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What the Industry Reads First

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What OTT? Comcast Posts Best 3Q Video Numbers in 10 Years

If you were hoping to get Brian Roberts' take on AT&T's \$85.4bln purchase of Time Warner, sorry. Better luck hearing from *Charlie Ergen* when **DISH** presents earnings. While the **Comcast** CEO may have declined to talk about the transaction during Wed's 3Q earnings call, that doesn't mean AT&T isn't impacting the company. "Both Comcast and **Charter** are down 3-4% today (vs. a flattish market), which we believe is mostly driven by follow through from AT&T's over-hyped \$35 price point for their DirecTV-Now V-MVPD product, and to a much lesser extent temporarily higher than expected programming costs in 4Q and 2017 and end of year profit taking," said **Pivotal Research**, which reiterated its \$90 YE'17 price target. The analysts aren't too concerned about the upcoming **DirectTV** OTT offering partly because virtual MVPDs have "major" QOS issues and their programming costs are dramatically higher than traditional pay TV players, not to mention that the pricing benefit to going OTT is offset by the cost of broadband. For anyone keeping track, Comcast continues to downplay the threat of new OTT entrants. "I think we all have a healthy degree of skepticism that these new over-the-top entrants are going to create millions and millions and millions of subscribers any time soon," said **NBCU** CEO *Steve Burke*. "Yes, as new entrants come in, they take fractional share away from the existing supplier, but the fact of the matter is, most people find tremendous value in their cable and satellite subscription and are not looking to change." And that's coming from the NBCU side of the house! Don't worry. NBCU's still doing OTT deals, which Burke said could be a "modest positive" but not material over the next couple years. Comcast reported its best 3Q video results in 10 years (+32K customers; way above the Street's 1K consensus) and best 3Q broadband numbers in 7 years (+330K subs). The cherry on top? Total sub relationships grew by 216K, a 60K improvement from 3Q15. Roberts credited the company's culture shift of putting the customer truly first, calling the upcoming Netflix integration an example of walking that talk. No real new details on next year's wireless launch (execs said handset procurement has been built into the model). **Comcast Cable** pres/CEO *Neil Smit* said the company's already kind of in the wireless business because of the millions of wireless gateways it has deployed and its WiFi offering. "I think by leveraging the 28mln customer relationships, the 15mln hotspots and the MVNO, we can offer a really excellent service." Company brass opened a tiny window into IP video efforts, with

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Roberts noting that the WiFi Xi5 box that's just begun to launch can get on-boarded in about 2:20 minutes. Comcast is trying to get that time down to 2 minutes even—with customers able to do those installs themselves. The latest X1 stats: penetration is increasing at about 5 percentage point each quarter, with about 45% of residential video subs now having the platform. Comcast's total revenue grew 14% to \$21.3bln, while net profit rose to \$2.2bln.

Comcast-Kudelski Patent Spat: Kudelski's OpenTV/Nagravision has filed its share of patent lawsuits—**Netflix, Hulu, Apple, Verizon**. On Wed, Comcast decided to strike first, filing a complaint for declaratory judgment of patent non-infringement in the US District Court for Northern CA. Others, including Time Warner Cable and Yahoo!, have filed similar requests this year. Comcast said it was contacted by OpenTV last fall about alleged patent violations. Given OpenTV/Nagravision's "pattern of conduct with other companies and its stated efforts to monetize its intellectual property," Comcast wants the court to step in and settle the matter.

FCC Deadlines: Comments in the **FCC's** NPRM related to fostering independent programming are due at the FCC Dec 27, with replies due by Jan 23. The Federal Register published a summary of the NPRM Tues. -- The **FCC Media Bureau** is seeking stats on the average rate for basic cable service, expanded basic and equipment. Cable operators selected for the price survey must file with the FCC by Dec 20. In the past, the FCC has waited to release the next year's survey after the report of the previous year's data was released. There had been a big backlog. But starting in 2017, the FCC will release the survey in March each year. "We believe this serves several useful purposes, including giving respondents certainty as to the timing of the annual survey, and standardizing the timing of receipt of the data, which should facilitate reporting of the data more contemporaneously with the survey period," the Bureau said.

NBCU Numbers: Cable was the brightest spot in **NBCU's** 3Q devts, with revenue growth of 22% to \$2.9bln. The Olympics helped broadcast to 56.6% YOY revenue growth, but the \$3.09bln was below Street expectations and without the Games, broadcast revenue would have been down 3.6%, Cable rev would have still been up 4.1% without the Olympics. Overall, NBCU posted total revenue of \$9.2bln, up 28.3% YOY (+5.7% without the Olympics).

