AFL kicks off $1.75b TV rights talks

Exclusive

Jared Lynch and Dominic White

Negotiations for the AFL's next broadcast rights deal are set to begin before the start of the 2015 football season, with the league appearing unwilling to wait until the future ownership of Ten Network Holdings is decided.

Sources close to the deal say talks are imminent and will start before round one kicks off on April 2.

This is despite the fact that the auction for Ten Network – which the struggling free-to-air broadcaster and its advisor Citi had planned to finalise before Christmas – is yet to be resolved.

It is also understood that Nine Entertainment Co, which has the rights to screen rival code the National Rugby League, will not participate in the auction. It dropped out early in the previous AFL process.

The AFL has told the market it values its next broadcast rights deal at $1.75 billion over five years, and held informal talks with television networks late last year. The league hoped the price could be pushed up if Ten – perhaps in combination with Foxtel, which has made a joint takeover bid with Discovery Communications for Ten's key assets – joined the bidding. The league had delayed formal negotiations while the auction continued.

Key points

Negotiations will begin before April 2, sources say.

Ten Network Holdings is likely to be hamstrung by uncertainty over its future.

But the AFL is hoping to finalise its next broadcast rights deal before the end of this season. The current $1.25 billion five-year agreement expires at the end of 2016.

Ten, which is in need of a major sport in its schedule, is preparing to participate in the process, having enjoyed much-needed ratings success with the Big Bash cricket league. But its financial capacity is severely limited compared to its competitors' at present.

The incumbent rights-holders, Seven West Media, Foxtel, Fox Sports and Telstra, have indicated they want to retain them. Seven chief executive Tim Worner chose to maintain a "polite silence" on the coming talks last week, but believes sport, reality TV and news are the "three pillars" of the network.

He has also said Seven would not overpay for the AFL rights.

"We love AFL, but it is also well-documented that we are not going to make an emotional decision on that," Mr Worner said after the company's interim results last month.

The AFL's current $1.25 billion deal expires at the end of 2016. PHOTO: MICHAEL DODGE

Bedi Singh, chief financial officer of News Corporation, which owns Fox Sports and half-owns Foxtel, has also said the company would be "economically sensible" about broadcast rights.

"I don't think we are looking at getting into negotiations where you see the kind of stuff that's happening in the UK, hopefully," Mr Singh told analysts and investors this month.

He was referring to the record £5.136 billion ($10.17 billion) that Sky and BT paid for live English Premier League TV rights for three seasons from 2016-17. This was a 70 per cent increase on Sky at BT's current £3 billion deal. Mr Singh is not the only media executive who believes Australia will not see a British-style bidding war for AFL rights, with others questioning the $2 billion price tag some analysts have forecast, saying the cost of EPL rights reflected a different sport in a different market.

Ten, meanwhile, has given no indication about its possible sale. On Thursday, it issued a statement saying it has received a number of proposals as part of its "strategic review process".

"Those proposals vary in type and value and remain confidential, non-binding and conditional in nature," the statement said. "Ten has established an independent board committee to consider the proposals. Discussions are continuing and may or may not result in a transaction ... "

Favoured bidders Foxtel and US cable TV giant Discovery Communications have cut their 23¢-a-share bid to reflect that they are now bidding only for the company's main undertaking.

The proposal, which would only require 51 per cent shareholder approval, is designed to circumvent opposition from Ten's biggest shareholder, WIN TV Corporation owner Bruce Gordon. This would mean it could succeed without the approval of Mr Gordon and bring a recapitalised Ten to the AFL negotiation table.

But the Bermuda-based billionaire has lodged his own alternative proposal to turn the network around.

Mr Gordon has offered to inject between $70 million and $100 million into Ten and has asked for two board seats. Under Mr Gordon's proposal, he could effectively double his 14.9 per cent holding if the government scraps cross-media ownership laws, giving him a more powerful say in any future television industry consolidation.

Netflix CEO is ready for the fight with Stan and Presto

On demand Australian streaming video providers hope their local connections will deliver hit shows, but US titan Netflix is poised to strike.

Exclusive

Ky Chow and Dominic White

The CEO and co-founder of US video streaming giant Netflix is confident the company's deep pockets will offset any home advantage that local competitors have in both buying and producing hit shows.

Netflix's two biggest Australian competitors, the Foxtel-Seven West Media vehicle Presto and the joint Nine Entertainment Co-Fairfax Media joint venture Stan, say their local experience and relationships set them apart in buying and making content for the Australian market.

But in an exclusive interview, Netflix CEO Reed Hastings told *The Australian Financial Review/Business Day*, he disagreed, saying bluntly: "It's just money. If you pay the most money, you win the show."

Netflix plans to spend more than $US3 billion ($3.9 billion) globally on content in 2015.

