

CABLE ONE (CABO)

VALUE_x VAIL 2016

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Disclosures

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Burr Capital LLC overview

- Founded Aug 2015, investment adviser registered in NJ & CA
- Investment management through separately managed accounts
- Philosophy
 - Concentrated (10-20), value oriented, 3-5 year investment horizon
 - Common/preferred stocks, high yield/distressed debt, derivatives
- Strategies
 - **Balanced** 15-25% target IRR
 - **Income** 6+% income yield
 - **Short Volatility** 12-20% target IRR

Investment criteria

1. Good business
 - Barriers to entry / pricing power
 - Contractually recurring or recurring-like cash flows
 - Recession-proof or recession-resistant
 - Avoid highly cyclical and commodity businesses
2. Shareholder-oriented management
3. Strong balance sheet
4. Reasonable price
 - Respect for Wisdom of Crowds
 - Good businesses rarely cheap on easily observable metrics
 - Inflections leading to mispricing & opportunity
 - *Mix shift, capital structure, quality, hidden assets*
 - Prefer the forgotten, ignored
 - Avoid battlegrounds

Cable One (CABO)

Price: \$500 (1.2% div. yield)

Shares: 5.8M

Market Cap: \$2.9B

Cable One (CABO) is a domestic mid-western cable company, spun-off from Graham Holdings in July 2015, operating primarily in non-metropolitan secondary markets in Mississippi, Idaho, Oklahoma, Texas, and Arizona with around 660K subscribers and a cable footprint of 1.6M homes.

Business Quality

- Highly attractive regional monopoly/duopoly enjoying contractually recurring FCF and pricing power
- Powerful secular tailwinds - e-commerce, OTT, and IoT
- Improving business quality and inflection in FCF could lead to multiple expansion
- Under-levered balance sheet with capacity to buy back 60-100% of outstanding shares

Management Quality

- Conservative shareholder-oriented management and exceptional board (Gayner, Weitz, Bergman)

Valuation

- 40% p.a. FCF growth to \$80-90/sh (2020) from \$15/sh (2015); @15-17x worth \$1,200-1,530 in 2019 (30%+ IRR)
- Limited downside: Shares trading at only 12x 2016 steady state FCF
 - *Could repurchase 60-100% of shares by 2020*
- Highly attractive strategic asset for a larger platform company like Charter or Altice

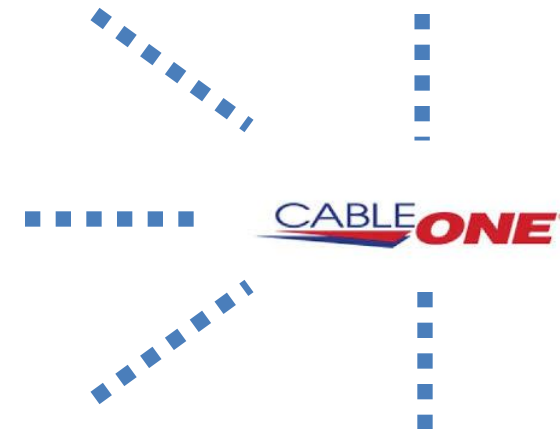
Business quality

*“One of the lessons your management has learned – and, unfortunately, sometimes re-learned – is the **importance of being in businesses where tailwinds prevail rather than headwinds.**”*

