

Cablefax Daily™

WHAT THE INDUSTRY READS FIRST

Charter's Message: It Takes Money to Make Money

When an operator has upgrades and expansions on its to-do list, there's going to be capital expense. Investors know that, but a larger-than-expected increase outlined by **Charter** during its analyst day late Tuesday took some by surprise, which helps explain why the stock closed down 16% Wednesday.

Even before a Q&A that was largely dominated by talk of capex implications, President/CEO *Chris Winfrey* laid it out on the table. "From a capital investing perspective, I think the industry can move faster. We've ultimately always gotten to the right place, but I think some of it is that the industry has been worried about short-term capital market reactions," he said. Winfrey then quoted his predecessor *Tom Rutledge*, who passed the CEO title to him on Dec. 1: "There are very few problems in cable that selling more cable won't solve." He added one of his own quotes to the mix: "The best path to lower capital intensity is actually just having higher revenue."

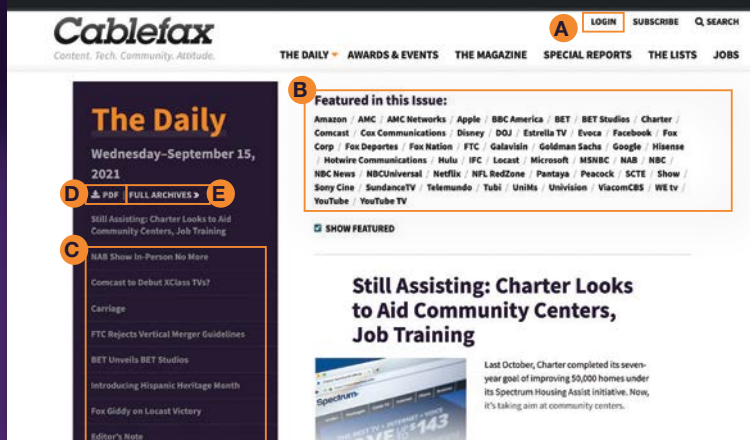
The company now expects FY23 capex to come in between \$6.5-\$6.8 billion, excluding line extensions which adds on approximately \$4 billion compared to \$3 billion in 2022. Charter's targeting \$100 per passing for an upgrade of essentially all of its network in the next 3 years (the bulk of the spend should hit in '24-'25). The \$100 figure is viewed as aggressive, which will cause some to question its validity. **New Street Research's** take: "This isn't the kind of analysis that Charter would get wrong—we are taking it at face value."

The vast majority of Charter passings will be capable of 5Gbps by 1Gbps by 2025, with the ability to sell 10Gbps service. Charter's three-year upgrade will see the operator boost the network to 1.2GHz in its first markets, with Distributed Access Architecture in the remaining markets delivering up to 5x1 Gbps capability across 85% of Charter's footprint by end of 2025. The deployment of DOCSIS 4.0 and increasing spectrum to 1.8 Ghz in selected markets will have it capable of delivering up to 10x1 Gbps in 2025.

"We'll also have a flexible approach to offer fiber-to-the home across our entire footprint, which will enable us to market an even faster product for success-based deployment to high-bandwidth users," said CFO *Jessica Fischer*. "Our existing modems will continue to function in our upgraded systems, and when DOCSIS 4.0 modems are available and priced at scale we plan to deploy them. We're targeting 2024 for that availability."

Credit Suisse analysts said Charter's spending accelerated well beyond its above-Street estimates and that the Street will need to digest lower free cash flow production during this investment cycle. "The increased capital plan vs. our estimates was predominately for more rural builds, in theory favorable spending that investors should cheer as management indicated hitting 40+% penetrations within 6 months of opening new homes and mid-to-high teens IRRs overall," the firm told clients. "Still, management's update lacked the specific revenue/EBITDA benefits of its capex plan or timing as to when investors can expect such benefits to flow through—nor was

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post-upgrade 2026 capital intensity detailed. Management did seem to note 2023 customer growth should improve from 2022, but we expect investors will need to see evidence this capex spend will pay off before embracing Charter as a reaccelerating growth story.”

