Company Name: Charter Communications I
Company Ticker: CHTR US
Date: 2017-02-16
Event Description: Q4 2016 Earnings Call

Market Cap: 100,276.51
Current PX: 324.29
YTD Change($): +36.37
YTD Change(%): +12.632

Bloomberg Estimates - EPS
Current Quarter: 1.042
Current Year: 5.212
Bloomberg Estimates - Sales
Current Quarter: 10307.182
Current Year: 42139.364

Q4 2016 Earnings Call

Company Participants

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

Other Participants

- Philip A. Cusick
- Vijay Jayant
- Benjamin Daniel Swinburne
- John Christopher Hodulik
- Jonathan Chaplin
- Jason Boisvert Bazinet
- Mike L. McCormack
- Jessica Jean Reif Cohen
- Bryan Kraft

MANAGEMENT DISCUSSION SECTION

Stefan Anninger

Q4 Highlights

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

Pro Forma Results

- We will also refer to pro forma results
- While the Time Warner Cable and Bright House transactions closed on May 18, 2016, these pro forma results present information regarding the combined operations as if the transactions had closed at the beginning of the earliest period presented in order to provide a more useful discussion of our results
- Please refer to the pro forma disclosures throughout today's materials and the reconciliations provided in Exhibit 99.1 to our Form 10-Q filed on November 3, 2016
- Unless otherwise specified, customer and financial data that we may refer to on this call for periods prior to Q3 2016 are pro forma for the transactions as if they had closed at the beginning of the earliest period referenced

- Please also note that all growth rates noted on this call and in the presentation are calculated on a y-over-y basis unless otherwise specified

Thomas M. Rutledge

Business Highlights

Operating Plan

- In May we closed on a transaction, which quadrupled the size of Charter
- We now passed 50mm homes and businesses, and serve over 26mm customers
- While we spend most of our time on the execution of our operating plan, because we believe it will create tremendous value, it's also becoming increasingly obvious that our network is the future of communications as new standards like 5G are being developed for high capacity, low latency, high compute services delivered over small cells the way Wi-Fi is today
- Since closing, we've been managing the complex process of integrating the three different companies, with over 90,000 employees and a network consisting of nearly 700,000 miles of physical infrastructure and an annual revenue in excess of $40B

Customer and Shareholder Benefit

- Despite the complexity, our integration is going well and as expected
- Most importantly, we're growing in those parts of the service area where our operating strategy has been deployed and we remain confident that our plan and the customer and shareholder benefits we expected will be met or exceeded
- Through the early stages of integration, our financial performance has continued to improve y-over-y
- On a pro forma basis, we grew our total consolidated customer base by nearly 5%
- And our full-year 2016 consolidated revenue grew by 7% to over $40B and our full-year adjusted EBITDA excluding transaction or transition costs grew by 11.8% y-over-y to $14.6B
- And we generated close to $7B of annual EBTIDA less CapExs on a pro forma basis

Revenue and EBITDA

- The best predictor of future performance in the new company is to look at the path legacy Charter took from 2012 to today
- In 2016 the legacy Charter produced customer relationship growth of 6%, and residential revenue growth of close to 6% with almost no price increases, while margins were improving and EBITDA was therefore growing even faster than customers and revenue, and while capital intensity declined

Spectrum Pricing and Packaging

- In 2017, we're focused on several key goals and priorities

- First is to complete the roll out of our spectrum pricing and packaging in remaining new markets, we were approximately 50% complete at December 31
- We are approximately 75% complete as of today and will be essentially fully done in residential by the end of March
- And although churn in downgrade activity from the legacy TWC low-value product set remains elevated, we expected that to be the case
  - That churn in downgrade activity should slow as customers migrate to better value offers
- We're seeing the benefits of our strategy even faster in Bright House, which has had less of those issues

TWC

- On the small and medium business side, we will launch the full Spectrum SMB product pricing and packaging in TWC and Bright House markets in Q2, driving better customer growth
- In Q2, we'll restart our all-digital deployment, featuring fully two-way advanced set-top boxes to video customers, in the approximately 40% of TWC and 50% of Bright House that are not yet all digital, which allows us to offer more HD, interactivity on every video outlet, faster data speeds and reduced operating costs
  - We should be a 100% all-digital in less than two years

MVNO Agreement with Verizon

- We've now activated our MVNO agreement with Verizon, and we plan to launch a mobile offering in 2018 under that agreement
- Our goal is to include wireless services in our packages and drive more customer relationship growth, and longer customer lives at Charter

Field Trials

- We're also launching high-capacity experimental 5G-like Field Trials using Spectrum test licenses that were recently granted to us by the FCC
- We intend to use these Field Trials as learning opportunities to provide us with better insight into the capabilities of our wireline network, when attaching radios with high-frequency licensed and unlicensed spectrum
- And see how our various wireless network building blocks can be used in conjunction with one another, to offer services that we'll develop over time

