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WHAT THE INDUSTRY READS FIRST

Diet Plan: Warner Bros. Discovery Targets 'Chunky,' Questionable Investments

Warner Bros. Discovery's management team used Tuesday's earnings call to emphasize that they think they can manage the **WarnerMedia** assets better than their predecessors. "We will clearly take swift and decisive action on certain items, as you saw last week with **CNN+**, while others will take time to formulate appropriate action plans. We've detailed a \$3 billion+ cost synergy plan, and we're already on our way" with those efforts, WBD CEO *David Zaslav* said at the start of the first earnings conference call for the new company Tuesday, just 18 days after the transaction closed.

CFO *Gunnar Wiedenfels* was even more direct, saying that looking at WarnerMedia for the past 16 months or so, there's \$40 billion in revenue and virtually no free cash flow. "Right or wrong, management has made a decision to invest the incoming funds into a number of investment initiatives. And as I'm looking under the hood here, CNN+ is just one example," he said. "I don't want to go through the list of specific examples. But there's a lot of chunky investments that are lacking what I would view as a solid analytical financial foundation, and then meeting the ROI hurdles that I would like to see for the major investments."

WarnerMedia's 1Q22 operating profit and cash flow, reported last week by **AT&T**, were "clearly below" WBD's expectations. WarnerMedia's operating income was \$1.3 billion, down 32.7% year over year. As a result WBD now estimates the profit baseline for 2022 will be around \$500 million dollars

lower than what was previously anticipated, Wiedenfels said. He added that there is a positive offset of a couple hundred million dollars on the **Discovery** side of the company. "Being the first year of our integration, and as we've explained all along, 2022 will undoubtedly be a messy year," the CFO said. "A lot of moving pieces and now a somewhat less favorable starting position. The good news, on the other hand, is that I also see more opportunity as I worked through the numbers. There are certain investment initiatives underway in plain sight that I don't think have attractive enough return profile."

Management repeatedly reiterated 2023 guidance and said it is analyzing, with the creative and financial teams, the ROI of its \$23 billion content spend. It's also zeroed in on marketing for cost synergies, noting the combined company spends \$5 billion+ a year on marketing—a figure that doesn't include the opportunity cost of cross-promoting across the portfolio. Shares of WBD closed down nearly 8% Tuesday at \$19.83.

CEO Zaslav made it clear that decisions on content windowing, capital allocations and so forth are all on the table. "We have no religion about any one platform or window versus another. And we intend to approach each and every decision through a lens of enhancing asset value against the set of financial returns. Our goal is to maximize long term shareholder value and asset value, not just subs. We will not overspend to drive subscriber growth," Zaslav said.

Investors' No. 1 question is whether that lack of free cash flow at WarnerMedia is due to mismanagement by prior own-

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ership or due to a business model focused on expensive, premium, scripted content, **MoffettNathanson** analysts said. The firm is maintaining its “Neutral” rating on WBD, but reducing its price target by \$3 to \$24, citing an elevated debt load, uncertainty around key strategic questions and pressure over AT&T’s shareholder base potentially inclined to sell the 71% stake due to a different investment profile.”

Zaslav called Discovery a “free cash flow machine” that will bring the discipline and focus to WarnerMedia’s treasure trove of IP. As for combining **HBO Max** and **discovery+**, he said it makes perfect sense, saying their research shows that people who love HBO’s “Euphoria” rate “90 Day Fiance” as their second-favorite show. “When you put all of this diversity of content together, there’s content for kids, there’s content for teens, it’s basically everybody in the family. Why would you go anywhere else? We have all the movies, we have library content that you want,” he said. While **Netflix** looks to crack down on password sharing, WBD said that it doesn’t seem to be a rampant problem at HBO Max or discovery+.

