

Mediacom Communications Corp. (MCCC) – Hold

MCCC: 4Q10 Preview (1/24 @ 3PM \$8.59)

MCCC is expected to announce its 4Q10 earnings in mid February, 2011. We are maintaining our estimates for 4Q10, and FY 2011. For 4Q10, we estimate revenue of \$379M, up 2% y/y, and OIBDA of \$141M, up 2% y/y for a margin of 37.2%.

On November 15, 2010, Mediacom founder, Chairman and CEO, Rocco B. Commisso, revised upwards his bid to acquire all the shares of Mediacom common stock that he does not currently own to \$8.75/share in cash. This transaction has the unanimous support of the board of the directors. Although the deal also has a financing out, we believe this will not be a problem since this new price adds less than one-half turn of leverage to MCCC's 6.1x at 9/30/10, and we think the banks will lend the money required to close the deal. **Timing:** We think the transaction will close within 6 months.

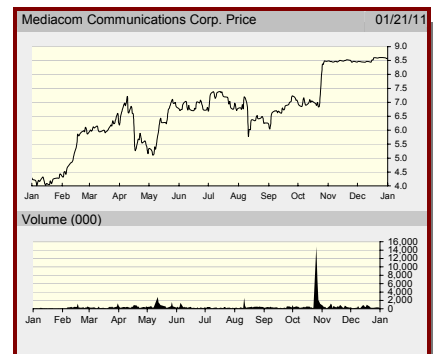
We maintain our HOLD on MCCC.

Earnings Preview

Market Data	
Price (01/21/11)	\$8.58
12-Month Price Target	N/A
52-Week range	\$8.61-4.01
Shares Out. (MM)	67.6
Market cap (MM)	\$580.2
Avg. daily volume (000)	693.4
Financial Data	
Total Debt/Cap.	92.6%
Price/LTM Rev.	0.4x
Tangible BVPS	(\$25.63)
Net Cash Per Share	(\$47.65)

	FY	FY		FY	
	12/31/09 A	12/31/10 E		12/31/11 E	
		Old	New	Old	New
Rev. (MM)	\$1,460.4	\$1,496.6	\$1,496.6	\$1,515.1	\$1,515.1
Growth	4.3%	2.5%	2.5%	1.2%	1.2%
Op. Mar.	20.6%		20.3%		21.4%
EPS: 1Q	0.27	0.12	0.12A		
EPS: 2Q	0.49	(0.06)	(0.06)A		
EPS: 3Q	(0.15)	(0.06)	(0.06)A		
EPS: 4Q	0.86	0.20	0.20		
EPS: Year	10.07	0.21	0.21		
Growth	nm	(97.9%)	(97.9%)	0.0%	0.0%
P/E Ratio	0.5x	30.8x	30.8x	nm	0.0x

Note: Pro forma earnings estimates displayed above do not include one-time items or any stock compensation expenses.



Disclosures applicable to this security: B, G.
Disclosure explanation on the inside back cover of this report.

WHAT'S NEW?

4Q10 EARNINGS ESTIMATES

Figure A includes our current estimates, and compares these to consensus estimates.
Figure A

FYE 12/31:	4Q10E	2010E	2011E
Rev Current (\$m)	\$379	\$1,497	\$1,515
Previous (\$m)	\$379	\$1,497	\$1,515
Consensus	\$381	\$1,500	\$1,540
OIBDA (\$m)	\$141	\$549	\$570
EPS Current	\$0.20	\$0.21	\$0.63
Previous	\$0.20	\$0.21	\$0.63
Consensus	\$0.20	\$0.21	\$0.84
P/E Current		41.1	13.7

Sources: Yahoo Finance, Needham & Company estimates.

4Q10 ESTIMATES

We are maintaining our 4Q10 and FY 2011 estimates.

MCCC is expected to report 4Q10 revenue of \$379M, up 2% y/y, OIBDA of \$141M, up 2% y/y, and capital expenditures of \$50M, down 28% y/y. Details are estimated to be as follows:

Total RGU net adds are expected to be 38K in 4Q10, up versus 7K adds in 4Q09, and better than the 19K adds in 3Q10, for total RGU's of 3,109K at 12/31/10.

- **Basic subscribers** are expected to decrease by 5K for a total of 1,198K subs at 12/31/10, better than 4Q09 losses of 25K and better than 13K losses in 3Q10.
- **Digital sub** adds are expected to be 20K for a total of 737K subs at 12/31/10, up 56% y/y and better than 3Q10 adds of 12K.
- **High Speed Data** adds are expected to be 14K for a total of 841K subs at 12/31/10, up 4% y/y and better than 3Q10 adds of 13K.
- **VoIP** adds are expected to be 9K for a total of 333K subs at 12/31/10, down 31% y/y, but better than 3Q10 adds of 7K.
- **OIBDA.** 4Q10 OIBDA is expected to be \$141M, up 2% y/y, for a margin of 37.2%.
- **EPS.** Net Income is estimated to be \$14M, and EPS of \$0.20, versus 4Q09 Net Income of \$697M and EPS of \$9.86, which included a \$660M non-cash tax benefit.

