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Philadelphia Business Journal
Comcast unfazed by Time Warner's planned merger with Charter

Fox Business
John Malone Crafts New TV Giant Through Charter

New York Times
Charter Customers Say Bigger Isn't Likely to Mean Better

Reuters
Altice owner says wasn't ready for Time Warner Cable deal

St. Louis Post-Dispatch
Impact of Charter deals on St. Louis workforce unclear

Associated Press
Charter-Time Warner Cable deal may both help, hurt subscribers

Los Angeles Times
Charter Communications to offer Dodgers TV channel

Associated Press
Rick Santorum faces steep climb in second

Before we get to the latest cable merger, readers will notice that several times we have assailed Silicon Valley for keeping silent during the net neutrality-cum-Title II debate, and just recently, after it no longer mattered, Google's Eric Schmidt finally spoke out against heavy regulation of the Internet. Somebody who insists on being called an "industry source" explains the Valley's tactical reticence this way: "In five years there will be so much broadband competition that Title II won't matter."

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Now consider a statement by Reed Hastings of Netflix, one of the few CEOs who spoke up in favor of more-regulated Internet. "It's a natural monopoly in the last mile," he told shareholders last month. "There should be one fiber or one cable going to a home with super high speed, and that's the architecture of the future." Those are two diametrically opposed views of the broadband future. Now let's observe something about the proposed merger of Charter Communicationsand Time Warner Cable, which follows on the government's blocking of a deal between Comcast and Time Warner Cable.

Charter bid $132 a share for TWC a year ago, and was bested by Comcast at $159. On Tuesday, Charter agreed to pay $195. Indeed, it will pay a multiple over cash flow that appears to be unprecedented in the annals of big cable deals. That's pretty good price-appreciation considering that Time Warner Cable's most profitable business is broadband, which in the meantime has come under monopoly regulation by the Obama administration.

But then cable stocks have been uniformly up under the Obama-Wheeler regulatory

White House run

pennlive.com
Op-ed: The culture warrior reinvented - the return of Rick Santorum

Pittsburgh Post-Gazette
Santorum to return to Pennsylvania roots for 'major' announcement

agenda. In February after the Federal Communications Commission's chief flip-flopped and put his "independent" agency behind the Obama position—well, let's quote those noted analysts at the Daily Kos: "See that big spike up there in that chart? That's Comcast and Time Warner shares after FCC Chairman Tom Wheeler announced he would propose strong net neutrality rules."

Surprise you? It shouldn't. Incumbent broadband CEOs had been saying for months they would invest less under Title II. Guess what? Shareholders like the sound of less investment. Investment is a cost.
Mr. Wheeler and Mr. Obama were also at pains to say there would be no attempt to regulate broadband prices. Guess what? Shareholders like the idea of continuing to charge whatever they want for broadband even as a regulatory shroud descends that will deter new competitors.

It was ever thus. Regulation tends to favor incumbents over newcomers. It kills innovation. It drives the sizzle out of entrepreneurs considering bold rolls of the dice. This may not be the intention, to the extent that the government can be said to have intentions. But think of it as the price net-neut advocates are willing to pay in order to gain political control over broadband. The highly politicized nonsense coming out of Washington on broadband lately makes it especially hard to guess how regulators will treat Charter-TWC. According to the Journal, Mr. Wheeler phoned both CEOs last week to say a merger wouldn't necessarily be frowned upon just because his agency recently shot down Comcast. We assume Mr. Wheeler asked Mr. Obama's permission before placing his call.

If anybody can give voice to the government's thinking, it should be Mr. Wheeler—but he's been incoherent, even incontinent. He recently tried to justify administration actions by accusing cable operators of wanting to strangle broadband to prop up their TV-distribution business. Not only did he offer no evidence for this assertion. The idea is absurd since cable operators increasingly rely on broadband for their profits.

Mr. Wheeler's blathering isn't just misinformed. It's a lie. But in caving to the Obama agenda, his only support base has become the net neut crowd. He's their creature now. In fact, so decadent has Washington become on this subject that a reasonable hope is that technology will just push past the regulators. Google, for one, apparently still believes the future of broadband is not a sleepy monopoly. Witness its experiments with Google Fiber and wireless balloons, etc. Altice, the French firm that was also in talks with Time Warner Cable, is a big promoter of fixed-wireless convergence in Europe—a trend also likely to make broadband more competitive in the long run.