Mr Hastings refused to say how many Australian subscribers the streaming video on demand (SVOD) company was aiming to achieve in its first year or when it expects the local service to break even.

But he is supremely confident of success when Netflix launches in Australia next week, on March 24. The company also says it is interested in producing local shows.

"We're becoming a global service," said Mr Hastings.

"We're in 50 countries of the world. We're successful in Argentina, we're successful in Mexico. We're successful in Norway and Finland. We'll be successful in Australia".

In 2014, the company added a record 13 million new members, up from 11.1 million in 2013, bringing its global total to 57.4 million.

The numbers were boosted by its aggressive global expansion program. "We'll be able to expand to the whole globe over the next two years," said Mr Hastings.

That expansion has come at a heavy cost: Netflix's international operations lost $US79 million in the fourth quarter. But those losses were easily offset by quarterly profits of $US257 million from the company's domestic business.

Mr Hastings insisted that Netflix's early expansion markets such as Canada, the UK and the Nordic countries were "already contribution-positive".

The US company has a market capitalisation of $US26.6 billion (just under $35 billion), dwarfing the combined value of the companies behind its Australian competition, in particular market minnow Quickflix, which urgently needs to raise cash.

Stan is receiving funding of up to $100 million from Nine and Fairfax, which owns *The Australian Financial Review*. Seven and Foxtel, which is co-owned by News Corp and Telstra, are investing less than $20 million in Presto but have struck a contra-advertising that reduces the headline figure.

Analysts have questioned whether the local market can sustain three profitable SVOD players given that the services cost around $10 a month and the market will be crowded, but many expect users to take up two or even more services.

Mr Hastings said he had no concerns with estimates that as many as 200,000 Australians are already using virtual private networks to access its US service using location-faking technology.

"At least they're not torrenting or pirating," he said. If the company succeeds with its goal of completing international expansion by 2016, "there will be no need to VPN".

Reed Hastings says Netflix will be able to expand globally over the next two years.

Netflix announced on March 3 it had snatched back *House of Cards* from Foxtel, with all three seasons exclusively available on Netflix when it launches on March 24.

It's just money. If you pay the most money, you win the show.
Reed Hastings

It also struck a deal with the ABC last month to be the exclusive streaming service for popular comedian Chris Lilley's series *Jonah from Tonga* and the drama *Serangoon Road*.

Ted Sarandos, Netflix's chief content officer, said the company is interested in producing local shows "for sure", taking such content beyond Australian shores. "The most exciting opportunity around Netflix in Australia is making a true global platform for storytellers in Australia," he said. "Chris Lilley is a huge one for us. I would love to explore more projects with him for sure. We have a very good history of taking our stand up comedy stars and developing new series with them."

Mr Sarandos said Netflix's ad-free service offers a purer creative experience than linear television. "Traditional TV is less appealing, with bugs [graphics] across the screen, ad breaks – all those things make it a less than satisfying event for writers and show creators. I don't want them to come in and say 'Hey, here's my passion, but I'll completely change it for you.'"

The rise of binge viewing, whereby viewers watch as many episodes as they want at any sitting rather than having to wait for next week's episode, also removes the need for recaps, "baked-in exposition" and hourly "cliff-hangers" and long credits, he said.

"It's just like reading a book: we can tell longer, richer and more complex stories."

But Netflix does see SVOD as complementary rather than a replacement for traditional free-to-air TV, which can still pull huge audiences for live news and reality and has a grip on live sports rights due to the anti-siphoning list.

"Even if you sign up for all three [Netflix, Stan and Presto], there's no sport," said Mr Hastings.

However, he said, "sport will definitely move online", pointing to services such as ESPN, NBA League Pass and MLBTV.

PwC Media and Entertainment director Megan Brownlow also said she sees no barrier to sport eventually moving online. "The appointment viewing factor that is so deeply embedded in the DNA of sport and news can be delivered via streaming," she said.

Content, particularly exclusive new shows and those in the slightly later "pay window", will be a major battleground for SVOD players, and Netflix's Australian counterparts are defiant.

Stan CEO Mike Sneesby says part-owner Channel Nine opened a lot of doors because of the trust it has earned from studios and distributors. "We can move very quickly behind the scenes," he said. "People were surprised when we announced content deals" such as *Breaking Bad* spin-off *Better Call Saul* and *Mozart in the Jungle*. "The deal we struck with those are for the life of the production."

Presto, meanwhile, has secured a series of popular shows such as *The Sopranos*, *Entourage* and *True Blood* from HBO, the US-based cable network that Netflix management sees as its biggest competitor.

Despite the hot competition for content, all the major players realise none is likely to dominate the SVOD space, nor TV in general.

"There are some assumptions that some services will have every TV program ever made," Mr James said.

Ky Chow travelled to Netflix's offices in Los Gatos, California, courtesy of Netflix.

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