

Cablefax Daily™

Thursday — April 30, 2015

What the Industry Reads First

Volume 26 / No. 082

TWX Beat: Turner Shines, More Details on HBO Now

John Martin made the mission clear last summer: maximize performance at **Turner**. That process, which included significant layoffs and a refocus of programming for **TNT** and **TBS**, may now be bearing fruit. On Wed, Time Warner reported that Turner had generated the highest quarterly profit in its history. Turner, helped by its **NCAA** basketball coverage, posted 5% revenue growth to \$2.7bn and 26% growth in adjusted operating income (\$1.1bn). Advertising was up 4% in the quarter. "The evolution of programming on TBS and TNT is just getting going," Time Warner chief *Jeff Bewkes* said during Wed's earnings call. He noted the nets have 8 original series coming up, including "Proof" starring *Jennifer Beals*. The company plans to reinvest savings from programming changes, including the absence of **NASCAR**, but it will take some time. Thus, TWX expects programming expenses to be weighted to the back half of the year. It wasn't all sunshine, with **Bernstein Research** analysts calling out Turner's subscription revenue growth of 3% as a little light. The analysts also noted that TWX's higher subscription rates were offset by "the potentially ominous" fewer domestic subscribers. With standalone broadband product **HBO Now** still in its infancy, there was little color on the service's first 3 weeks of business. *Bewkes* characterized early usage and sub numbers as "very positive," and pledged that "you'll hear about even more ways to get HBO soon." HBO CEO *Richard Plepler* piled on, citing productive conversations with traditional partners. "I expect that by the end of the year we will have deals with them for HBO Now as well," he said. *Plepler* also said that after 3 weeks, all signs are that it's "additive" vs cannibalistic. Management also isn't ruling out the idea of bringing other portfolio content to the broadband SVOD model. "There's no barrier to expanding what that content could be, and we have an open mind about that," *Plepler* said. "Our cousins at **Warner Bros** and Turner could certainly be a part of that, and I think we're very flexible about what might evolve with the content inside HBO Now." HBO rev rose 4% to \$1.4bn in the Q. Overall, Time Warner beat the Street's consensus of \$1.09 EPS with a \$1.19 after adjusting for some 1-time items. Net income for 1Q totaled \$970m vs \$1.3bn a year ago, while revenues rose 5% to \$7.1bn.

Charter-TWC: Charter stock rose more than 3% Wed as **CNBC** reported that CEO *Tom Rutledge* will likely meet with **Time Warner Cable's** *Rob Marcus*. Both are slated to be in Chicago next week for **NCTA's** **INTX** trade show. **CNBC's** *David Faber*, quoting unnamed sources, said a brief phone call between the 2 took place last week. TWC reports its

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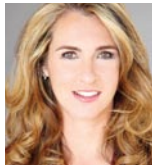
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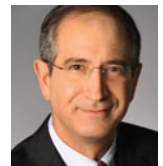
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1Q earnings Thurs. Ahead of the results, **Wells Fargo Securities** raised TWC's price target to \$160 from \$150. "Despite intense competition from both telco/DTH and the launch of new streaming packages, we expect Time Warner Cable's retention initiatives to continue bearing fruit and deliver YOY improvement in consumer metrics," the analysts said.

Hulu Closes Deals: At its upfront presentation for 2015, Hulu said it has acquired rights to "Seinfeld" and scored a multi-year SVOD rights deal with **AMC Nets** for new and upcoming primetime scripted drama and comedy series from **AMC, IFC, BBC America, SundanceTV** and **WE tv**. Seinfeld will premiere in June on Hulu. The Seinfeld deal reportedly costs as much as \$180mln, the biggest deal ever for the SVOD provider, co-owned by **NBCUniversal, Disney** and **Fox**. The deal with AMC Nets means Hulu will be the exclusive streaming platform to "The Walking Dead" companion series, "Fear the Walking Dead." In addition, the deal includes exclusive and non-exclusive unscripted programming from WE tv. Series from AMC Networks will be available on Hulu prior to each subsequent season's network premiere. The agreement also features "substantial co-marketing and co-promotional campaigns to drive awareness and promote viewership of all series throughout the span of the agreement," Hulu said.