Wireless Business Plan

- We believe that our MVNO with Verizon is well suited for the shorter and medium-term wireless goals we have
- Over the long-term, our goals in wireless and mobility and our wireless business plan will broaden
- So our approach is flexible, we'll use the advantages of our network and product development capabilities, combined with consumer demand and our MVNO to drive our strategy in wireless with the goal of driving more growth and value creation for shareholders

Christopher L. Winfrey

Financial Highlights

Performance

- Please note that I'll refer to our fourth quarter 2016 actual results vs. prior year pro forma results
- The customer and passings data that you see in today's materials continue to be based on legacy company definitions
- During Q4, total customer relationships grew by 4.6% y-over-y, with 3.8% at Legacy TWC, 6.1% at Legacy Charter and 5.1% at Legacy Bright House

PSU

- As slide 7 shows, we grew residential PSUs by 345,000 vs. 917,000 on a pro forma basis last year
- The lower y-over-y PSU net adds was primarily driven by fewer PSU net additions at TWC for the reasons Tom mentioned

TWC

- Over the last year, TWC residential video customers declined by 2%
- Pre-deal Charter grew its residential video customer base by 1%, and Bright House lost 2.6% of its residential video customers, which is improving
- TWC's video net loss was 159,000 worse than last year, with over 70% of the total 105,000 video losses in the quarter driven by churns from lower value limited basic packages
- Let me give a few examples of what we mean by lower value products
- The limited basic video offer for $10 in the fall of 2015, and a double play of limited basic video and internet for $45 also in the fall of 2015
  - Those historical offers were then coupled with high promotional roll offs and annual rate increases, customer equipment fees, and previously unstructured retention policies that encouraged calls from customers

Spectrum Pricing and Packaging

- Until we launched Spectrum pricing and packaging in the market limited basic video selling at TWC has been 20% and higher
- And we have to work through the migration or churn of these low value offers
- Legacy Charter continued to perform well in video in Q4 with 20,000 video customer net additions
- Bright House added 34,000 video customers in the quarter benefiting from seasonality and the strong performance of our new pricing and packaging
- In total, we lost 51,000 residential video customers in a quarter driven by the losses at TWC
- Spectrum pricing and packaging is going very well with y-over-y sales and connect activity solidly up in those areas we've launched spectrum pricing and packaging with good triple play selling and 99% expanded basic

selling

Residential Internet

- In residential internet, we added a total of 357,000 customers in Q4 vs. 495,000 last year, and for the full year, our total residential internet customer base grew by close to 1.5mm customers or 7.4% with 8.8% growth at Legacy Charter
- In voice, we grew customers by 39,000 in Q4 vs. 304,000 last year with the lower growth, largely driven by higher churn at TWC, in part driven by low price voice offer in TWC markets in prior year quarters

ARPU

- Over the last year, total pro forma residential customers grew by over 1mm or by 4.2%
- And residential revenue per customer was up by 1.4%, nearly all of which was driven by TWC rate increases in 2016 and promotional roll-off price step-ups, which impacted unit growth
- Legacy Charter's customer ARPU declined y-over-y, primarily driven by the continued strength of internet single play selling and the lack of meaningful rate increases y-over-y

Customer Growth

- Slide 8 shows our customer growth combined with our ARPU growth resulted in y-over-y pro forma residential revenue growth of 6.0% with a very different mix of rate and volume across the legacy entities
- Total commercial revenue, SMB and enterprise combined, grew by 11.8%, SMB revenue grew by 13%, and enterprise excluding cell backhaul and NaviSite grew by over 14%

Advertising Revenue

- Fourth quarter advertising revenue exceeded 20% growth y-over-y, driven by political, and for the full year, advertising revenue ex-political is about flat with 2015
- In total, fourth quarter pro forma revenue for the company was up 7.2% y-over-y, and looking at total revenue growth at each of our legacy companies, TWC revenue grew by 7.5%, with nearly half of residential revenue growth coming from rate increases, pre-deal Charter grew by 6.4%, driven by continued strong customer growth, and Bright House revenue grew by 7.4% with improving unit growth and less reliance on rate

Operating Expenses

- Moving to operating expenses, during the quarter, we continued to remap certain cost to the right business unit expense line, and these re-classes have been made to prior periods in our trending schedules to provide pro forma results on an apples-to-apples basis
- In Q4, total operating expenses grew by $259mm, 4.2% y-over-y, with transition expense accounting for $78mm of our total OpEx this quarter
- Programming increased 6.1% y-over-y, driven by contractual rate increases, partially offset by higher transaction synergies
  - While we're doing what we expected on programming, new deals remove a consistent programming base line for calculating synergies really starting in 2017

Regulatory, Connectivity and Content Expense

- Turning to regulatory, connectivity, and produced content expense, these direct costs were up 3.7% y-over-y, driven primarily by peering and interconnect costs, rights fees escalators and franchise fees
- Remember, the Dodgers' rights cost is only expense during the regular NOP season both in the past and today, and therefore unlike last quarter, we did not benefit from the purchase accounting adjustment in Q4

