAA** Men's Basketball. When it comes to arguments for the merger, look for Discovery and Time Warner to contend that they need to be bigger to have more leverage against distributors and companies like **Apple** and **Roku** that control access to users. "That's a good point, but it's always true. One company having more leverage will get better deals. The question is, where does that end?" Bergmayer said. One group that is already speaking out against the combo is the **Parents Television and Media Council,** which argued it would create higher prices and a "tsunami" of TV-MA-rated programming. "We fear that the combination of mostly-family-friendly Discovery with increasingly-toxic **HBO** will put more children and more families at a greater risk of harm," said PTC President *Tim Winter.*

WARNERMEDIA/DISCA EXECUTIVE UPHEAVAL

AT&T CEO *John Stankey* attempted Monday to assure **WarnerMedia** employees who have survived multiple reorgs since AT&T took control of **Time Warner** that the upcoming merger with **Discovery** wouldn't be a repeat of the AT&T-Time Warner integration. Time will tell how true that is. *The New York Times* has already reported that WarnerMedia CEO *Jason Kilar* is lawyering up and will be negotiating his departure from the company. Sources said the **Hulu** alumnus was unaware of deal discussions until very recently. While Stankey said in an investor call Monday that Kilar was still the CEO of WarnerMedia, neither he nor Discovery CEO *David Zaslav* committed that he would remain in that position once the transaction closes. **Fox Business** also said sources inside AT&T said there was plenty of chatter about the potential for former **HBO** head *Richard Plepler* to return to the new company. This isn't Zaslav's first rodeo when it comes to the M&A game, and he's hoping his track record with **Scripps Networks** will ease the anxieties of many WarnerMedia employees in the months to come. He also said that there really isn't much overlap between roles at the two companies, signaling to those employees that they shouldn't expect mass layoffs. "Many of our top leaders that work for me are from Scripps and built a great operation… the interesting thing about this business is we have a lot to learn. We are in scripted and sports outside the US, but there's no better scripted TV or movie company in the world than what John [Stankey] has built here and the people there, the reason we're doing this deal is because we have the greatest respect for that team," Zaslav said on Monday's investor call. What also remains unknown is whether **CNN** president *Jeff Zucker* will stick with his previously-announced plans to step down when his contract expires at the end of this year. Zaslav reiterated his support for the news network, saying he has no interest in selling it off post-merger. "*John Malone* was there in the very early days to build CNN with *Ted Turner*. So there's a tremendous amount of pride and as someone who started in this business 30 years ago, CNN was the beacon and it's the beacon today and it should be the beacon everywhere in the world," he said. "We're going to come in and we're going to be supportive and we also intend to fund significantly the direct-to-consumer piece of it because we think you guys have done a great job, but how do we continue to drive that?"

WARNERMEDIA-DISCOVERY BY THE NUMBERS

When the merger of **WarnerMedia** and **Discovery** closes, **AT&T** will receive $43 billion in a combination of cash, debt securities and WarnerMedia's retention of certain debt. The transaction is expected to close in mid-2022, and AT&T's shareholders would receive stock representing 71% of the new company (name to come later this week or early next week). The boards of both companies unanimously approved the transaction. The new company's board will consist of 13 members: 7 initially appointed by AT&T, including the chairperson, and six members from Discovery, including the new company's president/CEO *David Zaslav*. As for what isn't included in the deal, AT&T is holding on to ad unit **Xandr** as well as **Crunchyroll**, which the wireless operator has already agreed to sell for $1.175 billion to **Sony**'s **Funimation** group. The divestment of WarnerMedia is only the most recent step in AT&T's return to its core mobility business. The company now plans to spend $24 billion/year in capital expenditures after the close of the transaction, and it expects to reach 30 million homes with AT&T Fiber by the end of 2025. AT&T will be using some of its freed-up resources to accelerate its C-band spectrum deployment. "T now expects 200M C-Band 5G pops by YE23, vs. the company's prior guidance of 100M by YE22, implying full deployment of the first tranche of C-Band, along with some portion of the second," **Evercore ISI** said. "Management has indicated that it is making provision for spending on the upcoming 3.45-3.55GHz spectrum auction."