FCC Hearing Memo: House communications subcmte GOPers will grill **FCC** chmn *Tom Wheeler* during a hearing on agency process Thurs. According to a majority memo, Republicans will question Wheeler about the decision making process in the net neutrality proceeding, among other things. The Commission's Republican pair *Ajit Pai* and *Michael O'Rielly* complained that they received the final version of the order only after other commissioners got it.

USF Progress: The revamped Connect America Fund provided nearly \$1.7bln to expand and support broadband deployment to more than 8.5mln HHs in rural underserved and unserved areas, the **FCC** said Wed. The funding to large telecom providers' rural operations aims to provide ongoing support for networks that can deliver speeds of at least 10 Mbps down and 1 Mbps up to nearly 9mln residents nationwide. The funding marks a 71% increase from current funding for these areas. ISPs now have 120 days to determine whether or not to accept the funding on a state-by-state basis. In states where carriers decline the offer, the subsidies will be offered to providers on a competitive basis.

Identity Theft Scheme: Comcast-NBCU was behind the comedy "Identity Theft" but would prefer not to be tied up in the real thing. LA's Caddo Parish said it has obtained arrest warrants for 10 suspects in a million dollar identity theft scheme involving contractors for **RMH Cable**. The RMH contractors were working for **Comcast Cable** to find new customers in the Shreveport area. The Caddo Sheriff Office alleges that *Michael* and *Willie Jones* organized the scheme, which involved identifying local residents who agreed to have cable service installed using others' info so the contractors could collect a commission. Law enforcement claims former Comcast employee *Valerie Nicole Nichols* of Pleasant View, TN, provided the Joneses with personal identifying info of Comcast customers that was used to open the accounts. Nichols was arrested on a warrant earlier in the investigation and faces 107 counts of identity theft and 1 count of criminal conspiracy, as do the Joneses. Authorities began receiving complaints of identity theft in April 2013 from non-Parish residents who had received collection notices on overdue accounts they didn't know existed. The financial loss in commissions, equipment, and services to Comcast, RMH Cable, and the victims was well over \$1.2mln, Caddo Sheriff *Steve Prator* said. The Caddo Sheriff's Office is working with the U.S. Marshal's Task Force and other law enforcement agencies to help track down the wanted suspects, including the Joneses. Comcast has suspended working with Austin, TX-based RMH in the area pending the criminal investigation. "We hold consumers' privacy in the highest regard and have contacted the impacted individuals we identified to provide them with credit monitoring services," a Comcast spokesperson said. RMH Cable pres/CEO *Robert Haddaway* said his company paid out more than \$500K in commissions for apparently fraudulent sales agreements in the area from Jan '13-Apr '14. "I was robbed, Comcast was robbed, thousands of customers were robbed. The price tag: \$3 Million, plus stained credit reports and reputations," he said in a statement.

Obituary: *Larry Smith*, who served as **Comcast's** co-CFO for nearly 2 decades, passed away Tues. He was 67. "Larry helped guide Comcast for nearly 18 years as our Co-Chief Financial Officer. But for those of us lucky enough to have spent time with him, we knew Larry as so much more: gentle, friendly, fun, irreverent, curious, not afraid to try, deeply involved in his church, humble, active in his community, incredible family man, grandfather-extraordinaire, and most of all, loving partner of Christine, whom he had known and loved since grade school," Comcast CEO *Brian Roberts* said in a note to employees Wed morning. The cause of death was not immediately released. Smith became evp, co-CFO for Comcast in 1988, retiring in 2006. He served as co-CFO with *John*

BUSINESS & FINANCE

Alchin, with the pair recognized by *Institutional Investor Magazine* as being among America's best CFOs. In 2008, Larry and his wife Christine gave \$3mIn toward the construction of a new YMCA in the Ambler Area, which was the largest single gift ever made to the YMCA of Philly & Vicinity, according to local news reports at the time.

