



Citi TMT Conference Recap

January 2020

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Key Takeaways

AMC Entertainment Has Cut Back On CapEx, As They Shift Their Efforts Towards Monetizing Current Assets

WINDOWS

- **Theatrical window has been under pressure for a long time, but any drastic changes needs to consider consumer expectations**
 - If there were some way to shorten the window only around smaller releases, that could benefit some titles that are very important to them
 - Clearly, there are movies that play well beyond 3 days, but there are also a number of movies where demand is sated early
- **An absolute 45-day reduction in the window would be very difficult and they would not be willing to do that**
 - There are many other touch points around their relationship with the studios that need to be accounted for when negotiating windows

BIG SCREEN EXPERIENCE

- **Not motivated to run more ads because trailer time is advertising and those are the products that they are selling in the next weeks**
 - Important to the content providers that people are in their seats, they're there to watch a movie and they see the best ads for the upcoming slate
- **Studios should view theaters as a way to differentiate their product in the constant scroll of titles on screens in the home**
 - All they are doing around marketing, technology, seating, food and beverage, makes the moviegoing experience better and makes it relevant
 - The evidence suggests that moviegoers are streamers and streamers are moviegoers, and they like to consume content

A-LIST

- **A-List takes volatility out of their admissions revenue and makes them less susceptible to box office fluctuations**
 - Moviegoing is not a solitary experience and there are different features that they can add and grow the membership
 - Have now lapped the first year of ramp-up and are a year ahead of schedule on incrementality, and are heavily engaged digitally with guests
- **They are a better marketing partner than ever before, and the information they have on theatrical moviegoers is vital**
 - Important to content providers that want to market directly to known audiences and motivate people to come to their theaters more often

INTERNATIONAL

- **International business is starting to gain traction because of their capital investments and the initiatives they have deployed**
 - Acquired Odeon because they saw an opportunity to upgrade their circuit both from sight and sound perspective, through IMAX and Dolby
 - Saw a little better balance towards more family product in 2019 and that actually played into the international markets
- **There is clearly scale to this business, whether it be leverage with studios, relationships with vendors or strategic initiatives**
 - There's consolidation on both sides of the camera, and the studio world is consolidating, and it's a global business, so there is a need to match scale

What new features can they add to their loyalty program in order stimulate attendance in a slow box office year?

AT&T Is Focused on Improving Efficiencies And Creating More Synergies Within Their Entertainment Bundle

BUNDLING

- **Bundling an entertainment product will be a real differentiator, particularly since its under their umbrella of economic ownership**
 - Seeing wireless competitors bundling Netflix and Disney reinforces their thought processes around HBO Max
 - Customers who buy into the highest-level wireless package and get HBO with it, are already some of their lowest-churn customers
- **Customers will want to consume entertainment in a bundle and have the freedom to access it any place they want**
 - There's a lot of customers, particularly in their prepaid space, who consume broadband services solely via wireless devices

HBO MAX

- **Want to work closely with cable distribution partners, because HBO Max can provide great stickiness to all their other products**
 - Will have about 10 million AT&T customers set up with log-ins so they can sign right into HBO Max at launch
- **Have confidence that the quality of content developed by their team can retain, interest, and recruit customers**
 - After Game of Thrones ended, made investments in some shows that went to a collection of female leads and other demographics
 - Made a \$500M investment from an operating income perspective in the quarter by holding back the licensing of some really high-quality content

WIRELESS

- **Over the last 3 or 4 years, the upgrade rates have been historically low, but expect 5G equipment to increase sales**
 - The sale of handsets is not that significant in the profitability side for their business
 - Will continue to see higher wireless revenues out of IoT and business sales of mobility and continued strategic services growth in business
- **FirstNet gives them higher quality speeds and higher geographic coverage for new customers, as well as their existing customers**
 - Have 1 million first responder customers, and now have the ability to sell to a whole lot of customers that they weren't really able to target before

STRATEGY

- **Have been reducing costs for their network operations and believe they can step that up in various ways this year**
 - Product rationalization will be the next step of their strategic portfolio analysis as they look to do things differently and more efficiently
 - Will streamline the capital build process and are already starting to analyze and streamline the customer care and customer sales processes
- **May have some tuck-ins transactions, such as buying spectrum, but don't expect any material M&A**
 - Have got to find ways to pay for those and self-fund them through asset sales

What concessions will need to be made in order to finalize agreements with MVPDs for the carriage of HBO Max?

