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Growth Trajectory: Atlantic Broadband Sees Big Opportunity with MetroCast

Nearly two years after acquiring **Harron's** MetroCast CT system for $200mln, **Atlantic Broadband** had on Monday what pres/CRO *Dave Isenberg* called a "dream day" with the announcement of its $1.4bln acquisition of the other MetroCast systems operating in NH, ME, PA, MD and VA. The MSO has been eager to get its hands on the rest following impressive results coming out of CT. "Since we acquired the business, we have doubled the revenue growth coming from that system," Isenberg told us. "This year, we will see double digit revenue growth in our CT operation and that's driven by a strong increase in customer growth." A really strong increase, with the system growing customer relationships at an annual rate of almost 10% vs the more normal 3-4% for top performers. On business services, Atlantic Broadband has seen revenue increase 65% in CT over this two-year period. While Isenberg describes the CT system as well-maintained, Atlantic Broadband has taken it from losing residential video subs in the mid-single digit range to gaining them by integrating its top notch video products, which include the **TiVo** user interface and **Netflix** integration. "We pair that with best-in-class Internet speeds. We put those things in to flexible, high-value bundles. And we press on the marketing and sales gas." The company is hopeful that it will be able to replicate those results with the new systems following a similar timeline as CT, where it launched TiVo within 120 days of taking control of the system, and rolling out its branding and services within the first 60 days. The deal is expected to close in January. The transaction isn't really about cost savings and synergies, but about accelerating growth. It was long thought that Atlantic Broadband would be on a buying spree after **Cogeco** purchased it in 2012 for $1.36bln. "We have looked at acquisitions with a specific lens. We've looked at some things and decided not to pursue them because they weren't the right strategic fit for us," Isenberg said. As far as the financials of the deal, they are mostly in line with similar transactions. "The headline 11.5x figure would appear rich, but adjust for the NOL it looks closer to 9x, which appears more reasonable. Clearly the goal with all these small players is to eventually sell to a larger player," **Pivotal Research's** *Jeff Wlodarczak* said. While MetroCast fits in relatively well with Atlantic Broadband's footprint, more appealing is the systems' competitive profile. "Metrocast systems have wireline triple-play competition in only 5% of their footprint, and over 90% of the footprint is DSL. Much of that with a top speed of 15 Mbps," according to Isenberg. When the deal closes, Atlantic Broadband will pass approx 830K homes, with about 320K video customers

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and nearly 400K Internet subs. It's clear from our conversation with Isenberg that Cogeco will keep looking for chances to grow. That's helped by a $315mln equity investment from Canadian pension fund **Caisse de dépôt et placement du Québec** that will help finance the deal along with secured debt from two banks. MetroCast passes approximately 236K homes and businesses and serves approximately 120KInternet, 76K video and 37K telephony customers. Cogeco expects MetroCast revenue for 2017 to hit $230mln and adjusted EBITDA is projected at $121mln.

ESPN's Upcoming Affiliate Renewals: **Disney** is on the cusp of a new affiliate fee cycle for its cable nets, including **ESPN**, and its renewal with **Altice** will likely mark its first with a major MVPD since late 2014. Research firm **MoffettNathanson** asserts the upcoming renewal cycle should help ESPN "improve its narrative" thanks to three key factors. First, the new deals offer Disney the chance to "tighten up their now outdated minimum coverage requirements" to gain back some of the 5mln subs it has lost to non-sports tiers. Second, the firm believes **ACC Network** offers ESPN a similar opportunity to its launch of **SEC Network** in 2014, which according to *SportsBusiness Journal* generated a profit of $210mln in reaching 60mln homes. MoffettNathanson estimates that translated to EBIT of $185mln for SEC Network in year one. Based on a smaller projected footprint and lower sub fee for ACC Network, MoffettNathanson projects total revenue of $220mln and EBIT of $80mln in its first year. Third, ESPN plans to launch an OTT service in conjunction with **BAMTech** later this year. Assuming the service can attract 4mln subs in its first four years at a $10 price point, the firm projects ESPN could keep $335mln in revenue after a distributor cut. MoffettNathanson in its report also examines whether ESPN should re-sign its "Monday Night Football" rights deal given its current $1.9bln annual price tag and declining ratings. Ultimately, the firm believes Disney's cable networks sector, led by ESPN, will "return to growth."

Cincinnati Bell to Buy Hawaiian Telecom: Monday was a busy day on the M&A front, with **Cincinnati Bell** announcing a deal to buy **Hawaiian Telecom** for $650mln. It's a move that signifies the race to build up fiber, with Cincinnati Bell gaining access to both Honolulu, a well-developed, fiber-rich city, and the growing neighbor islands. The companies' combined fiber networks will exceed 14K fiber route miles. There's also the matter of the direct access to 2.6TB of Trans-Pacific fiber cable capacity linking Asia and the US that Hawaiian Telecom provides. The two will retain their names and brand identities once the transaction closes, with Cincinnati Bell committing to keeping most of Hawaiian Telecom's 1300-person workforce in place and expanding its fiber network throughout Hawaii. Hawaiian Telcom will have two seats on the combined company board that are to be held by Hawaiian residents, an effort to ensure the state is represented in broader strategic decisions. Separately, Cincy Bell also said it's purchasing **OnX Enterprise Solutions**, a technology services and solutions provider in North America and the United Kingdom, for a total consideration of approximately $201mln in cash on a cash-free, debt-free basis.