Arris/Akamai Integration: Arris will offer Akamai Technologies' Aura Licensed Content Delivery Network (LCDN) as part of its end-to-end IP video portfolio, the companies said Wed. Arris will integrate Akamai's LCDN and Aura Object Store into its IP video platform, which is designed to support ops as they adopt multi-screen and mobile delivery technologies. Demos will occur at INTX.

Amdocs Buys Comverse BSS Unit: Amdocs agreed to acquire a substantial majority of Comverse's business support systems (BSS) assets for around \$272mIn in cash. The board at both companies already approved the transaction, which is expected to close before the end of Sept. As part of the deal, Admocs will maintain and support Comverse customers around the world. Comverse will continue to exist as a separate company, with a new focus on digital services.

People: Starz upped Ken Segna to svp, original programming. He was most recently vp, original programming.

Cablefax Daily Stockwatch

Company	04/29 Close	1-Day Ch	Company	04/29 Close	1-Day Ch
BROADCASTERS/DBS/MMDs					
DIRECTV:	91.27	(0.27)	COMMSCOPE:	26.68	(0.07)
DISH:	68.54	0.11	CONCURRENT:	6.11	0.15
ENTRAVISION:	6.77	(0.06)	CONVERGYS:	23.25	(0.17)
GRAY TELEVISION:	13.52	(0.41)	CSG SYSTEMS:	29.93	(0.23)
MEDIA GENERAL:	16.81	(0.14)	ECHOSTAR:	51.19	(0.37)
NEXSTAR:	58.59	(0.58)	GOOGLE:	549.08	(4.6)
SINCLAIR:	31.05	(0.25)	HARMONIC:	6.96	(0.49)
MSOS					
CABLEVISION:	20.18	(0.16)	INTEL:	32.88	(0.14)
CHARTER:	188.30	6.00	INTERACTIVE CORP:	71.78	0.32
COMCAST:	58.34	(0.66)	JDSU:	13.24	(0.1)
COMCAST SPCL:	58.20	(0.65)	LEVEL 3:	56.68	2.02
GCI:	16.33	(0.37)	MICROSOFT:	49.06	(0.09)
GRAHAM HOLDING:	1032.00	(16.65)	NETFLIX:	562.85	(0.21)
LIBERTY BROADBAND:	54.84	1.44	NIELSEN:	45.42	(0.27)
LIBERTY GLOBAL:	52.31	(0.26)	RENTRAK:	48.37	(0.14)
SHAW COMM:	23.07	0.03	SEACHANGE:	6.91	(0.09)
SHENTEL:	35.94	(0.86)	SONY:	30.70	(0.31)
SHENTEL:	35.94	(0.86)	SPRINT NEXTEL:	5.30	0.01
TIME WARNER CABLE:	157.86	(0.03)	TIVO:	11.25	(0.06)
PROGRAMMING					
21ST CENTURY FOX:	34.62	0.09	UNIVERSAL ELEC:	56.35	(0.85)
AMC NETWORKS:	76.66	0.03	VONAGE:	4.80	(0.13)
CBS:	62.77	1.17	YAHOO:	43.28	(1.06)
CROWN:	3.88	(0.07)	TELCOS		
DISCOVERY:	32.19	0.49	AT&T:	34.76	(0.1)
DISNEY:	109.81	(0.11)	CENTURYLINK:	36.31	(0.47)
GRUPO TELEVISIA:	36.67	(0.13)	TDS:	26.71	(0.21)
HSN:	63.87	(0.78)	VERIZON:	50.47	(0.08)
LIONSGATE:	31.49	0.04	MARKET INDICES		
MSG:	81.97	0.09	DOW:	18035.53	(74.61)
SCRIPPS INT:	69.47	0.57	NASDAQ:	5023.64	(31.78)
STARZ:	38.60	0.06	S&P 500:	2106.85	(7.91)
TIME WARNER:	85.45	0.47	TECHNOLOGY		
VIACOM:	72.34	0.90	ADVANTAGE:	2.45	UNCH
WWE:	14.36	0.43	AMDOCS:	55.57	0.14
TECHNOLOGY					
ADDVANTAGE:	2.45	UNCH	AMPHENOL:	55.79	(0.2)
AMDOCS:	55.57	0.14	AOL:	40.51	0.54
AMPHENOL:	55.79	(0.2)	APPLE:	128.64	(1.92)
AOL:	40.51	0.54	ARRIS GROUP:	34.68	(0.31)
APPLE:	128.64	(1.92)	AVID TECH:	16.40	(0.1)
ARRIS GROUP:	34.68	(0.31)	BLNDER TONGUE:	0.80	(0.03)
AVID TECH:	16.40	(0.1)	BROADCOM:	44.40	(0.29)
BLNDER TONGUE:	0.80	(0.03)	CISCO:	29.05	(0.27)
BROADCOM:	44.40	(0.29)			
CISCO:	29.05	(0.27)			