Key Takeaways

Discovery Is Utilizing Their Experience In Europe To Increase Production Of Local Language Content

DIRECT TO CONSUMER

- **If they want to win in the long term, eventually need to reach everyone in the US, and outside the US, that has any device**
 - Are in meaningful discussions with existing distributors because their view is that they need to figure out how to make them partners
 - In almost every market in the world, there are 2 or 3 mobile players that compete on price or by having unique content, so that is a big focus
- **Spent a couple of hundred million dollars for 2019, and would like to spend a lot more in 2020, but will do it on a success basis**
 - At some point in 2020, will start to give some metrics on their free funnel, pay services and what the aggregate numbers directionally look like

OTT

- **DTC services are not that differentiated, so there will only be 2 or 3 winners, and a few of them are just going to absolutely tip over**
 - Right now, they're bidding up the cost of the content, talent and marketing
 - There could be a sweet spot where they could be a great companion to every one of those scripted DTC products
- **There are a number of characters on YouTube and Instagram that are compelling, particularly in HG and Food**
 - Experimenting with putting short form content on GO, and taking people that are successful in the Instagram genre and moving them over to their platforms

SPORTS

- **Winter sports depends on the country, whereas Summer Games are appealing across the board and have twice as much content**
 - It is not enough just to have the Olympics, they also need to have short-form content about the athletes and the sports every day
- **Objective with Eurosport was to build a really strong brand and reinforce the quality of the IP by acquiring more good sports**
 - Taking the Olympics away from the public broadcasters in Europe was part of their vision of have reaching people on every platform
 - Gave them real credibility as being the company that could execute country by country, selling advertising and working with distributors

INTERNATIONAL

- **Strategy is to attack Europe and already have the fastest-growing AVOD/SVOD product in Norway, Denmark, Sweden and Germany**
 - Started to target Latin America and working real hard in Chile and Peru because they think local language is going to be really potent
- **Have spent years building local content, with local salespeople, in every one of these countries, which is pretty hard to replicate**
 - There's 4 or 5 players that are doing US content globally, but they have the more in-language content than any company in the world
 - Netflix is a terrific product, but it's almost all English language content, with a little bit of in-country language content peppered in

Is aggregating all of their brands into one direct-to-consumer product the best approach to entering the Streaming Wars?

Lionsgate Will Face More Tough MVPD Negotiations As They Concentrate On Scaling Their DTC Service

STARZ

- **Resolved deal with Comcast, transitioning it from a fixed payment deal to à la carte, which is becoming more popular these days**
 - 60% of Starz revenues today comes from à la carte, so it's not an unusual business model, and will be approaching 80% by the end of fiscal '21
 - This shift has been underway for a while and they are not uncomfortable with it, but just want a reasonable transition
- **Historically, the premium platforms have been immune from some of the turmoil between distributors and networks**
 - DTC business is getting bigger, giving them a little bit of flexibility in negotiating, but don't necessarily want to burn that bridge with a partner

OTT

- **Able to grow their business, even though subs haven't grown that much domestically, because the mix is moving from MVPD to DTC**
 - Traditional MVPD ARPU is probably \$4.50 and DTC is around \$6.50 so there is \$2 positive spread
 - The only real incremental costs are marketing, which aren't enough to offset that, so the unit economics are more positive
- **The evolution of the media and entertainment business model is moving away from the traditional wholesale licensing model**
 - People are aspiring to achieve data-driven subscription-based model with the alignment of TV studios and film studios behind them

THEATRICAL WINDOW

- **There are a lot of players that want to compress the theatrical window, but they are very comfortable with the current model**
 - If consumers demonstrate that they want to get it earlier and pay a premium for it, then they would be willing to explore that
- **Have output deals in place, so don't see any major changes on the windowing side for their direct-to-consumer platform**
 - All those deals come up for renewal around the same time so it will give them a lot more flexibility with licensing agreements
 - Have Tier 2 films that tend to be profitable, low budget, limited releases, and can be more innovative with this type of content

FILM

- **Pre-existing IP is not a new concept, because a lot of the popular films in older times had a book in advance of them**
 - A series of books is better because once you know what the first movie is going to do, it's easy to extrapolate out what the next films will do
- **There are secular concerns that they have to be worried about because it's harder to create messaging on ad platforms today**
 - Pre-existing IP helps because if people are engaged with it on social media throughout the year, you're basically activating those audiences
 - People are using DVRs and watching shows 2 weeks later or they're using ad-free platforms, making it harder to get that messaging out

How aggressively will they increase their film investments into franchises, sequels and established IP?

