

# A Brighter TV Future

DIRECTV's Response to Disney's Programming Blackout

September 3, 2024

**DIRECTV**

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# Disney pulled its programming to inflict maximum pain on DIRECTV customers while we work to reach a new agreement



## Where have we been?

- Integrated flexibility and value are hamstrung by antiquated “fat packaging” requirements, leaving consumers a broken video experience
- Programmers shift their best content away from linear while raising programming rates, driving Pay TV declines
- Consumers increasingly cutting the cord are frustrated with the number of services they must pay for and navigate to access content



## Where are we going?

- Entertainment needs to evolve to better align to consumer needs
  - **Flexible Packages** empowering choice in genre-based programming
  - **Lower Priced Options** priced closer to direct-to-consumer (“DTC”) services
  - **Aggregated Experience** to discover, watch, and manage all content in one cohesive experience

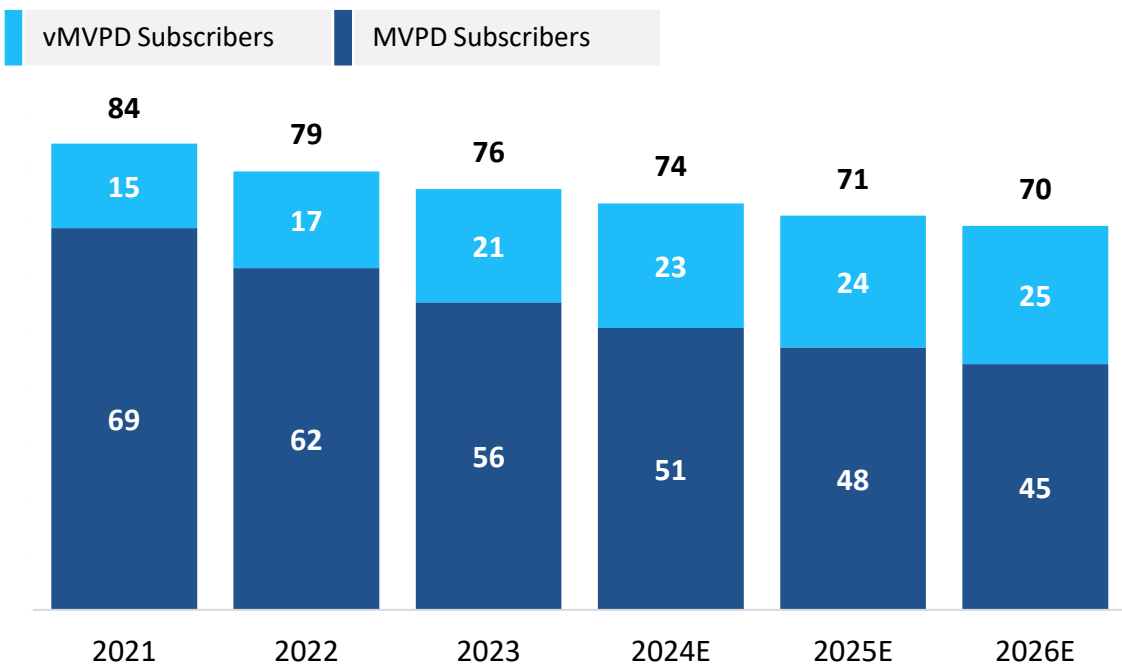


## What are we asking for?

- Relax forced channel requirements so consumers only pay for the channels that they want to watch
- Unbundle low demand channels so packaging aligns by genre, which aligns with consumer preferences
- Create a seamless, integrated experience where consumers that want it can layer on their direct-to-consumer services
- Empower consumers to purchase once and enjoy on their terms

# Programmers erode the Pay TV value proposition as they shift content to low-cost alternatives while raising programming rates and limiting flexibility

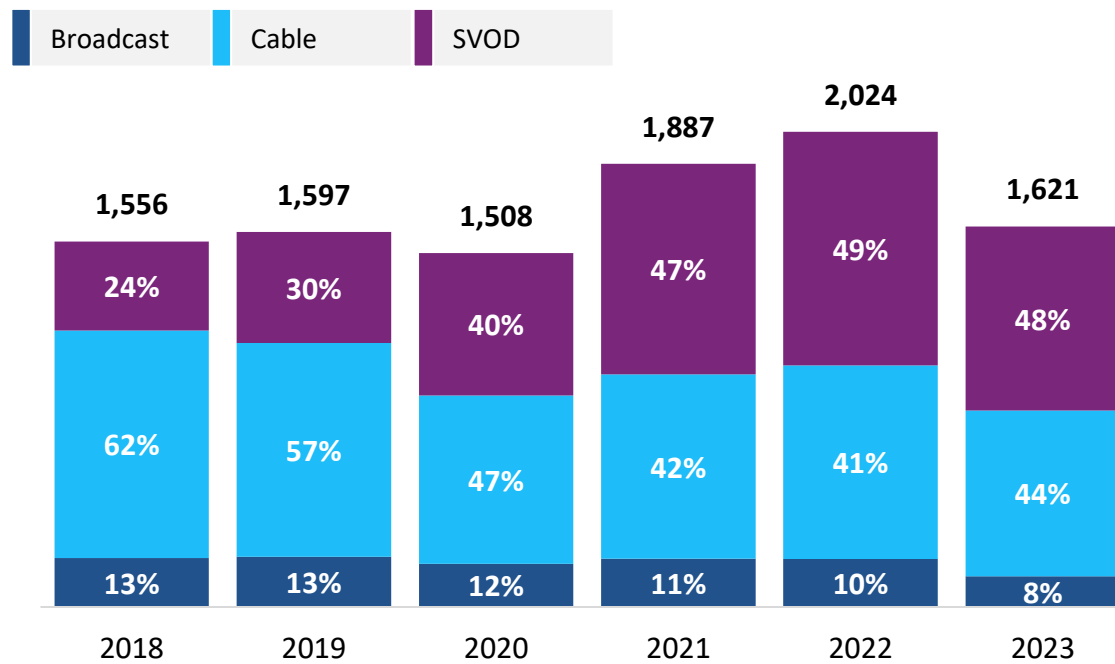
## US Pay TV Subscribers (Millions)



