

# Altice/Cablevision Transaction

## WC Docket No. 15-257

Communications Workers of America

Ex Parte Presentation

January 19, 2016

# The Commission should deny the transaction or in the alternative impose conditions

- CWA represents 300 Cablevision technicians in Brooklyn NY, and thousands of working families in NY, NJ, CT
- Commission must conduct thorough review. This is an important transaction impacting 3.1 million customers in NY, NJ, CT, including our nation's largest city. Joint applicants have provided only vague promises and little information to Commission. No concrete, verifiable transaction-related public interest benefits and significant public interest harms
- Altice business model in Europe: load acquisition with debt, slash expenses, cut service, lose customers
- Altice \$17.7 billion purchase of Cablevision is following this playbook
  - Highly leveraged financing will more than double debt to \$14.5 billion and almost double annual interest expense
  - Altice plans \$1.05 billion in operating and capital expenditures cuts

# The Altice/Cablevision transaction will result in reduced investment and service

- Highly leveraged transaction
  - \$8.6 billion in new debt plus \$5.9 billion in current debt = \$14.5 billion net debt
- Annual interest payments
  - \$550 in new interest payments + \$559 in current interest payments = total \$1.1 billion in annual interest payments
- Debt rating agencies are worried
  - Moody's: Net debt at 8 times EBIDTA "creates a risk for a company in a capital intensive, competitive industry." (9/17/2016) Downgraded Altice's largest subsidiary, French Numericable-SFR: "The ratings...consider the risks associated with the growing complexity of the aggregate Altice group organization, which has been assembled in a short time period through debt funded acquisitions." (10/14/2016)
  - Standard & Poors: Credit watch with negative implications which "reflects the potential for at least a one notch downgrade upon completion of the acquisition." (9/17/2016)
- Cablevision investors are worried. Stock is trading 11 percent below offering price (as of 1/15/2016)

# Altice business model:

## Operate subsidiaries as credit silos

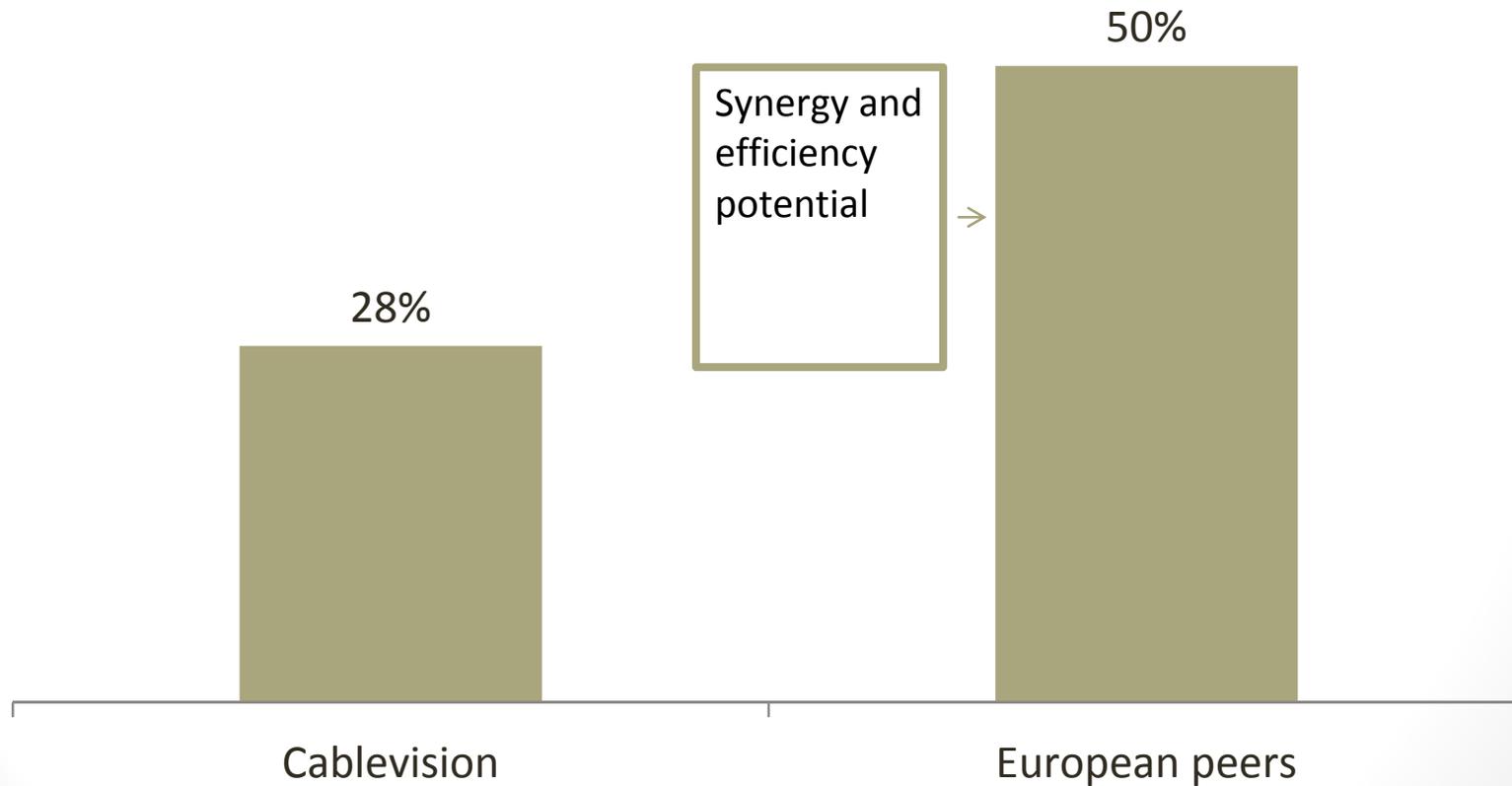
- Altice claim that Cablevision will benefit from Altice’s “global scale and access to capital” is disingenuous and misleading
- Altice operates each subsidiary as a distinct credit silo. Cablevision must service from its own resources the debt that Altice borrows to purchase Cablevision.
- In addition, Altice requires subsidiaries to provide cash to the parent for their own and future acquisitions.
- October 2015: Altice required its largest subsidiary, Numericable-SFR, to borrow €1.68 billion to pay parent Altice a special dividend. Purpose: Pay down Altice debt financing for purchase of remaining 60 percent stake in Numericable-SFR
- There is a very real possibility – absent conditions – Altice could use cash flow from Cablevision to continue its buying spree, further straining Cablevision resources to invest in its operations and network upgrades

