Q2 2020 Earnings Call

Company Participants

- Christopher L. Winfrey, Chief Financial Officer
- Stefan Anninger, Senior Vice President of Investor Relations
- Thomas M. Rutledge, Chairman and Chief Executive Officer

Other Participants

- Benjamin Swinburne, Analyst
- Brett Feldman, Analyst
- Bryan Kraft, Analyst
- Craig Moffett, Analyst
- Doug Mitchelson, Analyst
- Jonathan Chaplin, Analyst
- Michael McCormack, Analyst
- Philip Cusick, Analyst
- Tim Nolan, Analyst

Presentation

Operator

Ladies and gentlemen, thank you for standing by and welcome to Charter's Second Quarter 2020 Investor Call. At this time, all participants are in a listen-only mode. And after the speaker's presentation, there will be a question-and-answer session. (Operator Instructions). I'd now like to hand the conference over to your speaker today, Stefan Anninger. Please go ahead, sir.

Stefan Anninger {BIO 15867691 <GO>}

Good morning, and welcome to Charter's Second Quarter 2020 Investor Call. The presentation that accompanies this call can be found on our website, ir.charter.com under the Financial Information section. Before we proceed, I would like to remind you that there are a number of risk factors and other cautionary statements contained in our SEC filings, including our most recent 10-K and also our 10-Q filed this morning. We will not review those risk factors and other cautionary statements on this call. However, we encourage you to read them carefully. Various remarks that we make on this call concerning expectations, predictions, plans, and prospects constitute forward-looking statements. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ from historical or anticipated results.

Any forward-looking statements reflect management's current view only and Charter undertakes no obligation to revise or update such statements or to make additional forward-looking statements in the future. During the course of today's call, we will be referring to non-GAAP measures, as defined and reconciled in our earnings materials. These non-GAAP measures, as defined by Charter may not be comparable to measures with similar titles used by other companies. Please also note that all growth rates noted on this call and in the presentation are calculated on a year-over-year basis unless otherwise specified.

On today's call, we have Tom Rutledge, Chairman and CEO; and Chris Winfrey, our CFO.

With that let's turn the call over to Tom.

Thomas M. Rutledge {BIO 1818216 <GO>}

Thanks, Stefan. We remain focused on serving our customers and the communities where we operate through a difficult period of time. These services have enabled remote working, distant learning, telehealth services, and family communications in support of the broader economy and the welfare of our communities.

In mid-March, as part of our effort to keep Americans connected during the shelter-in-place orders we pledged to do a number of things. We committed to offer Spectrum Internet for free for 60 days to households with students or educators who did not already have a Spectrum Internet subscription. And through that program which ended for new subscriptions on June 30th, we added 450,000 customers.

We also committed to suspend collection activities not terminate service for residential or small or medium business customers who are experiencing COVID-19 related economic challenges. And through the Keep Americans Connected programs which also ended on June 30th, we helped approximately 700,000 customers who indicated economic hardship due to COVID-19.

In addition, we opened our WiFi hotspots across our footprint for public use. Opened up our Spectrum News website to ensure people have access to high-quality local news and information. And we rapidly connected and upgraded fiber services to health care providers. We've donated significant airtime to run public service announcements to our full footprint of 16 million video subscribers. And for our employees, we implemented two weeks of additional paid sick time for COVID related illnesses, and an additional 15 days of flex time to address other COVID issues.

We increased our wages for all hourly field operations and customer service call center employees by $1.50 in April going back to February and committed to raise our minimum wage for hourly workers to at least $20 an hour over the next two years.

We continued to perform well in the second quarter. We added 850,000 residential and SMB Internet customers driven by the demand for our high-quality products. Our ability to connect and service the customers we created in the quarter has been the result of investments that we've made over the last several years in our insourced and US-based high-quality workforce, significant systems integration and automation, our online and digital sales and self-service platforms, and our self-installation program, which ran at about 90% of installations during the quarter.

Data usage and traffic on our network also remained elevated during the quarter. In June, residential data usage for Internet-only customers was 600 gigabytes per month, down 10% from the April peak, but up nearly 20% from the fourth quarter. Our customers are benefiting from a continually decreasing price per gigabyte. Peak traffic levels remain well below maximum capacity and our network continues to perform well because of the capacity that our recent investments, including all digital and DOCSIS 3.1 created and because we continue to invest significantly to stay ahead of that usage curve.

Over the coming years, we will invest in our network as we build to lower density in rural communities and pursue our 10G plan which provides a cost-efficient pathway for us to offer multi-gigabit speeds and lower latency to consumers and business customers. Additionally, with our inside-out strategy, we will continue to use and develop small wireless cells powered by our network together with our MVNO to connect customers in and beyond the home delivering our throughput and economics for customers in fixed, nomadic, and mobile environments.

Moving back to Q2 results, we added 100,000 video and 40,000 voice customers, both of which benefited from significant broadband sales in the quarter. We also added 325,000 mobile lines despite some disruption to our mobile sales channel in the quarter.

We also performed well from a financial perspective. We grew adjusted EBITDA by 7.3% despite some non-recurring items, Chris will cover. And our second-quarter free cash flow grew by nearly 70% year-over-year. As we look out for the rest of the year, we expect our broadband and mobile products to continue to drive demand, but our outlook depends on what happens to unemployment and income and for how long and the impact such factors have on customers' ability to pay for the services in the coming months, including government support to consumers. Household formation may slow. If it does, we would expect lower activity for both new sales and churn. And due to our various self-installation initiatives, we expect service transactions and cost to serve per customer relationship to continue to decline.

