

CableFAX Daily™

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What the Industry Reads First

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In the Dust: Comcast's Cable Operations Miles Ahead of NBC's

Enhanced through control of NBCU, Comcast is definitely a new company. But is it also improved? Judging from 1Q results, the MSO's cable segment answered that question with a strong affirmative, while the broadcast side, as expected, remains a drag and could stay that way for years. First, the good. Overall rev, OCF, op income, EPS and FCF all rose notably on a consolidated basis, cable comm notched rev increases across video (+1.7%), HSD (+8.7%), voice (+6.4%), advertising (+10.4%) and business services (+49.8%), and sub metrics improved YOY virtually across the board. Net combined video, HSD and phone subs increased to 639K on -39K video, 418K HSD and 260K phone. Comcast enjoyed sequential improvement across all 3 products as well, highlighted by its lowest video customer loss in nearly 4 years. "Our competitive positioning in cable continues to get stronger," said chmn/CEO *Brian Roberts*. Cable results generally beat consensus numbers, yet investors fled CMCSA shares to the tune of -2.4%. "Unfortunately, the predictable focus on NBCU will obscure a very strong quarterly result for the cable business. Too bad. Because hiding in plain sight is a very strong core business," said **Sanford Bernstein's** *Craig Moffett*. "And Cable is, after all, ~87% of Comcast's proportionate revenue." Led by 16 national and 12 regional cable nets, NBCU's cable segment delivered 13.3% rev growth and a 7.2% rise in OCF. But overall rev dropped 11.5% due to pressure from filmed ent (-8.2%) and particularly **NBC** (-34.9%). Still, the broadcast results weren't as bad as they appear, as pro forma OCF increased 4.9%, and **Collins Stewart's** *Thomas Eagan* said the gain would've been 24% excluding merger transaction costs. Plus, 1Q10 featured robust rev from the **Olympics** and political advertising. There is still, however, much work ahead to turn around a laboring NBC. "I'm optimistic about our prospects but I'm also realistic and know that it's going to take some time to return NBC to industry-level performance," said Roberts. As approx \$200mIn will be funneled this year into NBC to promote improvement, NBCU CEO *Steve Burke* said "the real key to turning around NBC is not necessarily the increase in investment. The real key is making better shows." And in NBC's position as decided laggard, Burke sees upside. "We are under-performing relative to the other three of the big four, dramatically, many hundreds of millions of dollars worse than the other three, both on the network side and the broadcast station side. And we look at that as a tremendous opportunity," he said. "You want to always sort of soften that optimism by the realization that it is a very tough business to turnaround, and I think it is likely to take

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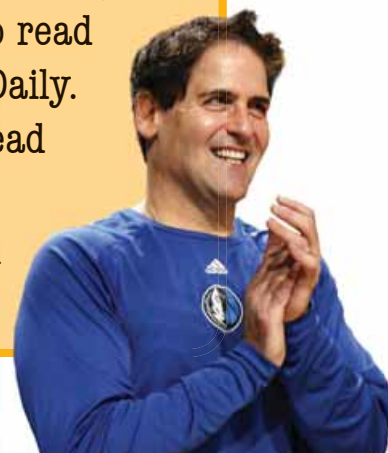
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us a number of years to turn it around. But when we do, going from fourth to third would be hundreds of millions of dollars of swing, positive swing in terms of EBITDA, so that is obviously a very high priority.” Despite NBC’s rocky future, Burke is bullish on **Telemundo** and the improving ad market, and numerous analysts have positive ratings assigned to Comcast shares. **Wells Fargo Securities’ Marci Ryvicker** said Tues’ weakness “poses a great buying opportunity.”