Apple's Ambition: Apple might soon to be part of the original content game. "I would confirm that television has intense interest with me and many other people here. In terms of owning content and creating content, we have started with focusing on some original content, as you point out," said CEO *Tim Cook* said during the company's 3Q earnings conference call late Tues. He acknowledged Apple has already started working on a few projects. "I think it's a great opportunity for us both from a creation point of view and an ownership point of view. And so it's an area that we're focused on," Cook said. With **AT&T** buying **Time Warner**, is Apple interested in major M&A deals? "We are open to acquisitions of any size that are of strategic value where we can deliver better products to our customers and innovate more. And so we look at a whole variety of companies, and based on that, we choose whether to move forward or not. But we're definitely open and we definitely look," said Cook. In July, Apple purchased rights to unscripted TV series based on the "Carpool Karaoke" program of **CBS'** "The Late Late Show with James Corden."

Arris Earnings: Adjusted revenues in 3Q at **Arris** were \$1.74bln, versus \$1.22bln in the year-ago quarter, according to preliminary results. Adjusted net income was \$0.77 a share, as compared to \$0.56 a share for 3Q, 2015. The company expects 4Q revenues to be between \$1.67bln and \$1.72bln. GAAP net income a share is expected to be in the range of \$0.23 to \$0.27, CFO *David Potts* said in a statement.

Google Fiber Update: Five years after **Google** launched **Google Fiber**, its initiative to offer gigabit broadband, as well as video and phone services to communities across the country, the company paused the project. "For most of our 'potential Fiber cities' — those where we've been in exploratory discussions — we're going to pause our operations and offices while we refine our approaches," *Craig Barratt*, svp, Alphabet (Google parent) and CEO of Access, a unit of Google, wrote in a blog post Wed. In terms of existing footprint, "in the cities where we've launched or are under construction, our work will continue," he said. Those include Atlanta, Austin, TX, and Charlotte, NC. As part of the "downsizing," Google Fiber will reduce its employee base in the handful of cities that are still in exploratory stage and in some related areas of supporting operations. As for Barratt, he will step down from the CEO position and remain as an advisor. Explaining the change of direction, the exec said 5 years ago, gigabit residential speeds were

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unheard of. Since then, “we have reshaped the landscape – these innovations are becoming more commonplace,” he said. Major cable ops and telcos like AT&T have rolled out gigabit residential broadband services, bringing direct competition to Google Fiber.

RCN in NYC: RCN launched its 1-Gig residential broadband service in NYC using DOCSIS 3.1 technology. The service, which starts at \$69.99 a month for the 1st year, followed the operator’s recent move to offer gigabit service in Chicago.

People: *Russell Rothberg* is joining **AwesomenessTV** and **Verizon’s** upcoming premium content service as svp of creative, reporting to *Samie Kim Falvey*, chief content officer for the expected c-venture. Rothberg was most recently evp of drama development at **Universal Television**.

Programming: **BBC America** will debut “Planet Earth II” on Jan 28, a decade from the 1st “Planet Earth” series. – Telecom service provider

Decisive Communications appointed *Stephen Burch* to its board. Burch, currently chmn of the board of the **University of Maryland Medical System**, previously held positions at **Virgin Media** and **Comcast Cable**. -- Republican Presidential Candidate *Donald Trump* is set to do an interview with **EWTN Global Catholic Network** on Thurs at 8pm EST.

