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High Expectations: Comcast's Profits Up, But Reviews Mixed

Comcast didn't necessarily beat across the board with its 1Q earnings, but its stellar broadband numbers, evolving product slate and improving performance at **NBCU** gave execs confidence that the company's poised for impressive growth going forward. "I'm really pleased with our start in 2012," **Comcast** chmn *Brian Roberts* told analysts during Wed's earnings call, adding later that "I don't know if there's a better platform out there than what we're building. Each little quarter, it's getting a little bit better." Bright spots included continuing growth in business services, as well as potential growth with new businesses like security, home automation and services that stem from its X-1 cloud-based DVR interface set to launch in an undisclosed major market in 2Q before fully rolling out. Still, CMCSA shares were off 0.6% Tues at $30.42, suggesting a high bar for the cable industry's de facto trend setter and innovator. "CMCSA had a very mixed quarter—HSD subs and APRU were standouts, while voice and video disappointed," wrote **Wells Fargo** analyst *Marci Ryvicker*. "NBCU revenue was better than expected, but OCF was not." While Comcast's loss of 37K basic video subs predictably underperformed its stellar 17K basic sub loss number in 4Q, it still beat the 39K-basic video sub loss of 1Q '11. In addition, Comcast's core cable biz added 439K new broadband subs (beating consensus by 10.5%) and 164K new voice customers (roughly in-line), with overall Comcast revenue climbing 22.7% over Q1 '11 to $14.9bln while operating income increased by 24% to $2.8bln. EPS was up 32.4% over 1Q '11, beating estimates. "If investors focus on the basic video number—as they so often have in the past—they'll be missing the forest for the trees," said **Stanford Bernstein**'s *Craig Moffett* in a research note. "As we've said so often, Cable companies are not media companies, they are infrastructure companies. Comcast's broadband strength, its ARPU gains, and its steady Commercial Services share gains all speak to the strength of the infrastructure. And the financial results speak to the enormous latent cash generation power of that infrastructure when it is firing on all cylinders." Indeed, ARPU was up 7.8% YoY to $143.40 due to price hikes and improved cable advertising, which Moffett called "a clear beat." Meanwhile, cable network revenue was up 5.8% to $2.1bln, primarily driven by increased advertising and distribution fees—but operating cash flow decreased 1.4% to $805mln because of higher costs that mostly stemmed from the NBA lockout. "The cable channels are really the heart of current cashflow," said **NBCU** CEO *Steve Burke*, acknowledging the need to keep improving performance at the NBC bcst net. He said even getting NBC bcst "to average in

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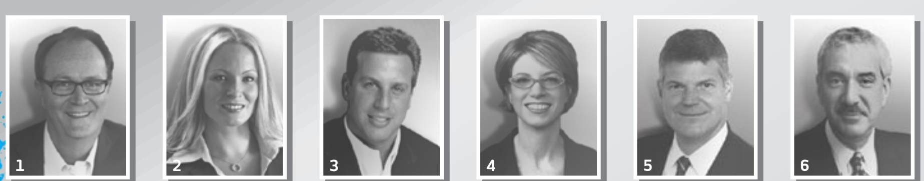

1 Jerry Dow, Chief Marketing & Sales Officer, Suddenlink Communications **2** Kathy Filosa, VP, Direct Marketing, Cablevision Systems Corp. **3** Jeffrey Hirsch, EVP and Chief Marketing Officer, Time Warner Cable **3** Janet Gallent, SVP, Strategic & Primary Research, NBC Universal **5** Benjamin Pyne, President, Global Distribution, Disney Media Networks **6** Alan Wurtzel, President Research & Media Development, NBC Universal Global Networks

Register by May 4th and save!

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that business" could mean "hundreds of millions of dollars of opportunity." Despite posting higher revenue in 1Q, the NBC bcst net took an operating cash flow loss of $10mln compared to operating cash flow of $20mln in 1Q '11. Sanford Bernstein and **Miller Tabak** reiterated their CMCSA 'buy' recommendations with $36 and $35 share targets, respectively.

