WEDNESDAY, NOVEMBER 3, 2021 VOLUME 32 | NO.203

Cablefax Daily™

WHAT THE INDUSTRY READS FIRST

The Cavalry: Mayer Advising Discovery-WarnerMedia Streaming Strategy

Discovery CEO *David Zaslav* is ready and waiting to transform a combined Discovery-**WarnerMedia** into a streaming powerhouse, and he's going to have some help getting there.

Kevin Mayer, a former Disney and **TikTok** executive who currently serves as **DAZN**'s Chairman, has committed to helping Zaslav and Co as a streaming advisor. Mayer has plenty to offer, playing a major role in the creation of **Disney+** as the company's Chairman, Direct-to-Consumer and International.

"He's super excited about getting in the car with us and helping us with everything that he's learned, a lot of knowledge about windowing, about how different pieces of content perform. We're anxious to get in a room with [WarnerMedia Studios and Networks Group Chair and CEO *Ann Sarnoff*] and the team at Warner," Zaslav said during Discovery's 3Q21 earnings call Wednesday. "We think adding Kevin to the overall team is going to be helpful to us, and off we go." He also confirmed that Discovery CFO *Gunnar Wiedenfels* will take over as CFO of the combined company should the merger be approved.

Discovery seems to be putting together something of a media Justice League that can hopefully combine their knowledge and findings from before and during the pandemic to craft a winning strategy for the company. Zaslav is still contemplating how **discovery+** and **HBO Max** will work together after the launch. In the U.S., Discovery estimates that less than half of discovery+ subscribers are also HBO Max subscribers, giving it an opportunity to broaden its base with some sort of combined offering. Its international footprint has given it an opportunity to try different packaging and bundling models, and it has kept a close eye on what folks like Disney are doing to offer multiple products for one price.

"We also have sports in Europe and we've tried a lot of things… we've learned that sometimes packaging the sports independently doesn't work as well as packaging it more broadly," Zaslav said. "When you put sports together with entertainment, together with non-fiction, we came out with the Olympics." Discovery President & CEO, Streaming & International *JB Perrette* added there will be opportunities to do some creative bundling offers in the early days of the deal's completion, but that's only an interim strategy as he works to craft the company's long-term strategy around both discovery+ and HBO Max.

Total revenues at Discovery came in at $3.15 billion, a 23% rise YOY. Distribution revenues skyrocketed 21% YOY, largely due to growth at discovery+ and linear affiliate rate increases helped by renewals with **DirecTV**, **Verizon**, **Hulu** and others. Overall, pay TV subscribers to Discovery's fully distributed linear networks dropped by 3% YOY while total portfolio linear subs declined 4%, excluding the impact of the company's sale of **Great American Country** in June.

Advertising revenues rose 5% YOY, thanks to demand for discovery+'s ad light product. That was partially offset by weaker audience delivery, some of which can be attributed to ongoing measurement issues at **Nielsen**.

When it comes to the advertising possibilities that could be unlocked through the WarnerMedia merger, Zaslav compared it to Discovery's acquisition of Scripps Networks Interactive. The purchase of networks like **Food Network** and **HGTV**, primarily destinations for female viewers, allowed it to launch Discovery Premiere, its advertising platform. Premiere offers advertisers unduplicated reach across Discovery's primetime originals at efficient CPMs.

"We can take that advertising platform to the next level by weaving in sports, scripted news and male-oriented programming together with our existing core competencies," he said. "It's a true win-win, generating significant revenue upside to us with improved options, efficiency and savings to our advertising partners by replicating the reach of a broadcast network at better value."

SINCLAIR HAS "CRITICAL MASS" FOR RSN STREAMER

Sinclair CEO *Chris Ripley* is high on direct-to-consumer and believes the broadcaster has the critical mass needed to launch an RSN streaming product in the first half of 2022. As of now, it has linear and authenticated streaming rights for all **MLB** teams, and DTC rights for four of those teams. MLB Commissioner *Rob Manfred* recently said during an appearance at the CAA World Congress of Sports that Sinclair did not have the digital rights from enough clubs to launch its service. Sinclair seems prepared to launch with what it has now, but it is working to incorporate direct-to-consumer rights into its renewals with those individual teams as they come up. The broadcaster also battled against rumors that the MLB may move ahead into the DTC space with its own product. "What's important to note is that we have exclusive local rights for our teams. And those rights cannot be infringed upon by any other party to launch a direct-to-consumer product without significant ramifications. So we continue to negotiate in good faith with all interested parties to make direct-to-consumer a reality," Ripley said during the company's 3Q21 earnings call. For the **NHL** and **NBA**, Sinclair has always had linear, authenticated streaming and DTC rights, and those deals are in the process of being renewed now. While Ripley believes Sinclair can launch this product right now with its current portfolio, he does think at some point it makes sense to bring other RSNs into the mix. "We're in a much better position than anyone else to move forward on direct-to-consumer because we've been planning for this for quite some time. It's not something you can just close to switch on overnight," he said on Sinclair's 3Q21 earnings call Wednesday. "But I do think ultimately adding in rights from other groups like **Comcast** and **AT&T** makes sense, whether you do that through transaction partnerships, contracts, consortiums." On the retransmission consent front, Sinclair and **DISH** are continuing to agree to very short-term renewals, and Ripley wouldn't offer any comment on whether that was likely to change any time soon. Their retrans agreement was set to expire back in August, but discussions are ongoing about a long-term deal that presumably would bring the **Bally Sports** RSNs back to DISH's lineup for the first time since July 2019. Sinclair is still working to get operations back in order following a ransomware attack it fell victim to on October 17. Early indications are that some data was taken from the broadcaster's network. The broadcaster does have insurance tied to cybersecurity risks, but Ripley warned it may not be enough to cover losses from an incident like this.

