Memo

City of Lincoln, NE

To: City Council

From: Steven Huggenberger

CC:

Date: October 22, 2015

Re: Telecom/Cable Television Advisory Board Recommendation on a cable television franchise transfer request

On October 21, 2015, the Telecommunication/Cable Television Advisory Board received further information from Charter Communications' representatives regarding the financial wherewithal of the post merger company. The information and materials submitted by Charter and considered by the Board are attached to this Memo. After extensive discussion and questioning of the Charter representatives, a motion to deny the transfer request was made and seconded. That motion failed on a 3-6 vote. The Board made no further change to its October 14 recommendation to approve the transfer with conditions.

Attached is a Substitute Resolution which, after negotiations with Charter, reflects minor modifications from the Telecom Board recommendation. While the Charter representatives would not explicitly agree to continue certain current TWC practices and interpretations of franchise requirements, they did indicate they have no plans to make any changes to such. Those current practices include:

1. TWC has agreed that they will provide government offices with whatever additional equipment (digital adapters, set top boxes, etc.) required for viewing the programming provided by the franchisee, at no charge for the remainder of the franchise period.
2. While Section 8.3 of the franchise states that TWC will continue to provide free service to both City and County offices for which they were providing service as of the beginning of the term, they have actually read that as being any government building that they were providing service as of the beginning of the term. These may include a few peripheral offices that may arguably not be a City office. Just want the service to those offices to continue at no charge.
3. TWC has allowed the Health channel (channel 10) to operate as a Government Access channel without objection.
4. TWC has chosen to refrain from any objection it may have related to the City's granting a cable television franchise to Windstream Nebraska, Inc.

555 S. 10th Street
Lincoln, NE 68508
Phone: 402-441-7286
Fax: 402-441-8812
E-Mail: shuggenberger@lincoln.ne.gov

Charter

VIA ELECTRONIC MAIL

October 21, 2015

Steven Huggenberger
Assistant City Attorney
City Law Department, Room 300
Lincoln, NE 68508

Re: FCC Form 394; Response to Second Request for Information for City of Lincoln, NE

Dear Mr. Huggenberger:

This responds to your additional inquiries regarding the FCC Form 394 ("Application") that Charter Communications, Inc. ("Charter Communications") and Time Warner Cable Inc. ("TWC") filed with the City of Lincoln ("Lincoln" or the "City") for consent to transfer control of the local cable system to Charter.

Responses to Supplemental Requests for Information

1. **Explain more about the Debt Structure (general information requested) and will that Debt Structure impact the ability to provide service in Lincoln?**

The City's concerns regarding the debt associated with the financing of the transaction and its impact on rates and service are misplaced for several reasons.

First, as explained below, Charter has no current plans to raise customer rates. While the company reserves the right to make changes to its pricing and packaging in the future, it has expressly stated that the transaction does not itself require an increase in the existing rate structure.

Second, Charter believes that the enhanced scale resulting from the transaction will create substantial operating efficiencies and customer benefit, driving results and financial strength. For example, New Charter will have a larger subscriber base over which to spread fixed costs and make more investment that the company or TWC might otherwise not have made absent the transaction. Charter's investment philosophy since 2012 reflects its optimism regarding its ability to increase its scale, which in turn should increase the return profile for the company's fixed-cost investments by reducing average fixed cost per customer and per passing. Charter has not only significantly increased capital spending, but it has also meaningfully invested in projects and platforms (*e.g.*, the development of Charter's cloud-based video interface called Spectrum

Guide and the development of Worldbox) that will demonstrate their full capabilities as Charter's scale increases.

With the all-digital project now complete at Charter, New Charter's scale will provide the pro forma entity with the ability to apply a more capital-intensive approach to taking TWC all-digital, faster than TWC is deploying today. Similarly, because Charter has completed its project of bringing Internet speeds to a minimum of 60 Mbps, New Charter can focus all the resources of the combined company on completing the same project for current TWC assets, including in Lincoln.

Furthermore, New Charter's greater geographic reach and enhanced footprint following the transaction will position New Charter to better compete for enterprise customers, and thus improve competition in that sector. Again, this greater geographic reach and footprint could not be achieved unless Charter merged with an entity serving geographic areas that Charter currently does not serve. To date, the geographic limitations of their respective networks have hindered Charter and TWC from competing effectively against other enterprise business providers, such as incumbent telephone providers, that have networks with national scale and scope that can better serve larger customers that have multiple office locations. Where a customer's business spans multiple areas served by different cable companies, in fact, a cable company with a limited footprint is often not an option at all. The transaction will help overcome these limitations by replacing the limited footprints of the individual applicants with the expanded footprint of New Charter.

