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WHAT THE INDUSTRY READS FIRST

Upward Trend: Disney Streaming Businesses Profitable for First Time

Mouseketeers celebrated Wednesday as **Disney** revealed positive profitability on its combined streaming businesses in 3Q24.

This marks the first time those businesses have been profitable, and it comes one quarter ahead of the company's previous guidance. **Disney+** closed out the quarter with 118.3 million core subscribers globally, while **Hulu** had 46.7 million subs to its SVOD product. Approximately 4.4 million were signed up for **Hulu + Live TV**.

Domestic Disney+ ARPU dropped from $8 to $7.74 due to the impact of subscriber mix shifts, and Disney announced yesterday it would be instituting price increases for U.S. subscribers to ad-supported and ad-free plans across Disney+, Hulu and ESPN. Disney CEO *Bob Iger* believes the company can make that move without risking a major increase in churn.

"We're seeing growth in consumption and the popularity of our offerings, which gives us the pricing leverage that we believe we have. So every time we've taken a price increase, we've had only modest churn from that, nothing that we would consider significant," Iger said. "We believe that as we add these new features, like the channels that we're going to be adding later this year, and with the success of our movie slate… that the pricing leverage that we have is actually increasing."

The goal for the team overall in the next several months is to grow engagement on the Disney+ platform, and that's a huge part of why the company added the **ESPN** tile with select sports content while also integrating more news content into the service. The team is also focused on continuing to enhance and add to the technology that powers Disney+, and it is also preparing to begin its password sharing crackdown in earnest next month.

"We know that we need some stronger recommendation engines and we're working on that technology, and we need to make our marketing more efficient, but by adding all of these features, both on the technological side and also on the programming side, we're bullish about the future of the business," Iger said.

The digital ESPN flagship product is still set to debut in late 2025. It was more than a year ago when Iger announced in a **CNBC** interview that the company was looking for strategic partners for ESPN as it prepared to take linear channels direct-to-consumer. They were open to anyone that could assist in distribution, technology, marketing, content and more, but no formal announcements have been made about any of those discussions. But that doesn't mean they're over.

"The only thing I can say is, believe it or not, we're still having conversations about it," Iger said. "We thought, and continue to believe, there may be opportunities to partner with others particularly on the content side and that's why we've continued to explore it."

Disney also offered an update on the state of its negotiations with **Comcast NBCU** over what it owes the latter for its purchase of NBCU's 33% interest in **Hulu**. The guaranteed floor value of the stake was $27.5 billion, and if Hulu's equity fair value is appraised to be higher than that, Disney is required to pay NBCU the difference between the floor value and the fair value.

"During the initial phase of the appraisal process, the Company's appraiser arrived at a valuation that falls below the guaranteed floor value, while NBCU's appraiser arrived at a valuation substantially in excess of the guaranteed floor value," Disney said in a Form 10-Q. The two companies entered into a confidential arbitration process in May, and a decision on that arbitration is expected in FY25.

WBD TAKES $9 BILLION GOODWILL CHARGE ON NETWORKS

While **Disney**'s call was one of optimism, **Warner Bros. Discovery**'s was instead filled with a sense of uncertainty around the next steps for the business. At the center of WBD's earnings report Wednesday was a $9.1 billion non-cash goodwill impairment charge from the company's Networks segment. WBD attributed the goodwill impairment to "the difference between market capitalization and book value, continued softness in the U.S. linear advertising market and uncertainty related to affiliate and sports rights renewals, including the **NBA**." CFO *Gunnar Wiedenfels* said the company is constantly updating its views on the value of the assets in its portfolio, and called its negotiations with the NBA over media rights a triggering event. Beyond that, he and CEO *David Zaslav* were restricted in what they could say as they see how their lawsuit over the NBA refusing to accept what it saw as a valid match to other proposals for a piece of the league's media rights deal. "At this point, we've handed it off to our lawyers. We have confidence in our position. The judge will decide whether our matching right, which is 11 pages long, matched or not. We'll see. We're getting back to work." While in the shadow of the NBA deal, WBD is continuing to acquire other sports rights to bolster its programming lineups across linear and streaming. Max acquired the exclusive broadcast rights for Mexico and Central America for a selection of Premier League and Emirates FA Cup matches for the 2024-25 to 2027-8 seasons. 2Q24 total revenue for WBD was $9.7 billion, a 5% decline YOY, and global DTC subscribers grew by 3.6 million sequentially to reach a total of 103.3 million.

