BCAP NewsClips

April 30, 2015

Philadelphia Inquirer
Advent of Custom TV takes on pay-TV practices

Wall Street Journal
A+E Networks Asks Distributors to Turn H2 Into Vice Channel

New York Times
Legislators Introduce Student Digital Privacy Bill

Bloomberg
Twitter Keeps Changing Its Definition of Success

Capital
Time Warner execs: TV has to adapt to an on-demand world

Central Penn Business Journal
Pa. budget talks: Framework for negotiations in progress

Philadelphia Daily News
Gov. Wolf at

What a difference 14 months make.

Time Warner Cable was bloodied and bruised last year when it agreed to its now-scuttled $45 billion sale to Comcast. The company was hemorrhaging subscribers after a battle over fees with CBS produced a monthlong blackout of the network on its service. Its executives had been sharply criticized for deploying a failed plan for the past half-decade during an ugly war with Charter Communications, which had been pursuing a hostile takeover. And its customer service ratings were at the bottom of the industry.

Today, Time Warner Cable is in a stronger position, giving the company greater control over its destiny. There is no doubt that Time Warner Cable is suffering from whiplash after the sudden implosion last week of the Comcast deal that had been over a year in the making. But it has steadily improved its business since the deal was announced in February of last year, and analysts forecast continued progress. Meanwhile, Time Warner Cable, the country's second-largest cable operator, after Comcast, can pursue an acquisition of its own, which gives the company more leverage in negotiations with potential suitors. "The dynamics have definitely changed," said Kannan Venkateshwar, a media analyst with Barclays. "They are definitely in the driver's seat now."

Time Warner Cable is scheduled to report earnings on Thursday, when industry observers will be looking for clues about whether the company plans to buy, sell or go it alone. Robert D. Marcus, chief executive of Time Warner Cable, said in an interview after the collapse of the Comcast deal last week that the company was evaluating all of those options in order to find which best maximizes shareholder value. "All tools are available and at our disposal," he said.

Despite the intense regulatory scrutiny that led Comcast to call off the deal for Time Warner Cable, an appetite for deal-making persists. Indeed, the rationale for industry

100 days ***Pittsburgh Tribune-Review*** **Kane's office locates grand jury legal bills it could not produce**	consolidation has only grown stronger in the past year, some analysts said. A larger cable company would have more heft in negotiations with TV networks over the cost of programming; those discussions have grown increasingly fierce in recent years. At the same time, there is an array of new streaming television services that do not require subscriptions to cable, like those from HBO and CBS, putting more pressure on traditional cable operators. A combined company could pool resources to invest in new television-watching technologies, which could help lure people to keep their cable subscriptions rather than cut the cord in favor of a streaming service. Investors also are eager for a sale, some analysts said, with shares in cable companies trading at a premium because of the speculation for continued merger activity. At Time Warner Cable, for instance, shares are up more than 30 percent in the last 18 months. Shares in Charter are up about 35 percent during the same period. "Time Warner Cable recognizes that shareholders involved in the stock obviously are involved because of M.& A.," said Amy Yong, a media analyst with Macquarie. Hours after Comcast and Time Warner Cable announced that their deal was off, bankers representing Time Warner Cable and Charter started preliminary talks, according to people with knowledge of the discussions. This represents a second chance for Charter. Backed by the billionaire John C. Malone, Charter set off a round of maneuvering last year in a hostile takeover attempt. Time Warner Cable rejected the cash and stock offer, calling it "grossly inadequate" and later was saved by the deal with Comcast. Mr. Malone has said emphatically that his camp would be back if the Comcast-Time Warner Cable fell apart. And back they are. Executives from Time Warner Cable and Charter are expected to meet next week, according to one person with knowledge of the discussions. It is unlikely that Charter would again try a hostile pursuit this time, which could once again bruise the reputation and the value of Time Warner Cable, said one person with knowledge of the company's thinking. Charter will report earnings on Friday, which will provide further insight into its plans. "There is no longer any doubt about their interest," said Craig Moffett, a media analyst with MoffettNathanson Research. "What is left to determine is whether Time Warner Cable wants to be acquired and whether they can do a friendly deal." While some industry observers said that a merger with Charter seemed almost inevitable, others point out that it is not without hurdles. There are big questions about the target price at which Time Warner Cable would agree to a deal, as well as whether there are any other suitors. Time Warner Cable could effectively block a deal with Charter deal by pursuing an acquisition of its own. One target, analysts said, could be the cable operator Bright House Networks. Bright House was to be sold to Charter for $10.4 billion, but that deal was contingent on the Comcast-Time Warner Cable deal. If Time Warner Cable did make an acquisition, Charter would need to raise substantially more debt funding in order to buy Time Warner Cable, Mr. Venkateshwar noted. Conversely, Charter would have more leverage to make a bid for Time Warner Cable if it pursued an acquisition of Bright House, which would give Charter more capacity to borrow money and make a cash-rich offer for Time Warner Cable, Mr. Moffett said. Time Warner Cable also could decide to remain independent. In the last quarter of 2014, the company recorded its strongest performance in years, with both fewer losses of video subscribers and increases in its broadband business. While the company faces challenges, analysts expect those healthier trends to continue. "Time Warner Cable was coming off of a very challenging point of time in its life," said Rich Greenfield, an analyst with BTIG Research. "They were not selling because they were doing great. They were selling because they were struggling. What would be the rush to sell unless there is an incredible offer?" – ***New York Times;*** **more in the *Times* on TWC's 1st Qtr earnings** ——— 'Everybody loves watching sharks," Discovery Communications founder John Hendricks

