

Cablefax Daily™

Wednesday — August 5, 2015

What the Industry Reads First

Volume 26 / No. 149

Tom Rutledge: Polishing Charter, 'Diamond in the Rough'

As Charter prepares to become the 2nd biggest cable operator in the US upon completion of the Time Warner Cable merger, it's still "a diamond in the rough," pres/CEO Tom Rutledge said during the company's 2Q earnings conference call Tues. "We are polishing the diamond... We have made improvements in penetration of customers... But there's still a lot of runway ahead of us," he said. Shedding some color on the post-merger Charter, the exec said he plans to apply similar philosophies across both Bright House and TWC assets. "If you look at their current penetrations, they're similar to Charter's in almost every way. And so that means that the footprint and the runway is bigger in the combined company, and the opportunity is bigger," he said. Among the 1st steps following the merger closing is taking TWC and Bright House footprints all digital in order to roll out the Charter Spectrum product lineup, which includes broadband, TV and phone services. The offering has been fundamental to Charter's growth, Rutledge noted. After the digital rollout, TWC and Bright House subs are expected to gain access to Charter platforms including WorldBox, the new advanced set-top box designed to evolve as video increasingly becomes IP-based. Charter will also roll out its new cloud-based Spectrum Guide, which enables on-demand offerings. More content becoming available on demand puts pressure on storage costs as storage moves to the network, Rutledge said. The company is working to close the merger by year end. Was there any insight to be gleaned from the AT&T-DirectTV merger conditions? The deal was "fairly consistent with what we thought might be in it, based on public speculation, and we are comfortable having seen it with our own process before the FCC and look forward to engaging with the FCC and concluding our transaction," Rutledge said. While you shouldn't count on Charter to back a-la-carte models anytime soon, Rutledge suggested a customized programming package might be possible if content providers are onboard. That said, "some of the content companies would suffer dramatically" if their channels aren't part of such skinny packages, the exec noted. "We haven't found that right mix yet... and don't think anyone else has either," he said. "Skinny Bundles are still bundles. They just cost less." Verizon FiOS is being sued by ESPN over breach of contract after it rolled out its Custom TV bundle. Both programmers and distributors still have strong incentives to continue to offer traditional programming packages, Rutledge said. "We'll be having this conversation three years from now because there's nothing to incent anyone to pull it apart." In addition, people interested in skinny bundles still like

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traditional programming packages if cost isn't an issue. "When you look at the demographic changes in behavior, some of that is situational. People don't have houses, don't have big-screen TVs, don't have money. You put that all together, and the only way to get access to video is through over-the-top or on the small screen kinds of services. It doesn't mean the bigger product is not desirable. It's just that it's expensive, and people's lifestyles are putting them in a situation where they don't have access to them. A lot of that is a function of the economic situation," the exec said.

Charter 2Q: The MSO widened its basic video sub loss during 2Q, a seasonally weak quarter, to 33K from 29K a year ago. It added 70K HSI subs, up from 55K in the year-ago quarter. Voice subs additions of 33K were similar to last year's net adds. Residential customer relationships increased by 34K during the period, vs 27K a year ago. At the end of the quarter, residential customer relationships grew by 4.6%, or 261K. Residential primary service units increased by 70K vs a gain of 55K in the year-ago period. Financially, 2Q revenue rose 7.6% YOY. Net loss totaled \$122mln, compared to \$45mln in 2Q last year, reflecting a \$128mln loss on extinguishment of debt, \$26mln of interest expense related to the **Comcast** transactions financing, and \$19mln of transaction costs related to the Comcast, **Time Warner Cable** and **Bright House** transactions. **MoffettNathanson** analysts believe the Charter-Time Warner Cable merger has an even bigger chance of getting regulatory approval now. The deal has drawn none of the "outrage and distrust" engendered by Comcast's prior acquisition attempt, they said in a research note. In addition, public interest groups have "yawned, or, at worse, expressed mild distaste... and even then it has only been for consolidation of all stripes rather than anything Charter-specific," they said. Moreover, Charter's interconnection promises have won over one of the biggest opponents of the Comcast merger, **Netflix**. Finally, Charter's commitment not to use usage-based pricing or usage caps (for 3 years) has defanged concerns about "using their broadband muscle to harm OTT competition."

