Company Name: Charter Communications
Company Ticker: CHTR US
Date: 2018-04-27
Event Description: Q1 2018 Earnings Call

Market Cap: 69,326.42
Current PX: 263.325
YTD Change($): -72.635
YTD Change(%): -21.620

Bloomberg Estimates - EPS
Current Quarter: 0.968
Current Year: 4.015
Bloomberg Estimates - Sales
Current Quarter: 10828.647
Current Year: 43543.667

Q1 2018 Earnings Call

Company Participants

- Stefan Anninger
- Thomas M. Rutledge
- Christopher L. Winfrey

Other Participants

- Benjamin Daniel Swinburne
- Jonathan Chaplin
- Cathy Yao
- Vijay Jayant
- Marci L. Ryvicker
- Jason Boisvert Bazinet
- John C. Hodulik
- Kannan Venkateshwar
- Brett Feldman

MANAGEMENT DISCUSSION SECTION

Stefan Anninger

Non-GAAP Financial Measures

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

Thomas M. Rutledge

Business Highlights

All-Digital Initiative

- In Q1, our primary objective was to continue to integrate our operations and prepare to launch mobile
- Our all-digital initiative is moving forward and is on schedule for completion by this year-end
- At the end of Q1, approximately 20% of legacy Time Warner Cable and 60% of Bright House Networks continue to carry full analog video lineups, with TWC though improving from approximately 40% at the end of the year 2016

Volume

- The whole company will be fully digitized by end of this year as we deploy fully functioning two-way digital set-top boxes, mostly our Worldbox and all remaining analog TV outlets that we serve
- But while all-digital is on track, it is disruptive, both to our operations and to our customers
  - It creates large volume with short-term activity, which is inconsistent with our long-term operating strategy and reducing transactional volume
- The all-digital project though is clearly in the long-term interest of our business that allows us to free up bandwidth and to realize the full potential and capacity of our network as well as further improve the video product itself

Gigabit Speed Offering

- In Q4, we prepared the expansion of our gigabit speed offering to several new markets and launched those markets just a few days ago
- We now offer gigabit service to approximately 23mm passings, totaled 45% of our total footprint and expect to have gigabit service available to virtually all of our footprint by year-end

Capital Spend

- Also this month, we raised the minimum Spectrum Internet speed to 200 megabits in a number of additional markets with no additional cost to customers
- We are raising our Internet speeds faster than originally planned in order to maintain a superior competitive position
- We've compressed our capital spend to raise speeds and to launch 3.1 across our footprint and our strategy is working
- In the markets where we launched 100 megabits is our minimum speed and December sales were up, churns down, net additions have improved y-over-y, consistent with our experience with previous speed increases

Spectrum Pricing and Packaging

- Today, over 50% of our Internet customer subscribe to tiers that provide 100 megabits or more throughput, we don't offer anything less to new Internet customers and it's now a 200 megabit minimum offering, nearly a quarter of our footprint
- The rollout of Spectrum pricing and packaging remains on track
- At the end of end of Q1, 55% of Time Warner Cable and Bright House customers were in our new Spectrum pricing and packaging, which reflects the pace of integration and migration expected

Connect Volume

- Over time, we expect Spectrum-branded products to drive continued higher sales and longer customer lives
- In Q1, we continue to see y-over-y improvement in sales in connect volumes, although higher y-over-y churn offset the higher sales volumes
- Higher churn has been a result of some customer service system changes we have been making as part of our large and complex integration

  - While we are executing the billing migration, last year, we collapsed 13 service environments based on our billing systems into four using our software isolation layer
- In 2018, those four service environments were moved to two
- That integration execution, which will result in quality, uniform services and efficiencies, impacted both our customer qualification and collection process, both resulting in higher non-pay disconnects and bad debt

Adjusted EBITDA

- We corrected those processes, however, and both non-pays and bad debt should be back to planned levels by the end of Q2
- Despite that self-inflicted disruption we have grown total Internet customers by 1.2mm or over 5% in the last year
- And in the quarter, we grew revenue by 4.9% y-over-y and adjusted EBITDA by 6.8%, excluding mobile startup costs

Mobile

- Turning to mobile, we remain on track to launch our new services in the middle of this year under our MVNO agreement with Verizon
- We recently launched a field trial, which includes 5,000 employees who are going through an end-to-end sales activation with service process in May
- And we are building out our sales channel and service capabilities, including modifying several hundred of our 700 retail store and setting up a call center environment

Comcast

- Ultimately, the goal is to use our mobile service to attract and retain our cable-bundled multi-product customers
- And the partnership we signed with Comcast last week will accelerate our ability to scale our MVNO service offerings, by stepping into a proven MVNO back-office platform and improve the economics of our emerging mobile business
  - While our entry into mobile is new, we are already a wireless operator today with over 250mm of syndicated wireless devices connected to our deployed small cell network

