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Tune in every week as we react to the latest in innovation and reflect on how short-term news impacts our long-term views.

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Welcome to the Brainstorm Lucky Number 13.

Today we're going to keep it quick and snappy for the short week.

We've got Disney vs. Charter, some disputes going on there.

Why can't I watch ESPN anymore?

And the exciting Tesla Model 3 Highland update.

Nick, let's dive right into it.

What happened?

What is the dispute over?

How is it impacting me?

It's definitely impacting around 14.7 million households in the US.

This is what is commonly known as a carriage dispute within the linear TV space.

And what's happening right now is you have Disney and Charter communications battling it out.

Charter doesn't want to pay Disney.

Disney wants more money.

There's a lot of negotiations happening behind the scenes.

Disney obviously has a lot of assets in both the linear and streaming space.

You mentioned ESPN, it also has ABC, and a variety of other channels and networks that has been selling to these cable companies.

What happens typically during these carriage disputes, they do eventually get hammered out or for the most part they find common ground because they want to service the market.

There's a lot of money in these deals.

But what is happening right now is you have this backdrop of streaming which is on the rise.

And that's really the main pressure point between this carriage dispute, between Disney and Charter.

And it is taking on a life of its own.

It's really interesting to see some commentary from the CEOs of these companies, specifically Charter saying, if we can't hammer out this deal, we might pull out of the video operation business altogether, meaning anyone, it's mostly based in New York and Los Angeles.

I think that's where Spectrum, which is Charter's video business, is mainly located.

Or that's where the majority of the households are.

So it's a disappointing start to the college football season for a lot of Spectrum customers.

So that just means you can't watch it, US Open, gone.

Yeah.

If you've experienced this, if you have Spectrum, you probably went to maybe go watch a college football game or the US Open or ABC, and you were met with a message from Charter with this long explanation saying, we're trying to find common ground with Disney.

And if you go and look at what Disney is saying, they're saying we're trying to find common ground with Charter.

So there's a lot of finger pointing going on.

But this is a really interesting time.

One, you have the backdrop I mentioned with streaming.

And just to give some color there, you have streaming.

And this is a gauge that's put out by Nielsen.

It's how much of the total viewing time in television is going to streaming cable broadcasts and then another category called Other.

Right now, streaming is leading the way.

It's at 38.7% of total TV viewing time.

And that's up from the mid 20% only two years ago.

So streaming is just continuing to take share, delighting the consumer.

But you also have fragmentation of the market within streaming, right?

It's not that pay TV bundle we're used to in cable or broadcast.

You're signing up for a variety of different services and having to manage all of that content a la carte.

And what are those other two buckets?

Like where does YouTube fall in that?

Is that in the streaming or that?

YouTube would fall into streaming.
That's actually the largest bucket of viewing within streaming.
If you break out the Nielsen gauge, which they break out the streaming portion.
So you look at what's happening here.
You have to be really careful if you're a linear TV player.
And I like to use Disney as an example.
Disney has a pretty interesting balancing act.
They have to maintain over the next few years.
One because they do have exposure to the linear TV space.
We're seeing that right now with Charter.
This deal could be up to \$2 billion plus for Disney.
That's typically what they would charge in this type of offering.
And if you look at the revenue breakdown, linear TV networks as a percentage of total revenue today makes up roughly 30% of Disney's total revenue base and 53% of its operating income.
And so Disney has assets in the streaming space Disney plus Hulu ESPN plus, but they are wanting to and Bob Iger has actually come out and said this.
They want to migrate all of those assets over into the streaming space.
They are not oblivious to the fact that streaming is the future for the consumer, but they also have to delight not just their customers on both the linear and the streaming side, but also maintain and make sure that their balance sheet, their income, their revenue base doesn't just show volatility every week because they're migrating assets over in an unpredictable manner.
So they have to be very careful while they're doing this to maintain shareholder value for their shareholders and also just to continue to delight the consumer on both ends on linear and in the streaming space.
So, Nick, how does all of this resolve in your opinion?
Well, someone on either end, either Disney or Charter is going to have to cave.
I don't think both parties are going to walk away happy in this specific instance, but you could have an outcome which is being telegraphed by the Charter management team where a deal does not get done and Charter either sells off spectrum, shuts down that business entirely, looks to migrate all of its assets in the linear space to streaming in a quick and speedy manner.
But I think it's going to be one of, I think it's going to be a very pivotal moment for both the linear and streaming space.
This is, as I mentioned before, this is not a typical carriage dispute.
This is going to impact both spaces and something we definitely need to continue to watch and see how it unfolds.
Nice.
There you have it.
And hopefully, resolve soon, or people just sign up so they can watch the US Open and the amazing games taking place there.
Nick, have you been watching at all?