The transaction will also bring synergies that will substantially reduce New Charter's costs. Such merger-specific efficiencies will be driven by increased scale and generate cost savings in a number of areas. Combined purchasing, overhead, product development, engineering, and IT will generate OpEx and CapEx synergies. Cost synergies are also inherent in simple, uniform operating practices, pricing and packaging. This will be designed to improve service, promote growth and create operating leverage. Tax efficiencies resulting from the combination will further generate free cash flow. The TWC subsidiaries, including the one operating in Lincoln, will therefore become part of an organization with a solid balance sheet and the financial capabilities needed to undertake the transaction and provide high-quality services.

Charter is financially strong today and will become even stronger tomorrow. The company is the fastest growing publicly traded cable company in the country. After the transaction, New Charter will serve more customers, generate more revenue and earn more EBITDA, strengthening its financial qualifications. Nationwide, voice will increase from 2.6 to 9.4 million; broadband will increase from 5.1 to 19.4 million; and video will increase from 4.3 to 17.3 million. Pro forma revenue will rise from $9.1 B to $35.7 B.

Regarding your specific inquiry about the debt structure, as a starting point, it should be noted that Charter's business plan is fully funded, which means no additional debt is required for the company to execute the plan and projections found in our S4. The operating business is expected to be cash flow positive at the time the transaction closes which, together with future cash flow growth, supports the payment of interest expenses and principal repayments.

New Charter's capital structure has been viewed as both innovative, while simple to understand, and prudent, as evidenced by significant equity investments as a part of the transaction, overwhelming shareholder approval of both Charter and TWC shareholders, and a positive response from the rating agencies.

While approximately $24B of debt has been/will be raised to fund a portion of the cash payment to TWC and the other party to this transaction, Bright House Networks ("BHN"), two very successful cable investors (Liberty and Advanced Newhouse) are contributing approximately $14 billion of equity as part of the transaction. This is a tremendous vote of confidence in the Charter management team and the operating strategy which has been executed with great success over the last three years.

All three rating agencies have published their views of the transactions as credit positive. Moody's is expected to increase the rating from Ba3 to Ba2[1]; S&P announced a potential two-notch increase from BB- to BB+[2]; and Fitch expected an increase of up to two notches, from BB- to BB+.

There are several reasons for improved optimism about Charter's financial strength post-transaction, including the following:

- As mentioned above, the business plan is fully funded.
- The combined companies will benefit and more effectively compete due to the benefits of scale (see above).
- 4.5x is a prudent amount of leverage given the capital structure's long-dated nature (less than one half of one percent of its debt is payable in 2016 and more than 91% is due beyond 2018) and low cost (5.5%), combined with New Charter's growth profile, tax assets and overall deleveraging profile of roughly 0.5x per year.
    - Leverage ratios of multichannel video programming distributors sourced from Bloomberg and derived from company filings at Q2 2015 were: WOW! – 6.7x; Suddenlink – 5.6x; Mediacom BB – 5.1x; CVC (Cablevision) – 4.6x; DISH – 4.3x; and Mediacom LLC – 4.2x. It is worth noting that both Cablevision and Suddenlink have agreed to be acquired by the French cable operator Altice, and the resulting leverage ratios of both companies is expected to increase to more than 7.0x with a much shorter weighted average life of debt combined with significantly higher average cost of debt when compared to New Charter.
- Current Charter interest expense is $0.7B supported by $1.0B operating cash flow (EBITDA less Capex) in 2014 – yielding a cash flow to debt ratio of 1.4x. That number improves following the transaction, as pro forma interest expense is projected to be $3.3B supported by $7.8B operating cash flow in 2016 – a 2.4x ratio. Operating cash flow is

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[1] *See Moody's Places Charter's Ba3 CFR on Review for Upgrade Following TWC Merger Announcement*, Moody's Investor's Service (May 26, 2015).

[2] *S&P Keeps Charter Communications (CHTR) on CreditWatch Positive Amid Time Warner Cable (TWC) Deal*, Standard & Poor's Rating Services (May 26, 2015).

expected to increase to $13.7B in 2019, nearly 14x current Charter's operating cash flow while the interest expense will only increase by 4.0x current Charter.
- Roughly 85% of New Charter's low cost debt is fixed, which protects against a rising rate environment.
- New Charter's weighted average cost of debt ("WACD") will be approximately 5.5% which is approximately 0.9% lower than TWC's WACD today of 6.4%.

