**Communications**
**Workers of America**
AFL-CIO, CLC

501 Third Street, N.W.
Washington, D.C. 20001-2797
202/434-1100

January 21, 2016

Ms. Marlene Dortch, Secretary
Federal Communications Commission
445 Twelfth Street, S.W.
Washington, D.C. 20554

Dear Ms. Dortch:

**RE: Ex Parte Notice. In the Matter of the Applications Filed for the Transfer of Control of Cablevision Systems Corporation to Altice N.V. WC Docket No. 15-257.**

On January 19, 2016 , Debbie Goldman, Telecommunications Policy Director, Communications Workers of America (CWA) and Randy Barber, CWA Financial Consultant, met with Bill Dever and Jim Bird of the Office of General Counsel; Jodie May, Dennis Johnson, Kris Monteith, and Eric Ralph (the latter via telephone) of the Wireline Competition Bureau; and Susan Singer of the Media Bureau to discuss the above-captioned proceeding.

The attached CWA presentation, "Altice/Cablevision Transaction," formed the basis for the CWA presentation. In addition, we discussed the attached Morningstar Equity Research Report, "Numericable-SFR SA."

During the meeting, CWA stated that the transaction as currently structured will result in significant public interest harm with few, if any, offsetting public interest benefits. The Altice acquisition will more than double Cablevision's debt to $14.5 billion and almost double annual interest payments to $1.1 billion. Altice plans $1.05 billion in operating and capital expenditure cuts. Taken together, the new Cablevision will have fewer financial and human resources to invest in the network and provide quality service to customers. The Commission should deny the petition, or in the alternative, impose conditions to protect the public interest.

***Debt Financing.*** CWA discussed the $8.6 billion in new debt financing for the acquisition. In response to questions from the FCC staff, we supplement our discussion with the following details about the debt financing.

The terms of the $8.6 billion in new debt are as follows:
$1.8 billion senior notes due 2023 and bearing interest at 10.125%
$2.0 billion senior notes due 2025 and bearing interest at 10.875%
$1.0 billion senior guaranteed notes due 2025 and bearing interest at 6.625%
$3.8 billion term loan due 2022 and bearing interest at Libor 3m +4.000% with a Libor floor of 1.000%.[1]

The $3.8 billion in senior notes is secured debt, the $1.0 billion is in guaranteed notes, and the additional $3.8 billion term loan is unsecured.[2] The Cablevision financing has an average cost of 7.6 percent, which came in higher than analysts expected. [3]

Moody's assigned a B1 "highly speculative" corporate family rating (CFR) and B1-PD probability of default rating (PDR) to the wholly-owned Altice subsidiary (Neptune) that will finance the Cablevision acquisition. Moody's explained the rationale for its B1 rating:

> Neptune's B1 CFR reflects its high leverage of over 7x debt/EBITDA (Moody's adjusted) at deal close and the significant business risk inherent in Altice's aggressive cost reduction plans. Moody's believes that Altice will quickly implement its cost cutting programs and realize meaningful savings which will result in falling leverage. However, if the cost cuts drive too fast a pace of organizational change and headcount reduction, this could result in disruptions to Cablevision's service quality and lead to market share erosion. This business risk, combined with the elevated financial risk from the debt raised to fund the transaction are reflected in the B1 corporate family rating.[4]

***$1.05 Billion in Synergy Cuts.*** Altice has announced $900 million "synergy" cuts in operating expense and $150 million in capital expense at the new Cablevision.[5] According to Moody's, Altice will realize almost half ($450 million) of these annual reductions in the first two to three years.[6] These cuts – which are driven by Altice's financial model – will be service-impacting; there are no "merger-related" duplicative operations to be cut and few opportunities to reduce programming expense by delivering more U.S. cable viewers. Rather, Altice told

[1] Altice/Cablevision Reply to CWA-6 Interrogatory Request, New York Public Service Department, Altice/Cablevision Joint Application, Case 15-M-0647.
[2] Altice Press Release, "Altice provides an update on its financing structure," Oct. 2, 2015.
[3] Leigh Thomas, "Altice Shares Tumble as Cablevision deal financing completed," Reuters, Oct. 1, 2015 (available at http://www.reuters.com/article/us-altice-capital-idUSKCN0RV3KI20151001).
[4] Moody's Investor Service, "Moody's Assigns B1 to Neptune Finance Corporation (Altice/Cablevision acquisition financing)," Sept. 24, 2015 (available at https://www.moodys.com/research/Moodys-assigns-B1-to-Neptune-Finco-Corp-AlticeCablevision-acquisition-financing--PR_335284).
[5] CWA Petition to Deny, WC Docket No. 15-157, Dec. 7, 2015; Altice/Cablevision Presentation, "Acquisition of Cablevision," Sept. 17, 2015, p. 18 (available at http://altice.net/ir-group/results-and-presentations/) ("Altice/Cablevision Merger Announcement Presentation").
[6] Joint Reply Comments of Altice N.V. and Cablevision Systems Corporation, WC Docket No. 15-257, Dec. 22, 2015, p. 4.

investors that it aims to almost double Cablevisions' operating cash flow margins (from 28 percent to 50 percent) and to reduce operating expense by almost 300 percent (from $49 to $14 to $16 per customer/month) through "synergy and efficiencies" and "opex rationalization."[7] Cuts of this magnitude cannot be made without impacting service.

