

CableFAX Daily™

Thursday — January 24, 2013

What the Industry Reads First

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Earnings Preview: Programming Costs, Sandy, ROI to Dominate

Verizon kicked off the busy 4Q earnings week Tues with not-too-shabby **FiOS** results. In addition to management guidance on the next fiscal year, earnings calls from major operators, most of which are scheduled in Feb, are likely to be filled with updates on programming expenses, the impact of Hurricane Sandy and capital returns. Of all line items, **Wells Fargo** analysts deem programming costs as most important given the myriad of deals signed within the past 6-12 months. Of the major MSOs, the analysts expect the greatest YOY programming expense growth from **DirectTV**, followed by **Comcast**, **DISH**, **Cablevision** and **Time Warner Cable**. Higher costs mean price increases, which can be reflected in revenue trends, **Wells Fargo** analysts said. Based on estimated YOY revenue growth among the major cable ops, the biggest price increase might come from **DirectTV**, followed by **Comcast**, **Time Warner Cable** and **Cablevision**. For the most part, Hurricane Sandy was isolated to 4Q, but **Cablevision** is most likely to feel the impact a bit longer than the others, the analysts said. "Investors will give a pass to any operational or financial 'misses' this quarter," they said. Of the 3 companies expected to announced incremental capital returns (**Comcast**, **TWC** and **DirectTV**), **Comcast** is likely to have the greatest acceleration from last year, as **TWC** and **DirectTV** are pursuing potential transactions and are approaching their "target leverage ratios," the analysts said. **AT&T**, which reports earnings Thurs, is likely to see more broadband sub gains than analysts forecast as a result of fiber expansion projects, **Bernstein Research** said. However, the firm warned that additional spending on fiber or acquisitions targeting the consumer wireline segment would yield lower return on investment. What about programmers? **Time Warner's** margins will face pressure as content costs rise, according to **Bernstein Research** analysts. At **Turner**, affil fees will grow at about the same rate as operating expenses, with advertising growing more slowly, they said. **HBO** is expected to face difficulties growing subs or pricing "in a world that includes multiple SVOD entrants at significantly lower price points," while cost pressures are expected to intensify. Analysts were a bit perplexed by **Time Warner's** decision to start putting kids content on **Netflix**. "We don't understand why it's worth putting ratings and ad revenue at risk, especially at this moment in time when **Nickelodeon** is vulnerable, to pursue a few extra pennies from **Netflix**," **Bernstein** said in a research note. Meanwhile, **Goldman Sachs** analysts said **Viacom's** stepped-up investment in **Nick** programming will likely keep driving ratings higher. Even **Nick's** golden oldies are pulling through. "SpongeBob" was one of the top 5 cable program last week.

CableFAX Webinar *Thursday, January 31, 2013*
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TWC Changes: Time Warner Cable is shaking up its organization structure, part of its long-running work to decentralize operations. It's ditching a mgmt structure defined by geographic regions and instead will organize the company into 3 business units: Residential Services, Business Services and Media Services. They all report to pres/COO *Rob Marcus* and will be supported by newly centralized tech and network ops, HR, finance and communications groups, in addition to the already centralized law, govt relations, programming, strategy and new biz groups. "To deliver our customer, employee and investor expectations, we need a company structure designed for the future—one company, aligned in its objectives from top to bottom," Marcus said. The change means hiring a new evp, COO to lead Business Services. Business services evp *Gerry Campbell*, who is retiring in June, will help with the search. *Joan Gillman* will continue to head up Media Services as evp, COO. *Bill Goetz*, formerly evp, ops for the West region, becomes evp, COO for Residential Services. *Carol Hevey*, evp, ops for the East, announced last year that she would retire Jan 31. *Jeff Hirsch* becomes evp, chief marketing and sales officer, residential services; and *John Keib* will become evp, chief care and technical operations officer, residential services. *Mike LaJoie* will serve as evp, chief technology and network operations officer for the Tech and Network Ops group. Recall that *Kevin Leddy* was named evp, corporate strategy last month.

