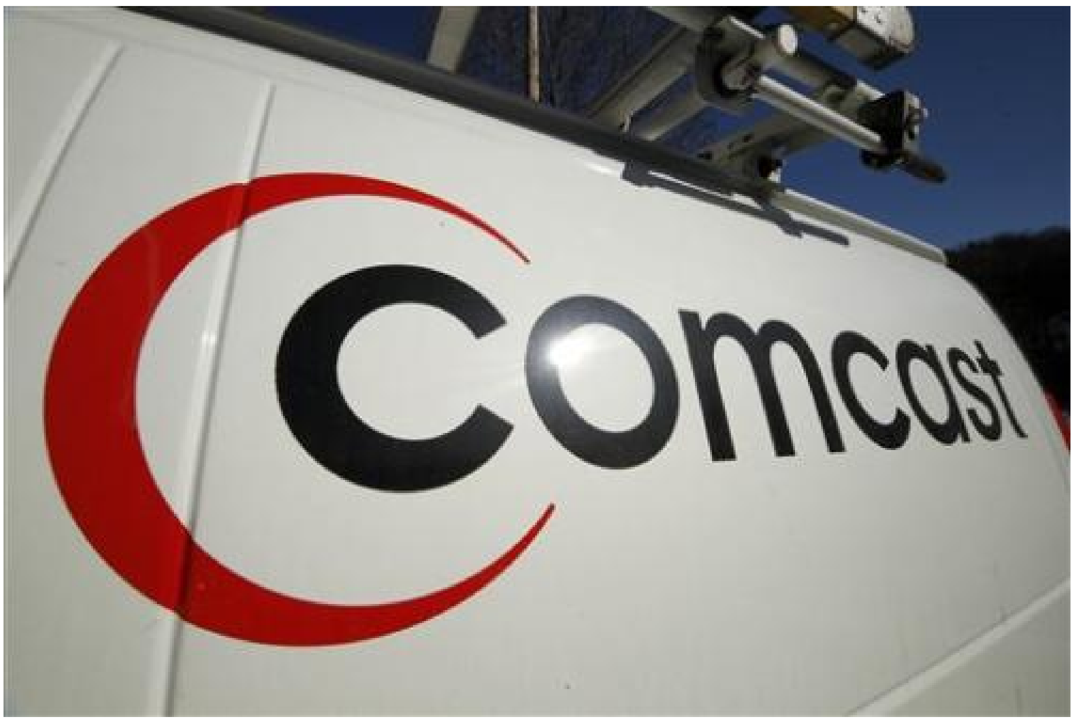
Comcast strikes deal to buy Time Warner Cable (Update)

February 13 2014, by Ryan Nakashima



This Feb. 11, 2011 file photo shows the Comcast logo on one of the company's vehicles, in Pittsburgh. Comcast has agreed to buy Time Warner Cable for $45.2 billion in stock, or $158.82 per share, in a deal that would combine the top two cable TV companies in the nation, according to a person familiar with the matter who spoke on condition of anonymity because it had not been announced formally. An announcement is set for Thursday morning, Feb. 13, 2014, the person said. (AP Photo/Gene J. Puskar, File)

With a single behemoth purchase, Comcast is creating a dominant force in American entertainment and presenting federal regulators with an equally outsized quandary: How should they handle a conglomerate that promises to improve cable TV and Internet service to millions of homes but also consolidates unprecedented control of what viewers watch and download?

Comcast, which was already America's No. 1 pay TV and Internet provider, says its $45.2 billion purchase of Time Warner Cable will provide faster, more reliable service to more customers and save money on TV programming costs. If the acquisition is approved, Comcast will serve some 30 million pay TV customers and 32 million Internet subscribers.

But industry watchdogs say the deal will give the company too much power and ultimately raise the price of high-speed connections.

"How much power over content do we want a single company to have?" said Bert Foer, president of the American Antitrust Institute, a Washington-based consumer-interest group.

The all-stock deal approved by the boards of both companies trumps a proposal from Charter Communications to buy Time Warner Cable for about $38 billion. It also represents another giant expansion following Comcast's $30 billion purchase of NBCUniversal, operator of networks like NBC, Bravo and USA, which was completed last March.

Comcast says it will continue to operate under conditions the government imposed when it approved that transaction, including a requirement that it provide standalone Internet service without tying it to a pay TV package, make programming available without discrimination to other providers, and treat all Internet traffic the same, even if it is for video competitors such as Netflix. However, those conditions expire in 2018, and Comcast CEO Brian Roberts was not prepared to voluntarily extend those into the future in a conference call with journalists.