Welcome to the Neighborhood: **Comcast** said it will appeal the **FCC** Media Bureau's Wed ruling that **Bloomberg TV** is covered by the Comcast-**NBCU** neighborhooding condition, which requires Comcast to carry all independent news and business news channels in a neighborhood if it places any such programming in a neighborhood of similar content. As part of the order, the Bureau also clarified that 4 news or business news nets within any 5 adjacent channel positions constitutes a neighborhood. But citing complicated data on what is carried where (***Cfax***, *4/25*), the FCC directed the MSO "to carry Bloomberg in a news neighborhood on certain headends," but asked Comcast "to file more information to confirm the facts necessary to determine whether relief is appropriate on other headends." Bloomberg TV, of course, said it was "pleased" with the order, and "we look forward to working with Comcast to implement the order over the next 60 days." Not so fast, said Comcast. "Since by definition, no 'discrimination' against Bloomberg in favor of **CNBC** could have taken place before the NBCUniversal transaction, any retrospective condition on this subject would have been arbitrary and capricious," said a Comcast rep. "And there is simply no support in any record for a four channel definition of a 'neighborhood.'" **Public Knowledge** praised the decision but also took the opportunity to apply more pressure on the FCC as it considers the **Verizon Wireless** and **SpectrumCo/Cox** spectrum transactions. "That it has taken the Commission this long to decide one simple issue raises the question whether complex mergers and transactions should be subject to numerous conditions, or simply rejected out of hand," said Public Knowledge pres/CEO *Gigi Sohn*. "The Commission should bear this in mind as it considers whether to reshape the telecommunications landscape in the transaction between Verizon and major cable companies, including Comcast." Added **Free Press** Policy *Joel Kelsey*: "While we are pleased that the FCC has finally taken action, we note that the complaint has been pending for close to a year. A complainant with fewer resources than Bloomberg might not have had the wherewithal to survive the process."

At the Portals: The **FCC** General Counsel's office on Wed issued an interim stay of the Dec ALJ decision granting **Tennis Channel**'s complaint against the MSO for carriage discrimination. Comcast called the stay "a welcome development, and we hope the full Commission will follow suit. There were procedural and substantive flaws in the ALJ decision, and we continue to believe it should not be upheld." Tennis, however, downplayed the significance of the action, noting in a statement that "a procedural disagreement between the parties, about the effectiveness of the ALJ decision favoring Tennis Channel, is presently being considered by the full commission. Today's action is thus simply a continuation of the status quo while the commission decides that procedural question. It does not constitute a stay of the judge's decision pending the commission's review of the full case. We are pleased that the commission continues to move forward in resolving this dispute." And so it continues…

Carriage: **DISH** reached multi-year retrans deals with **Mark III Media**, **Silverton Bcstg** and **Wyomedia Corp**, reinstating several local bcst stations in Casper and Cheyenne, WY. Casper's **ABC** affil **KTWO**, **Fox** affil **KFNB** and **CBS** affil KGWC—as well as Cheyenne stations **KLWY-DT2** (ABC affil) and **KLWY** (Fox)—have been dark since Jan 1. Terms weren't disclosed.

Earnings: **Time Warner Inc**'s net income fell 11% to $581mln in 1Q, but the ent giant still beat expectations, and its revenues were up 4% to $7bln compared to a year ago. Adjusted operating income rose 6% to $1.4bln while operating income decreased 2% to $1.2bln. Strong results in the film and TV business, including at **TBS** and **HBO**, helped offset losses in the magazine division and some other one-time charges. "We're off to a great start to the year, and we're benefiting from strong momentum for our content across our businesses," said Time Warner Cable chmn/CEO *Jeff Bewkes*. **Miller Tabak** reiterated its buy, with a $43-45 target. TWX shares ended the day down 1.7% at $37.29.

