EMC

Evolution Media Capital

MoffettNathanson TMT Conference Recap

June 2019

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Key Takeaways

AMC Networks Is Evolving Their Relationship With MVPDs To Increase Awareness For Their OTT Services

STUDIO

- **Increased their priority for owning as broad a spectrum of rights and underlying UP, for the longest period of time they can**
  - Previously, they had a bias to own but would be okay renting content because it would be in service of their monetization system
  - Have the financial people, attorneys, creative people and own the shows, but are not living with the infrastructure of a lot
- **They are in the business of making shows for their domestic channels, international channels, and their subscription channels**
  - Don't aspire to make a show for 3rd party outlets but certainly, in terms of their monetization, are enjoying sales to them

CONTENT

- **Over the next 24 months, certain shows that have cycled through the system domestically will start to come back to them**
  - Will make a decision about whether it belongs on one of their dedicated content services, whether it should be resold, or replayed
- **There's very significant appetites from whole house services but not everything comes up for bid at auction**
  - Creators want their content to be seen, but that can be difficult when contained in thousands of hours of content arranged in algorithms
  - Moving something to the front window of a boutique chain commands a lot of attention and is different than shopping at a big box store

STRATEGY

- **A commonly held belief is that size is needed to make great material, but they don't intend to operate as a big box store**
  - In service of the much more specialized channels that are both in the linear MVPD ecosystem and also OTT subscription services
- **There's a lot of M&A activity and those companies that are participating have great plans, and it makes tremendous sense**
  - Their plan that they have been executing on is more specialized and is working extraordinarily successfully
  - Those 2 things although they may seem mutually exclusive are not, and they are actually compatible

LINEAR

- **MVPDs are more price sensitive about their cost of video, for competitive reasons, and focused on sale of broadband services**
  - Designed their offering some time ago to not spread wide, but instead be the best priced, smallest and high powered group of channels to buy
  - Linear is very good for commanding attention at a specific point in time as opposed to it's there, and you can find it when you want
- **MVPD relationships are alternating a bit because they're carrying DTC services that are also available outside of the bundle**
  - On-Demand improvements will see greater monetization of the delayed viewing that occurs on their networks

As other media companies look to scale through acquisitions, can they be successful through organic growth?

Key Takeaways

AT&T Is Still Trying To Determine What Their HBO Centric Direct-To-Consumer Product Will Look Like

DIRECTV

- **Made a real focus to cut costs and manage costs as well as focus on customers that were really margin-accretive**
  - Trying to maximize the opportunities for data insights and use that as a way to improve the profitability without charging customers more money
- **Getting more targeted with their marketing and promotion dollars, focusing on medium to high-end customers**
  - Do not view the strategy of marketing to any customer, and then trying to upsell them, as being successful going forward
  - Feel really good about the retention of their premium customers and those customers that are contributing EBITDA to their overall operations

WARNER MEDIA

- **D2C offering is an HBO-centric premium offering, with this whole inventory of owned assets that rests under WarnerMedia**
  - Will build off of their quality and their umbrella of content capabilities, whether it be in news, sports, entertainment
  - Increasing their investment in content in overall WarnerMedia and believe that's going to provide them a tremendous opportunity
- **Working very hard to determine a strategy that will allow them to more fully monetize the existing assets and inventory they have**
  - Bringing together all the points of contact they have on broadband and wireless can make the D2C product better

BROADBAND

- **Progress has to do with the fact that they have more fiber out there and have already connected 3 million customers**
  - Had an ongoing transition from DSL to IP and now from IP to fiber and will continue that
  - See some opportunity for additional fiber builds, as they do greenfield builds and maybe other directed situations where it makes sense
- **Have a big opportunity to take people up to higher speeds and higher quality, and with that, customers are willing to pay more**
  - Gives them the opportunity to continue to see really good bundling particularly with video but also with wireless

5G

- **The FirstNet contract is really enabling them to go through a process that allows their LTE to evolve into a 5G network**
  - By middle of the next year, they are going to have national coverage of 5G because they'll mainly just be doing software upgrades next year
- **Initial use will be on the business side, around logistics, monitoring of assets, automated factory, and connectivity**
  - There are service opportunities as well because you're going to need new dashboards, measurement techniques, and management techniques
  - Important to lead into smart cities capabilities, where governmental agencies will allow them to build off their business side

Will the investments into broadband expansion generate sufficient returns as wireless 5G starts to gain adoption?

