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Fine Print: Sinclair Details Mechanism for Sports Fee Refunds

With live sports cancelled for the time being, everyone from investors to the NY attorney general are asking what's going to happen to the money consumers and distributors pay to carry and watch professional sports. **Sinclair** CEO *Chris Ripley* offered some answers on how the broadcaster approaches its sports rights and distribution agreements Wednesday during the company's 1Q20 earnings call, noting that some sports rights agreements RSNs ink with professional sports teams and distributors carry a minimum game delivery obligation. Should Sinclair not be able to deliver that minimum, he said, distributors can recoup their portion of their carriage fees... but that mechanism usually isn't triggered until the end of a season or calendar year. "While we believe sports will come back this year and be in high demand at this time, the leagues have not indicated when games will resume. Therefore, we do not know where we will end up in relation to the game delivery minimums," Ripley said. He added that the **NHL** and **NBA** regular seasons were almost complete when their seasons were suspended, so shortfalls in those weeks, if any, should be minor. Ripley does not believe the current environment will impact any of its upcoming distribution renewal discussions, including those with **Comcast** this summer. "We do expect sports to resume, more than likely sometime this summer. We also think from the data we've seen that there is going to be a very large pent-up demand for sports," Ripley said. "So, in some sense, I think this gives us a stronger hand." Sinclair said there are no updates on its continued negotiations with **DISH** to restore the RSNs to its offering. While the broadcaster's first quarter didn't suffer from significant COVID-19 disruptions, Sinclair warned that it expects the effects of the pandemic to intensify through the next one. Like many others, Sinclair has withdrawn its previously issued FY20 guidance. Consolidated revenues increased 123% YOY to $1.609bln, largely stemming from the company's acquisition of the 21 **Fox** RSNs and Fox College Sports in August. Excluding the RSN acquisition, media revenue rose by 17% because of increases in political advertising and higher retrans revenues. Sinclair still believes political advertising will reach record levels in the coming months thanks to the November election, despite the pandemic's impact on advertising. It still expects to deploy ATSC 3.0 in approximately 12 markets by the end of the year. The new platform will expand usage of the broadcast frequency on which a station is transmitting, allowing for more targeted advertising and programming as well as non-television data services.

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Better-Than-Expected For Discovery: While **Discovery**'s US ad revenue may have dropped 20% in the US in April, the company reported better-than-expected earnings. In a broad-ranging earnings call on Wednesday, Discovery CEO *David Zaslav* and CFO *Gunnar Wiedenfels* spoke on the Olympics, sport networks in general, the COVID-19 crisis, advertising and the importance of its lifestyle networks. International advertising is down 40%, but Wiedenfels said that May and June look better (so far) and sees signs of stabilization in China, Taiwan and South Korea. Zaslav argued that Discovery's networks including **HGTV** and **Cooking Channel** are the "new sports." "We're the real time player right now on television," said Zaslav. "We've skirted most of the sports issue, and we're leaning into our channels like we are sports." He said that several of Discovery's global distribution partners have asked to include a number of Discovery's channels in their free previews for broader availability. "While this incremental distribution will mostly be temporary, viewership across networks like **DIY** are up over 100%, and many of our networks are reaching all-time highs." While Discovery may not necessarily be hurting in the US from a lack of live sports, **Eurosport** ratings are down internationally. "Having no sports is a challenge for all of us," he said, but noted that the majority of Discovery's deals have either force majeure provisions or provisions that specifically relate to not paying for content that it doesn't receive. However, Zaslav said the delay of the Olympics to 2020 may "be a little bit better" for Discovery, noting it gives the company more time to build up its digital DTC platform, as well as the possibility to string together advertising deals in both the Summer and Winter Games. Discovery is in no hurry to restart traditional production, citing the importance of its employees' safety after several workers were infected with the coronavirus early in the pandemic."Those were 14 of the toughest days for me in my life," said Zaslav. "They got sick coming to work. We're working remotely so effectively. We don't want to push anybody into the field. We don't want to have that feeling again." Discovery has created 350 hours of new programming since the crisis began. Zaslav also took the chance to slam large bundles, especially sports. "What we should have in the US is what everyone else has, which is a bundle of content that doesn't have sports that would be very affordable and would likely see a very quick turnaround in this issue of subscriber loss," he said. "We have an overstuffed bundle where sports has been stuffed in and leveraged in, which is one of the reasons we see the challenge that the US marketplace has been seeing where subs are flat or slightly growing around the world and declining here." Discovery stock closed down 1.86% to $20.85.

