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What the Industry Reads First

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New World: Charter CEO Shrugs at Aereo, DirecTV Remains Partner Focused

The world of video may be changing, but distributors seem serene. "I think most people that are using over-the-top exclusively are doing it more out of economics than some value proposition in terms of what they really want to watch," Charter CEO *Tom Rutledge* said during the MSO's 1Q earnings call Tues. He complained that the prices for programming causes expensive video bundles and that the FCC hasn't provided any retrans relief. As for **Aereo**, "I really don't see it as a game changer," he said. If it's upheld by the courts, Rutledge suggested content would move from broadcast to cable. During **DirecTV's** 1Q call Tues, CEO *Mike White* said the company is committed to giving its customers access to content wherever they want it, regardless of the platform. "Our landscape is changing all the time," said White, pointing to this week's news that **YouTube** is planning to start offering channels for a \$1.99 subscription fee. "We are focused on ensuring our customers can ride on all of our partners' highways and make it seamless." He declined to comment on rival **DISH's** bid for **Sprint** but said he doesn't believe DirecTV needs to acquire a wireless company or do a greenfield entry. "Our approach has been to partner," he said, citing the cloud as key. White said DirecTV is building out its cloud infrastructure this year and said its Connected Home service counts 4mln subs that bring in an extra \$4 in ARPU each month. **DirecTV on Sports:** White was noncommittal on whether DirecTV will carry the **Dodgers** RSN that **Time Warner Cable** is managing, saying no offers have come in yet. "We look at costs per subscriber per game, and we look at ratings. We compare all of the RSNs in America to that. And then we look at the number of subscribers we have on our set-top box data that are actually watching, and we'll make an assessment about how much churn that might apply, and we'll make a decision," he said. "We'll be open minded... but it's going to be a data-based discussion." DirecTV has rolled out a \$3 RSN surcharge to about 20% of its footprint. **Charter on Liberty, M&A:** Rutledge praised the addition of *John Malone, Greg Maffei, Balan Nir and Michael Huseby* to its board through **Liberty Media's** investment in the MSO. "They are experienced operators in the space, not only here but around the world," he said. On M&A, Charter will be opportunistic but doesn't view acquisitions as vital.

By the Numbers: Charter shares rose 4.6% Tues, and DirecTV closed up nearly 7%. Charter's rev rose 5% YOY

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to \$1.92bln, while adjusted EBITDA grew 2.8% to \$670mln. The MSO lost 24K video subs in the Q, down from a gain of 20K a year ago. But if you exclude limited basic, Charter grew video by 4K subs. The MSO has stopped actively marketing analog service and is no longer offering some of the aggressive packages it has last year. It added 99K HSD customers and 59K phone subs. "Charter is a compelling turn-around story (the kid we tend to love), with a strong new management team running a historically undermanaged asset," **New Street Research** said in a note to clients. "We saw solid evidence that the turn-around story is on track this quarter, with a slight beat on EBITDA driven by residential ARPU growth; however, too much of the upside appears priced in for us to get excited about the equity here." New Street rates Charter as "neutral." DirecTV's 1Q revenue rose 8% to \$7.58bln, while net income fell 5.6% to \$690mln because of a charge related to the Venezuelan currency devaluation. Net sub additions in the US totalled 21K. Churn was at 1.45% vs a consensus of 1.47%. ARPU increased 4.4% to \$96.05, helped by higher advanced service fees, rate increases on programming packages and increased movie and event buys. But that was partially offset by the absence of one **NFL** Sunday Ticket game in the quarter and increased promotional offers to new and existing subs. The company ended the quarter with 20.11mln US subs. That (north of 20mln) is a "nice place to be in the US," CEO *Mike White* said. **UBS** kept its "neutral" rating on the stock, calling the Q largely in line. **Wells Fargo Securities** said programming expenses increasing 5.8% per sub beat its estimate of +7% per sub. "Results seem pretty good all around—once again, programming came in better than expected (similar to **TWC** and **CMCSA**), which bodes well for the pay-TV space in general," said a Wells Fargo research note.

Earnings: Discovery Comm CEO *David Zaslav* was upbeat about the company's joint venture OWN at the earnings conference call Tues. "We are very confident we will reach the previously stated goal of cash flow breakeven during the second half of the year," he said, citing the OWN's recent ratings improvement. The ratings momentum across Discovery's content and the "sustained health" of the ad market "not only give us a terrific start to 2013, but it also puts us in a great position heading into what we hope will be a robust upfront," he said. The company posted \$231mln in net income in 1Q, up 4% YOY thanks to solid operating performance, a \$92mln gain related to the consolidation of Discovery Japan, and \$46mln of improved equity earnings. Discovery will extend its current streaming deal with **Netflix** for a 3rd year because "we have seen no degradation in audience," Zaslav said. Internationally, the company is looking to continue its expansion and starting to explore how its local ad sales knowledge can compliment Eurosport's "almost solely pan-European sales capability," Zaslav said. Domestically, if there were channels available, "we always look." However, "we have enough scale here right now." The focus will be much more outside the US, Zaslav said. Free cash flow was \$150mln for the quarter, down from \$122mln from the year-ago quarter because of higher content investment and increased tax and compensation. **S&P** is keeping its "Buy" opinion on Discovery shares. "We see key international highlights, despite some consolidation of Japan and some Europe acquisition, while U.S. segment results were adversely affected by difficult comparison to streaming revenues, and higher programming and personal expenses," the rating service said.

