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WHAT THE INDUSTRY READS FIRST

Come Together: Zaslav Champions Larger DTC Bundle For Sports

Warner Bros. Discovery CEO *David Zaslav* is more than ready for the great re-bundling, and he is continuing to show passion for content creators to come together and create new packages for consumers. But now, he's not only talking about that possibility for general entertainment content.

It's only been about a month since the **Bleacher Report** add-on package went live on **Max**, and the early results have WBD tallying another win when it comes to integrating sports into the properties across its portfolio. Of course, it is worth noting that the live sports add-on is free for subscribers until February when its cost rises to $10/month. WBD is seeing the advantage of having sports available on a subscription service, but the fact of the matter is that it doesn't and can't own all sports.

"I've been saying bundling is important. I think bundling in terms of the entertainment package is important. The ability for us to get together with others domestically, around the world, I think it's a better package for consumers and we could likely reduce churn and get better economics," Zaslav said on the company's 3Q23 earnings call. "I think that's the way the industry is going to go, and I think that's probably where it's going to go on sports as well."

Max also introduced **CNN Max** at the end of September, and since news and sports have become available on the platform, churn has already started to come down. At the same time, the audience watching sports on Max is, on average, 12 years younger than what WBD sees on linear.

"The encouraging thing that we've seen already in the last month with both sports and news on Max, it has proven out further these customer segments are increasingly complementary versus cannibalistic," CEO/President, Global Streaming and Games *JB Perrette* said. "The age demographic we're seeing, it's a much younger demo on Max and the vast majority of the viewers being non-pay TV subscribers leads us to believe that these two can coexist and should coexist."

The WBD leadership team was encouraged further when it saw the most recent carriage agreement **Charter** and **Disney** were able to strike. Zaslav said it created a very creative path forward for the video marketplace rather than the two completely separate ecosystems that exist today. "The idea that you could have a distributor that is paying us a per-sub fee for discovery+ and a per-sub fee for Max, and both of those being ad-lite is an incremental advantage," he said. "It's an advantage to Charter, and they and [Disney CEO *Bob Iger*] came up with this creative road forward. I think and we think it stabilizes the ecosystem, but it also was helpful in building more scale." WBD made it no secret that it is looking at what deals structured similarly would mean for it in the future.

Networks revenues were $4.87 billion due to small declines in distribution, but more significantly because of 13%and 22% drops in revenue in advertising and content, respectively. When questioned about whether he was afraid that those deals would see carriage of some of its networks decline, Zaslav remained confident that all of WBD's linear networks are must-haves for distributors.

"We're anywhere between 25-45% of the viewership on cable… and we're not that expensive. We're not proud of it, but it is one of the reasons we've been able to continue to get increases is because we provide real value and we're one of the few media companies that is still investing significantly in original content and we're nourishing our audiences," he said. "We feel good about partnering with the operators in building and continuing to hold on, as much as we can, to the linear marketplace."

That's not to say that there is no wiggle room in negotiations. He admitted that a few of WBD's networks are lighter than others and there could be some trade-offs made, particularly for a deal that is overall additive to the company.

DTC subscriber numbers fell by 700,000 sequentially to 95.1 million in part due to the delay of releases impacted by the strikes and a decline in the overlapping discovery+ subscriber base. DTC revenues rose 5% YOY to $2.44 billion thanks in part to new partnership launches and price increases domestically and abroad.

ESPN DTC GETTING CLOSER

Disney CEO *Bob Iger* is heavily investing in the push to transform **ESPN** into the top digital sports platform, and he described it on Wednesday's after-the-bell 4Q23 earnings call as one of four key efforts for the company as it moves into 2024. "We're planning for it to try to have what I'll call a soft landing, which is continuing to make it available as part of the bundle for those people that want to remain in the bundle for people who feel that the bundle still has value to them and, at the same time, to make it available on a true a la carte basis in DTC form," he said. "It is our hope that it will serve basically the consumer in two ways—the traditional way and a new way." That eventual DTC launch of ESPN was one of the catalysts for **Charter** seeking a revamped carriage agreement with Disney this year in a negotiation that saw ESPN and other Disney nets off the Spectrum lineup for 12 days. Iger said it ended up being a great deal for both sides. "It doesn't really change things much in terms of our strategy because when you look at the deal, it actually ended up reflecting exactly what our strategic priorities are," he said. "Having the opportunity to consolidate a bit on the channel side is, I think, a good thing at this point." ESPN had several bright spots in Disney's FY 2023 results, including its best overall viewership in four years and paid subs for ESPN+ climbing 3% sequentially to 26 million. In an interview with **CNBC** Wednesday, Iger said it believes it can strengthen the ESPN DTC offering by bringing in "one or two" strategic partners that could add marketing, tech or possibly content support. "Why not go out with a stronger hand for instance, and that's what we've been considering. We've been in discussions with a number of entities. I don't have anything specific to tell you right now, except I think you can expect us to elaborate more on that sometime in the near future," Iger said.

