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WHAT THE INDUSTRY READS FIRST

Turning Point?: Charter Proposes New Video Model in Disney Talks

The industry took a collective gasp last night when **Disney** networks went dark on Spectrum, and it sounds like **Charter** is ready to hold its ground for the foreseeable future.

On an investor call Friday, Charter leadership explained that the standstill in negotiations isn't just about the dynamics of a three- or four-year distribution agreement. Instead, they saw this negotiation as an opportunity to establish a new hybrid linear and direct-to-consumer video model that could ultimately make the video business a healthier place to operate.

Charter claims that Disney offered the distributor a traditional long-term agreement with higher license fees, high penetration minimum payments and less packaging flexibility. The programmer also floated the idea of requiring distribution and payment for its DTC apps to linear video customers, according to Charter CEO *Chris Winfrey*.

Charter came to the table with a different offer that agreed to Disney's market rate increases, but requested carriage flexibility relative to its apps. It also agreed to support **ESPN** going direct-to-consumer so long as Disney's ad-supported DTC video apps were made available to Charter's linear video subs at no additional cost. Charter committed to market Disney DTC apps to its broadband customers as well.

Winfrey struck down rumors that Charter tried to force ESPN to be locked into a specific sports-only package. Earlier this year, the MVPD announced a package that excludes RSN programming to offer general entertainment at a reduced rate.

Charter leadership believes the plan it put forth would ultimately be a best of both worlds deal for everyone, leading to more sustainable revenue streams for Disney and preserving the traditional TV ecosystem while allowing for DTC innovation. The call made one thing clear—Charter is not going to be happy sticking to the status quo.

"We're either moving forward with a new collaborative video model or moving on," Winfrey said of any potential Disney deal. "Given how much of the expense is tied up in sports, Disney has to lead instead of pursuing the same playbook which drives a vicious cycle of video customer declines." When asked if this is how folks should expect Charter to approach all programming negotiations, Winfrey had a quick reply: "Simply put, yes."

Disney has disagreed with Charter's characterization of events, saying it proposed creative ways to make its DTC services available to Spectrum subscribers. Those included opportunities for flexible packages centered around those services. It also asserted its linear channels and DTC services are not the same, and it continues to invest in original content across all of its platforms.

"Charter's actions are a disservice to consumers ahead of the kickoff for the college football season on **ABC** and ESPN's networks," Disney Entertainment said in a Friday update. "We value our relationship with Charter and we are ready to get back to the negotiation table to restore access to our unrivaled content to their customers as quickly as possible."

As for how costly the Disney outage will be, time will ultimately tell. For now, Charter is showing a brave face. Charter President of Product & Technology Rich Digeronimo said a large group of the company's video customers subscribe to packages that don't include sports or other Disney content. Charter is still developing a plan on how to offer credits over time and plans to announce more on that in the future.

Winfrey did note that the longer the blackout lasts, the less likely it is that Charter will be willing to accept Disney's proposed terms. That's because as time goes on, the distributor plans to help bundled video and connectivity customers find a new video product that works for them in the hopes that they'll be able to preserve that broadband relationship.

Winfrey was careful to say that this is part of something larger at work, and the state of the video ecosystem isn't the fault of any one particular programmer. In fact, he believes distributors could have also done a better job of recognizing trends and making the right choices for consumers.

"Early on, the video industry had the opportunity to embrace changes in the way consumers access content through concepts like TV Everywhere. As an industry, we failed to come together quickly to create that consumer-friendly product," Winfrey said. What followed soon after was the move by programmers to make content available on the web and then-new streaming applications like **Hulu**.

MoffettNathanson agrees, saying in a note to clients that the stark reality is the media and distribution landscape has been building up to this moment for a long time.

"For Disney, this appears to be a no-win moment in time. If they agree to some of Charter's demands, they potentially will face an industry-wide reduction in minimum carriage guarantees and a reduction in revenues generated from selling their DTC services to MVPD customers," the firm said. "If they don't strike a deal, some unknown percentage of the $2.2 billion in annual affiliate fees that Charter pays to them will be lost depending on where the subscribers end up."

