Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

# In re Applications for Authority Pursuant to Section 214 of the Communications Act of 1934, as Amended, WC Docket No. 15-135 to Transfer Control of Authorizations from Cequel Corporation to Altice S.A.

## Comment of MFRConsulting

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## The Risk Inherent in Altice's Acquisition of Suddenlink

There are several compelling reasons to review the proposed acquisition of Suddenlink more carefully and thoroughly than is yet evident in the few comments that have been filed, despite its relatively small size compared to other transactions. The most notable other pending transaction is the proposed Comcast/TWC/BHN merger. Altice and Cequel have so far not demonstrated, despite their assertion to the contrary, that this acquisition will serve the public interest[1]. Issues requiring careful evaluation raised by the Suddenlink transaction include (this is not necessarily an exhaustive list):

- The combined impact of Altice's acquisition of Suddenlink and its later announcement of a deal to acquire Cablevision[2];
- The consequences of the high debt load that will be incurred by the consummation of these two deals for investment in the US in broadband infrastructure and customer care and the fulfillment of the obligations in these cable operators' franchise agreements (payment of fees, conditions for PEG channels etc.);
- The credibility of claims about huge cost savings due to synergies and the introduction of best practices, and the relevance of Altice's claims about the improvements in costs and performance it can achieve with Suddenlink (and

[1] *Ex parte* presentation, http://apps.fcc.gov/ecfs/document/view?id=60001325396
[2] Acquisition of Cablevision, September 17 2015, http://altice.net/wp-content/uploads/2015/09/20150917-Cablevision-IR-Presentation.pd,f

Cablevision) based on the performance of other cable properties in the very different market environments and competitive, regulatory and economic circumstances found in countries from Israel and the Dominican Republic to Europe[3];
- The relative priorities an Altice-controlled cable operation is likely to follow, for example in terms of investing so as to serve customers better as compared to financial engineering that does nothing for them[4].

Assessment of these and possibly other factors may justify rejection of the Suddenlink (and Cablevision) deals as currently configured, or the imposition of significant enforceable conditions[5] and the establishment of efficient mechanisms for their timely enforcement to avoid or mitigate the harmful consequences for stakeholders from customers to franchise authorities that may otherwise ensue.

The Altice/Suddenlink transaction, when combined with Cablevision even though these two companies do not overlap in coverage, is part of the current wave of consolidation in the cable industry. If consummated as proposed this consolidation will create a substantial financial risk for the future of US broadband. Financial risk was not an issue in Comcast's proposed acquisition of Time Warner Cable (TWC). This initiative was abandoned once it became apparent that the Federal Communications Commission (FCC) would reject it on credible evidence of anti-competitive consequences and harm to the public interest. Pending cable acquisitions - Altice/Cablevision/Suddenlink and the larger New Charter (Charter/TWC/Bright House Networks (BHN)) - present similar risks on a smaller scale. More troubling is that their structures pose additional debt-based threats to the future healthy development of US broadband and achievement of other objectives in the public interest that was absent from the Comcast/TWC combination.

The financial resources of a Comcast/TWC combination would have been more than sufficient to invest to upgrade and expand the coverage of its networks and improve its miserable customer service. However the record of this family-run company demonstrated a persistent preference for spending large sums on stock buybacks ($21.6 billion from 2006-2014) that do not benefit customers (unless they are major shareholders), instead of applying more resources to improve well-documented highly unsatisfactory customer experiences. In contrast the businesses that these other consolidations would create (that are unlikely to be the last proposed mergers) will carry heavy debt loads. These debts are incurred to finance

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[3] Letter, Humboldt County Board of Supervisors, http://apps.fcc.gov/ecfs/document/view?id=60001122740

[4] "It's Drahi Versus Malone as Student Takes On Teacher," http://www.bloomberg.com/news/articles/2015-09-17/patrick-drahi-vs-john-malone-a-student-takes-on-his-teacher

[5] See for example the California Emerging Technology Fund, http://apps.fcc.gov/ecfs/document/view?id=60001118335

transactions that handsomely reward a few individuals (and investment banks and other advisers) upon their consummation, but do nothing for customers. These debts (a significant proportion of it may be rated as junk) imperil their future ability to invest in order to offer all potential customers within their franchise areas affordable, quality services as technologies improve and demands grow. This risk will grow if as expected and is already emerging, interest rates on corporate debt begin to increase from the historically low levels that have prevailed over the past seven years[6].

The participants claim that they will achieve substantial cost savings. These savings amount to $900 million annually in the case of Altice/Cablevision[7], even more than the $800 million claimed by the much larger New Charter whose franchise areas encompass over 40% of US households.

Allegedly the new configurations of US cable operators will also create more jobs in the US and generate other transaction-specific benefits. It requires an unreasonably high level of trust to accept the validity of these claims, if not a complete suspension of disbelief. They are standard justifications for any merger, even though in the past such targets have not been met, or have not been verified *ex post*. If these claims are overoptimistic the merged business will come under strong pressure to increase its cash flow by limiting investments, squeezing more money out of customers by raising prices without providing any increase in value, and cutting as many corners and costs as possible in its operations. Moreover the merger's participants ignore the potential pitfalls inherent in any merger and give no indication of how they will mitigate them. One well-known example is the disruptive effect of uncertainty or threats to their positions that some employees may perceive, resulting in a loss of focus on customers, as well as the costs of integrating or coordinating different computing systems and operational procedures.

The financial circumstances of a post-merger or post-deal business in many effectively competitive sectors of the economy are not necessarily matters of public interest, although important to its shareholders and other investors (and employees whose jobs may be at stake). Stupid or poorly executed business decisions as well as wise and brilliantly executed ones are part and parcel of a competitive market. But cable operators are stewards of scarce and valuable public resources. They benefit from franchises they have been awarded which substantially protect them from competition. They control and operate broadband assets that are vital parts of the national infrastructure on which the health of our economy and the quality of our society are dependent, as well as our ability to achieve longstanding bipartisan goals of public policy. It would be irresponsible to allow major segments of this infrastructure to fall into the hands of organizations in such precarious financial

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[6] "Interest rate rise: turning point looms for US debt binge," September 9 2015, http://www.ft.com/intl/cms/s/0/25f138ce-5636-11e5-9846-de406ccb37f2.html#axzz3nQ9xI400

[7] Acquisition of Cablevision, ibid.

condition that bankruptcy may become their only option to reduce an unserviceable debt load. Charter's bankruptcy in 2009 is evidence of the risks involved.

We deserve operators who give priority to customer care and network deployment and operation as well as innovations in widely affordable services. These priorities require the judicious application of financial resources to benefit all stakeholders. We should not allow the formation of broadband operators whose business directions will be predominantly determined, and attention to customers subverted, by the confining imperatives of financial engineering.

In short, heavily indebted cable operators pose substantial and in some cases unacceptable risks to:

- Customers/users of broadband services,
- Progress in closing the Digital or Broadband Divide,
- Meeting obligations (financial and other) included in cable franchise agreements, and
- Suppliers of services and equipment.

We deserve operators who give priority to customer care and network deployment and operation as well as innovations in widely affordable services. These priorities require the judicious application of financial resources to benefit all stakeholders. We should not allow the formation of broadband operators whose business directions will be predominantly determined, and attention to customers subverted, by the confining imperatives of financial engineering. A future US cable operation involving Suddenlink and Cablevision under the control of Altice as currently proposed gives many signs of falling into this undesirable category.