Surprise: Netflix surprised Wall St by posting a 4Q profit after the bell Wed. It posted a profit of \$8mln and added 2mln new video stream subs, ending the year with more than 27mln. Analysts had predicted a loss for the Q. Still, its profit is down from 4Q11's \$35mln. Revenues increased to \$945mln.

Iger's Imagineering: Disney chmn/CEO *Bob Iger* granted a sit-down to Hollywood producer *Brian Grazer* for **HRTS'** monthly luncheon in L.A. on Wed—but spent only a few minutes on TV-related topics. Iger said it's the "golden age" of TV creatively, although competition for ad dollars means "programmers truly need to take new chances," arguing that uncertainty over the TV ad model remains a key challenge. "It's the Golden Age except for that fact," he said. Otherwise, Iger discussed Disney's deal-making adventures (**Pixar, Marvel, Lucasfilms**) and culture, as well as his mission to respect the company's roots while adapting to new realities across its many businesses. One cool tidbit: Get ready for the "magic band" at Disney theme parks; Iger said patrons will soon be able to reserve rides ahead of time, make restaurant reservations, pay for merchandise and customize experiences with the help of GPS-enabled wristbands. Talk about Tomorrowland.

On the Hill: Washington's not giving up on cybersecurity, with top lawmakers saying a comprehensive bill will be a priority this Congress. Sen Commerce chmn *Jay Rockefeller* (D-WV), Sen Select Cmte on Intelligence chmn *Dianne Feinstein* (D-CA) and Homeland Security and Governmental Affairs cmte incoming chmn *Tom Carper* (D-DE) announced the introduction of the Cybersecurity and American Cyber Competitiveness Act (let the CACCA jokes begin now). Congress came close to passing legislation last session, and worries continue about the threat of cyber attacks. Among other things, the bill would establish mechanisms for sharing cyber threat and vulnerability info between the govt and private sector.

In the Courts: CBS amended its lawsuit against **DISH** over the Hopper's ad-skipping tech to accuse the MVPD of concealing info in its retrans agreement. "DISH knew that CBS would not have been willing to enter into the retransmission agreement if CBS had been aware that DISH would attempt to use its limited access to the CBS broadcast signal as a vehicle for offering CBS' primetime programming to DISH subscribers on an on-demand, commercial-free basis," CBS said.

3D: Starting Jan 28, **Comcast Xfinity** TV subs are eligible to receive 3D services from **3net**, the 24/7 3D network joint venture from **Sony, Discovery** and **IMAX**. Subs will have access to 3 hours of programming at least 5 days a week. Some 3net programs will be available on Xfinity On Demand soon. 3net channel content sampler will debut Jan 28 while new content will premiere each Mon at 7pm with exclusive themed weeks premiering from Feb 11 onward.

Programming: **AMC's** "Mad Men" will return for its 6th season April 7 at 9pm with a special 2-hour premiere. The series will return to its regular schedule April 14 at 10pm. -- **TV One** adds half-hour comedy "Family Time" to its Fri Night comedy block, starting this week (9pm ET). -- "Army Wives" returns for its 7th season on **Lifetime** Mar 10.

On the Circuit: **ACC's** Forum is headed back to DC in the spring. The conference is slated for May 9-10, with the annual Beacon awards set for May 9. Entries are due Mar 22. -- **Scripps Nets Interactive's** HR evp *Christopher Powell* was elected to the role of pres, **CTHRA**. Also new to the exec committee is *Sheryl Anderson* of **Starz**, *Abby Pfeiffer* of **Charter** and *Janice Turner* of **WOW!**. In addition, *Bill Strahan*, evp of HR for **Comcast Cable**, was appointed as at-large-member of the executive committee. -- '13 chapter officers were announced by **NAMIC**. Companies repped include **BET**,

BUSINESS & FINANCE

Comcast, SiriusXM Satellite Radio, Showtime., Scripps Networks Interactive, Suddenlink, The Weather Company, Time Warner Cable, Viacom and Warner Bros. New officers will serve 1-year terms.