The WHO and the WHY

CFX's spotlight on recent new hires & promotions

CHRIS
Vail
VP, POLITICAL SALES
EFFECTV

3 THINGS TO KNOW

- Effectv made a string of moves in its political sales department in the days leading up to Election Day. The company tapped Chris Vail as its VP, Political Sales, filling in the shoes of veteran Dan Sinagoga who'll shift into a senior advisor role to the company. Vail—who had a one-year stint at Effectv already in 2013—will oversee the company's political sales division and manage relationships with internal groups like Comcast Government Affairs and industry partners such as Ampersand.
- Chris re-joins Effectv after being Head of Government, Political and Omni-channel Advertising at Snap since September 2022. There, he guided multiple teams across the U.S. and Canada in growing relations with large and emerging advertisers. He also built the company's go-to-market strategy for political and issue advertisers across state and federal campaigns, which fueled four-digit growth of the category in the 2022 midterm elections. Chris' experience also extends to VP, Sales for an early-stage ad tech company Downstream and at Amazon Advertising.
- Chris is a proud Florida Gator and received a Bachelor's in History and a Master's in Political Science and Campaign Management. He remains a regular guest lecturer for the graduate program.

DISNEY+, HULU COMBO EVEN CLOSER

Disney is also pushing forward on a joining of **Disney+** and **Hulu**, announcing plans to launch a combined offering in beta for bundled customers this December now that it has a deal for **Comcast's** stake in the streamer. Disney Chief *Bob Iger* said leadership expects the combined offering will result in increased engagement, better advertising opportunities, lower churn and reduced customer acquisition costs. The rationale for the beta is that it will give parents time to establish profiles and parental controls ahead of the official launch in late March 2024 and give Disney time to explore stronger standards around account sharing. Disney+ added 6.9 million subscribers in 4Q23 with

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approximately 2 million of those being attributed to the service's ad-supported tier. Hulu SVOD-only subscribers stayed relatively flat while its Live TV + SVOD subs grew by 300,000. All of the growth across the streaming portfolios has Disney continuing to believe it will achieve profitability by the end of FY2024. On the linear side of the business, Iger said leadership is continuing to evaluate options for each of its networks with the goal being to identify the best strategic path for the company moving forward while also unlocking shareholder value. The investigation thus far has uncovered "significant long-term cost opportunities" that he said the company is implementing while also continuing to create content across the board. Domestic revenues in the linear networks segment fell 9% to $2.099 billion due to drops in advertising revenue, primarily at **ABC** and owned TV stations, as well as lower affiliate revenues due to declines in subscribers. **ESPN** was a highlight in that department with its domestic business growing in revenue and operating income for two straight years.

AD SALES DOWN FOR NEXSTAR, BRIGHT ON CW'S FUTURE

Nexstar has made it through a turbulent 3Q23. Marred by a 76-day carriage dispute with **DirecTV** and a soft TV ad market, the company saw a 10.8% YOY drop in quarterly net revenue to $1.13 billion and distribution revenue decreased 6.7% YOY to $598 million. Total TV ad revenue fell 22.5% to $410 million and political ad revenue came in at $19 million after reaching $129 million in 3Q22. While the political ad revenue was to be expected in a cyclical year, it still reflects an overall softened market that companies are managing. Nexstar, though, sees a light at the end of the tunnel. "We are seeing some green shoots in the sense that our rate of decline in terms of our overall business is moderating," EVP/CFO *Lee Ann Gliha* said on Nexstar's 3Q23 earnings call. "We saw that sequentially from second quarter to third quarter and we're seeing it again in a similar fashion in terms of the amount in the third quarter going into the fourth quarter." It's been over a year since Nexstar acquired a majority interest in **The CW Network**, and it has since transformed the network's programming strategy. Just yesterday CW signed a five-year deal to be the home of **WWE**'s "NXT" series, and earlier in the quarter CW secured the rights to 50 ACC college football and basketball games each season through 2026-27 as well as the rights to the **NASCAR** Xfinity Series from 2025-31. CW still recorded a loss of $60 million in the quarter, down from losing $78 million in 2Q23. "Look at the things that have happened since we announced the acquisition of the CW. Three separate writers strikes in Hollywood, an advertising recession if you will," Chairman/CEO *Perry Sook* said. "LIV, NASCAR, WWE, ACC are all absolutely value-creating, value-building acquisitions of content for this network. None of that was contemplated in the initial view of the CW. So I couldn't be more bullish on the CW." It's still early in the aftermath, but it's no surprise some investors were curious about Nexstar's take on the **Charter-Disney** deal. The company believes that resolution supports Nexstar's business model, adding that it believes the deal will help with the rate of attrition.

RATINGS

The Chargers' Monday Night Football win over the Jets reeled in 14.53 million viewers across **ESPN**, **ESPN2**, **ESPN Deportes**, **NFL+** and **ABC**. That's up 38% compared to the Week 9 MNF game last year and is the highest-rated Week 9 MNF broadcast since 2019. The ESPN2 simulcast "Monday Night Football with Peyton and Eli" came in with 1.03 million viewers. Season-to-date, MNF is averaging 15.4 million viewers, a 14% improvement YOY.

