

CableFAX Daily™

Wednesday — July 20, 2011

What the Industry Reads First

Volume 22 / No. 138

Still at a Crossroads: New Media Becoming an Old Problem

While **MTV Networks Ent Group** pres *Doug Herzog* firmly believes the TV is “still the straw that stirs the [media] drink,” like most industry execs he wonders how long that viewpoint will hold true. Regardless, “content will always lead to the answer” in the current new media world, said Herzog at the **Hollywood Radio and TV Society’s** luncheon Tues. Trouble is, it’s been 5 weeks since *The Cable Show* ended—and months since multi-platform threats took center stage—and there are still more questions than answers for content distributors and creators. **ABC** has embraced tech and will continue to do so, said ABC Ent Group evp, planning, scheduling and distribution *Jeff Bader*, who nonetheless constantly wonders, “is our balance correct... are we growing the core business and ancillary businesses” at the same time, or cannibalizing the core? *Michael Kassan*, chmn/CEO of media/ent advisory firm **MediaLink**, said the notable upfront success of broadcast and particularly cable may have given TV naysayers pause, but that “chaos, to a large degree, drove the upfront this year.” There was a tremendous amount of pent up demand after tough economic times, he said, and elevated scatter pricing helped spur upfront spending. Translation: TV’s still in the woods. A burgeoning list of programming distributors is a major reason for that, of course, but it’s growing at such a rate that even indie producers such as **Lionsgate** have become frazzled. “I dread that I can’t keep track of all the content buyers and service them well,” said Lionsgate TV Group pres *Kevin Beggs*. As for where content is headed, **Generate** CEO *Jordan Levin* said social media will dictate the destination. A new generation of producers will embrace feedback from viewers at all stages of dev, he said, leading to truly interactive TV. In a similar vein, **WME Ent** co-head, non-scripted TV *Sean Perry* believes the social engagement of younger demos will lead to the routine expansion of pithy Web content into TV series based on popularity. No matter what happens, though, the media industry continues to be plagued by cross-platform measurement issues. “We’ll be in good shape if we can figure out how to monetize” the TV, Web and mobile, said Bader. Do any new media answers matter if monetization questions persist?

Friendly Filing: **Cablevision** filed an amicus brief offering at least some support to several big Hollywood stu-



MEET TODAY'S LEADERS.

UNLEASH

THE LEADER IN YOU.

THE WICT 2011

LEADERSHIP CONFERENCE

Innovations in Leadership



OCTOBER 3-4
DURING DIVERSITY WEEK
HILTON NEW YORK

THE WICT 2011

TOUCHSTONES LUNCHEON



OCTOBER 3
11:30 AM TO 1:15 PM
HILTON NEW YORK

REGISTER FOR THE
CONFERENCE TODAY
AT WICT.ORG



Women in Cable
Telecommunications™

CABLEFAX DAILY (ISSN 1069-6644) is published daily by Access Intelligence, LLC ● www.cablefaxdaily.com ● fax: 301.738.8453 ● Editor-in-Chief: Amy Maclean, 301.354.1760, amaclean@accessintel.com ● Exec Editor: Michael Grebb, 301.354.1790, mgrebb@accessintel.com ● Senior Online Editor: Chad Heiges, 301.354.1828, cheiges@accessintel.com ● Community Editor: Kaylee Hultgren, 212.621.4200, khultgren@accessintel.com ● Contributor: Seth Arenstein ● Publisher: Debbie Vodenos, 301.354-1695, dvodenos@accessintel.com ● Assoc Publisher: Amy Abbey, 301.354.1629, aabbey@accessintel.com ● Marketing Dir: Carol Brault, 301.354.1763, cbrault@accessintel.com ● Prod: Joann Fato, 301.354.1681, cdaily@accessintel.com ● Diane Schwartz/VP and Group Publisher ● Subs/Client Services: 301.354.2101, fax 301.309.3847 ● Group Subs: Carol Brault, 301.354.1763, cbrault@accessintel.com

