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WHAT THE INDUSTRY READS FIRST

Sports Alliance: Different Tunes for Fox, Disney as MVPDs Consider Streamer

Forget the question of how much this **ESPN**, **Warner Bros. Discovery** and **Fox** sports streamer will cost—we want to know what MVPDs think. They're staying pretty quiet. For now. We're assuming legal departments are busy going over every inch of carriage contracts today to see just what this means for their own video packages.

Fox Corp. CEO *Lachlan Murdoch* repeatedly stressed during Wednesday morning's earnings call that it's not leaving pay TV partners out in the cold. But **Disney** CEO *Bob Iger* sounded much more ambivalent about MVPDs during Disney's 1Q24 call later in the day, saying the skinny sports streaming package will be much more attractive than "the big fat bundle."

Iger brushed aside cannibalization concerns. "We're going to get paid in this new conjoined venture for our channels at a level that's commensurate with the level we get paid for those channels in the multichannel ecosystem. If a consumer moves out of that and into this, then what we get paid for the channels that are in it is equal to what we get paid there," he said. As for channels not in the sports venture, such as **FX** and **National Geographic**, he said there may be some de minimis economic impact with more cord cutting, but "we're backstopped with all those channels and the content that exists or we ultimately put on **Hulu** or **Disney+**."

Compare that to Murdoch's comments that traditional MVPDs are still key to its business. "This sports-focused platform is focused entirely on cord-nevers. If you look at the American market, roughly 125 million households in America, roughly half of those are not within the traditional, bundled cable ecosystem," he said. "We are very confident that this is a large market and a large opportunity that we can address without undermining the traditional bundle. We've been working on this for several months. We've done lots of sensitivity analysis, and we would not be launching this product if we thought it was going to significantly affect our pay TV affiliate partners."

The comments highlight the very different paths the companies have taken. Fox has stayed out of the streaming game and has kept **Fox News**, cable's most-watched network for years, as only available through a pay TV bundle. That remains the case, meaning Fox News potentially becomes more valuable to MVPDs if sports networks are available DTC. Disney, which bought up Fox's non-core assets, has leaned heavily into DTC.

Iger made it clear that the upcoming sports jv doesn't impact the launch of ESPN DTC. It's set to launch in Fall 2025, possibly as early as August 2025. He pledged that it would be differentiated from the jv sports offering, describing ESPN DTC as highly interactive. "Not only will consumers be able to stream their favorite live games and studio shows, they'll also have access to engage in digital integration by Disney Bet and Fantasy Sports, e-commerce and a deeper array of sports stats, all of which we know will be incredibly compelling to the younger sports fans. It will also have robust personalization features," he said.

Evercore ISI analysts believe the upcoming WBD, ESPN and Fox sports offering will appeal to some existing pay TV customers and drive "modest cannibalization" with decreases in affiliate fees for the partners' non-sports networks. "While the common argument is that non-sports fans have for years been forced to subsidize growing programming costs largely due to sports rights inflation, there is also surely a cohort of existing pay TV subscribers who place no value in any other piece of content (e.g., general entertainment, news) but have been indirectly paying $15-30/month more than they perhaps should since those networks were bundled with the sports channels," Evercore ISI wrote in a research note.

Ultimately, the devil is in the details and everyone is trying to figure those out. There's no announced price point, with many speculating it would have to be in the $45-$50/month ballpark. And while MVPDs may hope the venture means they get more flexibility in packages, there's no certainty on that. "Every existing distributor should be apoplectic that the companies they pay billions to want to offer something every distributor has always wanted to create for years but have been told they are not allowed," proclaimed a **LightShed Partners** blog. "While it is unclear if distributors have legal grounds to demand the same offering be made available to them or to offer similar bundles of their own construction, we have to imagine future carriage negotiations will be incredibly difficult if Disney, Fox and WBD are not offering distributors packages they make available to their own joint-venture."

Fubo, perhaps prompted by its stock closing down nearly 23% Wednesday, did chime in on the sports jv. "The underlying motives and implication of this joint venture also command our scrutiny. Every consumer in America should be concerned about the intent behind this joint venture and its impact on fair market competition," it read. "This joint venture spotlights a concerning trend where an alliance with significant market share, reportedly controlling 60-85% of all sports content, could dictate market terms in a manner that may not serve the broader interests of consumers." Fubo added that sports-only programming is highly challenged and that consumers have demonstrated that they want an aggregated sports, news and entertainment package in a quality experience, arguing what the vMPVD does can't be duplicated by the jv.

ACA Connects doesn't seem to believe the jv bodes well for its members, already dubbing it the "anticompetitive sports streaming juggernaut." "Allowing the biggest media players to join forces—while locking out traditional linear cable providers from offering the same package at the same price—only gives even more power and leverage to the Goliaths to extract more money from customers of ACA Connects Members," President/CEO *Grant Spellmeyer* said in a statement. "This clearly isn't a functioning free market. With customers facing higher prices and fewer affordable choices, there needs to be a level playing field."

