Q1 2021 Earnings Call

Company Participants

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

Other Participants

- Ben Swinburne, Analyst
- Brett Feldman, Analyst
- Bryan Kraft, Analyst
- Craig Moffett, Analyst
- Doug Mitchelson, Analyst
- Jessica Reif Ehrlich, Analyst
- Jonathan Chaplin, Analyst
- Michael Rollins, Analyst
- Peter Supino, Analyst
- Phil Cusick, Analyst
- Vijay Jayant, Analyst

Presentation

Operator

Good day and thank you for standing by. Welcome to Charter's First Quarter 2021 Investor Call. At this time, all participants are in a listen-only mode. And after the speakers' presentation, there will be a question-and-answer session. (Operator Instructions) I'd now like to hand the conference over to your speaker today, Stefan Anninger. Please go ahead.

Stefan Anninger {BIO 15867691 <GO>}

Good morning and welcome to Charter's first quarter 2021 investor call. The presentation that accompanies this call can be found on our website ir.charter.com under the Financial Information section. Before we proceed, I would like to remind you that there are a number of risk factors and other cautionary statements contained in our SEC filings, including our most recent 10-K and also our 10-Q filed this morning. We will not review those risk factors and other cautionary statements on this call. However, we encourage you to read them carefully.

Various remarks that we make on this call concerning expectations, predictions, plans, and prospects constitute forward-looking statements. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ from historical or anticipated results. Any forward-looking statements reflect management's current view only and Charter undertakes no obligation to revise or update such statements or to make additional forward-looking statements in the future.

During the course of today's call, we will be referring to non-GAAP measures, as defined and reconciled in our earnings materials. These non-GAAP measures, as defined by Charter, may not be comparable to measures with similar titles used by other companies. Please also note that all growth rates noted on this call and in the presentation are calculated on a year-over-year basis unless otherwise specified.

On today's call, we have Tom Rutledge, Chairman and CEO, and Chris Winfrey, our CFO. With that let's turn the call over to Tom.

Thomas M. Rutledge {BIO 1818216 <GO>}

Thanks, Stefan. We continued to execute well in the first quarter. Even in an environment with lower consumer move activity, we added over 300,000 customer relationships during the quarter with growth of 5.8% year-over-year. We also added 355,000 Internet customers in the quarter and 2 million over the last year, for a year-over-year growth of 7.3%. We added 300,000 mobile lines and we grew our adjusted EBITDA by 12.5% and our free cash flow by nearly $500 million or 35%. COVID has continued to have an impact on our operations. But the economy -- as the economy reopens and normal activities resume, we expect more sales opportunities to develop during the second half of the year. And we remain confident in our ability to grow our customers EBITDA and free cash flow at healthy rates, given the investments we've made in our network, which enables us to offer superior products and services.

While the last year has focused on our successful operations and execution through the pandemic, May 18 will mark the fifth anniversary of the closing of our transaction to acquire Time Warner Cable and Bright House Networks. Since then, we've added more than 7 million Internet customers and our annual EBITDA has expanded from $13.6 billion to over $19 billion. And our enterprise value has increased by $100 billion.

Since the start of 2016, we've invested over $40 billion in infrastructure and technology and over the last five years, we've extended serviceability to approximately 5 million homes and businesses. We've also committed to extending our network to reach more rural areas. Over the next six years, we expect to spend at least $5 billion offset by $1.2 billion in RDOF subsidies to reach over 1 million unserved consumer locations to gigabit Internet speeds. And we're actively exploring additional opportunities to further expand our rural build potential.

Since our transactions closed, we've also enhanced the quality and efficiency of our operations. We've hired thousands of new employees into good jobs by bringing all of our work back to the US and we committed to a minimum wage of $20 per hour to provide the best service possible which fuels our growth. Since close, we prepared to launch of mobile broadband products at scale and our customers now have the fastest and least expensive mobile and wireline broadband products available in the market. Importantly, we continue to improve our connectivity products as demand for data in the home continues to grow at a very rapid pace.