DETAILED QUARTERLY EARNINGS ANALYSIS

Table 1 shows our estimates for MCCC's fiscal 4Q10 vs 4Q09 results.

Table 1 Mediacom: Subscriber and Financial Estimates 4Q09A vs 4Q10E			
	4Q09A	New 4Q10E	10/09
Financial Metrics			
1 Total Revenue (\$m)	\$ 372	\$379	2%
2 Total OIBDA (\$m)	\$ 138	\$141	2%
3 OIBDA Margin	37.2%	37.2%	
4 Capital Expenditures	\$70	\$50	-28%
Subscriber Metrics (000s)			
1 Basic Video Subscriber Additions	(25)	(5)	NM
End of Period Basic Video Subscribers	1,238	1,198	-3%
ARPU	\$48.50	\$48.25	-1%
2 Digital Video Subscriber Additions	13	20	56%
EOP Digital Video Subscribers	678	737	9%
ARPU	\$25.40	\$25.25	-1%
% Penetration	54.8%	61.5%	
3 High Speed Data Sub Additions	13	14	4%
End of Period Data Subscribers	778	841	8%
ARPU	\$40.21	\$40.00	-1%
% Penetration	62.8%	70.2%	
4 Telephony Additions	13	9	-31%
End of Period Telephony	287	333	16%
ARPU	\$35.05	\$32.10	-8%
% Penetration	23.2%	27.8%	
Sources: Company Reports, Needham & Company estimates.			

VALUATION

Our HOLD rating is based on several forms of valuation, summarized in Table 2:

Table 2: MCCC: Valuation Summary & Conclusions		
2011E Valuation Multiples		Embedded Expectations Metrics
1	EV/Sales	2.8
2	EV/OIBDA	7.6
3	P/E	13.7
4	FCF/Share	\$1.75
5	EV/FCF	34.7
6	FCF Yield	20%
7	EV/Sub	\$3,135
8	EV/RGU	\$1,208
9	Breakeven DCF (Calculated as the 10-Yr EBITDA CAGR required to justify current share price) 0.6%	

Source: Needham & Company estimates.

1. The “**Breakeven DCF**” valuation methodology uses the current share price to calculate the market’s growth expectations for the enterprise, including capital efficiency trends. This valuation methodology concludes that MCCC must achieve a 10-year OIBDA compound annual growth rate of approximately 0.6% to justify its current share price. (Please see Table 5.)
2. In Table 7 we summarize several **valuation multiples** for Sales, OIBDA and P/E. MCCC’s EV/OIBDA trading multiple is approximately 7.6x 2011E OIBDA.
3. In Table 8, we present **Free Cash Flow** valuation metrics. Our Free Cash Flow analysis shows that MCCC is currently valued at about 34.7 x 2011E Free Cash flow and has a 20% free cash flow yield.
4. In Table 9, we present **Value Per Sub, RGU and Homes Passed** information.

INVESTMENT POSITIVES

Our HOLD rating is based on the following analytical building blocks:

- **Going-Private Transaction.** On November 15, 2010, Mediacom founder, Chairman and CEO, Rocco B. Commisso, revised upwards his bid to acquire all the shares of Mediacom common stock that he does not currently own to \$8.75/share in cash. This transaction has the unanimous support of the board of the directors. The Special Committee believes the transaction “is in the best interests” of the independent shareholders and has obtained a fairness opinion from Barclays Capital. The transaction requires approval by holders of a majority of Mediacom’s Class A shares not held by Mr. Commisso, his affiliates and immediate family, or Mediacom’s directors and executive officers. The transaction is also subject to normal closing conditions. Although the deal also has a financing out, we believe this will not be a problem since this new price adds less than one-half turn of leverage to MCCC’s 6.1x at 9/30/10, and we think the banks will lend the money required to close the deal. Timing: We think the transaction will close within 6 months
- **Marginal ROICs Drive Growth.** MCCC’s new revenue streams have higher marginal returns on capital than its core video business, implying rising ROICs over time. We estimate that incremental returns on capital for the new services

(high speed data, digital voice, HD-DVR's, PPV, etc) range from 20-50%, significantly higher than MCCC's WACC of 9.2%.

- **Industry Structure Drives Profit Growth.** The cable business was founded by visionary entrepreneurs, many of whom are still in the business. This focuses cable management teams on equity appreciation and drives cooperation among the largest MSOs, which creates competitive advantage vis-à-vis competitors. There is a culture of sharing product information, best practices, consumer demand data and of collaboratively splitting costs of R&D (ie, cable labs), litigation and lobbying.
- **Telco Overbuild is Tiny.** MCCC's exposure to Telco competition is small at only 10% at 6/30/10. Verizon (VZ, NR) operates in less than 5% of MCCC's footprint, and FiOS passed <45K active homes in MCCC's footprint as of 12/31/09. ATT (T, NR) operates in 25% of MCCC's footprint, and U-Verse has about 160,000 homes passed at 9/30/10.
- **Minimal Debt Maturities.** MCCC had \$3.4B of debt at 9/30/10. Despite high leverage (5.9x Debt/EBITDA at 9/30/10, equivalent to 6/30/10 levels), MCCC had only \$6.5M due for the remainder of 2010 (bank debt, no bonds) and only \$6.5M/quarter, or \$26M/yr, through the end of 2014(bank debt, no bonds). MCCC has bonds outstanding but the earliest maturity is 2015. At 6/30/10, MCCC had an undrawn revolver facility of \$734.5M, with \$716M of unused and available lines, after netting out letters of credit.
- **Competitive Advantage.** Cable was built community by community, so pricing and bundling decisions are designed to maximize profits on a market-by-market basis. Telco and DBS can't match this local targeting.