SMB has held up better than we expected, and we're currently selling more year-over-year again tied to how the economy and stimulus develops.

In Enterprise, business has been slow. During the second quarter, we struggled to gain access to customers and business premises. Sales activity is picking up back each month, but it will continue to be lower growth until businesses are fully back to normal operations.

Our advertising business is inherently local and primarily supported by small and medium businesses, which we've also been slow to return to local advertising. Ad sales are improving, and we still expect political advertising to be meaningful, which will help our third- and fourth-quarter results. Our first-half financial results would have been better were it not for COVID-19, but we feel good about our current performance and long-term growth trajectory. The value demand for our services is clear, and we're operating efficiently and serving our communities well.

In 2016, we put three cable companies together to scale our business under one operating strategy. Our ability to grow our connectivity services this year for both new and existing customers is a testament to our operating strategy, the quality of our products, and our significant investment in systems and people over the last several years.

Before turning the call over to Chris, I'd like to thank the Charter's employees for their hard work, dedication, and diligence throughout this crisis. They've been asked to go above and beyond their regular duties, and they've delivered easing the strain for millions of families in this challenging time.

Now I'll turn the call over to Chris.

Christopher L. Winfrey {BIO 16326284 <GO>}

Thanks, Tom. Turning to customer results on slide 5 of our presentation. Including the impact of COVID-19 related customer offers and retention programs, we grew total residential and SMB customer relationships by over 1.8 million over the last 12 months or by 6.3% and by 755,000 in the second quarter.

Including residential and SMB, we grew our Internet customers by 850,000 in the quarter and by over 2.1 million or 8.3% over the last 12 months. Video grew by 94,000 in the quarter, better than last year's second-quarter decline of 141,000 video customers. The positive performance was driven by churn benefits at a time when consumer demand was high as well as the pull-through effect of our COVID programs.

Wireline voice grew by 45,000, also benefiting from the same likely temporary factors as video. Mobile net adds accelerated again to 325,000. Beginning in mid-March, we introduced three COVID-19 related offers and programs for our customers. Each of these offers ended on June 30th. As we did in our first quarter materials, we provided an addendum showing the customer counts for each of these three COVID related offers as of the end of the second quarter. The first was a remote education offer, which provided 60 days of free Internet for new Internet customers with students or educators in the household. Over 90% of these customers are on our flagship speed tier or higher. This channel looked very much like traditional acquisition with nearly 50% having subscribed to and paid for additional products along the way.

At the end of the first quarter, we've reported 119,000 Internet customers in the offer, which rolled off either as paying customers or disconnects during Q2. For Q2, net of some small in-quarter roll-off churn, we added 329,000 more Internet customers to the 60-day free program with 160,000 remaining on the free offer at the end of Q2.

And by July 27th, 90% of the cumulative connects on this program from Q1 all the way through Q2 remained as either paying customers or are still on the free offer within the 60 days. The second offer for customer category in the addendum reflects customers who participated in our Keep Americans Connected pledged to the FCC. These are customers who indicated their inability to pay for service for COVID-19 related reasons. This program protected, as Tom mentioned, approximately 700,000 residential and SMB customers from collections and disconnect activity through June 30th. 60% of these customers continued to pay something, half of which were paid in full, and at the peak, there were over 200,000 who would have been disconnected under our normal collection practices.

In an effort to assist COVID-19 impacted customers with overdue balances, we waived $85 million of receivables, which was recorded as a reduction of revenue in the second quarter. As a result, these customers no longer have an overdue balance. We believe that we will retain most as long-term customers. But some of the over 200,000 may become disproportionately delinquent compared to a typical customer with disconnection in late Q3 or more likely in Q4 under our normal disconnect practices. [ph]Let me payment trends on this space is however very good.

And the final category of customers, we've isolated in our addendum, our SMB and enterprise customers who requested a seasonal suspension of service or temporary downgrade of a line of service while their operations were closed or diminished. I don't expect there will be anything to report as an addendum in Q3 given these programs have effectively wrapped up.

So how do we think about customer relationship performance in 2020 given COVID-19 in our various programs? Well, in the beginning of Q1 our customer relationship growth was accelerating and our pre-COVID expectation was that would continue throughout 2020. In March, in the second quarter, we absorbed a tremendous amount of new connection and service volume providing free service and credits.

Our goal was to do our part in helping customers in our local communities through a difficult economic period. As of the third quarter, we have a lot of customers who now have high quality attractively priced connectivity services from us and our third quarter and fourth quarter performance will largely be a function of the economy, unemployment, and any additional stimulus packages. It is clear to us that the actions we took to connect and protect customers during the crisis will result in long-term benefits for Charter better-ending relationships in 2020, and we expect a higher customer growth rate this year compared to last.

So our success in the second half of 2020 will be measured on third and fourth quarter year-to-date for last 12 months' net additions comparisons, not a particular quarterly comparison which is consistent with how we manage the business.

Turning to the financials. As we expected, there were a lot of moving parts in the quarter. I'll be referencing various COVID related items which we've laid out on slide 9 of today's presentation. Residential revenue grew by 4.1% in the quarter, primarily driven by accelerating relationship growth in similar PSU bundled and video mix trends we've seen over several quarters.