New Street Research said investors expected a capex increase in 2023, but the magnitude of what was relayed was bigger than expected. That's partly because Charter is accelerating what the analysts thought would be an 8-year upgrade to DOCSIS 4.0 to three years. “It's tough to gauge what was expected, but we think \$10 billion would have been in the realm of expectations; \$10.5-10.8 billion, with the potential for capex to push higher in 2024 and 2025, is a surprise,” the firm said. “We believe that management is doing the right thing for long-term value. Capex will be elevated and FCF and share repurchase will be depressed until 2026. The pay-off from the investment will take time to materialize.”

Analysts at **Raymond James** also believe the capital expense will pay off in the long run. “We believe the network expansion is prudent, as the larger providers such as Charter need to search for additional growth, and these opportunities are in their wheelhouse, and M&A opportunities are scarce due to **DOJ** and political challenges,” they wrote in a research note.

Charter gave an update on rural builds during the event, saying its current subsidized and related build pace is 15,000 passings a month, with plans to double that pace in the next 12 months. It has constructed roughly 187,000 rural passing this year (through November), with about half of those related to RDOF. Reminder: Charter has committed to build about 1 million passings in rural America over five years through a \$5 billion investment that includes \$1.2 billion in RDOF funding.

CHARTER ON MOBILE, WIRELESS & VIDEO

Charter management continues to emphasize the positive impact the company thinks mobile can have, particularly as a driver for broadband. The mobile network continues to advance, including through advanced WiFi and Charter's 5G CBRS network, which is currently being trialed in one of the company's largest DMAs.

New Street figures Charter claimed an incremental margin of 36% over the last year for mobile. If the business continues to scale with that incremental margin, pre-SAC margin would be 28% by the time they get to 10 million subs. An important part of Charter's converged strategy is what it's calling Gig-powered wireless, which is the basis of the \$49.99 Spectrum One bundle of internet, advanced WiFi and unlimited Spectrum Mobile. “We have a structural advantage, we have the ability to go Gigabit wireless everywhere we operate. Our largest competitors, they have wireless marketed nationwide. But the reality is they don't have a wireline footprint or sufficient wireline footprint to be able to marry it up and provide that converged product,” said President/

The WHO and the WHY

CFX's spotlight on recent new hires & promotions



EILISA Reid
SVP, APPLICATION PLATFORM SERVICES
CHARTER

3 THINGS TO KNOW

- Eilisa was promoted from Group VP, Service Delivery Applications to her new role where she'll oversee operations of customer facing service delivery applications, public and private cloud operations, data center networks, shared database services and operational support systems. She'll report to Magesh Srinivasan, EVP, Network Operations.
- She's been at Charter since 2016 and has since been leading the company's efforts on provisioning, domain name systems and customer premises equipment. She spent 13 years with Comcast before joining Charter, serving in multiple positions across network application engineering, service activation, provisioning and workforce automation.
- Eilisa earned her bachelor's in philosophy and religious studies at the University of Pennsylvania and a master's in information systems from Drexel. She's a member of The WICT Network, winning the Rocky Mountain Chapter's Woman in Technology Award in 2019. She's also a member of SCTE.

CEO **Chris Winfrey**. “Take **AT&T**, a big national wireless operator, but their wireline coverage [is] ... maybe 40%, of which a third maybe is upgraded. So they don't have a path to a ubiquitously converged product today. As far as I can see, they don't have a path to that in the future. And even if they could, remember 70% roughly of their revenue is tied to mobile at very high prices. So, it's very difficult for them to follow where we go.” Video didn't get a ton of time during Tuesday's presentation, but Winfrey did note that about 50% of today's customers take the service. “A high-quality video product is critical for us to be able to have a connectivity service that customers want to take and keep,” he said. The Charter team talked up the JV with **Comcast** for **Xumo**, which creates a scaled app-based video platform with distribution capabilities through retail and affiliates. Whether Xumo is provided through an IP set-top or a retail TV, it gives Charter a platform to sell streaming video packages and applications with impression-based streaming ad revenue.