INVESTMENT RISKS

Cyclical Risks include:

- The slowing economy generates several near term revenue risks including slowing consumer demand, pressure on discretionary spending, and falling basic subs. We believe that this is largely because when video sales aren't generating incoming calls there is less opportunity to up-sell customers to the new voice products.
- A tight credit markets implies higher costs associated with maturing bank debt and covenant waivers. As credit markets ease, MCCC's risk profile should mitigate.
- Advertising is 4% of MCCC's revenue, but it rose 14% in 3Q10.

Structural Risks include:

- **Slowing Growth.** Multichannel video is approaching saturation. Of the approximate 110 million television households in the US, about 85% are currently multichannel video subscribers. Future growth must come from generating more revenue from the same customers, or taking customers away from competitors (implying high subscriber acquisition costs). This may lead investors to question cable's growth credentials.
- **Consumer Fragmentation.** The new digital platforms are reorienting consumers' perception of the value of content. The internet is re-training consumers that content and choice should be free. Also, there is growing

- competition for audience time as the Internet offers more video choices and more leisure choices (video games, social networks, etc).
- **Telcos.** The competitive landscape is becoming more challenging. Telcos and satellite represent deep-pocketed, aggressive competitors for subscribers. MCCC lost basic video subs in 3Q09 owing to cheap satellite offers, some of which we believe were priced as low as \$25/month despite programming costs of \$18/month. This pricing seems unsustainable.
 - **Regulation.** Regulators have repeatedly invaded the cable perimeter in an effort to slow cable price increases and facilitate competition. Net neutrality creates risk in the upside potential of investing in Internet infrastructure if the government decides that high speed internet access is a right of all citizens and therefore requires price regulation.
 - **Programming Costs** at MCCC is 45% of total expenses and this cost is rising at 7-9% annually, compared with pricing increases of 3-5% annually, implying margin pressure over time unless MCCC can generate incremental margins from taking costs out of HSD and VoIP. We estimate that MCCC's programming costs are 18% higher than Comcast's owing to its smaller subscriber base.

COMPANY DESCRIPTION

Mediacom Communications (MCCC) is the 8th largest cable television company in the US, and the largest cable operator focused on serving the smaller cities and towns in the United States. Through its wired digital network, MCCC offers traditional video services, digital television, video-on-demand, digital video recorders, high-definition television, high-speed Internet access and internet phone service.

Table 3A

Mediacom: Quarterly Financial Projections, 2010E

\$ and shares in millions, except per share data

	2010E									
	3/31/010A	10/09	6/30/10A	10/09	9/30/10A	10/09	12/31/10E	10/09	Year	10/09
Calculation of Video Revenue:										
Basic Cable (a)	\$177	-5%	\$178	-3%	\$175	-4%	\$174	-4%	\$705	-4%
Digital Video Incremental (b)	<u>\$52</u>	6%	<u>\$54</u>	9%	<u>\$54</u>	9%	<u>\$55</u>	8%	<u>\$212</u>	8%
Total Video Revenue	\$229	-2%	\$232	-1%	\$229	-1%	\$229	-2%	\$917	-2%
Data (c)	\$95	10%	\$97	10%	\$98	10%	\$100	7%	\$391	9%
Telephony (d)	<u>\$30</u>	14%	<u>\$31</u>	10%	<u>\$31</u>	8%	<u>\$32</u>	7%	<u>\$124</u>	10%
Total Residential Revenue	\$355	2%	\$360	3%	\$358	2%	\$361	1%	\$1,431	2%
Advertising Revenue	\$14	12%	\$16	9%	\$16	14%	\$18	10%	\$66	14%
Total Revenue	\$369	2%	\$377	3%	\$374	3%	\$379	2%	\$1,497	2%
Total Revenue	\$369	2%	\$377	3%	\$374	3%	\$379	2%	\$1,497	2%
Service Costs	(\$158)	3%	(\$162)	5%	(\$164)	5%	(\$159)	2%	(\$642)	4%
SG & A	<u>(\$73)</u>	0%	<u>(\$76)</u>	3%	<u>(\$78)</u>	3%	<u>(\$79)</u>	1%	<u>(\$305)</u>	2%
Total OIBDA	\$138	2%	\$140	2%	\$132	1%	\$141	2%	\$549	1%
<i>EBITDA Margin</i>	37.5%		37.0%		35.3%		37.2%		36.7%	
Non-Cash SBC	(\$2)	7%	(\$2)	3%	(\$2)	5%	\$0	-100%	(\$6)	-22%
Depreciation & Amortization	<u>(\$59)</u>	2%	<u>(\$61)</u>	5%	<u>(\$60)</u>	2%	<u>(\$60)</u>	1%	<u>(\$240)</u>	2%
Total operating income	\$77	3%	\$77	0%	\$70	-1%	\$81	5%	\$304	1%
Interest expense, net	(\$50)	1%	(\$52)	1%	(\$51)	-3%	(\$50)	3%	(\$203)	0%
Gain(Loss) on Derivatives, net	(\$12)	601%	(\$29)		(\$23)		(\$1)		(\$65)	
Other, net	<u>(\$1)</u>	-109%	<u>(\$3)</u>		<u>(\$3)</u>		<u>\$0</u>		<u>(\$6)</u>	
Pre Tax Income	\$15	-59%	(\$6)	-113%	(\$7)	-249%	\$30	-21%	\$30	-77%
Income Taxes	<u>(\$6)</u>	-53%	<u>\$3</u>	-118%	<u>\$3</u>	NM	<u>(\$16)</u>	-102%	<u>(\$16)</u>	-103%
Net Income	\$9	-62%	(\$4)	-111%	(\$4)	NM	\$14	-98%	\$13	-98%
EPS	\$0.12	-55%	(\$0.06)	-112%	(\$0.06)	-61%	\$0.20	-98%	\$0.21	-98%
Weighted Avg. Diluted Shares	71.1	-15%	68.1	-4%	68.2	1%	68.5	-3%	68.9	-7%