Inside-Out Wireless Strategy

- Our infrastructure design provides us with a unique opportunity to build the businesses based on how consumers use the service, what I call an Inside-Out wireless strategy
- In addition to the continued advancements in Wi-Fi throughput and latency, we are testing in various bands, including 28 gigahertz and 3.5 gigahertz, which have gone well and support our thesis that small cells using unlicensed and licensed Spectrum including mid-band Spectrum like 3.5 gigahertz, working together with our widely deployed power terrestrial network and combined with the DOCSIS products like full duplex and coherent optics will allow us to offer high capacity, low-latency connectivity products, both inside and outside the home, fixed wireless and mobile and with and without our superior video applications

New Products

- Ultimately, our strength as a connectivity provider comes from our powerful, easy to upgrade network
- Its unique design allows for the most cost effective deployment of new technologies, which will drive massive increases in the amount of data we can drive to that network
- And over time, we will open up opportunities for new products

Christopher L. Winfrey

Financial Highlights

Performance

- Before covering our results, a few administrative items
- First, we have re-classed all inbound sales and retention expense from costs to service customers to marketing expense for current and prior periods
- We already provided a pro forma change schedule in our fourth quarter materials
- Also, a reminder that when discussing first quarter customer results, I'll be comparing these results to Q1 2017 results that have been adjusted to exclude seasonal program customer activity in Q1 2017 and Legacy Bright House
- That comparison is on slide 6 of today's Investor Presentation
  - This is the last time we need to compare y-over-y quarters with these adjustments since we are now beyond the one-year mark from the seasonal program change

TWC and Bright House

- Customer statistics that you see in today's materials continue to be based on legacy company definitions, and in Q2 this year, we'll recast customer stats and our trending schedules using consistent definitions across all three legacy entities
- The largest differences will be in TWC and Bright House classification of customer types, particularly universities, moving between residential today where they're reported on the doors basis, commercial accounts will be reported on physical sites
- TWC and Bright House also reported SMB and enterprise-based on building relationships, and this will convert to a physical sites methodology

Operating Statistics and Revenue Results

- When we report our second quarter results, we will report on the uniform definitions for Q2 and prior periods with a reconciliation schedule
- In Q3 this year, I expect we'll only report consolidated operating statistics and revenue results
- At closing, we said we will report at least five quarters of legacy entity top line results following the close of our transactions
- Q2 this year will be the ninth time we've reported legacy entity results

FASB's New Revenue Recognition Standard

- Finally, starting on January 1 of this year, we prospectively adopted FASB's new revenue recognition standard
- There are a number of relatively small adjustments in the quarter related to the adoption of the standard, both in revenue and expenses that in total had no material impact to revenue or adjusted EBITDA for this quarter

Customer Relationship Growth

- Now turning to our results, total customer relationships grew by 261,000 in Q1 and grew 890,000 over the last 12 months, with 3.1% growth at TWC, 3.4% at Legacy Charter, and 4.6% at Bright House
- Including residential and SMB, video declined by 112,000 in the quarter, Internet grew by 362,000, and voice declined by 25,000. 55% of residential TWC and Bright House customers were in Spectrum pricing and packaging at the end of Q1

New Markets

- Customer connects were higher y-over-y, including our new markets
- Disconnects were also up y-over-y, reflecting the non-linear progression of net adds I've often spoke about
- TWC was the largest driver of higher y-over-y disconnects
- The key drivers were higher non-pay disconnects from integration-related system changes that Tom mentioned, where we've since conformed the customer qualification and collection process to our standard policy
- And non-pay disconnect and the associated bad debt should be back to normal rates by the end of Q2, which practically means the beginning of Q3
- We also have continued roll-off churn from legacy packages
  - These factors had a declining impact on our results as the quarter progressed
- We should continue to have less of a monthly impact as we progress through Q2

PSUs

- Slide 6 shows we grew residential PSUs by 157,000 vs. 338,000 last year
- Over the last year, TWC residential video customers declined by 2.3%, pre-deal Charter declined by 1.5%, and Legacy Bright House video was 0.3% lower y-over-y
- In the quarter, TWC residential video customers declined by about 90,000, with higher additions offset by higher non-pay disconnects
- Legacy Charter lost 32,000 residential video customers in the quarter vs. a loss of 13,000 a year ago
  - Additional competitive build-out less y-over-y benefit from a struggling competitor kept sales relatively flat at Legacy Charter
- Bright House video customers were flat during the quarter vs. a gain of 13,000 last year

Residential Internet

- In residential Internet, we added a total of 331,000 customers vs. 416,000 last year, with higher non-pay disconnects for the reasons I mentioned responsible for all of the y-over-y decline in Internet net adds at Legacy TWC.
- Total company Internet sales were higher y-over-y
- And in the 17% of our footprint where we offer 200 megabits per second as our minimum speed as of the beginning of Q1, there was y-over-y improvement in both sales and net additions

Footprint

- As Tom mentioned, we now offer 200 megabits per second as our minimum Internet speed in nearly 25% of our footprint, and we offer gigabit service in approximately 45% of our footprint and expect to have gigabit service available nearly everywhere by the end of 2018
- Over the last 12 months, we grew our total residential Internet customer base by 1.1mm customers or 4.9%, with 4.8% growth at TWC, 4.9% growth at Legacy Charter, and 5.9% at Bright House
- In voice, we lost 52,000 residential customers vs. a gain of 30,000 last year, driven by fewer additions and higher churn of legacy packages and non-pay churn at TWC.