dios challenging **Zediva**, which runs an online movie service that the studios argue amounts to an unlicensed VOD service in violation of their copyrights. Cablevision said it supports the studios' contention that Zediva's service transmits content to the public and acts more like a traditional VOD service than a video rental shop like **Blockbuster**. But Cablevision said the studios define infringement too broadly and drew contrast between Zediva's service and its own RS-DVR service, which Zediva has tried to depict as somehow similar. "Plaintiffs err in proposing overbroad tests for direct infringement," Cablevision wrote in its filing. "But Zediva errs in suggesting that its volitional conduct is no different than Cablevision's with respect to the RS-DVR." The MPAA noted Cablevision's partial support on its blog Tues. "While we don't agree with or endorse everything in Cablevision's brief," it wrote, "the fact that it largely supports the studios' positions is particularly significant given that Cablevision was on the opposite side from the studios in *The Cartoon Network LP, LLLP v. CSC Holdings*." In that case, a federal appeals court paved the way for Cablevision to roll out its remote DVR service despite objections from a number of content owners (**Cfax**, 8/5/08). The hearing for the studios' motion for preliminary injunction against Zediva is set for July 25 in L.A. federal court.

In the States: Clearwire's 4G mobile broadband network now covers more than 3mIn people in the Seattle/Puget Sound region through mobile broadband services offered by Clear, **Comcast** and **Sprint**. -- **Sinclair** extended 10 affil agreements with **The CW** through Aug '16 in markets including Las Vegas and Nashville.

She's Got Style: NBCU upped *Frances Berwick* to pres, **Bravo** and **Style Media**, additionally giving the 15-year Bravo vet strategic oversight of Style Net. *Salaam Coleman Smith* remains pres, Style and will report to Berwick. "She has been enormously successful in leading a team to create an immersive brand experience for the consumer," said *Lauren Zalaznick*, chmn, NBCU Ent & Digital Networks and Integrated Media, of Berwick's time with Bravo. "I know that she will bring that same vision for cultural zeitgeist and keen sensibility to Style as we evolve and grow this network in the months and years to come." In 2Q, Bravo gained 19% among women 18-49 in prime and 5% in total viewers, following a 1st quarter in which prime total viewers grew by approx 36% and 18-49s by approx 29%.

A New Song: **Discovery Comm** sr evp/CFO *Brad Singer* will resign from the company, effective Mar 31, according to an SEC filing.

Rupert Speaks: A protestor attempted to splatter *Rupert Murdoch* with a plate of shaving cream during the **News Corp** chief's testimony before British lawmakers Tues, but unlike his reputation in large swaths of the world due to the company's phone hacking scandal, Murdoch managed to avoid a direct hit. News Corp shareholders have been hit hard as well in recent days, yet following the proceedings—during which Murdoch denied responsibility for the scandal and said the company didn't turn a blind eye to it—News Corp shares gained 0.38% on the day. Also Tues, Moody's said it doesn't expect the scandal to impact News' sr unsecured credit rating, or any of the company's segments to suffer a loss of confidence. Rumors are circulating, however, that News COO *Chase Carey* will be elevated to CEO in order to give the company a fresh leading face.

Mary Requests: In light of the **News Corp** phone hacking scandal, House Commerce Subcmte chmn *Mary Bono Mack* (R-CA) has asked the **NCTA**, **CTIA**, **CEA**, **ITI** and **US Telecom Assoc** to answer a series of consumer privacy-related questions by Aug 2. While the scandal hasn't infiltrated the US, said Mack, "I nonetheless believe it's critically important to ask American industries involved in all parts of the communications stream of commerce—from device manufacturers to fixed wire and wireless providers—whether they are satisfied that sufficient safeguards are in place to prevent similar privacy breaches here." More info at Bono.house.gov.

OTT: The **Hulu Plus** subscription service now exclusively features the 1st 8 seasons of **Fox's** "Hell's Kitchen." Current eps and library eps will be available through Hulu's free service. -- **WeatherNation TV** launched a free 24/7 stream of its cable channel on **Facebook**, allowing the site's US users to upload and share video and interact with net meteorologists on-air through real-time chats.