This growth rate includes the negative impact of $76 million of one-time write-down for residential customers in the Keep Americans Connected program. SMB revenue grew by 2% given slower customer growth and $17 million of write-downs and credits for customers in the Keep Americans Connected and the COVID related seasonal plan. That created some temporary ARPU pressure. So far we've been pleased with our SMB performance. And while things could definitely change if local economies shut back down, early third-quarter SMB sales and net addition performance has actually been better year-over-year.

Spectrum Enterprise revenue declined by 7.1% year-over-year driven by the sale of Navisite and the continued pressure from the wholesale side of the business. Excluding both Navisite and cell tower backhaul, enterprise grew by 2.2% that includes $18 million in one-time credits which we extended to certain customers in return for contract extensions. While the comparability for Navisite goes away after Q3, wholesale in particular cell tower backhaul continues to be challenged. Retail enterprise, when excluding the $18 million of one-time of bill credits, is growing revenue around 7%, and sustaining that growth or accelerating will be difficult until our customers are back to normal operations. We also have some exposure to the hotel segment, which we tried to deal with in the second quarter.

Spectrum Reach second-quarter advertising revenue declined by 37% driven by the COVID pandemic, which reduced core ad sales growth. In April, sales were about 50% of prior year. May was about 60% of prior year. And June was about 70% of prior year. So the trend has been improving, but our core won't be fully back to normal until later in the year or early next year. Of course, we will benefit from political along the way, which will help the prior-year comparison.

Mobile revenue totaled $310 million with $158 million of that being device revenue. And in total, consolidated second-quarter revenue was up 3.1% year-over-year.

Moving to operating expense. In the second quarter, total operating expenses grew by $45 million or 0.6% year-over-year. Cable operating expenses excluding mobile declined by 1.3% year-over-year, or 0.8% excluding Navisite. Programming increased 1.6% year-over-year reflecting the same rate, volume, and mix considerations that we've seen in prior quarters.

We did not accrue any RSN fee savings in our programming expenses in the second quarter as the certainty amounts and timing of any credits is not yet clear. If and when any COVID rebate for loss-gains occurs, we will pass that to long-term video your customers with no or minimal expected EBITDA impact.

Regulatory, connectivity and produced content expenses decreased by 18.3% year-over-year primarily driven by $125 million benefit from the timing of sports rights payments for our Dodgers and Lakers RSNs which had been pushed out to the second half and later depending on the Sport and adjusted season cost of service customers increased by 4.6% year-over-year with meaningful productivity, compared to 6.3% customer relationship growth. The higher level of expense growth was driven by record levels of transaction volume bridging from acquisition upgrades, billing, and service. And that expense includes roughly $44 million for recently accelerated hourly wage increases in COVID-19 benefits, which Tom mentioned partially offset by lower medical costs and a one-time payroll tax credit.

Bad debt expense was essentially flat year-over-year, but some $48 million lower than what we would have expected based on higher customer counts and the unemployment rate. This quarter bad debt benefited from the significant revenue write off for customers who were in the protection program and generally better payment trends due to the stimulus package under the CARES Act. Bad debt going forward will be a function of the economy and any new stimulus package. Excluding bad debt variability, cost of service customers to continue to grow at a slower rate than customer relationship growth due to lower transaction volume and higher self-service trends despite the step-up in minimum wages in COVID [ph]flex time.

Cable marketing expenses declined by 6.3% year-over-year given better media placement rates and a one-time payroll tax credit. Other expense declined by 6.6% year-over-year primarily due to lower advertising sales cost, cost related to Navisite, which was sold travel and insurance costs. Mobile expenses totaled $413 million and were comprised of mobile device costs tied to device revenue, customer acquisition, and MVNO usage cost, and operating expenses.

In total, we grew adjusted EBITDA by 7.3% in the quarter when including our mobile EBITDA loss of $103 million. Cable adjusted EBITDA grew by 6.7%, including a 2.7% negative growth rate impact from advertising revenue, net of its associated expense in both periods. We generated $766 million of net income attributable to Charter shareholders in the second quarter. And capital expenditures totaled $1.9 billion in the second quarter.

Our second-quarter capital expenditure shows we continue to invest through the second quarter despite a disruptive environment. We invested significantly in continued capacity upgrades of the national and local levels to stay ahead of contention. And we didn't slow down on new build including construction in rural areas.

Obviously, the level of broadband installations drove much higher modem and router purchases and self-installation kits. We expect 2020 cable capital expenditures as a percentage of revenue to decline year-over-year. And the underspend relative to our original plan that I mentioned last quarter, I may not be as significant as a result of the now much higher growth rates.

We generated close to $1.9 billion of consolidated free cash flow in the quarter, and excluding our investment in mobile, we generated $2.1 billion of cable-free cash up about $700 million versus last year's second quarter. We finished the quarter with $2.1 billion of cash and $4.7 billion of availability under our revolver. And as of the end of the second quarter, our net debt to last 12 month adjusted EBITDA was 4.3 times or 4.2 times if you look at cable-only. So we de-levered a bit in Q2.

Earlier this month, we issued $3 billion of long-dated high yield debt at very attractive rates. Pro forma for our recent financing activities, our current run rate annualized cash interest is $3.8 billion. During the quarter, we repurchased 2.3 million Charter shares and Charter Holdings common units totaling about $1.2 billion at an average price of $499 per share.