Consumers leave Pay TV as they evaluate entertainment spending and price to value perception of more expensive “fat bundles”

Source: CapIQ US Global Forecast Table

## Original Content Leakage to DTC Products (Total Original Shows Released by Year by Video Type)

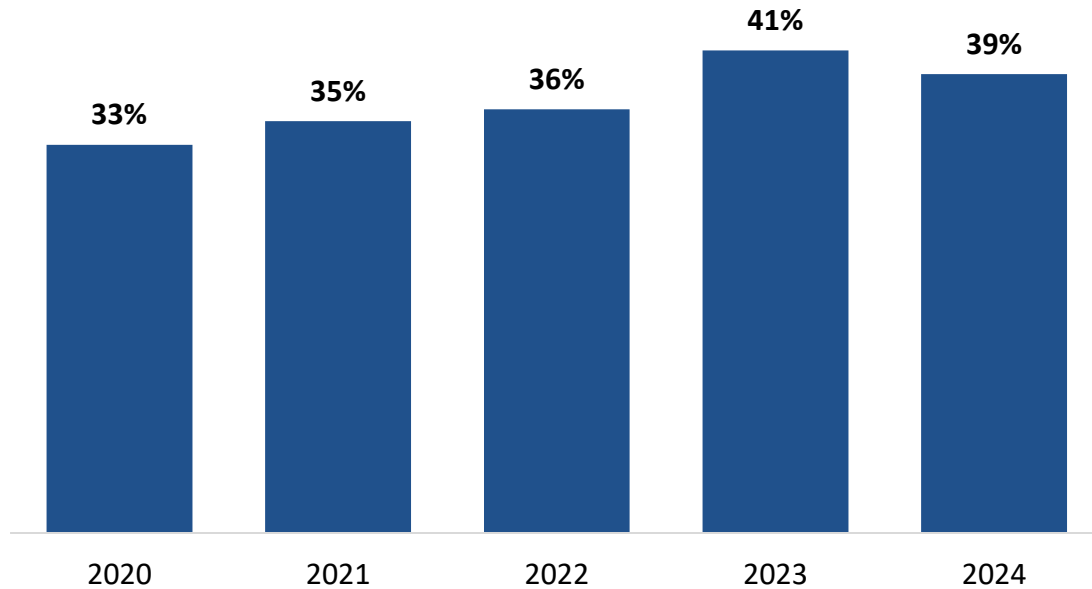


Programmers continue to move content exclusively to their walled gardens, investing in exclusive originals for DTC to drive subscriptions

Source: VIP+: The Death of Peak TV 2024

# Streaming subscribers are increasingly seasonal as consumers flip between services to access their content, requiring high investment to drive engagement

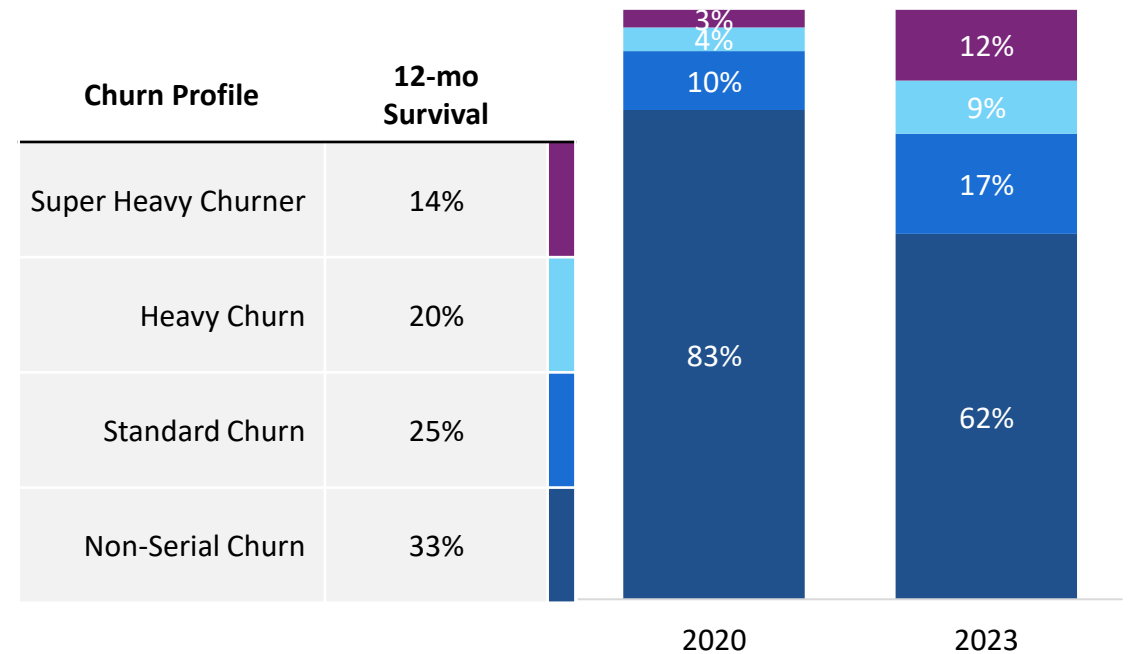
**Share of Signups for a Specific Show**  
 (% of Respondents Signing up for a DTC Service)