Right now, though, the extravagant price being paid in the Time Warner Cable deal and the highflying prices of cable stocks generally are saying something else. They are saying Washington's thumb on the broadband industry is more likely to extend the broadband status quo than disrupt it. – ***Wall Street Journal***

As top executives at Charter Communications Inc. and Time Warner Cable Inc. laid out their vision Tuesday for the cable companies' planned merger, their pitch seemed aimed as much at Washington as at Wall Street. Charter Chief Executive Tom Rutledge, speaking on a conference call after the company announced a $55 billion agreement to acquire Time Warner Cable, pledged to invest in new broadband products and refrain from the sorts of pricing tactics that have triggered a backlash from regulators. Charter's deal, which also includes an acquisition of the smaller operator Bright House Networks, would create a new U.S. cable giant with about 24 million total customers, second only in size to Comcast Corp. among cable operators.

The company is trying to avoid the fate of Comcast's proposed merger with Time Warner Cable, which fell apart last month when it became clear regulators had strong

reservations about the combined company's ability and incentive to harm the burgeoning online video market. Mr. Rutledge, who will become chairman and CEO of the new behemoth, said Charter won't impose caps on the data consumers can use and won't institute usage-based broadband pricing. Regardless of whether the Federal Communications Commission's new tough Internet rules get tossed out after a court challenge, he said, Charter has no plans to block any Internet traffic or engage in "paid prioritization" on its pipes.

Mr. Rutledge's comments Tuesday highlight how much the regulatory landscape has shifted over the past year and a half. Many analysts and industry executives predicted Comcast's deal would go through and were surprised when it didn't. Now, any companies proposing a big cable merger are likely to tread carefully and be especially sensitive to the concerns regulators laid out in the Comcast deal. "Through Charter we'll offer consumers a broadband product that makes watching online video, gaming and engaging in other data-hungry applications a great experience, including at peak times," Mr. Rutledge said.

The deal will be the first test of this magnitude for Charter's modest D.C. lobbying operation headed by executive vice president of government affairs Catherine Bohigian. She was hired from Cablevision Systems Corp. two years ago by Mr. Rutledge to start and staff Charter's D.C. office from scratch—right about when Charter began courting TWC. In an interview, Ms. Bohigian said Charter learned from the failed Comcast-Time Warner Cable merger what issues regulators are focused on, including how deals could impact the growing market for "over the top" Web video services. Charter was involved in the Comcast transaction because it was set to acquire some divested assets if the Comcast-TWC deal closed. "Having gone through that transaction gave us a window into what their biggest concerns were, so we can make sure from the beginning that we respond to exactly the concerns they have," Ms. Bohigian said.

Under the terms of the deal announced Tuesday, Charter will offer Time Warner Cable $195 per share in cash and stock, a 14% premium to the company's Friday closing price. Shareholders will choose how much cash they will receive—$100 per share or $115. The combined company will have about $62 billion in debt, which could go up to $66 billion if TWC shareholders elect to take the cash-rich option. If regulators block the deal, Charter could owe Time Warner Cable about $2 billion, or Time Warner Cable could be responsible for the breakup fee if it accepts an offer from a rival suitor, people familiar with the matter said.

Both Mr. Rutledge and Time Warner Cable Chief Executive Rob Marcus sought to make the case that the deal is far different from Comcast's, because it won't result in a company gaining outsize market power. "We will not have market power in high-speed broadband or video," Mr. Rutledge said. Charter-TWC will have less than 30% of the market for Internet speeds above 25 megabits per second, which is the FCC's new benchmark for broadband. Comcast-Time Warner Cable would have controlled at least 57% of that market. He said that Charter's minimum broadband speed tier is 60 megabits per second today—"considerably faster and less expensive than Time Warner Cable's comparable tiers." He said Charter would expand these offerings across its new footprint.