We'd be remiss not to notice the timing of the blackout as Charter and **Comcast** continue teasing **Xumo**, a jv to develop and offer a next-generation streaming platform on branded devices and smart TVs. Winfrey didn't spend much time talking about Xumo as we still have some time before the product is unveiled, but it will be a key part of Charter's video future. That's especially true if Disney networks don't come back to Spectrum lineups.

"It would be moving on without Disney content permanently and it'd be looking to our existing distribution platforms of **Roku**, **Apple TV** and then eventually Xumo to create new packages for general entertainment with more flexibility and the ability for consumers to add on al a carte direct-to-consumer packages as they see fit," he said.

DISNEY-CHARTER REACTIONS

Other industry players sitting on the sidelines of the **Charter-Disney** fight are keeping a close watch on what happens next. **DirecTV** is another MVPD that has been out front on the need for a shift in the video business, negotiating deals where its customers get reimbursed when they subscribe to a DTC service (it has deals in place with **Warner Bros. Discovery, AMC Networks** and **Paramount**, but not Disney…) and it's currently embroiled in a two-month long blackout with **Nexstar**, the country's largest broadcaster. "I think it kind of showcases that we're all kind of seemingly in the same spot. It's just enough is enough; the model's broken and you've got to draw a line in the sand somewhere. I'm glad to see the principled stance of what's fair that Charter's taking," DirecTV Chief Content Officer *Rob Thun* told ***CFX***. "I think we may have hit the wall or inflection point or whatever you want to call it. But I don't suspect this will be the last of the big fights. I think we're going to see more and more." **ACA Connects** CEO *Grant Spellmeyer* said the situation is even more dire for his small- and medium-sized member companies. "Unfortunately, for our members, it has never been harder to make a business case for providing cable TV service. No matter how challenging the situation may be for a large MSO, it is far worse for smaller operators who lack any leverage in negotiations with large content providers," he told CFX. "Our members are faced with perpetual rate hikes, demands to carry unwanted channels, and other onerous terms and conditions that get worse every negotiation cycle and that result in ever-increasing prices on customer bills. The time has come to fix the broken video marketplace for the benefit of consumers, especially those served by smaller operators who tend to reside in more rural and less populous areas." Disney has been the lone holdout of the larger content groups when it comes to allowing distributors to integrate **Disney+** or **ESPN+** into their experiences, which means they don't have to split the revenue pie. "When our deal is up, we're obviously going to push as well," Thun said. As for DirecTV's ongoing fight with Nexstar, he didn't sound ready to do a deal just because football season is here. "We're not… banking that we're going to come to terms for football season. We have to plan for the football seasons in the future, not just for this year," he said.

DISNEY BLACKOUT HISTORY

As we wait to see if this **Disney-Charter** dispute will extend beyond this weekend's college football match-ups, here's a look back at some of the other Disney dust-ups over the years:

• **May 2000: Time Warner Cable** loses Disney's ABC owned-and-operated stations in a dispute that lasts one day.

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•**March 2010:** On March 7, Disney-owned ABC7 goes dark on **Cablevision** for less than 24 hours, returning before the first Oscar is given out that night.
•**December 2021: YouTube TV** loses Disney networks for two days before the two reach a new agreement.
•**September 2022: DISH** loses Disney networks as well as its eight O&O ABC stations in a two-day blackout that includes a college football Saturday. Content is returned on a temporary basis until a new agreement is announced just before Monday Night Football on Oct. 3.

SLING'S CFB DEAL

Whether planned or not, the timing of **Sling TV**'s new deal is impeccable. The platform is offering fans a $76 discount if they pre-pay five months for the Orange & Blue + Sports Extra package ($274 total), which would come with **ESPN**, **ESPN2**, **ESPNU**, **ACC Network**, **Big Ten Network**, **SEC Network** and other sports nets. It's one of the alternatives **Spectrum** customers could be looking for in the midst of its carriage dispute with **Disney**. Other deals include the standalone Orange plan being half off the first month at $20 and the Orange & Blue plan also half off for $27.50.