Cable Show: Several public policy leaders will make appearances at the Cable Show in Boston. MA Gov *Deval Patrick* and **FCC** chmn *Julius Genachowski* will speak during the Mon and Tues general sessions, respectively. Attending the public policy luncheon 12:30pm Tues are FTC comrs *Julie Brill* and *Maureen Ohlhausen*; FCC comr *Robert McDowell*; deputy CTO for Telecommunications, Office of Science & Technology Policy, Executive Office of the President *Tom Power*; and **NTIA** asst secy for Communications and Information and Administrator *Larry Strickling*.

BUSINESS & FINANCE

The event "Global Perspective: A Conversation with Ambassador *Phil Verveer*" will take place Mon at 2pm.

Research: A quarter of the TV sets shipped globally in 2011 were Internet-connected, and that number is projected to reach 70% of total shipments during 2016, according to **IMS Research**. "Internet connectivity is becoming a standard on high-end TV sets, and it's increasingly being added to mid-end televisions," said IMS Research market analyst *Veronica Thayer* in a release. The company forecasts that more than 80% of connected TVs shipped worldwide will have built-in Wi-Fi in 2016 and nearly 30% will have user interface capabilities like motion, gesture or voice.

People: **NBCU** named *David W. Sussman* svp/Chief Legal Officer for the Content Distribution division. Sussman, who starts on May 7, will oversee legal strategy and business affairs.

Editor's Note: Get all the deets on some of the best PR and marketing campaigns and people, the most effective cable sales executives, our 2012 Cable Sales Hall of Fame inductees and our Sweet 16 list of brand and agencies dynamos in this Special Issue of CableFAX. It includes writeups on all the winning campaigns and executives, as well as the honorable mentions, and also includes some incredible Q&As with our Hall of Famers and Sweet 16ers. Download the PDF at http://www.cable360.net/Assets/File/faxies_Special_Issue2012.pdf

CableFAX Daily Stockwatch

Company	05/02 Close	1-Day Ch
BROADCASTERS/DBS/MMDS		
DIRECTV:	49.83	0.35
DISH:	32.13	0.15
DISNEY:	43.54	(0.25)
GE:	19.77	(0.03)
NEWS CORP:	20.18	0.10
MSOS		
CABLEVISION:	14.70	(0.32)
CHARTER:	62.24	1.22
COMCAST:	30.41	(0.18)
COMCAST SPCL:	29.97	(0.11)
GCI:	7.48	(0.03)
KNOLOGY:	19.43	UNCH
LIBERTY GLOBAL:	50.08	0.09
LIBERTY INT:	19.12	0.45
SHAW COMM:	20.33	(0.27)
TIME WARNER CABLE:	81.62	0.30
VIRGIN MEDIA:	23.86	(1.03)
WASH POST:	376.87	(0.27)
PROGRAMMING		
AMC NETWORKS:	43.85	1.40
CBS:	34.19	0.77
CROWN:	1.53	0.04
DISCOVERY:	54.17	0.05
GRUPO TELEVISA:	22.15	(0.13)
HSN:	38.90	0.41
INTERACTIVE CORP:	50.36	1.62
LIONSGATE:	12.11	(0.26)
LODGENET:	2.27	-0.00
NEW FRONTIER:	1.59	(0.01)
OUTDOOR:	7.30	0.13
SCRIPPS INT:	50.74	(0.3)
TIME WARNER:	37.29	(0.63)
VALUEVISION:	1.61	(0.02)
VIACOM:	51.05	0.03
WWE:	7.84	(0.01)
TECHNOLOGY		
ADDVANTAGE:	2.40	(0.11)
ALCATEL LUCENT:	1.51	(0.03)
AMDOCS:	31.22	(0.96)
AMPHENOL:	57.96	0.06
AOL:	24.98	(0.34)
APPLE:	585.98	3.85
ARRIS GROUP:	12.96	(0.01)
AVID TECH:	8.18	(0.17)
BLNDER TONGUE:	1.17	(0.06)
BROADCOM:	36.89	0.18
CISCO:	19.84	(0.14)
CLEARWIRE:	1.53	0.04
CONCURRENT:	3.70	UNCH
CONVERGYS:	13.27	(0.14)
CSG SYSTEMS:	15.97	1.37
ECHOSTAR:	28.71	(0.43)
GOOGLE:	607.26	2.83
HARMONIC:	4.63	(0.08)
INTEL:	29.18	0.23
JDSU:	12.04	(0.24)
LEVEL 3:	24.26	1.03
MICROSOFT:	31.80	(0.21)
MOTOROLA MOBILITY:	38.81	0.05
RENTRAK:	18.86	(0.58)
SEACHANGE:	8.69	0.47
SONY:	15.73	(0.26)
SPRINT NEXTEL:	2.57	0.02
THOMAS & BETTS:	71.88	UNCH
TIVO:	10.95	UNCH
UNIVERSAL ELEC:	16.75	(0.1)
VONAGE:	1.90	(0.15)
YAHOO:	15.67	0.04
TELCOS		
AT&T:	33.04	(0.02)
VERIZON:	40.60	0.04
MARKET INDICES		
DOW:	13268.57	(10.75)
NASDAQ:	3059.85	9.41
S&P 500:	1402.31	(3.51)

