

CableFAX Daily™

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What the Industry Reads First

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Malone's Impact: How Liberty's Charter Deal Could Bring More Consolidation

John Malone is back. What it means for US cable, time will tell. But there's already speculation that he may be looking to build a controlling interest in **Charter** a la **Sirius XM** today and **DirecTV** back in the day. Liberty Media's agreement to purchase a 27% stake in Charter for \$2.6bln isn't just a stake in a US cable company, but Liberty gets the right to designate up to 4 directors to Charter's board. Malone, Liberty Media pres/CEO *Greg Maffei*, **Liberty Global** CTO, evp *Nair Balan* and **Barnes & Noble** CFO *Michael Huseby* are expected to take those slots. Malone has made several comments about US cable over the past few years, notably raising concern about sports rights in an *L.A. Times* interview last fall. "We've got runaway sports rights, runaway sports salaries and what is essentially a high tax on a lot of households that don't have a lot of interest in sports," he told the paper. Will Malone's influence at Charter be strong enough to shake up programming costs? We're not the only ones speculating, with **Morgan Stanley's Benjamin Swinburne** wondering in a research note if a Liberty-backed Charter would take a "more aggressive approach to negotiations, including dropping full suites of channels or pushing for sports networks to tiers." The MSO, led by former **Cablevision** COO *Tom Rutledge*, has been noisier of late on programming costs, applauding Cablevision's lawsuit against **Viacom**. And who can forget Rutledge's vivid "Deer Hunter" comparison earlier this month (*Cfax*, 3/7). The Liberty deal also could clear the path for accelerated wheeling and dealing. "Liberty's board presence will maximize value at Charter by levered equity shrink longer term," **ISI Group's David Joyce** told *Cfax*. "It would be logical to assume that Charter could be a consolidating vehicle for the industry via system swaps, sales, and purchases, given its footprint in 25 states." That view is shared by **Macquarie's Amy Yong**, who wrote that rising programming costs are "squeezing" smaller players "into the arms" of larger operators. "We are seeing evidence that smaller cable MSOs will either exit or merge with existing cable MSOs," she wrote. "In addition, Charter can gobble assets at accretive prices, given its sizeable tax basis (**Bresnan** was 8.9x trailing EBITDA and still accretive)." In a research note, ISI analysts said they believe the turnaround at Charter by its new(ish) management team will make it the highest-growth US cable operator over the next 3 years. "We believe this could be a vehicle for Malone to help consolidate the US cable industry," ISI said, noting Charter has 5mln subs and just got the **FTC** OK to acquire Cablevision's **Bresnan** systems (766K PSUs). Shares of Charter were up another 2% at Tues' close. Like other industry

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observers, ISI mused that this may not be the end, suggesting that Liberty's holding in Charter could expand to more than 50% in a few years. Under the deal, Liberty agreed not to increase its beneficial ownership in Charter above 35% until January '16 and 39.99% thereafter. Thus, for anything more, it will have to negotiate with Charter.

Charter-Liberty Specifics: Liberty is buying stakes held by investment funds managed by, or affiliated with, **Apollo Management, Oaktree Capital Management and Crestview Partners**. Specifically, 26.9mln shares and 1.1mln warrants. Apollo's *Stan Parker* and *Darren Glatt* along with Oaktree's *Bruce Karsh* and *Edgar Lee* will leave Charter's board when the deal closes (expected to occur sometime after Charter's '13 annual meeting of stockholders in 2Q). Crestview's *Jeffrey Marcus* will remain. Upon closing, funds managed by Crestview and Oaktree will hold approximately 7.4% and 2.2%, respectively, of Charter's common shares. Liberty expects to fund the purchase, which works out to \$95.50/share, with a combo of cash on hand and new loan arrangements. "Charter has all the elements of a Liberty Media investment, leverage-able cash flow and a tax shield," said **Morgan Stanley** analysts. In statements, Liberty pres/CEO *Greg Maffei* praised Charter chief *Tom Rutledge* and his team for doing an "impressive job" turning around Charter, and chmn *John Malone* remarked on the MSO's market position and growth opportunities. "While we have made real progress, we are still in the beginning of our effort to transform Charter, and we welcome the addition of Liberty Media as knowledgeable shareholders as we grow our products, service capabilities, and market share," Rutledge said.

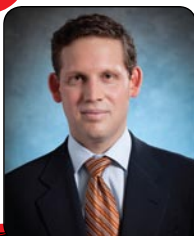
Deals: **NFL**, looking to invest in media assets, is getting some help from the experts. The league teamed with **Providence Equity Partners** to form a global strategic partnership to invest primarily in sports and entertainment related media assets. Each is committing equity to the partnership, which they will operate jointly. The parties will target investments of around \$25mln-\$50mln in private companies around the world, with the ability to make bigger investments as needed. -- **Comcast** completed its \$16.7bln acquisition of the 49% common equity interest in **NBCU** held by **GE**, according to an **SEC** filing. It also completed \$1.4bln in real estate agreements, including the purchase of 30 Rockefeller Plaza.

Big East: The soon-to-be-renamed **Big East** continued its 3-decade relationship with **ESPN**, announcing a new rights deal that runs through '19 and '20, covering football, basketball and Olympic sports. Reports peg it at around \$130mln. The agreement grants the net worldwide distribution rights across all media (including mobile). The existing agreement runs through '13 while the '13-'14 season will be "a bridge year" for the conference's basketball rights. Under the deal, every conference-controlled football and men's basketball game will be available via a TV or digital platform. ESPN also can sublicense conference games across all sports for regional and national distribution. Finding a new name, rebranding and finding a new venue for tournaments will be top priorities for the Big East, said conference commish *Mike Aresco* on a press call Tues. By early May, the conference should have a new name that "reflects what the conference is and what it is going to be," he said. A remaining question for the league following the Catholic 7's decision to split (and take the Big East name) is how to divvy up money set to come in from exit fees, entrance fees and other revenues. Unlike some press reports, there was no fight over revenue, Aresco said. The money will be equitably distributed, he said. "It's a straightforward process... We have collegiality in the conference."