I have.

I signed up for a free trial of Fubo TV.

There's plenty of offerings in the streaming world to get your fix of sports and these networks that Disney has pulled from spectrum.

You have Hulu, which is owned by Disney.

They're now pointing and saying, hey, if you want to watch college football, ESPN, US Open, check out Hulu live TV offering.

You also have YouTube.

There's a lot of ways to get your content fixed without having to purchase a cable box and have to go through all of that, which is quite a terrible, it's quite terrible for the consumer, in my opinion.

Nice.

And Nick, we're recording this before the game, but it's going to be published after the game.

So we've got two big Americans playing.

Do you want to wager who's going to win?

We've got Shelton V. Tiafo tonight.

I'm going with Tiafo.

There's my prediction.

What about you?

You're more into picks the higher picks the higher ranked player, big surprise.

I mean, you know, to make it interesting.

No, I think I think Tiafo has it.

Although Shelton serve, obviously a can in there will be watching tonight.

So it'll be OK on moving on on the next onward.

Tesla Model 3 Highland.

Long anticipated, finally revealed, kind of in an interesting way.

Some images were leaked and then more noise on Twitter and then boom updates on websites.

And we saw it come out.

Maybe we'll flash a picture here as well.

So people can see it looks pretty good, sporty.

It's more dynamic.

It's got roughly 12 percent more range than the previous versions.

It's a little bit more expensive.

It has ventilated seats.

It's got a frame screen in the back.

So those back passengers can watch cool stuff and control air through there.

They've got LED lighting on the inside, which is can be adjusted.

So overall, you know, just all I'd say incremental, but important.

Improvements here.

And I think the real thing to highlight here, simultaneously, there was a price decrease on the S and X by a fair amount.

And so I think those prices have come down quite dramatically since the start of the year, roughly, I think it was in the 20 to 30 percent range.

But the point I want to use to highlight here is what disruption looks like along competitive vectors.

And so when Tesla first came out, the classic refrain was, oh, you know, look at those panel gaps, it's terrible.

Like I would never buy a car like this, the Spartan interior, all of all of that.

But Tesla was competing somewhat orthogonally.

It was a better driving experience.

The software was far better than what would be in a traditional car.

And that was enough to kind of gain these early adopters who came in and, you know, they're buying the car for a different reason.

Who cares? You know, the panel gaps are off.

But the software is pristine and constantly improving.

And now with this update, you see Tesla making some of these incremental improvements that make the interior better, right?

You have those ventilated seats.

You got that back screen.

It's quieter. You got the LED lighting now.

And so you have the traditional automakers who fell back on.

Oh, the interior quality is so much better.

And now that competitive vector is diminishing as well.

And I think this really helps Tesla go from that early adopter phase into kind of more mainstream with this Model 3 Highland.

And, I don't know, Nick, you're a Tesla owner.

What do you think?

Well, I have one question, which is why do you think Tesla chose to refresh the Model 3 and not some of its other models?

Is there a specific reason that you think they're, you know, looking at the Model 3 and saying, let's improve on this one where, you know, it has S, X, Y out there.

Why not go after one of those first?

Yeah. So I think S and X, those have been, I mean, as you just had

Vlad, X was refreshed not terribly long ago and is much smaller volume, higher end.

Y is, I think, first half this year, the best selling car in the world.

And so, you know, that kind of leaves the three as the one to improve.

I think it probably got overshadowed with the Y.

And in my mind, this, it's like the Honda Accord.

I'm biased.

I drove a Honda Accord, but it's like that's a classic sedan.

And now the Model 3 is, I think, goes head to head and competes, you know, far more favorably than the Honda Accord now with these updates.

It's electric.

The range on the long range, I think, is, you know, close to 370.

The other thing I didn't notice, this is just in Europe and China for now.

So we'll be waiting to see when it comes to the US.