TWX: **Time Warner’s** 1Q results “modestly” beat the estimates of **Miller Tabak’s David Joyce**, and the company reiterated its ’11 outlook of low-teens EPS growth, yet TWX shares received a 3.3% haircut Tues. Perhaps the downtick was due to YOY dips in adjusted op income (-10%) or adjusted EPS (-5%), or even a soft film ent segment. But whatever the reason, execs had expected a challenging quarter because of the high programming costs and fees associated with **March Madness**, plus a film slate back-loaded to the latter half of ’11. And boss **Jeff Bewkes** pointed to the company’s 1Q repurchase of approx \$1bn in stock as a statement of “confidence in the value of our stock, our competitive positioning and our growth prospects.” Not surprisingly, the networks segment performed admirably by posting gains in overall (+18%), subscription (+9%) and ad (+31%) rev, the latter metric helped immensely by **March Madness**. Yet the nets’ adjusted op income grew just 2% and margins contracted, also because of the tourney (those pesky costs again). TWX, in fact, is expected to lose money on a cash basis in the early years of its deal with **CBS**, said CFO **John Martin**, before realizing overall benefits later on. Bewkes expects a “very profitable deal over time” and cited an “affiliate fee upside that’s very large.” Meanwhile, Martin said **Turner** and **HBO** performed well—the premium net’s sub base has stabilized—and “we feel extremely well positioned heading into the upfront.” Martin added that ad “trends remain very, very strong on an organic basis.” Also, the company announced its acquisition of **Flixster**, owner of film review site **Rotten Tomatoes**, with Bewkes saying the purchase will be used to promote digital ownership of movies. Clarifying the comments he made to **Charlie Rose** last week, which intimated a breakout 1Q, Bewkes said he wasn’t speaking about 1 or 2 quarters but a firm belief that TWX “will grow fairly steadily over the long run” and outperform most media companies.

PAC-12+2: Official info emerged Wed about the soon-to-be **PAC-12’s** rich TV rights deal with both **ESPN** and **Fox Sports (Cfax, 5/4)**, perhaps highlighted by **FX’s** receipt of 14 of Fox’s 22 annual conference football games and the potential for strategic partners for the conference’s dedicated cable net slated to launch next year. The conference, Fox and ESPN declined to confirm the total package price. Regardless, both ESPN evp, programming **John Wildhack** and **Fox Sports Nets** pres **Randy Freer** defended rising costs. “As fragmentation continues, advertisers and distributors will continue to look to sports for large audiences and portability across devices,” said Freer. The value of sports content “to distributors and advertisers continues to rise,” added Wildhack, calling sports the “ultimate reality programming” while espousing the genre’s attractive demos and tech utility. ESPN also gets 22 football games/yr and with Fox will alternate coverage of the **PAC-12 Championship Game** beginning in ’12-’13 and through ’24-’25. The pair will also share men’s basketball coverage, with FX slated to feature 1 conference tourney quarterfinal, semifinal or title game every other year beginning in ’14.

Earnings: Falling movie revenue (no “Avatar” this year) dragged **News Corp’s** 3Q net income to \$639m from \$839m a year ago. Cable nets’ operating incomes rose 13% to a little more than \$2bn. Affiliate fees grew 12%. **Fox News** generated its highest ever operating profit in the Q, execs said. **Chase Carey** said agreements are up for over slightly half of Fox News’ universe by next summer. He didn’t see how big of a rate increase News Corp wants, but his characterization of the net (“It’s probably 2nd to **ESPN** in terms of importance and clout in the marketplace”) should scare operators. On O&O side, Fox plans to have deals for more than half of HHs by end of this year; more than 80% by the end of ’12. -- After the bell, **Clearwire** announced record quarterly net sub adds of 1.8m in 1Q, including 1.6m wholesale and 155K retail, pro forma rev of \$258.1m (+142% YOY) and reach of its 4G network to 126m people, compared to 41m a yr ago. As of Mar 31, CLWR counted approx 6.15m subs, up 533% YOY, or 4.86m wholesale and 1.29m retail. Actual net loss totaled \$227m. -- **Outdoor Channel Holdings** posted consolidated rev for 1Q of \$14.8m, down 17% over 1Q10, primarily driven by an anticipated revenue decline in the company’s production services segment. The reduced costs at production services and at Outdoor Channel resulted in an operating loss of \$1.2m vs \$2.7m a year ago. Ad rev increased 4% to \$7.6m, while sub fees dipped 2% to \$4.7m due to changes in estimated reserves for potential MFN liabilities. -- Cable revenue for **CBS** climbed 7% YOY in 1Q to \$393m, primarily from subscription and rate hikes. Cable OIBDA was up 51% to \$153m for a 39% margin. Overall net income of \$202m, 29 cents/share, bested analyst estimates of 19 cents/share.