# Altice plans \$1.05 billion in “synergy” cuts

- **Capital Expense: \$150 million cut**
  - 17.3% cut from Cablevision’s current \$866 million annual cap ex (period ending 9/30/15)
- **Operating Expense: \$900 million**
  - 18% cut from Cablevision’s current annual \$4.8 billion op ex (period ending 9/30/15)
  - Network & Operations: \$315 million cut
  - Customer Operations: \$135 million cut
  - Sales and marketing: \$45 million cut
  - Eliminate duplicative functions and “public company” costs: \$135 million
  - Other unspecified cuts: \$135 million
- **Synergies are not just “speculation”**
  - Financial model drives need for draconian cuts
  - This is the Altice playbook (Numericable-SFR)
- **Altice “synergy” cuts will occur in the short-term and be service-impacting**
  - There are no “merger-related” duplicative operations to be cut
  - There are few opportunities to reduce programming expense.” U.S. programmers calculate number of U.S. “eyeballs,” not “global reach”
  - Moody’s says cuts will be in first 2-3 years

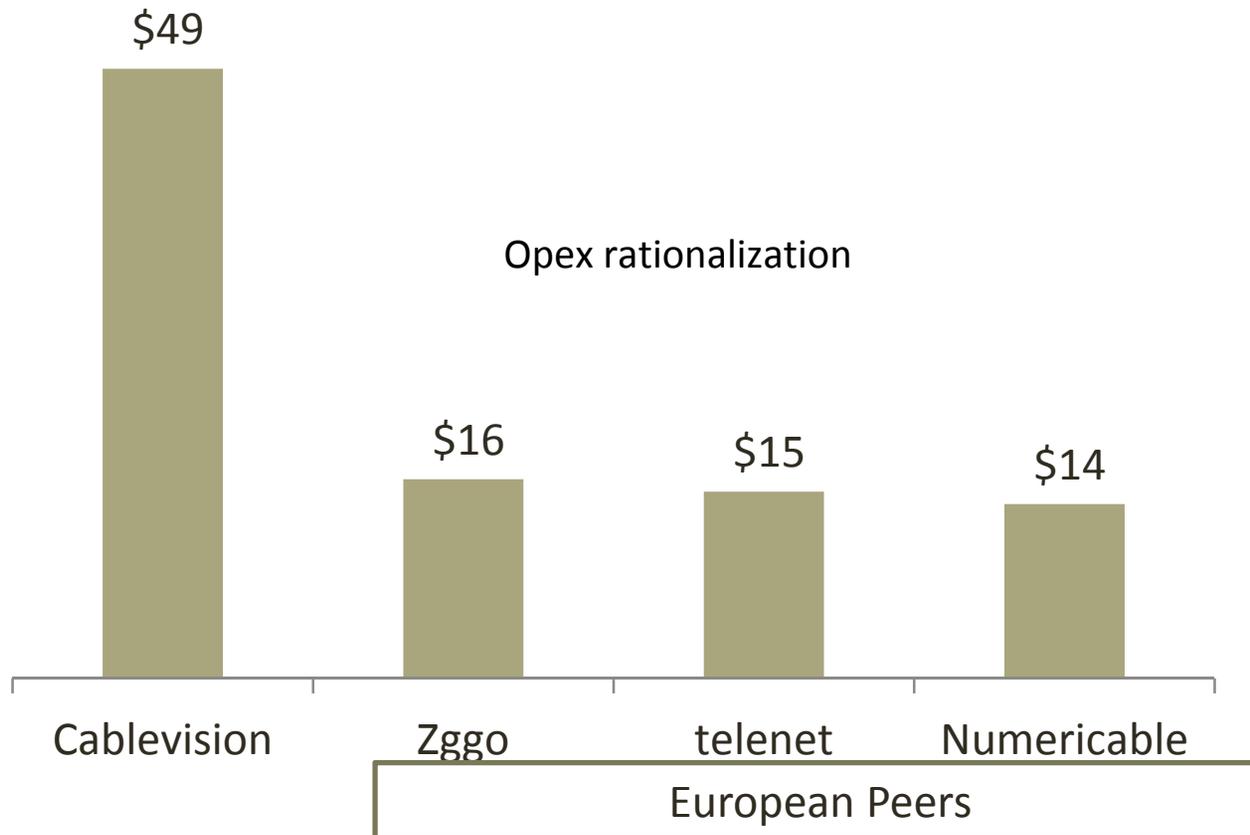
From Altice Presentation to Investors (9/17/2016)  
Altice Explains: “Scope to Achieve Significant Synergies and Efficiencies”