PENS ACQUIRE WBD RSN

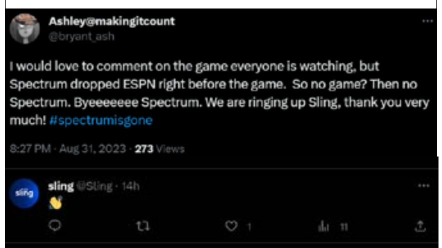
The first official transition of **Warner Bros. Discovery**'s from the RSN space comes in the Steel City. The Pittsburgh Penguins announced an agreement to acquire and rebrand **AT&T SportsNet Pittsburgh** to SportsNet Pittsburgh. The rebrand will go into effect Oct. 2 and it'll begin airing all regionally televised games starting this season. The network's daily operations will be handled by **NESN**, a network also owned by the Penguins' majority owners Fenway Sports Group.

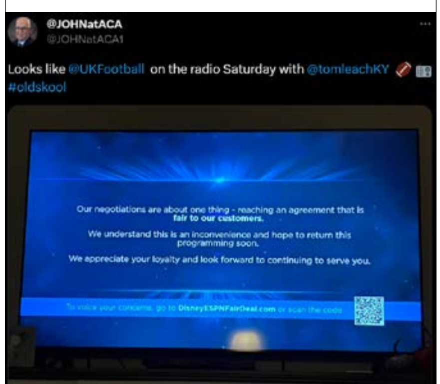
FIBER FRENZY

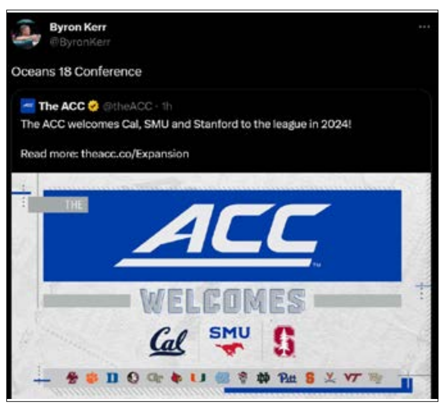
It wouldn't be Vegas if there weren't big celebrations. **Cox** revealed at a fiber event it is expanding its fiber network to additional customers in the market, and to commemorate the announcement, the Commissioner of Clark County proclaimed Sept. 1 as "Cox Fiber Day." Over 95% of customers in the Las Vegas market will have access to multi-gig speeds by the end of 2023, and Cox currently offers gig download speeds to all customers.

CABLEFAX DASHBOARD

Social Media Hits







Research

(Source: Nielsen Gracenote's State of Play 2023 Report)

➢ Audiences now spend an average of 10.5 minutes searching for something to watch, up from nearly 7.5 minutes back in early 2019.

➢ Audiences have nearly 40,000 different channels and streaming sources to find content on.

➢ As of June 2023, Gracenote Video Data had a record of 1,400+ individual FAST channels in its database, with 1,050+ of them available in the U.S.

➢ 73% of the time U.S. women 18-34 spent watching the top 25 streaming programs in 2022 was dedicated to classic TV.

Up Ahead

SEPT. 8: 2023 Cablefax Most Powerful Women Nomination Deadline

SEPT 18-19: The WICT Network Leadership Conference; NYC

SEPT 19-20: NAMIC 37th Annual Conference; NYC

SEPT 20: The Walter Kaitz Dinner; NYC

Quotable

"The one piece of critical Disney content that is not available over-the-top today is ESPN. This appears to be the crux of the dispute. On the one hand, we are at the start of the NFL and college football season. On the other, there have been rumors that Disney will launch a premium over-the-top offering for ESPN content next year. That would be one year into what is likely a five-year carriage agreement. If the ESPN app were available now, we suspect Charter would be risking little. As it stands, they risk the loss of avid sports fans (with football fans being the most avid of all), between now and the content being available elsewhere. We won't declare this the point. It will be the biggest test the balance of power has faced so far. The balance hasn't favored distributors this much since the fun days of TCI."
– New Street Research's take on the Charter/Disney dispute