*Direct-to-consumer subscribers increasingly sign up for services to watch a specific show or event*

Source: Hub Research: Evolution of Video Branding 2024

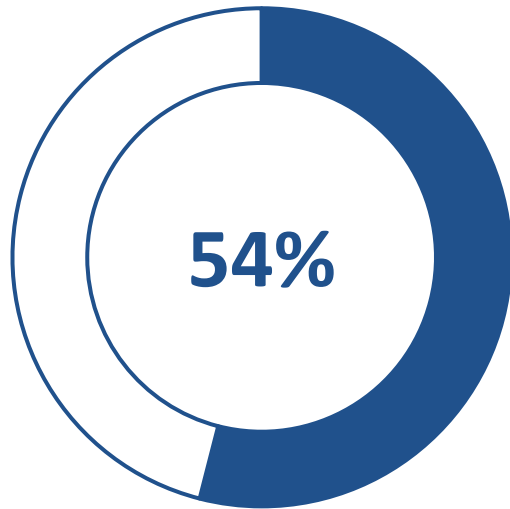
**DTC Gross Adds and Survival**  
 (% of Total DTC Gross Adds by Churn Profile)



*Serial churners with low survivability account for an increasing portion of DTC gross adds, leaving shortly after signing up*

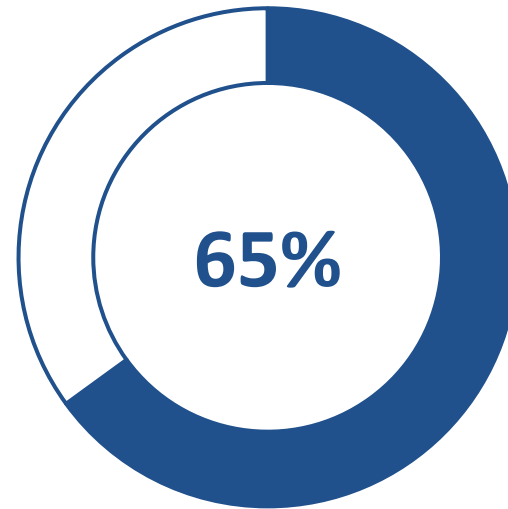
Source: Antenna: Subscriber Analytics 2024

# The entertainment experience is increasingly fragmented and frustrating for consumers



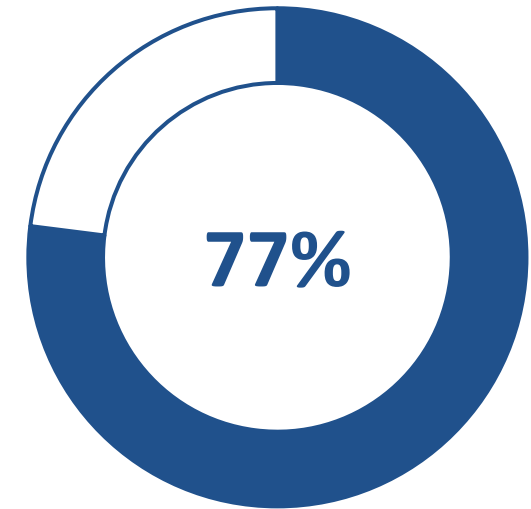
of consumers agree there are **too many fragmented video services** available today

Source: Proprietary DIRECTV "Content Rage" Survey



of consumers think that **it's too expensive** to access all the video content they want