Costs to Service

- Costs to service customers grew by 1% despite overall customer growth of 4.6%, which reflects lower service transactions at legacy Charter, the lack of all digital activity at TWC this quarter vs. last year's fourth quarter and the benefit of less physical disconnects in all digital markets
- Marketing expense declined by 5.5% y-over-y in the quarter, as we continued to drive synergies from our transactions as expected, and other expenses grew by 6.1% driven by higher advertising sales and enterprise sales cost

Adjusted EBITDA

- Adjusted EBITDA which excludes non-cash share-based compensation grew by 12.7% in Q4 and excluding transition cost in both years, adjusted EBITDA grew by 14.3%
- We've identified over $150mm of hard transaction synergies realized within Q4
- In 2016 in other words from May, we realized over $300mm in hard synergies
- We continue to expect over $700mm in run rate transaction synergies at the first anniversary of the closing of our transactions
- And I believe we'll exceed $1B in synergies after three years from close
    - Those transaction synergies are hard cost savings, they don't include CapEx synergies or revenue or OpEx synergies which flow from our operating model

Operating Strategy

- Going forward, we'll not continue providing quarterly synergy updates given the significant level of judgment around determining the appropriate baseline for rates like programming or volume like procurement and marketing, as well as the challenge in isolating transaction synergies from the operating strategy benefits and the upfront investments that we're already making to drive growth

Legacy TWC

- We don't provide subscriber or financial guidance
- However, Legacy Charter plus transaction synergies continues to be a good proxy for how we expect subscribers and financials to develop over a multi-year period in our new markets, under our operating strategy
- And as you think about the many moving parts in 2017, isolating pieces in the 2016 results can be helpful. 2016 revenue benefited from both political advertizing revenue and large price increases at Legacy TWC

- Excluding those impacts, y-over-y revenue growth on a pro forma basis would have been slower and closer to 4.5%
- Flowing through a very high margin, that translates to over 5% of our 11.2% EBITDA growth in 2016

Customer Relationship Growth

- As we look to full year 2017, we expect to accelerate customer relationship growth, but on the other hand, we won't benefit from political advertizing and little from rate increases
- Our full year transaction synergies will be higher, along the lines I described, partially offset by the upfront investments in our operating strategy
    - So you can use those data points to help you think about 2017 potential growth

Net Income

- Turning to net income on slide 10, we generated $454mm in net income attributable to Charter shareholders in Q4 vs. $130mm on a pro forma basis last year, with the growth driven by higher adjusted EBITDA and pension gains of $366mm, primarily due to the positive impact that rising interest rates have had on our accumulated benefit obligation
- We also had $73mm gain on financial instruments from currency movements on our British pound debt and related hedging, partly offset by transaction related expenses, including severance and higher income tax expense

CapEx

- Turning to slide 11
- CapExs totaled $1.89B in Q4, including $187mm of transition spend
- Excluding transition CapEx, fourth quarter CapEx declined by $81mm y-over-y or 4.5% with tradeoffs between all-digital in Q4 2015 in Spectrum pricing and packaging box placement in Q4 2016
- For the full-year 2016, our CapExs totaled $7.5B or $7.1B when excluding transition spending

FCF

- The slide 12 shows we generated $1.86B of FCF in Q4 vs. $80mm of actual, not per forma FCF in Q4 last year
- That growth was largely driven by higher adjusted EBITDA given the closing of the transactions and then working capital benefit driven by the timing of CapEx payables in a more robust working capital program at Charter
- Now that we don't provide pro forma FCF for Q4 2015, on a pro forma basis, adjusted EBITDA less CapEx grew by 24% in Q4 and for the full year that figure grew by 15%

Debt

- We finished the year with $60B in debt principal and our run rate annualized cash interest expense is $3.3B whereas our P&L interest expense adjust $2.9B annual run rate
- The P&L difference stems from the revaluation of acquired TWC debt on our GAAP balance sheet as part of purchase accounting

- At the end of Q4, our total net debt for the last 12 months pro forma adjusted EBITDA was 4.0 times, is declining despite buyback activity
- Our long-term target leverage remains at 4 to 4.5 times and we continue to target the lower end of that range
- In December, we refinanced our term loan A, H, I and our revolver and in January, we refinanced our term loans E and F
  - Those refinancings reduced the LIBOR spreads on each of these tranches and removed all remaining LIBOR floors from our bank debt

Refinancing

- In February, we also issued a 10-year 5.125% note, primarily [ph] related call (19:47) the $750mm of CCOH 6.625% callable paper due 2022
- In an aggregate, on a like-for-like basis, these cumulative refinancing should save us over $40mm in interest costs per year, submitting meaningful savings

