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WHAT THE INDUSTRY READS FIRST

Not So Fast: Disney Not Committed to Following Charter Deal Model

Disney may have been willing to get flexible at the negotiating table with **Charter** last year to create a new kind of carriage deal, but it isn't promising to do the same with the rest of its distribution partners.

On the company's 2Q24 earnings call Tuesday, CFO *Hugh Johnston* said he has been happy with the partnership with Charter so far, although it is still early days. The deal drove subscriber growth of **Disney+**'s ad-supported tier, which ended the second quarter with 22.5 million global subscribers. Cannibalization of customers has not been very high and overall engagement has been encouraging.

"As far as being a template for the future, I don't think I would go to that level," Johnston said. "Each of these deals in many ways has to be architected to the specific needs of the partner as well as our needs. So I don't think I would think of it as a template for the future, but it's been a successful deal for us and for Charter."

2Q24 revenues at Disney were $22.1 billion, up from the $21.8 billion it recorded in the prior-year quarter. Disney+ Core subscribers rose by 6.3 million YOY, bringing the total subscribers to 117.6 million, and consumer entertainment DTC revenue increased 13% YOY while generating operating income of $47 million. The entertainment DTC business was profitable in the second quarter, and Disney continues to believe that its combined streaming businesses to be profitable by the fourth quarter with more improvements in profitability to come during FY25.

We heard more on the call about Disney's plans to crack down on password sharing across its streaming properties, and consumers can expect to see movement on that front next month in what CEO *Bob Iger* called "very select markets." Those efforts will then expand in September and see the company going after individuals globally that are improperly sharing credentials, and Iger feels quite bullish about the potential financial benefits that will come from the strategy. A lot of that confidence comes from the results **Netflix** has been able to tout since its policies went into account one year ago.

"It's also important to note that Netflix is in many respects a gold standard when it comes to streaming. What I mean by that is if you look at programming, we stack up really well. We have a great lineup and quality of programming across not just **ESPN** and Disney+, but also **Hulu**," Iger said. "What we're building is the technology that Netflix has had in place and it's been building for well over a decade to improve the business from a bottom line perspective, and that starts with password sharing."

The password sharing crackdown is only one aspect of Disney's efforts to cut down costs and realign its balance sheet. It continues to examine how it can reduce its distribution costs and is taking a real look at how it can leverage technology for direct-to-consumer marketing as well as recommendation engines. Those moves help both on the cost and revenue sides of the business.

The sports streaming jv formed by **Warner Bros. Discovery**,

GAME SHOW NETWORK

99% Live Viewing

TOP 15 Highest Rated

TOP 10 Best Value

According to S&P Global Market Intelligence

High Value Viewers

Unlikely to Cut Cord, Premium Service Subscribers, Highly Engaged Viewers (LOT, FREQ, LV)

Game Show Viewers more likely to watch TV from MVPD as a first content option, in all viewing scenarios, and times.

Game Show Viewers more likely to have Pay TV and current package for 5+ years, Watch more TV, Less likely to subscribe to streaming.

Source: Live Viewing and Top 15 Network P2+ Total Day Ranker: NPOWER, Ratings Analysis Time Period Report, Live + SD & Live + 3 Days, 12/26/2022 – 12/31/2023, Viewing Source – Ad Supported Cable Orig & GSN, M-SU 6A-6A, CVG RTG % & (000), P2+.

Fox and Disney wasn't discussed nearly as much this quarterly call as it was during the last, but that's because there was a focus on clarifying the future of ESPN as it transitions further away from the linear model. By the end of the year, an ESPN tile will be added to the Disney+ platform with a modest amount of programming. The goal there is to begin conditioning subscribers to Disney+ and Hulu to the fact that sports are going to be there in the future. He also clarified whether **ESPN+** will continue to exist as a separate service when the ESPN flagship streaming service debuts.

"The plan is if you buy the ESPN flagship, you'll get all the ESPN+ programming, and if you do not want that, then you can buy ESPN+ on its own," Iger said. "In addition, our current plan is that with the tile that we're putting on the combined Disney+/Hulu app, you'll be able to, if you're an ESPN+ subscriber, you'll be able to get ESPN+ through that tile."

Iger was also peppered with questions about **NBA** rights negotiations, and he's optimistic that ESPN will end up with a league deal that will be in the best interest of the business and viewers in the long run. "We continue to look at the NBA not only as a premium sports product, but as a sports product that has growth ahead of it obviously with great demographics," Iger said. "We feel really good about the potential package that we will end up with in terms of it basically enabling ESPN to continue to shine in the television sports business."

