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Christian Science Monitor
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Philadelphia Inquirer
In Pa., new year, same old budget

The long-running ownership saga of Philadelphia's newspapers is taking yet another turn. Less than two years after last being on the auction block, control of the Philadelphia Media Network, the parent company of the Philadelphia Inquirer, Daily News and Philly.com, is being donated to a newly created philanthropic foundation.

The nonprofit organization, called the Institution for Journalism in New Media, will start with a $20 million endowment funded by the papers' current owner H.F. "Gerry" Lenfest. "I have thought more and more about what the city would do without the Inquirer and the Daily News, so it became a quest to find a structure that would ensure the permanence of journalism in Philadelphia. This is the best solution," the 84-year-old Mr. Lenfest said.

The hope is that the foundation will help steady the ownership of the papers, which have changed hands numerous times in the past decade, endured a bankruptcy and the death of one owner in a plane crash. The structure is also designed to help stabilize a newsroom that has diminished to 1,300 staffers among the three news organization from 1,800 in 2012, amid a steep fall in advertising revenue. Mr. Lenfest and then business partner Lewis Katz won control of the newspapers' parent company in May 2014 with an $88 million auction bid. Days later, Mr. Katz was killed in plane crash and Mr. Lenfest later bought out his estate's stake.

Before that, Mr. Lenfest was among a group of six local investors who bought the news operation in 2012 for $55 million from private-equity funds Alden Global Capital and Angelo Gordon. The private-equity firms had bought it out of bankruptcy two years earlier for $139 million. In 2006, the group had been sold by the McClatchy Co. o local investors for $515 million. The foundation ownership structure has been seen in various forms with some American magazines over the years, like National Geographic and Ms. magazine. It has also become popular with certain kinds of digital media outlets like ProPublica and the Marshall Project.

For newspapers, this ownership setup is less common. One of the only similar examples

stalemate ***pennlive.com*** **Kathleen Kane seeks law license reinstatement on eve of Senate hearing**	in the U.S. is the Tampa Bay Times, which is owned by the nonprofit Poynter Institute for Media Studies. In the U.K., the Guardian and the Observer are operated by the Scott Trust Ltd. The structure would leave operations of the Philadelphia Media Network unchanged as a for-profit business, but would allow it to receive grants from its philanthropic ownership vehicle to finance specific journalism initiatives. The money cannot be used to cover general operating expenses. Mr. Lenfest, who sold his cable company to AT&T in 1999 for $2.2 billion, said while he was happy to get the foundation started off with a $20 million endowment, it would need donations from other philanthropists in order to continue indefinitely. "We are going to need a lot more to make this work," he said. – ***Wall Street Journal***; **more on Gerry Lenfest's Philadelphia media initiative in the *Inquirer*** ——————————————————————————— David Zaslav was wearing shades and jeans but not playing it remotely cool. At the 2015 French Open, the Discovery Communications Inc. chief executive was holding court in the hospitality tent. Surrounded by Champagne and tennis royalty, he was pure fanboy. "Mats is my hero," said Mr. Zaslav, hugging former World No. 1 Mats Wilander, who is now a commentator at the Eurosport television network that Discovery has, as of July, agreed to spend $1.1 billion to fully acquire. John McEnroe, one of the sport's all-time greats, was on hand too, having been recruited as a Eurosport commentator by Mr. Zaslav. The seemingly glamorous aura, though, belies the CEO's claim to fame. Back in the U.S., Discovery is known for over-the-top nature documentaries like "Shark Week" and even further over-the top reality shows like "My 600-lb Life"—programming whose chief virtue, from Wall Street's perspective, is that it is so cheap. That is a stark contrast to media industry rivals like Walt Disney Co.'s ESPN, 21st Century Fox, Comcast Corp.'s NBCUniversal, CBS Corp. and Time Warner Inc. Those companies have spent billions over the years locking up long-term rights for sports—considered must-have for channel distributors and advertisers' last refuge from time-shifting and ad-skipping. While all TV networks are being hit by digital content and other forces of the changing pay-TV world, analysts say that sports channels are in a stronger position than the likes of Discovery. Now, through its purchase of Eurosport, Discovery is hoping to do overseas what it failed to do at home: get in the game before it's over. Pay-TV subscribership in Europe was 65% in 2015, compared with 82% in the U.S., according to research consultancy SNL Kagan. "Over the last 15 years in the U.S., most of the economics, and most of the leverage, has slowly moved to sports," says Mr. Zaslav, who took the helm of Discovery in 2007. He notes that Discovery's channels, which include the flagship Discovery Channel, Animal Planet and TLC, get 12% of U.S. cable TV viewing, but only 3% of affiliate fee revenue, while sports gets 10% of cable's viewing but 38% of its affiliate fees, according to Nielsen and SNL Kagan data. "Those numbers are compelling," he says. But by the time this trend had become clear in the U.S., he says, it was "just too late" for Discovery to join it. Discovery began investing in Eurosport in 2012, taking a minority stake while majority owner France's TF1 Group showed them the ropes of running the only sports channel group to span the whole continent. Eurosport reaches 205 million paying subscribers across 91 countries in Europe, Asia, Africa and the Middle East, according to the company, as well as millions more free-to-air viewers in pay-TV averse Germany. While this unusual scale prompts people like Mr. McEnroe to call Eurosport "the ESPN of Europe," in reality, Eurosport carried primarily leftover rights to second-tier sports like cycling, tennis and winter sports—not to mention snooker, darts and log cutting—making it a far cry from the force of nature that is ESPN. Since taking control of the channel in 2014, Discovery has signed more than 75 sports rights deals, from Wimbledon in Belgium to Formula One in Portugal, helping send ratings