-- Warren E. Buffett
Berkshire Hathaway
March 14, 1978

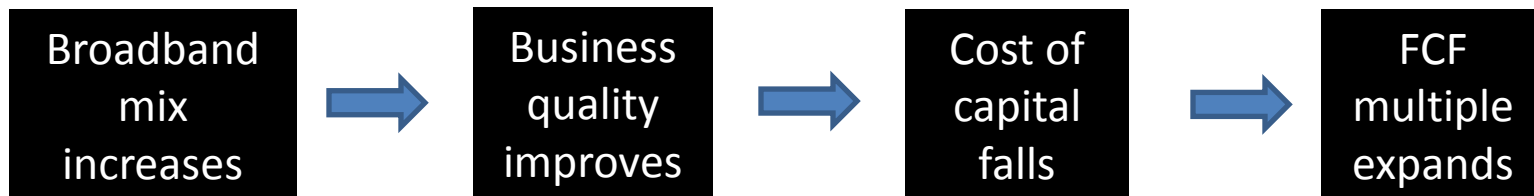
Tailwinds - e-Comm., OTT, IoT

- Nonlinear internet traffic growth
 - “Global IP traffic will increase nearly threefold over the next 5 years”
 - “Globally, IP video traffic will be 82 percent of all consumer Internet traffic by 2020, up from 70 percent in 2015”
 - [Cisco, Visual Networking Index Forecasts, 6/6/2016](#)
- Wi-Fi (not LTE) the workhorse of the internet
 - >80% of monthly data consumption occurring on WiFi networks at home and at work
 - [Mobidia, 2/24/2015](#)
 - “More traffic was offloaded from cellular networks (on to Wi-Fi) than remained on cellular networks in 2015”
 - [Cisco, Visual Networking Index Forecasts, 6/6/2016](#)