"Those Internet conditions would apply on Day One," he said. "How long that goes is not something I want to speculate on, but many years at the very minimum."

Roberts argued that the cable industry has been losing TV subscribers for the last decade because of increased competition from satellite TV providers that include DirecTV and Dish and telecom companies like AT&T and Verizon. Despite gaining subscribers in the final quarter of last year, the forecast is to lose more in 2014.

"It's a very competitive business," he said. "That being said, we've expanded for consumers their capabilities and access to content in remarkable ways."

While video services are competitive, they are becoming less important for cable operators as higher programming costs cut into profits. On the other hand, Internet services are highly profitable and in many markets, cable companies offer the best speeds available.

"In most places outside of a few big metro areas, you've only got cable as the only game in town," said Craig Aaron, president of Free Press, a public-interest group that focuses on the media industry. "I don't see there on their list of proposed consumer benefits prices going down."

In fact, Comcast Executive Vice President David Cohen told reporters on a conference call that Internet-service prices will probably keep going up.

"We're certainly not promising that customer bills are going to go down or that they'll increase less rapidly," Cohen said.

Antitrust lawyers say that prices for Comcast's services will probably be one focus of a review expected to be handled by the Justice Department.

"If there's no claim of consumer gain at all, they'll have trouble gaining the Justice Department's approval," said Keith Hylton, an antitrust expert and professor at the Boston University School of Law. "They tend to demand efficiency gains in the form of lower prices to consumers."

Antitrust attorney Michael Keeley of Axinn, Veltrop & Harkrider in Washington, predicted that the Federal Communications Commission will use its review of the deal to extract concessions such as an extended promise to treat all Internet traffic fairly after the commission's rules on the subject were struck down last month by a federal appeals court.

The Justice Department and the FCC declined to comment.

The deal is expected to close by the end of the year, pending shareholder and regulatory approvals.

Comcast has 22 million pay TV customers but plans to divest 3 million after the deal closes. Time Warner Cable will contribute 11.4 million customers. The deal will give the combined company a strong presence in 19 of the top 20 metro areas in the U.S.

The price amounts to $158.82 per share for Time Warner Cable and is about 17 percent above that stock's Wednesday closing price of $135.31. It tops a Charter Communications Inc. proposal to buy Time Warner Cable for about $132.50 per share.

Charter had pursued Time Warner Cable for months, but Time Warner Cable CEO Rob Marcus consistently rejected what he called a lowball offer, saying he would cut a deal for $160 per share in cash and stock.

For a time, Comcast stayed in the background, waiting to purchase any chunk of subscribers that a combined Charter-Time Warner Cable would sell off.

Roberts said Comcast's concurrent talks with Time Warner Cable sped up recently, and that the last week "was a real flurry." Executives signed a deal at 1:30 a.m. Thursday, he said.

The company says the deal restores its video market share to just under 30 percent, about what it had when it bought AT&T Broadband in 2002 and part of Adelphia Communications in 2006. It's also below the 30 percent cap that had been imposed by the FCC until the rule was struck down by an appeals court in 2009.

Comcast is also taking the position that because Comcast and Time Warner Cable do not serve overlapping markets, combining the two won't reduce competition for consumers.

Comcast operates in Chicago and mainly in Northeast markets that include Boston, Washington and its home base of Philadelphia. Time Warner Cable has strongholds around its headquarters in New York, as well in Los Angeles, Dallas and Milwaukee.

In many of those areas, the combined Comcast-Time Warner Cable will face competition from rivals AT&T and Verizon, which provide both pay TV services and Internet hookups. Both AT&T and Verizon are growing quickly. They ended 2013 with 5.5 million and 5.3 million pay TV subscribers, respectively.

Time Warner Cable shareholders will receive 2.875 Comcast shares for every Time Warner Cable share they own. Once the deal is final, they will end up owning about 23 percent of the combined company.

Comcast and Time Warner Cable are expected to save $1.5 billion in annual costs over three years, with half of that realized in the first year.

Comcast also plans to add an additional $10 billion in share buybacks at the close of the deal, on top of a recent plan to boost its share buyback authority to $7.5 billion from $1 billion.

Shares of Time Warner Cable jumped 7 percent, or $9.49, to close Thursday at $144.80 after the deal was announced, while broader trading indexes rose less than 1 percent. Comcast shares fell more than 4.1 percent, or $2.28, to close at $52.97. Charter shares dropped 6.3 percent, or $8.66, to close at $128.91.