The *WHO* and the *WHY*

CFX's spotlight on recent new hires & promotions

JEANNE
Mau
TV PROGRAMMING DE&I
NBCUNIVERSAL

3 THINGS TO KNOW

- Jeanne was promoted after three years as SVP, TV Programming DE&I. She'll continue to oversee NBCU's inclusion efforts across its entertainment TV portfolio that falls under the NBCU Launch banner, including NBC, Bravo, USA Network, Peacock, four TV studios and more. Jeanne will continue to report to Pearlena Igbokwe, Chairman of Universal Studio Group, and Frances Berwick, Chairman of NBCU Entertainment.
- Since joining NBCU in 2021, Jeanne helped create the company's NBCU Launch brand and refreshed NBCU's talent development programs, including its writers and episodic directing courses. She also spearheaded NBCU's first major inclusion efforts for unscripted programming, including the NBCU Launch Unscripted Producers Initiative and the NBCU Launch Unscripted Pitch Accelerator.
- Jeanne spent over two decades at CBS Corp. before arriving at NBCU. Outside of work, she volunteers with organizations such as the Children's Hospital Los Angeles and Jewish Family Services. Jeanne received a Bachelor's in Communication and Media Studies from the University of San Diego.

CASTRO, SANDERS AND WARREN CALL FOR VENU REVIEW

Rep. *Joaquin Castro* (D-TX) joined with Sens. *Bernie Sanders* (D-VT) and *Elizabeth Warren* (D-MA) to urge the **FCC** and **DOJ** to look into the **Venu Sports** jv between **Disney**, **Fox** and **Warner Bros. Discovery** to see if it violates antitrust or telecommunications laws. The three wrote a letter to FCC Chairwoman *Jessica Rosenworcel* and *Jonathan Kanter*, who's an Assistant Attorney General for the DOJ's Antitrust Division, on Wednesday, expressing concern over the amount of nationally broadcast sports content that'd be available on the platform. More than 80% of nationally broadcast sports and over 50% of all national sports content will be available on Venu upon its scheduled launch in the fall. "In addition to horizontally integrating across the sports licensing market, this JV will vertically integrate the sports streaming market by jointly offering a new distribution platform for the licensed content that is controlled by these companies," the letter read. "The proposed structure presents these companies with a clear financial incentive to preference

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their own streaming platform over alternative sports streaming providers in licensing and bundling deals." The letter also targets potential consumer price increases, noting that the jv could remove economic incentives for companies to continue competing for sports licensing rights. It also points to the idea that the jv would lead to fewer choices, which enables the ability to drive up pricing in the future. "While this transaction is styled as a joint venture rather than a merger, we urge the FCC to recognize the ultimate merger-like effects of consolidating the live sports broadcasting assets of broadcasting giants in one entity, and assess potential harms to the public interest of this functional merger accordingly," the letter read.

GLO FIBER KEEPS ON GROWING

It was a quarter marked by expansion for **Shentel** and its **Glo Fiber** markets. After wrapping up its acquisition of **Horizon** in April, Glo Fiber expansion markets added 5,000 subscribers in 2Q24, ending the quarter with 53,000 subscribers (2,000 were acquired from Horizon). Total broadband RGUs for incumbent broadband markets and Glo Fiber expansion markets came in at 164,566 at the end of the quarter—a 15.7% YOY increase—and total Glo Fiber expansion markets passings grew by 114,698 YOY to 297,545, with 38,000 coming in 2Q24. "We continue to build additional passings in our existing markets and we have engineering, permitting and/or construction in progress in five additional markets, including our newest market of Steubenville, Ohio," EVP/COO *Ed McKay* said on Shentel's earnings call Wednesday. "We now have approved franchise agreements in place for 633,000 Glo Fiber passings, including 62,000 in our new Ohio expansion markets. In addition, we have 28,000 passings approved as part of government grant projects in unserved areas, including 4,500 in former Horizon markets." Revenue in 2Q24 was up $19.2 million YOY to $85.8 million, with the former Horizon markets contributing $16.7 million. Net loss from continuing operations was $12.8 million compared to $1.4 million in 2Q23, due primarily to non-recurring integration and acquisition expenses and depreciation related to the Horizon transaction.

SINCLAIR MEETS DISTRIBUTION, ADVERTISING GUIDANCE FOR 2Q24

Sinclair got the job done in 2Q24 when it came to distribution and advertising. Distribution revenues reached $435 million compared to the $418 million in 2Q23, and total advertising revenue increased 11% YOY to $343 million thanks to $40 million in political ad revenue. Tennis Channel had $67 million in revenue for 2Q24, and adjusted EBITDA was slightly above its guidance of $6 million at $7 million. Distribution revenue for the network came in at $46 million as core advertising revenue was $14 million. Sinclair's total revenue for the quarter was up 8% YOY to $829 million and media revenues jumped 8% to $819 million.

ROKU TO MAKE SPORTS CHANNEL

Roku is rolling out a new FAST channel dedicated to sports fans come Monday. The **Roku Sports Channel** will feature the popular sports programming that Roku owns and licenses, including MLB's "Sunday Leadoff," "The Rich Eisen Show," "GMFB: Overtime," Formula E live races and more. It'll also come with partner content like classic boxing matches from Top Rank and poker programming from PokerGO.