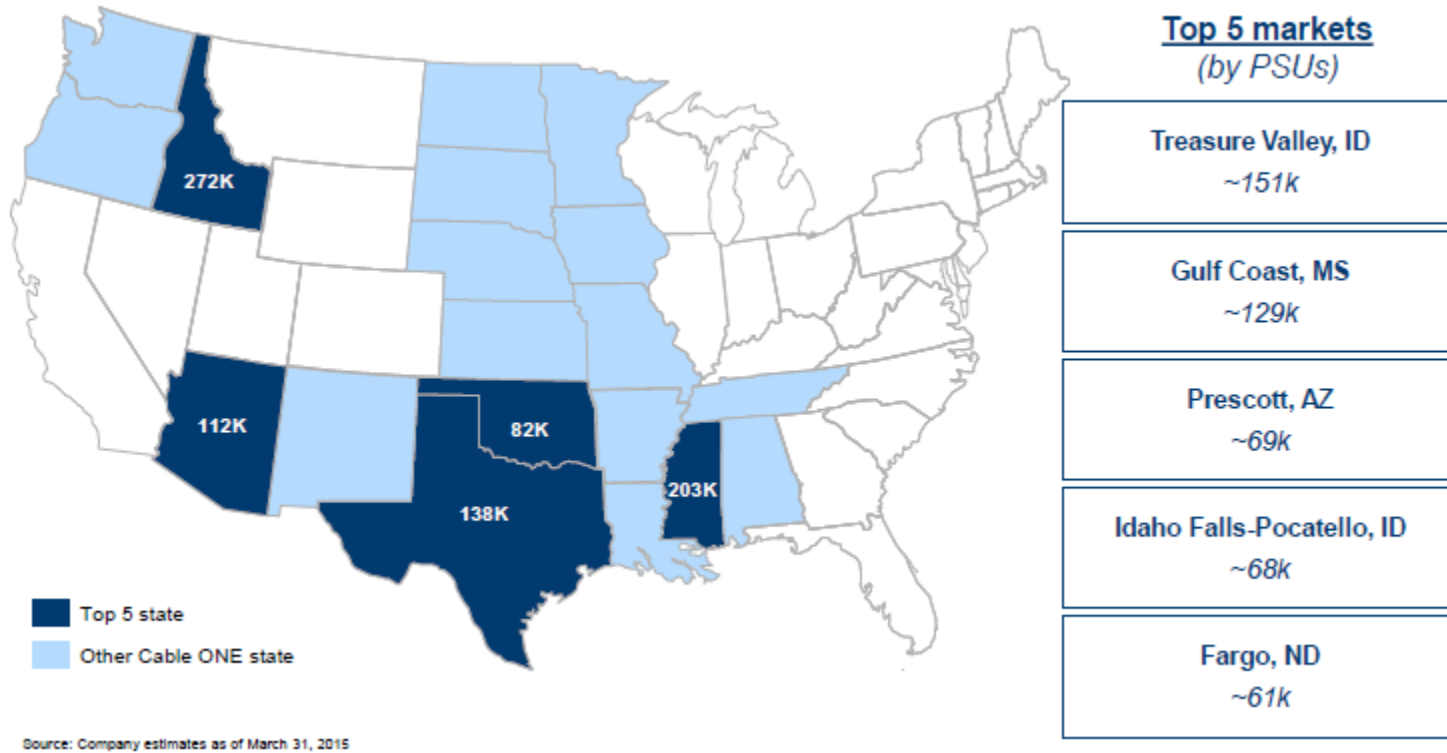


CABO business

- Domestic mid-western cable company, spun-off from Graham Holdings (July 2015)
 - Non-urban secondary markets in Mississippi, Idaho, Oklahoma, Texas, and Arizona
 - ~660K subscribers with a 1.6M cable footprint
- **Monopoly-like internet business**
 - Competes with inferior copper-based telcos (AT&T and CenturyLink)
 - <3% fiber-to-the-home overbuild
- **Unique internet-centric strategy** vs. bundling strategy of cable peers
 - 1.5x primary service units (PSU) per customer vs. ~2.0x for bundled focused cable peers
 - Powerful secular tailwinds - e-commerce, over-the-top (OTT), IoT (Internet of Things)
 - *Video not a material contributor to FCF*
 - *Recession-resistant staples-like internet the anchor product*
 - *Strategy working: (Q1 2016) data subs +21%, video subs -16%, EBITDA +14%*



CABO footprint



Source: Cable One company presentation

Management quality

*“Essentially, capital allocation is investment, and as a result all CEOs are **both capital allocators and investors**. In fact, **this role just might be the most important responsibility any CEO has ...**”*

-- William N. Thorndike
The Outsiders

CABO management

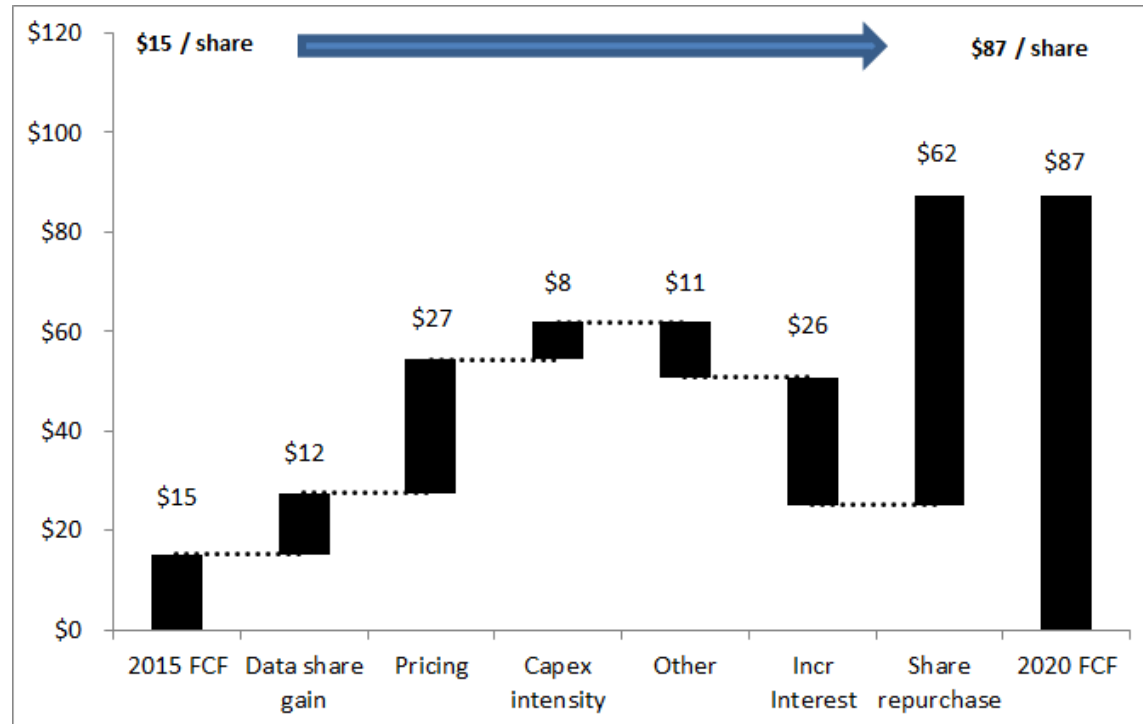
- Conservative long-tenured (23+ years) management
- Exceptional board:
 - Tom Gayner (Markel), Wally Weitz (Weitz Management), Naomi Bergman (Bright House Networks)
- Graham family owns ~17%
- Opportunistically repurchasing shares
 - 1.4% repurchased in Q1 2016
 - \$200M remaining on share repurchase program (7% of shares)
- 1.2% dividend yield

What is CABO worth?