CABLE ONE EXPLORING JV

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 | VP/Group Publisher, Cablefax and Cynopsis: Robbie Caploe, 917.974.0640, rcaploe@accessintel.com | Managing Editor: Sara Winegardner, 301.354.1701, swinegardner@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

Cable One revealed that it is kicking the tires on a possible jv that would have it contribute fiber assets in certain markets served by **Clearwave** and **Hargray** to a newly formed entity. It's not clear who else would be in the jv. Certain "unaffiliated third-party investors" would contribute cash to the venture, Cable One said in an SEC filing Wednesday. The assets contributed by Cable One's Clearwave and Hargray entities are expected to represent approximately 3% of the company's consolidated 3Q21 revenues. Terms of the jv remain subject to negotiation and the parties haven't entered into any definitive agreements to consummate the transaction. Expect all of this to be discussed during Thursday's earnings call as well as Cable One's role as a strategic investor in **Tristar Acquisition Corp**, a special purpose acquisition company focused on the telecom sector.

FCC GRANTS EXTENSION ON MTE COMMENTS

The **FCC** granted **NCTA**'s request for more time for reply comments in the agency's proceeding on improving broadband competitive access in apartments, condos and other multiple tenant environments (MTEs). Initial comments in the proceeding were due Oct. 20, with replies due Nov. 4. But NCTA successfully argued that the volume and complexity of the record merits more time to review and respond. The FCC Wireline Competition Bureau changed the due date for reply comments to Nov. 19. The proceeding is to refresh the record on issues raised in a 2019 Notice of Proposed Rulemaking.

OAN, NEWSMAX GET SERVED

Smartmatic filed lawsuits Wednesday against **Newsmax** and **One America News Network,** accusing the news channels of knowingly spreading false claims that its voting tech was skewing the election against *Donald Trump*. Smartmatic has a defamation lawsuit pending against **Fox News** as well as *Rudy Giuliani* and *Sidney Powell*. Newsmax said it had yet to receive or review the lawsuit. "Newsmax reported accurately on allegations made by well-known public figures, including the President, his advisors and members of Congress, as well as reporting on Smartmatic's claims in its defense. Smartmatic's action against Newsmax today is a clear attempt to squelch the rights of a free press," the network said. OAN didn't immediately offer comment.

FCC OKS BOEING SATELLITE BROADBAND PLAN

The **FCC** gave **Boeing** the greenlight to construct, deploy, and operate a broadband satellite constellation. Boeing plans to provide broadband services for residential, commercial, institutional, governmental, and professional users in the United States and globally. The FCC dismissed Boeing's request to operate ISLs in certain frequency bands that are not allocated internationally for operations of the FSS in the space-to-space direction in the ITU Radio Regulations.

CARRIAGE

Spanish-language network **Hogar de HGTV** scored carriage on **DirecTV** and **DirecTV Stream**, with it being added to their lineups mid-month. It will be featured as part of the DirecTV Mas package and Stream's "En Español" services. Created in June 2020, Hogar de HGTV has carriage with several MVPDs, including **Comcast**, **Charter**, **Mediacom** and **Verizon**.

MEDIACOM EARNINGS

Mediacom lost 2,000 broadband subs in 3Q21 vs a gain of 29,000 customers a year ago. As with most operators, video subs continue to decline. Mediacom shed 21,000 in the quarter. 3Q21 revenues were $557.1 million, a 3.4% increase from the prior year, while adjusted OIBDA rose 7.7% to $246.5 million. Mediacom's net leverage dropped below 1.4x with more than $500 million of debt reduction over the last 12 months. Net debt comes in at $1.352 billion.