We completed a lower amount of buybacks in Q2 than we did in Q1 as we wanted to survey both defensive and offense of opportunities in a unique climate. Our visibility to various scenarios surrounding COVID-19 has obviously improved. We will always evaluate the best use of our to capital generate long-term returns for shareholders, be it organic investments such as the launch of our mobile or network [ph]agiles, purchasing someone else's shares or our own and probably in that order in terms of preference.

And we remain comfortable in the middle or high end of our target leverage range. As I mentioned last quarter, we know that we have a high-quality resilient asset with dedicated employees across our local communities, and we've invested significantly in our network and our people over the years.

We also know there is a high demand for our product across every part of our footprint in both homes and businesses in good times and in bad, which is why we continue to aggressively build out more broadband passings and ensure that our network is well invested ready and working for future opportunities.

As the environment continues to evolve across 41 states where we operate. Our goal is to stay focused on what we do well and execute a proven operating strategy that works for customers and employees across various economic and regulatory climate to create shareholder value.

Operator, we're now ready for questions.

Questions And Answers

Operator

Yeah. (Operator Instructions) And our first question comes from the line of Jonathan Chaplin with New Street. Go ahead please, your line is open.

Q - Jonathan Chaplin {BIO 4279061 <GO>}

Thanks. two quick ones, if I may, Chris. Firstly, can you give us just a little bit more color on how you think the third quarter In particular, but really the rest of the year will unfold as it relates to some of the COVID related benefits and costs you saw? So specifically, it sounds like there are about 360,000 subs still on various offers. Do you think that could translate into higher churn in 3Q? And then is there any more write-offs for revenues or negative bad debt impacts you anticipate from the initiatives that we've seen so far, not taking into consideration anything that happens with the economy and the macro environment? And then we were interested to see if you guys registered for the RDOF subsidies, you've been growing households close to or passing that close to 2% recently. If you're successful in those options, what could that potentially increase to?

A - Christopher L. Winfrey {BIO 16326284 <GO>}

Why don't I start with the last one first? We're in a quiet period as it relates to the RDOF, and so we won't be commenting any further than what we've already said in the 8-K. The first one, and I'll give a shot at it here and then Tom may want to chime in as well -- the programs that we had in place have wrapped up as of June 30th. And as I mentioned in the prepared remarks, the customers that we created through the end of the first quarter and the second quarter on the remote education offer, so all those, all those gross additions that came through, 90% of them are still with us and the vast majority of them are paying and 50% of them altogether had actually taken additional products from us and we're paying them along the way. So I don't have a crystal ball, but so far they look every bit as good as regular way acquisition. They're not a low-tier package from us, over 90% of them are in a flagship product. And while there is risk attached to any of that because of the programs we put, so far we don't see it. We're just putting it out there that -- we're watching it, and so far, it looks very good on the remote education offer.

A - Thomas M. Rutledge {BIO 1818216 <GO>}

I'd just add that from a profile perspective, they look just like our regular customer base. And they are like our customer base. And the 50% that brought video or voice from us or mobile, went through the normal credit check process that all customers go through. So they very much are behaving like all customers that we create. And I look at that offer in a lot of ways as a conventional promotional offer with a broadband benefit associated with it for two months but brought in new real new customers that subscribe and look like existing customers.

A - Christopher L. Winfrey {BIO 16326284 <GO>}

And then the other program was Keep Americans Connected -- at the peak, we had 200,000 customers who had gone beyond the point where we normally would have disconnected the customer. We've written off the balance for anybody who had an extended balance that was the $85 million that I mentioned. So by the time we got to July, and all of those customers were in good standing partly because some of them had been paying along the way and partly because we wrote-off. Now, those that were written off revenue as we sit here today and we looked at those that cycled through the June billing cycle, they're paying, and they're paying at a very good rate. And so if we had to sit here today, we'd say it looks very much like regular customer and customer churn. The caveat that we've put out there is obviously there is a fair amount of stimulus that's been in -- federal economic stimulus that's been in the environment, and we don't know what that's going to look like. We don't know how COVID is going to continue to develop and non-pay will develop going forward as it normally would with how the economy goes and how stimulus goes along with it.

A - Thomas M. Rutledge {BIO 1818216 <GO>}

And the way I would describe the macro-economic risk factors going forward is that they apply to the entire business just like they apply to the customers that we created in this quarter. And we don't see a big difference in the customer base that we created in the quarter and the average customer base.

A - Christopher L. Winfrey {BIO 16326284 <GO>}

The final question that you asked, Jonathan, was do we see any more revenue write off or an exceptional bad debt later this year? No, not attached to any of these programs to the extent that what we just talked about if the economy is difficult and there isn't stimulus. Would we expect a higher non-pay rate in that environment, which would result in bad debt? Yes, but that would be the same for any business. And that would be the same for us in any environment where you have the economy, which is more difficult.

Q - Jonathan Chaplin {BIO 4279061 <GO>}

Thanks guys. These, these results were exceptional. Well done.

A - Christopher L. Winfrey {BIO 16326284 <GO>}

Thanks, Johnathan.

A - Stefan Anninger {BIO 15867691 <GO>}

Operator, we'll take our next question, please.

Operator

Our next question comes from the line of Philip Cusick with JP Morgan. Go ahead please, your line is open.

Q - Philip Cusick {BIO 5507514 <GO>}

Hey guys, thanks. First, Chris, can you dig into the video strength? Well, I assume the inflection was pull through from customers coming in on some kind of promotion for broadband and taking that video as well. With that program done, should we assume video trends return to normal going forward? And then second, Tom your contract expires next year. Can you give us an idea, do you plan to keep running the company after that or give us any update on how you and the board think about succession planning? Thanks very much.