Customer Growth

- As we've said before, our progress towards better customer growth will not be linear
- We do, however, continue to expect higher sales and better retention over time, so a higher portion of our base is now on Spectrum, we upgrade our video and Internet capabilities, our service delivery platform improves, and as we work through our integration
- Over the last year, we grew total residential customers by 739,000 or 2.9%
- Residential revenue per customer relationship grew by 1.6% y-over-y, given the lower rate of SPP migration, promotional campaign roll-off, and some minor rate adjustments, partly offset by higher levels of Internet-only customers and better sales with sell-in at promotional rates

ARPU Growth

- Slide 7 shows our customer growth combined with our ARPU growth resulted in y-over-y residential revenue growth of 4.8%
- Total commercial revenue, SMB and enterprise combined, grew by 5.3%, with SMB up 4.1% and enterprise up by 7.3%
- Excluding cell backhaul and NaviSite, enterprise grew by close to 11%

SMB and Enterprise

- Sales were up in both SMB and enterprise, with SMB PSU net adds at TWC and Bright House up over 10% in Q1 vs. last year
- Our revenue growth in the TWC and Bright House markets hasn't yet followed the unit growth, and it won't until we get the transition to more competitive pricing of both our SMB and enterprise products
- We expect that ARPU offset will continue through 2018 and that revenue growth will ultimately follow the unit growth

Advertising Revenue

- First quarter advertising revenue grew by 5.6% y-over-y, driven mostly by higher political
- In total, first quarter revenue for the company was up 4.9% y-over-y and 4.8% when excluding advertising
- Looking at total revenue growth, excluding advertising in each of our legacy companies, TWC revenue grew by 4.6%, pre-deal Charter grew by 5.2%, and Bright House revenue grew by 5.0%

Advertising Revenue

- Moving to operating expenses on slide 8
- In Q1, total operating expenses grew by $254mm or 3.9% y-over-y
- Programming increased 5.7% y-over-y, driven by contractual rate increases in renewals and a higher expanded customer base in the mix, partly offset by a programming benefit
- Excluding the onetime benefit this year, programming would have grown by 6.5% y-over-y or approximately 8% per video customer

Costs to Service

- Regulatory, connectivity and produced content grew by 7% primarily driven by our adoption of the new revenue recognition standard on January 1, which also re-classed approximately $15mm of costs to this expense line in the quarter
- Costs to service customers grew by 3% y-over-y, driven by the higher bad debt expense for the reasons I described
- Excluding the temporary impact of higher bad debt expense, we are lowering our costs to service through changes in business practices and seeing early productivity benefits from in-sourcing, all while growing our customer base and investing in more in-sourcing and training

Marketing Expenses

- Marketing expenses declined by 1.8% y-over-y as the prior year period included certain transition costs and with or without that effect, our marketing and sales expenses are more efficient on higher sales
- And all other expenses were up 2.7% y-over-y, driven by higher ad sales cost, enterprise and product development costs, offset by lower overhead costs

Adjusted EBITDA

- Excluding mobile, adjusted EBITDA grew by 6.8% in Q1
- The impact of the new revenue recognition standard and a few onetime and out of period items, including the programming item I mentioned, essentially offset each other
- When including $8mm of clearly defined mobile start-up expenses, our adjusted EBITDA grew by 6.5%

Net Income

- Turning to net income on slide 9, we generated $168mm of net income attributable to Charter shareholders in Q1
- Adjusted EBITDA was higher, severance-related expenses were lower
- We did not have any losses related to the extinguishment of debt as we did last year, and we had a gain on financial instruments from currency movements on our British pound debt and the related hedging
  - Those positive drivers were partly offset by higher depreciation and amortization and higher interest expense

CapEx

- Turning to slide 10, CapExs totaled $2.2B in Q1, primarily driven by higher spending on CPE, scalable infrastructure and support capital
- The CPE spend was driven by higher connect volumes, continuing migration of legacy customers over to Spectrum who frequently provided with new equipment
  - We also incurred $186mm of all-digital spend, which falls primarily into the CPE category

DOCSIS 3.1

- The increase in scalable infrastructure was related to the timing of video spend and planned product improvements for video and Internet including spending related to DOCSIS 3.1 launches
- We also spent more in the support category on vehicles, tools and test equipment, software development and facility spending in each case, some in the in-sourcing, some related to integration
- Given the pace of all digital, DOCSIS 3.1 deployment and our overall state of the integration and planning, the ability to spending capital more consistently as compared to last year is in fact a good sign
- For the full year, we continue to expect cable capital intensity or cable CapEx as a percentage of cable revenue to be a bit lower than 2017

