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WHAT THE INDUSTRY READS FIRST

The Reckoning: The Fallout of Netflix's 1Q22 Failures

Netflix stock fell another 35 points Wednesday one day after the streaming giant recorded its first subscriber loss in more than a decade, and analysts believe this is more than a one-time miss. It could be an indicator of a major shift in the streaming landscape, consumer demand and the long-term benefits to launching direct-to-consumer services.

MoffettNathanson maintained its "Neutral" rating on Netflix, but has reduced its target price by \$105 to \$245. "At almost every single impasse they have faced before, the company found a way to safely maneuver before hitting the wall. However, this time it feels different as the first quarter 2022 earnings release, investor letter and video interview portrayed a company that was more surprised by things and less clear than ever about the path forward," the firm said in a note.

Rich Greenfield of **Lightshed Partners** also felt the change in tone that came with Netflix's earnings announcement, saying the shift to focusing on problems like password sharing would indicate that management is worried that the slowdown in SVOD demand is more than just a temporary problem. "Simply put, Netflix felt vulnerable yesterday in a way that it never has before, similar to how we felt about **Mark Zuckerberg's** comments on **Meta's** last earnings call," he said in his analysis.

Management used the company's 1Q22 earnings call to

highlight opportunities to return to growth, including the addition of an ad-supported service tier. It is pretty committed to launching the product after seeing its peers find great success with the offering. In other words, don't expect a soft launch in just a few markets before Netflix debuts the ad-version in the U.S. or Canada.

"I think it's pretty clear that it's working for **Hulu**. **Disney** is doing it. **HBO** did it. I don't think we have a lot of doubt that it works, that all those companies have figured it out," Co-CEO **Reed Hastings** said. "I'm sure we'll just get in and figure it out as opposed to test it and maybe do it or not do it... But again, it would be a plan layer like it is at Hulu. So if you still want the ad-free option, you'll be able to have that as a consumer."

Mining revenue out of those sharing passwords was also highlighted as an area of opportunity, but that one is a little trickier to manage. Netflix launched a test in March in Chile, Costa Rica and Peru that allowed an extra member to be added to standard and premium plans for an additional \$2.99USD on top of the subscription plan rate. COO/Chief Product Officer **Greg Peters** said the streamer will likely be testing efforts to generate revenue from password sharing for a year before globally launching a solution.

"If you've got a sister that's living in a different city and you want to share Netflix with her, that's great. We're not trying to shut down that sharing, but we're going to ask you to pay a bit more to be able to share with her so that she gets

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the benefit and the value of the service, but we also get the revenue associated with that viewing,” he said.

Evercore ISI said Netflix moving in a serious way to combat password sharing helps everyone in the DTC space, but nobody else had the flexibility to experiment in the space until Netflix took a stance.

“Consumers don’t just share Netflix passwords, but also their **HBO Max, Disney+, Peacock, Paramount+**, etc. etc. accounts,” the firm said in a note. “It’s worth noting that password sharing is a hard problem to solve: (a) defining exactly where the line between acceptable and unacceptable account sharing isn’t straightforward, and (b) identifying and preventing unacceptable account sharing without alienating customers is a real technical problem as well.” Evercore also said a slowdown in Netflix’s investment in content will benefit the entire industry, putting less pressure on media companies to increase their programming budgets in an effort to compete.

9TH CIRCUIT OKS CA NET NEUTRALITY LAW AGAIN

California’s net neutrality legislation is allowed to go into effect, a federal appeals court affirmed Wednesday. Back in January, the Ninth Circuit denied a petition from **ACA Connects, NCTA, USTelecom** and **CTIA** that asked the court to overturn a district court’s decision to deny a preliminary injunction against the California Internet Consumer Protection and Net Neutrality Act. Now it has denied the group’s petition for a rehearing from the full court. “The full court has been advised of the petition for rehearing en banc and no judge has requested a vote on whether to rehear the matter en banc,” the court said in the single paragraph that made up the order.