T-Mobile Celebrates Sprint Combination: In its first earnings call since closing its merger with **Sprint**, **T-Mobile** reported record 1Q20 service revenue of $8.7bln, up 5% YOY. Net income was also up 5% to reach $951mln. T-Mobile reported 777K postpaid net additions, 452K of whom were postpaid phone additions. Postpaid phone churn dropped to 0.86%, down two basis points YOY. The company is now moving full speed ahead on its post-merger plans, and will soon deploy

5G sites in Philadelphia and NYC using Sprint's 2.5GHz spectrum. T-Mobile, which added the cities of Detroit, St Louis and Columbus along with the Bay Area within the past week, claims its 5G network covers 215mln people.

Mediacom 1Q20 Results: **Mediacom** reported revenue of $517.5mln in the quarter, a 3.9% increase YOY. The operator now has 1.349mln HSD customers, a 4.7% rise from March 31 of last year, and customer relationships were up 0.7% to total 1.377mln.

Sinclair Settles Tribune Investigations: **Sinclair** agreed to pay a $48mln civil penalty to the **FCC** and abide by a compliance plan in order to close an investigation into the company's disclosure of information related to its proposed **Tribune** acquisition. The deal also closes investigations into whether the company met obligations to negotiate retrans consent agreements in good faith and its failure to identify the sponsor of content it produced and supplied to both Sinclair and non-Sinclair television stations. "Today's penalty, along with the failure of the Sinclair/ Tribune transaction, should serve as a cautionary tale to other licensees seeking Commission approval of a transaction in the future," FCC chmn *Ajit Pai* said in a statement." The civil penalty against Sinclair is the largest paid by a broadcaster to the FCC, and is nearly twice the prior record $24mln paid by Univision in 2017.

Upfronts Update: Instead of a singular upfront presentation, **Disney** is hitting the (virtual) road with single presentations to clients. Disney Advertising Sales is presenting a "Virtual Roadshow," which it describes as a 30-minute customized video showcase to each agency holding company and their clients, taking place May 26-June 1. The company will also produce additional "bonus episodes," approx. 1-3 minutes long, with additional detail around areas of interest including advanced advertising capabilities, data and programmatic offerings and individual brand showcases. Everything will be housed in a password protected section of Disney's trade website for repeat viewing. Disney also plans to bring back unspecified Disney traditions. -- As part of **WarnerMedia's** digital advertiser presentation (instead of a formal upfront), **CNN** pres *Jeff Zucker* said in a video that the net is seeing its highest consumption in its 40-year history. "There has never been a more important time for CNN," Zucker said. "The world is relying on CNN for the truth and the facts. And we take this responsibility very seriously."

NBCU COVID-19 Cuts: **NBCU** is cutting pay for its senior management team by 20% and for all those making more than $100K by 3% in response to financial stress from the COVID-19 pandemic. On-air talent at **NBC News** will take a 3% pay cut. *WSJ* was the first to report the news. In a memo to staff, NBCU CEO *Jeff Shell* announced reductions to travel and entertainment budgets, as well as to the use of outside consultants. Shell and other members of the Comcast senior leadership team announced in early April that they would donate their salaries to COVID-19 relief efforts.

Peabody Awards: The Peabody Awards announced its 60 nominees across broadcasting and digital media of 2019. **PBS** and **HBO** lead with 11 and seven respectively, followed by **Netflix** with five, **Amazon** with three, and Showtime and **CNN** with two.

Getting Back to Work: **C2HR** is launching a webinar series to help industry employers transition their workers back to work. Entitled "The Re-Entry Journey," the series will kick off Thursday at 2pm with a session on employment law. Future topics will include the return to work strategy and rethinking workspace design and logistics. The webinar series is sponsored by **Charter** and **The Cable Center** and is free for all participants.