CWA's concerns are not mere speculation. Altice's largest subsidiary is the French telecom giant, Numericable-SFR. After Altice bought SFR for $23 billion and merged it with Numericable in 2014, Altice slashed operating and capital budgets, payments to suppliers, leading to the loss of more than one-million customers. Contrary to the Joint Applicants' claims to the Commission, Morningstar Equity Research reported **"[w]e have seen limited fibre expansion beyond its traditional cable TV network and much of its 4G network is due to a sharing agreement with Bouygues (Telecom) that has actually built out the network."** Morningstar expressed skepticism at "management's claims regarding the speed it is building out its 4G wireless and fiber broadband networks, while at the same time it is cutting cap ex. We don't believe such a buildout is feasible without higher capex."[8] (See attached Morningstar Equity Research, pages 8-9.)

Morningstar also pointed out that Numericable-SFR's revenue declined 3.5 percent on a pro forma basis. However, average revenue per customers (ARPU) improved, **"stemming from its focus on wealthier customers."** Since the firm lost more than one-million customers (3Q2014 to 3Q2015), it appears that the company has focused on high-income customers, letting lower-income, lower-revenue customers leave the company. Speaking to investors, Morningstar marveled at "the speed and amount of cost savings" at the firm after the Altice acquisition. These cuts, which have helped boost profit margins, have come at the expense of the public interest in universal, affordable service and investment in next-generation fiber and wireless networks.

Moreover, Altice is paying a premium price for Cablevision. In a filing to the Securities and Exchange Commission, Cablevision provided valuation analyses by three separate investment advisors using seven different methodologies. The analyses show that Altice is paying somewhere between 41 percent and 161 percent more than the implied value of Cablevision. (See table below)

[7] Altice/Cablevision Presentation, "Acquisition of Cablevision," Sept. 17, 2015, p. 18 (available at http://altice.net/ir-group/results-and-presentations/).
[8] Morningstar Equity Research, "Numericable-SFR SA," pp.8-9.

| CVC Advisors' Analyses of Its Implied Value Using Various Methodologies | | | | |
|---|---|---|---|---|
| | Implied Per Share Equity Value | | Versus $34.90 Per Share Merger Consideration | |
| | Low | High | Low | High |
| Comparable Company Analysis | $15.62 | $23.42 | -55.2% | -32.9% |
| Precedent Transaction Comparisons | $24.11 | $31.87 | -30.9% | -8.7% |
| Discounted Cash Flows - Cablevision Projections | | | | |
| Terminal Multiple Method | $12.38 | $20.64 | 64.5% | 40.9% |
| Perpetuity Growth Method | $6.40 | $20.74 | -81.7% | -40.6% |
| Discounted Cash Flows - Wall Street Projections | | | | |
| Terminal Multiple Method | $15.66 | $24.22 | -55.1% | -30.6% |
| Perpetuity Growth Method | $12.21 | $31.32 | -65.0% | -10.3% |
| Discounted Wall Street Target Prices | $7.35 | $21.04 | -78.9% | -39.7% |
| **Unweighted Average** | **$13.39** | **$24.75** | **-61.6%** | **-29.1%** |

*Source: Cablevision SEC Form 14-C Final, Filed December 2, 2015, pp. 36-39*

CWA stated that the Joint Applicants have provided the Commission with little evidence to evaluate the vague promises and unsubstantiated claims in their Application and Reply Comments. CWA urged the Commission to issue a detailed data request which would, at a minimum, obtain information in the following areas:

a. Broadband deployment. Detailed and granular information about the current state of broadband (speeds, price, data caps), plans and timetables and capital allocation to upgrade and expand broadband deployment through 2017.
b. Financial information. All documents prepared for Altice and/or Cablevision Board of Directors and management that include information on capital structure, financing, annual interest and principal payments, 5-year forecast for Cablevision including revenue, operating expense, EBITDA, net income, capital expenditures, cash flow.
c. Detail on synergies for Cablevision, including what, how, timing. Detail on synergies at Altice acquisitions over the past 5 years.
d. Multi-year financial, operational, capital investment, and other projections and business plans for Cablevision.
e. Retail service quality. Detailed and granular information on retail and wholesale service performance for Cablevisions' voice, video, broadband services.
f. Employment impacts. Baseline detailed and granular employment data, including the number of jobs by title and job function, and employment projection for the next five years, including plans regarding staffing of call centers.
g. Numericable – SFR and Portugal Telecom. Subscriber information, revenue, earnings, capital and operating expenses for the 5 years prior to Altice purchase and since Altice purchase.

Finally, CWA stated that the Joint Applicants have failed to demonstrate that the transaction, as currently structured, serves the public interest. CWA reiterated conditions that could protect and promote the public interest in universal, affordable service, investment in next-generation networks, and quality service. They include concrete, verifiable commitments regarding broadband expansion, service quality, capital and operating expenses, reasonable limits on “upstreaming of dividends” to parent Altice, commitments to maintain and grow employment and respect for workers’ rights.

Sincerely,

Debbie Goldman
Telecommunications Policy Director
Communications Workers of America

cc: Bill Dever, Jodie May, Dennis Johnson, Susan Singer, Jim Bird, Randy Barber, Kris Monteith, Eric Ralph

Attachments
CWA Presentation: Altice/Cablevision Transaction
Morningstar Equity Research, “Numericable-SFR SA”