Finally, New Charter has a built-in incentive to maintain fiscally responsible debt levels – it will have to answer to investors. Charter's bond offerings issued to raise proceeds to complete the transaction have been well received by the market, reflecting that bond investors share shareholders' favorable view concerning New Charter's prospects.

As for *The Washington Post* article, it is very relevant to consider how the rating agencies have viewed the transaction. The first paragraph of the article says "TWC bonds have lost 16x more than the broader market this year." What is missing from that statement, and the rest of the article, is a comparison of how TWC bonds traded immediately *after* the transaction was announced. The TWC debt structure yields rallied nearly 9% the day the transaction was announced, which is a resounding sign of approval from TWC bondholders.

2. **Will New Charter continue to offer the $15 lower speed tier of broadband service in Lincoln?**

As previously explained, Charter has no current plans to raise customer rates. Charter will introduce new pricing and packaging and in many instances, will continue to sell these new offerings alongside existing services. Additionally, existing customers will be permitted to remain in their packages and may choose to migrate to new Charter offerings at their discretion. While the company reserves the right to make changes to its pricing and packaging in the future, it has expressly stated that the transaction does not itself require an increase in the existing rate structure.

3. **Provide the pricing and package information from existing Charter offers.**

See Attachment A, which will be provided in person by Gary Underwood.

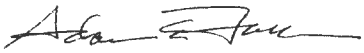
4. **What equipment offers will Charter during an All-Digital conversion?**

It has been customary in the past for Charter to establish promotional offers of up to two free digital boxes to qualified existing customers for up to 24 months following the launch of all-digital service, depending upon the customers' level of service. These promotional offers permit customers to experience the benefits of the digital offering for an extended period of time before any resulting pricing impact.

We hope this information is helpful. We look forward to working with you toward a successful Application review process. As always, please feel free to contact me at 202.621.1910, send an email to adamfalk-gvt@charter.com, or send a facsimile to 202.733.5960.

Thank you.

Sincerely,



Adam E. Falk
Senior Vice President, State Government Affairs
Charter Communications

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Rating Action: Moody's places Charter's Ba3 CFR on review for upgrade following TWC merger announcement

Global Credit Research - 26 May 2015

New York, May 26, 2015 -- Moody's Investors Service has placed the ratings for Charter Communications Inc. ("Charter") on review for upgrade, including Charter's Ba3 Corporate Family Rating (CFR), Ba3-PD PDR and (P)B1 shelf rating following the announcement that Charter will purchase Time Warner Cable, Inc. ("TWC") for approximately $80 billion. Based on the proposed capital structure, Moody's has placed the Baa3 rating on the secured debt at Charter Communications Operating, LLC ("CCO") on review for downgrade. In addition to the acquisition of Time Warner Cable, Charter will also purchase Bright House Networks ("Bright House") for approximately $10 billion. The transactions value TWC and BHN at approximately 9.1x and 7.6x EV/EBITDA respectively. The review for upgrade will focus on the substantial scale benefits and cost synergy opportunity for the post-close entity, as well as the execution risk required to achieve the potential savings. The high proportion of equity consideration in the two deals (approximately $41 billion) will result in leverage in the mid-4x range (Debt/EBITDA, Moody's adjusted) and strong free cash flows. Moody's expects the upward ratings impact on the CFR to be limited to one notch. The secured debt component of the proposed capital structure represents approximately three-fourths of the total debt capital, which is likely to result in only one notch of ratings differential versus the CFR.

..Issuer: Charter Communications Inc.