FCC RELEASES TITLE II ORDER

It took 12 days for the **FCC** to release the net neutrality order it approved on a 3-2 vote last month, but lawyers, lobbyists and policy wonks now have their hands on the document. At more than 500 pages, it's going to take a while to comb through it. One section of note is on state authority to adopt broadband affordability programs, with some questioning whether the order pre-empts New York state's affordable broadband law, which the Second Circuit Court of Appeals recently protected. The FCC seems to say it's not going to address the issue, but then kind of does. Exact words: "The comments received in this proceeding do not contain a focused and robust record or discussion concerning any particular state broadband affordability program, so we decline to address any particular program here. Nevertheless, we find that states have a critical role to play in promoting broadband affordability and ensuring connectivity for low-income consumers. We also clarify that the mere existence of a state affordability program is not rate regulation." The order also declined requests to categorically preempt all state or local regulation affecting BIAS in the absence of any specific determination that such regulation interferes with the agency's exercise of federal regulatory authority. "While the Commission has occasionally described the Internet as 'jurisdictionally interstate' or 'predominantly interstate,' we cannot find it to be exclusively interstate," the FCC said. Fifty-two of the order's pages are devoted to Commissioner **Brendan Carr**'s dissent, which includes a screenshot of President *Obama*'s 2014 YouTube video asking the FCC to reclassify broadband under Title II as well as photos of activists outside then Chairman *Tom Wheeler*'s house and at the FCC—all presented as part of his argument that the agency wasn't for Title II regulation until it was flipped by the White House. "Title II is now a matter of civic religion for activists on the left. They demand that the FCC go full Title II whenever a Democrat is President. Everyone knows what is expected. Indeed, President *Biden* made restoring Title II a campaign promise," Carr wrote. While Carr spoke against the Title II order for 33 minutes at the April 25 meeting, fellow Republican *Nathan Simington* merely said he dissented and would publish his statement. It clocked in at four pages, with the commissioner complaining that the order excludes non-BIAS data services from network management rules but doesn't define what a non-BIAS data service is. "Sadly, this order today is part of the edge providers' agenda to insulate their abusive monopolies from competition," Simington wrote, adding that edge providers are lobbying the FCC to adopt privacy rules that ban ISPs from running the same kind of ads they themselves do and that net neutrality rules will make it very difficult for ISPs to use their physical facilities across the country to build competitors to cloud services like AWS and Azure.

THE COMPLEXITIES OF BEAD

The BEAD process can be a tricky one, and as states and fiber providers prepare for their next steps, a panel hosted by the **Fiber Broadband Association** laid out how to maximize success within the program. For *Ryan Roberts*, a Partner for the law firm **Sheppard Mullin Richter & Hampton**, the prospect of winning bids starts with a basic understanding of the fundamentals of BEAD. Roberts first noticed that importance when working with providers involved with the American Rescue Plan Act, pointing to the number of compliances that must be adhered to that can be overwhelming for smaller providers. "I've been surprised by the number of ISPs [with] the ARPA funding that came to us, saying, 'We just agreed to this ARPA grant award, but we don't know what the heck we just signed up to. Can you help us understand what this all means,'" he said. "You really should be doing that work now before you sign that grant award so there are no shocks to your system once you realize all the compliance obligations that come along with it." With the applications themselves, **Capitol Funding Solutions** President/CEO *Becky Nictakis* outlined three key areas to focus on: a detailed map of unserved or under-

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served areas that ISPs are proposing to build out, designated tribal lands and a timeline that meets the four-year maximum to deliver service. That's in addition to an itemized budget about equipment, workforce and how a provider would spend for this project. Once those finances are sorted, it's time to figure out what to bid. *Jamie Gorman*, Managing Director, Telecom, Media and Technology for **FTI Consulting**, said it comes down to how aggressive a company wants to be. "In some cases, you may decide you want to take an offensive strategy and go into someone else's territory where you really are a little bit further away from, and so you might be willing to take a lower return because you're trying to either disrupt someone else's business, one of your competitors. Or on the flip side, you might be trying to defend your own turf in another area, and you're willing to get very high in those cases to protect it," Gorman said.