As for linear, it may be declining, but there’s still money there. Zaslav, a former **NBC** exec, said broadcast was declining for 20 years and still saw CPMs increasing and they continue to do so. “Long term, there’s no question that the [linear] business is challenging. But CPMs are increasing, advertisers still are looking for it. They’re chasing and chasing for inventory because it’s the most effective inventory in long form video,” he said.

Financials for WBD only include Discovery, which saw revenue rise 13% to \$3 billion. Discovery’s DTC subs increased 2 million since the end of 4Q21 to 24 million.

NCTA’S POWELL SEES POWER OF THE BUNDLE

“The future is bright—but it won’t be linear,” the head of the principal trade association for the U.S. broadband and pay TV industry said. **NCTA** President and CEO *Michael Powell* made the remark Tuesday at a virtual **Media Institute** event, where he also noted that bundles seem to be “creeping back” due to the sheer number of services available and the difficulty of finding specific programs. “Content curation is becoming even more important in a sea drowning in content,” Powell said. “You think about the **Warner Bros. Discovery** merger and them supposedly [planning] to put those platforms together. That’s just so much content that you have to curate an effective interface to find stuff.” Even with **Netflix**’s recent sub losses, Powell acknowledged that the top video subscription services in the U.S. are all OTT providers—and yet FCC pay TV rules are focused primarily on cable operators. He commended the Commission for looking at reforming various regulations that were made when the overall TV market predated streaming services, but the former FCC Chairman doesn’t think the agency can treat vMVPDs and OTT players the same as cable operators. “I think it’s a contorted interpretation of the statute to suggest that the Commission has the authority to classify video providers who are not facilities-based as MVPDs,” Powell said, adding he worries such an action would be a “breath-taking expansion” of authority. Broadcasters have been pushing for the FCC to step in because they want to negotiate retransmission consent deals with vMVPDs, such as **YouTube TV**, the same way they do with traditional MVPDs. The discussion, which was led by former FCC Chair *Dick Wiley*, touched on several regulatory hot potatoes—including net neutrality, natch. Powell called the expected FCC rulemaking

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to return broadband to a Title II classification a “massive distraction” from the real internet priorities: building infrastructure and curtailing excessive power of big tech companies.

GOP TO NTIA: STICK TO THE RULES FOR BEAD

Republicans across Congress have weighed in on how the **NTIA** should implement the broadband programs included in the Infrastructure and Jobs Act. In a letter to NTIA head *Alan Davidson*, Senators *Roger Wicker* (R-MS) and *John Thune* (R-SD) and Reps. *Cathy McMorris Rodgers* (R-WA) and *Bob Latta* (R-OH) asked him to commit to not awarding any funds until the **FCC**'s revised broadband maps are released later this year. They also pushed him to refrain from implementing any unnecessary requirements and to provide an equal opportunity to all providers that have proven track records of successful, cost-effective deployments. “Closing the digital divide is a top priority of Congress, but this will only be achieved if NTIA carefully administers these programs and prioritizes unserved and underserved communities based on accurate data,” the letter read. “NTIA cannot afford to repeat the mistakes of the past.”

ROKU, LIONSGATE MAKE OUTPUT AGREEMENT

Lionsgate and **The Roku Channel** reached a multiyear output deal for Lionsgate films, beginning with 2022 theatrical releases. Terms state The Roku Channel will receive two separate windows for each film, the first of which provides exclusive rights to Lionsgate's film slate following its first window on **Starz**. The agreement includes “John Wick,” “Expendables 4,” “Borderlands” and others.

NIELSEN EXPANDS SMART TV DATA DEAL

Nielsen reached a multiyear agreement with **Vizio** that gives it the right to use Inscope Smart TV data in its local and national audience measurement solutions. The deal contains exclusivity for data gathered on the roster of 400 local stations. ACR data provides insights about what's being watched in U.S. households by measuring content on the TV glass, regardless of source.