The *WHO* and the *WHY*

CFX's spotlight on recent new hires & promotions

JEFFREY
Hulse
SVP/GROUP PRESIDENT
VERIZON PARTNER SOLUTIONS

3 THINGS TO KNOW

- It's another new chapter in Jeffrey's long career at Verizon. After holding the VP, North America Sales role for Verizon Partner Solutions for two years, he was elevated to his new title shortly after the new year. He'll oversee domestic and international wholesale revenue growth and strategy for Verizon Business, which includes marketing, sales, customer service and wholesale business operations.
- He steps in for Eric Cevis, who retired after a 37-year career at Verizon. Jeffrey has 10 more years to reach that milestone as he joined Verizon back in 1997. He's held a variety of sales and marketing jobs throughout his tenure. His most recent position saw him lead sales, solutions engineering and new business development efforts for Verizon Partner Solutions in North America.
- Jeffrey will report to Verizon Business CEO Kyle Malady. Jeffrey holds a degree in Business Administration from Caldwell University as well as an Executive Master's in Technology Management, Business Innovation and Business Administration from Stevens Institute of Technology.

A LOOK AT SPORTS STREAMING JV'S IMPACT ON PROGRAMMERS

It has hardly been 24 hours since **Fox**, **Warner Bros. Discovery** and **Disney** announced their landmark sports streaming service jv, and analysts have spent every minute unpacking every angle of the deal. **Evercore ISI** found Warner Bros. Discovery's involvement in the jv surprising despite the company's current sports portfolio. That's because it doesn't currently have any **NFL** rights and its **NBA** deal is set to end at the close of the 2024-25 season. "WBD's role in the JV could speak to each of the respective companies' confidence that WBD will secure (or already has) at least some set of NBA rights," it said in a note to clients. It called the portfolio of sports included in the package fairly impressive and probably as good as it could realistically be, but it noted it wouldn't be surprised if additional networks, RSNs or even tiers were added on as the product matures. The folks at **Bernstein** had one million questions left unanswered with perhaps the biggest being what will **NBCU** and **Paramount** do in the face of this disruption? Were they left out of these discussions, and what would it take for them to be welcomed into the fold? Perhaps the rumors surrounding a

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Paramount combination with NBCU could come to fruition after all. **MoffettNathanson** looked at the wider impact the jv could have on future sports rights negotiations, and the firm right now is seeing this move as more of a decision by Disney, Fox and Warner Bros. Discovery to take the fate of their sports businesses into their own hands outside of the linear ecosystem. It's not clear that the three would jointly negotiate to win major long-term rights deals, but if they do choose to do so, the impact could be huge. "If this JV evolves over time into a different form and eventually bids as a combined entity for sports rights, that would clearly limit the number of +1 bidders critical to maintaining the inflation in future negotiations that the entire sports ecosystem is built around," it said in a note.

DISNEY SETS TIMELINE FOR PASSWORD SHARING CRACKDOWN

We now have the timing of **Disney**'s password sharing crackdown across **Disney+**, **ESPN+** and **Hulu**. During the company's 1Q24 earnings call Wednesday, CFO *Hugh Johnston* said accounts that are suspected of improper sharing will be presented with new options this summer to allow those that aren't paying to start their own subscriptions. Later this year, subscribers that want to allow access to individuals outside of their household will be able to add them to their accounts for an additional fee. The plan largely follows the **Netflix** playbook, and Johnston said he doesn't expect any notable benefits from the paid sharing initiatives until the back half of calendar 2024. "We want to reach as large an audience as possible with our outstanding content, and we're looking forward to rolling out this new functionality to improve the overall customer experience and grow our subscriber base," he said. Disney+ core subscribers globally fell sequentially by 1.3 million due to a temporary uptick in churn from recent domestic price increases and a roll-off of a global summer promotion. Hulu's SVOD-only tier experienced the opposite effect, growing by 1.2 million to reach a total of 45.1 million subscribers. In unexpected news, Disney is diving back into the games universe by investing $1.5 billion in **Epic Games**, the creator of "Fortnite." Disney will receive an equity stake in Epic Games and the pair will work together to develop a games and entertainment universe that expands the reach of Disney's stories and experiences. CEO *Bob Iger* has a major vision of how this comes to life, revealing that early conversations with Epic leadership had him envisioning a gigantic Disney World that could live next to Fortnite and be interconnected with that game. He also said he would want to integrate some level of shopping and opportunities for players to create their own content. "It's a way to have skin in the game... but also build a world where we're actually not creating too much risk for the company," he said.