Share Repurchasing

- During Q4, we repurchased 4.0mm shares – Charter shares in the open market, totaling $1.1mm at an average price of $265 per share
- Including the Advance/Newhouse transaction in late December where we repurchased approximately 750,000 common units, we repurchased a total of 4.8mm shares and common units during the quarter
- For the full year 2016, we repurchased 5.8mm shares and common units for close to $1.6B
  - We're about 2% of our combined total shares and as-converted/as-exchanged partnership units
- From late in Q4 until today we had a 10b5-1 program where the stock price was above the buying thresholds that we'd previous put in place
- So we haven't bought back shares yet in 2017 and our share repurchase activity will continue to depend on market conditions and other potential use as a capital
- Our goal remains to keep full strategic flexibility and not become trapped by formulated capital allocation guidance on buybacks

Tax Assets

- Finally, turning to our tax assets on slide 14, we estimated that our total value of these assets is approximately $6B, is comprised of our historical tax [ph] basis (0:21:19), the Charter plus the LTM basis, large NOLs and a valuable tax-sharing agreement with Advance/Newhouse
- We don't currently expect to be a material cash income taxpayer until after 2018
- Like you, we closely monitor the efforts in Washington to reform corporate tax policy in the U.S., which we believe could be a net positive for Charter

QUESTION AND ANSWER SECTION

<Q - Philip A. Cusick>: I guess to start, strong performance from the Legacy Bright House markets, was that due to the launch of the new pricing and packaging in the quarter or more an issue of seasonality? And then in the Time

Warner markets, the weakness, it sounds like it's more of an issue of churn, but has gross activity been sort of in line y-over-y weaker or stronger or should we expect it really to not ramp until you get the new packaging in? Thank you.

<A - Thomas M. Rutledge>: So in Bright House, it's – our marketing process and sales process has generated significant activity. And so yes, our pricing and packaging is driving the activity there. There is seasonality in Bright House market, but we're exceeding y-over-y seasonality activity with our marketing activity. So we're pleased with the response that pricing and packaging is generating there, as well as the response that the general marketing and the expenditure marketing dollars is achieving in Bright House markets. And our experience in Time Warner markets, we are 75% of the way through with the rollout of new pricing and packaging. We are experiencing good growth where we've rolled that out and creating new customers that we think are valuable customers and be less prone to churn than the customer base that's currently there. And the net of that in the places where we've rolled out, new pricing and packaging is positive. So we were encouraged by our marketing strategies and how they are being received by the marketplace.

<Q - Philip A. Cusick>: Can you remind us of how long those really aggressive Time Warner offers went? Should we expect that there were – as I remember, they were pretty aggressive through the fall of 2015 and into 2016 as well. Should we look for that churn to continue?

<A - Thomas M. Rutledge>: Yeah. I think that would be reasonable. We're doing some things to mitigate it, that have taken us time to put in place because of the complexity. There were 96,000 different promotional offers out there. And just the sheer logistics of managing that has been a challenge. But we've gotten some control over it and are getting better every day. So we can – we think that we can mitigate some of the churn through better management of the step up process. But you're right, in the fall of 2015, those offers were significant and they obviously went through close--

<Q - Philip A. Cusick>: Got it.

<A - Thomas M. Rutledge>: -- and even a little then afterwards.

<Q - Vijay Jayant>: So obviously you guys don't have a strategy of using rate increases to drive your business, but in [ph] 27 (sic) [2017] (0:25:06), any color on any tiers of broadcast or sport that had some form of rate increase so we can sort of think of just underlying ARPU growth. And then just a more broader question, there's been some press reports about the Verizon Unlimited offering and how it may or may not impact your MVNO. Any color on that would be appreciated. Thank you.

<A - Thomas M. Rutledge>: Well, just that last comment about the MVNO. We do – we have an MVNO and we don't think that the T-Mobile comments on it are correct in the way they understand the way it works. So we're comfortable with our MVNO and think that we can use it to our benefit. I don't really want to say anymore than that. And with...

<A - Christopher L. Winfrey>: The rate increases and the goal here really was much more around standardization for things like the broadcast surcharge you [ph went (26:01) on. So it wasn't about a significant rate increase, it's relative to the total amount of rate increase that was in 2016, what's in 2017. This is a really small fraction of what it was in the prior year and that's what I was trying to convey through the comments.

The goal here is to drive customer relationship growth, and to drive high quality growth. And if you look at Legacy Charter, we're growing customer relationship growth at about 6%. We're growing residential revenue at around 6%. We think that's the right way, if you think, you'll get it to drive growth and if you have pricing power today, it means that you have pricing power in the future. But our goal is to grow now and to grow fast and to create momentum in the marketplace.

<A - Thomas M. Rutledge>: Yeah. So our rates have moved around a lot incrementally compared to what they were in the Legacy properties, but when you net it all out, it's not a rate driven strategy, it's a – we changed the rates, but we're really creating customers at similar ARPUs with a better package.