Ms. Bohigian, Charter's point person in Washington, spent seven years at the FCC earlier in her career, serving as an adviser to former Chairman Kevin Martin and head of the agency's office of strategic planning and policy. Her small internal team will get outside help from outside lawyers who will focus on the reviews by the Federal Communications Commission and antitrust regulators. A major factor will be whether any major resistance develops from media companies and public interest groups—as it did in the case of Comcast's deal.

FCC Chairman Tom Wheeler issued a statement on Tuesday reiterating that the

companies must prove the deal would benefit consumers. Some consumer groups also have concerns. “When it comes to cable consolidation, history teaches us to be very concerned about the benefits for consumers,” Consumers Union policy counsel Delara Derakhshani said. “Prices for cable and broadband continue to go up, and customer service is dismal.” Mr. Rutledge in an interview said he hopes to build Charter by adding more subscribers. “That’s how we create value, not by cost-cutting or raising prices,” he said.

In the interview, Mr. Rutledge said he embraces the trend of consumers streaming TV through apps and third-party media devices like Roku and Apple TV. He said it’s “not long” before Charter sells online video services like Netflix and Hulu integrated with its user interface for pay television. Charter and Time Warner Cable executives said a combined company would be a “pure-play” cable company, without a major investment in an entertainment arm like Comcast’s NBCUniversal, which controls cable channels and a TV and film studio.

Still, the new company’s major shareholders— John Malone’s Liberty Broadband Corp. and Bright House owner Advance/Newhouse—have ties to big content companies. Mr. Malone and Advance/Newhouse each hold significant voting stakes in Discovery Communications, a major TV programmer. Mr. Malone also has a big voting stake in Starz, the premium channel, and a small stake in Lions Gate Entertainment Corp., the television and film studio.

Some analysts said eventually Charter may need to raise broadband prices for consumers to recoup its pricey investment on the deal, since the traditional pay TV business is under pressure. “Broadband pricing is almost an insurance policy for cable operators in that if all else fails, you’ve always got the option to raise broadband rates,” said Craig Moffett, analyst at MoffettNathanson. But he noted that there’s an “obvious danger” to that on the regulatory front, so Charter is likely to be cautious in the near term. – ***Wall Street Journal*** **(see graphic: Two decades of Pay-TV mergers)**

Charter Communications announced agreements on Tuesday to pay $57 billion in cash and stock for Time Warner Cable, plus another $10 billion for cable operator Bright House Networks. This means that Charter investor John Malone may now be able to act on his view that the cable industry should consolidate in the face of satellite, telephone and Internet competitors with nationwide footprints. But the deal also raises the question of why lawmakers continue to allow the Federal Communications Commission to judge such transactions.

FCC Chairman Tom Wheeler released a short statement Tuesday saying that his agency would, as usual with communications mergers, seek to determine if the deal is in the public interest. Added Mr. Wheeler: “In applying the public interest test, an absence of harm is not sufficient. The Commission will look to see how American consumers would benefit if the deal were to be approved.” How is it that a Beltway bureaucracy can confidently assert the power to break up a business combination in the absence of any evidence of harm to even a single customer?

The FCC was created by the Communications Act of 1934 and was intended to nurture and manage a monopoly telephone system and the broadcasters to which it gave slices of the airwaves. As the years have gone by competition has increased, yet the FCC continues to go about its work as if it is still overseeing monopolies and only the commission’s intervention can protect consumers from all-powerful cable behemoths.

The FCC will now rigorously examine this proposed combination of cable companies that would have no presence at all in 16 of the top 25 markets in the United States. The combination of Charter, Time Warner Cable and Bright House would serve fewer than a third of the number of video subscribers currently served by Netflix. Mr.

Wheeler wants proof that customers will be better off as a result of the transaction. But like all cable companies, the aspiring merger partners have been struggling merely to hold on to those customers. They have to persuade customers not to use broadband connections to get video programming from the likes of Google's YouTube, or to cut the cable cord altogether and merely consume media through their smartphones.

