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RCN shares jump fueled by revenue increases, projections

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Shares of RCN Corp. rallied more than 9 percent Tuesday on news of strong revenue growth and expectations, despite a widened fourth quarter loss that missed Wall Street's expectation.

The Herndon, Va.-based broadband telecommunications services provider bundles cable, high-speed Internet and phone services in metropolitan areas, including Chicago.

RCN reported a net loss of \$32.4 million for the period ended Dec. 31, compared with a loss of \$24.7 million in the year-earlier period. The company did not provide per-share information.

Revenue grew 11 percent to \$167.9 million from \$150.6 million in the year-earlier period, topping analysts' estimate of \$160.2 million.

The loss from continuing operations was \$32.8 million, or 89 cents per share, compared with a loss of \$26 million, or 71 cents per diluted share, for the year-earlier period. Analysts had forecasted a loss of 70 cents per share from continuing operations, according to Zacks Investment Research Inc.

In November 2007 RCN completed a \$255 million acquisition of NEON Communications Group Inc., which boosted revenue by \$10 million and bumped earnings before interest, taxes, depreciation and amortization (EBITDA) up by \$3 million to \$41 million from \$32 million. The acquisition was funded by existing credit lines and cash on hand and followed RCN's 2006 acquisition of Consolidated Edison ("ConEd") Communications LLC.

RCN formed a new business comprised of these acquisitions, RCN Metro Optical Networks, to serve large corporations, healthcare and educational institutions and government clients.

"The combined strength created by our strategic acquisitions of ConEd and NEON offers us significant growth potential," stated President and CEO Peter D. Aquino in a press release.

The fourth quarter and year-end results were very positive, according to Chris Roberts, director of research at Tejas Securities Group Inc. Compared to the industry, Roberts said, RCN is faring well because the company is in attractive markets and because of RCN Metro.

"RCN Metro is growing very nicely," Roberts said. "They don't need the money right now ... but they could sell it eventually."

RCN is also focusing on updating its network in the Chicago area. In January, the company announced that its cable service will switch to all-digital programming. Roberts said the update is necessary because the Chicago network is "somewhat antiquated."

By reclaiming analog spectrum from 72 channels, RCN will increase the signature channel line-up to 200 channels, from 80, and increase the number of high definition (HD) channels. Aquino said the change is in line with consumer expectations.

"Most of the consumers are expecting an all-digital world," he said on a conference call Tuesday. "The idea of launching with 50 HD channels in Chicago is just creating a lot of excitement."

Encouraged by revenue gains and a customer base that grew for the seventh consecutive quarter, RCN announced projected revenue growth of 5 percent to 6 percent, to a range of \$730 to \$740 million, compared with pro forma 2007 revenue including the acquisitions of \$696 million. Total revenue in 2007 was \$636 million.

RCN projected EBITDA for the full year 2008 of \$190 million to \$200 million, an increase of 15 to 20 percent compared with pro forma 2007 consolidated EBITDA of \$166 million.

"With this momentum, RCN's 2008 outlook is positive as we balance our free cash flow objectives, growth opportunities, and record-breaking operating targets," Aquino said in the press release.

Roberts maintains a buy recommendation on RCN and said the company's posted losses are not worrisome. He said the company will continue to benefit from organic growth and cash flows in 2008, which he expects will increase faster than revenues.

For the full year 2007, RCN's net loss widened to \$152 million from \$11.9 million in 2006. RCN reported a loss from continuing operations of \$169.6 million, or \$4.58 per diluted share, compared with a loss \$14.3 million, or 39 cents per share, for the year-earlier period.

Shares of RCN closed Tuesday up \$1.01 to \$11.16.