Media & Entertainment

A Sporty Venture

Industry Overview

08 February 2024

Equity
United States
Media & Entertainment

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DIS, FOX and WBD announce new sports streaming tier

On 2/6, ESPN, FOX and WBD announced they are forming a joint venture to launch a streaming sports service in the US. In essence, we view this as the creation of a new skinny sports bundle. This comes on the heels of several years of cord-cutting which have put tremendous pressure on the P&L of the entire media ecosystem. This new product (to be named) is expected to launch in Fall 2024 with access to 15 linear channels (and their respective sports programming) which includes the NFL, NBA, WNBA, MLB, NHL, NASCAR, College Sports, UFC, PGA Tour Golf, Grand Slam Tennis and the FIFA World Cup among others.

The product targets ~60mn US "cord cutters/nevers"

It appears this new product is being targeted at the "cord cutters/cord-nevers", which represent approximately half of the 125mn broadband subscriber base in the US. However, we recognize the new sports tier offering (which had been the glue keeping the linear bundle together) increases the risks of accelerating linear cord-cutting as well. Each party will own a 1/3rd share in the new entity although we do not expect the revenue splits to match the equity ownership percentage (we believe the partners will receive a similar fee from subscribers that it receives from traditional pay-TV operators). Notably, PARA and NBCU are not part of this new venture.

A big next step but several questions remain

The announcement of this new sports tier is a clear acknowledgement of the ever-changing landscape in the media ecosystem. With the costs of sports rights continually increasing, it has become clear these businesses are not sustainable without a critical mass of paying subscribers to offset these content costs (as had been done with the linear bundle). However, this implies pricing of this new offering will be significantly higher than other entertainment streaming services (press reports indicate $40-$50 sub/month) in order to recoup linear affiliate economics. At that elevated price point, it is unclear how many broadband subscribers who have already cut the cord (presumably since sports content was not critically important to them) would be willing to subscribe at that price point vs encourage sports fans, who are existing linear subscribers, to downgrade to a lower cost option compared to their existing cable subscription. How these dynamics evolve will be critical drivers to the P&L impact of this transition.

Extending advertising onto platform

On its Feb 7th earnings call, Fox indicated the partners would extend their existing advertising infrastructure to capture the reach of this new sports streaming platform. To the extent, this new venture expands the total pie of subscribers (both linear and direct-to-consumer), we view this as a net positive on advertising. In a best-case scenario, advertisers will now have more comprehensive demos to reach (including younger demos who have cut the cord) along with better technology to target thereby stemming the continued challenges created by linear subscriber declines.

Glossary

FOX	Fox Corp
DIS	Walt Disney
NBCU	NBCUniversal
PARA	Paramount Global
WBD	Warner Bros Discovery

Refer to important disclosures on page 4 to 8. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.
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Timestamp: 08 February 2024 05:24AM EST

How many TV subs needed to offset linear losses?

For this transition to be accretive on a revenue basis, one would need to believe the incremental economics gained from new subscribers who were previously "cord cutters/cord nevers" would be enough to recoup the lost economics of affiliate revenues from linear subscribers who trade down to this sports tier. In our view, avid sports fans are most likely to subscribe to the traditional linear bundle or the sports streaming JV as those are the most robust sports offerings available. We also note that distribution would be via an app and that the JV could potentially bundle with distribution partners such as Amazon.

In a hypothetical scenario where 10mn subscribers churned off linear subscribers to this new sports tier, DIS would need to acquire an *incremental* 2.6mn subs (assuming $4.16 in non-sports affiliate fees and $16 in sports related affiliate fees) to recoup the linear losses. Another consideration for DIS and WBD is their respective SVOD streaming services could present a natural home for bundling.

We note a few caveats for our analysis:

1) Triangulating the advertising breakeven impact is much more challenging as a theoretically more targeted DTC service should be a net positive from an advertising perspective, as the lost advertising dollars would likely be nominal (e.g. an avid sports fan who would trade down to the sports tier is unlikely to be a serial watcher of HGTV thereby not driving significant ratings/advertising on those channels).