REPS INTRODUCE SEMICONDUCTOR LEGISLATION

U.S. Reps *Anna G. Eshoo* (D-CA) and *Greg Pence* (R-IN) introduced bipartisan legislation to further enhance American semiconductor production and supply chains. The Semiconductor Supply Chains Act directs the **Department of Commerce**'s SelectUSA program to work with state-level organizations to create strategies that attract foreign investment in U.S. semiconductor manufacturing.

DISNEY BRANDED TELEVISION SHAKE UP

Disney Branded Television promoted five execs and adjusted its unscripted and nonfiction content development into three teams: Disney Original Documentary, Disney Branded Television Unscripted and Disney Branded Television Partnerships and Kids. *Marjon Javadi* was promoted to VP, Disney Documentary Films and Docuseries, Disney Branded Television, where she'll work with filmmakers on stories with universal and optimistic themes for **Disney+**. *Nicole Silveira* is now VP, Unscripted, Disney Branded Television and *Claire McCabe* is VP, Brand Partnerships and Kids, Disney Branded Television.

IFC FILMS DOES POST-THEATER DEAL WITH AMC+

AMC Networks is keeping it all in the family, with its IFC Films

division signing a Pay 1 deal that makes streamer **AMC+** the exclusive destination for film premieres direct from theaters (select titles will premiere day and date). Starting May 6, new movies from IFC Films, IFC Midnight and RLJE Films will release on Fridays, beginning with crime-drama “Clean,” followed by “Catch the Fair One,” “Dual” and “A Banquet.”

CLEARWAVE EXPANDS IN ILLINOIS

Clearwave Fiber is expanding its fiber network to Murphysboro, Illinois, as part of its goal to bring service to over 500,000 homes and businesses by 2027. Clearwave will bring 10x more speed to consumers and construction will begin in May.

NEWS, SPORTS TOP APRIL RATINGS

April showers bring ratings flowers for **Fox News**, which landed at the top of the pyramid for ad-supported cable in prime P2+ (2.36 million) and total day P2+ 1.52 million) for the month. NBA playoffs helped **TNT** to second place in prime with P2+ (1.7mln) and **ESPN** to third (1.35 million). **TBS** (1.2mln) and **MSNBC** (1.1mln) finish out the top five. On total day, MSNBC was a distant second to Fox News with 668,000 total viewers, followed by TNT (609K), **CNN** (582K) and ESPN (576K).

AWARDS

SCTE won a Technology & Engineering Emmy for the development of the Event Scheduling and Notification Interface (ESNI) standard SCTE 224. ESNI allows content providers to distribute alternative programming based on geographical region, timing and other related policies. This is SCTE's third Emmy win. – **NATAS** unveiled this year's Lifetime Achievement honorees for the 2022 Daytime, Daytime Creative Arts & Lifestyle, News & Documentary and Children's & Family Emmy Award ceremonies. Digital veteran *Yvette Kanouff* earned the Lifetime Achievement in Television Technology, recognizing her work in VOD and other technology efforts. Other honorees include *LeVar Burton* (Children's & Family Television) and *Judy Woodruff* (News Television).

PROGRAMMING

“Doug to the Rescue” returns for a second season set to premiere June 16 on **Curiosity Stream**. The season will have five episodes as *Doug Thron* travels to various parts of the world to rescue animals. – **Freeform** renewed “Single Drunk Female” for a second season. The series follows a young adult forced to move to her hometown to sober up and avoid jail time.

PEOPLE

TV One made two additions to its senior leadership. *Austyn Biggers* joins as SVP of Programming and Productions after previously being Head of Unscripted Programming at **Get Lifted Film**, and *Julia VanTuyl* was promoted to SVP of Advertising and Sales for TV One and **Cleo TV**. – *Michael Morton* joined **MoffettNathanson** as a Senior Research Analyst leading coverage of the e-commerce and internet marketplace sectors. He'll oversee efforts to build research expertise in these respective fields. Morton was last at **YouTube**, where he worked to identify emerging trends in the consumer internet landscape.