Source: Proprietary DIRECTV "Content Rage" Survey



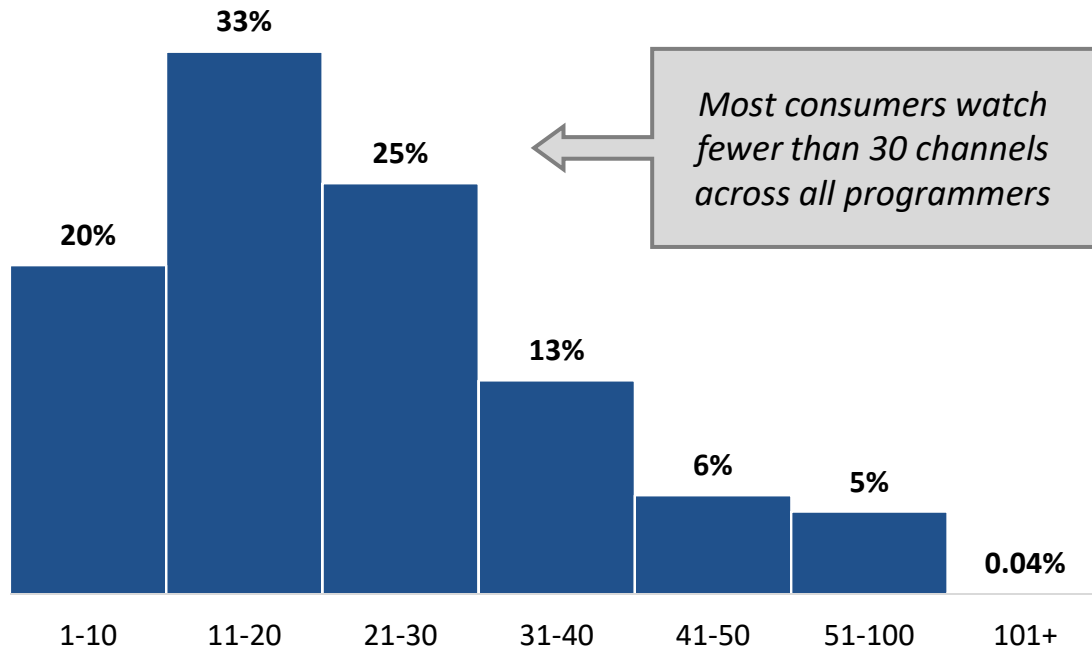
of consumers say they want a **single platform to manage and pay** for their subscriptions

Source: VIP+: Streaming Service Bundles Special Report 2023

# Consumers desire a smaller lineup of channels based on the types of content they watch, not paying for channels they do not watch

## Linear Channel Viewership

(% of Base Watching Number of Channels)

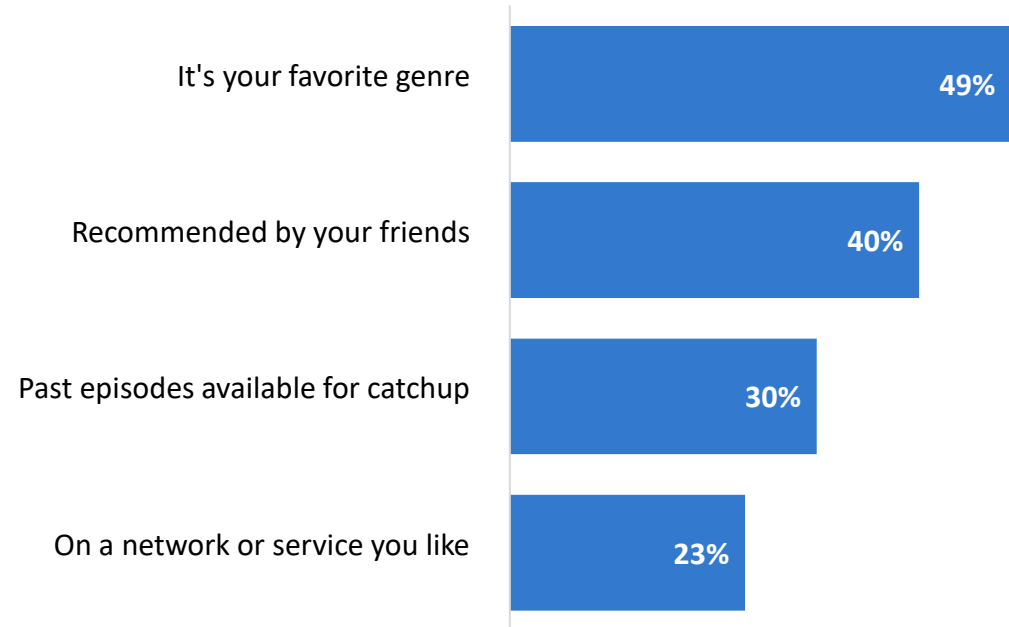


78% of consumers watch less than 30 channels while being forced to subscribe to dozens of channels they don't want

Source: Internal DIRECTV Analysis

## Content Interest Drivers

(% of Respondents Agree)



Consumers watch based on the type of programming they enjoy, not based on the programmer who creates it

Source: Hub Research: Evolution of Video Branding 2024

# DIRECTV envisions a Brighter TV Future, delivering a more flexible consumer video experience at a price consumers can value



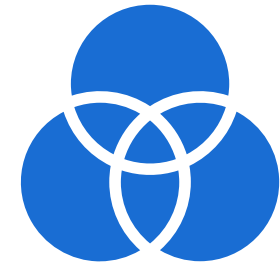
## Flexible Packages

Empower consumers to choose from genre-based programming without piecing together and paying for a lineup of content that doesn't meet their needs



## Lower-Priced Options

Align price points closer to the DTC options they've grown familiar with, giving consumers more choice and control in their video experience



## Aggregated Experience









Deliver access to consumers' favorite shows and sports while allowing them to discover new content in one great, cohesive experience



# Programmers like Disney continue to force inclusion of unwanted channels, driving up prices for all consumers, even those who do not want them