During the first quarter, we continue to see significant growth in data usage per Internet customer. On average non-video customers used about 700 gigabytes per month in the first part of the quarter and for the full quarter average usage by non-video customers was up nearly 20% year-over-year. Close to 20% of our non-traditional video Internet customers now use a terabyte or more of data per month. The growth in demand for data is and will be driven by a number of factors including the growth in IP video services, including video conferencing and gaming, also the growing number of IP devices connected to our network, which now totals nearly 450 million devices. And new and emerging products and services that are being developed as we speak, such as e-learning or telemedicine and 4K, virtual reality or holographic formats, for example.

We're continuously increasing the capacity in our core and hubs and augmenting our network to improve speed and performance at a pace dictated by customers and the marketplace.

We have a cost-effective approach to using DOCSIS 3.1, which we've already deployed, to expand our network capacity to 1.2 gigahertz, which gives us the ability to offer multi-gigabit speeds in the downstream and at least 1 gigabit per second in the upstream. In additional -- in addition, we have DOCSIS 4.0 and other emerging technologies to cost efficiently offer multi-gigabit speeds in both the downstream and the upstream serving the heavy-data usage needs of our customers with quality connectivity services.

While we have a great network asset, which is fully deployed and has a capitally-efficient path to deliver even higher capabilities, our strategy is founded on saving customers' money while providing state-of-the-art products. Mobile and wireline broadband are converging into a single connectivity service package, which is delivered over a combination of mobile and fixed networks.

Our share of household connectivity spending, including mobile and fixed broadband, is low and we remain very much under penetrated relative to our long-term opportunity. An average household served by the big three mobile broadband competitors, the two plus lines of mobile broadband and wireline broadband, spends approximately $200 a month on its telecom services. Today, Charter only generates $33 a passing and $65 a customer of that $200 of combined monthly spend on mobile and wireline broadband service. By choosing Charter as their full service connectivity provider, customers can say hundreds even thousands of dollars per year with better product capabilities and service. And so our goal is to do the same with mobile in our service area, as we did with wireline voice, where we made Charter the predominant wireline phone carrier by reducing consumer telephone bills by over 70%. Meaning Charter can grow for a long time, because we remain under-penetrated and our growth will reduce customer costs.

Now, I'll turn the call over to Chris.

Christopher L. Winfrey {BIO 16326284 <GO>}

Thanks, Tom. Before getting into the details of the quarter, a few comments regarding our outlook and reporting. On last quarter's conference call, I spent some time walking through the outlook for 2021, that commentary related to our customer and financial growth expectations given the difficult comparability to prior year results due to the effects of COVID in 2020. Those comments were intended to help investors update their models for 2021 and understand the backdrop for what should be a very good 2022. So while I won't repeat everything I said on the last earnings call, our outlook in general has not changed. 2019 remains the better customer growth comparison for 2021 where we expect to Internet and customer relationships to be at or above 2019 net additions. And we will continue to reference the COVID schedules we provided last year and included again on slides 17 and 18 of today's presentation to help with the year-over-year financial comparisons.

Secondly, the bundle allocation rules as required by GAAP continue to have a significant impact on our residential Internet video and voice product revenues. Because of the decline in utility of individual product revenues to investors, it's likely that at some point we'll collapse all residential product revenues into one residential revenue line.

Turning to our results on slide five, customer activity levels in the marketplace, specifically move churn and non-pay churn has still not returned to normal levels, which means on the one hand, we benefit from the lower operating expense from reduced service transactions and significantly lower bad debt. But it also means there are fewer selling opportunities in the market generally. Those trends are on a slow path to normalization.

Despite a lower sales environment, we continue to gain share across our footprint and we remain the share leader in Internet and all of our markets, regardless of competing infrastructure. We grew total residential and SMB customer relationships by over 1.7 million in the last 12 months and by 302,000 in the first quarter. Including residential and SMB, we grew our Internet customers by 355,000 in the quarter and by 2 million or 7.3% over the last 12 months.

