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Charter Earnings: Execs See Big Upsides Post Merger

Charter chmn/CEO *Tom Rutledge* evoked optimism Tues as the company hosted its first earnings call since closing the **Time Warner Cable-Bright House** deal on May 18. Investors apparently liked what they heard, pushing Charter stock up 8% on the day. One big positive: the company now predicts $600mln in merger-related cost savings within a year after close vs. original estimates of $400mln. Execs also want to reduce TWC-BH video sub churn through simpler and more sticky content packaging. (**Wells Fargo** senior analyst *Marci Ryvicker* noted that Charter added 7K video subs while the old TWC systems lost 73K video subs, although that still beat her 100K-sub loss estimate). Rutledge said it's about creating "a more logical, efficient selling machine" that could lead to "lots of upside" in selling traditional video to broadband-only customers, as well as peeling off considerably more DBS subs. "Our biggest opportunity is selling against satellite," Rutledge said. But the key is converting all the TWC and BH systems to all-digital to "build a better product than your competitors," he said, noting that 40% of TWC and 50% of BH systems have yet to go all digital. "We need to unify what products go where," he said. "It takes time, and it's complicated." Execs expect to be all-digital on TWC and BH systems by mid-2017. Meanwhile, when it comes to crafting skinny bundles, Rutledge said the big challenge is "skinnying it down to the right place and the right package to satisfy people who are financially challenged." One big question is how those **Fox** and **Univision** lawsuits will shake out: Both cried foul when Charter tried to apply TWC's existing programming deals to New Charter. During the call, Rutledge characterized the lawsuits as a natural part of the negotiating process. Of course, better programming contracts are a big part of how Charter hopes to eventually achieve $800mln in annual cost savings, but **MoffettNathanson** argued that Charter's programming related synergies "will likely ultimately exceed forecasts, even if they are dragged a bit further. Remember, however, that any additional synergies beyond the simple step-down will be measured against a hypothetical; i.e., what would otherwise have happened. Good luck measuring that." Charter's net income totaled $280mln in Q2 vs $107mln during the same period last year. But actual net income totaled $3.1bln vs a net loss of $122mln during Q2 2015, driven by higher income from operations following the TWC-BH close and the reduction of substantially all of Charter's historical valuation allowance on its deferred tax assets.

Altice 2Q: With cable's eyes on the Netherlands-based operator's financials post **Cablevision** and **Suddenlink** acquisi-

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tions, **Altice NV** posted a 2.7% YOY increase in profits, with adjusted earnings of $2.52bln, in part due to those purchases. Altice USA accounts for 41% of the company's operating free cash flow, said CEO *Michel Combes* in an earnings call, while an equal measure comes from its operations in France, and almost 15% from Portugal. Now on to Altice USA… Suddenlink posted adjusted revenue growth of 5.7% YOY on a constant currency basis, while Optimum grew 2%. "We see significant headroom for Altice USA to grow strongly as we invest into networks, improve operations and customer service and attack the massive opportunity in broadband b2c and underpenetrated b2b segment," said Combes. "Our focus for the US is to preserve the positive momentum and actually accelerate it," said Altice USA CEO *Dexter Goei*. He cited a 2.9% growth in residential customers, though Suddenlink tends to be seasonally weaker with the end of the academic year for universities typically influencing a drop-off. Customer loss was only 8K, compared to the loss of 13K in 2Q '15, he said. Cablevision's growth was 2% YOY, excluding *NewsDay* and the one-off PPV *Mayweather-Pacquiao* boxing match during Q2 '15. Goei said Q2 was operationally Cablevision's best quarter since 2012, with 19K unique customer additions and only 2K video losses. He acknowledged the temporary positive impact due to the **Verizon** strike, which will partially reverse in Q3, but maintained that even after the adjustment it would still be a strong quarter. Total revenue of $6.48bln was down 2.6% YOY, as growth in Suddenlink was offset by declines in France and Portugal. Group adjusted EBITDA was up 2.7%. Addressing the savings generated at Cablevision as a result of management changes, he said they totaled between $50 and $100mln on an annual basis. Management compensation was also restructured: the company focused on cash compensation being "appropriate," incentivized over the long-term and based it on equity performance. There was lowering and reversals of bonus accruals, he said. Commenting on Suddenlink's previous move to drop **Viacom** nets, Goei called it "a really good decision," adding that "the impact on subscribers was relatively minimal and it was a good, profitable trade for shareholders." Moving forward, the key with such discussions is to look at the customer experience and viewership of the channels and take each network "on a case-by-case basis." "Ourselves and other players in the market continue to focus on this given that it's such a large part of our cost structure and it continues to grow at a very rapid pace."