2) Some may argue the recent precedent set with the DIS/CHTR affiliate renewal, signaled a "beginning to the end" for many of these longer tail non-sports linear channels (digi-nets) that were likely to be losing carriage in upcoming negotiations. Said another way, losing these revenues may have only pulled forward an inevitability by a few months while also enabling media companies to have control of an additional distribution channel and provide more optionality (in their upcoming negotiations). The notable exceptions to this would be major news networks such as Fox News, Fox Business Network and CNN.

Reiterate Buy ratings on DIS, WBD; Neutral on Fox

We reiterate our Buy rating and $130 PO on DIS. DIS has a collection of best-in-class premiere assets (in content/IP as well as Theme Parks).

We reiterate our Buy rating and $17 PO on WBD, as we continue to believe the company has a compelling assortment of assets and view the current valuation as undemanding.

We reiterate our Neutral rating and $38 PO on Fox as valuation should provide downside protection to shares. In our view, Fox has the most to gain from a sports tier streaming service – if incremental – given their current lack of a subscription video on demand (SVOD) platform.

Exhibit 1: Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
FOX	FOX US	Fox Corp	US$ 27.44	B-2-7
FOXA	FOXA US	Fox Corp	US$ 29.47	B-2-7
DIS	DIS US	Walt Disney Co.	US$ 99.14	B-1-7
WBD	WBD US	Warner Bros.	US$ 9.75	C-1-9

Source: BofA Global Research

BofA GLOBAL RESEARCH

Price objective basis & risk

Fox Corporation (FOXA / FOX)
Our $38 PO is based on 10x CY24E P/FCF, an approximate 30% discount to our Media and Entertainment coverage group due to FOX's greater relative exposure to the linear TV ecosystem.

Upside risks to our PO are a stronger advertising/economic environment, continued strength in ratings/popularity of content, slower Pay TV subscriber losses and higher growth in digital assets and other strategic initiatives from investments.

Downside risks to our PO are a weaker advertising/economic environment, decline in ratings/popularity of content, accelerating Pay TV subscriber losses and higher than forecast investments in digital assets and other strategic initiatives.

Walt Disney Co. (DIS)
Our price objective of $130 is based on approximately 22x our CY25E adj. EPS forecast. Our 22x multiple represents a premium to the market, roughly in line with DIS' historical premium.

Downside risks are a significant slowdown in ESPN's growth due to cord cutting, weakened consumer confidence and softer theme park attendance, advertising weakness due to softer audience delivery and/or economic conditions and/or film flops and poor execution with respect to the 21CF integration.

Warner Bros. Discovery (WBD)
Our price objective of $17 is based on 7x our consolidated CY24E pro forma EV/EBITDA multiple, in line with peers historical multiples due to a similar growth profile.

Downside risks to our price objective are greater than expected merger integration issues, including management turnover, an inability to scale DTC assets with a deceleration in subscriber growth and increase in churn due to a rise in streaming competition from well-capitalized media and tech companies, advertising market declines, a downturn in ratings at its key networks, and an acceleration in Pay TV subscriber declines.

