

## Merger Consequences Analysis

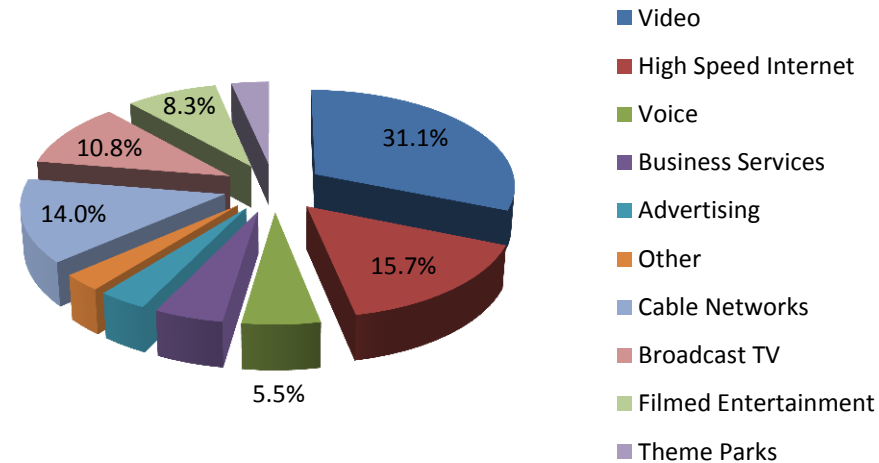
Jay Kocherlakota

# Business Descriptions

## Comcast

- Largest provider of high-speed internet and cable-TV with over 22 million subscribers
- Acquired control of NBC Universal from General Electric in 2009
- Only cable distributor gaining video subs due to technology advantage

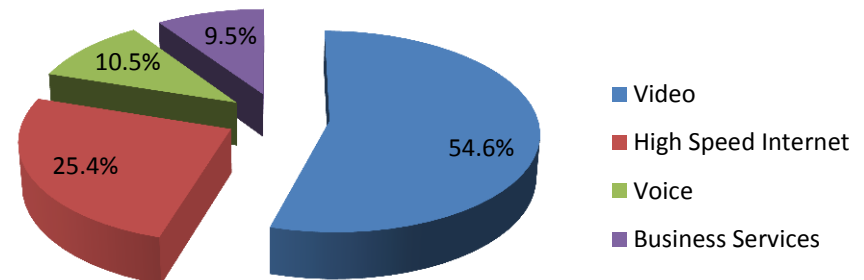
## Comcast Revenue Breakdown



## Time Warner Cable

- Second largest provider of high-speed internet and cable-TV with over 11 million subscribers
- The Firm has a strong presence in New York, Los Angeles and Dallas
- Company has been losing subs due to lack of capital investment in all-digital transmission

## Time Warner Cable Revenue Breakdown



# Industry Overview

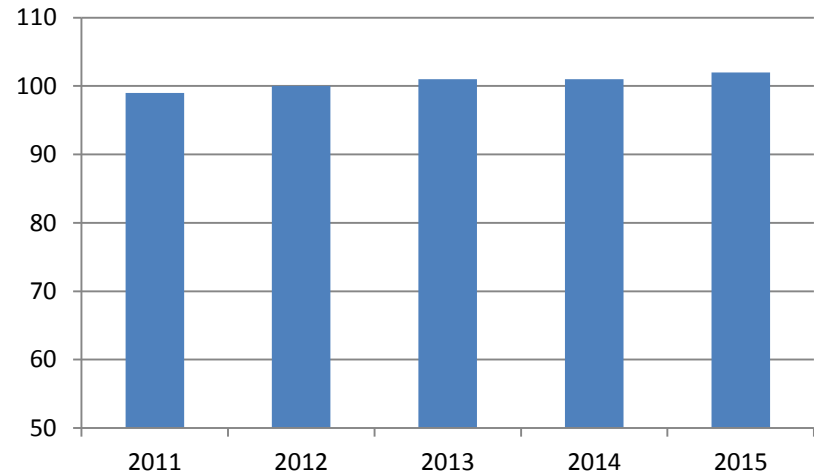
## Pay – Television

- Competition includes other cable companies (CHTR, COX), satellite providers (DTV, DISH) and fiber-optic providers (VZ, T)
- Cable distributors have regional monopolies while satellite and fiber-optic providers compete nationally