FCF, CapEx and Working Capital

- Slide 11 shows we generated $49mm of negative FCF in Q1 vs. $1.1mm of FCF in Q1 last year
- The decline was largely driven by higher CapEx and working capital timing this quarter where I provided a fair color on overall working capital timing last quarter
- Q1 working capital headwinds is primarily driven by the timing of our late fourth quarter CapEx spend, which drove early Q1 cash payments without offsetting intra-quarter CapEx timing

Debt Principal

- We finished the quarter with $70B in debt principal, with run rate annualized cash interest expense at March 31 was approximately $3.8B, whereas our P&L interest expense in the quarter suggests $3.4B annual run rate
- That difference is due to purchase accounting
- As of the end of Q1, our net debt to last 12-month adjusted EBITDA was 4.46 times, within our target leverage range of 4 times to 4.5 times

Investment Grade

- Earlier this month, we issued $2.5B worth of 20-year and 30-year investment grade notes, which will primarily be used to fund an upcoming maturity
- During Q1, we repurchased 2mm shares in Charter Holdings common units $683mm
- And the fact that we started the year at the high-end of our target leverage range as opposed to increasing our leverage in 2017 mathematically means our 2018 buybacks will be less than 2017, same as I mentioned on last call

EBITDA

- We may also reduce our cable leverage somewhat over the course of the year to ensure that consolidating EBITDA remains at or under 4.5 times
- Beyond starting point leverage, other factors also played a role in the amount of 2018 vs. 2017 buybacks, including the early pace of our mobile product launch, working capital effects from consumer devices, and I don't expect we can achieve the same level of working capital improvement for cable in 2018
  - Within those constraints, however, we remain opportunistic to preserve flexibility and to create shareholder value

Tax Reform

- Turning to taxes on slide 13
- We don't currently expect to be a material cash income tax payer until 2021 at the earliest
- Given the tax reform passed by Congress and signed into legislation last year, we estimate that the total present value for tax assets reflecting a later NOL utilization against lower rate has declined from just over $5B to about $3.5B.
- That decline is offset by the much larger value associated with net present value of tax reform, which drives higher FCF in perpetuity

Spectrum Mobile Service

- Before moving to Q&A, I want to reiterate the financial framework for the launch of Spectrum mobile service later this year
- We believe that our entry into mobility can further accelerate customer growth and drive more penetration
- The more customer growth we generate, the more incremental revenue we'll generate mobile and from cable
- Much of that revenue in the beginning will be device contract revenue, which is fully recognized on the contract date and similarly as cost of goods sold under EIP accounting, with the actual customer payments received over a longer period

Subscription Business

- As with any subscription business, there are upfront launch costs and acquisition activities, which creates OpEx and CapEx, which exceeds the gross margin benefits in the short term
- The more mobile customer growth we generate early on, the more EBITDA and initial cash flow drag we'll experience in the early days

- And over time, we expect our mobile service to generate positive EBITDA and cash flow on a standalone basis with broader growth benefits to our core cable services

Mobile Business

- Our mobile business will eventually be fully integrated as just another cable product in the bundle from a marketing, care, billing and service perspective, so no different than Internet or voice today, and it will not be a separate P&L or segment as such
- Through the launch phase, however, we'll be able to create transparency around cable performance by disclosing mobile revenue, mobile operating cost and, therefore, mobile effects on adjusted EBITDA
  - We should also be able to isolate the launch working capital impacts from the timing of cash flow for device costs and related subscriber payments
- We'll provide additional details on the mobile business when we move through the year and as the business scales

QUESTION AND ANSWER SECTION

<Q - Benjamin Daniel Swinburne>: Chris, I have two questions for you. One around the customer trends and one around ARPU. So on the customer side, you talked about elevated churn or I guess churn up year-on-year due to disruption on digital, but also -- and maybe the related higher non-pay. So taking those two drivers, and you look out into the rest of the year, do you expect net adds to be up year-on-year in the back half as presumably both of those headwinds, particularly the non-pay piece stayed obviously people are focused on subscriber trends, so any color there would be helpful.

And then on ARPU, can you just help us, as we think about the rest of the year, whether you expect ARPU growth to be higher or lower than what we saw in Q1 directionally based on at least the timing of the rate adjustments you've implemented?

<A - Christopher L. Winfrey>: Sure. On customer trends, look, we talked at length. The big driver was this non-pay disconnect. Had it not been for that, customer net adds particularly in TWC for video and Internet would have been better on a y-over-y basis. And so it's entirely driven by that issue. Sales are up across the company and across TWC in particular, which is, obviously, the largest driver. And so non-pay disconnect was the biggest factor.

The second piece that I would highlight is that where we have increased to DOCSIS 3.1 not only were sales up y-over-y, but net adds were up significantly y-over-y in these markets. The issues that Tom highlighted have been addressed for non-pay, it takes a little while to get up the systems by the end of Q2 or early Q3 the disconnect side is expected to improve and is improving throughout Q1 and we'd expect the same to continue through Q2. So yes, we expect the net adds to improve. Sales are moving very well, and so our expectation has been and remains that customer net adds will continue to improve.

