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Time Warner: CEO Eyes More On-Demand

Given the content consumption trends, **Time Warner** chmn/CEO *Jeff Bewkes* envisions even more of the programmer's nets launching SVOD. Responding to a question during the company's earnings call Wed on whether TW nets would be part of **Hulu's** expected skinny OTT bundle, Bewkes said "just maybe, maybe we want our networks in every one of these packages. I think we ought to include that in a larger view of how the industry is evolving. And if you think about subscription VOD, it's been an opportunity that started with the first SVOD service, which is called **HBO**, a long time ago." During Hulu's NewFront presentation Wed, CEO *Mike Hopkins* confirmed that starting in early 2017, it will offer subs live programming from broadcast and cable nets, including live sports news and events. For Time Warner, whether it's **Turner** nets or HBO, "we want them to be on-demand. And we would like to see most of our networks, whichever exhibition window, first run or syndication, to be on-demand," Bewkes said. He envisions better guides, better user interfaces and recommendations across MSOs as more on-demand options become available. "So you will hear I think increasingly of different packages with different network offerings that consumers can choose between at different price points available" from pay-TV providers and virtual distributors like Hulu, **Amazon** and **Apple**, Bewkes said. "What you're seeing is a very vibrant rebirth of the strength of TV networks and TV programming across all of these distribution platforms… we're going to try to be available in all the packages consumers are interested in." And on-demand opportunities aren't limited to the US. Bewkes said he is seeing strong SVOD proliferation around the world, citing the **Warner/Tencent** venture in China and HBO's overseas VOD services. International expansion of on-demand services is raising the value of TW content and nets, he said. Expanding HBO's OTT products internationally will continue to be a priority moving forward. In 1Q, HBO Latin America Group launched an OTT offering in Mexico. Additional HBO overseas launches are planned for later this year in Spain, Brazil, and Argentina. Meanwhile, when it comes to monetizing online content, "the opportunities to develop advanced targeting capabilities in OTT are absolutely there," assuming the OTT offering is ad-supported, said *John Martin,* chmn/CEO of **Turner**. The recently announced **FilmStruck**, Turner's 1st streaming offering, is going to be non-ad-supported. That said, TV advertising is expected to remain the most effective option for brands to convey their message at scale, Martin said. "And that's why we expect a resurgence in TV advertising, beginning at this year's upfront." Financially, driven by gains at Turner

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cable nets and HBO, TW's overall revenue increased 3% YOY. At Turner, revenue was up 7% to $2.9bln, driven by an 11% increase in subscription revenue and a 5% rise in ad sales. At HBO, revenue grew 8% YOY to $1.5bln, boosted by a 5% increase in subscription fees and a 23% rise in content and other costs, mainly due to higher international licensing fees.

Altice Closer to Cablevision: The **FCC** quietly approved **Altice's** $17.7bln acquisition of **Cablevision** this week, but the deal still faces more scrutiny. On Mon, the **NYC Franchise and Concession Review Committee** is scheduled to hold a joint public hearing on the proposed change of control, and the **NY State PSC** has a May 20 deadline to issue its final order on the transaction. There was no FCC commissioner vote on the deal, with FCC Wireline approving it on delegated authority. The Bureau's order released Tues notes some opposition and concern expressed about the deal, including from **CWA**. "No commenter has raised credible issues regarding Altice's specific qualifications, and we conclude, as we did in the **Suddenlink**/Altice Order, that Altice satisfies the qualification requirements of section 310(d).43," the order said. "We have previously consented to Altice's entrance into the U.S. market, and Altice has acquired and invested in communications companies in multiple countries. The record does not contain any evidence that Altice would fail to undertake the proposed transaction knowledgeably, responsively, and accountably to Cablevision's customers." The FCC approved Altice's $9.1bln purchase of the majority of Suddenlink in Dec. The Bureau addressed CWA and **MFRConsulting's** concerns related to the proposed deal's financing, concluding that the presence of competitors in the NY metro area should provide the merged company with an incentive to maintain network investment and service quality. What's more, if the transaction did not go through, Cablevision has previously said in a **SEC** filing it might have to engage in "extraordinary transactions that involve the incurrence of large amounts of debt" to fund cap ex and meet various obligations, the order said. "We recognize commenters' concerns that the transaction debt load is significant. However, we find that certain factors ameliorate these concerns," the FCC said. "Moody's predicts a cost savings of $450mln in 2 to 3 years post-transaction, adding to Cablevision's cash flow. According to our analysis, incorporating this $450mln cost savings lowers the post-transaction Cablevision's net-debt-to-EBITDA ratio from 7.4 to 6.2." It also called CWA's fretting about Altice financing the deal through job cuts "speculative," noting Altice said it did not finance acquisitions abroad through workforce cuts. The NY PSC also is reviewing the potential employment impact associated with the transaction. Cablevision is slated to report its 1Q financial results on Thurs. As previously announced, the MSO will not hold a conference call to discuss results during the pending acquisition.