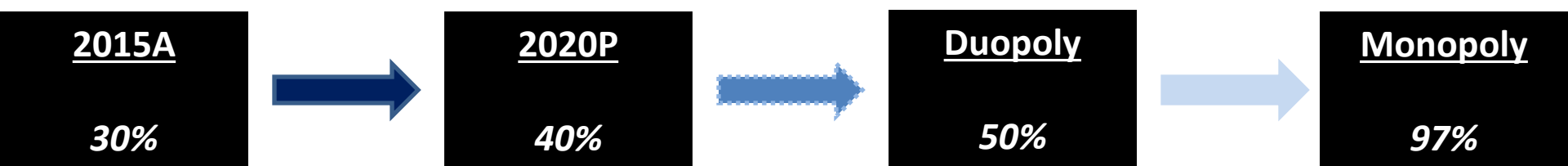
	Upside	Downside
Current price	\$500	\$500
FCF per share	\$80-90 (2020)	\$40-41 (2016 steady state)
Multiple	15-17x	15x
Price	\$1200-1530	\$600-620
IRR	30-40%	

\$80-90/sh FCF (2020)

- FCF/share:
 - \$80-90 (2020) from \$15 (2015)
 - 40% per annum growth



1. Unencumbered growth (+\$12/sh)



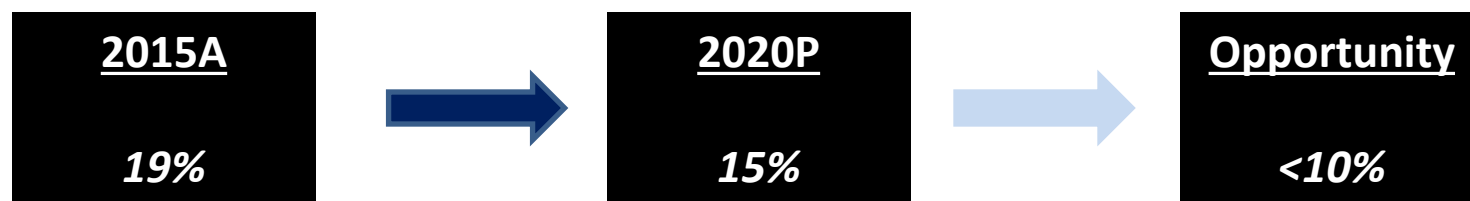
- **De-facto internet monopoly**
 - Primary competition from copper-based telcos, AT&T and CenturyLink
 - <3% fiber-to-the-home competition
 - **Non-urban footprint and 1Gbps speeds in 2016 is a disincentive for fiber overbuild**
- **But only 30% market share today**
 - Non-video subscribers grew 21% in Q1 2016
- ***Each 1.0 pt share gain adds \$1.20/share to FCF***
- ***Can capture 1.5-2.0 pts of share p.a. through 2020 adding \$12/sh to FCF***

2. Monopoly-like pricing (+\$27/sh)



- Pricing materially below comparable peer packages
 - 100Mbps (soon to be 1Gbps) for only \$60/mth
 - Peers charge \$100-200/mth for 100-300Mbps
- **Each \$1.0 price increase adds \$1.40/share to FCF**
- **Can raise internet prices 5% p.a. adding \$27/sh to FCF**
 - Just raised prices ~10% (first time in 5 years)

3. Declining capital intensity (+\$8/sh)



- Capital intensity to decline to mid- to high- teens (in line with cable peers) after three years of investments
- Does not even include long-term like-for-like deflationary forces in all parts of the networking technology supply-chain
 - Success-based capex still running very hot at 12%+
 - *Moore's Law, Kryder's Law*
- **Each 1.0 pt decline in capex intensity adds \$1.70/share to FCF**
- **Capital intensity falls to 15% by 2020 adding \$7-8/sh to FCF**