5TB+ BANDWIDTH USERS GROWING

OpenVault's latest Broadband Insights report has identified a new category of "extreme power users" who consume more than 5TB per month of broadband data. While these users are a small fraction of subscribers, they're multiplying—growing 60% YOY through 3Q23. About two-thirds of these 5TB+ users are on gigabit speed tiers, but more than 7% are on plans provisioned for speeds of 100Mbps or slower. "That really kind of surprised us and tells us there's still some monetization opportunities for operators. And frankly, those subscribers would be happier customers if they had more bandwidth since they're consuming that much," OpenVault CEO *Mark Trudeau* told ***CFX***. Besides tier upgrades, he said operators may want to look at adding acceptable use policies that would charge when a customer exceeds a 5TB limit. Extreme power users' average upstream usage of 950 GB is 5.5X that of subscribers who consume 2-5 TB per month and 12X that of users of 1-2 TB monthly. What's using up all that bandwidth? Online gaming, for one, with these users consuming six times more data for online gaming than users of 1 TB or less per month. "But that's just a massive amount of upstream, so they may very well have video cameras on, security cameras on, all day. It's hard to believe that just gaming or Zoom calls would chew up that much [upstream] data," Trudeau mused. With the holidays near, look for bandwidth usage to spike as new devices enter the household. "The subscriber doesn't need to necessarily change their behavior from what they're doing, but if they have higher quality devices, it's going to chew up more data," explained Trudeau.

PEOPLE

Adam Ciongoli was appointed Chief Legal and Policy Officer for **Fox Corp.**, beginning Dec 1. *Viet Dinh* stepped down from that role in August after advising the company through its $787.5 million settlement with Dominion Voting Systems in April. Ciongoli currently serves as EVP, General Counsel for Campbell Soup Company. – **NBCUniversal** made a pair of moves in its advertising and partnerships arm, appointing *Alison Levin* as President, Advertising and Partnerships and promoting *Karen Kovacs* to President, Client Partnerships. Levin joins from **Roku** where she was VP, Global Ad Revenue and Marketing Solutions. Kovacs will continue to manage all new and emerging client relationships, but adds oversight of the company's national offices while also leading a team to develop 360 partnerships with CMOs throughout the industry.

Think about that for a minute...

Soothing Nerves

Commentary by Steve Effros

My column of several weeks ago certainly hit a few nerves. The responsive emails were fascinating. My family is apparently not the only one experiencing lots of frustration dealing with multiple operating systems on the television set trying to interact with multiple streaming program apps all with unique, "walled garden" video product offered via different navigation interfaces.

I love the emails. I invite you all to participate in the development of this column by sending your thoughts along, too. The email address is below. The benefit for me is that not only do I get to interact with a lot of you, but I get lots of new ideas for additional columns, or your comments force me to reconsider the positions I've taken. So keep those "...calls and letters" (as they used to say) coming!

Here's some of what I heard: there's general agreement that things have gotten way too complicated. That finding the program you want to watch, or even worse, getting back to the point in the series you were watching can get totally screwed up. For instance, depending on whether you try to "reopen" the program with the specific "app" which carries the program (that's the easiest way, the individual service usually knows where you left off and gets you back to the right place) or you try to use the "smart gateway," such as your "SmartTV," Chromecast, Roku, AppleTV, FireTV or the like, it may not really know, so it can't help.

An almost universal associated complaint is one I can certainly sympathize with: trying to remember which one of the streaming services the program you were watching and trying to get back to is on! Sure, you can use the "gateway" navigation and it will tell you where that program is showing, and may even automatically take you there, but often you have to go through the whole process of "opening" Netflix or Prime Video or whatever and scan episode descriptions before that's successful. In other words, there are far too many impediments to the process.

Is all this angst going to result in folks just "giving up" on streaming television? No, I don't think so. But it's sure going to deter some viewers who apparently are moving back to advertiser-supported versions of the streaming services. That's happening both because they are reacting to significant price increases and because the "value proposition" of the now so-called "Premium" service offerings just doesn't justify the escalating prices when you have to have multiple subscriptions to find and access the programs you want.

The "fix" is a return to a system where a viewer can actually "tune" to what they want to see without jumping through all the hoops. That's either going to happen by the various services and gateways adopting a universal sharing of navigation data or there will be a "master aggregator"... what we used to call a "cable television operator" offering to jump all the hoops for viewers and return them to an easier time when all we had to do was a search of a single "grid" and find the program we wanted to watch.

Another email from a "small system" friend of mine also reminded me of what all cable operators should be doing; he just took over a system which received a request the other day from a long-time disabled older customer who asked if he could send over a tech to help reset his clocks for the end of Daylight Savings Time. Apparently, the original local operator had always done that for him. My friend, wisely, said sure.

I can't help but wonder in the bureaucratic "CSR" mode of the "big" operators, whether that would have been the case. It should be. Local customer service is where we are perfectly positioned to soothe folks' nerves.

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.)