MOODY'S CHANGES CHARTER OUTLOOK

While **Moody's** is affirming all of **Charter**'s credit ratings, it's shifting its outlook for the company to negative amid a rising competitive landscape that's led to higher customer losses across all services except mobile. The firm cites other factors including exposure related to ACP's wind down, which it thinks Charter could see a revenue decline of at least low single-digit percent over the next year. It also sees Charter's capital intensity at an elevated level, which it thinks will remain so for the next two years. "Charter is challenged by, and exposed to, significant and persistent unfavorable secular trends and pressure in its wireline voice and video services, evidenced by the high and sustained customer loss due to competition and changes in media consumption," Moody's wrote. "The company is also now losing internet customers due to higher competitive intensity from fixed wireless and wireline overbuilders. Mobile services, while growing quickly, is producing negative [free cash flow] and Moody's expects the run-rate economics (at scale) will be less profitable than wireline cable and voice." Moody's anticipates free cash flow to debt to be in the low single-digit percent, and retained cash flow to net debt to be near 15% for at least the next 12-18 months. For it to potentially upgrade the rating, Moody's could consider if Charter's leverage is kept below 3.75X and retained cash flow to net debt is sustained above 20%. Additionally, an upgrade could also be contingent on a more conservative financial policy. Downgrade factors include if sustained organic revenue and EBITDA growth isn't expected, if leverage isn't expected to approach 4.25X or if retained cash flow to net debt stays below 15%.

NTIA OPENS FUNDING ROUND FOR OPEN RADIO INNOVATION

NTIA announced plans Tuesday to make up to $420 million available to build radio equipment needed to drive the commercialization and adoption of open network technology in the U.S. and abroad. This is the second Notice of Funding Opportunity from the Public Wireless Supply Chain Innovation Fund, which was funded as part of 2022's CHIPS and Science Act. This round of funding will be targeted toward improving the overall performance and capabilities of open radio units through R&D as well as the acceleration of the development of open radio units to the point where they are ready for commercial trials. NTIA expects to grant between $25 million and $45 million per commercialization award, and $5-10 million per innovation award. Applications are due July 10, and the agency will begin making awards this fall.

DERBY TO REMAIN WITH NBCU

NBCU isn't just focused on securing a piece of the **NBA**'s media rights. **NBC Sports** announced it'll continue to be the home of the Kentucky Derby through 2032, with the race remaining on **NBC** and **Peacock** throughout the deal. The new agreement means NBC will become the longest-running broadcast home of the Derby. It also includes the multiplatform rights to the Kentucky Derby, Kentucky Oaks as well as Derby and Oaks Day programming. That 2032 year is shaping up to be a big one for the next media rights merry-go-round kicks off. **ESPN** currently has deals with both the **NCAA** and **College Football Playoff** that'll expire in 2031-32.

RATINGS

Make that two weeks in a row where **TNT** led the way in the weekly primetime ratings among cable networks. The **NBA** and **NHL** Playoffs continue to be a boost with TNT bringing in 2.55 million viewers P2+ the week of April 29-May 5. **Fox News** came second with 2 million, while **ESPN** and **MSNBC** battled it out with 1.38 million and 1.2 million, respectively. **TBS**, which also has some Stanley Cup Playoff games, took the fifth spot with 786,000. Fox News kept its spot at the top of the total-day ratings with 1.31 million with MSNBC trailing behind at 836,000. TNT came in at 713,000 viewers for the week, while ESPN (575,000) and **CNN** (492,000) took the final two spots of the total-day top five. – It was a big weekend for **Formula 1**'s Crypto.com Miami Grand Prix event. Sunday's race on **ABC** brought in the largest live U.S. TV audience on record for F1 with an average of 3.1 million viewers, beating the previous F1 record of 2.6 million that was set in 2022. Over the course of the weekend, the F1 Spring race on Saturday averaged 946,000 viewers on **ESPN**, becoming the largest audience for a Sprint race since F1 introduced the format in 2021. – Saturday's highly anticipated Game 7 matchup between the Maple Leafs and Bruins on **ESPN** averaged 3.2 million total viewers and 1.2 million P18-49. That's good for the most-viewed First Round game since 2012 and the third most-viewed First Round game on record, while also solidifying itself as the most-viewed Game 7 of a First Round NHL Playoff series ever. The First Round on ESPN networks (22 games) averaged 1.03 million viewers and 439,000 P18-49, up 17% and 13%, respectively, compared to last season's First round coverage.