Video declined by 138,000, wireline voice declined by 88,000, and we added 300,000 higher ARPU mobile lines. In residential Internet, we added a total of 334,000 customers in the quarter lower than the 398,000 that we gained during the strong first quarter in 2019 for the reasons I mentioned. Our residential video customers declined by 156,000 consistent with the loss of 152,000 we saw in the first quarter of 2019. In wireline voice, we lost 102,000 residential customers in the quarter, also similar to the loss of 120,000 in the first quarter of 2019.

Turning to mobile, we added 300,000 mobile lines in the quarter and as of the end of the quarter, we had 2.7 million mobile lines with a good mix of both Unlimited and By the Gig lines. We continue to be pleased with the results and trajectory of Spectrum Mobile with less EBITDA lost per line as the business scales to expected standalone profitability.

Over the last year, we grew total residential customers by 1.6 million or 5.8%. Residential revenue per customer relationship declined by 0.5% year-over-year, given a higher mix of non-video customers, higher mix of Choice, Essentials, and Stream customers within our video base, lower pay-per-view and video on demand revenue and lower installation revenue given higher self-install rates. Keep in mind that our residential ARPU does not reflect any mobile revenue.

The slide six shows residential revenue grew by 5.8% year-over-year, reflecting customer relationship growth.

Turning to commercial, SMB revenue grew by 1.6%, a bit faster than last quarter's growth. Enterprise revenue was up by 2.5% year-over-year, also a bit better than last quarter and grew by 7.2% excluding wholesale revenue. Enterprise PSUs grew by 2.8% year-over-year. First quarter advertising revenue declined by 5.8% year-over-year due to less political revenue. Our non-political revenue grew by 5.3% year-over-year primarily due to some COVID impacts late last March and our growing advanced advertising capabilities.

Other revenue declined by 2% year-over-year driven by lower late fees partly offset by higher RSN revenue. Mobile revenue totaled $492 million, with $228 million of that revenue being device revenue. In total, consolidated first quarter revenue was up 6.7% year-over-year.

Moving to operating expenses on slide seven. In the first quarter, total operating expenses grew by $235 million or 3.2% year-over-year. Programming increased 3.3% year-over-year due to higher rates, offset by a higher mix of lighter video packages such as Choice, Essentials, and Stream and lower pay-per-view expenses year-over-year tied to lower pay-per-view revenue I mentioned. Regulatory connectivity and produced content grew by 8.9% driven by more Laker games than normal this quarter resulting from the delayed start to the NBA season, combined with fewer games in the prior-year period when sports leagues played fewer games due to COVID. Excluding those sports rights costs related to our RSN, this expense line item grew by 2.1% year-over-year.

Costs to service customers declined by 2.4% year-over-year compared to 5.8% customer relationship growth. The decline was driven by $100 million in lower bad debt, which continues to benefit from record payment trends similar to 2020, though our expectation remains that bad debt trends should normalize over the course of this year.

On the other direction, we saw pressure from outsized hourly wage increases that we put through in March of last year and again in March of this year, which we've discussed previously and relate to our commitment to reach a $20 minimum starting wage in 2022. Excluding bad debt, costs to service customers grew by 3.2% year-over-year, including the minimum starting wage increase and reflecting the 5.8% relationship growth. Marketing and sales expenses declined by 2% year-over-year. Mobile expenses totaled $572 million and were comprised of mobile device costs tied to device revenue, customer acquisition, and service and operating costs. And other expenses declined by 5.5% primarily driven by a non-recurring adjustment to bonuses related to COVID.

Adjusted EBITDA grew by 12.5% in the quarter, excluding mobile and bad debt in both years, our EBITDA growth rate would have been 3.6 percentage points lower.

Turning to net income on slide eight, we generated $807 million of net income attributable to Charter shareholders in the first quarter versus $396 million last year. The year-over-year increase was primarily driven by higher adjusted EBITDA.