Sinclair Is Building Their Content Strategy Around The Scarcity Value Of Local Sports And Local News

RSN

- **They are an essential piece of the ecosystem as the dominant player in local sports and that cannot be replicated or replaced**
 - Have 55% of all the U.S. teams as partners and that gives them a very unique position vis-à-vis the distributors, but also vis-à-vis the teams
 - 5 months into the acquisition, have renewed 75% of subscribers through long-term new agreements, and the only big player left is Comcast
- **Tentpoles of the games are important for their high viewing in those few hours, but also exemplifies the passion of the viewer**
 - There is a big opportunity to upgrade programming outside of the games because it's just empty shelf space

SPORTS BETTING

- **Viewer engagement goes through the roof when you add interactivity and you add skin in the game**
 - Will open up new avenues of monetization beyond advertising and subscription, including offers to avoid watching ads if betting on a sport
 - In-game betting will not only expand the old pie but also completely integrate the sports betting and the sports viewing experience together
- **When a new market opens up, all the players want to rush in and they're pressuring the inventory, which leads to higher CPMs**
 - Distributors still get their 2 minutes per hour, but as states light up, they are a natural place to go, because they can serve specific markets

DIGITAL RIGHTS

- **Availability of local MLB digital rights is a positive development because once it goes to the teams, they can acquire it**
 - Already had direct-to-consumer rights for NHL and NBA, but didn't have them for MLB, so this is the last piece they were missing
 - Don't see their business model changing anytime soon, but any new deals will have these rights wrapped right into the base agreement
- **Don't foresee a DTC stream going to someone else, but enables YES Network to distribute a subset of games to Amazon**
 - Will strategize with Amazon about how to do this and the compensation for that will stream through the RSNs

STREAMING

- **Fox Sports Go will be revamped and will be much more central to their strategy, rather than an afterthought that it is today**
 - It's going to have much more than just streaming, including additional content around teams, more data, and more interactivity
- **Streaming Wars are a massive oversupply of content with a growing number of distributors, which results in no pricing power**
 - Not a good setup for long-term business, which is the reason why they want to limit their exposure to that area
 - Over the last 5 years, live viewing of sports and news have gained 26%, and all of the genres have lost 6%

What innovative features will they incorporate into broadcasts to maximize the consumer appeal of sports betting?

T-Mobile Continues To Gain Wireless Market Share, Even As The Sprint Merger Lingers To The Finish Line

CHURN

- **When churn's going up across the industry, it is much more cost-effective for them to grow and scale their business**
 - Able to mix promotions much more in favor of long-term brand-building messages and yet still deliver the end quarter results
- **The hallmark of this quarter was a more competitive environment with more switching going on**
 - Nothing matters more than network quality, but nothing drags you into the store tomorrow morning like a promotion
 - Cable has come in, and they have created a dynamic that's a little bit different than everybody predicted

HANDSETS

- **Currently at a 3-year average ownership in the U.S. and there is an obsolescence factor to these handsets.**
 - At the low point in the upgrade cycle and that will continue over the next several years as 5G develops
 - As applications that utilize the full power of 5G develop, will see higher switching, and they are ready to reap the benefits from that
- **When consumers are forced to choose due to economic conditions, wireless will not be one of the first places to cut back**
 - The last recession came to a finish in 2009, or the beginning of 2010, and at that time, smartphones weren't really a thing

5G

- **In 2020, substantially all of the handsets, mid-tier and up, will be compatible with their 5G strategy around mid-band and low-band**
 - Can really go at driving switching opportunity in this marketplace based on the speed and performance of their network
- **Opportunities for all the different form factors of mobile connectivity and device ecosystem to accelerate**
 - Base business case is simple as 5G is a spectral efficient technology that dramatically increases the capacity of the network and gets compounded
 - The catalyst and the excitement's going to start moving this year, although 2021 is probably going to be bigger

SPRINT

- **Combination is about enabling more competitive intensity, lower prices, better products, and a more successful company financially**
 - Building the world's best 5G network, which is so closely associated with those synergies, and executing their operating plan to take share from AT&T, Verizon, big cable and others
- **Have been very clear all along as to what they are willing to do, and what they are not willing to do, in order to keep the value of this company**
 - Made their main filings today and the closing arguments are next week

How quickly will they launch new Un-Carrier initiatives that showcase the potential of their 5G network?