FX at TCA: **FX Networks** and **FX Productions** chief *John Landgraf* never disappoints when he gets up in front of critics every 6 months for **TCA**—and his rep remains intact after Tues' session in which he ate some crow on a couple fronts: First, he extended his original 2015 estimate of when the industry would reach "peak TV" for scripted originals to 2019. FX identified 419 scripted originals in 2015, with Landgraf predicting 500+ by the end of 2016, noting that **Netflix** is expected to produce more originals (71) than all of the premium nets combined (50) this year. He noted that FX's own research suggests it costs $4-5mln to make and market an hour of scripted TV, and evoked laughs when he argued that Netflix has to slow down its pace at some point: "They can't double and then double again and then double again and then double again, because the entire planet's surface would be covered by Netflix's television shows in 20 short years." Landgraf also addressed diversity, noting that when *Maureen Ryan* wrote an article in *Variety* last fall calling out the industry, he realized that 88% of directors on FX shows were white men. "I was dismayed to learn that the FX Networks were bringing up the rear rather than leading on this important issue," he said. "In my view, the state of affairs described by Mo represented a failure of leadership on my part." He immediately penned a missive to all of FX's showrunners asking that they increase diversity, and since then FX Networks have increased to 51% the number of original eps directed by women or minorities in the 2016-2017 cycle, Landgraf said. "We hope the example of FX more than quadrupling our percentage of diverse and female directors in such a short time sends a message to our whole industry that it is well past time for change to happen—and that it is only a matter of re-thinking our priorities and of putting in the collective effort for us to make it so," he said.

ESPN to go OTT: As was expected, the **Walt Disney Company** is acquiring a 33% stake in **BAMTech**, **MLB**'s tech and video streaming service, for $1bln over 2 installments, paid now and in Jan '17. As a result of the transaction, BAMTech was separated from MLB's overall digital business, **MLB Advanced Media**. Disney has the option to acquire majority ownership in the coming years. The move paves the way for ESPN to create a direct-to-consumer product. BAMTech will help launch and distribute a new ESPN-branded multi-sport subscription streaming service "in the future," according to a release. Content provided will come from BAMTech and ESPN and will include live regional, national and international sports events. Importantly, current content on linear nets will not appear on the new service. More to come in the months ahead.

Scripps 2Q: **Scripps** posted 2Q revenue of $892.8mln, up 21.9% YOY. Total operating income was $372.9mln, up 12.3% YOY, driven by the inclusion of last year's acquisition of Polish media company **TVN** and increased ad revenues

BUSINESS & FINANCE

from US networks. Net income attributable to SNI was $1.42 per diluted share, down 4.9%. US Networks' revenue was $752.3mln, up 5.2%, with ad revenue at $541.0mln, up 8.9%. However, distribution rev was down 3.6%, at $196.1mln for the quarter. The results show "positive earnings leverage of an ad-centric business when scatter and ratings trends are strong," said **MoffettNathanson** analysts in a research note. US Networks' operating income was $378.4mln, up 1.1%, with an adjusted segment profit of $404.9mln, up 1.1%. Overall, adjusted segment profit was $419.3mln, up 13.9%.