Key Takeaways

CBS Is Quickly Expanding Their Content Production In Order To Drive OTT Subscriber Growth

PRODUCTION

- **Come up with a variety of higher-price shows and lower-cost shows and make sure they have a good mix that's manageable**
  - It's all about finding the right-fit show, having the right marketing approach, and making sure it resonates with the consumer
  - Investing in more of that must-have programming, where they own all the rights, in order to drive top line revenue growth and subscriber growth
- **Can offer a significant back end to their talent because they own the IP and the rights for most of their shows**
  - Try to identify shows that have a chance to really take off, and it's important to them that talent shares in the rewards from that

LICENSING

- **Licensing is a lucrative opportunity because there's going to be scarcity at some point as the supply gets reduced**
  - Really opportunistic with how they look at selling their content, so market-by-market, show-by-show
  - If they are going to command a significant amount of money for an international license, then it's monetization that's worth doing
- **Can be picky about what they want to keep for themselves and show on the network and try to maximize the economics**
  - They look internally first, and it's really about what's in the pipeline and how they are going to program the best show with the best fit as a brand

ADVERTISING

- **They are looking at where advanced advertising is going and how to further monetize the audience**
  - Have a lot of initiatives in place right now to look at that, grow it, build it and develop it and continue to be a leader in that space
- **It's not going to work for them if they are doing all this great content, and viewers are seeing it elsewhere legitimately**
  - Measurement has not changed as quickly as behaviors change, and it takes time, but in time it will happen
  - Want to get paid for every viewer, not just C7, and there are even more ways to monetize

SHOWTIME

- **Now is the time to scale and they are making a concerted effort to invest in programming and are producing 30% more content**
  - Have to make sure they have the right level of movies, but original series are really what's driving the consumer to come back to the brand
  - Want a staggered schedule where they are offering a new show every 3 to 4 weeks because that will give subscriber stickiness
- **Data from their consumers gives them more of a window into what are they watching and they like**
  - With some of their new shows, they are trying to focus more on attracting a younger audience

With a wide array of distribution channels, will they be able to pick the right content for each of their platforms?

Key Takeaways

Charter Communications

Charter Is Going Into Customer Acquisition Mode After Completing The Majority Of Their Integration

VIDEO

- **As a standalone product, there's very little value in video because of the way the marketplace has developed**
  - Can provide video quite easily so there are still opportunities to offer packages that satisfy customers
- **75% of the whole programming cost structure is related to big entities that own sports, broadcasting and other rights**
  - There aren't that many companies and there isn't that much cost where these kinds of discussion are going to change the price structure
  - In a world of password sharing, there's a significant consumer base out there that's still consuming video but not paying for it

BROADBAND

- **The nature of technology will require higher and higher capacity products for the home and the office and less so for mobility**
  - Have gone up to 1 gig capability everywhere they operate and have a relatively low cost upgrade spec that allows them to go to 10 gig
- **Consumers are going to continue to want new products, and those products will be about latency, high compute and capacity**
  - Video is the most broadband intensive product there is and there's no indication that video consumption is going down
  - New products are going to be interactive or immersive, whether that's gaming or entertainment or education