Sources: Company reports, Needham & Company estimates.

Table 3B										
Mediacom: Footnotes to Consolidated Revenue Detail										
\$ in millions, except per subscriber data										
2010E										
	3/31/10A	10/09	6/30/10A	10/09	9/30/10A	10/09	12/31/10E	10/09	Year	10/09
(a) Basic Cable Revenue:										
Beginning Subs (000)	1,238	-4%	1,234	-5%	1,216	-5%	1,203	-5%	1,238	-4%
Internal Growth %	-0.3%		-1.5%		-1.1%		-0.4%		-3.2%	
Internal Growth in Subs.	(4)	-200%	(18)	-20%	(13)	32%	(5)	80%	(40)	27%
Acquired Subs. (000)	0		0		0		0		0	
Ending Subs. (000)	1,234	-5%	1,216	-5%	1,203	-5%	1,198	-3%	1,198	-3%
Avg. Subs.	1,236	-5%	1,225	-5%	1,210	-5%	1,201	-4%	1,218	-4%
Monthly Revs/Sub	\$47.82	0%	\$48.56	2%	\$48.23	1%	\$48.25	-1%	\$48.22	1%
Total Basic Rev(\$mm)	\$177	-5%	\$178	-3%	\$175	-4%	\$174	-4%	\$705	-4%
(b) Digital Video Revenue										
Beginning Subs (000)	678	7%	699		705		717		678	
Internal Growth %										
Internal Growth in Subs.	21	24%	6	-25%	12	71%	20	56%	59	32%
Acquired Subs. (000)	0		0		0		0		0	
Ending Subs. (000)	699	8%	705	7%	717	8%	737	9%	737	9%
Avg. Subs.	689	7%	702	7%	711	7%	727	8%	708	8%
Monthly Incremental Revs/Sub	\$25.00	-1%	\$25.51	2%	\$25.25	1%	\$25.25	-1%	\$25.25	0%
Total Digital Rev(\$mm)	\$52	6%	\$54	9%	\$54	9%	\$55	8%	\$214	8%
(c) Data Revenue										
Beginning Subs (000)	778		804		814		827		778	
Internal Growth %	3.3%		1.2%		1.6%		12.0%		8.0%	
Internal Growth in Subs.	26	8%	10	67%	13	18%	14	4%	63	
Acquired Subs. (000)	0		0		0		0		0	
Ending Subs. (000)	804		814		827		841		841	
Avg. Subs.	791		809		821		834		809	
Monthly Revs/Sub	\$40.17	2%	\$40.10	2%	\$39.79	2%	\$40.00	-1%	\$40.02	1%
Total Basic Rev(\$mm)	\$95	10%	\$97	10%	\$98	10%	\$100	7%	\$391	9%
(d) Telephony Revenue										
Beginning Subs (000)	287		300		317		324		287	
Internal Growth %	4.5%		5.7%		2.3%		13.5%		16.1%	
Internal Growth in Subs.	13	-7%	17	113%	7	4%	9	-31%	46	
Acquired Subs. (000)	0		0		0		0		0	
Ending Subs. (000)	300	16%	317		324		333		333	
Avg. Subs.	294		309		321		329		310	
Monthly Incremental Revs/Sub	\$34.37	-2%	\$33.28	-6%	\$32.02	-9%	\$32.10	-8%	\$32.94	-7%
Total Basic Rev(\$mm)	\$30	14%	\$31	10%	\$31	8%	\$32	7%	\$124	10%
(e) Total RGUs										
Beginning RGUs (000)	2,981		3,037		3,052		3,071		2,981	
Internal Growth %	1.9%		0.5%		15.0%		13.5%		4.3%	
Internal Growth in Subs.	56	-5%	15	114%	19	222%	38	171%	128	
Acquired Subs. (000)	0		0		0		0		0	
Ending RGUs (000)	3,037	3%	3,052	3%	3,071	4%	3,109	4%	3,109	4%
Sources: Company reports, Needham & Company estimates.										