Ratings: Aided by the nearly 3mIn total viewers it garnered for original movie "Cyberbully" Sun night, **ABC Family** ranked as the top cable net during prime last week among women 18-34, 12-34s and females 12-34. -- Taking no heed from the show's title, viewers of **HBO's** "Curb Your Enthusiasm" totaled 1.9mIn Sun night to mark the series'

BUSINESS & FINANCE

most-watched ep in more than 7 years. -- **TNT** completed its 6-race summer **NASCAR** coverage with growth in avg total viewers (5.13mln, +3%) and HH rating (3.1, +3%). **NASCAR.com's** TNT RaceBuddy averaged 886K weekly video streams and delivered 5.32mln overall (+143%).

Programming: In preparation for the Aug 4 return of "Jersey Shore" for a 4th season from Italy, **MTV's** wheeling out series recap special "Jersey Shore: From the First Fist Pump" a week prior (July 28, 10pm).

Editor's Note: Don't miss our Connected TV Webinar on July 20 at 1:30pm ET. New speakers will present the latest research on connected TV and how it's affecting the cable marketplace. More info: http://www.cablefax.com/cfp/webinars/2011_july20.html

Business Services: Through work with **Alpha Technologies** and **CommScope**, **SCTE** unveiled a prototype powering system offering hardened cable business services continued availability during lengthy power interruptions. The clean-energy system integrates solar and fuel-cell tech to provide an avg of 5-7 days of power. -- **Comcast Business Services' FL East Coast Region** partnered with **ColoHouse's** Miami data center to provide customers with a continuation of Internet and telecom connectivity during a power loss.

CableFAX Daily Stockwatch

Company	07/19 Close	1-Day Ch	Company	07/19 Close	1-Day Ch
BROADCASTERS/DBS/MMDS			BIGBAND:2.06.....0.01		
DIRECTV:.....	52.80	1.12	BLNDER TONGUE:.....	1.67	0.04
DISH:.....	31.39	0.72	BROADCOM:.....	34.68	2.03
DISNEY:.....	39.54	0.79	CISCO:.....	15.66	0.23
GE:.....	18.58	0.29	CLEARWIRE:.....	3.16	0.07
NEWS CORP:.....	16.25	0.85	CONCURRENT:.....	6.35	0.05
MSOS			CONVERGYS:.....	13.05	0.25
CABLEVISION:.....	26.23	0.59	CSG SYSTEMS:.....	18.46	0.28
CHARTER:.....	57.41	1.13	ECHOSTAR:.....	36.78	0.25
COMCAST:.....	24.47	0.54	GOOGLE:.....	602.55	7.61
COMCAST SPCL:.....	23.70	0.51	HARMONIC:.....	7.08	0.25
GCI:.....	12.12	0.15	INTEL:.....	23.06	0.78
KNOLLOGY:.....	14.28	0.17	JDSU:.....	14.83	0.45
LIBERTY CAPITAL:.....	85.75	1.94	LEVEL 3:.....	2.35	0.09
LIBERTY GLOBAL:.....	42.63	0.38	MICROSOFT:.....	27.54	0.95
LIBERTY INT:.....	16.50	0.06	MOTOROLA MOBILITY:.....	22.88	1.19
SHAW COMM:.....	22.74	0.50	RENTRAK:.....	18.93	0.57
TIME WARNER CABLE:.....	77.23	0.93	SEACHANGE:.....	10.78	0.37
VIRGIN MEDIA:.....	27.04	0.38	SONY:.....	26.65	(0.04)
WASH POST:.....	418.21	5.48	SPRINT NEXTEL:.....	5.26	0.07
PROGRAMMING			THOMAS & BETTS:.....	53.86	1.37
AMC NETWORKS:.....	36.97	0.51	TIVO:.....	10.18	0.19
CBS:.....	27.96	0.59	UNIVERSAL ELEC:.....	24.24	0.31
CROWN:.....	1.84	0.13	VONAGE:.....	4.35	0.13
DISCOVERY:.....	40.97	0.38	YAHOO:.....	14.59	0.17
GRUPO TELEvisa:.....	22.06	0.81	TELCOS		
HSN:.....	33.84	1.17	AT&T:.....	30.33	0.21
INTERACTIVE CORP:.....	37.54	0.66	VERIZON:.....	36.97	0.26
LIBERTY:.....	40.61	0.50	MARKET INDICES		
LIBERTY STARZ:.....	75.93	2.53	DOW:.....	12587.42	202.26
LIONSGATE:.....	6.96	0.15	NASDAQ:.....	2826.52	61.41
LODGENET:.....	2.87	(0.03)	S&P 500:.....	1326.73	21.29
NEW FRONTIER:.....	1.43	0.03			
OUTDOOR:.....	6.90	0.25			
SCRIPPS INT:.....	46.46	0.79			
TIME WARNER:.....	35.45	0.65			
VALUEVISION:.....	8.08	0.59			
VIACOM:.....	56.49	1.07			
WWE:.....	9.99	0.14			
TECHNOLOGY					
ADDVANTAGE:.....	2.59	(0.01)			
ALCATEL LUCENT:.....	5.17	0.32			
AMDOCS:.....	31.44	0.73			
AMPHENOL:.....	51.68	1.53			
AOL:.....	19.33	0.31			
APPLE:.....	376.85	3.05			
ARRIS GROUP:.....	11.54	0.31			
AVID TECH:.....	19.96	(0.13)			

