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WHAT THE INDUSTRY READS FIRST

Nexstar's Empire: Broadcaster Believes CW Deal Should Boost Retrans

Retrans-weary MVPDs are no doubt keeping a close eye on **Nexstar**'s transaction to acquire 75% ownership of **The CW Network**, with the deal expected to close in 3Q. "We believe we can bring it to profitability in 2025," CFO *Lee Ann Gliha* said on an investor call Monday.

Nexstar is acquiring the stake with no upfront consideration, meaning it's taking on the network's debt. "We expect to invest a low nine-figure amount over this three-year period as we implement our plan. We view this amount as a proxy for a purchase price—or an investment made over time—rather than an ongoing drag on cash flow," said Gliha.

Two keys to getting CW in the black are retransmission consent revenue and national advertising buys. On retrans, Nexstar is in a good position as the largest CW affiliate group with 37 CW and CW Plus affiliates, including affiliates in five of the top 10 DMAs. Nexstar stations account for 32% of the CW's national reach.

"Our approach will be unlike other broadcast network owners and the CW predecessor owners, as we will strive to grow the broadcast audience. Without a dual agenda of greenlighting programming capable of crossing over to an SVOD service, we will make decisions for the broadcast network based on what's best for the broadcast audience, which we believe will strengthen ratings, drive increased advertising revenue and affiliation fees and create new revenue opportunities," said Nexstar President and COO *Tom Carter*. Current CW owners **Warner Bros. Discovery** and **Paramount Global** will each retain a 12.5% ownership stake in CW and continue to produce original, scripted content for the network—primarily for the 2022-23 broadcast season.

Nexstar's path to CW profitability also includes seeking out cost savings, with it looking in the near-term at areas such as corporate overhead, digital infrastructure, ad sales and content acquisition. *Mark Pedowitz* will continue to serve as The CW's Chairman and CEO, with responsibility for day-to-day operations.

Longer term savings should come from a change in programming strategy. It sounds like we should expect less "Riverdale," more "Riverdance." "The CW is currently the lowest-rated network broadcast network, which we believe largely reflects the fact that its programming is targeted for an 18 to 34 audience demographic, while the average age of the CW broadcast viewer is 58 years," Carter said. Nexstar plans to reduce the focus on expensive original content and increase the mix of unscripted and syndicated programming.

With the *WSJ* reporting several weeks ago that Nexstar was close to a deal for the broadcast network, execs said the company already has received a number of opportunities for cost-efficient content.

Management said the acquisition doesn't need regulatory approval, and while it's not expected to close until 3Q22, Nexstar will begin managing the business immediately. "If we realize our vision, it will become one of the most accretive acquisitions that we have done," said Nexstar CEO Perry Sook, who has previously suggested the company is interested in buying more content, including cable networks. Not only does the deal give the country's largest local broadcast station owner a more diversified content portfolio, but it also delivers it a VOD play, with The CW app nearly surpassing 90 million downloads. Perhaps most importantly, the acquisition gives Nexstar a seat at the table regarding any potential future changes in the network affiliate ecosystem.

"Owning proprietary network content provides us with additional negotiating leverage and monetization opportunities for our stations and increases our exposure to the large and lucrative national advertising market," Sook said. "The CW almost exclusively sells its advertising nationally. The transaction enhances our existing national advertising revenues and presents Nexstar additional opportunities to bundle and/or separately market our network inventory with our local inventory, given the near nationwide reach of our television assets."

MVPDs should be especially interested in Nexstar's plans to increase affiliate revenues. Nexstar has had its share of retrans dust-ups over the years. **Comcast** and **Charter** have both filed informal complaints at the **FCC** against the broadcaster, claiming it's in violation of the 39% national audience cap because it has de facto control of NYC-based CW station **WPIX** through a Local Marketing Agreement with **Mission Broadcasting**. Nexstar had to divest WPIX in 2019 to stay under the broadcast cap following its $4.1 billion acquisition of Tribune. In return, Nexstar has litigation pending against Charter and Comcast over millions of dollars it says they owe for retransmission of the station.

Altice USA faced possibly losing WPIX at the end of 2021, but a multi-year deal was reached, preventing any disruption. In 2020, **DISH** customers lost 164 Nexstar stations and **WGN America** (now **NewsNation**) for 23 days before the two agreed to new retrans terms. At the time of the DISH deal, Nexstar said it had long-term visibility regarding future retransmission and carriage fees covering 90% of the company's footprint through 2022. So, get ready for Round 2 of negotiations...

DISNEY RESPONDS TO NEW INVESTOR OPINIONS

Activist investor *Dan Loeb* and his company **Third Point LLC** have purchased a stake in **Disney**, and it is already sharing its thoughts on how Disney should transform the business, Third Point suggested in a letter to CEO *Bob Chapek* that the company do whatever it takes to acquire **Comcast**'s minority stake in **Hulu** prior to its contractual deadline in early 2024. That would open the door for an integration of Hulu into **Disney+**. "We believe it would even be prudent for Disney to pay a modest premium to accelerate the integration but are cognizant that the seller may have an unreasonable price expectation at this time (while noting the seller has already made the decision to prematurely remove their own content from the platform)," the letter said. Third Point added that while it understands that **ESPN** content is successful, the business should be spun off to shareholders with a debt load that will alleviate leverage at the parent company. "Employees of ESPN could be compensated in a security directly tied to their performance. ESPN would have greater flexibility to pursue business initiatives that may be more difficult as part of Disney, such as sports betting," the letter said. "Customers of ESPN and sports leagues would be better served by a focused management team driving a leader-

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ship position in sports distribution." Disney hasn't specifically responded to all of the suggestions laid out in the letter, but it has fought back against one that asserted that Disney's board needs to be refreshed. "Under the leadership of Bob Chapek, the company has delivered this strong performance while navigating the COVID-19 pandemic and its aftermath, including record streaming subscriptions and the reopening of our parks, where we have seen strong revenue and profit growth in our domestic parks business," Disney said in a statement. "Our independent and experienced Board has significant expertise in branded, consumer-facing and technology businesses as well as talent-driven enterprises. The Board has also benefited from continuous refreshment with an average tenure of four years."