At the Portals: The **FCC** Media Bureau is seeking comments on **TiVo**'s petition for a waiver of certain "Cable Ready" requirements. It wants to sell all-digital DVRs that don't have analog tuners, claiming that the requirement to have them hinders innovation, increases costs to consumers and serves as an unnecessary barrier to the market

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for all-digital video recording devices. Comments are due Apr 8, with replies due Apr 18.

Ratings: Final tallies for 1Q aren't in yet, but **USA** is poised to be the most-watched cable net for 1Q for the 8th consecutive year. That's a bragging right no other cable entertainment net has ever achieved, the net said. For 1Q, USA averaged 3mln total viewers and 1.2mln 25-54s (blend of Live+7, Live +3 and Live+SD). -- The premiere of **A&E's** new original scripted series "Bates Motel" scored 3mln viewers Mon night. It averaged 1.6mln 18-49s and 1.6mln 25-54s, making it the net's most-watched drama premiere in those demos. A replay at 11pm drew 1.6mln total viewers.

Programming: **C-SPAN** celebrated its 34th birthday Tues by releasing a survey that found 24% of people with cable or satellite subscriptions (47mln) report watching C-SPAN at least once a week. That's a 4-point increase since C-SPAN's last commissioned quadrennial survey from **Hart Research**. Viewership is highest among the 18- to 49-year-old demo, with 28% reporting having watched at least once a week, compared with 19% for 50- to 64-year-olds. 22% of frequent viewers are 65+.

People: Former **Charter** execs **Sue Hamilton** and **Fred Lutz** joined **AXS TV** as evp, dis and biz dev and evp, ops and admin. They'll report directly to **AXS** chmn/founder **Mark Cuban**.

CableFAX Daily Stockwatch

Company	03/19 Close	1-Day Ch	Company	03/19 Close	1-Day Ch
BROADCASTERS/DBS/MMDS			CSG SYSTEMS: 19.69 (0.06)		
DIRECTV:	54.83	0.08	ECHOSTAR:	38.86	0.38
DISH:	34.67	(0.05)	GOOGLE:	811.32	3.53
DISNEY:	56.31	(0.52)	HARMONIC:	5.74	(0.09)
GE:	23.32	0.07	INTEL:	21.14	(0.12)
NEWS CORP:	30.00	(0.58)	JDSU:	14.32	(0.65)
MSOS			LEVEL 3:	20.49	0.07
CABLEVISION:	14.57	0.32	MICROSOFT:	28.18	0.08
CHARTER:	100.38	2.34	RENTRAK:	20.97	0.01
COMCAST:	40.13	(0.24)	SEACHANGE:	11.89	0.17
COMCAST SPCL:	38.08	(0.28)	SONY:	17.17	0.36
GCI:	8.76	(0.01)	SPRINT NEXTEL:	6.03	0.16
LIBERTY GLOBAL:	68.11	(0.13)	TIVO:	12.49	(0.12)
LIBERTY INT:	21.32	0.03	UNIVERSAL ELEC:	23.07	(0.09)
SHAW COMM:	24.26	0.21	VONAGE:	2.78	(0.01)
TIME WARNER CABLE:	94.14	0.71	YAHOO:	22.17	0.16
VIRGIN MEDIA:	46.03	0.05	TELCOS		
WASH POST:	441.34	(2.1)	AT&T:	36.14	(0.01)
PROGRAMMING			VERIZON:	48.95	0.20
AMC NETWORKS:	61.07	(0.63)	MARKET INDICES		
CBS:	45.75	(0.79)	DOW:	14455.82	3.76
CROWN:	2.03	0.01	NASDAQ:	3229.10	(8.49)
DISCOVERY:	77.78	0.37	S&P 500:	1548.34	(3.76)
GRUPO TELEVISA:	25.78	(0.41)			
HSN:	54.81	0.01			
INTERACTIVE CORP:	42.99	(0.1)			
LIONSGATE:	22.36	(0.44)			
OUTDOOR:	8.73	(0.02)			
SCRIPPS INT:	64.99	UNCH			
STARZ:	20.35	(0.56)			
TIME WARNER:	55.48	(0.74)			
VALUEVISION:	3.27	(0.11)			
VIACOM:	63.00	(0.75)			
WWE:	8.65	0.25			
TECHNOLOGY					
ADVANTAGE:	2.28	(0.02)			
ALCATEL LUCENT:	1.47	UNCH			
AMDOCS:	35.76	(0.09)			
AMPHENOL:	72.35	(0.12)			
AOL:	34.34	0.28			
APPLE:	454.49	(1.23)			
ARRIS GROUP:	17.25	(0.21)			
AVID TECH:	6.85	(0.11)			
BROADCOM:	34.63	(0.12)			
CISCO:	21.52	(0.15)			
CLEARWIRE:	3.23	0.02			
CONCURRENT:	7.53	0.12			
CONVERGYS:	17.02	0.03			

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It's that time of year again. Ok, it is really 6 months early, but this year **CableFAX** is shaking it up! Nominate your colleagues, your boss or even yourself for the **CableFAX100**, and the **Most Powerful Women** and **Most Influential Minorities** — all on a new easy to use consolidated form.

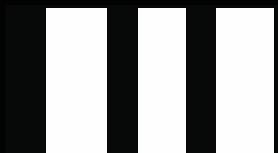
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