A - Thomas M. Rutledge {BIO 1818216 <GO>}

Sure. All right. Well, I'm going to answer both your questions. So video, video is a -- the secular trends for video haven't changed. What happened is that we've always said that we thought it was possible to grow video if our overall relationship growth was high enough because there still are -- the ratio of video customers to overall customers, it is continuing to decline, but it's, if you grow fast enough, if you grow faster than that rate of decline, then you create video growth.

And that's really what's happened here. Nothing has changed the secular trend. Although, there probably was a little less downgrading during the period because so many people were stuck in front of screens at home, but I don't think the overall trend has changed what really just happened is we accelerated our growth rate overall in customer relationships and as a result of that and the shift in share some of the video -- we grew faster than the rate of video decline. And it's that simple.

In the past, we said we thought that satellite would decline and that we could grow fast enough to have small video growth -- overall growth declined faster than I thought it would over the last several years, but it's still, I would say that that trend has not changed, all it changed was we grew our overall relationships faster.

And with regard to me, I intend to continue to be here. And the Board would like me to stay.

Q - Philip Cusick {BIO 5507514 <GO>}

Sounds good. Thanks, Tom.

A - Stefan Anninger {BIO 15867691 <GO>}

Thanks, Phil. Operator, we'll take our next question, please.

Operator

Our next question comes from the line of Doug Mitchelson with Credit Suisse. Go ahead please, your line is open.

Q - Doug Mitchelson

Thanks so much. So, a question for Chris, you use plain English, and I know you're specific with your comments, but I'm still going to ask for a clarification on the comments on offensive opportunities being reviewed in 2Q. And I think you said in this order purchase someone else's shares versus purchasing our own. So should we read that as the company is reviewing and interested in M&A at a higher level than previously? And then Tom in his prepared remarks mentioned invest in the networks, is that emphasis on invest in the network suggesting a different outlook for CapEx than previously stated or is that just within the profile that you've previously said? Thank you.

A - Christopher L. Winfrey {BIO 16326284 <GO>}

And thanks, Doug. So there is really since Tom and I both have been here, there is no change in our prioritization of cash flow. We've always said, the most attractive way to deploy your excess free cash flow is to invest in further growth opportunities inside the business. And the second would be to acquire other companies, which have a better rate of return than buying back your in-stock, and the third would be to buy back your own stock. And the reason for that order is because, if you can get the first two that I mentioned going, it actually enhances the quality and the return of the buybacks that you do to. Our views on that haven't changed. So just reiterating, that's how we think about it.

And I don't think in Tom's comments, we were trying to foreshadow any type of major capital increase. We just said that our philosophy has always been to invest in our networks. We've done so. You can see the benefit of having gotten in front of capacity needs well in advance and put us in a position to add this amount of subscribers and there is no, there is no major change that we're signaling there other than we intend to continue to invest very, very well inside of our networks.

A - Thomas M. Rutledge {BIO 1818216 <GO>}

Yeah, I, we, I wasn't saying that we are changing our profile investment strategy. I was merely commenting that we've been investing in capacity upgrades and those capacity upgrades have served us well. And they've served the whole communications infrastructure of the country well, and you have a very competitive facilities-based market in the United States. And it results in very high-quality products and it will result in future high-quality products.

Q - Doug Mitchelson

Great. Thank you very much.

A - Stefan Anninger {BIO 15867691 <GO>}

Thanks, Doug. Operator, next question, please.

Operator

Our next question comes from the line of Brett Feldman with Goldman Sachs. Go ahead please, your line is open.

Q - Brett Feldman {BIO 3825792 <GO>}

Yeah, thanks for taking the question. When we look at the success you had in the first half of the year with your broadband subscriber growth, one of the reasons is you identified a demographic which is students and teachers, where it seems like you may have been particularly under-penetrated and you came up with this promo that was really made for the moment, and it worked. You still have very low broadband penetration relative to what I think you believe it's ultimately going to be. And so I'm wondering whether you think there is an opportunity on the heels of the REO program that come up with other promos that are uniquely appealing to other demographics where maybe that gap is a bit wider? And then just on the wireless, obviously the net add there were very strong. I'm wondering if that's because there was a very high attach rate with the broadband adds that you had and as a result, these broadband adds are going to be more moderate in the back half and we should also have the same outlook for more moderate wireless adds? Thanks.

A - Thomas M. Rutledge {BIO 1818216 <GO>}

Well, to your implication, yes, if we could find ways to segment promotional activity that will result in faster growth, we will take advantage of those opportunities. And one of the reasons we were able to be successful with the promotion that we just did, it was our ability to not only do the promotion but to execute it. And to actually install it in a very short order of time in a way that was convenient for customers using self-installation. And so, yeah, there is continued opportunity for acceleration, but that was a particularly successful resolve, and we will continue to explore opportunities going forward to accelerate growth from a marketing perspective. But we feel pretty good about our ability to continually grow and to continue -- and to accelerate that growth. And nothing that has happened to date has dissuaded us from that perspective.

A - Christopher L. Winfrey {BIO 16326284 <GO>}

Yes, nothing to, not to diminish our own prowess either, but if you think about the demographics like who has somebody in their household who can claim to be a student or claim to be an educator -- it's a pretty broad segment of the population. It was just a very attractive offer that was out at that point in time where people needed it and it was a good opportunity to create --

A - Thomas M. Rutledge {BIO 1818216 <GO>}

It was not the majority of our sales by any means.

