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**Same Old Time Warner****By Scott Rothbort****RealMoney Contributor**

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It has been a few years since I officially covered a **Time Warner** (TWX) earnings call. Nothing has changed since then. The AOL business is just pathetic. The Filmed Entertainment business is cyclical and seasonal. Finally, the company insists on buying back stock and paying dividends rather than reducing debt.

If Time Warner is serious about making a strategic acquisition in the future, it has neither the balance sheet nor the stock currency to do so. The company will offer glimmers of hope from time to time, but the deliverers of these messages tend to be false messiahs. Stay away from the stock, but feel free to watch its shows and movies, which are better values for your dollar.

Time Warner announced third-quarter 2007 adjusted EPS (diluted income per common share before discontinued operations and cumulative effect of accounting changes) of 24 cents. Included in discontinued operations are Progressive Farmer, Leisure Arts, Wildseed and the Atlanta Braves. Revenue for the quarter was \$11.676 billion. Adjusted operating income before depreciation and amortization (OIBDA) rose 15% year over year, to \$3.2 billion. Year-to-date, 42% of adjusted OIBDA, or \$4 billion, was converted to free cash.

Management expects the company to earn \$1.07 per share on an adjusted basis and grow adjusted OIBDA by mid to high teen rates for fiscal 2007. Management also expects to convert 30% to 40% adjusted OIBDA to cash for the year. The company is targeting double-digit EPS growth for 2008.

Third-quarter margins rose 150 basis points, to 28%, mainly due to lower expenses at AOL and the sale of its European access business.

Time Warner Cable added over 500,000 users for the tenth consecutive quarter. Triple play penetration rose 2%, to 15%, and the company is beginning to see improvements at the troubled L.A. and Dallas units. Cable revenues rose 25%, and OIBDA rose 28%

Film Entertainment OIBDA rose 71% at the film business and 6% at the network business. Strong theatrical releases were led by the latest *Harry Potter* and *Oceans 13*, while strong home video was led by the release of *300*. Advertising rose 10% at Turner. Fourth-quarter theatrical releases include *Fred Claus*, *I Am Legend* and *The Golden Compass*, and video releases will include *Harry Potter*, *Oceans 13*, *Hairspray* and *Rush Hour 3*.

Publishing saw 12% OIBDA growth, and growth in Time advertising revenue from digital operations more than offset declines in print advertising at magazines.

AOL's total revenue declined 38%: Advertising revenue rose 13%, while there was a

56% decline in subscription revenue. Adjusted OIBDA declined 23%, and the business is on track for positive adjusted OIBDA growth for 2007. Search rose 15% year over year vs. 6% last quarter, while partner site revenue rose 33%.

Time Warner repurchased \$2.2 billion of stock under the \$5 billion program announced on Aug. 1, 2007. The company ended the quarter with net debt of \$33.5 billion, which is up \$1.9 billion from the end of 2006. Year-to-date, the company has repurchased nearly \$6 billion in stock and has paid \$645 million in dividends.

Time Warner Preview: Changing Stations

Time Warner (TWX) is scheduled to report third-quarter 2007 EPS of 24 cents on revenue of \$11.36 billion before the market opens on Wednesday and follow up with its quarterly conference call later that morning.

This week, Time Warner turned another page in its company's history when Dick Parsons announced that he was stepping aside from the CEO role while remaining as chairman of the media conglomerate. Parsons was succeeded as CEO by Jeff Bewkes who in turn named John Martin to become the new CFO.

A few things to be on the lookout for when Time Warner reports:

- continuing deterioration at the AOL unit;
- performance of the latest *Harry Potter* cinematic release and guidance for theatrical releases for the balance of the year; and
- potential impact from the Hollywood writers strike.

Time Warner remains at or near 52-week lows, and unless the company delivers a major positive surprise, I do not expect a significant reaction to the earnings announcement.

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At the time of publication, Rothbort had no positions in the stocks mentioned, although positions can change at any time.

Scott Rothbort has over 20 years of experience in the financial services industry. In 2002, Rothbort founded LakeView Asset Management, LLC, a registered investment advisor based in Millburn, N.J., which offers customized individually managed separate accounts, including proprietary long/short strategies to its high net worth clientele.

Immediately prior to that, Rothbort worked at Merrill Lynch for 10 years, where he was instrumental in building the global equity derivative business and managed the global equity swap business from its inception. Rothbort previously held international assignments in Tokyo, Hong Kong and London while working for Morgan Stanley and County NatWest Securities.

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