BEAD THRILL WANES AS ISPS WEIGH COST OF PARTICIPATION

The excitement around BEAD seems to be dying down as providers are faced with the stark reality of the buildout requirements, workforce challenges and compliance deadlines that loom as attachments to the $42.5 billion in broadband funding. As states have begun finalizing their plans, some providers are asking why regulators didn't keep control of the program at the federal level. "When the NOFO came out, I think it set everyone back a bit because it so clearly defined in the NOFO of how federally they want it to work, but that federal piece doesn't fit into the box that Minnesota has today that has worked so well for so long," **CTC** CEO *Kristi Westbrock* said during a panel hosted by **USTelecom** Wednesday. "There's times that it feels like it could have been a federal program and just managed at the federal level, and cut out some of this Volume One, Volume Two and all those pieces if it was being managed uniformly across the United States." **Brightspeed** VP, Regulatory, Compliance and Broadband Office *Pamela Sherwood* had her own gripes with the patchwork of planning, calling out the number of state compliance requirements that are currently up in the air. Her team is in conversations with a number of state broadband offices to get clarity on a number of issues, including what's required at the time of application versus the time of execution of a grant agreement. "It makes it difficult especially for providers that are operating across a number of states to create processes and systems and implement automation that makes it efficient to comply with a program like this," she said. Sherwood also mentioned a potential problem with some states proposing project areas that are quite large, making it challenging for providers that don't have huge footprints to come in and compete. "In essence, it really could limit our participation and other providers' participation, forcing carriers to really prioritize which states they need to participate in," she said. "And large areas could mean that there's no bidders, particularly if the state is requiring you bid on all locations in a very large geographic area." On the other hand, **Verizon** VP/Deputy General Counsel *Katharine Saunders* said that the providers need to be able to bid on big enough areas to make the investment economical and to build brand reputation in an area. "We have to be good stewards of the money and the funding that's going into this, but if a location is done by a single location here and a single location there and one over here, that's not an efficient build," she said. "That's not something that actually works for constituents in the long run."

FOX 2Q24

A 20% YOY decline in ad revenue at **Fox Corp** meant the company's overall revenue fell to $4.23 billion in 2Q24, down from $4.61 billion a year ago. Ad rev fell to $2 billion, thanks partly to the loss of FIFA Men's World Cup and midterm elections combined with lower ratings, a soft direct response market and higher preemptions due to breaking news at **Fox News**. Management said sports advertising was particularly healthy—interesting since advertising on linear networks will flow into the upcoming sports streaming service. Fox completed the vast majority of FY24 affiliate renewals, with affiliate fee revenues increasing 4% for 2Q24, driven by 10% growth in the TV segment. Cable affiliate fee revenue returned to growth, increasing by $5 million as contractual price increases were partially offset by the impact of net subscriber declines.

Think about that for a minute...

Curated

Commentary by Steve Effros

I got plenty of feedback from last week's column about ideas for continuing support for C-SPAN and the possible use of its archives to assist in the ever-increasing problem of verifying the information we all rely on. As a result, I've refined some of those ideas.

I suggested using the C-SPAN archives to verify the accuracy of what is being presented as an actual statement, speech or whatever during Congressional debates, hearings, campaign events or other policy seminars which C-SPAN routinely airs. In these days of "fake news" and certainly "manufactured" audio and video using the new AI computer capabilities, some form of verification of things like campaign commercials or "news/entertainment/commentator" programs would be helpful.

But how do you do that? Who pays? What type of infrastructure would be needed to take those C-SPAN archives and "run" them against a current political ad to see if the shown quote of a competing candidate was real? Clearly it would be both expensive and require considerable technical resources. I originally thought campaigns and news organizations would find a "Good Housekeeping Seal" useful, and would be willing to pay for it.

The idea has now morphed. It occurred to me, after watching a Congressional Hearing the other day, that there's an even greater need on the part of companies like Microsoft, Meta, Google and the like for a way to screen what is being presented on their platforms. They also have the money, technical expertise, computer servers and the like to design and use an AI program specifically "trained" on a Large Language Model (LLM) built exclusively on verified archives of hearings, etc., provided by C-SPAN. Seems to me that could be a win-win for everyone involved.

There's no question it's needed, and even more, it might make it possible for us to have not only a "verified" campaign ad, for instance, but also in the longer run a "curated" source of information.

What's the difference? Well, it's relatively simple to verify that someone actually said, in a Congressional Hearing for instance, what's claimed they said. But to "curate" means to "...carefully choose and thoughtfully organize and present" the information. That's a lot harder.

A recent example of a hearing on telecommunications issues faced by Meta, et. al. serves to make the point. During the hearing with the major CEOs, there was righteous indignation and outrage that the creators of platforms such as Facebook were not taking responsibility for, and doing something about, the alleged damage and harm, including death, they were causing, particularly to the young, who are using their services. One Senator in particular castigated the CEOs for allowing their dangerous product into the marketplace and then not accepting responsibility for the results. It was suggested legislation was necessary to make them liable, and to require that the platforms and algorithms be regulated.

I couldn't help but notice that this same Senator has refused to vote for any legislation that would do the same thing regarding the sale of military-grade weapons to just about anyone. Now what if, eventually, we had an accurate, verified database that could be used by those same social media platforms which "curated" that hearing and, first, verified that the Senator actually said those things about the need for regulation and safety, but then also "curated" those statements to see what else that same person has said about regulation and safety of other products being promoted in the marketplace, and the responsibility and liability of the companies doing so?

I know, even if all the curation could be shown to be totally verifiable, there are folks who don't really want to have their own words, even in context, remembered. But that's what the C-SPAN archives could give us, if we're willing to figure out how to use them for the benefit of all.

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.)