ROGERS LOOKING FORWARD TO SHAW COMBO

Rogers Communications is optimistic that it is well on its way to acquiring fellow Canadian operator **Shaw Communications**, having crossed what it believes to be most major hurdles. On the company’s 1Q22 earnings call Wednesday, leadership reiterated its belief that the transaction will be closed by the end of the second quarter, more than a year after the deal’s announcement in March 2021. The company is staying relatively mum when it comes to what the wireless landscape in Canada will look like when two of its major players become one à la **T-Mobile** and **Sprint**, but President/CEO **Tony Staffieri** said Rogers is doing whatever it takes to quell the fears of regulators that the combination will prove more negative than positive. “What I can reiterate are the Minister’s comments that he expects to see a solution that continues to have a fourth robust wireless operator in this country. He said what he said, and so we continue to work with the government to close the transaction,” Staffieri said. “We continue to be confident we’ll close this in the second quarter.” CFO **Glenn**

The WHO and the WHY

CFX’s spotlight on recent new hires & promotions



TODD
Koetje
CFO
CABLE ONE

3 THINGS TO KNOW

- Todd was named Cable One’s next CFO by its board, effective July 1. He’ll succeed Steven Cochran, who will serve as a consultant to the provider through early January 2023. Todd originally joined Cable One in September 2021 as SVP Business Development and Finance.
- Todd has over 20 years of experience in capital markets, telecom industry and financial leadership. Before joining Cable One, he was the Managing Director and Group Head of the Technology, Media & Telecommunications Leveraged Finance team at Truist Securities. He was with the investment bank for 22 years.
- Since January 2015, Todd has served on the Board of Directors for the Special Operators Transition Foundation, a non-profit organization dedicated to helping Special Operations Forces veterans transition from the military to their next career. He graduated from Florida State University with degrees in finance and marketing.

Brandt said the leadership team is deep into evaluating the synergies that will come with that deal close. That has started with conversations with vendors and suppliers to understand the true size and scope of the company post-merger. As we’ve seen with the WarnerMedia-Discovery transaction and plenty of others that came before it, the biggest evaluation to come is that of the workforce and leadership of the combined company. “On people costs, it’s twofold. One is just looking at some of our operations and functions and making sure that we are focused on the right activities and we are properly sized for that,” Brandt said. “It’s also creating headroom for coming together with Shaw and starting the exercise of just making preparations for when we do close on the Shaw transaction so that we’re able to come together with a combined entity that has leadership coming from both sides.”

T-MOBILE SCORES MILLIONTH INTERNET CUSTOMER

T-Mobile celebrated a major milestone for its fixed wireless broadband product Wednesday as it surpassed one million home internet customers. That would imply it has added more than 350,000 subscribers since the start of 2022. The news comes just more than one year since the mobile carrier made the service commercially available. More than 40

million U.S. households nationwide are eligible for 5G Home Internet service. It expects to have 7-8 million fixed wireless customers by 2025.

BATTLE OF THE BRANDS

Beta Research conducted a study on brand identity, looking at which channels are liked by adult viewers and which ones they find beneficial. The study found 56% of network viewers age 18+ describe **National Geographic** as their favorite channel. **Investigation Discovery** checked in with 54%, while **Discovery Channel** and **Disney Channel** reached 53% and **History Channel** and **Comedy Central** at 52%. **INSP** was the top-ranked digital basic cable network with 52%. The **Weather Channel** topped the list of networks viewers 18+ find valuable at 63%, followed by History Channel and Nat Geo (59%), **Animal Planet** (58%) and Discovery Channel and Disney Channel (56%). News networks **Fox News**, **CNN** and **MSNBC** had 55%, 54% and 53%, respectively. When it came to channels with programs respondents like or would watch on a streaming service, Disney Channel was the only network to breach 50% at 54%, with **Bravo** and **Freeform** at 49%, **Animal Planet**, **OWN** and **Paramount Network** at 48% and Comedy Central and **WE tv** at 47%.