Ratings: The premiere of **FX** drama "Snowfall" last Wednesday averaged 2.24mln total viewers on a Live + 3 basis, including 1.3mln A18-49. Including two encore telecasts and digital viewing, the ep scored 3.23mln total viewers. -- **CNN's** Original Series "The Nineties" earned the No. 1 spot in cable news among adults 25-54 and younger viewers aged 18-34 Sunday, according to **Nielsen** Fast National data. The premiere attracted 506K viewers in the 25-54 demo, ranking it as the second best premiere for all of the CNN decade series with those viewers.

Programming: **HBO** confirmed "Curb Your Enthusiasm" will return for its 13th season on October 1 at 10pm ET/PT. -- Former White House Press Secretary *Ari Fleischer* will serve as a **Fox News** contributor, effective immediately. -- **Showtime** acquired the TV rights to **TriStar Pictures'** "Baby Driver," a current release that has scored well with critics and at the box office. The film will premiere on TV next year.

People: **Fox Networks Group** appointed *Oliver Dizon* as evp of pricing and planning for FNG advertising sales. Dizon, who most recently served as svp, sales revenue management and client services, for **ESPN**, will manage advertising inventory and compose new revenue management strategies for FNG's portfolio. -- *Nick Nelson* joined **OwnZones Media Network** as their new head of product innovation. The firm is a provider of VOD service for multiple platforms. Nelsen, a former Netflix executive will be overseeing changes in OwnZones' products and services aimed at create a better connection between consumer and content. -- **Lifetime** recruited former BET executive *Brie Miranda Bryant* as its new svp, unscripted development and programming. Bryant will oversee development of all non-scripted projects.

SCREENSTER
BY ALEX SILVERMAN

The Other Side – Vimeo Counsel Defends Title II

As fellow ***Cablefax*** columnist *Steve Effros* pointed out last week, the buzz around net neutrality will be deafening on Wednesday when more than 200 websites, companies and organizations carry out a joint protest of the **FCC's** proposed rollback of the previous administration's classification of broadband as a Title II common carrier. Much to the chagrin of their ISPs, Internet users will be bombarded by gifs of buffering webpages and all-caps "SAVE THE INTERNET" exclamations.

We spoke with **Vimeo** General Counsel *Michael Cheah* to get a sense of why companies like his are taking action and how he feels about the cable industry's key arguments against Title II.

The video hosting and streaming platform on Wednesday will attempt to drive pro-Title II comments to the FCC via social media placements, emails, texts and app notifications. Vimeo's primary call to action is a short motion-graphic video, which claims, "Without strong net neutrality supported by a solid legal foundation—Title II of the Communications Act—[ISPs] can pretty much do anything with their Internet pipes: block traffic, charge for priority service and favor their own content."

Broadband providers, of course, take issue with activists conflating Title II with net neutrality, claiming they would remain committed to an open Internet under Title I classification. Cheah, however, doubled down on the notion that Title II is the only thing preserving an open Internet.

"If you designate the carriers as Title I information services, you cannot treat them as common carriers, you cannot do things like anti-blocking and anti-discrimination, you have to let them negotiate on an individual basis with the edge providers," Cheah said. "So, if that's true—and that seems to be the law—there's really not much room that the FCC has to issue enforceable net neutrality rules under a Title I regime."

When FCC chairman *Ajit Pai* introduced his plan to reverse Title II classification earlier this year, he claimed the net neutrality regulations introduced in 2015 sought to address a problem that never existed. "The Internet was not broken in 2015. We were not living in a digital dystopia," he said.

Cheah countered the idea that things were hunky-dory prior to Title II classification, pointing to **AT&T's** restriction of FaceTime usage in 2012 to customers with certain plans, **Comcast's** alleged interference with subscribers' use of **BitTorrent** in 2007 and **Netflix's** dispute with Comcast over connection speeds in late 2013 that resulted in an interconnection agreement the following year.

"Beyond the specific examples, there's a tremendous incentive for the carriers to do something," Cheah added. "It might not be outright blocking—I'm not sure if anyone has the intent to do outright blocking—but there is a powerful incentive to impose some kind of paid prioritization model, which does radically change the way we use the Internet today."

Asked about his expectations for the Day of Action, Cheah acknowledged that no matter how many comments the protest generates, the activists have their work cut out for them in terms of swaying the FCC. The hope, he said, is that it is another step toward a legislative solution.

"I hope by taking this effort, Congress will take notice," he said. "Last time it was very powerful that people formally commented. We certainly want lawmakers to understand this is a top-tier issue."