On ARPU, the residential customer ARPU, which is, I think, is what you're referring to in the remarks relevant metric. There is still a large amount of revenue reallocation from bundled pricing that goes on to Spectrum pricing and packaging. So I think the product are accretive somewhat irrelevant than the customer relationship ARPU is.

The factors that I went through in the prepared remarks are we had a lower rate as you get more mature into the Spectrum pricing and packaging migration process you have a lower rate of SPP migration, which removes some of the negative ARPU factor that we've had over the past few quarters, meaning it's just a lesser impact. And you have more services, better sales and so all of that's flowing through. And then we did have some minor rate adjustments which will carry through for the rest of the year.

So without sitting back and giving guidance specifically by quarter, I think the ARPU headwinds that we've had through the initial SPP migration should be less going forward. The one big factor I'd mention is that single-play

Internet sell-in is the other one; the amount of single-play Internet sell-in clearly has an impact to the overall customer relationship ARPU. And if we can get more of that for customers who are unwilling to take video, we will, and so I put that one caveat into the ARPU.

<Q - Jonathan Chaplin>: Chris, hoping to get a little bit more color on the trajectory of wireless losses that you're expecting post the JV that you guys have announced with Comcast. So we've been expecting similar losses to Comcast delayed by a year. And I'm wondering if that's sort of a reasonable place to set our expectations? And then how would the JV and the sharing of costs change that?

<A - Christopher L. Winfrey>: Sure. Look, it's a brand new business. We have a budget, we know what we plan to do, and I think using Comcast as a proxy is as good as any at this point. But the biggest driver there is the level of subscriber acquisition. There's a lot of upfront subscriber acquisition costs. These are NPV positive customer acquisitions. Once you get a steadier state growth, the business has not only a positive EBITDA, but a positive FCF contribution on a standalone basis. So the faster we grow, the more short-term pressure we put onto the EBITDA and FCF.

Now having said that, Comcast has been extremely helpful to Charter as we go through establishing back-office systems, and the JV should continue to help us do that. So is there an opportunity that the go-forward platform costs for companies are reduced by sharing in those expenses and that's the whole idea of getting into the JV. So I think on a relative basis because of how we are cooperating now, could we do marginally better maybe, but I would say, that both companies should benefit from the JV that we signed together.

<A - Thomas M. Rutledge>: Yes, this is Tom, Jonathan. So I agree with Chris that both companies should benefit by the joint venture from an operating cost perspective, and therefore the business is more valuable as a result of that. We will not have the same marketing strategies. And so we will diverge in terms of performance slightly, and so really the impact is driven by the speed at which we roll the business out and how successful we are in the market.

<Q - Cathy Yao>: My question is just looking at the stock reaction today. It seems to suggest that investors are calling into question the Charter story. Can you provide your own perspective on whether you think the long-term story has changed? Do you think video subscribership can still grow? Have your expectations about broadband growth changed? And then most importantly of all, can you talk about the FCF generation capability of the business? Has that changed longer term? And does wireless change that? Thank you.

<A - Thomas M. Rutledge>: Cathy, no. Simply, our vision of the business is what we expected several years ago and continue to expect going forward. We think that we have superior infrastructure that allows us to stand up highly motivated, if not more competitive products than alternative networks, and we've been successfully selling and marketing our product, but at the same time, going through a very complex integration of three very large companies to get to a single platform.

That integration is actually going quite well and pretty much as planned. It has lumpy aspects to it as we combine the companies in various ways. But generally, we are going exactly as we planned in creating the kind of future value that we expect to create. And since we told our initial story, obviously, we've done the acquisitions that we've done, an entry into mobility, which we think is a natural fit to our existing infrastructure and service infrastructure and will create additional value for the shareholders that wouldn't be created without doing it. So we think the Charter story is fully intact and getting better as a result of the mobility.

In terms of capital intensity and FCF creation, I think there are – obviously, we're in a capital-intensive trend at the moment as we integrate and as we make our networks all-digital so that we can take advantage of the full capability of the network, which was planned. But the long run trend is less capital intensity and significantly less capital intensity as our need to buy CPE goes away and as CPE costs come down. And there are some forces there that are even greater than we had thought. Obviously, the change in video, the change in the video marketplace essentially requires less capital intensity in video because with the competitors that we face and with our own process and IP, you don't necessarily need new set-top boxes, you can move to an application-based delivery system in some situations. So we think that along with declining prices for CPE mean capital intensity improves maybe marginally better than we might have thought previously.

The changes in the video business, they're significant and hard to predict, but we still think there's video growth capable inside of our asset base. It's fairly marginally insignificant though in this sense. There's very little margin in the video business. So whether you are light or off by a million customers is relatively immaterial to our plan. And while we think that we will make a great video product available to our customers and that great video product will continue to help us drive the overall connectivity business we have, if we're off in our forecast of that, it's not significantly financially material to our growth prospects. So I can't explain market reactions, but our activity and our project management is going as we expected and the marketplace acceptance of our products is going as we expected.

<Q - Cathy Yao>: Okay, got it. So...

