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# Cablefax Daily™

WHAT THE INDUSTRY READS FIRST

## It's Complicated: Warner Bros Discovery is Coming But Questions Remain

**AT&T** pinpointed a more exact closing date for the **WarnerMedia-Discovery** transaction, saying it looks likely to close in 2Q22. That's a bit more specific than the mid-2022 timeframe given when the deal was announced last May.

However, the structure of the transaction remains a mystery with investors continuing to guess if AT&T will spin shares of the merged company or split—swapping AT&T stock for **Warner Brothers Discovery** stock. CEO *John Stankey* suggested during Wednesday's 4Q21 earnings call that there should be more clarity when AT&T holds its investment day in March.

"It's a bit of an unprecedented transaction in size. There's never been a split off of anything close to this number of shares with this kind of a base," the CEO said. "We also have a very large retail base, and we have to be mindful of the fact that that retail base sometimes doesn't go as deep on the puts and takes and ins and outs of things as the institutional base does. And we need to make sure it's transparent and clean for everybody involved in this."

Stankey said the board has been carefully considering options, and he expects a decision soon. Regardless, the dividend is expected to be in the $8-9 billion range. "Even at the low end of that range, we're still going to be paying out at the top of corporate America from a yield perspective," said Stankey.

Meanwhile, we continue to hear that **Discovery** CEO *David Zaslav* is rearing to go. *Business Insider's Claire Atkinson* reports he's talking to everyone from *Oprah* to former Disney DTC chair *Kevin Mayer* as Discovery puts together a plan for the first 100 days of the combined company.

The crown jewel in the transaction is **HBO Max/HBO**, which ended 2021 with a global sub base of 73.8 million and a domestic base of 46.8 million, up 13.1 million and 5.3 million for the full year, respectively. WarnerMedia revenues were up 15.4% in 4Q21 to $9.9 billion. Operating income for WarnerMedia fell 37.9% to $1.6 billion in part due to HBO Max investments of $500 million for the quarter. The company has said 2022 is expected to be the peak investment year for the streamer.

During Wednesday's call, Stankey defended the decision to pull HBO from **Amazon Prime.** "I feel it was the right decision. I think it will even be more the right decision in a post-Discovery environment as the offer only gets stronger that's in the market," he said.

### AT&T'S FIBER FRENZY

**AT&T** picked up the pace on fiber homes passed in 4Q, with the company on target to reach 30 million homes by the end of 2025. That said, CEO *John Stankey* is urging investors to look less at the number of homes passed in any given quarter and more at how many end users were sold. "You are going to see us start to sell more end users each quarter as we move forward, and you're going to see our subscriber count start to ramp as that footprint gets larger," Stankey said during Wednesday's earnings call, pointing to AT&T's 2Gbps and 5Gbps services launched this week. Those sub numbers are more "to come" with most of the homes passed with fiber only marketed to at the end of last year or early this year. AT&T added 271,000 net fiber customers in 4Q that were offset by other broadband losses of 272,000 and DSL losses of 19,000. The company added 273,000 fiber subs in 4Q20. All told, broadband subs posted a net loss of 20,000 for the quarter. Management has blamed supply chain issues for slow going with fiber (it added 2.6 million fiber locations for the year), but has said those issues are working themselves out. **New Street Research** analysts said AT&T's DSL losses were worse than expected, which could bode well for cable broadband adds in 2022.

## VAB GOES AFTER NIELSEN AGAIN

**VAB** said **Nielsen** "grossly understated" its erroneous measurement of out-of-home audiences from September 2020 through December 2021 and estimates in a new report that the mistake resulted in $700 million in lost revenues. Nielsen doesn't agree. "We reviewed the information shared by the VAB today, and while we acknowledge the understatement in a portion of our National out-of-home audiences, we stand by our prior statements that the magnitude of the issue was very small for the majority of telecasts," a Nielsen statement read. **Media Ratings Council** weighed in late Wednesday, saying it wanted to "correct" a representation made in the VAB report: "The VAB report made several references to 'adjustment factors' that were attributed to MRC, resulting from an analysis MRC conducted last year that concluded certain understatements to Nielsen's ratings had occurred. In fact, MRC did not position these figures as 'adjustment factors,' nor did MRC recommend they be used in that manner; rather the figures MRC published in May 2021 were presented simply as estimates of ratings understatements that MRC believed occurred in the single month of February 2021. February 2021 was chosen as the subject of the analysis at the time because MRC believed it represented the period at which the potential COVID-related impacts to Nielsen's panels were at their peak." VAB said it stands by the numbers and all insights made throughout the report. Nielsen acknowledged in December that it had been undercounting homes. VAB's 22-page report was based on data available for about half of the 16-month period. It found almost 30 billion impressions went undercounted in those months and more than $350 million in TV ads couldn't be bought or sold between May-Nov. 2021. "The only thing worse than Nielsen's admitted error of 65 consecutive weeks of undercounting TV viewing was their claim of 'no impact to minimal impact' from that blunder," VAB President & CEO *Sean Cunningham* said in a statement. "We now know that error is tracking towards 60 billion lost TV impressions and $700 million worth of TV ads that marketers couldn't buy because of Nielsen's second admitted case of 2020-2021 pervasive undercounting." Last year, VAB called for Nielsen to be stripped of its Media Rating Council accreditation following undercounted ratings in 2020. MRC suspended Nielsen's accreditation for national TV ratings in September.

