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A Tale of Two Cities: Time Warner Cable Eyes L.A. and Dallas

While **Time Warner Cable** anticipates rev and operating growth rates in the mid-to-high 30s in '07, the performance of its stock—expected to begin public trading Thurs on the NYSE—may well hinge on clearing the smog afflicting its L.A. and Dallas markets. In a media briefing, execs noted that the pair represents half of the sub base acquired from Adelphia yet trails the MSO's legacy systems by a large margin in basic (42%) and HSD penetration (17%). CFO *John Martin* said 80% of TWC's 4Q sub loss occurred in these 2 markets where stemming sub losses, rolling out digital phone services, integrating disparate operating systems (L.A.), and upgrading inferior plants (Dallas) remain top priorities. He called '07 a "stabilization year" in those markets. COO *Landel Hobbs* said he expects L.A. and Dallas to improve by next year. "We will see choppiness this year [as we] reprice and retool," he said. Despite TWC execs' upbeat comments, **Pali Research** cautioned against enthusiasm. "The impact of improving margins on acquired systems has a muted impact across the entire company," wrote the firm, which initiated coverage of TWC with a 'neutral' rating. "We do not believe TWC's premium valuation is warranted." The MSO may also find it hard to improve on its '06 results, which saw 34% rev growth on stirring sub ads across video, HSD and phone. This year, it's "all about execution," said pres/CEO *Glenn Britt*, who cited commercial phone and wireless roll outs and interactive advertising growth as the MSO's hot-button issues in the near term. TWC will also complete this year a footprint-wide launch of digital simulcast capability and expects to have three-quarters of its systems switched digital-capable by the end of the year, said Hobbs.

Cable Earnings: **Charter** signed up 310K digital phone subs in '06, a staggering 309% Y-over-Y surge that's providing important oil to the MSO's revving triple play engine. Slower relative growth in digital video adds (+35%), level HSD adds of 305K and a continuing loss of basic customers (74K) may provide some pause, but Charter's recent refinancing/expansion of $6.85bln in debt could breed optimism. "We believe the company has the opportunity to accelerate financial growth in 2007 as margins improve," read a research note from **UBS**, which maintained its 'Buy 2' rating on Charter shares with a $4.50 price target. -- HSD service growth and the recovering Gulf Coast region helped **Cable One** achieve an 11% Y-over-Y increase in '06 rev to $566mln and a 56% surge in operating income to $120mln. Even as the MSO counted $12.4mln in lost '06 rev from the lingering effects of Hurricane Katrina, the Gulf Coast region contributed sub adds of 85K basic (+16%), 32K digital (+15%) and 36K HSD (+50). Overall Cable One added 1.2mln (+5%) RGU's last year, led by a 24% increase in HSD subs to 289K. -- **Liberty Media**'s **QVC** achieved 7% Y-over-Y growth in domestic '06 rev to $5bln, primarily due to increased sales to existing subs, the co said. Operating cash flow jumped 13% to $1.2bln. '06 rev at **Starz Ent** inched up 3% to $1bln while operating cash flow rose 9% to $186mln. Sub growth at Starz (+6%) and Encore (+7%) fueled the rev growth, which was partially offset by a decrease in the effective rate charged for the services. Liberty also plans to purchase up to $1bln of its Liberty Capital Series A and Series B

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common stock at a range of $105-$113/share. -- **Discovery**'s US nets saw '06 rev increase 10% to $1.93bln, spurred by growth in distribution and ad rev across the portfolio. Operating cash flow jumped 13% to $727mln. -- '06 rev for **Gemstar-TV Guide**'s cable/satellite segment grew 11% to $302mln, due largely to a 20% surge in **TV Guide Interactive** rev, an 11% increase in TVG rev and a 4% increase in rev for **TV Guide Channel**.

More MTVN Changes: Following layoffs unveiled earlier this month (**Cfax**, 2/13), **MTVN** on Wed unleashed a flurry of reorganization announcements for its ad sales and affiliate marketing units. The net will reshuffle its ad-sales division, realigning its channels into 3 demo-specific, strategic selling "clusters" joined by specialized units within the ad sales div, including digital ad sales, and the new MTVN Brand Solutions and MTVN Generator units, which focus on client partnerships spanning MTVN's brands, and new business opportunities, respectively. MTVN chmn/CEO *Judy McGrath* said the "holistic approach" will help "bring our marketing partners closer to the fans of our portfolio of multiplatform brands." Clusters include: Kids and Family, grouping ad sales from the **Nickelodeon** brands and **Nick at Nite** under evp *Jim Perry*; the **MTV**, **The N**, **Logo** and **VH1** cluster under evp *Sean Moran*; and Entertainment, grouping **Comedy Central**, **Spike TV**, **CMT** and **TV Land** under evp *Jeff Lucas*. Cluster leaders will report to *Hank Close*, pres, ad sales, MTVN, as well as to the presidents of the respective MTVN groups—MTVN Kids & Family, MTVN Music and Logo Group, and MTVN Entertainment Group—they serve. In addition, several svps in ad sales will adopt new responsibilities: *Dan Lovinger* as svp, ad sales, **MTV 360**; *Jim Tricarico* as svp, ad sales in the Kids and Family cluster; *Neil Holt* as svp, ad sales, **CMT**; *David Lawenda* as svp, ad sales, VH1, The N and Logo; and *Tom Watson* as head of sales for Logo. Meanwhile, MTVN and **BET Networks** will reorganize their affiliate sales and marketing group under newly appointed evp *Denise Dahldorf* and "rebrand" the group "Content Distribution and Marketing, MTVN and BETN." As part of the restructuring, MTVN announced several related promotions: *Samantha Cooper*, *Meg Lowe* and *Courtney Menzel* have all been promoted to the svp level, responsible for leading MTVN's distribution efforts across all platforms, with all partners. *Juliette Morris* will take over the department's marketing arm, as svp, content distribution marketing MTVN and BETN. All will report to Dahldorf. *Greg Clayman*, svp MTVN Mobile Media, and *Jason Witt*, svp, online distribution and partnerships MTVN Global Digital Media, will continue to manage mobile partnerships and portal deals, respectively. Clayman and Witt report to *Mika Salmi*, pres MTVN Global Digital Media.