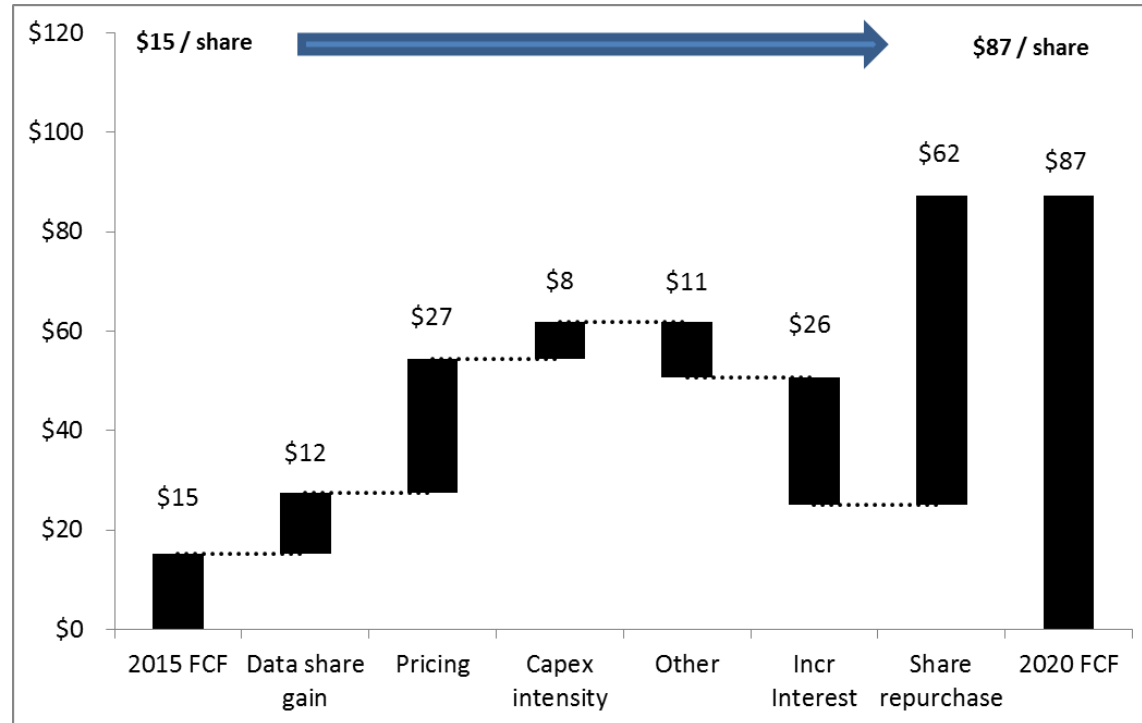
4. Fortress balance sheet (+\$36/sh)

- Only 1.5x net debt
- Will be almost 1.0x net cash in 2020
- At 3.0x target leverage, will have \$2.1B of excess capital
 - Can repurchase 56% of shares at \$640 blended share price (30% higher than current price) adding \$69/sh to FCF
- Cable's recurring cash flows & non-discretionary like business can support 5.0x leverage
- **At 5.0x leverage can repurchase 100% shares at current share price**

	<u>2015A</u>	<u>2020P</u>	
		<u>Base</u>	<u>High</u>
Net Debt / EBITDA	1.5x →	-0.9x	
EBITDA \$ mil		\$545	
Net debt (cash) \$ mil		(\$494)	
Shares		5.8	
<hr/>		<hr/>	
Net debt (cash) / share		(\$85)	
<u>Target leverage</u>		<u>3.0x</u>	<u>5.0x</u>
Excess capital		\$2,128	\$3,217
Repurchase price		\$650	\$555
Shares repurchased		3.3	5.8
<hr/>		<hr/>	
<i>% share repurchased</i>		56%	100%

\$80-90/sh FCF (2020)