.... Corporate Family Rating (Local Currency), Placed on Review for Upgrade, currently Ba3

.... Probability of Default Rating, Placed on Review for Upgrade, currently Ba3-PD

....Senior Unsecured Shelf (Local Currency), Placed on Review for Upgrade, currently (P)B1

....Speculative Grade Liquidity Rating, unchanged SGL-2

....Outlook, Changed To Rating Under Review From Stable

..Issuer: Charter Communications Operating, LLC

....Senior Secured Bank Credit Facility (Local Currency), Placed on Review for Downgrade, currently Baa3

....Outlook, Changed To Rating Under Review From Stable

..Issuer: CCO Holdings, LLC

....Senior Unsecured Regular Bond/Debenture (Local Currency), Placed on Review for Upgrade, currently B1

....Senior Unsecured Shelf (Local Currency), Placed on Review for Upgrade, currently (P)B1

....Outlook, Changed To Rating Under Review From Stable

RATINGS RATIONALE

The incremental scale achieved through the transaction and the large equity consideration in the deal are the key drivers of the potential positive rating migration. Charter will gain leverage with respect to the procurement of content and capital equipment, which should yield a meaningful cost savings opportunity. The increased scale will also allow for more robust product capability investments, as development costs will now be spread across a much larger subscriber and revenue base. The company's market position should remain solid, with a leading broadband infrastructure and growing commercial opportunity. Moody's believes that the cable industry has inherent scale advantages, and the proposed transaction aims to capitalize upon these benefits. If successful, the Charter-TWC-Bright House merger would create the second largest cable operator in the US behind only Comcast Corporation (A3, Positive) with approximately 17 million residential video customers, 18 million residential high speed data customers and 9 million residential telephony customers. The three companies combined revenue for 2014 was approximately $36 billion and combined EBITDA was roughly $13 billion (Moody's adjusted).

Offsetting these strengths, Charter's credit metrics will remain weak for a company of this size, as leverage is anticipated to be just over 4.5x and free cash flow of about 5% of total debt (both on a Moody's adjusted basis). Charter will need to invest heavily to integrate the businesses and transition to a single operational platform in order to achieve the projected cost synergies. The business integration introduces risk of elevated customer churn and market share erosion if service quality deteriorates during the integration phase. In addition, the US pay-TV market has reached a maturity point and new technologies are threatening the traditional business model. Content costs continue to rise and competition may prevent operators from passing the higher costs along to customers.

With its headquarters in Stamford, Connecticut, Charter currently serves approximately 4.3 million total video subscribers, 5.1 total high speed data ("HSD") subscribers and 2.6 million telephony subscribers. Charter's annual revenue for 2014 was approximately $9.1 billion.

The principal methodology used in these ratings was Global Pay Television - Cable and Direct-to-Home Satellite Operators published in April 2013. Other methodologies used include Loss Given Default for Speculative-Grade Non-Financial Companies in the U.S., Canada and EMEA published in June 2009. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.

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Related Issuers

CCO Holdings, LLC

Charter Communications Inc.

Charter Communications Operating, LLC

Related Research

Credit Opinion: Charter Communications Inc.

Rating List: MOODY'S INVESTORS SERVICE -- UPDATE ON CREDIT RATINGS REMAINING ON REVIEW

Rating List: MOODY'S INVESTORS SERVICE -- UPDATE ON CREDIT RATINGS REMAINING ON REVIEW

Covenant Quality Assessment: CCO Safari II, LLC (to be assumed by Charter Communications Operating, LLC and Charter Communications Operating Capital Corp. if the escrow release occurs): Covenant Quality Post-Sale Snapshot: $15,500m Senior Secured Notes due Various Maturities

Rating Action: Moody's assigns Ba1 to Charter's proposed 1st lien senior secured term loan

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Neil P Begley
Senior Vice President
Corporate Finance Group
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

John C Diaz
MD - Corporate Finance
Corporate Finance Group
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

Releasing Office:
Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
U.S.A.
JOURNALISTS: 212-553-0376
SUBSCRIBERS: 212-553-1653

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Block the Charter-Time Warner Cable deal, opponents tell the FCC

By Brian Fung October 14

Consumer advocacy groups and major corporations are lining up against the Charter Communications bid to acquire Time Warner Cable, a $55 billion deal that must be approved by regulators at the Federal Communications Commission.

Among those opposing the tie-up is Dish Network, the nation's second-largest provider of satellite television. It argued in a regulatory filing Tuesday that a Charter-TWC acquisition would be "no better" than Comcast's earlier attempt to buy up TWC, a move that ultimately failed amid regulatory scrutiny.

Advocacy organizations including Public Knowledge, Common Cause and Open MIC all wrote jointly to the FCC warning that the combined company would be able to strangle streaming online video services such as Dish's SlingTV or HBO Now. Standalone streaming apps — also known as over-the-top apps for the way their content travels over the Internet — are a growing industry that's poised to lure cable customers away from the traditional bundle.