Starz Gazing: Revelry rather than revolt broke out at Starz's "Spartacus" season 3 premiere screening downtown and after-party at the Chateau Marmont Tues night. It was bittersweet in that Fri night will begin the final season of a signature franchise for Starz, whose CEO *Chris Albrecht* plans an original series bonanza in the coming months now that the premium net controls its own destiny as a publicly traded entity. The party soon spilled out to the pool area as Spartacus stars like *Liam McIntyre* and *Lucy Lawless* mixed with other Starz talent like *Danny Huston* of "Magic City" fame. Creator *Steven DeKnight* also made the rounds, although he won't have much time to relax: He's already working on his next Starz series "In-cursion," a sci-fi epic that we're guessing will bring Roman-style sex, violence and debauchery to the heavens. Or so we can only hope.

People: Comedy Central upped *Kent Alterman*, head of original programming and prod, to pres. -- **Discovery Channel** upped *Dolores Gavin* to evp, development and production, East.

Call for Entries: Get your nominations in for **CableFAX** Sales Executive of the year by Feb 15. Go to cablefax.com/awards

CableFAX Daily Stockwatch

| Company | 01/23 Close | 1-Day Ch | Company | 01/23 Close | 1-Day Ch |
|------------------------------|-------------|----------|-----------------------|-------------|----------|
| BROADCASTERS/DBS/MMDS | | | | | |
| DIRECTV: | 53.13 | (0.27) | CSG SYSTEMS: | 18.51 | (0.33) |
| DISH: | 37.24 | (0.26) | ECHOSTAR: | 35.81 | (0.07) |
| DISNEY: | 53.95 | 1.22 | GOOGLE: | 741.50 | 38.63 |
| GE: | 21.94 | (0.07) | HARMONIC: | 5.44 | 0.23 |
| NEWS CORP: | 27.99 | 0.26 | INTEL: | 21.11 | (0.06) |
| MSOS | | | | | |
| CABLEVISION: | 15.18 | (0.23) | JDSU: | 13.40 | (0.01) |
| CHARTER: | 78.95 | 0.13 | LEVEL 3: | 24.46 | 0.28 |
| COMCAST: | 40.00 | 0.19 | MICROSOFT: | 27.61 | 0.46 |
| COMCAST SPCL: | 38.39 | 0.09 | RENTRAK: | 20.03 | 0.03 |
| GCI: | 8.40 | (0.13) | SEACHANGE: | 10.81 | 0.09 |
| LIBERTY GLOBAL: | 67.78 | (0.26) | SONY: | 13.25 | (0.1) |
| LIBERTY INT: | 20.88 | (0.1) | SPRINT NEXTEL: | 5.67 | 0.01 |
| SHAW COMM: | 23.78 | (0.38) | TIVO: | 12.45 | 0.33 |
| TIME WARNER CABLE: | 100.42 | 0.01 | UNIVERSAL ELEC: | 19.00 | 0.18 |
| VIRGIN MEDIA: | 39.13 | 0.03 | VONAGE: | 2.45 | (0.01) |
| WASH POST: | 383.27 | 1.26 | YAHOO: | 20.11 | 0.21 |
| PROGRAMMING | | | | | |
| AMC NETWORKS: | 56.66 | 0.04 | TELCOS | | |
| CBS: | 42.24 | 0.38 | AT&T: | 33.78 | 0.17 |
| CROWN: | 1.97 | (0.01) | VERIZON: | 42.79 | (0.15) |
| DISCOVERY: | 68.18 | 0.41 | MARKET INDICES | | |
| GRUPO TELEVISA: | 28.26 | (0.04) | DOW: | 13779.33 | 67.12 |
| HSN: | 58.41 | (0.24) | NASDAQ: | 3153.67 | 10.49 |
| INTERACTIVE CORP: | 40.30 | (0.96) | S&P 500: | 1494.81 | 2.25 |
| LIONSGATE: | 18.00 | 0.10 | | | |
| OUTDOOR: | 7.50 | 0.02 | | | |
| SCRIPPS INT: | 60.32 | 0.75 | | | |
| TIME WARNER: | 50.82 | 0.49 | | | |
| VALUEVISION: | 2.70 | 0.04 | | | |
| VIACOM: | 61.89 | 0.24 | | | |
| WWE: | 8.30 | 0.05 | | | |
| TECHNOLOGY | | | | | |
| ADVANTAGE: | 2.28 | (0.03) | | | |
| ALCATEL LUCENT: | 1.75 | 0.06 | | | |
| AMDOCS: | 35.12 | 0.11 | | | |
| AMPHENOL: | 67.66 | (0.15) | | | |
| AOL: | 30.21 | 0.28 | | | |
| APPLE: | 514.00 | 9.23 | | | |
| ARRIS GROUP: | 16.67 | (0.13) | | | |
| AVID TECH: | 7.31 | (0.09) | | | |
| BLNDER TONGUE: | 1.35 | (0.03) | | | |
| BROADCOM: | 34.74 | 0.11 | | | |
| CISCO: | 20.62 | (0.25) | | | |
| CLEARWIRE: | 3.21 | 0.01 | | | |
| CONCURRENT: | 6.02 | UNCH | | | |
| CONVERGYS: | 16.88 | (0.08) | | | |



