

THE WALL STREET JOURNAL.

Apple Held Preliminary Talks With Pac-12 Conference, MGM

Tech giant is considering ways to broaden the appeal of its Apple TV app and TV+ service that launched with nine original programs



Oregon and Utah face off in the Pac-12 Football Championship in Santa Clara, Calif., on Dec. 6.

By Tripp Mickle

December 19, 2019

Apple Inc. has been exploring opportunities to strengthen its upstart TV service, including deals for James Bond franchise-owner MGM Holdings Inc. and college sports rights, according to people familiar with the matter.

Executives at Apple met with representatives of MGM and the Pac-12 Conference this year as the tech giant considers ways to broaden the appeal of its Apple TV app and TV+, a \$4.99

monthly service that launched last month with nine original programs. The streaming service anchors an updated TV app that offers subscriptions to Disney+ and HBO, with Apple getting a cut of sales.

Though the conversations with MGM and the Pac-12 were preliminary and have yet to reach an advanced stage, the talks show Apple's openness to striking a multibillion-dollar content agreement in support of its TV service—even as it forges ahead with a preferred strategy of developing its own shows, these people said. A deal with the Pac-12 would be Apple's first foray into live sports.

Apple is playing catch-up in a TV arms race with Amazon.com Inc. and others seeking to displace traditional cable operators as the dominant media service in people's homes. Consumers have turned to services such as Netflix Inc. as they sever ties with cable operators. Amazon and Apple are looking to increase their revenue by selling subscriptions to their own streaming-video services and rival offerings from competitors.

Amazon Prime Video service, launched in 2006, has become a hub for an estimated \$2.6 billion in subscription sales to channels such as Showtime and Starz, according to BMO Capital Markets. The company has netted those sales from customers drawn to an Amazon video service that offers original shows, licensed movies and National Football League games.

Apple's updated TV app and TV+ programs mirror Amazon's offering but provide a fraction of the shows. A deal for sports rights or a film library could deepen the offering and pull in more users who might also sign up for subscriptions to Disney+, HBO and more.

Apple, which has \$206 billion in cash, has been reluctant to cut big deals in the past. Its biggest deal—the \$3 billion acquisition of Beats Electronics LLC in 2014—helped the company jump-start its music-streaming business.

The Apple Music business became the catalyst for the launch of subscription services for videogames, news and TV. Those and other paid subscriptions have become a big contributor to a services business at Apple that increased sales 17% to \$46.29 billion in the fiscal year ended in September.

Apple wants to surpass 500 million paid subscriptions in this fiscal year. It currently has 450 million paid subscriptions, a 36% increase from the 330 million it reported for fiscal 2018.

"There aren't a lot of potential acquisitions that could meaningfully change that trajectory," said Matthew Ball, former head of strategy at Amazon Studios. Still, he said a deal for MGM or a studio of that size would expand Apple's content offering, improve new-show development and accelerate growth.

The meetings with MGM included Apple's head of mergers and acquisitions, Adrian Perica, said people familiar with the matter. The discussion came as MGM sought a distribution

partner in February for its Epix cable channel. The company also had discussions with Amazon and others.

Though Apple wasn't interested in Epix, Eddy Cue, Apple's head of services, has continued to discuss the possibility of a deal for MGM with Apple advisers, according to some of these people.

MGM could fetch as much as \$10 billion, some of these people said. The company is owned by several private-equity firms, including Anchorage Capital. A deal for MGM would give Apple rights to a film library that includes James Bond and "Silence of the Lambs," as well as TV shows such as "Fargo" and "The Addams Family." Apple could offer the shows and films on demand or create new versions of them without having to pay licensing fees.

More recently, Mr. Cue met with Pac-12 Conference Commissioner Larry Scott about the conference's effort to sell an equity stake in its media rights package, valued at up to \$5 billion, that includes the Pac-12 Networks and all marquee football, basketball and live sports programming that is fully available in 2024, according to people familiar with the discussions. The conference includes the University of Southern California, the University of Oregon and Stanford University.

Mr. Cue has questioned the value of a deal with the Pac-12 because it would only give Apple rights to some games, people familiar with his thinking said. He also recognized that if Apple ever secured rights to all of the conference's best programming, it would need to show some of those games on traditional broadcast TV to satisfy fans. The conference continues to search for strategic partners for its media rights and has recently had talks with Apple and Amazon, among others, people familiar with the matter said.

Mr. Cue's interest in the Pac-12 shows Apple's approach to sports could eventually go beyond the notifications of coming games and real-time scores it currently offers in its TV app. The sports industry has largely depended on traditional media companies for more than \$20 billion in annual rights, putting it in a precarious position in a changing media landscape. The NFL, college sports' Southeastern Conference and others are due to negotiate new media deals in the coming years.

Showing Pac-12 games would help Apple prove it is a viable home for sports should it pursue the rights to another league. Mr. Cue is a big fan of Duke University basketball—his alma mater—and the National Basketball Association's Golden State Warriors. His boss, Chief Executive Tim Cook, is a big fan of his alma mater's football team—Auburn University, which plays in the SEC.

Instructions: Describe the different strategies that are presented in this article.