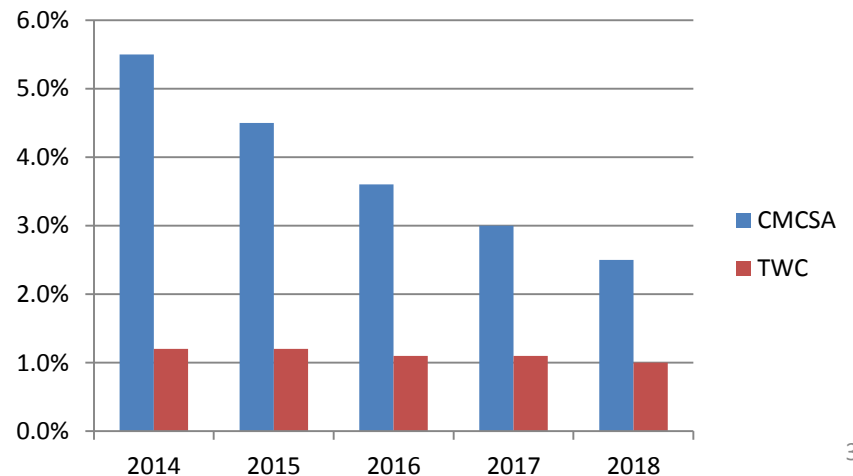
## High Speed Internet

- Competition similar to Pay-TV but excludes satellite providers
- High capital expenditures are required to build fixed-broadband network and serve as a barrier to entry for new market participants
- Main source of revenue growth for cable distributors in near future

## United States Video Subscribers



## High-Speed Internet Subscriber Growth



# Merger Rationale

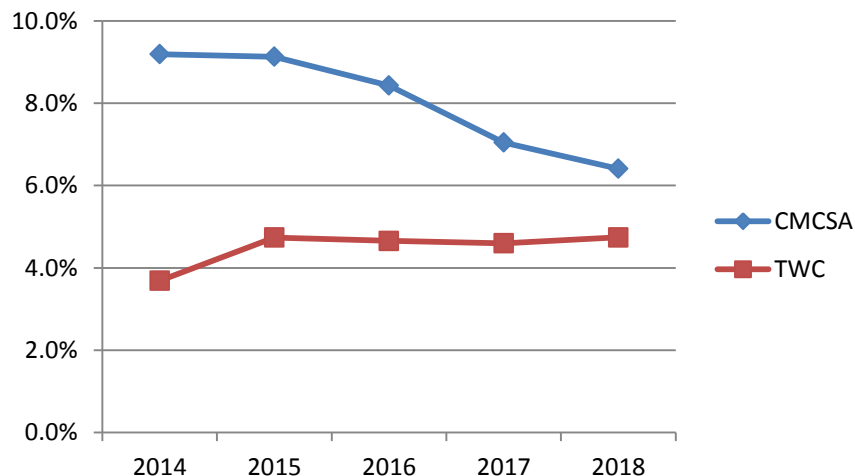
## Containing Programming Costs

- Programming costs, the largest cost for cable distributors have been increasing over the past 5 years and are forecasted to increase
- Expanding subscriber base gives the pro-forma entity more leverage when negotiation with content providers, avoiding blackouts

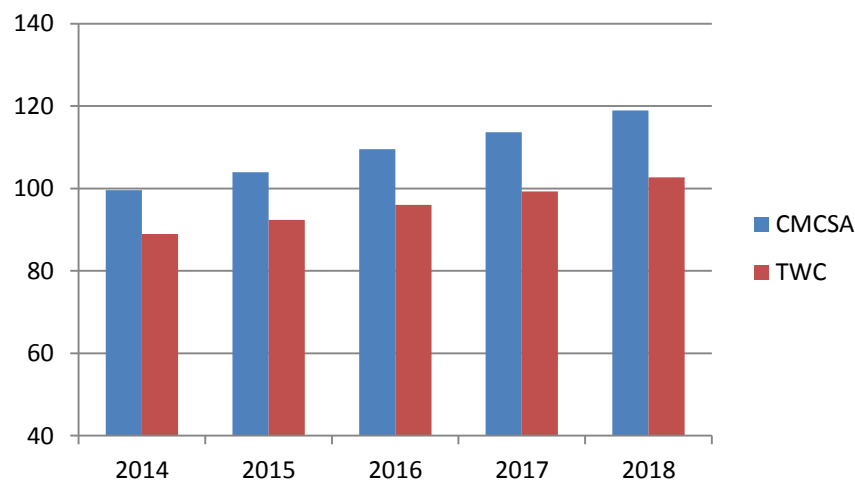
## Expanding Technological Advantage

- Comcast's Xfinity platform allows broadband subscribers to watch TV shows online
- Comcast's new X-1 set-top box is vastly superior to Time Warner Cable's
- Comcast gained 43,000 video subscribers last quarter

## Programming Cost Escalation



## Video Average Revenue Per User (ARPU)



# Merger Process

## Initial Bid by Charter

- Charter Communications is serving as an acquisition vehicle for Liberty Media and its owner, John Malone
- Charter bid throughout 2013, finally proposing \$132.5 per share
- The Board rejected bids, claiming shares were valued at \$160