CABLE HALL OF FAME 2023 CLASS REVEALED

The Cable Center is welcoming six new entrants to the Cable Hall of Fame next year, including a legendary HBO show. The 2023 class includes former **Charter** EVP, Field Operations **Tom Adams**; **Mediacom** EVP, Programming and HR **Italia Commisso Weinand**; **Homewood Media** President **Doug Holloway**; **Cable**

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One CEO/President *Julie Laulis*; **Hallmark Media** President/CEO *Wonya Lucas*; and **HBO** series “Curb Your Enthusiasm.” The 26th annual Cable Hall of Fame celebration will be held at the Ziegfeld Ballroom in NYC on April 27.

FORM 477 LAID TO REST

The **FCC** adopted an order last week sunsetting the collection of broadband deployment through Form 477. Instead, filers will submit their broadband and voice subscription data through the Broadband Data Collection system. The agency said the move will reduce burdens on providers by eliminating the need for concurrent filings in both the Form 477 and BDC systems. “We have made significant progress in implementing the BDC, including the completion of the first BDC collection of broadband availability data and resulting publication of updated maps and data,” the order said. “We therefore now have a process in place for collecting more precise location-specific data from fixed broadband service providers and using more uniform standards for mobile broadband providers than the processes and standards used for the Form 477 process.”

WBD BEGINS CENTENNIAL CELEBRATION

Ahead of **Warner Bros. Studios’** 100th anniversary on April 4, **Warner Bros. Discovery** rolled out its “Celebrating Every Story” campaign to highlight the centennial. Over the next 12 months, special programming including a three-part doc on Warner Bros.’ history on **HBO Max** will be released as well as marathons and archival interviews. WBD is also releasing celebratory film and TV bundles on digital, Blu-ray and DVD, of which a 100-film collection and four 25-film volumes. HBO Max will have a dedicated programming hub beginning in late January with thematic and seasonal content. Several consumer products from toys, to collectibles and to apparel will be unveiled throughout the year, and WBD will host numerous live events across the U.S. Of those include a candlelight concert series in 100 cities, limited engagement theatrical screenings of certain Warner Bros. films and museum exhibits.

PLUME FORMS TELECOM ADVISORY COMMITTEE

Plume has formed a new board of advisors that features a number of telecom industry experts. The group includes former **Vodafone Germany** CEO *Hannes Ametsreiter*; former **T-Mobile** EVP *Cody Sanford* and **SPMB Executive Search** Managing Partner *Mike Doonan*. The advisory committee will be chaired by former **Comcast** CTO *Tony Werner* and advise Plume’s executive committee on business and strategic decisions in the years ahead. Werner was named as an independent director to Plume’s board earlier this year.

LIONSGATE PICKS PARROT

Lionsgate’s Motion Picture Group selected **Parrot Analytics** in a multiyear agreement tied to content valuation. Motion Picture Group will utilize Parrot’s entertainment analytics and valuation product suite that’ll help the studio better see the value of content and be able to quickly respond to a changing landscape. Other Parrot partners include **Warner Bros. Discovery**, **NBCUniversal**, **Amazon** and **Google**.

605, CADENT COME TOGETHER FOR METRICS

Measurement and analytics firm **605** is partnering with **Cadent** to give advertisers more insights into campaign metrics. 605’s capabilities will be integrated into Cadent’s Aperture Platform in the hopes of giving advertisers the ability to drive deeper engagement on campaigns across cable networks, broadcast stations and OTT networks.

FIBER FRENZY

Shentel is upgrading its network in Radford, Virginia, with fiber-to-the-home services. Shentel is fully funding the multi-million dollar project, and construction is set to begin in the second half of next year. The vast majority of homes and businesses throughout the city will have access to the enhanced network by the end of 2024.

SPIN THE WHEEL

The Spanish-language media company **Estrella Media** picked **FreeWheel** to grow its CTV advertising business. Approximately 1/3 of Estrella’s 1.33 billion streaming minutes of original content were on CTV platforms like **EstrellaTV**, **Estrella News**, **Cine Estrella TV** and **Estrella Games**. FreeWheel will fuel Estrella’s revenue strategy for direct and programmatic monetization to reach Hispanic audiences, which includes all CTV and OTT inventory.

CARRIAGE

DirectTV for Business added the **Saltbox TV** app to its Advanced Entertainment Platform Wednesday. The Platform is used in the lodging and institutions industry, and Saltbox TV comes with lifestyle programs that include “Senior Fitness,” “Dementia Divas” and “Memory Lane TV.” Satbox joins others like **Netflix**, **Showtime** and **Hallmark** on the platform. – The minority-owned free channel **Canela.TV** is now available on **Vizio’s WatchFree+** platform. Canela.TV has more than 10,000 hours of content and will join the over 260 free channels on WatchFree+.