<Q - Benjamin Daniel Swinburne>: Tom, can I just ask you on your 5G or fixed wire or wireless tests that you're running. A lot of the 5G discussion in the market has been around fixed wireless as essentially potential competitor to

DOCSIS. Obviously that would not be a relevant – particularly relevant strategy for you given you have the best last-mile in your markets. So how are you thinking about the opportunity with these tests you are running around short distance, high frequency wireless? Is this about mobility or fixed in markets that might be more cost effective rather than fiber or coax line extension, just any more color on sort of where you see all this headed in terms of the opportunity? You led in your prepared remarks with your network being sort of the network of the future, so I'd love if you could expand upon that. And I just had a quick one for Chris on leverage. You expect to go below your -- you are four times in 2017 is-- I guess I'm trying to get a sense for how much of a line in the sand that is as we think about capital allocation this year, given you are at the low end at the end of 2016. Thanks.

<A - Thomas M. Rutledge>: So Ben, I would say, it's – we're experimenting with the actual technology itself first to see how it works and what it's capable of doing. But what we know about it is that it's very short-range small cell high-capacity technology. And we have it working in labs and we've obviously experimented with it in labs. These are actual field trials of used applications. The – if you think about our architecture, we have 22mm approximately Internet customers, almost all of them have a Wi-Fi router in the house connected to the Internet service and there are over 200mm wireless devices connected to our network currently. And of those -- and many of those are actually cellular devices, meaning they are phones, and they have a contract with a traditional mobile cellular provider. But 80% of the bits or 75% of the bits on those devices are coming through the Wi-Fi platform. So we're a wireless provider of data services today.

When you look at these high-capacity networks of the future and there are way out. There are new products that we think will be developed with those low-latency, high-capacity networks, including virtual reality products, augmented reality products, and how that manifests itself in the world, product development is a little unclear, but my sense is that many of those products will be not mobile products, they will be fixed products in the dwelling or in the office, that we will be how you learn and how you play. And so they are less about mobility than they are about capacity and low latency. And I think, our networks – our Wi-Fi network and our distribution network sets up really well from a total capital cost perspective of creating those kind of products.

So that's – that's how I see the market developing. But will it be a mobile platform, will it be a fixed wireless platform? I think there are fixed wireless opportunities particularly in the enterprise area, and if you think about things like strip malls, malls in general business services, where you'd have to cut a parking lot to provide service with a traditional fiber wire line product. If you had a high-capacity network that you could use wirelessly to connect those business service areas, I think there are opportunities of our network to expand its enterprise business through fixed wireless drops. So I think there are -- how all the opportunities develop, I don't know, but I don't really see it as a mobile platform today. Whether that'll be a mobile platform 10 years from now or not, I don't know, but I don't think the immediate product development cycle will be a mobile platform.

<Q - Benjamin Daniel Swinburne>: Thank you.

<A - Christopher L. Winfrey>: Ben, on the leverage, our goal is not to go below four times this year. I mean there may be points in time where because of the timing of buybacks or the funding of refinancings that we may tick down. But I think our goal is to remain above four times if we can. When you start to run the numbers that implies, we've got to deploy a lot of excess FCF. So that is the challenge, and to do it in a smart way. So I'm intentional in saying our goal is not to get below four times. Doesn't mean temporarily that we won't tick down, but our intent is not to do it.

<Q - John Christopher Hodulik>: Maybe a question for Chris. Trying to get some sense of the near-term implications for restarting the all-digital initiative. Typically, there are some sub-trends dislocation, but obviously there's some crosscurrents with the new product and packaging. I'm just wondering if you expect to see that in this – in the KPIs. And then, even sort of working down the P&L, are there obvious impact that we should expect in the near term from moving forward that? Thanks.

<A - Christopher L. Winfrey>: So the – is your question more around CapEx or is it more around subtrends or something else, as it relates to all…

<Q - John Christopher Hodulik>: Really both. Really both, I mean basically I'm trying to get to a sense for whether this subtrends, there was a number of components to your prepared remarks, but do you expect the subtrends to sort of improve or sort of similar to what we've seen given the move to [indiscernible]. (33:49)

<A - Christopher L. Winfrey>: Go ahead.

<Q - John Christopher Hodulik>: Sure. I don't know. I was going to say, and then you would imagine there is cost associated with the all-digital movement, both in the P&L and through CapEx, so whatever info you can give us on that would be great.

<A - Christopher L. Winfrey>: Yes. So the all-digital will restart in Q2 and it will go probably for around three years, but the bulk of the activities though is going to be taking place next year. So we will be doing all-digital from Q2 to the end of this year, but the bulk of it's going to be in 2018. So there will be some CapEx associated with that rollout. The bigger portion of CapEx this year is going to be driven by a higher amount of CPE and placement cost for Spectrum pricing and packaging connects, because, A, we expect sales in connects to be higher as we've already seen in the markets where we've gone, and B, when we do an install under Spectrum pricing and packaging, there's a higher number of devices that we're placing in the home because of our two-way set-top box strategy as well as our strategy not to charge for modem rental and to have reasonable router fees, which means that you're going to put more capital into the home on a average transaction and we expect to have higher transaction. So that's going to be a bigger driver in 2017, offset by some transaction synergies that we have on the CapEx side as well.