ALL TREATS FOR THIS COMCAST CREW

Turns out those truck rolls are also good for Tootsie Rolls… Hats off to a group of **Comcast** frontline employees who are living at Candlewood Suites in Houma, Louisiana, as they rebuild their homes that were damaged by Hurricane Ida. The team, including local supervisor *Dan Metherne*, knew they weren't the only displaced residents living in the hotel, so they decided to make sure the kids in the building had a special Halloween. They decorated their Comcast trucks, bought tons of candy and wore costumes to hold a "Truck or Treat." Several of the employees have been working long hours to bring customers back online following Ida's landfall in late August, and some of the Comcasters at the hotel were in town from other markets, mostly Atlanta, to help with recovery efforts. "We applaud our Comcast team members who took the time to host a Halloween event for local families displaced by Hurricane Ida. We appreciate our customers, and this was a great way for our team to make a small difference during a challenging time," said a Comcast spokesperson.

ELECTION NIGHT RATINGS

Americans voted for **Fox News** on election night, with early **Nielsen** data showing the net drew the largest cable news audience in every hour from 7 PM-3 AM/ET during coverage of the Virginia and New Jersey gubernatorial races as well as the New York City mayoral race last night. In primetime, Fox News averaged 4.7 million viewers and it scored 2.8 million in the midnight hour, which was when the Virginia election was called. Tuesday night marked FNC's highest-rated "odd year" election night in network history. Fox may have had the viewers, but **Newsmax** said it has the bragging rights over making the first call for Republican *Glenn Youngkin* in the Virginia race, with the net's official call coming at 9:27pm ET.

PROGRAMMING

FOX Sports reached a six-year rights deal with the Union of European Football Associations that will give it more than 1500 soccer matches, beginning with the UEFA Nations League in June, and the 2024 and 2028 European Soccer Championships. FOX Sports coverage of these competitions can be made available on the FOX Bet and FOX Bet Super 6 services. – **FXX** will debut the first two eps of Season 15 of "It's Always Sunny in Philadelphia" on Dec. 1 (available the next day on FX on Hulu). This will make Sunny the longest-running, live-action comedy series in TV history, surpassing "The Adventures of Ozzie & Harriet."

Think about that for a minute...

Choices

Commentary by Steve Effros

You can't help but notice that a lot of things have changed in our business. Granted, some of them have been a long time coming, such as the erosion of the massive "bundle" of programming we used to sell exclusively, but change is happening faster now. Significant business plan decisions are being upended regularly. It's not an easy time to be running a telecommunications company!

For the cable industry the changes came almost organically for a long time. We started as a "community antenna" for folks who wanted to see over the air television, but couldn't receive it. Then came the realization that once you "wired" a community you could deliver additional programming that wasn't simply the local television station. "Distant signals" started to be "imported" into the community.

Along came folks like Ted Turner who recognized that programming could be created and distributed (via satellite, nationwide, to the cable headend) that could actually compete with the local broadcaster. CNN, The Weather Channel, ESPN, CSPAN and, obviously, dozens and then hundreds of channels proliferated. But those channels cost money to create and advertising revenue alone was not going to pay the bill. So cable "subscription" fees started ballooning along with the size of the program package. At some point the call for "a la carte" program selection resonated.

The advent of the Internet and broadband delivery, leading to "streaming" video services has now brought us to the point where that "a la carte" vision seemed to be on its way. But economics has once again required a change of direction. The business plans just don't work out for a single channel, in most cases, to support itself with either subscription fees or advertising or both. Thus even as the traditional "cable package" is being split up into selectable pieces, the "streaming" video packages are bulking up as aggregated packages of programming! It almost looks like we have come full circle!

There are strong indications that the average viewer is already at wit's end when it comes to finding the programming they want to watch, and if they are reliant on broadband streaming as opposed to a cable package they are increasingly unhappy about the "search" they have to engage in, only to find that they have not subscribed to the particular streaming service that now offers their selected program exclusively. It's getting to be a real mess, and it's not likely to get better soon.

So where should we go with all this? Are consumers going to revert back to more of a "cable-like" package, or will they prefer to pick and choose between packages of streaming services like Hulu, Tubi, Disney+, Peacock or the like? Will the ad-ons that have long been successful like HBO or Netflix continue to dominate or will the "new" services, spending huge amounts of money, like Apple or Amazon offerings prove successful?

There are no easy answers here. Do we stay out of these wars completely? After all, most of these streaming aggregated packages are still losing lots of money every month. How long will they be around? Should we stick with our linear TV packages or convert everything to "on demand" to emulate the streaming services? Will that confuse customers even more?

Quite a few cable companies are now noting that their "primary" service is broadband delivery, not "cable television" anymore, and the margins are considerably better. The good news is that if the trend goes in that direction we, some day, may not have to deal with "retransmission consent," or yearly increases in program costs or required carriage of bundled products.

But if we become fully "broadband" centric we then have to face the upcoming storms over privacy, content screening, "digital divide" economics and the like. It's not an easy time, there are lots of choices to make. Stay tuned!

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.)