<A - Christopher L. Winfrey>: Cathy, maybe I can just add two quick thoughts to that. One is if you think around the timing of good quarter/off quarter as it relates to net adds for somebody's model, a lot of people are looking for a linear outcome and we've tried be as fair as we can, but it's not going to be linear. And if you take a look back at the Legacy Charter experience and look at it on an annual basis, it looks pretty linear. But if you go back and take a look at 2013 and 2014 in particular, it really it was anything but linear. That applies to net adds and it applies to the financial results. And it looks choppy as we're going through it. So in some respects, market reaction, which I haven't focused on that much as of yet this morning, is a little bit of déjà vu. And we're turning a lot of knobs, the same as we did with Legacy Charter in the integration, and there's a lot of moving parts, but the trajectory we think remains as good as ever.

The second one is on the impact of wireless where in the conversations we've had with some investors is somewhat bifurcated. On one hand it's a group of investors who get it and say, grow as fast as you can from a competitive standpoint is the right thing to do. It does have a positive NPV, and it's an attractive business. And then there's another group who are very, very focused on the short-term impact to EBITDA and FCF and what that might do to an overall growth rate.

So one, we are going to isolate that impact so people can focus on the core value creation of the cable platform and the option value, if you want to call it, that on the mobility business. But that investment relative to the overall size of the Charter's revenue or EBITDA is relatively small and the potential upside after that investment is significant. And I think that's the piece that is missing in terms of understanding you're putting the upfront investment into perspective.

And we are going to isolate it along the way so people, if they see this as a bet, they can size up the size of that bet and understand the relative materiality. But we think it's attractive. We think it's going to help us, not only add EBITDA and FCF over time, but we think it's very constructive and helpful towards further Internet growth in particular in the cable business.

<Q - Cathy Yao>: Okay. Thank you. So from a FCF perspective your longer-term view hasn't changed even if the mix shift to get there may have moved around a little bit with the video environment getting worse?

<A - Christopher L. Winfrey>: No. I think the biggest FCF generation that you're going to see from 2019 CapEx when it comes down and that hasn't changed. This year we are doing all-digital, we are doing the DOCSIS 3.1. We still have a tremendous amount of integration capital that's inside these numbers that essentially comes out next year. And in the meantime, despite some lumpiness on subscriber net adds from one quarter to the next, the financial results we mentioned in Q4 would be the low point on EBITDA [indiscernible] (39:16) that's the case and the business is moving. It doesn't mean that it's going to be linear so nobody should read it that way, but we did hit the low point already on the financials and the business is moving in the right direction.

<Q - Vijay Jayant>: Just following up on the prior question, when you were going through this transition on Legacy Charter and there was disruption on cash flow and, obviously, volume inflection and cash flow on the Time Warner Cable transaction, but you also had pretty robust subscriber growth and you're getting the share. Obviously, I think, now the question is if the market environment changed enough that would you have to revisit your strategy given, I think, you have a lot of levers to pull on pricing and tiering and the like. So I was just trying to see given the market environment might get the same FCF numbers at the end and very, sort of, if you could talk about is there some tweaking on strategy that needs to be done to do that given the market environment? Thanks.

<A - Thomas M. Rutledge>: Vijay, it's Tom. Obviously, the markets move sometime, our strategy moves with it. And we think that we have needed to change our product and our mix in order to take advantage of our assets and beat the marketplace effectively, and we think that we can do that and are doing that and our sales volume and our connect volume and our management of our customer base, pricing and packaging gives us confidence that we can continue to do that.

Take data speeds, for instance. When Legacy Charter, when I came to Charter and our average data speed was 10 megabits, and we took the minimum up over time to 30 megabit, and created most of our subscriber growth at 30 megabit. Today, in this new model, we've just gone to 200 meg minimum speed in a significant part of our market, 100 megabit speed in the bigger part of our market. But that's shifting as we roll out this 3.1 technology.

So we've taken advantage of the marketplace and the capacity of our network to change our data products so that it will continue to drive the kind of results we expected to get. But we're in the middle of the tooling of that process right now, as we integrate the company. We have a vastly superior product almost everywhere we operate. And we expect to get results from that. And if we need to change that two years from now, we have the ability to do it at very little or very small incremental cost, which is the beauty of the infrastructure that we built out in this company.

So I guess the answer to your question is we have the same high expectations for FCF growth in this entity now based in the current marketplace as we understand it now just like we did five years or six years ago.

<Q - Marci L. Ryvicker>: I have two. I think just staying on subscriber trend and the stock price, I feel like it sounds like maybe 2019 is when we finally get to stabilization in sub trends and maybe that's when the market will start to give you a little bit more credit maybe as we get closer, so is that a fair statement or thought?

And then secondly, unrelated. As we dig into 5G, I think it's becoming more apparent that cellular backhaul is increasingly important, and I guess how do you think this plays out over time? And how can you better monetize it, especially with a larger platform?