quipped at a media conference years ago, "and people will watch anything about Nazis. If we could just get sharks to fight Nazis, we would mint money." He needn't bother. Discovery CEO David Zaslav, who oversees the cable empire that includes the Discovery Channel, TLC and Animal Planet, pulled in $156 million in compensation last year, up from $33 million in 2013. Expect that to change.

This isn't a rant against CEO pay, but it is irritating that you and I helped pay Mr. Zaslav's salary when most of us don't use his product. One of Discovery Channel's highest-rated shows, "Naked and Afraid," which documents partially blurred naked people living in the wild for 21 days, boasted 2.9 million viewers last year out of 100 million households that pay for the channel through basic cable. Discovery Communications' $3 billion in U.S. sales for 2014 means that each household paid about a buck to Mr. Zaslav. A nice gig if you can get it.

But this is how the cable cabal works—or worked. ESPN's recent decision to sue Verizon over cable-package placement is one indication that change is afoot. With a local monopoly, cable operators dictate packages and pricing, markets be damned. Satellite rarely competes on price. Cable bills have grown at almost triple the rate of inflation over the past two decades, according to the Federal Communications Commission. But in April, Verizon announced Custom TV, which offers a few basic channels and additional channel packs: Kids, Pop Culture, Lifestyle, Entertainment, News & Info, Sports Plus and Sports. The Discovery Channel is no longer basic cable. Neither is ESPN. Uh oh.

How did the unraveling happen? Three decades ago, Discovery traded half of the company to cable operator TCI in exchange for inclusion in basic cable, along with a nickel a month in fees for each subscriber. Today Discovery Channel charges $1.21 a month for each subscriber, according to the financial information firm SNL Kagan. Sports channels are worse. Disney's ESPN charges more than $6 a subscriber, up from $2.50 less than 10 years ago. Time Warner's TNT, which carries the NBA, is almost $2 a month. In October the NBA signed a $24 billion broadcast deal with ESPN and Turner Sports, up 180% from the previous deal. You can bet those fees are headed up.

Subscribers bear the cost: The average monthly cable bill is $64 a month, and DirecTV's is $107. Time Warner CEO Jeff Bewkes has said that less than half of those with a cable bundle watch sports, and so ESPN would implode without the basic cable deal. Cable channels accounted for one-third of Disney's revenue in 2014, and half of profits. No wonder the company is suing. The cable gusher may still be five years away, but here are a few places you can see the dripping.