MOBILE

- **They are trying to sell and integrate mobile into every potential order, just like they did with wireline voice years ago**
  - Just starting to roll out new features, including Bring Your Own Device, and that will accelerate their ability to sell into the marketplace
  - The faster they grow, the longer it takes to be profitable, but they don't need to have a very big base to be profitable
- **Opportunity to offload traffic on to their own network reduces the cost of how much spectrum they have to rent**
  - Most of the bit consumption is video and 80% of the data usage on mobile phones rolls through their Wi-Fi and broadband network

PRICING

- **Whole thesis about the way to operate a cable system is to make it customer friendly and to reduce the volume of transactions**
  - Like to sell a fully serviced triple-play or quad-play to every customer they can at every opportunity they can
  - There is initial cost in creating a superior workforce that is high skilled and well-trained, but end up with a lower cost, higher margin business
- **Benefits of pricing model have yet to be realized because they had to finish this integration to get in a position to accelerate**
  - Attract customers through promotional pricing, but allow them over a period of years to step the pricing up

Will customers be able generate enough savings from a quad-play bundle to be willing to switch their mobile carrier?

Key Takeaways

Cinemark Has Been Slowly Expanding In Central America, As Brazil And Argentina Face Economic Troughs

WINDOWS

- **In the middle of a multiyear deal with their key suppliers and are not in the middle of any significant negotiations**
  - PVOD is never done because it's been an ongoing discussion for a long time, but there is no active discussion on it
- **The windows work well for studios because it allows them to monetize highest value first and then work their way down**
  - Window discussions are always active for the lower-performing movies and try to cooperate with studios around creating a systematic process
  - Studios will likely experiment with and figure out what works best for them for films post theatrical window to when it goes streaming

M&A

- **Looked at every significant deal that's come down in the United States but tend to be very prudent, disciplined buyers**
  - Looking for both small and midsized acquisitions that can be supportive and will be accretive to them from day 1
  - There is really no large circuit in the U.S. that is actively pursuing any kind of M&A
- **Don't think scale gives them any additional leverage or importance relative to the overall industry**
  - The studios have a lot of exhibition partners around the world, so whether they have a 13% or a 20% share, the relationship is the same

NEW REVENUE

- **Have done a lot of work with Super League Gaming and have been at the forefront of testing with them**
  - At this point, it's successful, but it hasn't rolled out to the scale to where analysts are starting to take note of that amount
- **Don't think VR will expand to dozens of installations because they take up a lot of space, so they need a big theater to put it in**
  - Won't know whether or not they are going to do additional ones until they are probably a little further along
  - Encouraged on both The Void and Spaces and like the idea of putting it front and center in the lobby so that people see it walking in

INTERNATIONAL

- **Brazil and Argentina have had the most economic challenges, but moviegoing is very healthy still in Latin America**
  - There's been very little mall building in Brazil the last several years and theaters in Brazil are almost exclusively within malls
  - Have made up for that a little bit with some small acquisitions along the way as they grow their Latin America footprint 50 to 75 screens per year
- **XD is the foremost premium-format brand throughout the region and drives a significant increase over the normal price**
  - They put a big marketing push behind it as well in order to encourage people to want to continue to go

Will experimentation in Esports or VR eventually create new business lines that lessen the dependence on films?

Key Takeaways

Discovery Communications

Discovery Wants To Use Their Direct To Consumer Platforms To Combine Viewing With Transactions

CONTENT

- **Scripted side is really crowded, expensive and cluttered and they are all doing the same stuff**
  - The cost of that content is enormous, and it's going higher, but unscripted content is a lot cheaper and it's not going up
  - This stuff is really hard and they are working almost exclusively with the best production companies in each genre
- **Own a massive amount of global IP and see these affinity groups across food, home, and other brands as a key differentiator**
  - Advertisers have to pay a massive premium to reach the people that love golf or love cycling, and those people want to spend

OTT

- **They are now on every single platform because they are not that expensive and have content that people love**
  - Subscribers are growing 2% outside the U.S. because there's no retrans or sports and there's a lot of young people coming in
- **When they launched their GO product, they didn't know whether a lot of young people would authenticate, since it is not easy**
  - Average age of linear channels is in the high 40s to low 50s, while the average age of people that are consuming OTT is in the mid-20s
  - Audiences are consuming a massive amount, and in the next 3 or 4 years, GO products could become their biggest cable channel