Table 4

Mediacom: Annual Income Statement Summary Projections, 2007A-2011E

\$ in millions, except per share data

	2007A	2008A	2009A	2010E	2011E	07-11 CAGR
Revenue						
Basic Cable	\$742	\$744	\$735	\$705	\$695	-1.6%
Digital Video Incremental (b)	\$149	\$176	\$197	\$214	\$221	10.4%
Data (c)	\$279	\$324	\$357	\$391	\$402	9.6%
Advertising Revenue	\$67	\$66	\$58	\$66	\$68	0.2%
Telephony (d)	\$56	\$90	\$113	\$124	\$129	23.3%
Total Revenue	\$1,292	\$1,400	\$1,459	\$1,497	\$1,515	4.1%
Total OIBDA						
	\$462	\$510	\$543	\$549	\$570	5.4%
	35.8%	36.4%	37.2%	36.7%	37.6%	
Depreciation & Amortization	<u>(\$235)</u>	<u>(\$228)</u>	<u>(\$235)</u>	<u>(\$240)</u>	<u>(\$245)</u>	1.0%
Operating Income	\$222	\$277	\$301	\$304	\$325	10.0%
Net Interest Expense	(\$239)	(\$213)	(\$202)	(\$203)	(\$210)	-3.2%
Other (Expense)	\$0	(\$30)	(\$9)	(\$65)	(\$5)	
Income Before Tax	(\$40)	(\$21)	\$127	\$30	\$110	
Income Tax (Benefit)	<u>(\$57)</u>	<u>(\$58)</u>	<u>\$618</u>	<u>(\$16)</u>	<u>(\$65)</u>	3.1%
Reported Net Income	(\$40)	(\$79)	\$745	\$13	\$45	
EPS	(\$0.91)	(\$0.81)	\$10.07	\$0.21	\$0.63	
Avg Diluted Shares Out	107.8	96.6	74.0	68.9	71.0	-9.9%

Sources: Company reports, Needham & Company estimates.

Table 5
MCCC: Target Price Calculation, 2012E-2021E

\$ and shares in millions, except per share data

Valuation Conclusions	% of Total	
Sum of PV of Free Cash Flow ¹	\$2,012	48%
PV of Terminal Value Discounted at WACC ¹	\$1,876	45%
Value of Operations (WACC Method)	\$3,888	93%
Plus: Excess Cash at 12/31/11E	\$280	
Plus: Non-Consolidated Assets (From PMV)	\$0	
Less: Minority Interest	\$0	
Enterprise Value	\$4,168	100%
Less: Debt at 12/31/11E	(\$3,400)	
Less: Lease Obligations	(\$25)	
Less: Preferred Stock Outstanding	\$0	
Less: Value of Options & Restricted Sk, After-tax	(\$130)	
Common Equity Value	\$613	15%
Fully Diluted Shares Out, 2011E	71	
DCF Value/Share	\$8.64	
Current Share Price @ 1/18/11	\$8.60	
Upside Potential (DCF-Current Price/Current Price)	0%	

Standard Discounted Cash Flow (DCF) Valuation

Why We Calculate: DCF is a rigorous bottoms-up valuation of the enterprise focusing on cash flows (not accounting)

Strengths

- 1 Focuses on operations. Removes financing
- 2 Focuses on FCF. Removes non-cash accounting
- 3 Explicitly forecasts capital needs (WC & CapX)
- 3 Uses a levered beta (widely available)
- 4 Ent value focus captures entire business model

Weaknesses

- 1 Many assumptions. Valuation can be manipulated
- 2 Terminal value big & based on low visibility projections
- 3 Model assumes constant debt/equity ratio
- 4 Complex to calculate
- 5 Calculates the enterprise value first, then equity value

¹ Calculation of the Value of Operations (WACC Method)

FYE 12/31:	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	CAGR '12-21E
OIBDA (after sk comp exp & corp):	\$570	\$573	\$577	\$580	\$584	\$588	\$591	\$595	\$599	\$602	\$606	0.6%
- Depreciation	(\$245)	(\$240)	(\$240)	(\$209)	(\$210)	(\$212)	(\$213)	(\$214)	(\$215)	(\$217)	(\$218)	
+ Option Exercise Procee	\$2	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5	
+ Int & Inv Income only	\$4	\$4	\$4	\$4	\$4	\$4	\$4	\$4	\$4	\$4	\$4	
EBIT	\$331	\$343	\$346	\$380	\$383	\$385	\$387	\$390	\$392	\$394	\$397	
Cash Taxes (at 20%)	(\$50)	(\$69)	(\$69)	(\$76)	(\$77)	(\$77)	(\$77)	(\$78)	(\$78)	(\$79)	(\$79)	
Plus: Depreciation	\$245	\$240	\$240	\$209	\$210	\$212	\$213	\$214	\$215	\$217	\$218	
Plus: Sk Based Comp Exp	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15	
Working Capital Change	\$60	(\$11)	(\$12)	(\$12)	(\$12)	(\$12)	(\$12)	(\$12)	(\$12)	(\$12)	(\$12)	
Less: Capital Spending	(\$228)	(\$229)	(\$231)	(\$232)	(\$234)	(\$235)	(\$236)	(\$238)	(\$239)	(\$241)	(\$242)	
FCF from Operations	\$373	\$288	\$289	\$285	\$286	\$288	\$289	\$291	\$293	\$294	\$296	0.3%
PV Discounted at WACC ²		\$288	\$265	\$239	\$220	\$203	\$187	\$172	\$158	\$146	\$134	
Sum of PV of Free Cash Flow											\$2,012	
Terminal Value of 2021E FCF ³											\$4,131	
PV of Terminal Value at WACC ²											\$1,876	
Discount Period		0	1	2	3	4	5	6	7	8	9	

