

# Bloomberg

## Netflix Lust for 'True Blood' Is Unrequited as HBO Blocks Path

By Ronald Grover -

Netflix Chief Executive Officer Reed Hastings. Photographer: Ryan Anson/Bloomberg

[Netflix Inc.](#)'s drive to offer its subscribers online movies from all the biggest Hollywood studios may hit a wall with HBO.

[Time Warner Inc.](#)'s pay-television channel, home to shows including the "The Sopranos" and "True Blood," holds cable and Internet rights to films from Warner Bros., Twentieth Century Fox and Universal Pictures and is unlikely to make a deal with Netflix, HBO Co-President [Eric Kessler](#) said.

"There is value in exclusivity," Kessler said in an interview. Consumers "are willing to pay a premium for high quality, exclusive content," he said.

Netflix Chief Executive Officer [Reed Hastings](#) opened his company's coffers last week, agreeing to pay the Epix cable channel more than \$900 million over five years for online rights to films from Paramount Pictures, [Lions Gate Entertainment Corp.](#) and Metro-Goldwyn-Mayer Inc. Hastings plans to spend more to build the service, which offers DVDs by mail and online viewing for \$8.99 a month, and has said he wants HBO as a supplier.

HBO's stand prevents Los Gatos, California-based Netflix from gaining online access to titles from all of the major studios. Netflix members can see films from [Walt Disney Co.](#) and Sony Pictures Entertainment online through a deal between the subscription movie service and [Liberty Media Corp.](#)'s Starz channel, which has separate accords with both studios.

Netflix also has an agreement with [Ryan Kavanaugh](#)'s Relativity Media, which took over Overture Films from Liberty.

"We would love to do a deal as well with HBO," said [Steve Swasey](#), a spokesman for Netflix. "Compete with us or collaborate with us, but we would much rather work with them."

### HBO Go

HBO intends to stick with its own plan to make shows and movies available online through HBO Go, Kessler said. The cable channel, which has more than 29 million subscribers, generated operating profit of \$1.2 billion on \$3.9 billion in revenue last year, according to a presentation by Time Warner on May 27. The sister channel Cinemax has about 12 million.

The combination of a DVD mail-order and online service makes Netflix both a customer and "potential competitor," [Jeff Bewkes](#), CEO of New York-based Time Warner, said on an Aug. 4 conference call with analysts before the Netflix-Epix deal. "Although so far it's been more of a complementary service to HBO than a competitor."

In six months, HBO Go will be available to the channel's paying subscribers at no additional cost through all major cable systems, on Apple Inc.'s iPad, on mobile devices and elsewhere, Kessler said.

HBO Go, which provides 800 hours a month of the channel's movies and TV shows, has agreements to offer online programming to customers who get pay-TV service through Comcast Corp. and Verizon Communication Inc.'s FiOS.

### Netflix-Epix

The Epix agreement announced on Aug. 10 gives Netflix subscribers films from the channel's owners, [Viacom Inc.](#)'s Paramount, Lions Gate and MGM, 90 days after their cable debut. Netflix also licenses past-season TV shows from CBS Corp.'s Showtime pay channel, according to Swasey. Of the 15 million Netflix subscribers, 61 percent used the online viewing service in the latest quarter.

Netflix fell \$4.25, or 3.1 percent, to \$132.97 at 4 p.m. New York time in Nasdaq Stock Market [trading](#), after hitting an all-time closing high yesterday. The stock has more than doubled this year. Time Warner rose 27 cents to \$30.97 on the New York Stock Exchange and has gained 6.3 percent this year.

By building a market for online delivery of older movies, Netflix "is clearly taking aim at HBO," according to [Richard Greenfield](#), a media analyst with BTIG Research in New York. "Netflix has proven that there is a market for a deep catalog of older movies."

HBO has stepped up its spending on original programming, Kessler said. "Boardwalk Empire," a Prohibition-era crime drama written by "Sopranos" writer [Terence Winter](#), begins in September. Series producer [Martin Scorsese](#) directed the pilot.

In San Francisco, one of Netflix's strongest markets, HBO's cable-market penetration has grown to 29 percent from 24 percent over the past four years, according to HBO research.

"These are entertainment enthusiasts," Kessler said.

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