Profile: Cox Communications

Cox, like Comcast, owned diverse investments within the telecommunications industry before the Telebomb. Both companies were investors in TCG as well as various partnerships that operated PCS service under the Sprint PCS brand. Cox also hedged its bets on landline cable through investments in DBS services through PrimeStar.

Cox was also as active as Comcast in terms of the number of major cable acquisition deals it closed, but was less aggressive in terms of the size of the deals. Cox's most expensive deal was the purchase of a large cable system in Fairfax County, VA. That system, purchased from Media General, is among the 25 largest in the country and is situated near the major hubs of Internet traffic in Northern Virginia. This somewhat justifies the $5,400 per subscriber paid for the system because of the likelihood that residents of the area would buy advanced services such as high-speed Internet access.

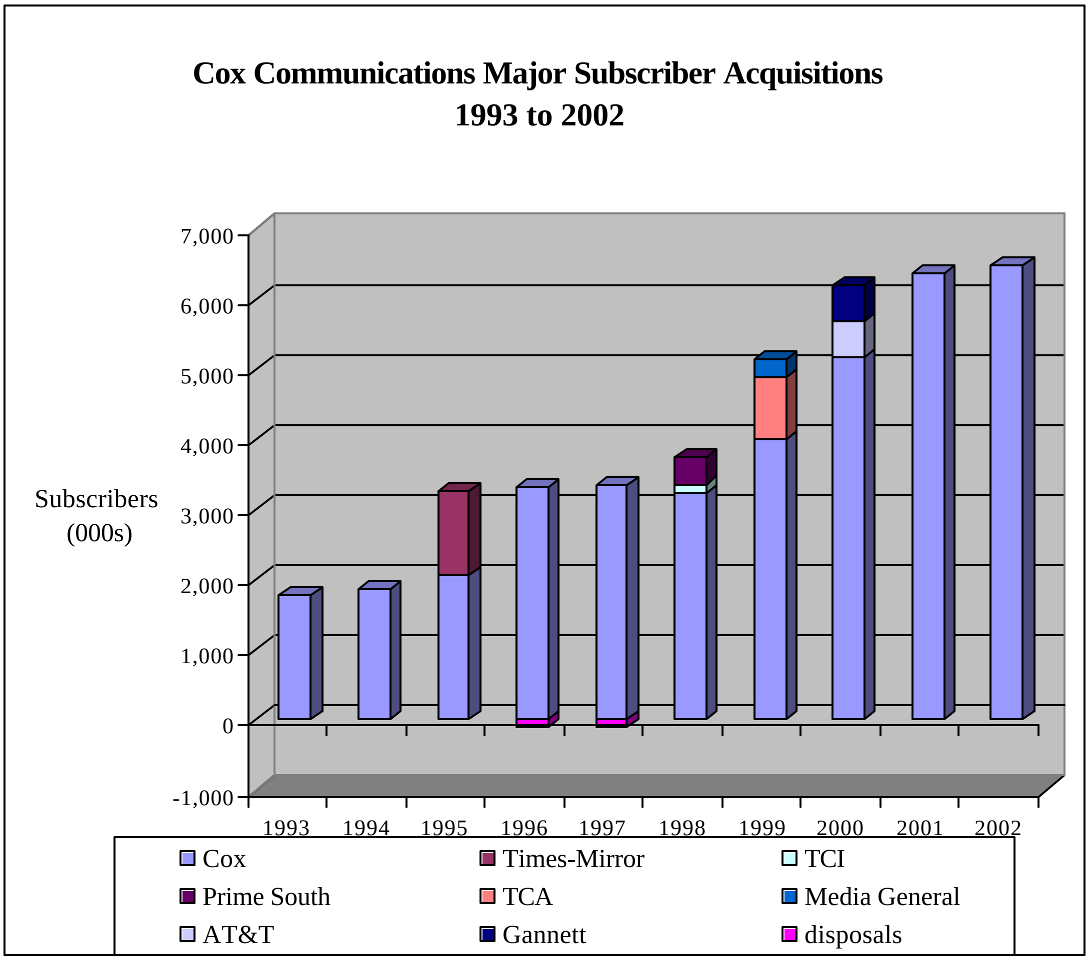

Figure 8-5. Cox Communications major subscriber acquisitions, 1993 to 2002.[1]

[1] Information from Cox's filings with the SEC and FCC. "Disposals" represents sales of small, non-clustered properties

Because of the acquisitions, Cox doubled in size twice between 1992 and 2002. Figure 8-5 shows Cox's major acquisitions. Cox also subscribed to the theory that clustering cable systems could lead to greater operational efficiencies. The area labeled "disposals" in figure 8-5 shows when Cox got rid of properties that didn't fit into its clusters. The areas labeled "Cox" in figure 8-5 show internal subscriber growth after the acquisitions.

Like Comcast, Cox sold off its other communications interests to be able to afford the continued mergers. It sold TCG to AT&T in 1998. It converted the PCS partnerships into Sprint PCS stock, much of which was liquidated or otherwise monetized. The sale of these assets supported the expansion of Cox's cable business.

Net of all the buying and selling, Cox ran up $7 billion of debt, almost $1,100 per subscriber. By contrast, Time Warner, which was not involved in any significant merger and acquisition activity during the boom, carried about $600 in debt for each subscriber at the end of 2002, much closer to the debt load of the RBOCs.

Like the other companies profiled here, the rebuilding of Cox's network to support two-way digital services, the absorption of many new cable systems and the expansion to support new services has not only driven up Cox's debt levels, it has also taken a toll on operating margins. Cox's EBITA margins have halved since the mid-1990s, though they recovered after the depths of the Telebomb in 2001.

The addition of new services has proven to be a revenue generator for Cox, with accelerating sales of advanced services. Data and telephony subscription revenue at Cox has grown to be one-third the size of video subscription revenue. Cox, like Time Warner Cable, has shown that moderation in the merger and acquisition department is more conducive to building a good business. Cox's debt load coming out of the Telebomb was manageable at about half the per-subscriber levels of Comcast and Charter. But Cox still needs to increase margins closer to traditional levels to service its debt and continue to fuel growth.

Cox, Charter, and Comcast have all gone about competing in the new telecommunications landscape by getting larger, significantly upgrading their networks, and rolling out many new, competitive services. They all made large bets but have not yet seen the full benefits of those bets.