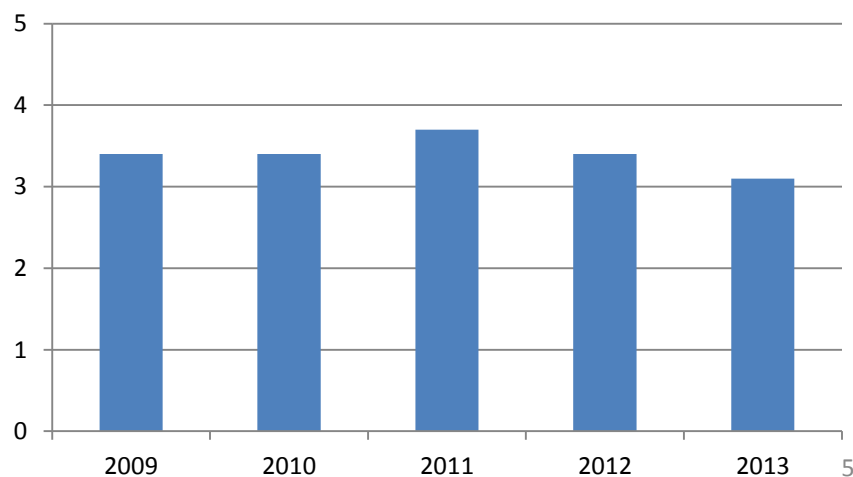
## Why Comcast Entered the Process

- Charter initiated a proxy fight by suggesting board nominees for the next shareholder meeting
- Given Charter's size, its proposed transaction structure leveraged the pro-forma entity up to 5.6(x)
- Comcast's CEO, Brian Roberts, is a strong rival of John Malone

## Time Warner Cable Stock Performance



## Historical Debt / EBITDA Levels



# Deal Mechanics

---

## Transaction Highlights

- Comcast will acquire 100% of Time Warner Cable by offering \$154.3 per share to shareholders
- Bid represents a 20% purchase premium to existing stock price
- Comcast is paying 7.9(x) pre-synergy EBITDA

## Financing Structure

- Time Warner Cable shareholders will receive 2.875 shares of Comcast for each share they own
- Time Warner Cable shareholders will own ~23% of pro-forma entity
- No “collar” is in place to protect Time Warner Cable shareholders against slide in Comcast stock price

## Sources

<u>\$MM</u>	
New Equity Issued	44,618
Rolled CMCSA Debt	47,847
Rolled TWC Debt	25,032
<hr/>	
Total Sources	117,497

## Uses

<u>\$MM</u>	
Purchase TWC Equity	44,021
Roll CMCSA Debt	47,847
Roll TWC Debt	25,032
Fees & Expenses	597
<hr/>	
Total Uses	117,497

# Illustrative Value Creation

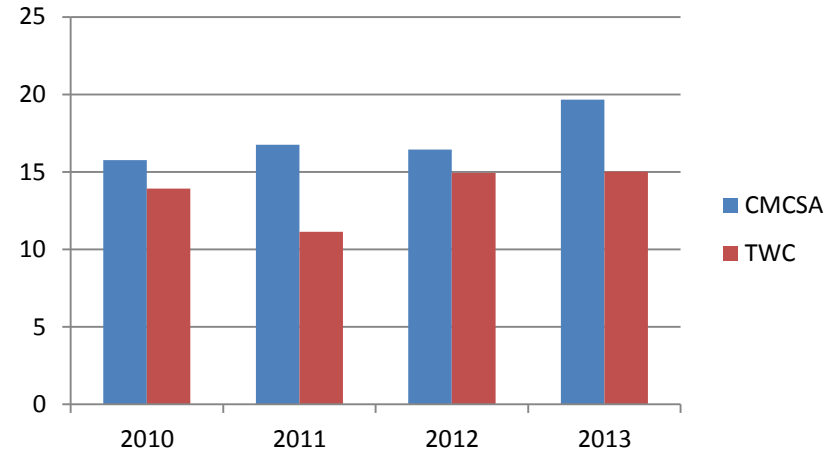
## Comcast's View on Value Creation

- Analogous earnings multiples implies transaction is not accretive or dilutive by itself
- Incremental FCF will be used to finance \$10 billion share repurchase
- Comcast claims merger will increase net-operating income by \$1.5 billion