² Calculation of WACC:

10-Year Risk Free Rate ("RFR")	2.0%
Equity Risk Premium (Ibbotson-Arithmetic)	6.5%
Levered Beta (Bloomberg)	1.30
Target Equity/(Debt + Equity)	70%
Debt Rating	B+
Debt Spread	7.5%
Marginal Tax Rate ("T")	35.0%
WACC	9.2%
(RFR+(Equity Risk Premium x Beta) x Equity/Total Capital + ((RFR + Debt Spread) x (1-T) x Debt/Total Capital).	

³ Calculation of Terminal Multiple (WACC Method)

WACC	9.2%
Long-term Nominal GDP Growth	2.0%
WACC-GDP Growth	7.2%
FCF Terminal Multiple [1/(WACC-Growth Rate)]	14.0
EBITDA Terminal Multiple	6.8

Sources: Company Reports, Needham & Company estimates.

Table 6

MCCC: Breakeven Discounted Cash Flow (DCF) Valuation Calculation, 2011E - 2021E

\$ and shares in millions, except per share data

Valuation Conclusions		Breakeven Discounted Cash Flow Valuation	
Sum of PV of Free Cash Flow ¹	\$2,012	Why We Calculate: BE DCF uses the current share price to calculate the market's growth expectations for the enterprise.	Strengths 1 Makes no assumption about growth for first 10 years 2 Prevents over-optimism by working backwards 3 Data widely available and model well understood 4 Explicitly forecasts capital needs (WC & CapX) 5 Uses a levered beta (widely available)
PV of Terminal Value Discounted at WACC ¹	\$1,876		
Value of Operations (WACC Method)	\$3,888		
Plus: Excess Cash at 12/31/11E	\$280		
Plus: Non-Consolidated Assets (From PMV)	\$0		
Less: Minority Interest	\$0		
Enterprise Value	\$4,168		
Less: Debt at 12/31/11E	(\$3,400)		
Less: Lease Obligations	(\$25)		
Less: Preferred Stock Outstanding	\$0		
Less: Value of Options & Restricted Sk, After-tax	(\$130)	Weaknesses 1 Terminal value big & based on low visibility projections 2 Model assumes constant debt/equity ratio 3 Complex to calculate 4 Calculates the enterprise value first, then equity value	
Common Equity Value	\$613		
Fully Diluted Shares Out, 2011E	71		
Breakeven DCF Value/Share	\$8.64		
Current Share Price @ 1/18/11	\$8.60		
Discount to DCF Value (DCF-Current Price/DCF)	0%		

¹ Calculation of the Value of Operations (WACC Method)

FYE 12/31:	2011E	2012E	2013E	2014E	2015E	2016E	2017E	2018E	2019E	2020E	2021E	Required LT Growth Rate
OIBDA (after sk comp exp & corp):	\$570	\$573	\$577	\$580	\$584	\$588	\$591	\$595	\$599	\$602	\$606	0.6%
- Depreciation	(\$245)	(\$240)	(\$240)	(\$209)	(\$210)	(\$212)	(\$213)	(\$214)	(\$215)	(\$217)	(\$218)	
+ Option Exercise Proceeds	\$2	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5	\$5	
+ Int & Inv Income only	\$4	\$4	\$4	\$4	\$4	\$4	\$4	\$4	\$4	\$4	\$4	
EBIT	\$331	\$343	\$346	\$380	\$383	\$385	\$387	\$390	\$392	\$394	\$397	
Cash Taxes (at 20%)	(\$66)	(\$69)	(\$69)	(\$76)	(\$77)	(\$77)	(\$77)	(\$78)	(\$78)	(\$79)	(\$79)	
Plus: Depreciation	\$245	\$240	\$240	\$209	\$210	\$212	\$213	\$214	\$215	\$217	\$218	
Plus: Sk Based Comp Exp	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15	\$15	
Working Capital Change	\$60	(\$11)	(\$12)	(\$12)	(\$12)	(\$12)	(\$12)	(\$12)	(\$12)	(\$12)	(\$12)	
Less: Capital Spending	(\$228)	(\$229)	(\$231)	(\$232)	(\$234)	(\$235)	(\$236)	(\$238)	(\$239)	(\$241)	(\$242)	
FCF from Operations	\$357	\$288	\$289	\$285	\$286	\$288	\$289	\$291	\$293	\$294	\$296	
PV Discounted at WACC ²		\$288	\$265	\$239	\$220	\$203	\$187	\$172	\$158	\$146	\$134	
Sum of PV of Free Cash Flow											\$2,012	
Terminal Value of 2021E FCF ³											\$4,131	
PV of Terminal Value at WACC ²											\$1,876	
Discount Period		0	1	2	3	4	5	6	7	8	9	