Advertising: **ABC, NBCU, CTAM** and **Intel** joined the **Advanced Advertising Media Project**, created to measure

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advanced advertising impact within free VOD programming. 14 companies have thus far committed to the program, including **4A's, AETN, ABC, BlackArrow, CBS, Comcast, CTAM, Digitas, Discovery Communications, Horizon Media, Intel, NBCU, NDS** and **Rainbow Media**.

VOD: For the 1st time, **DISH** subs can watch the PPV *Pacquiao-Mosley* fight online as well as through traditional PPV on Sat. The online and SD telecasts cost \$54.99. HD is \$64.99.

People: **Comcast** co-founder *Julian Brodsky* will retire from the MSO's board at the May 11 annual shareholders' meeting. -- **Insight** hired *Diane Quennoz* as vp, mktg and *Ankur Sharma* as vp, eCommerce. -- **Carlos Deschappelles** was named svp, sports sales for **Univision**.

Public Affairs: *Discovery Education* will host a 30-min webinar from The White House Thurs on *Osama Bin Laden* for middle school and high school students and educators. The speaker will be *Ben Rhodes*, deputy asst to the President and Deputy National Security Advisor. -- **Sportsman Channel** and **Time Warner Cable** will host a dinner at the San Antonio Food Bank Community Kitchen Tues with the host of "Pig Man: The Series" helping to serve the 200lbs of roasted pig. It's part of the net's ongoing community outreach program *Hunt.Fish.Feed*.

Oops: **Charter** added 88K broadband subs and 24K phone customers in 1Q.

CableFAX Daily Stockwatch

Company	05/04 Close	1-Day Ch	Company	05/04 Close	1-Day Ch
BROADCASTERS/DBS/MMDS					
DIRECTV:	48.50	(0.29)	BLNDER TONGUE:	2.15	(0.1)
DISH:	28.74	(0.46)	BROADCOM:	34.86	(0.04)
DISNEY:	42.62	(0.45)	CISCO:	17.47	0.06
GE:	20.27	(0.37)	CLEARWIRE:	5.12	UNCH
NEWS CORP:	18.55	(0.11)	CONCURRENT:	5.71	0.06
MSOS					
CABLEVISION:	35.27	(0.05)	CONVERGYS:	13.86	(0.23)
CHARTER:	58.26	(0.45)	CSG SYSTEMS:	20.46	(0.54)
COMCAST:	25.96	(0.65)	ECHOSTAR:	33.98	0.08
COMCAST SPCL:	24.38	(0.53)	GOOGLE:	535.79	1.90
GCI:	11.08	0.02	HARMONIC:	7.83	(0.1)
KNOLGY:	14.89	0.17	INTEL:	23.50	0.45
LIBERTY CAPITAL:	84.13	0.85	JDSU:	20.00	(0.27)
LIBERTY GLOBAL:	45.51	(0.27)	LEVEL 3:	1.62	(0.03)
LIBERTY INT:	17.74	(0.06)	MICROSOFT:	26.06	0.25
SHAW COMM:	20.87	(0.19)	RENTRAK:	22.46	(0.3)
TIME WARNER CABLE:	77.07	0.66	SEACHANGE:	10.19	(0.24)
VIRGIN MEDIA:	30.89	0.99	SONY:	28.38	(0.06)
WASH POST:	442.25	(6.1)	SPRINT NEXTEL:	5.27	0.15
PROGRAMMING					
CBS:	27.21	1.97	THOMAS & BETTS:	55.66	(0.92)
CROWN:	2.19	(0.06)	TIVO:	9.33	(0.11)
DISCOVERY:	44.20	(0.4)	TOLLGRADE:	10.08	(0.01)
GRUPO TELEVISA:	23.64	0.05	UNIVERSAL ELEC:	27.03	(0.19)
HSN:	34.69	0.51	VONAGE:	4.77	(0.44)
INTERACTIVE CORP:	35.20	(0.64)	YAHOO:	18.20	0.28
LIBERTY:	42.26	(0.22)	TELCOS		
LIBERTY STARZ:	74.41	(0.94)	AT&T:	31.79	(0.07)
LIONSGATE:	6.26	(0.02)	VERIZON:	37.67	(0.13)
LODGENET:	3.30	(0.15)	MARKET INDICES		
NEW FRONTIER:	1.75	0.02	DOW:	12723.58	(83.93)
OUTDOOR:	6.57	(0.33)	NASDAQ:	2828.23	(13.39)
SCRIPPS INT:	51.02	(0.34)	S&P 500:	1347.32	(9.3)
TIME WARNER:	36.49	(1.24)			
VALUEVISION:	6.20	0.03			
VIACOM:	58.34	0.43			
WWE:	10.69	(0.06)			
TECHNOLOGY					
ADDVANTAGE:	3.08	0.03			
ALCATEL LUCENT:	6.20	(0.32)			
AMDOCS:	29.92	(0.43)			
AMPHENOL:	54.88	(0.64)			
AOL:	20.13	(0.27)			
APPLE:	349.57	1.37			
ARRIS GROUP:	11.20	(0.11)			
AVID TECH:	17.63	(0.38)			
BIGBAND:	2.42	(0.06)			