A - Christopher L. Winfrey {BIO 16326284 <GO>}

No, but it still created new market and drove additional share shift.

A - Thomas M. Rutledge {BIO 1818216 <GO>}

It was a nice -- and it fit the moment.

A - Christopher L. Winfrey {BIO 16326284 <GO>}

The other question was whether the wireless adds that we created in the second quarter were also tied similar to video or voice as a function of the broadband growth? And would that indicate that the second half of this year wireless net adds could be less if we had less broadband growth?

A - Thomas M. Rutledge {BIO 1818216 <GO>}

I think no.

A - Christopher L. Winfrey {BIO 16326284 <GO>}

I don't either.

A - Thomas M. Rutledge {BIO 1818216 <GO>}

You know the way we look at mobile growth opportunity, it's really a function of activity levels and how often, we get a chance to communicate with our customers about mobile and what the rate of that attach rate is and that continues to improve. And it's a relatively new business for us. And we are continuing to improve our tactics at that business, and we're continuing to get improvement every week in terms of our results. And so we have high expectations for continued growth in that area.

A - Christopher L. Winfrey {BIO 16326284 <GO>}

I agree.

Q - Brett Feldman {BIO 3825792 <GO>}

Great. Thank you.

A - Stefan Anninger {BIO 15867691 <GO>}

Thanks, Brett. Operator, we'll take our next question, please.

Operator

Our next question comes from the line of Ben Swinburne with Morgan Stanley. Go ahead please, your line is open.

Q - Benjamin Swinburne {BIO 5489854 <GO>}

Thank you. Chris, I don't know if you can give us color now maybe some uncertainty, but do you expect any benefit or shift in or year-over-year impact on the sports rights front in the third quarter around the Dodgers and Lakers. You mentioned it was delayed, but I do think there have been games that have been canceled. So, just curious if we should be thinking about that?

And then maybe for Tom, are you thinking about accelerating your sort of network evolution over time. I know you talked about not changing your CapEx profile in general but scalable infrastructure, I know, noticed ticked up, you talked about getting ahead of contention. I think you mentioned 10G, the business is throwing off tons of free cash flow. I'm just wondering if you think about where you want the network to be wired in wireless over time? Are you thinking about kind of bring that forward just to take advantage of all the opportunities the company has?

A - Thomas M. Rutledge {BIO 1818216 <GO>}

Yeah, sort of in broad terms, yes we want to continue to take advantage of the technological opportunity that the network provides us in the cost-efficient way to upgrade the network on a relative basis to what we think our competitors can do. And so to the extent that demand exists for new products or the demand can be created for new products and drive revenue associated with those new products, we want to upgrade our network to take advantage of that.

And at the moment, we have a lot of capacity. And so I don't see at the moment our profile changing, but as a general notion, we think that with relatively efficient capital investments, we can continue to upgrade our network through time and 10G is a reflection and a description of that opportunity I'd say cost-efficient upgrade platform that allows us to get the very high capacity, low latency on a relative basis more efficiently than anyone else.

A - Christopher L. Winfrey {BIO 16326284 <GO>}

And on your first question, the delayed Dodgers and Lakers cost from the first and the second quarter, they have been pushed out to varying degrees depending on the RSNs and the sport in the adjusted season, but the biggest driver for the first half of this year is the P&L recognition of the Dodgers where we've paid the cash, but the expense for unplayed games will be amortized over the remaining life of the contract. So it's unlikely there'd be a large catch up in the back half of this year.

Now, to the extent that there are programming rebates -- those are very complex, and in most cases, we're not going to know for some time before we receive any rebates to credits back from the league's. The same applies to the programming networks on the programming cost side. But what we have said is to the extent that we do receive any rebates or credits for canceled games or programming, on the programming expense line -- so between rights and programming cost due to the COVID-19 pandemic, we'll pass those along to the customer. I don't see a material EBITDA impact. Although it could put an offsetting revenue credit and expense credit to the extent it materializes.

Q - Benjamin Swinburne {BIO 5489854 <GO>}

Got it. Thank you, both.

A - Stefan Anninger {BIO 15867691 <GO>}

Thanks, Ben. Operator, we'll take our next question, please.

Operator

Our next question comes from the line of Craig Moffett with MoffettNathanson. Go ahead please, your line is open.

Q - Craig Moffett {BIO 5987555 <GO>}

Thanks. Hi. Two quick questions, if I could. First, I'll go back to the question about footprint expansion, maybe not in the context of the RDOF option, but just in general, can you share with us how much of the broadband growth came from the 2.2% footprint expansion that you're seeing now year-over-year? And absent any benefit from the RDOF option, how fast do you think that footprint expansion could go? And then just second, could you update us on the path to profitability for the wireless business? And your current view of how profitable that business can be with the current contract and then how much traffic you think you might be able to offload onto your own facilities in a way to reduce those monthly variable costs?

A - Thomas M. Rutledge {BIO 1818216 <GO>}

Well, as we are in a quiet period with regard to RDOF, Craig, and also our 2% passings growth rate includes new construction as well, meaning new home creation. And the bulk of that is that at this point in time. So --

A - Christopher L. Winfrey {BIO 16326284 <GO>}

Maybe just to add on to it. Those are homes passed or including what you count is marketable. So the extent that you're picking up additional homes maybe without even construction. We're building about 500,000 - 600,000 a year and so that's what you should think about as being added from a construction standpoint. It's not a material driver to our overall net adds inside of the quarter, and it hasn't been. But as it builds up over time, it's obviously a cumulative effect as you start to penetrate those vintages of construction.