Even smaller telecom companies are piling on. COMPTEL, a trade group whose members include Sprint and T-Mobile, argued Wednesday that the new combined company would hurt broadband competition. With its 17.3 million TV subscribers and 19 million broadband customers, COMPTEL said, New Charter would have a significant bargaining advantage over its smaller rivals in the cable industry who now have to pay a huge premium to carry channels like ESPN.

It's probably no coincidence that the critiques mirror what the FCC and Justice Department cited as reasons for blocking the Comcast-TWC merger. Officials from both agencies have explained in recent

speeches that Comcast's proposal didn't meet expectations because the merger not only affected other cable companies but also over-the-top services that were indirectly linked to the industry.

Charter, for its part, has gone to great lengths to tell regulators that its merger is different.

"There is no more friendly broadband provider to [online video companies] than Charter," the company said in a statement. "Charter's slowest speed is 60 Mbps, we have no data caps, no contracts and modem fees."

It hired net neutrality lawyer Marvin Ammori. It has the support of Netflix, which told regulators that it sees little threat in Charter. And its own filings argue that even if the deal is approved, it will still have fewer broadband subscribers than Comcast currently serves.

But that clearly isn't stopping opponents from trying to undermine the deal.

Brian Fung covers technology for The Washington Post, focusing on telecommunications and the Internet. Before joining the Post, he was the technology correspondent for National Journal and an associate editor at the Atlantic.

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Watch Out For TWC-Charter Combo's Post-Deal Debt Levels

Trefis Team , Contributor

Charter Communications is reportedly taking out bridge loans worth $13.8 billion in conjunction with its planned acquisition of Time Warner Cable . Charter could need to take on as much as $29.3 Billion in additional debt in order to finance the transaction. The resulting debt levels of the post-merger entity could attain worrisome proportions.

Our price estimate for Time Warner Cable stands at $183, implying a premium of about 3% to the market.

See our complete analysis for Time Warner Cable

Time Warner Cable announced last month that it had entered into a definitive agreement to merge with Charter Communications. Under the terms of the deal, Time Warner Cable shareholders will be paid $195.71/share, $100 in cash and the rest in shares of a new public parent company, tentatively called New Charter, for each Time Warner Cable share outstanding. Charter had earlier agreed to buy Bright House Networks and the Syracuse, NY-based company will also be a part of New Charter. If the merger goes through, New Charter will become a formidable force in both the high speed internet and pay-TV markets. The newly formed company would represent 21% of the high speed internet market with Time Warner Cable, Charter and Bright House accounting for 13%, 6% and 2% respectively. In the pay-TV market, New Charter would account for 17% of the market share. Time Warner cable

has said that the transaction will generate approximately $800 million in cost efficiencies every year. Moreover, New Charter will benefit from the merger synergies, including combined purchasing, overhead, product development, engineering and IT.

Post-Deal Debt Level Could Become A Major Headache

The Time Warner Cable-Charter deal puts Time Warner Cable's enterprise value at $78.7 billion. Charter plans to borrow between $25 Billion to $29.3 billion, depending upon the stock-cash composition of the deal, in order to fund the purchase. Time Warner Cable already carries debt worth $23.3 billion on its balance sheets while Charter's pre-existing debt obligations amount to $13.9 billion. The companies estimate that New Charter's total debt could cross $65 billion once the transaction is completed. The combined 2014 revenue for the merging companies sums up to $35.7 billion while combined adjusted EBITDA amounts to $12.9 billion. This results in a potential Debt-to-EBITDA ratio of 5.09 for New Charter. By comparison, the 2014 Trefis adjusted Debt-to-EBITDA ratios for pay-TV rivals Comcast , DirecTV and Dish Network were 2.00, 2.58 and 4.97 respectively. Pre-merger Time Warner Cable has a Debt-to-EBITDA ratio of 2.82.

Following the merger announcement, Moody's Investors Service has placed Time Warner Cable's debt rating of Baa2 on review, stating that the merger will likely pull the debt rating down to "junk" status. Time Warner Cable's debt rating could drop two notches to Ba1 by the time the review is over. Charter CFO Christopher Winfrey announced last month that Charter had already received financial commitments of over $31 billion in relation to the merger. Almost all of the debt Charter picks up for the transaction will be of "junk" status. Time Warner Cable paid more than $1.4 billion as Interest Expense on the company's $23.7 billion debt last year. Lower rated debt will cost more to service. Servicing around $65 million of "junk" status debt could become very troublesome for New Charter in the long run.

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