Being More Upfront: The same day **MTVN** announced a slew of changes to its ad-sales and affiliate marketing organizations, it also announced a new upfront presentation model for the '07 selling season that will roll out in 4 phases across the calendar year: MTVN roadshows and individual client meetings in the spring; MTVN "Digi-Tour" events focusing on multi-platform strategies, also in the spring; 3 demo-specific summits in the early fall focusing on consumer research and trends; and a strategy summit in the fall for chief marketing officers. "This new model will allow us to better share how our fans interact with our content across platforms, enabling our marketing partners to get closer to our brands, to our content, to our audiences in ways that are customized to meet their needs," said MTVN chmn/CEO *Judy McGrath*.

Showdown: As the Thurs morning deadline for a retrans deal between **Comcast** and **Sinclair Broadcasting** nears, several reports stated that the parties are still far apart. A Comcast spokesman told ***Cfax*** talks are ongoing, but Sinclair general counsel *Barry Faber* told the AP Wed that an imminent agreement is unlikely. "It's important for people to know that there's a chance they could wake up [Thursday] morning, and the station might not be there anymore," he said.

BUSINESS & FINANCE

DTV Learning: The much-anticipated campaign by **NTIA** and various industries to educate consumers about the digital TV transition become official on Wed. The **DTV Transition Coalition** includes cable, broadcast and consumer electronics reps, which plan to help spread the word on the Feb 17, 2009, planned cutoff of analog broadcast signals. A first component is the launch of www.DTVtransition.org to outline basic info with links to additional industry resources. Official coalition members are: **Assn of Public Television Stations** (APTS), **CEA**, **Consumer Electronics Retailers Coalition** (CERC), **Leadership Conference on Civil Rights**, **LG Electronics**, **NAB** and **NCTA**.

At the Portals: As **FCC** chmn *Kevin Martin* contemplates new multicast must-carry schemes that would allow broadcasters to lease spectrum to third parties (***Cfax***, *2/26*), he can count on commish **Deborah Taylor Tate** for support. In a Wed speech at a **Media Institute** luncheon in DC, Tate said the concept is "another intriguing idea" that could help improve media access to women, minorities and small businesses. Meanwhile, in a later Q&A session, Tate said she's "concerned" that consumers get proper education about the digital TV transition but compared fears of millions of TVs going dark after the Feb 17, 2009, cutoff to the Y2K scare. "I'm hoping it will like 2000 and what a non-event that was," she said.

CableFAX Daily Stockwatch

Company	02/28 Close	1-Day Ch
BROADCASTERS/DBS/MMDS		
BRITISH SKY:	43.93	0.93
DIRECTV:	22.55	0.66
DISNEY:	34.25	1.15
ECHOSTAR:	40.60	(0.3)
GE:	34.91	0.25
HEARST-ARGYLE:	26.04	(0.14)
ION MEDIA:	1.27	(0.01)
NEWS CORP:	23.84	0.01
TRIBUNE:	30.03	0.09
MSOS		
CABLEVISION:	29.46	0.92
CHARTER:	3.01	(0.01)
COMCAST:	25.72	0.42
COMCAST SPCL:	25.45	0.15
GCI:	14.83	0.31
KNOLOGY:	14.25	0.23
LIBERTY CAPITAL:	107.88	4.17
LIBERTY GLOBAL:	28.79	(0.07)
LIBERTY INTERACTIVE:	23.57	0.67
MEDIACOM:	8.00	(0.02)
NTL:	28.22	0.00
ROGERS COMM:	32.65	0.12
SHAW COMM:	34.51	(0.44)
TELEWEST:	24.20	0.00
TIME WARNER:	20.34	0.13
WASH POST:	766.00	(3.24)
PROGRAMMING		
CBS:	30.37	0.13
CROWN:	4.14	(0.04)
DISCOVERY:	16.06	0.17
EW SCRIPPS:	45.31	(1.44)
GRUPO TELEVISA:	27.29	0.06
INTERACTIVE CORP:	39.20	(0.37)
LIBERTY:	8.32	0.06
LODGENET:	25.56	(0.34)
NEW FRONTIER:	9.07	(0.18)
OUTDOOR:	10.91	(0.05)
PLAYBOY:	10.34	(0.02)
UNIVISION:	35.99	0.09
VALUEVISION:	12.51	0.21
VIACOM:	39.56	0.17
WWE:	15.90	(0.12)
TECHNOLOGY		
3COM:	3.87	0.04
ADC:	16.42	0.23
ADDVANTAGE:	3.55	(0.02)
ALCATEL LUCENT:	12.81	(0.05)

