

# Comcast aims to reshape entertainment with NBC

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In this Aug. 6, 2009 file photo, the Comcast logo is displayed on a TV set in North Andover, Mass. The deal to give Comcast Corp. control of NBC Universal is expected to be announced Thursday morning, Dec. 3, 2009. (AP Photo/Elise Amendola)

(AP) -- Comcast Corp. announced Thursday it plans to buy a majority stake in NBC Universal for \$13.75 billion, giving the nation's largest cable TV operator control of the Peacock network, an array of cable channels and a major movie studio.

Although the deal could mean that movies could reach cable more quickly after showing in theaters, and that TV shows could appear faster on cell phones and other devices, it was already raising concerns that Comcast would wield too much power over entertainment.

Indeed, if the deal clears regulatory and other hurdles, Comcast would rival the heft of The Walt Disney Co. - which Comcast CEO Brian Roberts already tried to buy.

Comcast, which already serves a quarter of all U.S. households that pay for TV, would gain control of the NBC broadcast network, the Spanish-language Telemundo and about two dozen cable channels, including USA, Syfy and The Weather Channel. It also would have regional sports networks, Universal Pictures and theme parks.

Shares of Comcast rose 36 cents, or 2.4 percent, to \$15.30 in pre-market trading Thursday, as the company also announced an increase in its dividend.

In agreeing to buy 51 percent of NBC Universal from General Electric Co., which has controlled NBC since 1986, Comcast hopes to succeed in marrying distribution and content in a way Time Warner Inc. could not. AOL and Time Warner are undoing their ill-fated marriage Dec. 9. Time Warner has already shed its cable TV operations.

Comcast's Roberts and GE CEO Jeff Immelt have been discussing the deal for months, and the final weeks came down to GE's persuading French conglomerate Vivendi SA to first sell its minority stake.

Comcast made the deal because it is eager to diversify its holdings. It faces encroaching threats from online video and more aggressive competition from satellite and phone companies that offer subscription TV services.

For entertainment viewers, the deal means Universal Pictures movies could get to cable faster.

TV shows could appear on mobile phones and other devices faster as

part of Comcast's plans to let viewers watch programs wherever they want. Comcast already is letting subscribers watch cable TV shows online in trials, with a nationwide launch in December.

On Thursday, Comcast pledged that NBC Universal shows that now cost money over its cable video-on-demand service would be free for three years after the deal closes.

Comcast also said it would maintain free, over-the-air TV on NBC stations - a business model that is eroding because of falling advertising revenue. Comcast also pledged to improve public interest programming. And it said it would not let its business interests affect NBC News.

But consumer advocates worry about the deal, saying people could end up paying more for TV.

Under Comcast, subscription-TV operators such as DirecTV Group Inc. and Verizon Communications Inc.'s FiOS service would be negotiating with a direct rival on how much they have to pay to carry NBC Universal's cable and broadcast channels.

An NBC Universal under Comcast might be less willing to budge than one under GE. Consumer groups worry that as a result, fees that are already creeping up could rise even faster, with the costs passed to customers in their monthly pay-TV bills.

NBC Universal is profitable, with operating earnings of \$1.7 billion on revenue of \$11.2 billion in the first three quarters of 2009, despite weakness in the fourth-place NBC broadcast network and Universal Pictures, ranked sixth in North American box office gross this year by Rentrak Corp./Hollywood.com.

Comcast wants the company largely for its lucrative cable channels. It is

seeking more programming to beef up its video-on-demand offerings and rely less on cable revenue as the company loses subscribers to rival providers - such as phone companies that are offering TV services - or the Internet.

Meanwhile, GE needs cash to support its financing unit, GE Capital, which was devastated in last year's financial meltdown.

Under the deal, expected to close in a year if regulators and shareholders approve, GE would buy Vivendi SA's 20 percent stake in NBC Universal for \$5.8 billion. Of that, \$2 billion is payable in September 2010 if the deal hasn't closed by then, and the remaining \$3.8 billion would be due at closing. NBC Universal is to be separated into a new joint venture.

Comcast would buy a 51 percent stake of the new company by paying \$6.5 billion in cash and contributing \$7.25 billion worth of cable channels it owns, including E!, Style and Golf Channel. Moody's analyst Neil Begley noted that Comcast is jumping in as media company values are relatively low and stands to benefit as business conditions improve.

GE would retain a 49 percent stake, with the option of unloading half its stake in 3 1/2 years and all of it in seven years. The new NBC Universal would borrow \$9.1 billion that would partially go toward covering the money GE owes Vivendi.

Comcast would get to name three people to the board and GE two, and Comcast would manage the joint venture. Jeff Zucker would remain NBC Universal's CEO and report to Comcast Chief Operating Officer Steve Burke. NBC Universal's headquarters are expected to stay in New York.

Consumer groups fear that a Comcast-NBC combination would be so threatening that rivals would strike similar deals just to compete - a

sentiment echoed by DirecTV Chairman John Malone in a recent interview with The Associated Press.

And if media ownership were further concentrated, consumers would see higher prices and fewer choices, said Andrew Jay Schwartzman, chief executive of the Media Access Project. He warned that online video and other new forms of competition could be squashed "before they can gain a toehold in the market."

Satellite TV rival Dish Networks Corp., meanwhile, worries that Comcast would be in a stronger position to withhold channels from competitors. CEO Charles Ergen has complained that a regulatory loophole lets Comcast bar his company from carrying Philadelphia sports games shown on Comcast's regional sports network. Comcast did not respond to requests for comment.

The Comcast-NBC deal is widely seen as a test of the Obama administration's resolve to fight media consolidation, but consumer groups aren't confident regulators will find a legal means to block the transaction.

Comcast would likely have to agree to some restrictions, such as treating rival cable, satellite TV and phone companies equally in programming talks instead of favoring its own cable operations.

Shareholders haven't been happy, either, at what they see as a renewed attempt at empire building after Comcast's failed \$54 billion hostile bid for Disney in 2004.

Many investors sold off the stock at the first whiff of a possible deal with GE, afraid that Comcast would make an acquisition it couldn't handle and tie up money for dividends and stock buybacks that could boost Comcast's shares. Shares in Comcast have fallen 11 percent,

vaporizing about \$5 billion in market value, since word of the deal leaked Sept. 30.

In an effort to please investors, Comcast said it would increase its annual dividend by 40 percent, to 37.8 cents per share, and confirmed it would still buy back stock.

If the deal wins approval, Comcast would still have to make it work. It's betting that it could do a better job than Time Warner, which couldn't find a way to make its cable, AOL and content businesses operate well together.

Comcast said Burke, its chief operating officer, has plenty of experience in content given his former role as an ABC executive. But Time Warner, too, had a suite full of entertainment executives.

One problem at Time Warner was the conflicting interests between the cable and content sides. Time Warner's cable TV unit, before it was spun off into a separate company, considered bringing Warner Bros. movies to cable viewers earlier, for instance. But favoring one cable TV provider over another would have hurt the movie studio. Now Comcast could face similar challenges.

Comcast also would inherit NBC Universal's weaker units. Its NBC network has had trouble developing hit shows, reflected in the move to bring Jay Leno to prime time. Universal Pictures has been socked with some notable flops including "Land of the Lost." And theme park attendance is down in the recession.

"These kinds of big mergers always have a 'crapshoot' element to them," said Peter Fader, marketing professor at the University of Pennsylvania's Wharton School. "You can never predict with certain success or failure. You can always see it with 20-20 hindsight. This one will be no

different."

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