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\$758 Billion

Commentary by Steve Effros

That's one heck of a number. \$758 billion. That's the current market capitalization of Apple. The company currently has the highest market capitalization in the world, and speculation is it could break through a trillion soon! Apple's market cap is more than twice the size of the second largest company on the Standard & Poors 500 Index. Number two is Microsoft, (\$393B) with Exxon-Mobil tightly bunched in at number three (\$365B) closely followed by Google (\$326B) and finally Johnson & Johnson (\$281B) rounding out the top five.



Notice that three of the top five are directly related to the high-tech, Internet/Broadband/Telecom business, and none of them are the ones that have built the primary infrastructure that actually makes that business work. Notice, also, that all three of them have long engaged in well-documented practices to dominate the industry they are in. We haven't, arguably, been injured by that dominance, and indeed it would appear that in most cases those companies have spurred new competition and new innovation despite being in almost overwhelmingly dominant positions. Microsoft, for instance, nearly totally controlled the design and distribution of the operating system software and Internet connectivity for computers (as well as the "work" applications, such as WORD) for many years until Firefox, Linux and Chrome came along.

It's no surprise that Chrome was designed and promoted by Google. Apple, on the other hand, developed to where it is, very much at the top of the heap, by controlling both the software and the hardware for its system. It now has over 40 percent of the American market for smartphones (primarily used for Internet access, not telephone calling) and 20 percent of the world market! It's still a closed, proprietary system, but no one seems to argue that Apple hasn't spurred innovation.

Google, Microsoft and Apple have not only been dominant in the burgeoning telecom market, they have clearly dictated where it is going to go, and what and how you are going to see it and interact with it for quite some time. Yet, amazingly, until the recent moves by European Union regulators, there has been little angst expressed about the power of these companies. Yes, Microsoft got dinged for some of its marketing practices, but Google and Apple have merrily gone about cementing their position in the Internet world with the clear help of their size and clout. They also, I should say, make very good products. Note, additionally, that with the exception of the Apple Stores, there are no "customer service" interactions between these companies directly with the customers who wind up using their products. Have you ever tried to call Google or Microsoft with a software problem? It's proved to be a great formula.

And then there's Comcast. Market cap of \$149 billion. It's now been told by the government that it's essentially too big to take any more "control" of broadband. It would potentially have too much power to adversely influence the development of new services and innovation. What am I missing here? There's been no showing of "market failure" regarding infrastructure operators, but there's long been an indication that the Microsofts, Apples, and Googles of the world were getting incredibly powerful and exercising their immense power over the Internet. If "big is bad," then these goliaths—contrary to Google's motto—must truly be evil! I don't think so, but the logic behind the government moves on net neutrality and the Comcast/TWC merger would suggest that another day of reckoning should soon be on the way. If not, why not?

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