Think about that for a minute...

Back to Basics... Again

Commentary by Steve Effros

I wrote a column in 2008 entitled "Back to Basics". It was triggered by the "Net Neutrality" debate, and specifically the whole "BitTorrent" issue of that time. Here's how I started it:

"I think a discussion needs to be launched about something... basic; the fact that the infrastructure we have built is privately financed and privately owned. It seems more and more folks are losing sight of that as they tell us what programs we should be running on our video channels, on what tiers, for what prices and how we should manage our network with regard to data and voice services."

Well, it's time to repeat that ownership mantra, only a lot louder. The debate over "managed services" has begun, and it's going to get a lot of attention. It's our job to make sure that folks keep remembering that our infrastructure, which we built with private capital, is just that; OURS. It's not a "common carrier." Had the rules required that when these systems were built, they probably never would have gotten off the ground. The government knew that, and specifically stated that cable systems were not to be regulated as common carriers or public utilities.

The risks and rewards we accepted in building our systems were based, and still are based, on business plans that allow us to use the facility to offer services we believe the public wants to buy in the form we offer them. If the government, or those who would like to see some other business develop, want to use additional infrastructure, they can do that. They can pay for it. They can take the risks. But what they can't do is simply take ours, at least not without constitutionally mandated compensation.

The "managed services" debate is the foreseeable next step in the "net neutrality" gambit. My recommendation is that whenever, from now on, we engage in this debate we start by making sure everyone is on the same page, and that page says we are not a common carrier, we are not a "public utility," and we are privately owned. It seems to me those fundamental facts are being ignored. We can't let that happen.

To be sure, I'm aware that the folks starting to argue for "equal bandwidth" would like our entire infrastructure to be regulated as a common carrier. They would like us to be declared a public utility, and then some of their arguments might get some traction. But we're not, and there's a long way to go to get there, not the least of which, as I noted above, is that the government, if it appropriated our property in that way, would have to pay for it. Not likely these days.

Here's another thing that seems to have gotten lost in the early days of this new phase of the debate; our business started, and continues to be the aggregation and delivery of video programming over our privately owned infrastructure which we designed and built specifically for that purpose. We call that cable television. That we now also offer broadband ISP service is both good for our consumers and was encouraged by the government. But the fact that we do doesn't mean the new use subsumes the old, even if some potential competitors would like it to be so.

This debate is going to heat up. Those who would claim to "compete" with us will claim their infrastructure use has to be treated "equal" to ours. It can be. They can go build their own.

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)