Statutory Copyright Licenses: A just-released **GAO** report found that phasing out the statutory licenses for broadcast programming may be feasible for most of the video marketplace, though it acknowledged that there could be statutory implications to must-carry and "carry-one, carry-all requirements," which require cable and satellite ops, respectively, to carry the signals of local broadcast stations upon request. If Congress phased out statutory license that applies to cable, cable ops could find themselves being required to transmit the copyrighted content on a local broadcast station's signal for which they may not have the legal right to air. Satellite doesn't have must carry, but if they carry one local station, they must carry all. According to the **FCC** and the **US Copyright Office**, the carry-one, carry-all requirement would no longer apply to satellite operators if the applicable statutory license were phased out because the requirement is premised on the use of the license, the report said. The GAO interviewed 42 stakeholders, including **Amazon.com, CBS** and **Charter**, with views pretty evenly split—15 supported a full or partial phase out of the statutory licenses; 13 had no position; and 14 did not support a phaseout because they believe the current system works. The statutory licenses allow cable and satellite ops to carry copyrighted content, such as TV shows, embedded in local broadcast signals without negotiating with individual copyright holders. The GAO report was mandated by STELAR, which renewed the satellite compulsory license.

FCC Meeting: During its May 25 Open Meeting, the **FCC** will consider a NPRM that seeks comment on proposals to eliminate the requirement that commercial broadcast stations retain copies of letters and emails from the public in their public inspection file and the requirement that cable operators reveal the location of the cable system's principal headend. It will also review a Report and Order and FNPRM to update communications network outage reporting requirements. Finally, the Commission will review a Report and Order adopting rules to implement a competitive bidding process for high-cost universal service support from Phase II of the Connect America Fund.

Dodgers Net Meeting: Rep *Janice Hahn* (D-CA) managed to get **Time Warner Cable**'s **SportsNet LA** and **Frontier Communications** to agree to a meeting on Thurs. Frontier has acquired Verizon's wireline assets in CA, TX and FL. In a statement, the lawmaker said "I appreciate Frontier Communications and Time Warner Cable for agreeing to meet. I am

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happy to welcome Frontier to the Los Angeles region and I believe this is an opportunity to endear themselves to their new customers and to Dodger fans everywhere." Hahn said she has met with TWC, Dodgers execs and every major cable and satellite provider in the L.A. region regarding carriage.

Cable One Results: **Cable One's** 1Q net income hit $27mln, with adjusted EBITDA up 14.2% to $85.3mln. The company has made a big push to focus on broadband customers, with non-video subs growing to 47% of total customers in the Q. That's up from 38% in 1Q15. It gained more than 10K residential data customers compared to 1Q15 but lost about 70K video subs. Voice subs declined 14% or by 18K, while business services revenue rose almost 12% to $43K. "We are off to a solid start in 2016 as a result of increased residential HSD and business services revenues and an adjusted EBITDA margin improvement of over 500 basis points from the prior year," *Tom Might*, chmn/CEO of Cable ONE, said in a statement. "We believe our first quarter results, driven by the strong performance of these products, demonstrates the soundness of our strategy to migrate to these higher growth and higher margin businesses."

OTT Deals: **ONE World Sports** scored carriage on virtual MVPD **fuboTV**, which has a focus on major worldwide sporting events. Its lineup also includes **GolTV**, **beIN Sports** and **Univision Networks**.

Cablefax Daily Stockwatch

Company	05/04 Close	1-Day Ch
BROADCASTERS/DBS/MMDS		
DISH:	46.04	(1.35)
ENTRAVISION:	8.00	(0.03)
GRAY TELEVISION:	13.00	(0.27)
MEDIA GENERAL:	17.42	(0.19)
NEXSTAR:	51.92	(2.15)
SINCLAIR:	31.77	(0.8)
TEGNA:	22.73	(0.32)
MSOS		
CABLE ONE:	461.59	0.14
CABLEVISION:	34.45	0.62
CHARTER:	212.43	(0.24)
COMCAST:	60.89	(0.06)
GCI:	17.82	(0.02)
LIBERTY BROADBAND:	58.46	0.08
LIBERTY GLOBAL:	37.29	(0.29)
SHAW COMM:	18.33	(0.17)
SHENTEL:	30.47	(0.27)
TIME WARNER CABLE:	212.37	(0.4)
PROGRAMMING		
21ST CENTURY FOX:	29.80	(0.16)
AMC NETWORKS:	63.65	(0.11)
CBS:	56.53	0.87
DISCOVERY:	26.59	(0.41)
DISNEY:	103.67	(0.11)
GRUPO TELEVISA:	27.52	(0.76)
HSN:	50.95	(2.05)
LIONSGATE:	21.76	(0.19)
MSG NETWORKS:	17.42	0.57
SCRIPPS INT:	61.08	0.22
STARZ:	27.24	(0.49)
TIME WARNER:	74.80	1.16
VIACOM:	44.23	(0.31)
WWE:	16.66	(0.23)
TECHNOLOGY		
ADDVANTAGE:	1.81	(0.05)
AMDOCS:	56.99	0.24
AMPHENOL:	55.38	(0.36)
APPLE:	94.19	(0.99)
ARRIS GROUP:	23.13	(0.03)
AVID TECH:	5.37	(0.22)
BLNDER TONGUE:	0.41	(0.02)
CISCO:	26.44	(0.42)
COMMSCOPE:	29.04	0.27
CONCURRENT:	6.10	(0.03)
CONVERGYS:	26.21	(0.13)
CSG SYSTEMS:	44.02	(0.25)
ECHOSTAR:	40.44	(0.45)