Distribution: **NBCU** and **Apple** have struck a deal that ensures **Peacock** will be available on Apple devices when it launches nationally on July 15. The streamer will be fully integrated with the Apple TV app, allowing customers to find Peacock content in the Watch Now section or search for content using Siri. Peacock will offer a free tier as well as a $4.99 tier with additional content and a $9.99 ad-free tier.

Programming: **Nick** greenlit two virtually interactive series to premiere this summer. "Group Chat: The Show" is a video chat rundown of the week's latest hot topics, and "Game Face" is a game show where a panel must guess the identities of virtually disguised celebrity guests. -- **Travel Channel**'s *Don Wildman* will explore some of mankind's wildest legends in "Buried Worlds with Don Wildman," premiering June 8 at 9pm. -- **YES Network** is heading back to 1995 with "Mariano Rivera: Enter Sandman." The special, airing Sunday at 7pm, looks back on Rivera's best outing as a Yankee and includes new commentary from the pitcher, then-Yankees manager *Buck Showalter* and more.

People: **Cox Media Group** pres/CEO *Kim Guthrie* is leaving the company after more than 22 years. *Steve Pruett*, CMG's executive chmn, will serve as interim CEO until a permanent replacement is named. -- Ad tech veteran *Katie Back* has joined **Firstlight Media** as CRO. Back last served as head of strategic partnerships and business development at **FreeWheel**.

Think about that for a minute...

Funding Our Future

Commentary by Steve Effros

The cable industry has unique expertise in being responsible for funding arts and entertainment. We may not have intended to, but we certainly, over the years, wound up being one of the biggest promoters and funders of news, sports, entertainment and to some degree arts in general. We also took most of the blame.

The way all this worked is that when a paradigm shift started to take place, the proliferation of video, it was delivered to everyone's home through cable. Rather than just three or four television networks, we helped spawn dozens, and then hundreds. The sports networks, the news networks, the weather networks, and yes, the arts networks, the science networks, the travel networks and so on. These networks, in turn, had to secure product. They developed sources for programming around the world. They created new drama, musical and dance material, "original programming" became one of the hallmarks of the successful networks.

All this spawned a lot of opportunities for writers, artists, their associated producers, directors, choreographers, camera operators, etc. And all of those folks got paid through the networks, which bought their creations and then sold them to the cable aggregators who then provided that programming to subscribers. We were responsible for sending the bill. Hence, we got the "blame" when that bill went up. I need not go into the whole issue of sports fees. The players are multimillionaires in many cases, the leagues and team owners likewise. Sports networks are the single most expensive part of the programming cost cable operators bear, and we're the ones sending the bill to customers. We're the ones they wanted to hang from a local light pole.

But now things are changing. "Streaming" and "a la carte" programming are finally bringing the reality home to viewers of news, sports, the arts, etc., that these things come with a cost. And that cost is inevitably going up. The current pandemic is going to change the landscape forever on those costs, another paradigm shift, and we'd better start considering that reality now.

I'm particularly concerned about the arts. Symphony orchestras, dance companies, live theater are all sidelined. The artists are being doubly squeezed because their normal "go to" source for a living wage while they engage in their wonderful passions is usually working in a restaurant! Those are shut down too! We cannot afford to lose our artists. They're the ones who nourish our humanity.

At the same time, we know that when those performing, creative artists finally get back to work, simply "raising the rates" won't work. We've seen what happens when the costs, like a "cable bundle" get too high, and we've also seen that "a la carte" programming tends, for obvious reasons, to aim at the lowest common denominator. There's going to have to be another way, and that's going to get even more obvious as robotics and AI take more jobs away and more folks are going to have to be supported by their creativity rather than mundane work.

Simply raising live performance ticket costs or subscription fees is a guaranteed way to kill the arts. Remember that light pole. We're going to have to redirect societal funding to more fully support the arts. How we do that is a subject for more consideration, and I invite you to make suggestions. At the end of the day, however, we're going to be judged not by how many aircraft carriers or oil wells we financed, but the art and creativity we helped to flourish.

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.)