² Calculation of WACC:

10-Year Risk Free Rate ("RFR")	2.0%
Equity Risk Premium (Ibbotson-Arithmetic)	6.5%
Levered Beta (Bloomberg)	1.30
Target Equity/(Debt + Equity)	70%
Debt Rating	B+
Debt Spread	7.5%
Marginal Tax Rate ("T")	35.0%
WACC	9.2%

$$\text{WACC} = (\text{RFR} + (\text{Equity Risk Premium} \times \text{Beta})) \times \text{Equity/Total Capital} + (\text{RFR} + \text{Debt Spread}) \times (1 - T) \times \text{Debt/Total Capital}$$
³ Calculation of Terminal Multiple (WACC Method)

WACC	9.2%
Long-term Nominal GDP Growth	2.0%
WACC-GDP Growth	7.2%
FCF Terminal Multiple [1/(WACC-Growth Rate)]	14.0
EBITDA Terminal Multiple	6.8

Sources: Company Reports, Needham & Company estimates.

Table 7	
MCCC: Valuation Multiples (Sales, OIBDA, P/E)	
\$ and shares in millions, except per share data	
Valuation Conclusions	
	2011E
Market-Based Enterprise Value ¹	\$4,316
2011E Sales (From Annual Projections)	\$1,515
EV/Sales	2.8
Market-Based Enterprise Value ¹	\$4,316
2011E OIBDA (From Annual Projections)	\$570
EV/OIBDA	7.6
Target Price	NA
Target Price EV/2012 OIBDA	NA
Current Price	1/18/11 \$8.60
2011E EPS (From Annual Projections)	\$0.63
P/E Ratio	13.7
¹ Calculation of Market-Based Enterprise Value	
Year End 12/31:	<u>2011E</u>
Current Share Price	01/18/11 \$8.60
Fully Diluted Shares Out	<u>71</u>
Market Capitalization	\$611
Less: Excess Cash	\$280
Less: Non-Consolidated Assets	\$0
Plus: Unfunded Retirement Liabilities	\$0
Plus: Debt at 12/31/11	\$3,400
Plus: Lease Obligations	\$25
Plus: Preferred Stock Outstanding	\$0
Plus: Options & Restricted Sk Outstanding	<u>\$130</u>
Market-Based Enterprise Value	\$4,316
Sources: Company Reports, Needham & Company estimates.	

Table 8	
MCCC: Free Cash Flow Valuation Metrics	
\$ and shares in millions, except per share data	
Valuation Conclusions	
	2011E
FCF/Share ²	\$1.75
Current Price	1/18/11 \$8.60
FCF Multiple	4.9
FCF Yield	20%
FCF ²	\$124
2011E OIBDA (From Annual Projections)	\$570
FCF Conversion Rate (FCF/OIBDA)	22%
Market-Based Enterprise Value ¹	\$4,316
FCF ²	\$124
EV/FCF	34.7
Debt/EBITDA	6.5
Net Debt	\$3,680
Net Debt/Market Cap	NM
² Calculation of Free Cash Flow	
Year End 12/31:	<u>2011E</u>
EBITDA	\$570
Plus: Option Exercise Proceeds	\$5
Less: Cash Interest Expense	(\$210)
Minority Interest	\$0
Less: Preferred Dividends	\$0
Less: Operating Cash Taxes	\$0
Less: Change in Working Capital	(\$11)
Less: Capital Spending	<u>(\$229)</u>
Free Cash Flow	\$124
Shares Outstanding	71
FCF/Share	\$1.75
Sources: Company Reports, Needham & Company estimates.	

Table 9		
MCCC: Value per Sub, RGU and Homes Passed		
in millions, except per share data		
Valuation Conclusions		
		2010E
Market-Based Enterprise Value ¹		\$3,756
Basic subs at 12/31/10E (From Sub Proj)		1.2
EV/Sub		\$3,135
Market-Based Enterprise Value ¹		\$3,756
RGUs at 12/31/10E (From Sub Proj)		3.1
EV/RGU		\$1,208
Market-Based Enterprise Value ¹		\$3,756
Homes Passed at 12/31/10E (From PMV)		2.8
EV/Home Passed		\$1,322
¹ Calculation of Market-Based Enterprise Value		
Year End 12/31:		<u>2010E</u>
Current Share Price	01/18/11	\$8.60
Fully Diluted Shares Out		<u>71</u>
Market Capitalization		\$611
Less: Excess Cash		(\$280)
Less: Non-Consolidated Assets		\$0
Plus: Unfunded Retirement Liabilities		\$0
Plus: Debt at 12/31/11		\$3,400
Plus: Lease Obligations		\$25
Plus: Preferred Stock Outstanding		\$0
Plus: Options & Restricted Sk Outstanding		<u>\$130</u>
Market-Based Enterprise Value		\$3,756
Sources: Company Reports, Needham & Company estimates.		