SPORTS

- **Are capable of building a transactional business around sports because they already have infrastructure in place**
  - Have channels in every single market in the world and have ad sales, distribution people and relationships across the globe
- **Sports federations can’t really sell to a lot of the big tech companies because they need their sport to grow**
  - Need somebody that can take them everywhere in the world because a big piece of growth is outside the U.S.
  - People become a fan by watching a network and someone's promoting you to look what's going on

INTERNATIONAL

- **Scripps content is starting to work and they have a massive library that hasn't been seen anywhere in the world**
  - Launching a free-to-air home channel in Germany in the next month and have a very successful home channel in Poland
- **The Olympics gave them more credibility because while they own Eurosport, it was a little tired of a brand and needed to invest in it**
  - Had 3 sports channels in every country, and were the only company that was doing business in every language in Europe
  - Eurosport Player allowed them to go DTC while the website was reaching 30 million people for free, where they would go mianly for clips

Will the value of lean-back unscripted content diminish as growth of SVOD services proliferate across the world?

Key Takeaways

Disney Will Continue To Use Feature Films To Build And Grow Awareness Of New Franchises And Brands

FILM

- **Theatrical window has worked well for them and their relationship with distributors has strengthened over the years**
  - Deliver value with their adherence to not only big franchises, but quality and really investing in the business, and are going to continue to do that
- **Beauty of weaning themselves from 3rd party licensing of their movies, is that they now control the home video and pay windows**
  - Have the flexibility to move the window as they see fit, whether it be by title or value-creation to platform
  - Home video window will ultimately shorten, and the window that they put it on Disney+ and Hulu will, not lengthen, but happen sooner

DISNEY+

- **The advantage they have is the global appeal to their brands of Disney, Marvel, Star Wars, Pixar, and National Geographic**
  - Will have more product that will travel successfully in markets around the world - as a percentage of their total product
  - Gives them an opportunity to leverage that content more efficiently and obviously not have to spend as much on the product in order to launch
- **Pricing had nothing to do with current ecosystem and everything to do with launching a product with the broadest appeal**
  - Getting this product launched successfully, getting it in the hands of as many people as possible, achieving scale quickly were all priorities

PARKS

- **When they build things based on IP that's already popular, they tend to get higher returns on those investments**
  - It lowers marketing expenses because these brands and the characters are known
- **VR can provide a compelling experience in terms of what you see, but it is never going to be as great as actually being in something**
  - Not trying to fake immersion into a place, but instead trying to make it as real as possible, with as much scale as possible
  - Not going to see much VR in their parks but there are opportunities to augment reality with technology, and they will do it in a variety of ways

ESPN

- **Cable providers know the value of live sports, particularly in a world where so many things are consumed as programs**
  - Deemphasized a few sports that weren't driving as much value as they had in the past, and they emphasized sports that were driving more
- **Live sports is really important and drives most of the consumption on ESPN+, so their aggressiveness has paid off**
  - Will continue to look for opportunities, although there's not much to acquire between now and when these big contracts expire
  - Going to continue there to treat that product as basically an incremental product to their primary channel business

At such a low price point, will the Disney+ service be able to reach its subscriber projections ahead of schedule?

Key Takeaways

Fox Has Started Taking Initial Steps To Capitalize On The Legalization Of Sports Betting In The U.S.