## Guaranteed Subscribers and Forced Channel Requirements

(Selection of Channels by Content Type)

Content	Min Subs	Multi-Programmer	Multi-Genre
 Locals			
 Sports			
 News			
 Kids & Family			
 Mixed / General Entertainment			

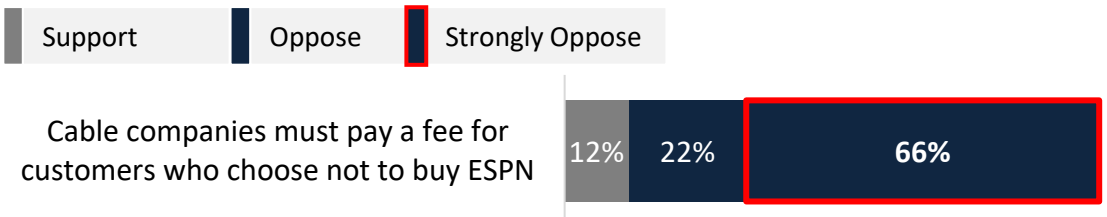
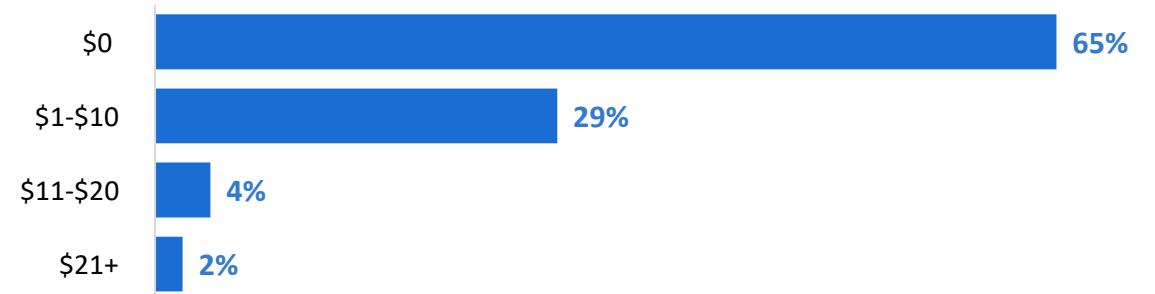
*Programmers reserve flexibility for themselves, stacking channels through restrictive bundle terms and minimum subscriber guarantees*

Source: Internal DIRECTV Analysis

## Consumer Response to ESPN Penetration Requirements

(% of Respondents)

How much per month would you be willing to pay for ESPN?

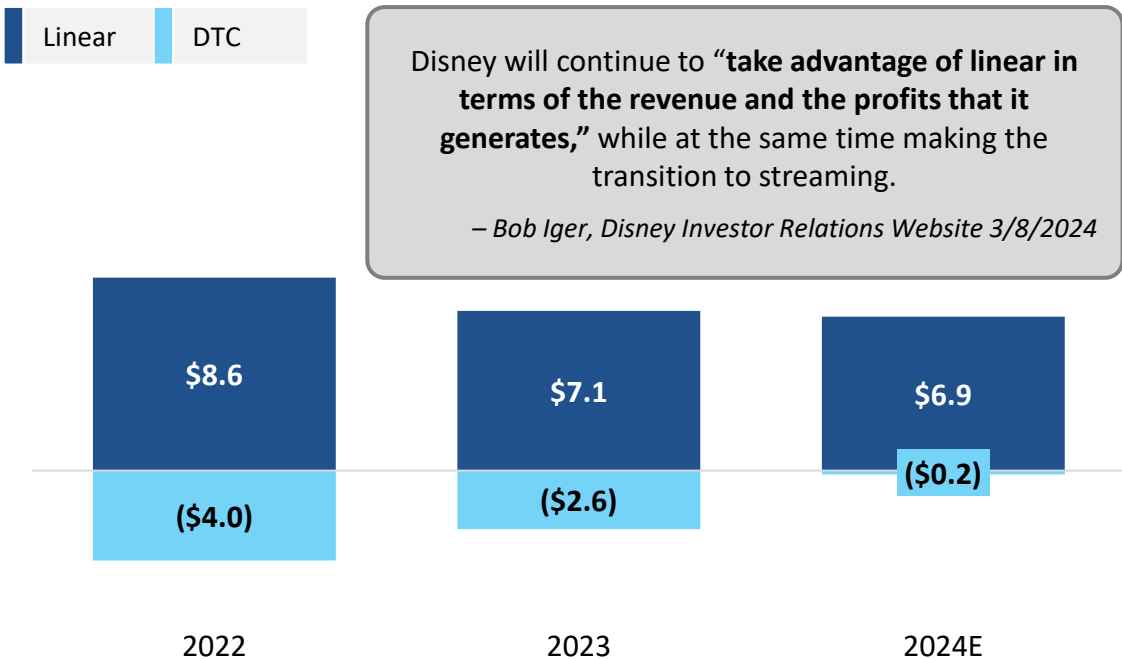


*Most consumers aren't willing to pay for ESPN, and even those willing to pay oppose making all Pay TV subscribers shoulder the cost*