Analyst Certification

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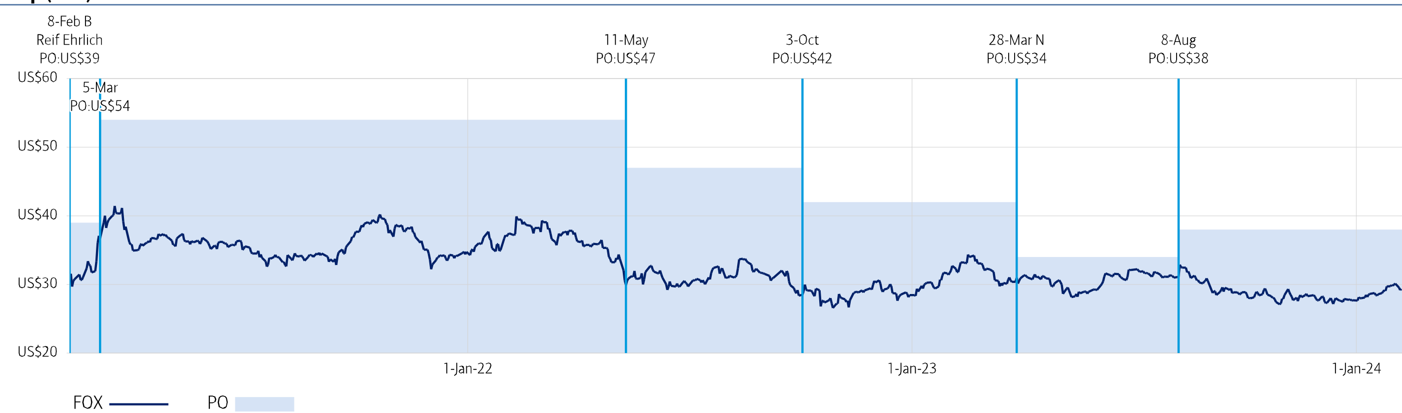
US - Cable, Entertainment and Satellite Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Comcast Corp	CMCSA	CMCSA US	Jessica Reif Ehrlich
	Endeavor Group Holdings, Inc.	EDR	EDR US	Jessica Reif Ehrlich
	Madison Square Garden Entertainment	MSGE	MSGE US	Peter Henderson
	Netflix, Inc.	NFLX	NFLX US	Jessica Reif Ehrlich
	Spotify Technology	SPOT	SPOT US	Jessica Reif Ehrlich
	Walt Disney Co.	DIS	DIS US	Jessica Reif Ehrlich
	Warner Bros. Discovery	WBD	WBD US	Jessica Reif Ehrlich
NEUTRAL				
	Fox Corporation	FOXA	FOXA US	Jessica Reif Ehrlich
	Fox Corporation	FOX	FOX US	Jessica Reif Ehrlich
	Sphere Entertainment Co.	SPHR	SPHR US	Peter Henderson
	Warner Music Group Corporation	WMG	WMG US	Jessica Reif Ehrlich
UNDERPERFORM				
	Altice USA, Inc.	ATUS	ATUS US	Jessica Reif Ehrlich
	iHeartMedia, Inc.	IHRT	IHRT US	Jessica Reif Ehrlich
	Paramount Global	PARA	PARA US	Jessica Reif Ehrlich
RSTR				
	Liberty SiriusXM Group	LSXMA	LSXMA US	Jessica Reif Ehrlich
	Liberty SiriusXM Group	LSXMK	LSXMK US	Jessica Reif Ehrlich
	Sirius XM Holdings Inc	SIRI	SIRI US	Jessica Reif Ehrlich

Disclosures

Important Disclosures

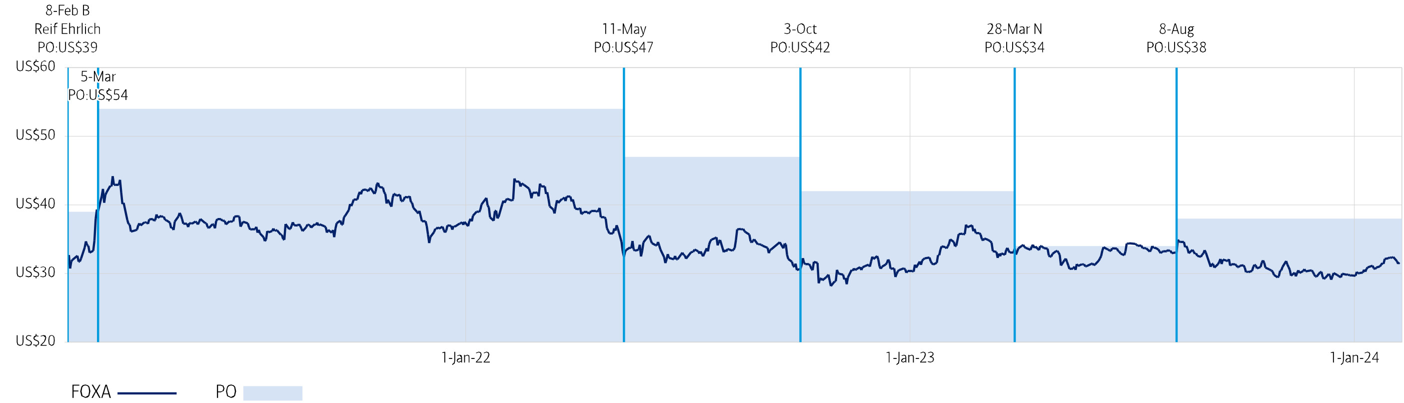
Fox Corp (FOX) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Fox Corp (FOXA) Price Chart