From a customer perspective, going all-digital is disruptive. And so upfront, if anything, it does put friction into the business, which is one of reasons that we tend to be thoughtful about how we go market-by-market, and that's factored into the timing of the all-digital program that I outlined before. So net-net, you end up with a better product, better network and speed capabilities in the marketplace by taking out analog, but there's friction for the customer base as well as OpEx and CapEx, when you do it upfront. But I think we are – I expect the actual growth model this year to be more of a factor for both the KPIs as well as the CapEx than I do for all-digital.

<A - Thomas M. Rutledge>: And the only thing I would say too is incrementally we're all-digital…

<A - Christopher L. Winfrey>: Correct.

<A - Thomas M. Rutledge>: ... already.

<Q - Jonathan Chaplin>: I'm wondering if you could give us little bit more detail about the process for launching a wireless product. If you've figured the MVNO already, my understanding is sort of within six months you can use it. I am wondering if you could just sort of run through the details of where your wireless organization stands today, what you still need to put in place, and what the steps are between now and a commercial launch. It just seems like you should be able to launch earlier than 2018.

<A - Thomas M. Rutledge>: Well, we have put the – we have triggered the MVNO with Verizon, and we are now working through the process of creating a business plan and some test processes that we plan to work through in this year to be ready to launch broadly next year. That isn't to say we wouldn't have any commercial activity this year. But to integrate a wireless business into a high volume transaction business that we already have is the major challenge. Now, we also have to enter into contracts with instrument providers and billing systems, and we have to consider our store front capability. We have 700 stores in the new company. Is that enough? Or where should we be from a retail perspective?

And so we're still working through all of those kind of issues. But – so in order to – to actually do it at relatively small scale is pretty easy. The issue is how do you do it at massive scale quickly.

<Q - Jonathan Chaplin>: Got it. So one of the questions we've been getting a lot in the wake of Verizon and others going to unlimited, is whether the terms of the MVNO make economic sense in an unlimited world. I know you said that the T-Mobile understanding of the contract was wrong. Is it the case that your wholesale rate stepped down indexed to retail rates?

<A - Thomas M. Rutledge>: Well, I don't really want to discuss the details of our plan, other than to say that T-Mobile doesn't understand it, and we're comfortable with the current world and pricing world of data in mobile to continue on with our MVNO approach. So we think it will work for us.

<Q - Jason Boisvert Bazinet>: Just a question for Mr. Rutledge. Given your comments about the market waking up to your terrestrial network playing a key role in the future communications, would you mind us giving us a bit of color in terms of the number of route miles you have that are fiber vs. coax and where you are in terms of node density? In other words, what's the distribution of 500 homes per node vs. 250 vs. 125?

<A - Thomas M. Rutledge>: Well, yes, I don't have the five – I don't have the answer to your question off the top of my head anyway, other than to say that our average node size is around 500 homes and we have a lot of fiber in the network. And we have the ability to take that fiber deeper. We have the ability incrementally to take the network to a passive network and to do that at reasonably efficient capital cost through time and to do that in very targeted ways where we need the capacity. So we're very comfortable with the extensibility of our network and the ability to put high capacity anywhere in our network.

We have a CableLabs project, which is an industry association, organization, that has developed 10 gig symmetrical products in the lab that are capable of running on our nodal architecture. And to get to those speeds, we may need to go deeper with our fiber, but we can go to 5G symmetrical with the less gig fiber penetration. So we think we have a very flexible architecture that allows us to grow significant capacity without a lot of capital investment.

<Q - Jason Boisvert Bazinet>: Do you anticipate your homes per node followings, say over the five years, 10 years to 250, 125, that sort of a number?

<A - Thomas M. Rutledge>: Yes. Particularly – we should, we have an average, there are some that are above average, and I think that, it's really a market demand driven sort of process. There are bunch of ways you can manage capacity on our network. We can do what are called virtual node splits. So what that means is, if you clear Spectrum – take off analog spectrum and go all-digital, I mean, have excess capacity in your network, and you have demand that would say – I mean, to put more capacity in a node, there is two ways of doing it, one way is to physically split a node into a smaller node--

<Q - Jason Boisvert Bazinet>: Yeah.

<A - Thomas M. Rutledge>: --which requires the placing of an electronic device in the field, and maybe the extension of some fiber, it depends on how the architecture of that is structured, but it's a relatively – it's inexpensive on a grand scale capital perspective, but a lot more expensive than a digital or virtual node split. And you can do those if you have channel capacity by just recreating additional DOCSIS paths to create a virtual node essentially. And so we manage our network for the future based on the actual load on the network as opposed to some theoretical issue.

And there are other ways of getting capacity out of all digital networks like, for instance, most of our set-top boxes now are capable of IT delivery, they are also capable of MPEG-4 delivery, which means that, we can squeeze the capacity out of our video business and get more DOCSIS capability in our network, which means we can do more virtual or electronic node splitting than we might have done a couple of years ago, and that's a function of our CPE strategy.