What we've done over the past year hasn't been the big driver for our broadband net add growth, but if you do enough of it for a long period of time it snowballs.

A - Thomas M. Rutledge {BIO 1818216 <GO>}

It's good returns on investment capital spending over time. And it's -- the activity levels in the second quarter were similar to what they were planned for and what they were in the first quarter. So construction didn't actually slow down. And I'm talking about new home construction in the quarter.

A - Christopher L. Winfrey {BIO 16326284 <GO>}

Craig, the profitability of wireless, our views on it hasn't changed. We're not dependent on any additional offload above and beyond the WiFi that we already utilize. And even under that rather limited model, our expectation continues to be that our breakeven if you had no additional subscriber acquisitions and no marketing and sales cost, no cost of provisioning new customers, that the breakeven point would be around 2 million lines. That's a bit of a fictitious or academic scenario because we are always going to be selling. We're always going to be marketing. But that gives you a sense of where the business [ph]absent growth would breakeven, and so are --

A - Thomas M. Rutledge {BIO 1818216 <GO>}

Rapidly approaching.

A - Christopher L. Winfrey {BIO 16326284 <GO>}

Which we're rapidly approaching. So the economics of wireless are good, but like any start-up subscription business, it cost money to get going in new acquired customers, and they have a positive payback on every single one of them that we acquire. And so our views on the profitability hasn't changed. To the extent that we're able to improve the economics along the way, you know, which we've talked about extensively in the past, you know, that would make that even better, but we don't, we don't rely upon that.

Q - Craig Moffett {BIO 5987555 <GO>}

Thank you. That's helpful.

A - Christopher L. Winfrey {BIO 16326284 <GO>}

Good.

A - Stefan Anninger {BIO 15867691 <GO>}

Thanks, Craig. Operator, we'll take our next question, please.

Operator

And our next question comes from the line of Bryan Kraft with Deutsche Bank. Go ahead please, your line is open.

Q - Bryan Kraft {BIO 20667157 <GO>}

Hi, good morning. I had one for Tom and one for Chris. Tom, Charter recently requested the FCC weighs two of the conditions related to the approval of the Time Warner Cable deal on data caps and paid peering. What's the motivation behind that request? And if it was granted, how would that impact the business in the future? And then, Chris, I was wondering if you could just give us some updated color on how you're thinking about working capital usage for 2020? Thank you.

A - Thomas M. Rutledge {BIO 1818216 <GO>}

So, Bryan, when we did the agreement with the FCC, it had, it was a seven-year agreement. So those provisions go away automatically in seven years. But there was a caveat in our agreement that allowed us to terminate it after five years if the marketplace indicated that those conditions were no longer relevant. And I would just describe our goal there as housekeeping. And because the market didn't require those conditions, and in my view never did, we wanted to get -- we wanted to put ourselves, from an opportunity perspective, on the same even playing field as all of our competitors. But we don't have any change in business strategy or marketing strategy or product strategy as a result of that request.

A - Christopher L. Winfrey {BIO 16326284 <GO>}

And, Bryan, on the working capital -- if you think about the past two years, meaning 2018 and 2019, there were some pretty unique items that were taking place, whether it was the wind-down of all digital or last year we had a big billing standardization project which both of which had impacts on working capital. We haven't had anything like that, that's been abnormal this year. We do have large swings inside the quarter due to seasonality. You saw that inside of Q2 where we had a positive contribution to working capital.

Last year, we had a negative one. It was driven by that billing standardization, which we talked about then. To give you an order of magnitude, there are days when we collect $300 million of cash, one day of collections. And so it's going to move around a little bit both inside of the quarter-end and for a full year based on the timing of your programing payments and the timing of your collections. And so I don't want to hoist ourselves here on our own (inaudible) and give a working capital forecast other than to say there is no major change this year that could cause us, should cause us to be abnormal and whether it's positive or negative by a few $100 million, it's not going to be a material driver to our free cash flow this year is my current expectation.

Q - Bryan Kraft {BIO 20667157 <GO>}

Okay. Thanks very much.

A - Stefan Anninger {BIO 15867691 <GO>}

Operator, we'll take our next question, please.

Operator

Our next question comes from the line of Mike McCormack with Guggenheim Partners. Go ahead please, your line is open.

Q - Michael McCormack {BIO 5717983 <GO>}

Hey, guys. Thanks. Chris, maybe just a quick comment on the customers that are, I guess, at risk. When you look at the consumer versus the SMB piece of it, is there a different behavior or are there different behaviors between those two cohorts? And then maybe one for Tom on the programming cost side, we're seeing in the last 12 months, about 6.5 million subs come out of the video ecosystem. How does that change your thought process going forward? I guess maybe in your own content strategy and obviously any thoughts about pushing back against the programmers? And then if you don't mind, just one last one on enterprise. Is that enterprise weakness just delayed decision making or are you actually seeing customer disconnects? Thanks.

A - Thomas M. Rutledge {BIO 1818216 <GO>}

I'll take the last question, its delayed decision making.