Turning to slide nine. Capital expenditures totaled $1.8 billion in the first quarter, an increase of $360 million year-over-year driven by higher scalable infrastructure spend primarily related to augmentation for our network capacity at a normal pace for customer growth and usage with incremental spending to reclaim the network headroom we maintained prior to COVID. We also spent more on line extensions due to continued network expansion, including to rural areas. This does not include any RDOF spend, which we will incur and start to disclose later this year. The cost of buildouts tends to be front-loaded with design, make grading and construction before passings are activated. So we'll take well into next year before our construction cadence lets in a cost-per-passing metric to be meaningful.

We spent $112 million on mobile related CapEx this quarter, which is mostly accounted for in support capital and was driven by investments in back-office systems and mobile store build-outs. For the full year of 2021, we expect cable capital expenditures, excluding any RDOF investments, to be relatively consistent as a percentage of cable revenue versus 2020.

The slide 10 shows we generated $1.9 billion of consolidated free cash flow this quarter, an increase of 35% year-over-year. We finished the quarter with $84.3 billion in debt principal and our current run rate annualized cash interest pro forma for financing activity completed in April is $4 billion. As at the end of the first quarter, our net debt to last 12-month adjusted EBITDA was 4.38 times. And we intend to stay at or just below the high-end for 4 to 4.5 times leverage range.

During the quarter, we repurchased 6.3 million shares, Charter shares and Charter Holdings common units, totaling about $4 billion at an average price of $627 per share. In September of 2016, we've repurchased $43 billion or 34% of Charter's equity at an average price of $408 per share.

Turning to taxes on slide 13. We don't anticipate becoming a meaningful federal cash taxpayer until 2022 and we expect the bulk of our existing NOLs to be utilized by the end of this year.

Subject to any corporate tax rate changes for the years 2022 to 2024, we expect our federal and state cash taxes to approximate our consolidated EBITDA, less our capital expenditures and less our cash interest expense, multiplied by 23% to 25% with the tax rate in 2022 to be a bit lower than that range given some carryover of tax attributes. That estimate includes partnership tax distributions to Advance/Newhouse, which are captured separately in cash flows from financing in the financial statements. There are multiple factors that impact what I just described and we're always looking for ways to improve our cash tax profile.

Our operating model is growing by saving customers money, our network capabilities now and in the future, and our balance sheet strategy all work together over long periods of time. And we expect our results to reflect a growing infrastructure asset with a lot of ancillary products to use for and sell on top of our core connectivity services, with good value and service to our customers to grow cash flow with tax-advantaged levered equity returns.

Operator, we're now ready for Q&A.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from the line of Doug Mitchelson with Credit Suisse. Go ahead, please. Your line is open.

Q - Doug Mitchelson

Thanks so much. Good morning. One for Tom. One for Chris. Tom, I feel like you threw down the gauntlet a bit on fixed wireless convergence -- fixed wireline convergence. I think the -- clearly tighter mobile market in your target market of $200 a home of telecom spending, does your commentary suggest a more aggressive posture regarding wireless marketing? You already have a pretty healthy growth pace of lines already. And when you look out five or 10 years, if that's where the market is headed, I know you've been asked this, asked and answered in the past, but wouldn't that suggest at some point the owners' economics on the wireless side to match up with what you have in the wireline side? And then Chris, could you talk about the returns investors should expect on the $5 billion of buildout CapEx or the $3.8 billion net CapEx spend over the next five years? Thank you, both.

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

Sure. So Doug, yeah, I think that our opportunity over a multi-year period is significant and I think that we have an opportunity to -- when you look at the penetration of those mobile products, we have an opportunity to continue to grow rapidly. And so, we are moving to make sure that happens in terms of the way we position and sell our products and in terms of their both product attributes and the price that we charge. The purpose of that exposition on how much telecom spend there is just to show that there's lots of runway in front of us and a significant market opportunity there for us to create value for Charter, while at the same time creating value for consumers. In terms of convergence, we already are moving toward convergence in many ways and we have owners' economics in many ways. And we also have a good relationship as an MVNO. The owners' economics we get are in the CBRS spectrum that we purchased and its deployment in the WiFi network that we've deployed and the traffic that we carry over it. And there is continued opportunities to take advantage of that in the near-term and the long-term to create additional value for our customers and for the company's cost structure.