up 16% in the third quarter, according to the company. In June, it agreed to pay $1.4 billion for exclusive European broadcast rights to the Olympic Games for eight years beginning in 2018. That makes Eurosport Mr. Zaslav's biggest bet yet—but also his riskiest.

For starters, he'll have to contend with some entrenched, deep-pocketed players. Through its effective control of satellite player Sky, 21st Century Fox has become a dominant European pay-TV force by acquiring rights to top soccer telecasts including the English Premier League, much as Fox used the NFL in the U.S. to build up its network in the 1990s. Just as Discovery was acquiring control of Eurosport in 2014, Fox was consolidating its Sky assets in the U.K., Ireland, Germany, Austria and Italy into a single company with unprecedented clout in the premium sports television market. 21st Century Fox and Wall Street Journal-owner News Corp were part of the same company until mid-2013.

The big bets of Discovery and Sky are based on the assumption that Europeans, over time, will come to act more like Americans when it comes to paying for television. But it isn't necessarily clear that is the case. The pitfalls of investing overseas have been evident in Discovery's recent financial results. International revenue, for example, declined in the third quarter due to the foreign exchange challenges of a strong dollar. The company also warned that its investments in Eurosport will continue to depress margins at both Eurosport and the wider Discovery Networks International in the near term. "The jury is still out," on whether buying Eurosport was a good idea for Discovery, said Morgan Stanley analyst Benjamin Swinburne. "They bought it and then decided to invest a lot in it, and the payoff for those investments is going to be far into the future."

ESPN's U.S. model may be hugely profitable, but it can't be ported over to Europe. Indeed, ESPN sold its European channels in 2013 after its business failed to take flight. For one thing, Americans are far bigger couch potatoes than Europeans, watching 5 hours and 45 minutes of TV a day on average, compared with less than four hours in most of Europe's largest countries, according to Bernstein Research. Because of stiff competition in European pay TV, prices are growing at a fraction of the 6% annual rate that the average cable bill has been growing in the U.S., according to SNL Kagan and the Federal Communications Commission.

Another problem is the competitive nature of acquiring the rights to sports contests. As Sky's experience shows, getting rights to soccer—far and away the most popular sport—is an expensive undertaking. A bidding war between Sky and BT in the U.K. helped drive up English Premier League rights costs by 70% to $7 billion in a deal announced in February for the 2016-2019 season. In 2014, BSkyB, the U.K. segment of Sky that at the time was a stand-alone company, reported a 5% decline in adjusted operating profit due in part to having to absorb the increased cost of Premier League soccer rights.

While Eurosport is largely part of the basic pay-TV package, Sky sells its sports packages in a premium tier. The company's chief executive, Jeremy Darroch, says investing in expensive, "big tier" soccer events like the English Premier League, Germany's Bundesliga, Serie A in Italy and Champions League is necessary to compel devoted sports fans to buy its service. "Those are the first things they look for when choosing a sport subscription," Mr. Darroch said in an interview.