The National Cable & Telecommunications Association, the industry's main trade group, reports that from 1992 through 2013 cable's share of the pay-TV market shrank to 53% from 98%. On Tuesday while the FCC was preparing to conduct an exhaustive assessment of whether the combined companies might be able to abuse consumers, assorted media pundits were wondering aloud about the long-term survival prospects for the merging cable "dinosaurs." Mr. Malone clearly thinks there is a bullish case for cable, which in many markets offers the fastest broadband connections, and far be it from us to suggest he's wrong. But then he's betting his money. How can anyone be bullish about a Beltway regulatory system that still insists on treating 21st-century communications like 1930s telephones? – ***Wall Street Journal***

Shareholders cheered Tuesday's news that Time Warner Cable Inc. and Charter Communications Inc. would combine, sending the shares of both cable companies higher. But some Time Warner Cable bondholders, wary of the debt load the combined company will shoulder, were less enthusiastic. Charter unveiled a roughly $55 billion agreement to acquire Time Warner Cable for about $195 a share, as well as a separate purchase of Bright House Networks LLC for $10.4 billion. In response, Time Warner Cable shares jumped 7.3% to $183.60, while Charter's stock rose 2.5% to $179.78.

Time Warner Cable bonds also rose sharply, but debt investors said that largely reflected relief that Charter won out over European telecommunications group Altice SA, which had been eyeing Time Warner Cable and was viewed as potentially saddling it with even more debt. Time Warner Cable's 30-year bonds due in September 2042 rose 11.7% Tuesday to around 87.9 cents on the dollar, according to MarketAxess. But they are still down about 16% from where they traded before it became clear last month that Time Warner Cable's prior agreement to sell itself to industry giant Comcast Corp. was in serious peril.

The reason for bond investors' anxiety over Tuesday's deals: They will cause debt to balloon from Time Warner Cable's current level of about $23 billion to between $61.5 billion and $65.7 billion, depending on how much cash the company's investors choose in the cash-and-stock deal. That increase reflects the companies' existing debt and as much as $29.3 billion in new borrowings that Charter says will help pay for the two takeovers.

Time Warner Cable's ratio of debt to last-12-months earnings before interest, taxes, depreciation and amortization, or Ebitda—a measure of cash flow—was 2.97 at the end of March, according to Moody's Investors Service. Once the three companies are combined, that ratio is expected to rise to 4.79–assuming Time Warner Cable investors opt for the lowest amount of cash, or 5, if they opt for the most. Comcast's debt-to-Ebitda ratio, meanwhile, was just 2.20.

Moody's rates Time Warner Cable Baa2, the second-lowest investment-grade rating, and the transaction will likely push it into "junk" territory, the ratings service said Tuesday. Moody's placed Time Warner Cable bonds on review, following the announcement and said they could end up with a rating two levels lower, at Ba1, at the conclusion of the review. Standard & Poor's, by contrast, said it thinks Time Warner Cable can maintain its investment-grade rating.

Investors and analysts say the combined companies' debt could become too burdensome if, for example, rivals aggressively price bundles of cable-television and

Internet services to lure customers away, or if margins shrink. “This seems like a deal that Charter was set on regardless of the price, as long as the market would fund it for them,” said Matthew Duch, a portfolio manager at Calvert Investments Inc., which owns Time Warner Cable bonds.

When Charter was courting Time Warner Cable last year before the Comcast deal, Time Warner Cable executives expressed concern over the debt load a combined company would have. But Time Warner Cable Chief Executive Rob Marcus said in an interview Tuesday that the debt level of a combined Charter-Time Warner Cable was only one factor that concerned Time Warner Cable officials then. “This time around, I’m very comfortable with the value delivered to TWC shareholders,” he said. He added: “We believe that we have structured this in such a way that the credit rating of the Time Warner Cable bonds is either maintained or at least the downgrade is mitigated as a result of the transaction.”

Moody’s analyst Neil Begley, meanwhile, described the deals as “a good outcome” for Time Warner Cable bondholders, who could have faced an even larger potential downgrade if Charter hadn’t made the decision to secure those bonds against its own assets as well as those of Time Warner Cable and Bright House. “The addition of Bright House directors provides a conservative voice on the board,” he added. – ***Wall Street Journal***

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