<A - Christopher L. Winfrey>: So, Marci, I don't know when markets award you or don't award you. Ultimately, our job is to create a FCF that we expect from these assets. And we think we're on track to do that or on track with the plan that we made. So whether we'll get rewarded before that occurs or after it occurs, I don't know, but we expect to create the FCF.

And in terms of the infrastructure that we have, we do think that we are the natural small cell provider and that we have the most efficient ability to provide small cell connectivity compared to any other infrastructure competitor that we have. And we have 26mm small cells already connected to our network. And we have 250mm wireless devices already connected to those small cells, and we plan to continue to build out the small cell environment. How that relates to other business opportunities is hard to say, but we have them.

<Q - Jason Boisvert Bazinet>: This is for Mr. Rutledge, I guess. I know the strategy is to get more people attached to your fixed cost network. But I had a question when I was going through the case of your competitors and yours and just doing benchmarking, whether I look at the relationships, customer relationships per employee or revenue per employee, Charter doesn't fare that favorably. You're sort of 10%, 20%, 30% below all your publicly listed peers.

And so my question is if the unit growth sort of evaporates from the ecosystem or if you're unsuccessful sort of getting the attached rate up, do you think there is a potential cost element? Said another way, is there something materially structural about your footprint or your systems that would make you less productive, if you will, vis-à-vis your peer cable companies? Thank you.

<A - Thomas M. Rutledge>: Yes, that's a very interesting question. The short answer is no. And in fact, we think it will be more productive. But we are in the middle of a transition where we are moving from an outsourced environment to an in-sourced environment. And we're creating a more professional workplace that is designed to provide higher-quality service which will improve subscriber lives and reduce transaction volume ultimately in our business. So we'll have less transactions per customer.

And if we have less transactions per customer, we believe, in which we are trending toward every day as our operations improve and as the skill sets that we -- that are needed are developed inside the company. So if you think about what I just said, in-sourcing and outsourcing, at the moment, we decide to move calls from the Philippines to St. Louis, for instance. We have to stand up a brand-new call center in St. Louis. We have to build it out physically, so there is capital involved, and then we have to hire a workforce and train that workforce to take the calls.

In the meantime, we are still outsourcing to the Philippines so that workforce is up and running and skilled. Once the workforce is skilled though, then the number of transactions that occur as a result of having a higher skilled workforce goes down. And we think that the transaction volume goes down faster than the cost structure goes up by having an in-sourced call center. And that when you have less transactions per customer, you actually have happier customers, and so they're – not only are they less costly to serve, they're happier. And as they're happier – and because they're happier, their average life extends, which means that average value per sale that you create goes up. And the number of transactions connects and disconnect per dollar of revenue that you spend goes down. So we are still in the middle of a transition process that has operating expense in it as part of the strategy. But our expectation down the road, which is part of the FCF driver of the business is that you get this virtual – virtuous growth structure where you get better served customers who have – who cost you less and are happier. And that the benefit is yet to be realized from our activity to date. But it is part of our plan and our expectation. And the numbers that we expect to generate today that will prove out that thesis are occurring as we expected.

<A - Christopher L. Winfrey>: Just to add, the way that you can tie it to the P&L and the metric, I think the metric you're using is actually not right because it's apples and oranges. So if you think about the Time Warner Cable call center infrastructure at one point, you could have had 50%, over 50% was outsourced. Today, over 85% of that is in-sourced. So if you are taking a look at employees, you're completely ignoring the amount of contract labor that's inside there. And so it's an apples-and-oranges comparison between the two types of operating models.

If you look at cost to service customers, it's another way to think about it, we have all of the investment that Tom just spoke about. But despite having all of that investment and despite having customer relationship growth of over 3%, our cost to service customers gross is actually coming down, excluding this bad debt temporary effect. So our cost to service customers, which is where the vast, vast majority of where the labor costs exist, is already coming down on a gross basis and on a net basis, meaning on a per customer basis, it's actually already coming down dramatically despite the amount of upfront investment that we're making that Tom highlighted.

<Q - Jason Boisvert Bazinet>: Very helpful.

<A - Christopher L. Winfrey>: So I think you have to normalize for what's – you can't just look at house labor. You have to add in the contract labor, which has come down dramatically, and for some companies comprises a very, very significant portion of the overall labor cost.

<Q - John C. Hodulik>: Great, a couple questions. I guess first for Chris. From your comments on the non-pay disconnect, it sounds like you're already starting to see some acceleration in PSU trends. If you can, just confirm that or whether we'll have to wait another quarter before we see that inflection as that issue lapses.

And then two, maybe for Tom, it sounds like you guys are seeing some improving underlying fundamentals on the HSD side when you go to 200 megabits in a market, and I think you said you're at 25% now, but I may have missed it. But when do you get to 100%? And maybe if you can, give us some more detail on what you see when you get to 200 megabits as a base and whether or not you feel you have additional pricing power in those markets given the competitive landscape there. Thanks.