COMCAST DIVES INTO HOLLOWCORE FIBER

Comcast revealed Wednesday that it has deployed what it believes to be the first end-to-end deployment of advanced “hollowcore” fiber optics in the world by an ISP. It connected two locations in Philadelphia and successfully tested bidirectional transmission and produced traffic rates ranging from 10Gbps to 400Gbps. Hollowcore fibers offer a number of benefits, delivering lower latency than traditional fiber infrastructure. Comcast said this is a next step to support its hopes of delivering multi-gigabit speeds and, eventually, 10G. It worked with hollowcore fiber cable solutions provider **Lumenisity** on the deployment.

COMCAST INVESTS IN BACKSTAGE CAPITAL

Comcast invested \$1 million in **Backstage Capital** to support underrepresented startups at early stages. Led by Comcast NBCUniversal’s Startup Engagement team, the pledge will go toward Backstage Capital’s Opportunity Fund, which supports startups led by women, POC and/or LGBTQ+.

DIRECTV LAUNCHES BASEBALL AD CAMPAIGN

DirecTV is kicking off an ad campaign featuring baseball legends *Alex Rodriguez*, *David Ortiz*, *Ken Griffey Jr.* and *Randy Johnson*. Called “GOATbusters,” the national campaign builds on the first part of DirecTV’s “Get Your TV Together” ad series and highlights DirecTV Stream. An AR game is available on Facebook and Snapchat filters as well.

CARRIAGE

HBO Max is now a partner in **+play**, Verizon’s platform that allows users to find, buy and manage streaming subscriptions across devices in one location. The platform also lets users learn about deals and offerings for content services.

OPENVAULT WINS DATA PROCESSING PATENT

OpenVault has been awarded a patent for techniques that allow

for the faster retrieval and processing of data by removing various bottlenecks that occur as the data moves through overwhelmed systems. In the patent, the company lays out a method where a field programmable gate array can be configured to receive and perform pipeline processing on streaming data. If done as specified, the array can accelerate search and retrieval functionality.

PROGRAMMING

“The American Presidency with *Bill Clinton*” will premiere May 30 at 1:30pm on **History Channel**. The six-part series is hosted and executive produced by President Clinton and explores the history of the U.S. presidency. – **Crown Media Family Networks** signed a multi-picture overall deal with *Taylor Cole*. Cole has starred in multiple **Hallmark** movies, including “Making Spirits Bright” and “South Beach Love.” – **HBO Max**’s “Entre Nos: Carmen and Alfred” will premiere May 6 at 10pm. In the latest edition of “Entre Nos,” *Carmen Morales* and *Alfred Robles* discuss advice on family and relationships. – **Showtime** ordered limited series “Fellow Travelers,” based on the romance novel written by *Thomas Mallon*. – **Peacock** will live stream **NBC**’s Triple Crown horse races for the first time. The action begins at 2:30pm ET on May 7. **NBC Sports** will present more than 20 hours of Triple Crown coverage across **NBC**, **USA Network**, **CNBC** and **Peacock** this spring.