RATINGS

The Paris Olympics have officially been streamed on **NBCUniversal** platforms more than all prior Olympics combined. Led by **Peacock**, the Olympics surpassed the 17-billion-minute mark Tuesday, which eclipses the 16.8 billion minutes total for previous Summer and Winter games. NBCU has recorded an 11-day total audience delivery average of 32.6 million viewers across the combined Paris Live 2-5pm frame and U.S. primetime. **Telemundo** has also been getting in on the ratings wins, posting a nine-day TAD average of 272,000 viewers. That's up 35% from the Tokyo Olympics, and to date, the Paris Games have reeled in 17.8 million viewers on Telemundo and Universo.

FCC MAKES MOVES ON ROBOCALLS, EMERGENCY ALERTS

The **FCC**'s open meeting Wednesday began nearly 3 hours later than the typical start time of an FCC open meeting due to canceled flights that left Chairwoman *Jessica Rosenworcel* stranded. During the session, the Commission adopted a Notice of Proposed Rulemaking seeking comment on requiring callers to disclose their use of AI-generated calls and text messages. The agency also proposed changes to its Robocall Mitigation Database to increase accountability and accuracy within the tool and established a new alert code to help save missing and endangered individuals that fall outside of the criteria for AMBER Alerts.

ELDP DEADLINE EXTENDED

NAMIC is pushing the deadline back to apply for this year's Executive Leadership Development Program to Aug. 16. The course is operated in partnership with the University of Virginia's Darden School of Business and offers executives of color a research-focused study into leadership and cultural identity as it pertains to industry-related challenges.

PROGRAMMING

While **HBO**'s "House of the Dragon" wrapped up its second season and is gearing up for a third, co-creator/showrunner *Ryan Condal* confirmed during a presser that the program will finish after Season 4. Season 3 will begin production in early- to mid-2025.

Think about that for a minute...

Why the Surprise?

Commentary by Steve Effros

Japan raised its interest rates, the Fed is going to cut ours, the economists are still obsessing about the term "recession," the stock market had a one-day crash, Google lost in court, Nvidia announced a three-month delay, and Warren Buffett sold half of his Apple stock. The media went bonkers and if everyone had just taken a deep breath the last week would have been a lot less stressful.

So let's unpack all this, since at the end of the day a lot of it has to do with the "Tech" sector and how much folks understand or just react to media noise. First a brief comment on the economic stuff. Economists have been bantering about a "recession" for several years now. They've been wrong, consistently. Why are we assuming they're right now? The arbitrageurs got caught as Japan's zero interest rates started to go up, and because of a .02 change in the American employment numbers (.02!) The Fed is being pressured to drop US interest rates twice as much as they apparently had already planned in September. Thus the folks with lots of money in Japanese loans needed to cover the anticipated new costs. They sold stock. The Japanese market crashed. Everyone else followed suit, regardless of whether that made any sense. As of right now, all markets are already recovering from the one-day jolt. Why are we surprised?

A lot of this was also triggered by moves in the "Tech" market. AI, it turns out, still in its infancy, has not yet become an Olympic sprinter in terms of revenue generation. Heck, it has barely learned to walk, but the reaction to the big companies continuing to spend billions on developing the technology finally caught up with reality. The "bubble" is deflating. Tech stock valuations were absurd. Now they're only higher by around 100 percent (Nvidia) rather than 180 percent! Why are we surprised? Oh, that's right, Nvidia announced it had found a glitch in its newest AI chip. That will result in an estimated three-month release date delay. So what? As I've noted for a long time, the benefits of AI will emerge when it becomes more stable and consistently used in actual implementations, like medicine. That's coming. But it doesn't happen overnight!

Then there's Warren. He sold half of his Apple stock. Made over $76 Billion in profit for his shareholders! Does that mean he's abandoning "Tech?" Heck no, he said he just thought it was time to monetize some of the winnings. He still holds the other half of the Apple stock Berkshire Hathaway has. He just knows when to cash in; when the stock is at an all-time high!

And finally we have the latest Google court decision. Something I'll be writing a lot more about because there's no likelihood that anything major will result from this lower court ruling now, or in the next year! Yes, Google has been found to be a "monopolist." But with close to 90 percent of the search market, why is that a surprise? The Judge decided that Google did some things, like pay for priority use on Apple and Samsung devices that impeded competitors even though someone could easily change the "default" search engine. Again, why is that a surprise?

The only significance, right now, is that a common business trait, paying for priority, is now being called a violation of antitrust laws. That could have significant implications in the future, but we have to see the "remedies" first, and those haven't been decided, nor have all the expected appeals. Let's remember, the last major antitrust case, against Microsoft, was over 20 years ago. They "lost." But Microsoft is still one of the most valuable companies in the world today. Google, and "Tech," will be fine.

Steve

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