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

On the RDOF spend, Doug, the way we think about that $5 billion just in phase one of RDOF, I would think there may be more opportunities over time, either through federal programs or through, what we call, white-space areas that might be a product of the additional rural investing that we make that open up new opportunities. But when you think about this in terms of project financing, these construction projects have a much higher cost-per-passing than what we've typically built. And they have a longer payback. But as a result of them being as expensive as they are, we have a real high confidence in our ability to penetrate these markets with broadband service that's needed and desired. And so what that means is together with low risk assumptions on ARPU, you can have pretty high confidence in terms of what the financial model is going to look like, both from a cost and revenue perspective over time.

So I think I've mentioned in the past that we'd expect the payback, the cash-on-cash payback for these type of projects to be double-digits in terms of years, over 10 years. But the IRR can be mid-teens. And so we think that is attractive investment with a low risk in terms of our ability to achieve those types of returns.

What we haven't factored into any of that is what does that open for additional building opportunities on the edge of those networks, as well as some of these rural communities by having broadband can actually have more fill-land or become more suburban like which could open up opportunities, which aren't built into our model. We think it's consistent to build this way. It's part of our strategy and we think it's the right thing to do for the extended communities that we serve. And we think it's attractive for shareholders as a way to continue to grow our broadband footprint over time. So, another alternative way to think about it is when you think about those type of economics, it's actually not that different from cable M&A at a point in time where there just hasn't been unfortunately as much cable M&A that we would have liked to have done.

Q - Doug Mitchelson

Great. Thank you.

A - Stefan Anninger {BIO 15867691 <GO>}

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

Operator

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

Q - Ben Swinburne {BIO 5489854 <GO>}

Thanks, good morning. Tom, I was wondering if we could get your perspective, this came up on yesterday's Comcast call on sort of the consumer demand and opportunity for Charter to offer symmetric products and sort of the need for the network to offer symmetric service and kind of how you get there. You touched on 3.1 and 4.0 in your prepared remarks, but if you could give us a little sense of the pass and timeline in your mind, and I guess the costs, whether it would move capital intensity around enough that we would notice. And then I was just wondering, Chris, this sort of subdued activity level we're seeing, which is helping bad debt hurting gross adds, I know it's impossible to know, but could this sort of lasting through the year? I mean it seems like even though we're seeing vaccinations ramp back up, the consumer -- we're seeing this across a lot of companies, this churn is at like record lows like unusually low level. I'm just wondering if you're seeing any signs that things are normalizing or if that's just an expectation you have. Thank you, guys.

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

So Ben, the issue of capacity and where it's needed and how it's used is a complicated discussion. But basically, our view is that if you think about the way networks are used, and I said people are using 700 gigs a month in the presentation today and a lot of our customers are using over a terabyte per month, most of that is television being delivered through IP to households. And the actual upstream usage is quite sufficient for all the current users that we have. So we don't have an immediate need to expand the capacity of the plant. And the plant is actually used in a very asymmetric way by the products that are currently on it. And we don't see that changing in the near term, but we do have the capability from a technical perspective to upgrade our network based on changing market dynamics. However, they may develop in terms of how products develop. We don't see an immediate need to do that. But we do think our network, from a competitive point of view, is well positioned from a capital intensity perspective to make those upgrade costs at much lower costs than alternative means. And so we think that we're positioned to grow in the marketplace in a very efficient way and serve products that we need to serve up based on the way the market develops. But today, we should continue to operate our network with more capacity downstream than upstream.

Q - Ben Swinburne {BIO 5489854 <GO>}

Right.