aerial AMERICA
ONE NATION. FROM ABOVE.

A new original series in stunning HD
NEW EPISODES
SUNDAYS 8 PM ET

Smithsonian CHANNEL

Contact: Janice Janik, SVP, Sales & Affiliate Marketing (212) 708-7337 j.janik@smithsoniannetworks.com
smithsonianchannel.com

©2011 SNI/Sl Networks L.L.C. All rights reserved. Smithsonian Channel is a trademark of Smithsonian Institution. SNI/Sl Networks L.L.C. is an authorized user.

CableFAX Roundtable

What's the Deal?

For our 2nd special Roundtable, *CableFAX* invited members of the financial community to discuss the M&A market for cable, investment opportunities and other issues. Our panelists are: **Waller Capital** managing director *Jeff Brandon*, **RBC Daniels** managing director **Randy Wells** and *Horace Zona*, managing director and media & communications group head for **SunTrust Robinson Humphrey**.



Jeff Brandon



Randy Wells



Horace Zona

After a dry spell, the cable M&A market heated up last year. Is that momentum continuing or is it starting to cool a little?

Jeff Brandon: We are busier than ever.

Randy Wells: The M&A market should continue to be healthy for quality, well-run cable companies. The capital markets remain strong and the underlying fundamentals of the business remain solid.

Horace Zona: The market for cable properties continues to accelerate by almost every vantage point. A variety of forces have come together to create this atmosphere. Cable has exhibited tremendous resilience during this recent economic downturn. Investors across the spectrum value the power of the cable business model. Opportunities for growth remain robust within both the legacy customer base as well as with commercial and enterprise customers. The investment to upgrade the plant has paid off as free cash flow growth accelerates. The debt markets understand all this and are very supportive. So, whether you are a major MSO looking to rationalize your geography or a privately-held, investor-owned company, the timing is right.

How are private equity investors viewing the market?

Wells: Although private equity remains actively involved in most all of the sales processes, during the past two years the majority of closed transactions have been completed by strategic buyers. Strategic operators have clearly had an advantage with the operating synergies and economies of scale they have been able to realize in these transactions. With slower top line growth projected, cost savings via operating efficiencies has been a differentiating factor for MSOs.

Brandon: We are finding strong and growing interest from private equity firms, particularly the large buyout shops—private equity investors have always been attracted to cable's growth prospects, recurring revenue and strong cash flow, and increasingly they are aware of the durability of cable's competitive advantage over the satellites and telcos.

Zona: In our view, private equity investors largely fall into two categories today. There is a group of investors who have had very successful track records and remain bullish on the sector but disciplined on price. Another group has not participated in the sector in the recent past but is bullish on the long term prospects of the business. Both of these groups are evaluating transactions of varied size and type. A main concern that financial sponsors have is competing in an auction against strategics that bring synergies, a cost of capital advantage and economies of scale. The exit multiple calculus is always a factor.