**2014 Operating Cash Flow/EBIDTA Margins**



# From Altice Presentation to Investors (9/17/2016) Altice Explains: “Translating Best-in-Class ARPU into Best-in-Class Profitability”

Opex per customer/month



# Altice's Dismal Track Record in France

- After Altice bought SFR for \$23 billion and merged it with Numericable in 2014 “what followed was aggressive restructuring that is now recognized as Mr. Drahi’s playbook: Altice sends in a team of executives to cut costs in everything from staff to suppliers.”  
*(Wall Street Journal, 10/26/15)*
- Cut payment to suppliers – make suppliers become short-term lenders. French Economy Ministry fine of €750 million for “significant and repeated delays in the payment of invoices to suppliers”
- Impact on workforce. From joint union statement: “From our experience with Altice acquisition in France and Portugal we know that the company often seeks to cut costs and pay off debt through measures that most impact the workforce and their families such as lay-offs, outsourcing, and off-shoring – forcing workers out of their jobs or into lower-paid precarious work in the outsourced companies. Altice has also demonstrated its failure to make timely payments to suppliers and contractors, often forcing those companies into unstable financial situations.”
- Impact – Subscriber Loss (3Q2014 to 3Q2015; Source: Deutsche Bank 10/29/2015)
  - Mobile: Lost 1.256 million subscribers (5.4 percent of subscribers)
  - Retail broadband: Lost 246,000 subscribers (3.7 percent of subscribers)
  - Home connections: Lost 719,000 connections (7.2 percent of subscribers)

# Altice is paying a premium price for Cablevision

## 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%
<b>Unweighted Average</b>	<b>\$13.39</b>	<b>\$24.75</b>	<b>-61.6%</b>	<b>-29.1%</b>

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

# Trust us is not enough – Commission should issue comprehensive data request

- Joint Applicants provide little evidence to evaluate their vague promises and claims
- Commission should issue a detailed data request to include:
  - Broadband deployment. Detailed and granular information about the current state of broadband (speeds, price, data caps), plans and timetables and capital allocations to upgrade and expend broadband deployment through 2017
  - Financial information. All documents prepared for Altice/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
  - Detail on synergies, including what, how, timing. Details on synergies Altice has realized at acquisitions over the past 5 years

# Trust us is not enough – Commission should issue comprehensive data request (2)

(continued)

Commission detailed data request to include:

- Multi-year financial, operational, capital investment, and other projections and business plans for the post-transaction Cablevision
- Retail service quality. Detailed and granular information on retail and wholesale service quality for Cablevision's voice, video, broadband services
- Employment impacts. Baseline detailed and granular employment data, including the number of jobs by title and function, employment projections for the next 5 years, call center staffing plans
- Numericable-SFR and Portugal Telecom. Subscriber information, revenue, earnings, capital and operating investment for the 5 years prior to Altice purchase and since the Altice purchase

# Commission should deny transaction or in the alternative impose conditions

Conditions to protect and promote the public interest

- Broadband expansion. Concrete verifiable commitments, with timetables
- Service quality. Specific, verifiable commitments for repair and installation intervals, trouble and repeat trouble reporting, public reporting, penalties for non-compliance
- Capital and operating expenses. Concrete verifiable commitments for capital and operating expenses at least at pre-transaction Cablevision levels and higher where necessary to address deficiencies
- Financing future acquisitions. Reasonable limits on “upstreaming” of dividends to parent Altice
- Jobs. No lay-offs, maintain or grow employment levels
- Respect workers’ rights