<A - Christopher L. Winfrey>: So on the improvement, yes, we had less of a negative impact from the non-pay disconnect issue, which has since been addressed throughout the quarter. The last of the systemic changes that we needed to make for that to take place occurred inside of April. And so we expected to continue to ameliorate during the course of Q2, and it should be fully out by the beginning of Q3. So the trends are improving in that particular area. And I don't want to get thrown into guidance, but we wouldn't have said what we said if we didn't feel that that particular issue was declining in its materiality.

<Q - John C. Hodulik>: Great.

<A - Thomas M. Rutledge>: So, John, I think we said that we got 200 megabits in front of 25% of our customer base. We have built out as of this moment 43% of our footprint to 1-gig speed capability, using 3.1 DOCSIS capability. And by the end of the year, we'll have 100% of our infrastructure capable of 1-gig or 200 megabits or 400 megabits. We haven't said where we'll roll out 200 megabits. But it's in a substantial amount of markets today, and we're getting good results from it.

We're also getting good results from our higher Ultra tier, which is 400 megabits, and it's selling in at substantially higher rate than our previous set. So while I don't want to give you a forecast of where we go, from an infrastructure perspective, the entire network will be capable of this product mix this year.

<Q - Kannan Venkateshwar>: I have a couple. Tom, firstly, when you look at all the changes in the ecosystem right now, your peers are responding differently, slightly differently compared to you, where when you think about price increases, other cable companies have been a lot more aggressive. And strategically there's been a lot more pivot with AT&T buying Time Warner and Comcast buying Sky. So when you think about the ecosystem as it is set up today, do you think you need to do something different compared to what you're doing right now longer term?

And then, Chris, from your perspective, when you look at normalized CapEx in the proxy, I think in the proxy it was about 12% of revenues in 2019. And like you mentioned earlier on the call, you expect CapEx to drop next year. But right now, it's at 19%. So when we go into 2019, without getting into specific numbers, could you give us some sense of scale in terms of what CapEx could be like? Thanks.

<A - Thomas M. Rutledge>: So this is Tom. As far as the ecosystem goes, I think we're strategically complete in the sense that we think that we can execute our business plan with the assets that we have. So I don't think we need to own content to do better. That doesn't mean there aren't opportunities that might arise that are priced properly that would be synergistic with us. But I think we are fairly confident that we can execute our strategy, which from our perspective, we're a connectivity company selling connectivity relationships. Video is not material from a margin or EBITDA driver perspective as a standalone product, but it is material in terms of product attribute to the overall relationship that we create with customers. And so we will have access to video. We've launched Netflix on our network. We plan to integrate all the video products into our UI and make us the best place to get video of every kind, but that doesn't require us to own video assets per se.

<A - Christopher L. Winfrey>: On the CapEx, there is a proxy that was over three years ago used with our board that ended up being publicly disclosed. So I don't want to go back in time and start looking at that other than to say we expect 2019 CapEx to be a materially lower amount of gross dollars of CapEx and in a growing new business, therefore, a materially smaller amount as a percentage of revenue.

We will still have integration activity going on inside of 2019. And so that means that we expect as a percentage of revenue – we expect to have continued solid revenue growth for many, many years to come which means that your capital intensity just continues to decline. I think 2019 will be a big move, and I think it continues to get better as a percentage of revenue from there. I am speaking about cable CapExs as a percentage of cable revenue. I don't think wireless is that or mobility is that big given all the factors that I described before where it moves to the P&L. But I think 2019 starts to fully expose the FCF capabilities of the company.

<Q - Brett Feldman>: And just really two clarifications for Chris. You referenced your prior commentary around first quarter being a low point for EBITDA. And I just want to clarify if that's all in EBITDA or EBITDA exclusive of anything you may spend on wireless?

And then just another follow-up. When you were discussing the buyback potential this year and how it will be mathematically lower, you cited the way you're going to manage leverage this year and it sounded like you maybe managing leverage a little lower, I don't know if I appreciate the nuance of what you were trying to communicate, so I was hoping we could just revisit that? Thank you.

<A - Christopher L. Winfrey>: Sure. So I'm glad you asked the first question in case I don't think I did, but in case I misstated. What I said in Q4 is Q4 2017 was the low point of EBITDA. I did not say that Q1 was the low point of EBITDA. First quarter EBITDA was actually pretty good and, yes, I think it will -- it continue to improve over time, but that doesn't mean that, that will be linear. So that certainly wasn't what I was implying. My comment from Q4 2017, which I reiterated today, was that Q4 2017 EBITDA was the low for cable EBITDA growth.

In terms of managing leverage, what we're trying to make sure that we do is that we stay within 4.5 times, inclusive of the short-term launch costs for mobile and any working capital impacts from the launch of mobile. And what that means is that you need to create a little bit of headroom on your cable EBITDA leverage so that you can accommodate that upfront cost. So the faster we go wireless means that you might just need to pull a little bit on your cable EBITDA leverage, and that's the only distinction I'm making to make sure that the consolidated leverage remains at or below 4.5 times. We're a large issuer in the debt capital markets as well, and we have investment grade debt. We've made commitments to that market as well that we intend to keep, and that's to make sure that we stay in line from that perspective.