Comcast Upgrades Internet Essentials: As **Comcast** kicks off the 5th back-to-school season for its Internet Essentials program, it plans to double the service's download speed to 10 Mbps, offer subs a free WiFi router, and roll out several pilot programs for low-income seniors. The first pilot program will occur in Palm Beach County, FL, with a number of additional pilot programs in other markets to be announced soon. In addition, the MSO is expanding the number of schools that are eligible for the auto-enrollment process. Now if a child attends a school where at least 50% of the students are eligible to participate in the National School Lunch Program, all student families in that school are automatically eligible for Internet Essentials. As of June, Comcast has connected more than 500K families and more than 2mln Americas as of June.

Mediacom 2Q: **Mediacom** lost 12K video subs in 2Q, during which retrans-driven blackouts of **Granite Broadcasting** and **Media general** occurred. The disputes are already resolved. The company reports 879K pay-TV subs at the end of the quarter, down from 919K in the same period a year ago. As with other cable MSOs, Internet was a bright spot during the quarter as Mediacom added 64K subs. It has more than 1mln HSI subs at the end of the quarter. For **Mediacom Broadband**, revenue was \$246.1mln, up 3.9% YOY. **Mediacom LLC's** revenue was \$185.6mln, a 3.8% increase from the year-ago period.

Cablevision's Retrans Letter: **Cablevision** told the **FCC** to issue a "robust" NPRM on retrans rules to implement mandates in STELAR. The bargaining relationship between broadcasters and MVPDs has changed dramatically since 1992, when the retrans regime was enacted, **Cablevision** wrote in a letter to the agency. Today, distribution is widely available to broadcasters in many forms and on many platforms, it said. "Now that so many distribution options are available, the tools that Congress gave broadcasters to enhance their leverage in carriage negotiations with distributors is disserving consumers, resulting in higher fees to operators, driving more broadcast-affiliated cable programming into distributors' video packages, and requiring consumers to pay more for content that they do not want or forego content they do want." The MSO claimed STELAR is a chance for the FCC to correct the "imbalances for the benefit of consumers." **Cablevision** asked the FCC to eliminate the basic tier requirement in areas subject to effective competition, ban tier-placement requirements and penetration minimums, among other things. The FCC has "ample legal authority" to reform retrans agreements, the MSO said. The letter followed similar moves by **ACA** and **Mediacom** recently. On the other side of the debate is broadcaster-backed **TVFreedom.org**. In a letter responding to Mediacom's petition, the group claimed most retrans deals have been reached without disruptions to programming, and the few disputes that occur are often settled quickly.

NHL/MLB's Historic Deal: **MLB Advanced Media** (MLBAM) scored with the **NHL** a landmark deal expected to position MLB's digital unit to enhance its position in the digital video space. The partnership aims to create an integrated global

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platform of digital content covering video, live game streaming, social media, fantasy, apps and analytical content. The multi-year deal is reportedly worth \$600mln. As part of the partnership, MLBAM gains exclusive rights to distribute live, out-of-market NHL telecasts in the US and some international markets, including via the **NHL GameCenter LIVE** subscription service. In addition, MLBAM gets rights to distribute live, out-of-market telecasts via the NHL Center Ice subscription service. Perhaps most importantly, MLBAM will operate the **NHL Network** as an agent for the NHL. Daily on-air operation will be based out of MLB Network's headquarters in NJ. MLBAM expects to fully launch its NHL presence in January. Prior digital partner **NeuLion** will assist the League and MLBAM during the transition. MLBAM is reportedly moving forward with its spinoff from MLB.

Ovation Partners Up: Ovation is partnering with crowdfunding platform **RocketHub** to launch **Creative Studio**, a joint initiative designed to help artists in funding their creative projects. The studio is set to go live in Oct.

Programming: **WEtv** ordered a 2nd season of its original series "Cutting It: In the ATL." The net booked 10 1-hour eps, up from 9 in season 1.

People: **Discovery Networks International** tapped *Ed Sayer* as vp, production and development, factual. He will report to evp and chief creative officer *Phil Craig*.