While Sky's programming costs are now 43% of revenue, up from 40% in 2011-2012 fiscal year, the top-tier strategy has paid off. According to the company, Sky now has 25.2 million subscribers with at least one of its channels in its three main territories, compared with 23.4 million two years ago. Discovery has bent over backward to ensure its investors that it isn't going to get sucked into an arms race for big-ticket rights. "Soccer is like the NFL times two in Europe," Mr. Zaslav told investors in August. "We've opted out of that game." Instead, Discovery has been picking up sports beyond soccer that just happen to be popular in certain countries, like ski jumping in Poland. And it has been buying rights to soccer matches largely outside the countries where they're being played, such as the

Bundesliga rights in non-German-speaking countries, where the costs are lower.

Discovery believes the biggest immediate improvement it can make at Eurosport—and the main reason it will succeed where ESPN failed in Europe—is in its ad business. Previously, Eurosport was selling ads on a pan-European basis, which isn't the way most advertising in the region is sold. Discovery, which has an average of 10 channels in countries throughout Europe, is changing that by creating local channels similar to the regional sports networks in the U.S. using the sales and distribution teams it already has on the ground. It has already begun to get larger affiliate fee increases across its whole portfolio of European channels by having sports as part of its bundle.

Discovery has also invested in what JB Perette, president of Discovery Networks International, called a "fresh coat of paint" on the somewhat beleaguered Eurosport. That involves beefing up production values, making its sports more accessible with more documentary-style storytelling and prime-time talk shows, and dumping some of the more embarrassing filler. Peter Hutton, a former Sky executive installed last year as the CEO of Eurosport, said one of his first acts was to clear the prime-time schedule of timber sports—or wood-chopping competitions, to the uninitiated. "There's a place for content like that, but when you are trying to say you are a credible mainline sports channel, we are not the place," Mr. Hutton says.

Securing the Olympics was the biggest sports rights deal Discovery has engineered. Mr. Zaslav, who once headed up NBCUniversal's cable division, had witnessed how the media company had built U.S. Olympics telecasts into a modestly profitable spectacle that executives say provided luster to the entire corporation. In part this was a feat of production under former NBC sports chief Dick Ebersol, who excelled in making once-obscure sports like snowboarding popular with swelling music and tear-jerking athlete back stories. And in part this was tough negotiation, as Mr. Zaslav secured steep surcharges from distributors for each of the NBCU cable channels that carried Olympics programming.

So when Mr. Zaslav read a newspaper article in 2014 about the International Olympic Committee's plan to launch a year-round Olympics channel, he thought Discovery, with its experience in nonfiction storytelling, and Eurosport, with its heavy emphasis on Olympic sports, would make natural partners. He brought in his friend Mr. Ebersol as an unpaid adviser. There were many bidders, and Discovery wasn't the highest. But it came out ahead because it presented itself as the best way for the IOC to stoke year-round interest in the Olympics, particularly among young people, according to people familiar with the matter.

Sky didn't engage in bidding for the Olympic rights because at the time executives determined that the programming wouldn't help it sell additional subscriptions, since the games only take place for two weeks every two years—a position they maintain. In Europe, channels generally have more flexibility to go direct-to-consumer than they do in the U.S. So for those who don't want to invest in a monthly subscription, Sky has rolled out a streaming service that allows consumers to buy content for a day or a week, depending on their viewing desires.

Discovery, meanwhile, has the Eurosport Player, which lets users stream sporting events online for €8 a month. Discovery currently has about 350,000 subscribers to its various streaming products and in two years it believes it can reach 1 million subscribers and $100 million in revenue. Still, Mr. Perette is aware that some pay-TV distributors might worry that the service will pull away traditional pay-TV subscribers. "I'm not saying distributors love it," Mr. Perette said. "What we say to them is, we're not trying to disadvantage anybody."

Some distributors are keeping their eye on the big picture—viewing the Eurosport player as a test that is fine if it remains small-scale. "We have a dedicated agreement," said Alice Holzman, general counsel for Canal+, which carries Eurosport. "We watch it very carefully, and Eurosport knows we watch it very carefully." – ***Wall Street Journal***

U.S. Sen. Pat Toomey's campaign says it's heading into 2016 with nearly $10 million in the bank as the Republican seeks a second term representing Pennsylvania. A Toomey campaign spokesman said Monday he had no other information about the candidate's fundraising and spending activity during the last three months of 2015. The deadline to report is the end of January. Toomey's $9.6 million on hand means he padded his account by about $1 million in the three-month period and he has nearly $7 million more than he had at this point six years ago when he ran successfully for the seat. His three potential Democratic Party challengers had less than $4 million combined when they last reported fundraising totals in October. Toomey's campaign reported spending about $17 million for his successful 2010 race. – ***Pittsburgh Post-Gazette***

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