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

Ben, on the lower level of activity, it's true. It's normalizing slightly slower than what we would have expected or hoped for. And like I said in the prepared remarks, the benefit is that we have really significant EBITDA growth as a result of last year's subscriber growth and this year -- this quarter's subscriber growth compounded by the lower level of activity in the marketplace, which is driving down transaction cost and churn at that, which produces an outsized temporary financial result. Our preference would be to put a little bit of pressure on those financial results by increasing our sales and marketing through commissions and through normalizing the market through a higher level of move activity which opens up additional selling opportunities for us as a share taker. As a share taker, you're -- we'd like to be on the offensive and to acquire (Technical Difficulty) money. And that opportunity is what contributes to net adds and what contributes to short-term financial pressure to have a higher long-term EBITDA and free cash flow. We have seen the markets slowly coming back and so it is moving in the right direction. It's just not moving as fast as some of us would like. That includes from move churn at a slight -- not as much on non-pay because of all the subsidy that's out there today, which is a different topic. I think it's going to start getting back to normal here pretty quick. A lot of us who have been in the office every day through the pandemic, we're just noting this morning that the pickup in traffic even in the New York and Connecticut area, it's pretty symbolic in terms of trying to normalize and we think that will start to -- well, it will continue to take place across the rest of the country. And we're optimistic about our ability to sell and net add through the rest of the year.

Q - Ben Swinburne {BIO 5489854 <GO>}

Thank you.

A - Stefan Anninger {BIO 15867691 <GO>}

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

Operator

Next question comes from the line of Brett Feldman with Goldman Sachs. Go ahead, please. Your line is open.

Q - Brett Feldman {BIO 3825792 <GO>}

Hi, thanks. I'm going to kind of stick with a similar theme. I appreciate that moves creates a lot of jump balls for the company. You only serve half the households in your footprint. The vast majority of those you don't serve I think are poorly served and that's probably becoming increasingly apparent to them. Does the math on the marketing dollars become more favorable, meaning looking to potentially force the issue bid as opposed to just waiting for a natural shift in volumes in the market?

And then also, I'm curious how significant is an assumption that bad debt sort of reverts to normalized levels in terms of thinking about the margin profile of the company this year? And the reason I ask is it would seem like all the things going on the background are favorable to bad debt, whether it's an expectation that the economy is going to continue to recover and also just the government continuing to show a prioritization in making sure that people not only have access to good broadband, but are able to sustain that access including through additional subsidy programs and all just seems to be moving in your favor from a bad debt standpoint? Thanks.

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

So two separate topics. One in -- I'm not sure if Tom would differ, but we feel we're pretty aggressive on the sales and marketing side and to the extent that we could be more aggressive than we thought that it would have the ability to add more subscribers and we do it. And so we're always looking for that. And we're not afraid to spend, if we think we can drive customer acquisition. Some of the difficulty is that you're digging out customers and they're inert, and they have to keep coming back and back and back and as attractive as our products are and as much as we can save customers' money, it takes a while to prime lose and it's disruptive to swap out one, if not all of your services in the household. And despite the economics that we can provide into better quality speeds and service, it just takes a little bit of time. But we're always looking for ways to be more aggressive. And as Tom mentioned, I think mobile, because of the additional outsized amount of dollars that we can serve customers is a really interesting tool, together with the combined benefits of products that we can provide that most cannot.

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

I agree with that.

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

Okay, good. Good for me. Bad debt, look, there is a bull case that the market could start to move and our selling opportunities could increase, which would drive higher commissions and transaction costs to acquire and provision and install these customers. And the bull case would be at the same time we have that, because the level of subsidy that is out in the marketplace and might continue that our bad debt could remain low and it could actually open up, those subsidies could open up portions of the market from an affordability standpoint that could drive more sales. And so could you end up with the best of both worlds? Maybe, but that's not something that we're betting on. It's an environment we've never really seen before and that's not factored into any of -- to kind of outlook or forward-looking statements that were provided, I don't think we want to depend on third parties to drive our growth. And it may be the case that that's how it turns out, but right now, we're focused on just selling more cables and minimizing the churn to the extent that we can, things that are in our control.

