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5 Pages Today

CableFAX Daily™

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Investor Conference: M&A, Rising Costs, OTT and More

Those wishing for a **DirecTV/DISH** marriage, don't get your hopes up too high. DirecTV CEO *Mike White* acknowledged that under the current regulatory environment, "it's very challenging for any deal to get done," he said at **Goldman Sachs** Communacopia conference Wed. Regulators should look at other elements instead of simply focusing on "how many players in a certain sector exist," he said. Not surprisingly, the chief exec fired shots at rising programing costs, again: "Content cost is a huge challenge for all the distributors," he said, declaring that the company's churn was negatively affected this year due to higher costs. Retrans costs are up 50% YOY this year and 500-to-600% since '10, he said. Another challenge is regional sports nets: "We are not carrying some sports content that we would like to carry… I can't tax all my customers for something that 98% of them aren't going to watch." What's a potential remedy for rising costs? Consolidation. As the CEO put it, "if you ever could consolidate, that would address that…" He said the satellite company is looking at OTT opportunities including a potential deal with **Hulu** to complement its core business and/or to open up new business models. **Time Warner** also is open to potential collaboration with OTT players, CEO *Jeff Bewkes* said at the conference. However, there is the question about "the quality of the broadband plant, viability and advertising measurement," he said. He expects that as a result of the OTT business model, cable operators would push the tier pricing model more. Meanwhile, the audience might have gotten a little excited when Bewkes hinted he's open to offering **HBO** over a cable broadband connection. "To get your video penetration up, it's an offer you can't refuse," he said. Having said that, the exec is skeptical about the business model, as about 10mln homes have Internet service without a cable subscription while about 70mln homes subscribe to pay-TV but not **HBO**. Meanwhile, the exec doesn't believe in extra charges for digital rights. Additional charges for "fundamental enhancements" of TV could slow down the rollout of TV Everywhere services, "the only way to make a revolution in consumer usage," he said. Financially, even with more investments in original programming and sports content, the company expects to continue to expand margins, according to the exec. Time Warner's **NBA** rights deal expires in '16, but Bewkes is confident the contract can be extended, given **Turner**'s audience delivery and management of NBA online properties. When it comes to programming trends, some acquired series are losing value and have been crowded out by original series, the exec said.

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DIVERSITY CHAMPION AWARD

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At the Portals: The **FCC's** open meeting Thurs won't include an order on **Bloomberg's** neighborhooding complaint against **Comcast**. The Commission voted it on circulation, but it's restricted so it is currently unclear what the order does. Both companies' have challenged a Media Bureau decision on Bloomberg's complaint, with Comcast wanting the full Commission to overrule the idea it wasn't meeting **NBCU** transaction conditions because of its placement of **BloombergTV** and Bloomberg wanting clarfication that the MSO has to neighborhood HD and SD channels.

Discovery: **Discovery Comm**'s SVOD deals with OTT players like **Netflix** and **Amazon** aren't cannibalizing its core business model, CFO *Andy Warren* said at the **Goldman Sachs** conference Wed. "The way we structured it, there's no degradation," he said. The company has been hesitant to get into the TVE space because it wants to make sure it's compensated for rights. TVE content rights have "real value" and as authentication expands, there will be "economic drives for TV Everywhere rights," Warren said. In addition, it's hard to give away TVE content rights without knowing the audience delivery. "Nielsen needs to come up with a rating mechanism that we can really hang our heads on" for authenticated online viewing, he said. "Until we get those two things, it's been really hard to dive in with both feet." He's hoping Nielsen has online viewing measurement in the next 12 months. Meanwhile, the financial chief doesn't expect the a la carte proposal from Sen *John McCain* (R-AZ) to gain any traction.

Retrans: It has been weeks since the resolution of the **Time Warner Cable/CBS** retrans spat, but it's still creating conversations. The MSO posted a video on its blog featuring evp/chief video and content officer *Melinda Witmer*. "I understand CBS has been out there broadly claiming victory, but it's very hard for me to see how there is any winner in a dispute like this," she said. "... We can't just continue to let consumers' bills go up unchecked and we need to be able to innovate and provide great customer experiences." Ultimately, she said it's all about the customer and preserving TWC's ability to offer video service at a reasonable price. The company made a push for regulatory revamp in the blog, saying the only thing positive to come out of the dispute is it has "raised awareness to the broken and outdated system" of retrans.

Tech: To improve the delivery of online video, **Mediacom** inked a deal with startup **Qwilt** to launch a video caching platform. Qwilt, which has raised $40mln, tracks video moving over the ISP's network and caches copies of content. Founded in '10 by industry veterans from **Cisco** and **Juniper**, Qwilt is backed by **Accel Partners, BessemerVenture Partners, Marker** and **Redpoint Ventures**.