PEOPLE

The **Video Advertising Bureau** made *Benjamin Vandegrift* its newly created VP of Measurement Solutions. He’ll lead VAB’s industry modern measurement initiatives focusing on demystifying complexities in TV measurement, as well as collaborate with VAB’s Measurement Innovation Task Force and other industry partners. – **Frontier** hired *Vishal Dixit* as its Chief Strategy Officer, where he’ll help accelerate Frontier’s fiber strategy. Dixit joins from **Vodafone** and will report to Frontier CEO *Nick Jeffery*. – **Hearst Media Production Group** named *Jessica Mathies* VP, Development, where she’ll focus on unscripted program development for TV stations, broadcast and cable networks and streaming services. Mathies was previously an Executive Producer for **Hearst Television**. – Former **Tubi** exec *Andrea Clarke Hall* has joined venture capital firm **Andreessen Horowitz** as Business Development Partner. – *Steve McGaw* will retire from **AT&T** in September after more than three decades with the company. He currently serves as SVP, Corporate Strategy and Development. – *Tricia Alcamo* was named Chief People Officer for **FanDuel Group**. She most recently served as Group VP, HR for **Charter**’s Spectrum Enterprise. – *Joy Baer* joined **Firstlight Media**’s board. Baer was a founder and CEO of enterprise software solutions developer **Spot Buy Spot**, which was sold to **Comcast** in 2007. – **Magical Elves** hired *Dan Goldsack* as EVP of Development. He’ll lead the development team and oversee all development across the company and will report to Co-CEOs *Jo Sharon* and *Casey Kriley*. Goldsack has over 20 years of experience, most recently being the Head of Factual Entertainment at **Burning Bright**.

Think about that for a minute...

Network

Commentary by Steve Effros

Remember the 1976 movie “Network?” The signature line was “I’m mad as hell and I’m not going to take it any more!” It was nominated for 10 Oscars and Peter Finch won “Best Actor” while Faye Dunaway got “Best Actress.” (Sorry, but that’s what it was called back then!) The satirical plot by Paddy Chayefsky revolved around a flailing broadcast network and a lead “news” anchor threatened with losing his job because of declining ratings.

The network’s solution: promote getting mad, saying outrageous stuff and yell a lot. Change the nature of the show from “news” to “entertainment” and watch the ratings soar! Sound familiar? Well, I won’t go into the whole thing, it gets a lot worse, but you get the point. Finch’s character was named Howard Beale, not Tucker Carlson, but the eerie similarities to what has actually happened to the “news” business is something to marvel at.

Now we have a different type of “network” power as well: the “tech” or “social media” networks. They’ve gotten just as dislodged from responsible journalism. Beale lived in a world where there were at least still editors and the “network” was still responsible for what was distributed.

Today’s networks thrive precisely because they don’t assume that responsibility and were originally conceived as being totally open platforms where anyone could say anything. That didn’t last when we found out just how irresponsible and crazy some folks are. The “live” Christchurch New Zealand shootings come to mind. So at least a minimum amount of curation and monitoring was initiated. But that, in turn, created political angst, particularly when some individuals and groups chose to promote claims that were proved totally untrue, but rallied significant support. When that “ratings” generating nonsense reached a certain point it got shut down, and now folks are concerned about too much “censorship.”

I would point out that there is a difference between censorship and curation, but that’s for another column. For now we’re just faced with claims of a “loss of freedom” when anyone can’t say anything they want and even remain anonymous at the same time!

You know where this is going. Twitter is a great example right

now, and the wealthiest billionaire in the world is making a bid to buy the company and take it private, in part, he says, to return it to its roots. I take that to mean unfettered, uncensored, wildly flailing “freedom.”

Is that really what Elon Musk wants? Who knows. It’s certainly not a great business play, Twitter is still losing money from its main sources of income, advertising and data sales. So why else would Elon be playing this game, unless it’s just a game! I certainly don’t know, and the Twitter board has made it clear they are opposed to a takeover. They adopted some “poison pill” provisions to their Bylaws last week. But Elon has a lot (really, a LOT) of money. He could still pull this off. It would not only be a bad idea, I doubt in the long run it would work.

You see our new “networks” are all about accumulating linked, massive numbers of users. But unlike the old telephone networks, for instance, a new one can gain traction and interest very quickly. No new infrastructure is required, there is nothing preventing users from switching from one network to another almost instantly. Think of what TikTok has done. It’s only about five years old! If Elon got control of Twitter and turned it into an out of control firehose of “mad as hell” spewing commentators, how long would it be before the “network effect” of folks moving to a new platform started to happen?

The yelling may be fun for a while, but eventually the ratings fall again. Spoiler alert; Beale died at the end of the movie.



Steve

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(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.)



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