A - Christopher L. Winfrey {BIO 16326284 <GO>}

Right. Yeah, people in large enterprise, they're not in the office, and to the extent that IT people are, it hasn't been the time where they're most aggressively looking to save money and change providers and move to Spectrum. We're still making a fair amount of sales and it's picking up every month. It's getting back to a more normalized environment. But it's been depressed, and it's going to be probably until enterprise businesses get back to normal operations. Maybe I'll take --

A - Thomas M. Rutledge {BIO 1818216 <GO>}

That said there's opportunity there in creating new products and services for enterprise that -- and enterprise will use their telecommunications infrastructure in a different way potentially going forward. So I think in the long run there is more opportunity.

The question on the thought process around programming, and whether or not the whole sort of ecosystem argues for more aggressive stance or not. I think it is the implication of your question, you know, I think that's coming. And at some point somebody will overstep the bounds of reason, and there'll be some sort of breakage that will occur.

A - Christopher L. Winfrey {BIO 16326284 <GO>}

You had also asked about the difference between at risk customers for non-pay as it relates to residential and SMB. On the residential side, as I mentioned, we have a product that is in high demand, that's highly competitive. It's attractively priced, attractively packaged, and because of the way that we do all of that and operate, we don't -- there is going to be high demand for it. It is just a question of people's ability to pay. And there is some uncertainty around where does the economy goes. And even if the economy is bad and in an environment where you have a significant amount of stimulus, and we tend to get paid very quickly in that environment because of the value of the products that we provide. So that's really how we think about the residential environment -- it's the economy and the level of stimulus.

SMB, it's really a question of whether they're open for business or not. And if they're not open for business, how long can they sustain from their own liquidity perspective of not being in business, and that's the uncertainty that we face on that front. Otherwise, the quality of our products and our ability to go gain market share in an environment where people are looking for faster products at better prices -- you would argue that if the share flow could actually increase in the SMB space for us along the way.

A - Thomas M. Rutledge {BIO 1818216 <GO>}

Yes as (multiple speakers) sorry, Chris said that our SMB continues to accelerate over last year. And that's not just a function that businesses are back and working, but it's also a share shift function. And we're under-penetrated in the SMB, and so our upside there is bigger than this in residential from a market share perspective. And we have the best products.

Q - Michael McCormack {BIO 5717983 <GO>}

And Chris, those percentages that you laid out as far as those that are paying, is that a residential only number that you were referring to?

A - Christopher L. Winfrey {BIO 16326284 <GO>}

I'm trying to remember which, as I gave a lot of percentages today. So I gave the --

Q - Michael McCormack {BIO 5717983 <GO>}

I think you said like 50% are paying or something.

A - Christopher L. Winfrey {BIO 16326284 <GO>}

No that was residential and SMB, but the vast, vast majority of those units -- if you take a look at the addendum we provided, the vast majority of those customers were in the residential space. And so it's heavily weighted towards residential, but it was both. It was both, so 60% of customers have been making some payment including partial payments, half of which -- so about 30% of the total base that had been making full payment and that included, those stats included both residential and SMB.

Q - Michael McCormack {BIO 5717983 <GO>}

Okay, great. Thanks, guys.

A - Christopher L. Winfrey {BIO 16326284 <GO>}

Yup.

A - Stefan Anninger {BIO 15867691 <GO>}

Thanks, Mike. We have time for one last question. Operator, could we take our last question, please.

Operator

Our last question comes from the line of Tim Nolan with Macquarie. Go ahead please, your line is open.

Q - Tim Nolan {BIO 16483379 <GO>}

Thanks very much. I'd like to come back to the video numbers. I just wanted to ask if you think your numbers are helped somewhat by what appears to be a bit more of a skinny bundle strategy that you offer, rather than offering some more OTT services, OTT bundles as some of your competitors are doing?

A - Thomas M. Rutledge {BIO 1818216 <GO>}

The answer is yes. Yeah, we have a range of video products including the traditional bundle. And to some extent in the long run, the skinny packages have limits in terms of what we can penetrate with because of the way the contract language works in our programming deals and the minimums that are required in the -- the minimum distribution required in the big bundle. So there is a challenge for us in balancing all of that, that so far we've been successful in dealing with, but the answer is yes and the challenges in video have not gone away.

Q - Tim Nolan {BIO 16483379 <GO>}

And do you think you might be looking at offering some OTT types of, you know, one-offs or bundles within your video offering or is that something you're going to stay away from?

A - Thomas M. Rutledge {BIO 1818216 <GO>}

You mean, I'm not sure I fully understand your question, but you mean, are we willing to do additional packaging?

Q - Tim Nolan {BIO 16483379 <GO>}

Yeah, I'm not talking about skinny bundles in terms of traditional linear or skinny bundles, but things like offering an OTT service are offering an OTT bundle from a network not rather a skinny linear bundle?

A - Thomas M. Rutledge {BIO 1818216 <GO>}

Oh, yes. Yeah, absolutely. And I think you'll see us selling more and more packages of OTT product that we don't necessarily own, but more on a consignment basis or on a potentially even a packaging basis.

Q - Tim Nolan {BIO 16483379 <GO>}

Okay. Thank you.

A - Thomas M. Rutledge {BIO 1818216 <GO>}

Thanks, Tim.

A - Stefan Anninger {BIO 15867691 <GO>}

Thanks, Tim. Operator, that completes our call.

A - Christopher L. Winfrey {BIO 16326284 <GO>}

Thank you, everyone.

Operator

Ladies and gentlemen, this does conclude today's conference call. You may now disconnect.