Cablefax Daily Stockwatch

Company	10/26 Close	1-Day Ch	Company	10/26 Close	1-Day Ch
BROADCASTERS/DBS/MMDS					
DISH:	58.23	(0.53)	INTEL:	34.92	(0.18)
ENTRAVISION:	6.81	(0.06)	INTERACTIVE CORP:	66.26	(0.88)
GRAY TELEVISION:	9.30	(0.2)	LEVEL 3:	46.92	0.02
MEDIA GENERAL:	17.15	(0.11)	MICROSOFT:	60.63	(0.36)
NEXSTAR:	50.50	(0.45)	NETFLIX:	126.97	0.46
SINCLAIR:	25.85	(0.05)	NIELSEN:	45.78	0.13
TEGNA:	19.94	0.10	SEACHANGE:	2.75	(0.01)
MSOS					
CABLE ONE:	577.88	(10.97)	SONY:	31.84	(0.01)
CHARTER:	248.64	(8.42)	SPRINT NEXTEL:	6.36	(0.14)
COMCAST:	62.56	(1.96)	SYNACOR:	3.05	(0.05)
GCI:	15.53	0.06	UNIVERSAL ELEC:	67.85	(0.4)
LIBERTY BROADBAND:	64.03	(2.07)	VONAGE:	7.08	0.67
LIBERTY GLOBAL:	32.02	(0.22)	YAHOO:	42.08	(0.47)
SHAW COMM:	19.68	(0.06)	TELCOS		
SHENTEL:	26.00	(0.45)	AT&T:	36.43	(0.27)
PROGRAMMING					
21ST CENTURY FOX:	26.40	0.84	CENTURYLINK:	28.25	(0.2)
AMC NETWORKS:	53.14	0.59	FRONTIER :	4.09	(0.02)
CBS:	56.78	0.79	TDS:	26.07	(0.27)
DISCOVERY:	26.44	0.26	VERIZON:	47.63	(0.21)
DISNEY:	93.49	0.74	MARKET INDICES		
GRUPO TELEVISA:	25.39	(0.34)	DOW:	18199.33	30.06
HSN:	37.55	(0.65)	NASDAQ:	5250.27	(33.13)
LIONSGATE:	20.14	0.07	S&P 500:	2139.43	(3.73)
MSG NETWORKS:	19.30	(0.1)			
SCRIPPS INT:	65.89	0.70			
STARZ:	31.26	UNCH			
TIME WARNER:	88.70	1.54			
VIACOM:	42.35	0.50			
WWE:	19.13	(0.33)			
TECHNOLOGY					
ADVANTAGE:	1.88	0.05			
AMDOCS:	58.64	(0.43)			
AMPHENOL:	65.53	0.34			
APPLE:	115.59	(2.66)			
ARRIS GROUP:	29.53	(0.03)			
AVID TECH:	6.75	(0.14)			
BLNDER TONGUE:	0.56	(0.02)			
CISCO:	30.55	0.21			
COMMSCOPE:	31.50	0.13			
CONCURRENT:	6.22	0.03			
CONVERGYS:	29.58	(0.12)			
CSG SYSTEMS:	38.26	(0.43)			
ECHOSTAR:	46.70	0.30			
GOOGLE:	799.07	(8.6)			
HARMONIC:	5.15	(0.15)			



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OK EVERYONE— Please Calm Down! (Again)

Commentary by Steve Effros



That was the title of my column in January of 2000 when the AOL-Time Warner merger was announced... except for the “again” part. That refers to this week, as we once again hear and read apocalyptic drivel on all sides about the new AT&T-TW proposed merger. The last lines of that column read: “...keep breathing and calm down. Just as with the Y2K bug, the only major upset this deal will cause is hyperventilation.” Well, the hyperventilation is certainly happening, but I seriously doubt there will be any world changing results whether this proposed merger happens or not, and frankly, I don’t really care. Neither should you.

Here’s what Gene Kimmelman’s group had to say: “Consumers do not want to be beholden to a giant media-Internet dictatorship...” Oh, wait, that was about AOL-TW. This time around the consumer lobbyists and of course members of Congress are already hand-wringing about the potential evils they suggest the combination could wreak upon the public. Hearings, prohibitions, or regulatory conditions are already being called for. Deja vu.

But is this really the biggest thing since sliced bread? Let’s remember that AOL’s Steve Case called the objective of the last one “AOL Anywhere.” Sound familiar? Hey, the companies may be right that a combination of a distributor like AT&T with a creative programmer like TW is necessary right now since there has clearly been a regulatory tilt toward common carriage and a la carte program offerings on broadband. I have long suggested that consumers may ultimately be hurt by all that with a reduction in diversity and higher costs, but I’m not in a position to force my views onto the business plans of entire industries. Unfortunately, the DOJ/FCC combo is,

and they do, so that’s where we are right now.

I tend to agree with the business analysts who are not quite sure this proposed merger is a smart deal. It’s certainly expensive for AT&T, but it’s not clear what they get at the end of the day. TW wins. With both HBO and CNN facing much more competition, especially with HBO being outspent on original new programming by the likes of Netflix and Amazon, which together spent over 3 times as much last year, deeper pockets are necessary. This is exactly the type of competition the “consumer advocates” long said they wanted. Now it’s here, but it’s not for the weak, the small, or the faint of heart.

A lot of the hyperventilation, I suspect, is yet another reflection of the “big is bad” philosophy. But as I’ve mentioned many times as an analogy, disadvantaged neighborhoods are, for the first time, getting access to fresh produce and organic foods... a good thing, not because of the local mom and pop store, but because of Walmart. Mom and Pop couldn’t possibly afford to deliver that benefit. Similarly, you now are getting fierce competition for really high quality new and original programming. It costs lots of money. Hence the need for scale, resulting in mergers, will continue. Will they succeed? Unlike the hand-wringers, I’m more than comfortable saying I simply don’t know. What I do know is that nobody else does either, and thus having the government jump in based on economic theories and fears that have proved so wrong in the past makes little sense (see, e.g., the AOL-TW merger results!) There’s only one thing we can be relatively sure of right now; Winter is coming.

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.)



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