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Headlines

By Steve Effros

Whenever I speak to a group about cable issues, I get the inevitable question “what are you going to talk about... what’s the title of your speech.” Well, as most of you in the industry know, I don’t really give “speeches”... I just talk about what’s going on, and I can usually rely on that day’s newspaper headlines as the trigger for the conversation.

Unfortunately, as an old journalist, I’d have to say that the art of writing headlines has been lost.



They often don’t really convey the actual import or implications of the information in the article. They often just seek a sensational “hook.” Regrettably, a lot of news writing and editing these days does that too. My alma mater, *The New York Times*, was certainly guilty of that recently with a story headlined: “US

Lagging in Use of Technology, Study Shows.”

That’s just red meat for me, since I’ve been battling the use of bogus “international numbers” relating to broadband use for some time. We can all debate what our policy should be as a country regarding broadband, but using misleading or meaningless comparisons to bolster or justify positions is just not the way to do it.

So how are we “lagging?” Well, based on a complex set of factors, the study spells out regarding use, readiness, promotion, distribution and the like, the United States is “only” fifth in the world on that study’s index.

Fifth! Wow, our major world competitors are all ahead of us, right? We better get going, we better have some new programs and plans to spur development or we will really “fall behind”! Well, not exactly. Number one is Sweden, then Singapore, Finland, Switzerland and then the US. The rest of the top ten; Taiwan, Denmark, Canada, Norway and in tenth place, South Korea.

A little perspective; the total population of all the other countries in the “top ten” combined is about 145 million. The U.S. has more than twice that. The average population density of all those others; 1390/square mile. The United States: 83/square mile. For anyone who understands the challenges of building major infrastructure, like broadband, those numbers say it all. It’s absolutely amazing that we’re right there at the top at all.

Some more numbers: the U.S. has about 3.8 million square miles to deal with. The other nine, combined, have 4.5 million. But if you take out number eight, Canada, with a population density of only 8.8 (all concentrated on their southern border) the total for the other eight is about 666,000 square miles. Again, the implications regarding the success of our broadband deployment and use is notable.

Alas, the headline is we are “lagging,” and you can be sure some politician, editorial board writer, “public interest” lobbyist or regulator will cite it sometime soon as a justification to “do something... we’re falling behind them!” Be sure to check who “them” is before buying that rationale.

True to form, the FCC has just released its new analysis of who they consider—based on selective studies—to be “underserved” with regard to broadband. Please understand, we do have areas that need attention, but any notion that there is a crisis is misplaced. It all has to do with assumptions of what speed, to whom, and what is “available” versus what is adopted and used. I should probably note one more stat here. The second “most prepared” user of technology, Singapore, currently provides its citizens an average broadband speed of around 1Mbps. In the US, according to Akamai, it’s over 5Mbps. Enough said.

Steve

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