Table 10 Summary Comparative Financial & Valuation Information \$ and shares in millions, except per share data													
Laura Martin's Coverage				2011E Multiples				Break-even DCF	1/18/11			Conflicts Disclosure	
Sorted by Industry	Ticker	Market Cap (\$B)	Rating	EV/ EBITDA	P/E	EV/ FCF	FCF Yield		Target Price	Current Price	Target/ Current		
Content Companies													
1	AOL, Inc.	AOL	\$3	BUY	4.6	16.1	6.6	12.1%	-14.5%	\$35.00	\$24.73	42%	B
2	CBS	CBS	\$14	BUY	8.6	14.9	14.7	10.8%	0.8%	\$23.00	\$20.47	12%	B
3	Discovery Communications	DISCA	\$16	HOLD	10.3	18.8	18.2	6.2%	1.2%	NA	\$39.47		B
4	Disney	DIS	\$75	HOLD	8.1	16.2	24.4	4.7%	4.3%	NA	\$39.39		B, G
5	NewsCorp	NWS	\$42	BUY	7.5	14.6	17.5	6.3%	0.5%	\$20.00	\$16.14	24%	B, G
6	Time Warner Inc	TWX	\$36	HOLD	7.6	12.9	20.8	6.6%	0.6%	NA	\$32.82		B
7	Viacom	VIAB	\$25	BUY	8.0	13.0	17.3	7.3%	1.2%	\$43.00	\$42.55	1%	B
8	Warner Music	WMG	\$0.8	BUY	7.2	(4.6)	16.4	18.0%	-7.4%	\$8.50	\$5.13	66%	B
Industry Total/Average			\$212		7.7	12.8	17.0	9.0%	-1.7%	NA	\$27.59	NA	
Cable Companies													
9	Mediacom	MCCC	\$0.6	HOLD	7.6	NMF	NMF	NMF	0.6%	NA	\$8.60		B, G
10	Time Warner Cable	TWC	\$23	BUY	6.0	14.8	25.4	7.4%	1.2%	\$65.00	\$65.87	-1%	B
Industry Total/Average			\$23		6.8	14.8	25.4	7.4%	0.9%	\$65.00	\$37.24	-1.3%	
Total/Average from Above			\$235		7.3	13.8	21.2	8.2%	-0.4%			NM	
Sorted by Industry	WACC	Revenue 2011E	OIBDA 2011E	EPS 2011E	EV	Net Debt	Debt/ OIBDA	Debt Rating	FCF	FCF/ Share	Dividend/ Share	Div. Yield	
\$ in millions, except per share data													
Content Companies													
1	AOL, Inc.	10.5%	\$2,093	\$480	\$1.53	\$2,185	(\$1,000)	(2.1)	BBB	\$331	\$3.00	\$0.00	NA
2	CBS	9.1%	\$14,332	\$2,555	\$1.37	\$21,923	\$7,150	2.8	BBB-	\$1,495	\$2.20	\$0.20	1.0%
3	Discovery Communications	9.1%	\$4,085	\$1,807	\$2.10	\$18,634	\$2,550	1.4	BBB+	\$1,022	\$2.45	\$0.00	NA
4	Disney	8.7%	\$40,511	\$10,551	\$2.43	\$85,339	\$10,250	1.0	A	\$3,504	\$1.84	\$0.40	1.0%
5	NewsCorp	8.8%	\$32,882	\$6,166	\$1.11	\$46,439	\$3,300	0.5	BBB+	\$2,659	\$1.02	\$0.15	0.9%
6	Time Warner Inc	9.1%	\$28,050	\$6,650	\$2.54	\$50,230	\$11,300	1.7	BBB	\$2,412	\$2.17	\$0.85	2.6%
7	Viacom	9.0%	\$14,218	\$3,911	\$3.26	\$31,413	\$5,400	1.4	BBB	\$1,811	\$3.09	\$0.60	1.4%
8	Warner Music	9.1%	\$2,641	\$318	(\$1.11)	\$2,295	\$1,420	4.5	BB-	\$140	\$0.93	\$0.00	NA
Cable Companies													
9	Mediacom	9.2%	\$1,515	\$570	\$0.63	\$4,316	\$3,680	6.5	B+	\$124	\$1.75	\$0.00	NA
10	Time Warner Cable	9.1%	\$19,502	\$7,124	\$4.45	\$42,660	\$20,500	2.9	BBB	\$1,677	\$4.86	\$1.60	2.4%

Sources: Needham & Co, LLC estimates, Company documents, FirstCall, Yahoo Finance.

Analyst: Laura Martin, CFA (917) 373-3066. LMartin@Needhamco.com

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Buy	62	15
Hold	28	5
Under Perform	<1	0
Rating Suspended	2	0
Restricted	0	0
Under Review	0	0

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