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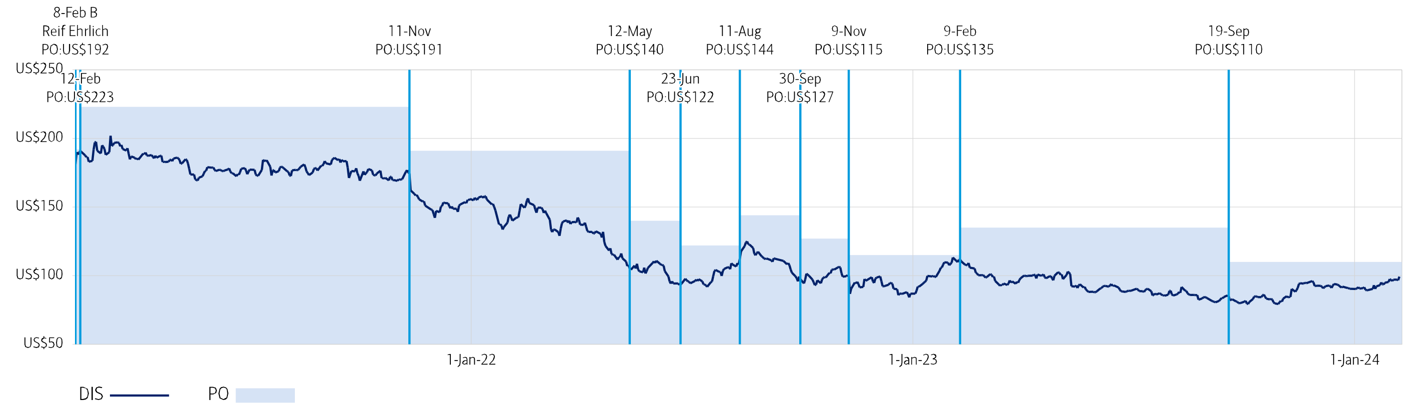
Walt Disney Co. (DIS) Price Chart



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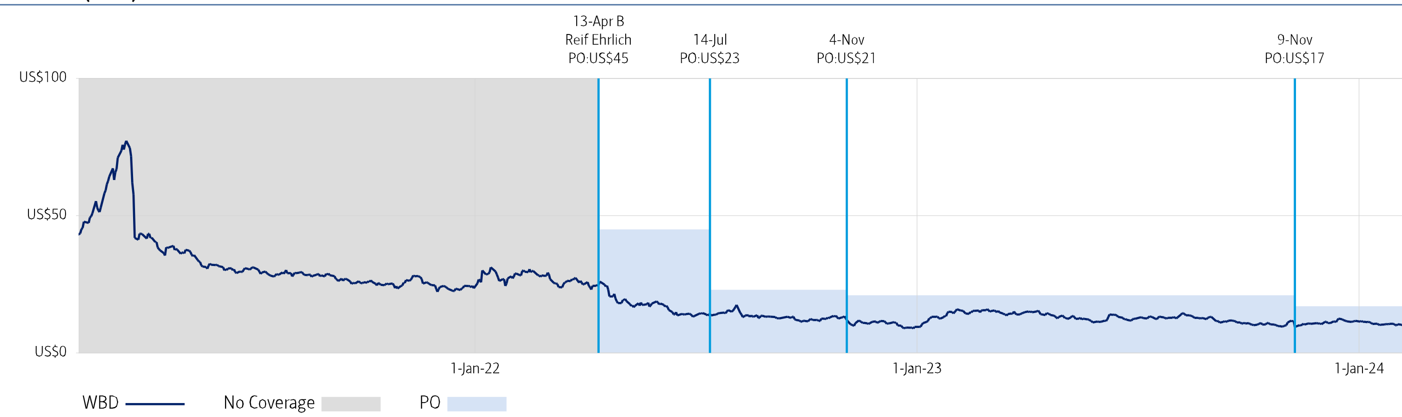
Warner Bros. (WBD) Price Chart



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Equity Investment Rating Distribution: Media & Entertainment Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	35	53.85%	Buy	15	42.86%
Hold	15	23.08%	Hold	8	53.33%
Sell	15	23.08%	Sell	7	46.67%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships [R1]	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

[R1] Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

[R2]Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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