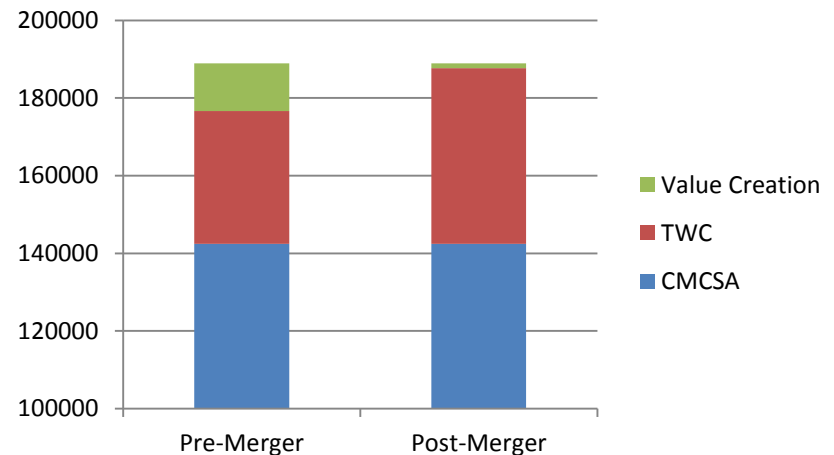
## My View on Value Creation

- Largest synergies from programming cost reduction and technology-driven price increases
- Few synergies from reducing churn, subscriber acquisition costs and capital expenditures because the company's do not directly compete

## Historical Earnings Multiples



## Synergy Analysis





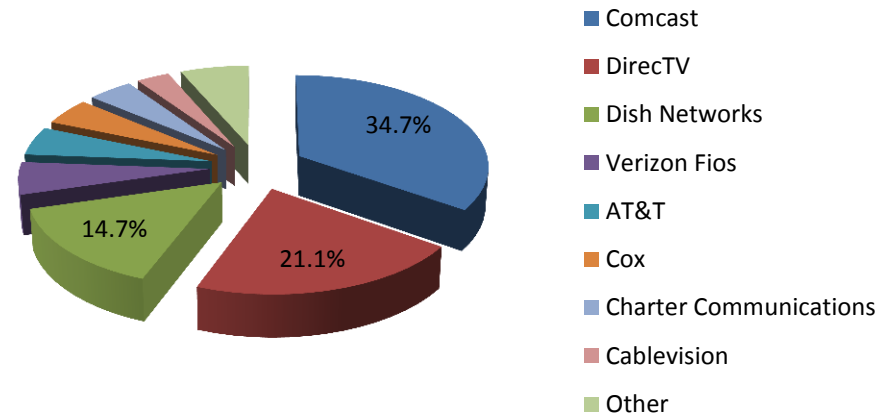


# Regulatory Approval Process (continued)

## Comcast Concessions to FCC

- Comcast will divest Time Warner Cable operations with 3 million video and high-speed internet subscribers
- After acquisition of NBC Universal, Comcast promised not to price discriminate against other content providers

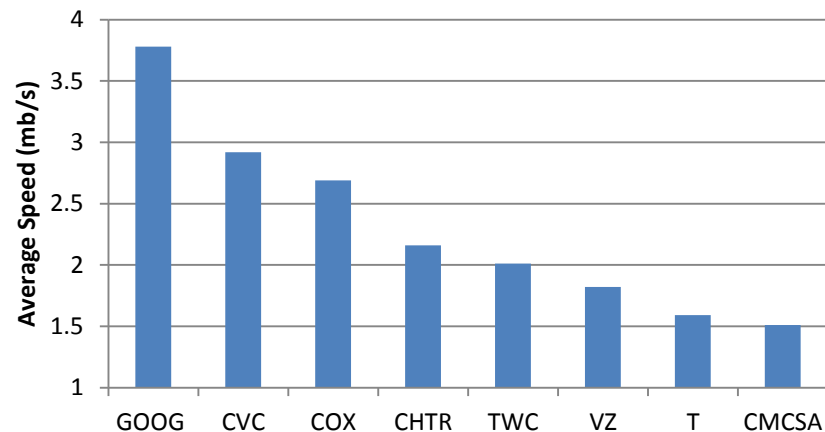
## Pro-Forma Video Market Share



## Net Neutrality Enforcement

- Net Neutrality prevents internet service providers from charging higher rates to websites that use more bandwidth
- FCC favors net neutrality but DC Circuit Court claims the FCC has no regulatory authority to enforce it
- Comcast may pledge to uphold net-neutrality as another concession

## Netflix ISP Speed Index



# Market Reaction

## Time Warner Cable

- Stock at \$146, reflecting investor uncertainty over regulatory process
- Newly issued 30 year bonds increased by 19%
- Time Warner Cable accounted for 25% of corporate bond trading after acquisition announced

## Comcast

- Stock fell 3.5%, implying investors fear Comcast is overpaying
- Time Warner Cable and Comcast's securities are now linked due to the lack of a collar agreement
- Lack of breakup fee may have prevented further slide in Comcast's stock price

## Time Warner Cable Stock Price



## Comcast Stock Price