But I do think it's that reason, you know, the other two high end or low volume Model Y is selling like hotcakes.

So this one was the one that kind of needed this bump to find its sweet spot.

And do you think this will improve the margin structure of the Model 3?

Have there been any notes, details about, you know, they've improved on the factory build and, you know, this could actually improve the margin and cost structure of the vehicle itself?

I would imagine that is the case.

Obviously, you know, you don't want to look too short term as they're ramping new production of the Highland.

But if you consider that it, I think it's all LFP, which is a lower cost battery chemistry and the updates, you know, Tesla is constantly improving costs on the manufacturing side.

I do think this is a move towards more margin for the Model 3.

And then I, you know, one of the other things that I want to highlight, I tweeted this out, actually, was, you know, for so long, the question was, is it easier, is it easier for Tesla to ramp manufacturing or for traditional automakers to shift to electric vehicles?

And I think, you know, time has shown Tesla's ramp manufacturing and demonstrated manufacturing prowess to a greater extent than traditional autos have been able to switch over to electric vehicles.

And yet when I tweeted this, you know, apparently this is still open for debate and a lot of people don't necessarily agree with this.

But so it is interesting to kind of step back and look at that just broad framing there.

Yeah, I mean, it is, I think interesting.

I've, from hearing you, Tasha, the whole team talk about how Ewan approaches the business in general.

He's come out and said, right, the factory is the product, right?

We're in the business of building factories from a first principles perspective.

And I've always found that to be quite enlightening and how he looks at the products they build.

Yep.

Yep.

And then Nick, maybe I'll just throw this, this is, we're, we're, we're jumping ahead to another topic.

This is straight from the research meeting that we were just discussing is the X and, you know, they're talking about integrating voice and video.

They already have text.

Obviously there's been mention of, you know, money or crypto over IP on X as well.

Um, and if that is built into Starlink as like a default app, when you hear that, you know, obviously you're talking telco and all of that stuff, you know, what does that mean to you?

It means there are going to be some spicy negotiations between Elon Musk, Apple and, uh, Google with Android, right?

Because it'll still come down to, um, the operating system and then ultimately the telcos, right?

So I think it is interesting to think about his end game.

And when you said X, my mind went to the, the SUV, but you were talking about X platform previously known as Twitter.

Um, but I, when I heard you say that in research, my, my ears did perk up because I think that is an interesting perspective and way to view his ultimate, you know, end game with his purchase and decision around, uh, X and Twitter.

Um, it certainly makes sense.

You mentioned the idea of an international telco.

If you look at the telco space now, it's very regionalized, partly because you have to lay physical infrastructure.

Um, so, you know, having a satellite based operation where these satellites are crisscrossing the globe, um, it does make, uh, the 300 million plus users of X, uh, potentially in, uh, the, I guess potential customers of, uh, what Elon is trying to sell with Starlink.

Um, so definitely something that we should, you know, maybe tweet at Elon and ask him. Nice.

All right.

Well, that's, that's it.

We'll see you next week after this short week for episode 14 of the brainstorm.

Nick, you do anything fun over the three day weekend?

I was, I am still in, uh, Lake George, New York, enjoying the lake.

It was out on a yesterday and I have, uh, my cousin's wedding this weekend.

So, um, enjoying the short week we have.

It was nice to have Monday off, but glad to be back with you, Sam.

I, uh, hope you enjoyed your vacation, um, but it's, it's good to have you back on.

Good to be back.

Thanks, Nick.

And next week I'll be able to talk with my hands.

If people are watching on YouTube, the reason I'm slouched over not moving much is because I have to hold this microphone very, very still.

Otherwise it disconnects on me.

So I'm being very careful in my mannerisms.

I'm Italian.

Normally I talk with my hands.

I can't do any of that.

I feel completely handcuffed out there.

I'm very much handcuffed by this current situation.

So hopefully next week we'll be back in prime form.

Uh, we'll be able to get this out on Tuesday.

**[Transcript] FYI - For Your Innovation / Disney and Charter Dispute, Tesla Model 3 Update
| The Brainstorm 13**

This is going to be, and everyone, you'll be listening to this on Wednesday, but hopefully we'll be back to our two day Tuesday cadence.
Uh, but thank you everyone for listening and watching.
Uh, that's our show.