Source: ATVA Survey September 2023

# Disney has invested in direct-to-consumer programming at the expense of linear, eroding value for the industry

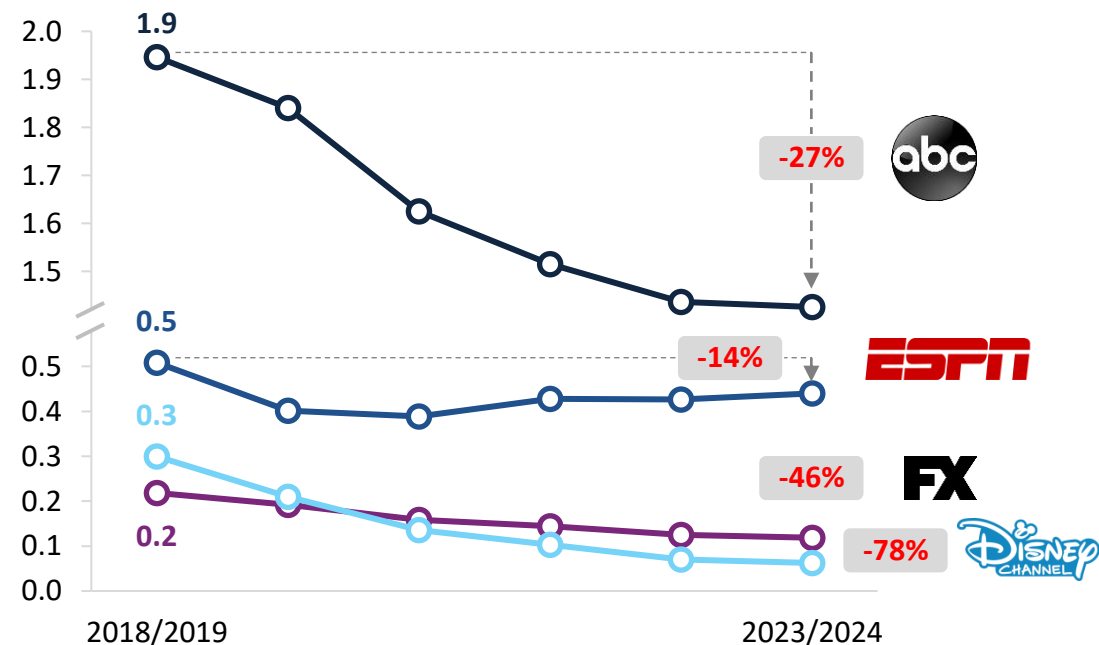
## Disney Operating Income (Loss) by Segment (\$ Billions)



Distributor revenues subsidize Disney’s DTC losses while content and investment continues to shift

Source: SEC Filings, Goldman Sachs; Press Search; Note: Linear is domestic only, includes both general entertainment and sports networks; DTC includes Hulu Live TV, Hulu, Disney+ and ESPN+

## Nielsen Ratings (Live+7)



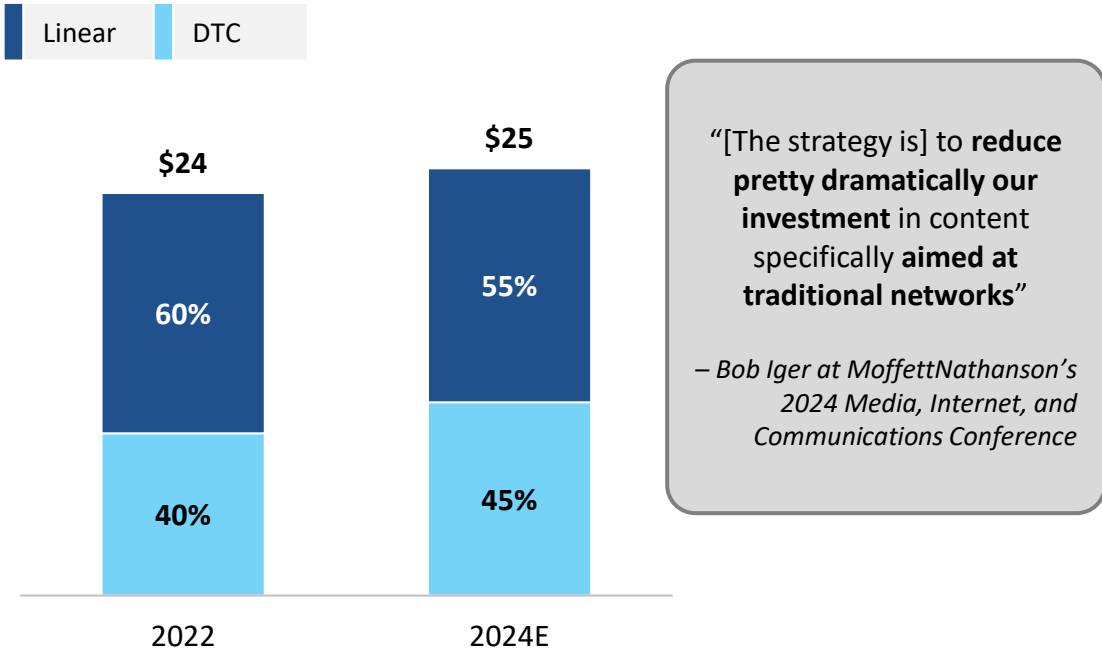
Ratings have dropped significantly as Disney reduces linear spend and shifts the most desirable content to their streaming alternatives

