BCAP 60th Anniversary

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CBS Corp. is ramping up its digital efforts by expanding its online streaming service “All Access” abroad and launching a new digital sports network later this year in the U.S.

The aggressive expansion of its digital operations is the latest sign that growth for so-called traditional media companies such as CBS will lie in online platforms as viewing habits change. “Clearly there is a lot of upside here,” CBS Chief Executive Leslie Moonves said of the digital businesses, when he unveiled the latest plans during the company’s earnings call Monday.

The benefit of its own streaming efforts as well as deals with other online skinny bundles started to play out in second-quarter results. For the quarter ending June 30, CBS reported higher-than-expected sales and earnings as the media company received a boost from college sports and streaming subscription services.

CBS All Access, which is a direct-to-consumer service available in the U.S. for $5.99 a month that includes a live feed of the network as well as library fare, will launch in Canada early next year and then in other, as yet undisclosed international markets. CBS didn’t say how many subscribers All Access has but said it and a similar direct-to-consumer streaming service for its premium cable channel Showtime are expected to pass four million subscribers, combined, this year.

Expanding CBS All Access abroad could make selling CBS shows overseas more complex. Currently, the company often cuts exclusive deals with programmers and streaming services. Netflix , for example, has the global distribution rights to a new “Star Trek” series that will debut on CBS All Access next month. Mr. Moonves said future international deals for CBS-owned shows will likely be done in a way that gives All Access the streaming rights. Details on the new streaming sports service were sparse, as it is still in the early stages of development. Much of the focus will be opinion and news as well as highlights.

CBS already owns a cable sports channel called CBS Sports Network. It has some sports rights but not at the level of Walt Disney Co.’s ESPN or 21st Century Fox ’s Fox Sports unit. Mr. Moonves said that the company would “look to differentiate ourselves from ESPN and Fox Sports” with the new sports service and that costs can be kept to a minimum because the infrastructure for the platform already exists. The sports service is in part an effort to replicate CBS’s success with its digital 24-7 news stream CBSN, which the company is now offering to over-the-top distributors as a stand-alone channel.

Long a hold out from DirecTV Now, CBS also said it has completed a deal for its programming to be carried by the AT&T-owned direct-to-consumer streaming service, which launched late last year. Besides CBS and Showtime, DirecTV Now will also have rights to distribute the entertainment channel Pop and The CW broadcast network, which is a joint-venture between CBS and Time Warner Inc.

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CBS's net income for the second quarter fell to $58 million, or 14 cents a share, from $423 million, or 93 cents a share, a year earlier. The earnings included a noncash charge of $365 million related to the spinoff of its radio unit. Adjusted net earnings for the quarter were $1.04 a share. Revenue jumped 9% to $3.26 billion. Analysts polled by Thomson Reuters had forecast earnings of 98 cents on $3.09 billion in revenue. Advertising revenue—the largest contributor to CBS's top line—grew 4.3% to $1.3 billion, led by the semifinals and finals of the NCAA Division I Men's Basketball Championship in April.

During the quarter, the media company restructured its advertising-sales unit to focus on capturing more revenue from digital platforms, including tapping a former high ranking Facebook executive **to oversee those efforts.** Content licensing and distribution rose 12% in the quarter, driven by a higher volume of television licensing sales. Affiliate and subscription fee revenues were up 16%, driven by a 25% increase in retransmission revenue and fees from CBS Television Network-affiliated stations. – ***Wall Street Journal***

Netflix Inc. has acquired comic-book publisher Millarworld, best known for characters and stories such as "Kick-Ass" and "Old Man Logan," as part of its broader strategy to create and own more original content. The deal is Netflix's first acquisition. Financial terms weren't disclosed, but a person familiar with the matter said the price was in the $50 million to $100 million range.

While it's a small outlay for a company with a $78 billion market capitalization and $1.9 billion in cash, it's a notable shift for the streaming giant. Netflix has evolved from purely licensing TV shows and movies from other studios and networks, to funding original content, to now owning intellectual property and production. By developing more of its own content and holding intellectual property rights, Netflix can decrease its reliance on the outcome of contract negotiations, better control costs and dabble in selling consumer products.

The purchase comes as its competitors—particularly traditional broadcast and cable networks—are also increasingly seeking to own as much of their content as possible. Founded by Mark Millar, Millarworld has content that ranges from superheroes to science fiction and fantasy. Other well-known properties include "Kingsman," "Jupiter's Circle," "Reborn" and "Empress." "Kick-Ass," "Kingsman," and another Millarworld property "Wanted" have been made into movies and combined have grossed close to $1 billion in world-wide box-office receipts. The "Kick-Ass" and "Kingsman" properties, though, aren't part of the sale because of existing Hollywood deals, **Mr. Millar wrote** in a letter to fans on his company's website.

In unveiling the purchase, Netflix Chief Content Officer Ted Sarandos said Mr. Millar is “as close as you can get to a modern day Stan Lee,” referring to the Marvel Comics legend. Before starting his own company, Mr. Millar was at Marvel for nearly a decade and was involved in the development of the first “Avengers” movie as well as “Captain America: Civil War” and “Logan.”

Talks between Netflix and Millarworld started late last year, according to Mr. Millar’s letter. The Netflix team, he said, “felt like people who would help us take Millarworld’s characters and turn them into global powerhouses.” For Netflix, the acquisition is another bet on comic book-driven content to drive sign-ups and help retain existing subscribers. It already has a deal with Walt Disney Co.’s Marvel that has resulted in the series “Daredevil,” Jessica Jones” and “Luke Cage.”

While Netflix has been an eager buyer of content from outside suppliers, many studios are starting to question the wisdom of selling to Netflix at the same time they are looking to create or enhance their own digital platforms and direct-to-consumer streaming services. Netflix said the purchase is a “natural progression” of its desire to acquire more intellectual property. Raymond James analyst Justin Patterson said he expects Netflix to pursue more acquisitions, primarily of relatively low-price small companies.
Initially, Netflix relied primarily on outside studios and production companies for its original content such as “House of Cards” and “Orange is the New Black.” Now Netflix has its own infrastructure and is making more of its content including last year’s surprise success “Stranger Things.”

Netflix has recently **topped its subscriber-growth estimates**, indicating its bets on original programming and international expansion are paying off. The company added 5.2 million users in its latest quarter, ending the period with almost 104 million subscribers. The programming efforts also come at a cost, with the company disclosing in July that it has $15.7 billion in streaming-content obligations, a measure of current and future costs for content acquisition, licensing and production. Netflix shares, up about 45% so far this year, rose 0.6% to $181.43 in late afternoon trading. – ***Wall Street Journal***

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