Disney 3Q: **Disney's** earnings revealed that revenues for cable nets increased 1% to $4.2bln YOY. Operating income increased 1% to $2.1bln, due to growth at **ESPN**, partially offset by a decrease at Disney channels, lower equity income from **A+E Nets**, and lower **Freeform** performance. ESPN saw increased affiliate and ad revenue growth, though offset in part by higher programming costs, including renewals for the Masters, international soccer rights, and contractual rate increases for the **NBA** and MLB. An increase in ad units sold, including an extra NBA championship game, led to the higher ad revenue. **Disney Channel** and **Freeform** saw decreased program sales, and **H2**'s conversion to **Viceland**, partially offset by lower programming costs, led to A+E Nets' lower equity income.

Cablefax Daily Stockwatch

Company	08/09 Close	1-Day Ch
BROADCASTERS/DBS/MMDS		
DISH:	52.24	0.95
ENTRAVISION:	7.65	(0.23)
GRAY TELEVISION:	10.92	(0.3)
MEDIA GENERAL:	17.46	(0.16)
NEXSTAR:	50.61	(1.5)
SINCLAIR:	28.88	(0.29)
TEGNA:	21.11	(0.12)
MSOS		
CABLE ONE:	521.57	0.71
CHARTER:	255.76	18.94
COMCAST:	66.90	(0.17)
GCI:	13.83	0.26
LIBERTY BROADBAND:	65.80	3.78
LIBERTY GLOBAL:	31.52	0.30
SHAW COMM:	20.14	0.08
SHENTEL:	30.22	(1.28)
PROGRAMMING		
21ST CENTURY FOX:	25.48	0.07
AMC NETWORKS:	54.16	(0.72)
CBS:	51.85	(0.16)
DISCOVERY:	25.65	(0.55)
DISNEY:	96.67	0.92
GRUPO TELEVISA:	26.30	UNCH
HSN:	45.32	(0.32)
LIONSGATE:	21.57	0.80
MSG NETWORKS:	15.46	(0.07)
SCRIPPS INT:	61.47	(4.7)
STARZ:	31.47	0.49
TIME WARNER:	79.16	0.42
VIACOM:	47.07	(0.18)
WWE:	20.33	0.34
TECHNOLOGY		
ADDVANTAGE:	1.75	(0.08)
AMDOCS:	57.79	(0.49)
AMPHENOL:	60.15	0.25
APPLE:	108.81	0.44
ARRIS GROUP:	27.26	0.06
AVID TECH:	8.62	0.53
BLNDER TONGUE:	0.60	UNCH
CISCO:	30.94	(0.07)
COMMSCOPE:	28.82	0.36
CONCURRENT:	5.39	0.09
CONVERGYS:	28.74	1.48
CSG SYSTEMS:	40.74	(0.07)
ECHOSTAR:	39.23	0.60
GOOGLE:	784.26	2.50
HARMONIC:	3.37	0.11
INTEL:	34.92	(0.12)
INTERACTIVE CORP:	60.64	0.34
LEVEL 3:	50.15	0.08
MICROSOFT:	58.20	0.14
NETFLIX:	93.99	(1.12)
NIELSEN:	52.68	(0.23)
SEACHANGE:	3.29	0.04
SONY:	32.85	0.55
SPRINT NEXTEL:	6.18	(0.04)
SYNACOR:	2.91	(0.04)
TIVO:	10.55	UNCH
UNIVERSAL ELEC:	76.38	0.04
VONAGE:	5.78	0.16
YAHOO:	39.24	UNCH
TELCOS		
AT&T:	43.08	0.15
CENTURYLINK:	30.15	(0.13)
FRONTIER :	4.95	0.02
TDS:	30.39	(0.1)
VERIZON:	53.66	0.07
MARKET INDICES		
DOW:	18533.05	3.76
NASDAQ:	5225.48	12.34
S&P 500:	2181.74	0.85