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Think about that for a minute...

Embarrassing

Commentary by Steve Effros

It seems like I have had to write one variation or another of this column far too many times lately. Once again we are back at reading articles or listening to folks make arguments that don't seem to apply to anyone other than us. When the same actions are taken by others, they are in the public interest. When we take them, it's a nefarious scheme!



This time it's a piece in *The New York Times*, and reporters who appear to be manipulated to frame arguments for purposes they are not fully familiar with (or maybe they agree with them and have decided to make editorial statements in the guise of reporting). The editors should have known better.

The article is headlined with the notion that there is significant concern about the program Comcast is offering for discounted broadband service and affordable computers for kids whose families would not normally be able to purchase such connectivity at home. The program is a success and it is being expanded. Other major ISPs, Comcast included, are also part of a similar nonprofit program (Connect2Compete) being promoted by a large segment of the telecom industry. But the focus of the article is that there is concern (two people are cited) that Comcast is somehow being nefarious by promoting their already operational program and maybe then trying to offer their other services to those folks. In other words, it's just a sales gimmick, and Comcast should be criticized for engaging in such activities!

Well, let's get a few things straight. First, while the program Comcast initiated before anyone else was made part of the FCC's conditions regarding the merger of Comcast and NBCU, the suggestion (with one unattributed source) that Comcast didn't really want to do this and was forced to by the Commission is totally off-base.

The industry, including Comcast, had been working for some time on ways to deal with the so-called "digital divide," and this idea was one of them.

A second suggestion, that the service offered is sub-par (because it's "only" 3MB downstream) is also just absurd for anyone who understands the technology needed to connect to the Internet and interact the way the government has encouraged for the purpose of students doing schoolwork or research on the web.

Finally there's the whole notion that this is just a marketing gimmick to "upsell" folks on broadband service. Note, please, that in articles on the same day the head of the FCC was promoting the idea that cities ought to upsell and find ways to finance "1-Gig" service as necessary for the education and economy of the future! I should also note that *The New York Times* and other papers offer student discounts for their wares, but are not maligned for also trying to sell full subscriptions to their offerings. The same is true of Amazon with its free book library, which also encourages the purchase of newer books, or many other efforts (Microsoft computer programs, for instance) offered at student discounts.

Why is it that when the broadband industry, and particularly the largest player do what everyone seems to agree is a good thing it gets smeared? I would suggest that there's another dynamic at work that at least the editors should have known about, and it was quietly inserted in the article itself: there's a campaign going on to push for "public utility, common carrier" conversion of the industry. For those pushing that agenda, any concocted criticism is fair game. It's embarrassing. The editors should have known better.

Steve

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(Steve Effros was President of CATA for 23 years and is now an advisor and consultant to the cable industry)

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