Source: Nielsen

# Disney has shifted investment away from linear programming but has continued to increase fees for broadcast and cable networks

## DTC vs. Linear Content Amortization

(FY 2022 vs. FY 2024E, \$ Billions, % of Total Content Amortization)



“[The strategy is] to **reduce pretty dramatically our investment** in content specifically **aimed at traditional networks**”

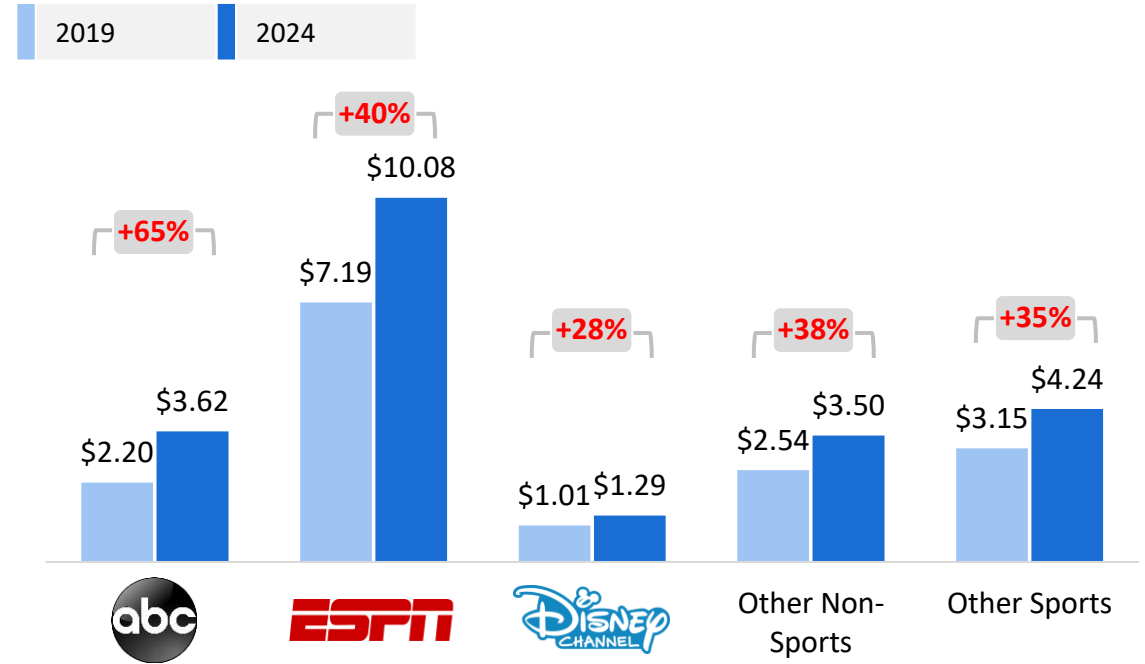
– Bob Iger at MoffettNathanson’s 2024 Media, Internet, and Communications Conference

Disney has shifted investment to streaming from linear by 500bps, deprioritizing spend on linear content

Source: MoffettNathanson: US Media: In the Belly of the Content Spend Slowdown; Press Search

## Disney Linear per Subscriber Monthly Licensing Fees

(Average Retransmission Fees, Subscriber Fees per Month)



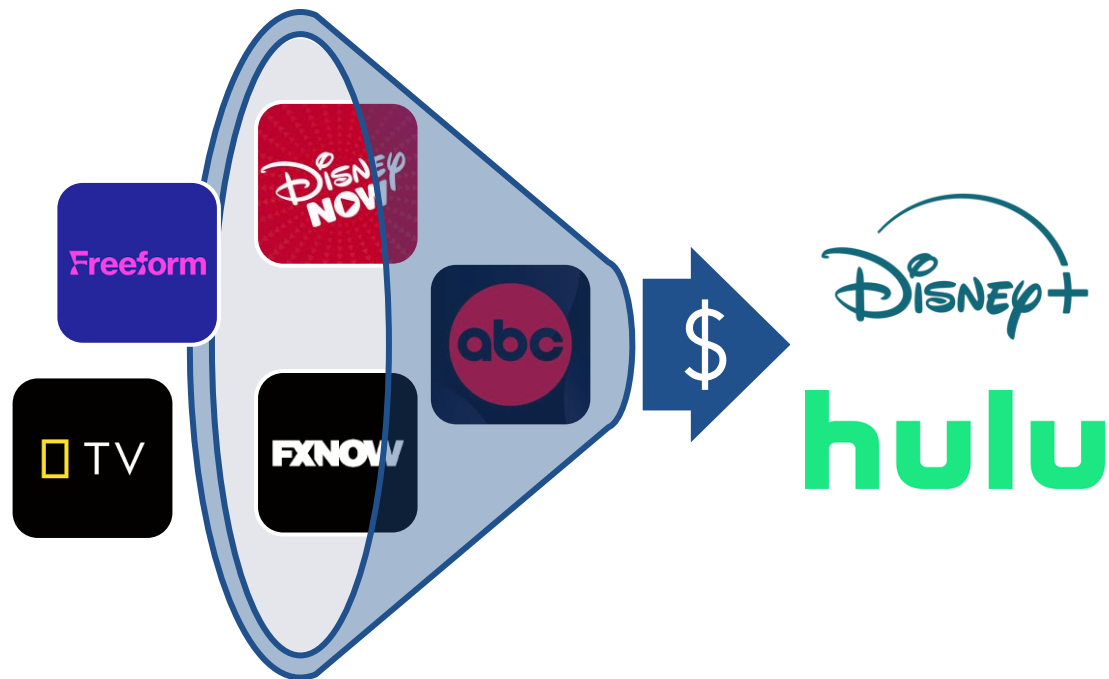
Despite depleting channels of content, Disney continues to demand significant price increases from distributors and ultimately subscribers