- FCF/share:
 - \$80-90 (2020) from \$15 (2015)
 - 40% per annum growth



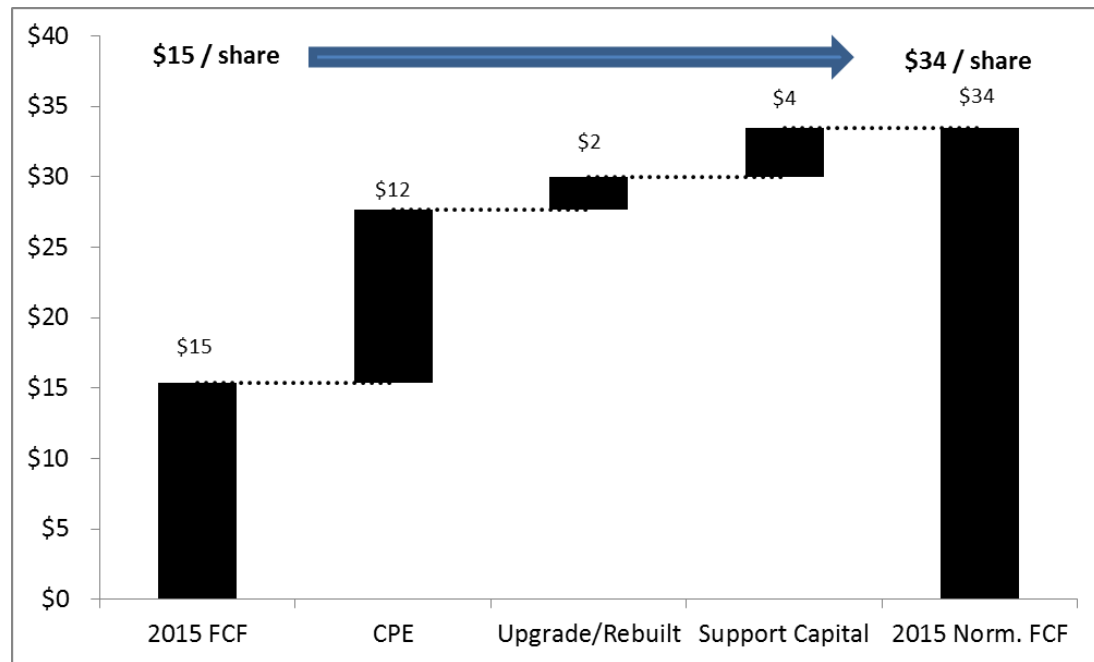
Top-down growth math

- 10-11% p.a. EBITDA growth
 - 5-6% from broadband unit growth
 - 5% pricing
 - *Q1 2016 EBITDA grew 14% while sales were flat*
- Capex intensity declines to 15% from 19%
- \$2.1B @ 3.0x leverage to repurchase 3M shares
- Increased interest expense accounts for incremental debt in 2016 and 3.0x leverage to repurchase shares
- **FCF growing 40% p.a. to \$80-90/sh by 2020 from \$15/sh in 2015**

	<u>2015A</u>		<u>2020P</u>	<u>CAGR</u>
<u>Broadband:</u>				
Units				5-6%
Pricing				5%
EBITDA	\$318	→	\$545	11%
Interest	(16)		(99)	
Taxes	(56)		(102)	
Capex	(156)		(113)	
FCF	\$89	→	\$230	21%
Shares	5.84		2.64	
FCF/share	\$15	→	\$87	42%

Downside protection

- Only 15x 2015 steady state¹ FCF
 - 12x 2016 SS FCF
- Too cheap for a business that could grow FCF 40% p. a. next 5 years!
- Powerful share repurchase and M&A adds downside support



1. Steady state assumptions:

- Success-based CPE to offset churn
- Normalized support/upgrade capital intensity in line with cable peers

What is CABO worth?

- Franchise business with excellent management/board
- Contractually recurring cash flows with pricing power
- Powerful secular tailwinds: e-commerce, OTT, IoT
- FCF growing 40%/yr thro' 2020
- *Business improving → cost of capital falling → multiple expanding*
- *15-17x FCF multiple seems reasonable*

Upside \$1,200-1,530 by 2019 (15-17x FCF multiple)

Downside \$600-620 (15x 2016 normalized recurring FCF)

Free options

- CABO as acquirer:
 - M&A at higher returns than share repurchases
- CABO as target:
 - Potential for large highly visible synergies
 - SG&A (24% of sales), Advertising (3% of sales), and procurement costs
 - \$469M of programming purchase commitments through 2020+
 - Single class shares
 - Natural buyers – Charter, Altice

Risks

- Regulation: Incremental regulation (beyond Title II) seems unlikely at this time
- Capital allocation: Poorly conceived M&A seems unlikely with current board oversight
- Technology: 5G poses a headline risk but
 - 1Gbps hurdle is high
 - Telcos would rather compete with other telcos for mobile subscribers and ease congestion by offloading data onto cable

Thank you

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