Company	02/28 Close	1-Day Ch
AMDOCS:	34.65	0.20
AMPHENOL:	64.62	(0.61)
ARRIS GROUP:	13.14	0.08
AVID TECH:	33.40	0.98
BLNDER TONGUE:	1.92	(0.03)
BROADCOM:	34.09	(0.79)
C-COR:	13.65	0.30
CISCO:	25.94	0.23
COMMSCOPE:	38.47	0.85
CONCURRENT:	1.58	0.04
CONVERGYS:	25.74	0.08
CSG SYSTEMS:	24.66	0.32
GEMSTAR TVG:	4.04	(0.06)
GOOGLE:	449.45	0.68
HARMONIC:	8.81	(0.2)
JDSU:	16.21	0.30
LEVEL 3:	6.57	0.24
MICROSOFT:	28.17	0.30
MOTOROLA:	18.52	(0.08)
NDS:	48.78	(1.22)
NORTEL:	29.98	0.17
OPENTV:	2.62	(0.02)
PHILIPS:	36.72	(0.03)
RENTRAK:	14.88	(0.06)
SEACHANGE:	10.20	(0.04)
SONY:	51.73	0.03
SPRINT NEXTEL:	19.30	0.85
THOMAS & BETTS:	50.82	0.17
TIVO:	5.87	0.06
TOLLGRADE:	11.99	0.04
UNIVERSAL ELEC:	26.12	(0.08)
VONAGE:	5.20	0.00
VYYO:	4.30	0.21
WEBB SYS:	0.04	0.00
WORLDGATE:	1.13	(0.03)
YAHOO:	30.86	(0.09)
TELCOS		
AT&T:	36.80	0.65
QWEST:	8.88	0.30
VERIZON:	37.40	0.77
MARKET INDICES		
DOW:	12268.63	52.39
NASDAQ:	2416.13	8.27

Think about that for a minute...

Taking Stock

That would be a good thing to do right now… and I mean RIGHT NOW. Grab as much cable stock as you can afford after the "mini-crash" of Tuesday. My bet is that by the time this is printed, or within the next few days, the stock values for cable will have bounced right back and the weird dip we just experienced will have allowed some folks to benefit.

The effect of the stock market on our industry has been one of my pet peeves for years. It was very clear a dozen years ago that the managers of the biggest companies fell into the same trap as the "dot-com" folks did, thinking that "the business" was actually the generation of ever-increasing stock prices, regardless of what that meant to the real business... you know, the one where you create goods and services that are purchased by (hopefully happy) customers.


Steve Effros

The trend back then was so painfully obvious that it became embarrassing. Companies would say one thing in Washington about the trend lines in the business and say an entirely different thing on Wall Street. They would focus solely on stock prices and not really care about increasing customer prices. If you walked into most major MSO offices you found that there were television monitors on everywhere tuned to the second-by-second changes in the stock price. It was ugly.

Of course the result was sluggish expenditures on customer service, reluctance to throw the big bucks necessary at capital expenditures and cost-cutting virtually any way possible to show higher and higher cash flows to the voracious appetites on Wall Street. It was a recipe for disaster. Luckily, DBS competition showed up. Suddenly someone else had a delivery mechanism that—because it was all-digital, didn't require local construction, and once turned on was available nationwide—was "better" than ours.

Well, that might be an overstatement. Rain fade, a clear view of the southwest, box costs, and all those other things come to mind. But what it did was kick the cable industry into high gear figuring out how to upgrade our technology to compete.

We've done that in spades.

We spent the money—well over $110 billion and counting. We now have the best combination of fiber and coaxial cable available to almost all the homes in the nation, and we are reaping the benefits of data and phone service as well as the traditional video fare. Indeed, it looks like video is going to take a back seat to the growth and margins available from the other two from now on.

There is a certain irony that the telephone industry is trying to catch up. They are either building full fiber systems (since they are going to have to dig up every lawn anyway... otherwise it wouldn't make sense technologically), or they are trying to evade some of those fundamental costs by leaving the twisted pair going to the home and hoping that "Internet Protocol" will solve that "house drop" issue for them.

Either way, it's going to ultimately cost them a lot more than it cost us, and they have no plans to come close to competing everywhere. If they build 40 to 50 percent of their service areas that will be a lot.

So we managed to succeed, despite Wall Street. And now? Our stocks pop up and down based on what is going on in China and a computer glitch in New York? Forget it. Stop watching the prices day by day. Stick to watching the business.

Steve

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