WBD LAYOFFS HIT HBO AND HBO MAX

HBO and **HBO Max** laid off approximately 70 employees Monday, part of the ongoing initiative to streamline **Warner Bros. Discovery** post-merger. Losses are largely focused on the HBO Max content side as the streamer's reality programming department shrinks and some of the leaders under HBO/HBO Max Chief Content Officer *Casey Bloys* receive expanded roles. Known departures include HBO Max EVP, Non-Fiction and Live-Action Family Originals *Jennifer O'Connell*, HBO Max EVP, Content Acquisitions *Michael Quigley* and *Linda Lowy*, an executive who handled casting at HBO Max and the T-Nets. HBO Max Head, Original Content *Sarah Aubrey* will add the Max Originals dramas to her portfolio and will weigh in on its international programming strategy. HBO Max's comedy department will now report to HBO's EVP, Programming and comedy head *Amy Gravitt*.

FCC RELEASES USF REPORT

The **FCC** released its congressionally mandated report on the future of the Universal Service Fund on Monday. It notes that the BEAD program and RDOF will result in substantial investments in broadband infrastructure that will impact how the FCC meets its high-cost program goals and thus recommends the FCC initiate a proceeding to consider the future support needs of networks serving high-cost and other hard-to-serve areas. The report noted that the record varies with respect to recommendations regarding USF contributions. "A wide variety of commenters called for legislation to expand the Commission's authority so it could assess contributions on the broadest range of service revenues, including from digital advertising and other online edge services that benefit from broadband networks," the report said. "A few commenters also suggested Congress should confirm the Commission's authority to assess contributions based on [broadband Internet access service revenues]." Assessing broadband revenues is opposed by **NTCA** and **CTIA**. The FCC said a Congressional mandate would clarify the Commission's authority with regard to such proposals and give it the legislative tools to make changes to the contribution methodology and base.

CURIOSITYSTREAM SUB GAINS

CuriosityStream reported total paying subscribers of approximately 25 million, a 25% increase YOY. That was largely due to a 215% increase in daily average upgrades to the streamer's "Smartest Bundle in Streaming" package, which includes CuriosityStream, **SOMM TV**, **Tastemade**, **Topic**, **Nebula** and **One Day University** for $69.99/year, since the release of a new upgrade path. Revenue hit $22.3 million, up $7 million from 2Q21. Looking ahead, the company expects revenue within the range of $21-23 million for 3Q22 and EBITDA loss within the range of $9-11 million.

REGULATORS QUESTION BROADCAST FEE INCREASE

Rep. *Tom Emmer* (R-MN) and 91 other lawmakers sent a letter to **FCC** Chair *Jessica Rosenworcel* Monday voicing their severe concerns over the agency's plans to increase fees on broadcasters in the 2022 fiscal year. The Commission's planned increase is 13% over 2021, coming out to approximately $7.3 million. The regulators argued the fee increase on broadcasters is disproportionate to the FCC's 2% budget increase and fee adjustments on the agency's other supervised entities. "Broadcasters provide a free service to the public and are unable to pass these costs on to their audience," the letter stated. "As a result, any substantial increase the FCC has proposed will have direct impacts on broadcasters' ability to invest in programming or equipment broadcasters require to provide quality local news and information to their communities." The bipartisan legislators are asking for an explanation on what additional benefits will be provided to broadcasters as a result of the fee increase and why the fee increase is so high.

NAMIC NAMES NEXT GEN LEADERS

NAMIC unveiled the recipients of the 2022 Next Generation Leaders Awards, which highlight business leaders of diverse ethnicity or race in the media and entertainment industries. This year's honorees are **Spectrum Reach** Group VP, HR & Administration *James Hendricks*, **Cox Communications** EVP/Chief People Officer *Kia Painter*, **ESPN** SVP, Programming and Scheduling *Freddy Rolón* and **NBCUniversal** SVP, Digital Products & Operations, Content Distribution *Monica Williams*. The four will be recognized at the NAMIC Conference during its Annual Awards Luncheon on Oct. 12 at 11:30am. NAMIC is also honoring eight executives as part of its 2022 Luminaries. Recipients include **Charter** VP, Community Impact *Rahman Khan*, **AMC Networks** VP, International Programming and Development *Noel Manzano*, *Warner Bros. Discovery* VP, DE&I, Programs *Grace Moss* and **ESPN** VP, Visual Storytelling, Digital Media *Chin Wang*.

PROGRAMMING

VH1 greenlit "RuPaul's Drag Race" and "RuPaul's Drag Race: Untucked" for their 15th and 14th seasons, respectively. – **Tubi** greenlit adult animated comedy "Breaking Bear," which follows three bear siblings who need to make money to save their home. – **Lionsgate** and **Peacock** agreed to a multi-year deal for the three-part special event "The Centennial." The "John Wick" prequel will premiere on the streamer in 2023.

PEOPLE

FuboTV selected *Lynette Kaylor* as SVP, Advertising Sales. Her role includes expanding advertiser relationships, increasing Fubo's programmatic and direct ad business and monetizing CTV ad inventory. Kaylor, most recently of **Merkury**, will report to co-founder/CEO *David Gandler*.