Company	05/04 Close	1-Day Ch
GOOGLE:	695.70	3.34
HARMONIC:	3.41	(0.06)
INTEL:	29.85	(0.51)
INTERACTIVE CORP:	51.99	4.77
LEVEL 3:	51.32	(0.33)
MICROSOFT:	49.87	0.09
NETFLIX:	90.79	(0.75)
NIELSEN:	51.33	(0.23)
SEACHANGE:	3.67	(0.05)
SONY:	23.85	(0.27)
SPRINT NEXTEL:	3.47	(0.2)
SYNACOR:	1.41	(0.01)
TIVO:	9.67	0.01
UNIVERSAL ELEC:	64.79	(1.1)
VONAGE:	4.90	0.26
YAHOO:	36.00	(0.01)
TELCOS		
AT&T:	38.88	(0.03)
CENTURYLINK:	30.96	0.38
FRONTIER :	5.35	0.13
TDS:	29.63	(0.13)
VERIZON:	50.84	0.16
MARKET INDICES		
DOW:	17651.26	(99.65)
NASDAQ:	4725.64	(37.58)
S&P 500:	2051.12	(12.25)

Think about that for a minute...

Just Wonderin'

Commentary by Steve Effros

I can't help but read the news every day and wonder about various developments and how they all fit together, how they make sense... or not, as the case may be. I'd have to say these days while I might understand the politics and maneuvering behind the telecommunications policy landscape, the view itself is more like a seriously weed-infested garden.

So let's just take a look at some of the things that are happening and step back and wonder: Is FCC Chairman Tom Wheeler dumb? No, of course not. So why is he constantly repeating, and having his minions engage in a social media campaign insisting that the Commission's proposal for a new "set top box" rule, which is actually a rule designed to enable an entirely new parasitic business regardless of the box, will not interfere with "copyrights" or programmers' intellectual property rights?

Well, I said Tom wasn't dumb, and he knows that's not really the issue. So if you sound like you are answering the questions but really ducking them, that's pretty smart... especially if the entire exercise is just a PR game since the "decisions" have already been made and there doesn't appear to be any intention of considering the many legal objections that are being raised.

Yes, the Chairman always notes he is not a lawyer, thereby trying to duck the basic issue, which is that cable operators, or "MVPDs," exercise their own legally guaranteed independent rights. They have a business that includes packaging specific content, in a particular way, just like a newspaper does, and competing with other businesses to sell subscriptions to those packages. Federally overriding those First Amendment content decisions and contractual agreements may not be a "copyright" issue, although a lot of folks think it is, but at the very least it puts the Commission in the position of potentially forcing MVPDs to abrogate their editorial rights and contracts with program suppliers. Tom doesn't want to talk about that, because it's not likely the Commission would be found to have the statutory power to do it, so we get bombarded with hashtag social media about bogus "box" price studies while the real issues just get ignored. Not so dumb. Of course that will all change when this stuff gets to court, and it will.

How about the exponentially increasing power of the big "edge" players on the Internet? The biggest ones are snapping up, mimicking, or running over smaller production companies, developers of applications (or "bots") and the like repeatedly. This at a time when the "net neutrality" rules were described as absolutely necessary because the big ISPs (all of them smaller than the biggest "edge" players) would otherwise kill the creative innovation of the new, small companies! Have we heard the FCC, FTC or DOJ voice concern about those "big guys" killing innovation? Not a peep.

And then there's the whole issue of power and exclusivity. Of course the set-top box fight is very much about big companies wanting to commandeer and use our product. But Microsoft, for instance, just announced that its new Windows 10 operating system will only fully work with its own search engine and "bot." Other creators need not apply. Not a peep.

How is it that major "edge" players are increasingly locking up the Internet, and we hear nothing from the activist groups? No concern being voiced by the Chairman of the FCC? No call for legislation that would allow the Commission or some appropriate agency to put down some desperately needed weed control? Just wonderin'.

Steve

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(Steve Effros was President of CATA for 23 years and is now an advisor and consultant to the cable industry. His views do not necessarily reflect the views of Cablefax.)