Sports Deals: NCAA's Final Four is going to cable under a deal between **TBS**, **CBS** and **NCAA**. In each of '14 and '15, TBS will televise the national semi-finals while CBS will broadcast the championship game. Starting in '14 through '24, coverage of regional semi-finals and regional finals will be split by the nets. Earlier round coverage will continue to air across 4 nets: CBS, TBS, TNT and **truTV**, with the First Four airing exclusively on truTV. The nets revised their previous 14-year contract with NCAA (signed in '10) because both companies want to "have a piece" of the Final Four, said *David Levy*, Turner pres of sales, distribution and sports, during a conference call Tues. As part of the original contract, Turner had an option to air the Final Four and the championship in '14, Levy said. The companies agreed it's important to continue CBS' presence in Final Four while Turner accelerates its presence, **CBS Sports** chmn *Sean McManus* said. The new schedule doesn't change the financial structure for the companies, he said. And he noted that a transition period will let viewers get used to watching the Final Four on cable.

Ratings: Nielsen estimates the number of US TV homes at 115.6mln, up 1.2% from the '12-'13 estimate of

BUSINESS & FINANCE

114.2mln. The number of people 2+ living in TV homes has rose 1.6% YOY to 294mln. One reason for the increase is Nielsen updating its definition of a TV home to include homes that receive TV via broadband only. It also reflect changes in the population and updated TV penetration levels that are being calculated differently.

Programming: TNT greenlit drama series "The Last Ship" produced by Michael Bay. The 10-ep series will debut next year.

People: NBCUniversal named former US Secret Service agent Thomas McCarthy svp/chief security officer. -- Ovation upped Rob Canter to svp, head of production and media services.

Business/Finance: Outdoor Channel will adjourn Wed's special meeting of stockholders without conducting any business. Kroenke Sports & Ent has to decide by the end of the day Thurs whether to try and top InterMedia's \$9.75/share offer for Outdoor. A new meeting date and time is to be determined.

Save the Date: That's right, folks. It's time for the Faxies and Sales Exec of the Year awards, which will take place at the Grand Hyatt in NYC on June 24. Reserve your seats and tables early at <http://www.cablefax.com/cfp/awards/cablefax-iesseoy2013/>. See you there!

CableFAX Daily Stockwatch

Company	05/07 Close	1-Day Ch	Company	05/07 Close	1-Day Ch
BROADCASTERS/DBS/MMDS					
DIRECTV:	61.95	3.99	CONVERGYS:	17.65	0.16
DISH:	40.78	0.80	CSG SYSTEMS:	21.39	0.23
DISNEY:	66.07	1.01	ECHOSTAR:	40.00	0.10
GE:	22.68	0.10	GOOGLE:	857.23	(4.32)
NEWS CORP:	32.29	0.21	HARMONIC:	5.89	0.05
MSOS					
CABLEVISION:	15.23	0.15	INTEL:	24.15	0.24
CHARTER:	109.69	4.66	JDSU:	13.75	0.01
COMCAST:	43.05	0.27	LEVEL 3:	23.21	0.55
COMCAST SPCL:	41.12	0.30	MICROSOFT:	33.31	(0.44)
GCI:	9.72	(0.07)	RENTRAK:	24.40	0.60
LIBERTY GLOBAL:	78.01	2.83	SEACHANGE:	11.10	0.10
LIBERTY INT:	21.77	0.08	SONY:	17.70	0.57
SHAW COMM:	23.08	0.23	SPRINT NEXTEL:	7.22	0.02
TIME WARNER CABLE:	97.57	1.34	TIVO:	12.01	0.10
VIRGIN MEDIA:	51.38	1.22	UNIVERSAL ELEC:	24.24	0.05
WASH POST:	450.44	0.44	VONAGE:	2.82	(0.01)
PROGRAMMING					
AMC NETWORKS:	65.09	0.90	YAHOO:	26.07	0.90
CBS:	47.65	0.48	TELCOS		
CROWN:	2.04	UNCH	AT&T:	37.52	0.43
DISCOVERY:	77.87	(1.15)	VERIZON:	52.92	0.87
GRUPO TELEVISA:	25.81	0.44	MARKET INDICES		
HSN:	55.06	0.82	DOW:	15056.20	87.31
INTERACTIVE CORP:	49.20	(0.06)	NASDAQ:	3396.63	3.66
LIONSGATE:	26.03	(0.12)	S&P 500:	1625.96	8.46
OUTDOOR:	10.10	0.11			
SCRIPPS INT:	68.91	0.13			
STARZ:	23.96	(0.1)			
TIME WARNER:	61.52	0.88			
VALUEVISION:	3.93	(0.05)			
VIACOM:	68.42	0.29			
WWE:	9.23	0.07			
TECHNOLOGY					
ADVANTAGE:	2.36	0.01			
ALCATEL LUCENT:	1.44	0.13			
AMDOCS:	36.06	0.04			
AMPHENOL:	77.89	0.73			
AOL:	41.42	0.43			
APPLE:	458.66	(2.05)			
ARRIS GROUP:	16.72	0.02			
AVID TECH:	6.89	0.03			
BLNDER TONGUE:	1.05	0.08			
BROADCOM:	36.29	0.12			
CISCO:	20.38	(0.43)			
CLEARWIRE:	3.35	(0.05)			
CONCURRENT:	7.69	0.11			

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