Verizon Is Providing More Personalization By Extending Their Mix & Match Program To Wireline Customers

PARTNERSHIPS

- **Can use their scale where it's appropriate to negotiate a great deal, but don't want to take a one-size-fits-all approach**
 - Have a strategic formula to personalize the individual experience that will reflect the ability to target within their overall base
 - Will see more companies take advantage of their platform as a network, distribution partner, and billing services provider
- **Pleased with the number of customers who pay for 3rd party services, or move up in the unlimited tiers to access it for free**
 - Have evidence that the Disney+ partnership has attracted customers, helped with retention, but also has expanded customers' share of wallet

5G

- **Focused on the ability of 5G as a fundamental game changer, with the original standard bandwidth of 500MB**
 - Already have an LTE network that serves the entire country and provides speeds that, in most cases, are higher than the available DSL offering
- **Opportunity in 5G and 4G to maximize yield by investing heavily in the significant expansion of the capability of the network**
 - Will then evolve the products and services that allow them to yield, manage and sell more of that capacity more efficiently
 - There will be environments in which public WiFi will be eliminated in favor of mmWave because of the security, reliability and service capabilities

SUBSCRIBERS

- **Last summer, they repositioned their portfolio with targeted repricing, focusing on their premium relative to the market**
 - Early adopters of unlimited were the heaviest users who already understood the opportunity of high usage in smartphones
 - The step across from the meter plans to unlimited for people who weren't as big users, was just a little higher than maybe was natural
- **Customers love their mix and match approach and gives them real choices both moving from meter to unlimited, as well as moving up the stack within the unlimited portfolio.**
 - See opportunities to bring same approach to traditional wireline business

BROADBAND

- **Broadband is an opportunity very much built around network as a platform, which allows them to expand out the offering**
 - Ubiquitous connectivity will blur the lines between wireline and wireless and lead to changes in the services that people are taking
- **Will be in more homes as the connectivity provider of choice, providing a platform for services that consumers most value**
 - Earns them the right for a much broader relationship with the customer and ability to participate in value-add services that expand ARPU
 - Fragmentation of content ownership and more cord cutting will lend itself to people effectively reconfiguring the bundle to their needs

Do they need to invest in differentiated content, or can they succeed by being the premium distribution partner?

Key Takeaways



WWE Is Adjusting Their Content Distribution Strategy To Create A Bigger Funnel Towards Their OTT Product

OTT

- **Won't know the efficacy of the new OTT platform for awhile, but the elimination of friction from a robust free tier is very powerful**
 - Ability to bring someone into the service where they can live within that for a period of time gets them more comfortable with eventually paying
 - There are a lot of ways to create value for premium subscribers through additional content, features or perks
- **Next opportunity is localizing across language, commerce, and pricing in order to drive incremental growth**
 - It's not a surprise that a \$10 product in U.S. currency, only in English, may not work in some markets to the degree that it could

STRATEGY

- **Goal is to have strong positions on traditional Pay-TV, AVOD and DTC, not really knowing how consumer preferences will evolve**
 - They are pretty agnostic towards the use of those 3 platforms and how the content is allocated among those platforms
 - Create content for the goal of reaching as many people as they can, driving engagement so they spend as much time as possible with them
- **Some investments will generate economics in 2020 and 2021 and some may not return the lion share of the economics until 2025**
 - Still think there's headroom on the live rights, and it's all about pacing this investment to avail ourselves of the opportunity

MEDIA RIGHTS

- **Broadcasting 2 hours of NXT on linear TV that is equivalent to the 5 hours at today's Raw and SmackDown can be a game changer**
 - There's some depreciation of the OTT service, but felt the opportunity was big enough that it was worth taking that risk
 - It's a short-term contract, so they will learn over the term of the deal, and then decide if it is still worth continuing to pursue that
- **There is significant value that continues to be placed on live content in the U.S. video ecosystem and that's going to grow**
 - 60% to 70% of the growth in global media and entertainment is going to come outside the U.S. over the next 5 to 10 years

INTERNATIONAL

- **International markets are very different, and the economics are not a linear relationship between the size of the markets**
 - There are different value chain dynamics, and they have different positions in those markets, so it's tough to extrapolate
 - Continue to work with Saudi Arabia and think they will get a deal done, but it didn't come to fruition in the time frame that they would have thought
- **Localizing content through digitization to better understand the consumers, grow audiences, and strengthen the brand**
 - Have tools at their disposal that they never had before in terms of their social platform and the use of data to amplify the connections with talent

Which markets will be the first to offer a localized product that can capitalize on the passionate international audience?