TVE: **Adult Swim** jumped on the TV Everywhere bandwagon, making live streaming available on AdultSwim.com and via the TVE app on iOS and Android devices through authentication.

Carriage: New deals make horse sports net **HRTV** available to subs served by **Polar Cablevision** in Park River, ND, **New Wave Communications** in Covington, IN, **Lake Region Cooperative** in Hulbert, OK, and through **CenturyLink** in markets including LA, Raleigh, Orlando and Fort Myers.

Research: Despite many cord-cutters out there, for the majority, traditional TV subscription packages are still valuable, according to a **PwC** study on video consumption. Among the 1K respondents surveyed, 70% have pay-TV subscriptions. Interestingly, at 77%, those 18-24 had the highest level of cable subscriptions, followed by 25-34s. These 2 age groups also tend to supplement their pay-TV subscription with OTT services: 56% of those 18-24s subscribe to **Netflix**, while 51% of 25-34s take the service. The study found "there is great interest in content discovery and curation." On a la carte, 44% of respondents said they would prefer it. The trend was driven slightly by an older demographic, with 49% of those 50-59 likely to prefer it. Younger groups were least interested in the model. About 38% of 18-24s and 43% of 25-34s said they prefer a la carte. Of those interested in a la carte, 65% of consumers would be willing to access 10+ channels to customize their package. -- As of May, 15% of American adults 18 and older don't use the Internet or email, according to a **Pew Research** study. Why not? About 34% of non-Internet users said the Internet is irrelevant, while 32% of non-users cited reasons including difficulties of using Internet, fear of spam, spyware and hackers. In addition, 19% of non-users cited costs of computer and Internet service as the #1 reason. Meanwhile, even among the 85% of adults who do go online, experiences connecting may vary widely. For instance, though 76% of adults use the Internet at home, 9% of adults use the Internet but lack home access. These Internet users cited many reasons for not having Internet connections at home, most often relating to issues of af-

BUSINESS & FINANCE

fordability: Some 44% mentioned financial issues such as not having a computer, or having a cheaper option outside the home.

AT&T U-Verse: **AT&T** wrapped up its rollout of 45 Mbps speed tiers with launches in 5 additional states: TX, OK, AR, KS and MO. The tier, dubbed High Speed Internet Power, is already available in 17 states, as part of the telco's Project Velocity IP 3-year expansion plan.

Online: **Roku** announced its new family of streaming players, featuring the new Roku1 and Roku2 to go alongside the Roku3 which was launched earlier this year. The company also upgraded its entry level product, the Roku LT with a new design. Additionally, Roku added new features to its streaming platforms, including a headphone jack for private listening and dual-band wireless to the Roku2, as well as support for 1080 HD video to the Roku1.

Programming: As the start of hockey season nears, a 19-day free preview of **NHL** Center Ice, NHL's out-of-market subscription package, is available on digital cable and telco systems from Oct 1-19 through distributor **In Demand**. For $159.96, subs get up to 40 live, out-of-market NHL games each week across 14 channels. -- **Cooking Channel** debuts new series "Restaurant Redemption" on Oct 29, featuring host *Ching-He Huang* traveling the country to revamp struggling Asian restaurants.

CableFAX Daily Stockwatch

Company	09/25 Close	1-Day Ch
BROADCASTERS/DBS/MMDS		
21ST CENTURY FOX:	32.67	0.12
DIRECTV:	59.84	(0.8)
DISH:	44.41	(1.64)
DISNEY:	64.45	0.13
GE:	24.23	(0.09)
MSOS		
CABLEVISION:	16.94	(0.24)
CHARTER:	134.01	2.86
COMCAST:	43.25	(0.44)
COMCAST SPCL:	41.89	(0.37)
GCI:	9.36	(0.14)
LIBERTY GLOBAL:	77.76	(0.12)
LIBERTY INT:	23.92	0.05
SHAW COMM:	23.55	(0.06)
TIME WARNER CABLE:	110.84	(0.72)
WASH POST:	593.50	2.94
PROGRAMMING		
AMC NETWORKS:	65.87	(0.72)
CBS:	55.52	(0.55)
CROWN:	3.06	(0.13)
DISCOVERY:	80.97	0.62
GRUPO TELEVISA:	28.30	0.03
HSN:	54.44	(0.12)
INTERACTIVE CORP:	54.15	0.24
LIONSGATE:	35.13	0.86
MADISON SQUARE GARDEN:	57.51	1.07
SCRIPPS INT:	77.58	0.60
STARZ:	27.40	0.32
TIME WARNER:	63.97	0.62
VALUEVISION:	4.27	(0.15)
VIACOM:	83.17	(0.07)
WWE:	10.05	0.09
TECHNOLOGY		
ADDVANTAGE:	2.46	0.01
ALCATEL LUCENT:	3.58	0.19
AMDOCS:	37.12	0.17
AMPHENOL:	77.79	0.46
AOL:	34.86	(0.44)
APPLE:	481.53	(7.57)
ARRIS GROUP:	16.89	0.03
AVID TECH:	5.60	(0.02)
BLNDER TONGUE:	0.92	0.02
BROADCOM:	26.79	0.14
CISCO:	24.43	0.29
CONCURRENT:	7.40	(0.04)
CONVERGYS:	18.53	(0.02)
CSG SYSTEMS:	25.03	0.27