The largest cable operator, Comcast, still owns cable channels and NBCUniversal, but the rest of the industry has mostly separated. Time Warner split off from Time Warner Cable in 2007. Though Comcast wasn't allowed to buy Time Warner Cable, someone else will, perhaps Charter, Cox, AT&T or Verizon, all of whom are in the distribution game. Disney, Viacom and Fox own content. While channels look for wide distribution, both cable and broadband are more than capable of delivering video. After all, it's just data. For instance, if you're under 30, you probably use Netflix, Amazon or Hulu to stream content straight to your tablet. About 30 million homes have HBO or Showtime, meaning 70 million don't. HBO Now lets you stream shows for $15 a month. This isn't a disruptive price, but at some point the company could drop the number to steal customers from cable. DISH satellite offers SlingTV for $20 a month. Few would ditch cable at that rate, but at $10 a month? It starts to look tempting.

Then there's piracy. Seconds after shows hit the air, they are available on torrent sites. The top Pirate Bay downloads in the past few days were "Game of Thrones," "Gotham" and "Better Call Saul." Who needs cable? Most TV is dull and someone will chop up the comedy shows and upload the highlights to YouTube so you can catch up while you're bored at work. Today's wild card is mobile. The 4G network is almost good enough to stream TV on a phone, and Wi-Fi could become a distribution channel. The big digital players are starting to see the value. Facebook, for instance, recently announced $1 billion

of infrastructure spending, including Internet-beaming drones to help expand global Internet access, with—you guessed it—free or preferential access for Facebook.

Google has three mobile initiatives: Project Loon, a network of high-altitude Internet balloons; Google Fi, which offers mobile service by renting Sprint and T-Mobile networks; and gigabit Ethernet called Google Fiber. Amazon is rumored to be working on a wireless network. Apple owns mindshare, if not marketshare, in mobile and can partner with everybody. While cable languishes, mobile will borrow the Discovery Channel's lucrative model of coupling content and distribution. Don't expect wireless network operators and Internet service companies to stay separate; Google owning AT&T is not far-fetched, and neither is Facebook owning Verizon or even a piece of China Mobile. Competition will get fierce. *That* will be a Shark Week worth watching. – ***Wall Street Journal***

Viacom Inc. swung to a loss in its March quarter on a hefty charge to restructure its business, while revenue also came in below Wall Street expectations amid foreign exchange impacts and weakness in its filmed entertainment business. Excluding special charges, adjusted per-share earnings came in above Wall Street expectations. Viacom, whose cable properties include MTV and Nickelodeon, said earlier this month that it would take a charge of more than $780 million for job cuts and to write down the value of underperforming programming, particularly reruns of network shows like "CSI," "Entourage" and "Community." Chief Executive Philippe Dauman said Thursday that the company's realignment is "largely complete."

With its large bundle of young-skewing channels like Nickelodeon, MTV and Comedy Central, Viacom has been among the media companies hit hardest by the defection of younger viewers to online video. In the latest quarter, the media networks division's revenue edged up 3% to $2.45 billion on higher advertising and affiliate fees. The company's filmed entertainment division posted a 21% drop in revenue to $659 million, as television license fees and home entertainment revenues were weighed by the mix of available titles. Domestic advertising revenues fell 5%, reflecting lower ratings. Worldwide advertising revenues, meanwhile, were up 4%. Overall, the company reported a loss of $53 million, or 13 cents a share, compared with a prior-year profit of $502 million, or $1.13 a share. Excluding certain items, earnings were $1.16 a share. Revenue fell 3% to $3.08 billion. Analysts polled by Thomson Reuters had forecast profit of $1.06 on revenue of $3.26 billion. Viacom estimated foreign exchange brought down revenue by 2%. – ***Wall Street Journal***