<Q - Jason Boisvert Bazinet>: Right. And can you...

<A - Thomas M. Rutledge>: And so – so we're managing all of those things together to get capacity. But in any model we get to, we'll use some future state where those– a whole new product set that requires massive capacity that currently isn't required, we would take our fiber deeper and go to a passive network and go to that kind of symmetrical 5-gig or 10-gigs that I talked about earlier.

<A - Christopher L. Winfrey>: Jason, from a financial perspective, just to clear hose thinking about the CapEx simplifications. We've been doing virtual and physical node splits for years. We'll continue to do it and we've been going particularly at TWC and Ethernet Bright House for new builds and now with Legacy Charter new builds with fibers at the premise. So the things Tom is talking about are already in the numbers, and it's the type of activity we do today in the boxes, we're actually buying with those IP capabilities at cheaper prices.

<A - Thomas M. Rutledge>: And in fact higher density digital compression.

<Q - Jason Boisvert Bazinet>: Yeah. It makes perfect sense. Thank you.

<Q - Mike L. McCormack>: Tom, maybe a comment just on the changes in Washington from a regulatory standpoint, what that might mean for Charter. And then also may be the associated potential tax reform, what that might mean for your tax asset. And then Chris, if you don't mind, just a little more color on the stock. Above a certain threshold, how often is that threshold evaluated? Thanks.

<A - Thomas M. Rutledge>: Sure. Mike, look, we had a lot of headwinds in the previous administration from a regulatory point of view we got titled to, it didn't really affect us but it had the potential of affecting us. And I think that there is a good probability that that could be reversed, which would be the good thing for us. We were prepared to live in that world, so it's better to live in a world where you have more visibility into your investments and how they might be regulated in the future.

The set-top box issue was really about Google and other companies getting access to video content without paying for it. And that appears to not be an issue going forward. And so the general proposition for a better FCC is already manifested itself in the appointment of Ajit Pai as the Chairman of the FCC and the processes that he's reforming and reviewing, all look to be better for us than the previous regime.

<Q - Mike L. McCormack>: Tom, on the pay patronization, is there an opportunity there from a revenue standpoint for you guys?

<A - Thomas M. Rutledge>: You mean, if the net neutrality went away?

<Q - Mike L. McCormack>: Right.

<A - Thomas M. Rutledge>: As opposed to Title II? I mean there are really different concepts. One is sort of a legal structure. And we had net neutrality without Title II previously.

<Q - Mike L. McCormack>: Right.

<A - Thomas M. Rutledge>: And I didn't – I'm not sure net neutrality goes away. We don't have a business model or we didn't have a business plan to use pay per prioritization, I'd rather not have any regulation than have any – than have regulation, it's just a general proposition.

<Q - Mike L. McCormack>: Right.

<A - Thomas M. Rutledge>: And let markets develop. That's – and I think that's good for us because I think we have great assets and we can manage them well. But the bigger issue for us at least today is Title 2 and its implications to other regulatory follow-on issues as opposed to what actually is going on in the market. We're actually quite comfortable with the way we sell and service our products today.

<A - Christopher L. Winfrey>: On the tax reform, we're in favor of tax reform, but make it more efficient and more simple. And in most scenarios, it's a significant positive for Charter, even despite our large NOLs. The one piece that we think should be socialized more is the interest deductibility and how that's applied because of the implications it has for infrastructure investment generally, and when you have large network builds which is what we do, as well as other types of infrastructures, they get built across the U.S., which is a priority for the administration.

And the way you finance it matters and interest deductibility plays in, and I think having the right incentives to make those investments is helpful. But we're hopeful we'll get an ear to listen to that and think through the best way to achieve the best proposal.

You had asked about the price threshold on the 10b5. Without going in – I don't want to go detailed into how we think about buybacks because it's flexible and it changes over time, but generally you put tight 10b5-1 plan in place when your window is no longer open, whether that's for an executive or an insider, whether that's elf, and it's at that point in time that you set some general guidelines as to how and when and what volume you would be buying stock. And then after that point, it's very difficult to go back in and modify it until you have a clearing event, for example, like an earnings or other type of 8-K. So that's just the technical background behind the 10b5.

<Q - Jessica Jean Reif Cohen>: Couple of questions. How far along are you in terms of your programming resets, as a combined company?

<A - Thomas M. Rutledge>: Do you mean synergies from programming, is that what you mean by resets?

<Q - Jessica Jean Reif Cohen>: Yes, yes, I mean, as you've gone along, you've obviously renegotiated rate, so how many [indiscernible] (49:47)?

<A - Thomas M. Rutledge>: Well, that's why we said we wouldn't forecast future synergies, it's – we think we got the synergies that we said we would get. I think it was little over $400mm, we thought, we've said. Isn't that what we said?

<A - Christopher L. Winfrey>: Little less, but we've said $800mm, when we originally did the -- when we originally announced the transaction, we said $800mm after three years, little less than half that might come from that, but...