## DISNEY PULLS PLUG ON FOX LIFE

**Fox Life** has been on life support for years, with the end is almost here. **Disney** plans to shutter the Spanish-language lifestyle network in the U.S. on March 31. It was one of the properties Disney acquired as part of its **21st Century Fox** transaction. Fox International Channels launched Fox Life in 2013, with programming largely made up of American reality shows dubbed in Spanish. The move impacts roughly 4.4 million subscribers across 38 US providers, with **Verizon**, **Charter**, **Comcast** and **DirecTV** the largest.

## GIGI WATCH

Still no confirmation vote scheduled for **FCC** nominee *Gigi Sohn*, but *Bloomberg Law* got its hands on a confidential agreement between **Locast** and the Big 4 broadcasters that reveals Locast is settling for far less than the $32 million it was ordered to pay by the courts. Bloomberg reports the non-public agreement puts the settlement at roughly $700,000 in cash and liquidation. That is significant since Sohn was a Locast adviser and Sen *Roger Wicker* (R-MS) has raised concerns that her financial liability could be tied to companies regulated by the FCC.

## MEDIACOM, WEST DES MOINES

As **CFX** previously reported, **Mediacom** and West Des Moines settled the provider's lawsuit over the city's construction of a $50 million conduit network. As such, the **FCC** on Wednesday dismissed a petition filed from Mediacom over the city's rights-of-way management practices. Mediacom filed the lawsuit, alleging that the city improperly used taxpayer-backed bonds to build the network exclusively for the use of Google Fiber. *The Des Moines Register* reports the city admits no wrongdoing but will pay Mediacom nearly $600,00 and allow it to use the conduit.

## HONORS

**CableLabs**, **OATC** and **SCTE** picked up a win in the 73rd Annual Technology & Engineering Emmy Awards. The trio was recognized in the category of Development of the Event Scheduling and Notification Interface (ESNI). Other honorees include **Apple**, **MLB Advanced Media**, **Microsoft** and **Netflix** for Common Key Technology of OTT Content. An awards ceremony will take place during the **NAB Show** in Vegas on April 25.

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## Think about that for a minute...

# Estimate

*Commentary by Steve Effros*

The term estimate is defined in the dictionary as a "rough approximation," or "to judge tentatively." In other words, a guess. It boggles my mind that because Netflix originally suggested that it could add up to 8.5 million subscribers in the fourth quarter of last year and they only (only!) added around 8.3 million, this would result in a 25% crash in the value of its stock! Its year over year subscriber increase was close to 9%, for a worldwide total of close to 221 million subs. The company only (again, "only"!) pulled in $7.17 billion in revenue in Q4.

The "industry consensus" among the "analysts" was missed by about 200,000 subscribers out of 221 million. The revenue, likewise, was shaved from $7.7 to $7.1 billion. Yet, the stock tanked. Why? Well, there's lots of speculation, but most of it is just downright silly. Who the hell expects an "estimate" to be anything other than a guess? And if you do, that's your problem, not the company's.

I'm sorry, but this absurd market gyration forces me to once again go on my stock market rant… something long-time readers are well familiar with. It starts with the existential question of who a company is supposed to be serving and what is the definition of success, and ends with a fear that the answer to those questions is likely to spell real trouble for a lot of companies in the not too distant future.

Netflix is a great example. It's a well-run company that has had a lot of success. It admittedly has spent an enormous amount of money trying to continue to create new content that will entice more subscribers, and, yes, there's lots more competition these days and folks are finally getting out of their houses, so the COVID effect can't be relied on forever.

But a 21% drop (the final number for the day) because of what any sane observer would have to say are things everyone already knew to be the case? What the heck is going on?

Here, let me give you some telecom industry stock tips; subscriber numbers will not always go up. Competition will always result in fracturing the market. The cost of goods, like new programming, will always increase as the competition for those goods increases. Does any of this surprise you? If it does, you better stay out of the business of market speculation, because you're going to get burned!

Granted, the valuation of tech stocks has gotten totally out of hand, and anyone who is surprised by a "correction" in the estimated (remember, synonym is "guess") value of these companies should likewise stay away from the market. Indeed, as I have long suggested, the market has probably had one of the most perverse adverse impacts on our business that I've witnessed over the years.

Running companies based on a guess as to their value, basing business decisions on quarterly results rather than the overall strength of the company and its customer base, paying top executives totally absurd salaries as though they were invaluable to the inflated guesses are all doing real damage to the long-term health of not only the telecom marketplace but the economy in general.

Of course, I don't really care about whether someone made or lost money on their Netflix stock the other day. What I'm really worried about is that the folks who run these companies have lost sight of the true value of those companies. They have become so myopic that long-term planning is losing out to short-term numbers, and those numbers, too often, are just guesses to begin with! Volatility will always be part of high tech because of the nature of our business. Let's not make it harder than it already is.

Steve

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