GAMBLING

- **Gambling is a new revenue stream that they are incredibly excited about and that they want to participate in aggressively**
  - Shows their ability to engage with their audience and to grow with them in a way that's not advertising and not affiliate revenue
  - Much better off having people bet low amounts of money that are affordable, but do it every weekend
- **The combination between media and gaming is more complex and there is more arch to it than just free advertising**
  - There is an integration with how they promote free games, fantasy games and that leads down into the funnel of wagering with money

SPORTS

- **Want to have as much sports as possible because it's the best content on TV but the prices for the best rights are increasing**
  - NFL broadcast reached an average of 18 million people and is the only place marketers can expand reach in a live environment in one show
  - Having opinion-driven and panel-driven shows where people talk about sports and what's coming up is very important
- **Digital players are learning making investments carefully, but still lack the scale to be part of a social fabric of America**
  - They are not producing a single piece of television, so broadcast is still going to be important and sports leagues understand that

LINEAR

- **They are on every single platform so can assume that they will be declining at no worse than the industry rate of decline**
  - Focused on maximizing a smaller number of channels, but each one can grow affiliate and retransmission revenue at an industry-leading pace
  - Moved sports rights from cable to broadcast and WWE will absolutely help them drive retransmission revenue
- **Could go out and buy or try to launch entertainment cable channel but don't think would drive overall value**
  - Would take leverage away from retransmission and FOX News and use that for a channel that perhaps isn't needed or no one particularly wants

NEWS

- **Viewers are passionate about the brand and they can find new ways to engage with that audience, and ultimately, monetize it**
  - Have been #1 news channel in the country for 17 years, across multiple administrations and a dizzying array of news cycles
  - The drop off in viewership has been in the younger demographics where people are either playing games or streaming more
- **Many people want to launch local versions of FOX News in different markets but not sure they like the scale of the upside**
  - Can maybe monetize a direct-to-consumer feed to the linear FOX News channel for international viewers but don't have any immediate plans

Can they navigate the rapidly evolving media landscape without their own dedicated direct-to-consumer product?

Key Takeaways

viacom

Viacom Is Looking To Benefit From The Growth Of OTT By Increasing Their Production For Third Parties

PRODUCTION

- **There's still this customer base out there in SVOD who has, at the moment, a seemingly boundless appetite for new original content**
  - Producing original content for 3rd parties on a commission basis that they have for a window but then reverts back to their library over time
  - Have been warehousing their library rights to be able to fuel their owned and operated direct-to-consumer offerings
- **There's only so many things that are appropriate for the linear product so their development pipeline creates a huge opportunity**
  - International part of the business allows them to serve international clients as well as produce at different price points

PLUTO

- **While everybody focuses on SVOD, they are trying to win where there's competitive whitespace and real consumer demand**
  - It's a very good complement to SVOD because even though there's 5,000 hours of VOD, 95% of the consumption is on the linear environment
- **Content partners for Pluto's 150 channels include every major media company in the world**
  - Anyone who wants to play in the big boy SVOD game is incurring tens of billions of dollars of losses to build that content base out
  - All the distribution relationships create incentives that are aligned in terms of revenue share and inventory share

ADVERTISING

- **Building out a suite of products that complement what they have on linear, but are not dependent on linear impression volume**
  - Leveraging their advertising relationships to help agencies and their clients meet a broader range of marketing objectives
- **The most unique thing that they have is the rights and capabilities to serve dynamically into live linear feeds on MVPD set-top boxes**
  - Can serve campaigns that are targeted in nature. and are delivered based on audience segments as opposed to Nielsen demos
  - The most challenging part of that is actually wiring up these pools of disparate inventory so that they can behave as one

OTT

- **Consumers have different needs at different price points, but the industry basically only offers a $100-plus big bundle**
  - Everybody at the kind of mid-tier bundle is losing money on a gross margin basis because of the rates associated with sports and broadcast
- **The next frontier for the video bundle in the United States is the hundreds of millions of subscribers who are on mobile**
  - Carriers need to drive data consumption and the most effective way to do that is with a video product
  - Hard bundling an offering for their highest-value subscriber could make them the biggest virtual MVPD in very short order

Can new management successfully turn around the recent declines at the flagship networks of MTV and Nickelodeon?

EMC