Source: CapIQ: Broadcast Outlook 2024; CapIQ: Economics of Basic Cable Networks Dec 2023

# Disney continues to frustrate and deplete video value for consumers through reduced streaming flexibility and sustained DTC price increases

## Disney Shuts Down Free Streaming Apps

(Announced August 2024 for September 2024 Shut Down)

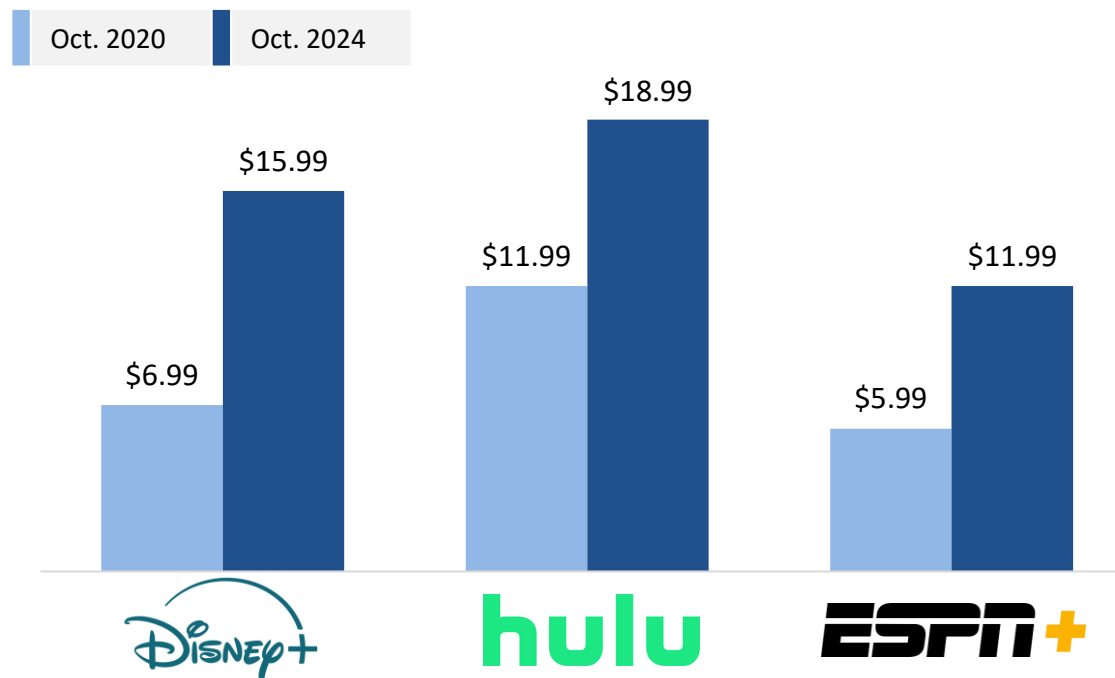


Disney is shutting down TV Everywhere Apps once free for linear subscribers, now forcing them to pay for DTCs to access the same content

Source: Press Search

## Disney DTC Standalone Ad-Free Tier Pricing

(October 2020 vs October 2024 Announced Price Increase, ESPN+ includes Ads)



Disney has steadily increased prices across their DTC services, with more increases likely on the horizon as they tout their pricing leverage

Source: Press Search; "We're seeing growth in consumption and the popularity of our offerings, which gives us the pricing leverage that we believe we have." – Bob Iger, 3Q24 Earnings Call

# DIRECTV wants to collaborate with programmers to restore value for consumers, programmers, and shareholders



## *Deliver greater flexibility at a better price for consumers*

- 1** Lower entry price for the consumer, expanding linear offerings to a new market
- 2** Reduce packages from 100s of channels to 10-50 of the most engaging to the consumer
- 3** Content is accessible in a single, seamless ecosystem, connecting video services
- 4** Ability to pair with desired DTCs to customize to content needs
- 5** Improves video experience and engagement, stabilizing the industry

# DIRECTV has clear, consumer-driven goals as we work to come to an agreement with Disney and evolve our partnership for success

- Ensure that we retain **competitive pricing** for our customers
- Get our customers **access to content** when it's released rather than making them wait
- Allow **flexibility on channels** so consumers only pay for the channels they want
- Enable the creation of **skinny, genre-based offerings** to curate content for consumers in a way they want to watch
- Give more choice and control to their customers to **choose the DTC content they want** to pair with their packages
- Unlock **seamless experiences of DTC and linear** content within the DIRECTV ecosystem
- Participate in future opportunities to **distribute Disney content, including DTCs**

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