Cablefax Daily Stockwatch

| Company | 08/04 Close | 1-Day Ch | Company | 08/04 Close | 1-Day Ch |
|------------------------------|-------------|----------|-----------------------|-------------|----------|
| BROADCASTERS/DBS/MMDS | | | | | |
| DISH: | 65.40 | (0.22) | CONCURRENT: | 5.36 | UNCH |
| ENTRAVISION: | 7.51 | (0.13) | CONVERGYS: | 25.03 | 0.03 |
| GRAY TELEVISION: | 17.04 | (0.01) | CSG SYSTEMS: | 30.58 | (0.14) |
| MEDIA GENERAL: | 15.71 | 0.08 | ECHOSTAR: | 46.99 | 0.36 |
| NEXSTAR: | 55.96 | (1.47) | GOOGLE: | 629.25 | (1.96) |
| SINCLAIR: | 28.53 | (0.52) | HARMONIC: | 5.83 | (0.11) |
| TEGNA: | 27.94 | (1.08) | INTEL: | 29.13 | 0.08 |
| MSOS | | | | | |
| CABLE ONE: | 414.62 | (1.98) | INTERACTIVE CORP: | 76.88 | 0.62 |
| CABLEVISION: | 27.94 | (0.26) | LEVEL 3: | 50.07 | (0.48) |
| CHARTER: | 191.50 | 4.19 | MICROSOFT: | 47.54 | 0.73 |
| COMCAST: | 62.74 | (0.47) | NETFLIX: | 121.15 | 8.59 |
| COMCAST SPCL: | 62.60 | (0.49) | NIELSEN: | 47.95 | UNCH |
| GCI: | 17.75 | (0.54) | RENTRAK: | 71.26 | 2.37 |
| LIBERTY BROADBAND: | 56.05 | 1.24 | SEACHANGE: | 6.70 | (0.03) |
| LIBERTY GLOBAL: | 52.51 | (0.59) | SONY: | 27.36 | (0.4) |
| SHAW COMM: | 21.18 | 0.03 | SPRINT NEXTEL: | 3.49 | 0.15 |
| SHENTEL: | 35.28 | 0.47 | TIVO: | 9.78 | (0.08) |
| SHENTEL: | 35.28 | 0.47 | UNIVERSAL ELEC: | 50.51 | (0.2) |
| TIME WARNER CABLE: | 193.01 | 1.74 | VONAGE: | 6.26 | 0.02 |
| PROGRAMMING | | | | | |
| 21ST CENTURY FOX: | 34.33 | (0.05) | YAHOO: | 37.12 | 0.43 |
| AMC NETWORKS: | 84.63 | (0.39) | TELCOS | | |
| CBS: | 52.86 | (0.17) | AT&T: | 34.58 | (0.08) |
| CROWN: | 4.91 | 0.31 | CENTURYLINK: | 28.43 | (0.47) |
| DISCOVERY: | 32.86 | 0.15 | TDS: | 29.39 | (0.66) |
| DISNEY: | 121.69 | 0.57 | VERIZON: | 46.67 | (0.3) |
| GRUPO TELEVISA: | 35.01 | 0.01 | MARKET INDICES | | |
| HSN: | 73.53 | 0.48 | DOW: | 17550.69 | (47.51) |
| LIONSGATE: | 38.78 | (0.13) | NASDAQ: | 5105.55 | (9.84) |
| MSG: | 83.28 | 0.68 | S&P 500: | 2093.32 | (4.72) |
| SCRIPPS INT: | 61.17 | (1.42) | | | |
| STARZ: | 38.60 | (0.59) | | | |
| TIME WARNER: | 87.65 | (0.13) | | | |
| VIACOM: | 55.85 | (0.46) | | | |
| WWE: | 22.23 | 2.06 | | | |
| TECHNOLOGY | | | | | |
| ADVANTAGE: | 2.25 | 0.01 | | | |
| AMDOCS: | 58.19 | (0.26) | | | |
| AMPHENOL: | 55.60 | (0.34) | | | |
| APPLE: | 114.64 | (3.8) | | | |
| ARRIS GROUP: | 30.15 | (0.17) | | | |
| AVID TECH: | 11.35 | (0.29) | | | |
| BLNDER TONGUE: | 0.83 | 0.01 | | | |
| BROADCOM: | 50.20 | (0.3) | | | |
| CISCO: | 28.03 | (0.33) | | | |
| COMMSCOPE: | 26.09 | 0.06 | | | |



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