PROGRAMMING

The final iteration of the “Surviving R. Kelly” docuseries “Surviving R. Kelly: The Final Chapter” will release as a two-night event Jan. 2 and 3 at 8pm on **Lifetime**. Night one looks at a critical testimony while night two focuses on more survivors emerging. – **Starz** is bringing back the comedy series “Party Down” on Feb. 24 at 9pm. It’ll be available at midnight that night on the Starz app, streaming and on-demand platforms and **Lionsgate+** in Brazil, Latin America and the U.K. – “Frozen Planet II,” a seven-episode series that studies the lives of species in the Arctic and Antarctic regions, will debut Jan. 28 at 8pm on **BBC America** and **AMC+**.

PEOPLE

Raina Falcon has been upped to SVP, Communications and Content for **HBO** and **HBO Max**, stepping into a leadership role left empty when *Karen Jones* left the company in November. Falcon, who most recently served as SVP, Publicity, will now head all media relations for HBO, HBO Max and count direct reports that manage publicity for **Magnolia Network**. She joined the T-Nets in 2017 as Senior Director, Publicity.

Think about that for a minute...

Convergence

Commentary by Steve Effros

In the cable/television/broadband/computer business we have long talked about “convergence” in terms of the various pieces of equipment or the programs or “apps” that we use. But there’s a much broader context that needs to be looked at as well.

We’ve all been used to looking, for instance, at the devices we use, the television, the computer, the “smartphone,” and noting that there was an ongoing tendency for the originally intended uses to now merge. The television was in the den, we watched “television,” meaning linear video programming beamed to us over the air. Then that “converged” with cable television which added lots of additional programming, also originally sent linearly on a schedule. Computers were in the office.

That changed when technology allowed for “two way” video, and the linear distribution started to change, or at least be augmented by “on demand” capability. We added “DVR” or digital video recording to the mix (what some of the new streaming services call our “Library”) so that we could select what video we wanted to watch whenever we wanted to. That was essentially made possible by digital advances spurred by computer technology. The computer had entered the den.

There was a time when the debate was whether “televisions” would become obsolete and “computers” would rule the day. We were wrong about that. Our televisions, computers and telephones have all now attained technological capability so that they all can be used for the same things. It wasn’t the individual pieces of equipment that battled for dominance, they all won! We watch on big screens, small screens, in the den, in the office (especially with working at home) commuting to work (hopefully not while driving!) and so on.

But there’s a whole different area we need to look at which is also converging. That’s the capability, or danger if you will, of someone knowing what you’re watching, where you’re watching it, and being able to have a significant impact on what you are or should watch, hear, read (or think!) next. It all was foretold by “recommendation engines.”

Those are the things developed by the purveyors of programming to monitor what you are doing in order to “recommend” what you might subsequently want. The video services like Netflix and Amazon Prime have perfected theirs, as have the music services like Spotify. And, of course, the primary business model of a “search engine” like Google is based on making recommendations to you according to what you have searched for. Anyone who has been bombarded with advertising after some product search they initiated knows this.

The argument for this type of convergence between what we do and what someone recommends we do next is that it creates significant convenience. I can look for a particular program, or product, or, indeed, idea, and the recommendation engine will supply me with lots of alternatives. Makes “searching” easy. But of course there are lots of downsides. The most obvious is the question of who is making the recommendation, and why. If it’s a programmer, let’s use Netflix as an example, it’s pretty clear that it will recommend other programs from Netflix. Good business.

But what if you don’t know who or why those recommendations are being made? What can or should we do about that? The column I wrote last week, about the exploding issue of generative AI, ChatGPT and all that is part and parcel of this new issue of converging knowledge of what we do and who is recommending what.

The next obvious question is whether this is good, bad or, indeed, very dangerous. I lean toward the “dangerous,” and plan to explore what might be done about it as privacy, “free speech,” politics, communications, computers and antitrust laws all start to converge. It’s going to be a very interesting year coming up!



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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