<A - Thomas M. Rutledge>: Right. So we got the synergies we believe as a result of the closing of the transaction and our management of the contracts that were in place then. Now we have to go forward and we've renegotiated an MBC deal over Q4 and other deals throughout the company. And so we do think we've achieved what we thought we would and now we're in a world where, the question is, what's the future growth of programming and content cost and how does that work. And I think there is –that's a difficult thing, a rich subject.

<Q - Jessica Jean Reif Cohen>: Right. Anything else from that, because I have two other follow-ups.

<A - Thomas M. Rutledge>: Well, I'll just say that we don't expect the current business model to fall apart tomorrow and we think that the historic trends are more indicative of the future than a brand new world with regard to programming.

<Q - Jessica Jean Reif Cohen>: Okay.

<A - Thomas M. Rutledge>: So what are your….

<Q - Jessica Jean Reif Cohen>: So then, just to follow up on two other topics that you already discussed. One on regulatory reform. Is there a – it does seem like there is a likelihood of significant change, so I guess, one, does it change the way you guys think about M&A, either as a buyer or a seller? And does it open the door at all to renegotiate some of the conditions that you had to agree to?

<A - Thomas M. Rutledge>: I don't know about the second part of your question with regard to our conditions. We have optionality in our conditions, by the way, that could be shorter and we had the right to petition. So in a better regulatory climate, there'd be a greater likelihood of achieving those reductions, you'd hope. But we were bullish on the business before the change in administration and prepared to live in the regulatory environment that was there. It appears to be better, which is good for us. That makes us more excited about the future of our business than we were previously. Does that affect our valuation of other M&A opportunities? I don't – it's hard to say, but we like our business.

<Q - Jessica Jean Reif Cohen>: But the question was, as a buyer or a seller since there's been tons of speculation both ways.

<A - Thomas M. Rutledge>: We don't speculate on M&A generally, so I don't really know what to say other than we like our business.

<Q - Jessica Jean Reif Cohen>: And then just a last thing was – just the last question was on wireless. I mean, you've made a lot of comments on the call, much more clarity than you've given in the past, but you did say something in your prepared remarks about longer-term plans. And I'm just wondering could you give us some color on how you're thinking about that? Were you implying that you might want owner economics or you really – I mean it's clear MVNO in the near-term to medium-term. It just wasn't longer term...

<A - Thomas M. Rutledge>: Yeah, I was really trying to distinguish on the high-capacity, low-latency networks that we're experimenting with, which we think are the future of communications in many ways. Out the significant – at a significant point in time from five years or more, that our network and our infrastructure is probably the best infrastructure on which to develop those products that exist. And we're working toward understanding all the implications of the technology so that we can create an atmosphere where those products develop. It's not -- is it about – it's not about a business model yet. But we do own our plants, and we think that these assets will work on our plants. And so by implication, that's owner's economics in a new product. It's not a mobile. It's not what is considered mobility today, 4G, which we think is a bridge to a different kind of wireless world going forward.

<Q - Bryan Kraft>: Sort of couple of questions. First, could you provide any more color on what you're expecting for capital investment levels this year? And also wanted to follow up on programming cost. You expect it to be in the same range as last year on a pro forma basis in terms of growth or will we see some acceleration based on renewals?

And then separately, I just want to follow-up on an earlier question on 5G. Some think that 5G backhaul actually requires fiber that coax isn't sufficient, which I don't think is right, but I want to see, if that was something that you could weigh in on. Thank you.

<A - Christopher L. Winfrey>: I'll answer the last one. We think 5G like products doesn't necessarily require fiber in every location, it requires a high capacity interconnection between the cells. And that can be – that could be wireless too, it can be fiber and it can be coax, but it's a high-capacity inter-cell connection, if that's what you mean by backhaul .And it can be – there is more than one way to do it.

<A - Thomas M. Rutledge>: And Bryan, on CapEx, we are not providing CapEx guidance just because we approved a budget internally, which is what we want to operationally deploy this year. It could be less than that just because of what practically can be done or could be in a position to accelerate. But from our perspective, it doesn't make sense to release such an artificial target and have the tail try to wag the dog for what's ultimately right. But if you think back to what I said, in 2017 we will be spending more on Spectrum pricing and packaging through that higher CPE placement or connect. We will restart all-digital. We will be insourcing. But offsetting some of that increase will be the benefit of synergies. So without giving specific guidance, 2017 is probably a bit higher in terms of absolute dollars than what we were performing in 2016, but it shouldn't be a dramatic change in terms of capital intensity or CapEx as a percentage of revenue.

And then, I think your second question was in terms of programming outlook?

<Q - Bryan Kraft>: Yes.

<A - Thomas M. Rutledge>: Yeah. We don't provide guidance in general, so getting into one specific line item, I don't think it's really help for us to do it on a single item, line item basis like programming. But we're doing what we expected to generally and we're not surprised by where we are and we like it.

<Q - Bryan Kraft>: Okay.

<A - Thomas M. Rutledge>: As much [indiscernible] (58:01).