How high do you think multiples can go for a highly sought after company?

Zona: It's all about the fundamentals. Growth is the greatest driver in any valuation. For the M&A game, the growth with which the buyer can diligence and support remains the keystone of value.

Wells: For a highly sought after cable company, the seller will continue to attract multiples at the high end of the ranges we have seen paid during the last 12-24 months. Absent any major catalyst in the market, the stability of the business along with continued strong levels of capital availability will yield acceptable returns at the current valuation levels. If public valuations continue to improve, we believe this will lead to higher private cable valuations as well.

ROUNDTABLE

Brandon: Nobody can say how high, but the fundamentals of the cable business certainly justify higher prices—the growth and cash flow prospects of the industry have never been better. Cable continues to improve the quality, variety and value of its services at a rate that is matched by few other industries.

With business services a hot revenue topic and target for MSOs, do you foresee a flurry of acquisitions in the space?

Wells: The word “flurry” would be an overstatement. We believe MSOs will continue to opportunistically evaluate these acquisitions, primarily within their existing footprint. Most of the cable companies are aggressively driving the business services revenue internally and believe that there remains tremendous organic growth potential.

Brandon: In general, the MSOs already have much/most of what they need.

Zona: The number of telcos who have bought businesses in this sector are significant. That being said, the telcos knew that they had to transform their business model. To date, cable’s success has not demanded a transformation as much as a transition. There are some selective cable operators who see a clear path to the importance of this segment as a new avenue for growth but that view is not ubiquitous.

There is a lot of attention and speculation over Charter’s L.A. system. Are there any predictions you can offer there?

Wells: No predictions, but we hope it will result in a successful outcome for Charter.

Zona: I haven’t been great with the crystal ball but it’s clear that management and the owners at Charter have done a tremendous job of recasting the company. If L.A. does come on the market, there will be a small number of strategic parties who are interested but it would be challenging to understand how a financial sponsor can win.

Brandon: Charter’s California operation is a compelling asset with considerable upside and will no doubt produce a great result.

In light of Charter’s share upticks on recent M&A news, how do you think investors view the prospects of cable acquisitions and what do they want to see? Empire building? Streamlining, etc?

Brandon: Charter’s activity has been driven by clear and compelling industrial logic—moving assets to their

highest and best uses at sound values—the market will continue to reward this type of activity.

Zona: It always goes back to the fundamentals. Each operator has a number of strategic and tactical opportunities and challenges. When you step back from the particulars, the cable business competes against several nationwide video operators who have scale and marketing efficiencies. Cable also competes against super regional and regional telco operators with similar, albeit different, scale and geographic advantages. Cable as an industry could improve its already impressive margins if there was more geographic rationalization from an expense and efficiency perspective.

Wells: We think the bottom line is that investors are interested in seeing shareholder value increased. We believe that the MSOs’ senior management continues to be exceptionally disciplined about acquisitions, and are focused on doing accretive transactions that should drive increased shareholder value. None of the larger companies seem motivated by “empire building” as most already have significant economies of scale. If by “streamlining” you mean potentially selling off non-core cable system assets, we think this will continue to make sense in certain situations, but don’t anticipate a significant amount of divesting by any of the MSOs in the near-term. Their balance sheets are strong and free cash flow is growing, so we don’t think getting smaller is a high priority.

What about system swaps? Is there more or less going on these days?

Zona: Historically, swaps have been challenging because of the multitude of variables with which parties must see “eye to eye” on. Today, there is a more pragmatic and rationale approach where we are seeing transactions in process. However, it is hard to see a path where this technique is the avenue with which the sector consolidates.

Wells: Definitely less than we used to see historically. A small one gets done here and there, but no larger ones have been completed in quite a while. The reality is that system swaps are much more complicated than they were a decade ago due to the launch of additional products, business services and different technologies. Companies are no longer just simply exchanging video customers.

Brandon: Despite years of network rationalization, the MSOs have much left to do—system swaps are a compelling way for them to do this.