Company	09/25 Close	1-Day Ch
ECHOSTAR:	44.12	(0.72)
GOOGLE:	877.23	(9.61)
HARMONIC:	7.82	0.01
INTEL:	23.70	(0.01)
JDSU:	14.60	(0.09)
LEVEL 3:	26.63	0.15
MICROSOFT:	32.51	0.05
NIELSEN:	36.56	(0.01)
RENTRAK:	32.44	(1.85)
SEACHANGE:	11.41	(0.35)
SONY:	21.11	(0.26)
SPRINT NEXTEL:	6.19	UNCH
TIVO:	12.59	0.15
UNIVERSAL ELEC:	35.07	1.83
VONAGE:	3.16	0.11
YAHOO:	31.34	0.07
TELCOS		
AT&T:	34.05	(0.04)
VERIZON:	46.95	(0.33)
MARKET INDICES		
DOW:	15273.26	(61.33)
NASDAQ:	3761.10	(7.16)
S&P 500:	1692.77	(4.65)

Think about that for a minute...

The Speedy Upsell

Commentary by Steve Effros

It's been a great time for the Google PR department with the rollout of Google Fiber in Kansas City. One Gigabit service! Wow! The headlines, the accolades, the reviews by the very few people who are actually signed up for that speedy offering all make it clear, it's great. But great for what?

That question doesn't get asked enough. Various governments, from city, state and federal level, are all part of the game pushing for "1Gig Fiber" ... it's the future, it's what broadband "is supposed to be," and how come the rest of us haven't gotten it yet?

Well, slowly but surely, reality is setting in. The PR folks at Google are going to join the rest of us as being mere mortals and they're going to have to respond to comments like the one recently published in the MIT Technology Review suggesting that the Google pricing policy of keeping the "free" stuff (which has a $300 installation fee) under 5 Mbs and then jumping to a $70 1Gig service looks very much like an essentially useless "upsell."

The article asks the obvious question; what do you need 1 Gig for? And now Google seems to be asking that question in their own way; they're teaming with non-profit US Ignite, an organization already formed trying to figure out "new and innovative" uses for really fast networks, to fund experimental applications that have some compelling need for really fast connections. The MIT writer also noted that Netflix has acknowledged that its servers, even for HD, have a top speed of 5 Mb, and the company's CEO suggested the other day that they want to offer "4K" video, but that would only take up to 15 Mb.

To be sure, you may have more than one user in the house at the same time, so double that, or triple it, or quadruple it and you're still well under the service speeds that the major cable broadband ISPs are already offering. So what's this 1Gig thing all about? I suspect we'll be seeing a lot more consumer press soon asking that question, and also asking whether these super-speeds are really a good deal for most average consumers. I think we can already answer that question; no. Wonder whether we're going to see a big article in Consumer Reports warning folks about the over-hyped Google 1Gig Upsell? I wouldn't bet on it.

Now. I'm not knocking great new technology. But it seems to me that at this point it makes a whole lot more sense for the technology to follow the actual application needs rather than the other way around, where some folks are trying to spur the "new and novel" applications, which very soon are claimed to be "necessities," by having additional technology put in place first. That's backwards, very expensive and often wrong. Consider the folks who bought high-priced 3D television sets for a moment and you'll get what I mean.

There are lots of things we can do. That doesn't necessarily mean we should do them. The push in municipalities around the country today is to do "muni fiber" builds, like Chattanooga's, and have communities go into debt, or push their bonding authority to get the slickest and the fastest. But as Chattanooga has found out, having the system and getting the PR doesn't necessarily translate into much actual economic development, but it certainly stretches the budget for future things that may be more important. Does that make sense? Beware the speedy upsell!

Steve

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