PHYS.ORG

Charter buying Time Warner Cable as TV viewers go online (Update)

May 26 2015, byTali Arbel

This Feb. 2, 2009 file photo shows a Time Warner Cable truck in New York .Charter Communications is close to buying Time Warner Cable for about $55 billion, two people familiar with the negotiations said Monday, May 25, 2015. (AP Photo/Mark Lennihan, File)

As TV watchers increasingly look online for their fix, cable companies are bulking up. In the latest round, Charter Communications is buying Time Warner Cable for $55.33 billion.

And executives say they're confident regulators will allow the creation of another U.S. TV and Internet giant.

The deal comes a month after Comcast, the country's largest cable provider and owner of NBCUniversal, walked away from a $45.2 billion bid for Time Warner Cable, the No. 2 cable company, after intense pressure from regulators. The government worried that the company would be able to undermine increasingly popular online video competitors like Netflix because the bigger Comcast would have more than half the country's high-speed Internet customers.

There has been a wave in consolidation in the cable industry as providers are starting to lose TV subscribers, costs for TV, sports and movies rise and pressure from online video services such as Netflix and Hulu increases. The traditional cable ecosystem is breaking up—for example, you can subscribe to HBO online without having to pay for cable, or pay for a smaller group of channels that you watch via a Sony PlayStation.

Getting bigger is one way to deal with those changes. It gives cable providers more lucrative Internet subscribers and more leverage against entertainment companies providing the channels.

Whether government regulators will approve the Charter deal after quashing Comcast's bid for Time Warner Cable remains to be seen. Charter also announced Tuesday that it is buying Bright House Networks, a smaller cable provider, for $10.4 billion.

Pedestrians walk past the Time Warner Center, home of the headquarters of Time Warner Cable, Tuesday, May 26, 2015, in New York. Charter Communications will spend $55.33 billion to acquire Time Warner Cable in a cash-and-stock deal that would instantly create one of the largest pay-television and broadband operators in the U.S. (AP Photo/Mary Altaffer)

In a statement Tuesday, Federal Communications Commission Chairman Tom Wheeler said that the FCC weighs every merger on its own to see if it will be in the public interest, and that "an absence of harm is not sufficient." He said the FCC "will look to see how American consumers would benefit" from the deal.

Charter notes that it will have less than 30 percent of the customers in the U.S. that the FCC defines as broadband: Those downloading at 25 megabit-per-second and faster. Comcast plus Time Warner Cable would have had more than half of those subscribers.

"We're a very different company from Comcast and this is a very different transaction," said Charter CEO Tom Rutledge on a conference call Tuesday. "We're confident it's going to get done," said Time Warner Cable CEO Rob Marcus.

Charter, combined with Time Warner Cable and Bright House, will have nearly 24 million customers, compared with Comcast's 27.2 million. It will also lag AT&T, whose pending deal with DirecTV would give it 26.4 million U.S. TV customers and 16.1 million fixed Internet customers as well as tens of millions of wireless customers.

"One has to be sober about genuine risks that this deal could still be rejected," said MoffettNathanson's Craig Moffett in a research note Tuesday, given the number of Internet and TV subscribers involved.

But it doesn't raise the same immediate concerns as the Comcast-Time Warner Cable merger, said John Bergmayer of Public Knowledge, a public interest group that had opposed the Comcast deal. "The scale is totally different. It's not the No. 1 buying the No. 2," he said.

Trader Peter Tuchman, left, works the post that handles Time Warner Cable on the floor of the New York Stock Exchange, Tuesday, May 26, 2015. Charter Communications is buying Time Warner Cable for $55.33 billion, creating another U.S. TV and Internet giant. (AP Photo/Richard Drew)

Another sign of confidence from the companies: The deal comes with a $2 billion breakup fee if it doesn't go through. If regulators don't approve it, Charter would pay Time Warner Cable; if Time Warner Cable kills the deal and goes with another buyer, it'll pay.

John Malone's Liberty Broadcast Corp., which owns more than a quarter of Charter's stock, is backing the acquisition. Liberty Broadband is expected to own about 20 percent of the new Charter.

Charter Communications Inc., based in Stamford, Connecticut, will provide $100 in cash and shares of a new public parent company equal to 0.5409 shares of Charter for each outstanding Time Warner Cable Inc. share. The transaction values each Time Warner Cable share at about $195.71.

The companies on Tuesday valued New York-based Time Warner Cable at a total of $78.7 billion, including debt. They expect to complete the deal by the end of the year.

Time Warner Cable had chosen the Comcast deal and rejected a $38 billion hostile offer from Charter in early 2014.