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

What I would say is that we're in an unusual climate and it's still unusual. And when it normalizes, which I expect it to normalize, our cost structure will revert to what it was historically. And that includes non-pay -- bad debt. And as a result of that, growth could accelerate, but growth also can create costs when you're comparing it to someone who isn't growing. And so that has an impact on margins. But the overall trajectory of our business, notwithstanding the current circumstances which are really unprecedented, the fundamental costs to serve our customers continues to come down because of our digitization of the sales and marketing and service infrastructure of the company, and our ability to do self-service and self-installation. And the relative ease of delivery going forward creates long-term advantages and the cost of CPE continues to come down on a relative basis. So we have long-run trends, which are favorable to our cost structure. We have short-term trends, which are favorable to our cost structure, which I expect to go away.

Q - Brett Feldman {BIO 3825792 <GO>}

Thank you.

A - Stefan Anninger {BIO 15867691 <GO>}

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

Operator

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

Q - Craig Moffett {BIO 5987555 <GO>}

Hi. Two questions if I could. Chris, I'm going to push you to just return to what you were just talking about of stimulus. Just given the size of the stimulus with about four times as much stimulus in dollars, about $20 billion as the annual growth rate of the entire US band market, how do we think about quantifying that? I know you said it's not in your numbers, but can you just talk about what you as a company have done to prepare in terms of applications and what have you for the EBBP and the E-Rate? And what impact do you think that might have on your business?

And then a second somewhat unrelated question is just if you could talk about the business services segment perhaps. And that's still growing significantly more slowly than residential. Are you more or less through the repricing of the TWC customers now so that we can expect that to return to being a growth driver rather than just mathematically today being a growth drag?

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

So Craig, on the stimulus, a lot of that money is undifferentiated in the states and it has broadband in front of it in the nomenclature. But it can go anywhere. And so, yeah, we're out, through our business sales services groups, trying to orient that money both to line extension and to products for schools and municipalities. And we have a full suite of products to sell, but how that money hits allocated and how it gets spent in the states is difficult to say. And I think it will vary by location. So it's a huge opportunity as you point out and it's massive. And our sense is that the states don't know how to spend at all. And so there -- we'll see what happens, but there is an opportunity there.

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

And as it relates to the business services growth, there's really two separate categories here. One is SMB and enterprise. The repricing of the TWC base is essentially through for SMB. We have had some pressure recently through seasonality programs that we've offered to SMB customers through COVID. That is winding down, as well as the repricing being through. If you take a look at the unit growth on SMB, I think you can pretty quickly see a path for us to get revenue growth and SMB more closely aligned to a unit growth rate or the customer relationship growth rate. So I think the outlook on SMB from a revenue standpoint is positive.

The same applies for enterprise. Enterprise is a slightly different set of circumstances. The retail revenue growth rate like SMB has been accelerated. It's up sequentially, same as SMB. It's now at 7.2% for the retail portion of revenue for enterprise. And it's being held back slightly by wholesale particularly, cell tower backhaul, where that's becoming a lesser and lesser portion of the overall revenue mix in enterprise. And the more strategic piece for us is retail in any event. The enterprise business is selling more and is doing extremely well, both certainly compared to last year but also compared to 2019. And that's despite the fact that these are complex fiber products where today less than 25% of the time we're meeting our customers, CIOs, in the office. So that's a difficult sell to make when you're not in person to have a complex fiber cell, whether it's for fiber Internet access, Ethernet, Unified Communications, SD-WAN, and yet our sales are increasing and accelerating, despite the fact that we can't be on location to make those sells. So, I'm optimistic about the enterprise retail side and what that's going to do for the overall revenue growth rate, not only for enterprise, but when you look at commercial, combined together with SMB, which is also improving.

Q - Craig Moffett {BIO 5987555 <GO>}

Thanks, Chris.

A - Stefan Anninger {BIO 15867691 <GO>}

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

Operator

Our next question comes from the line of Peter Supino with Bernstein. Go ahead, please. Your line is open.

Q - Peter Supino {BIO 21231716 <GO>}

Hey, I wanted to ask about the mobile business. Do you expect to use device subsidies any more aggressively in the future? I know your unit economics have historically made that challenging and also we have the sense that they're getting better. So, any thoughts on that strategy for the long run would be great. Thanks.

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

So far, we haven't done that much of that and we like the way we're marketing it currently.

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

It's not a great business in and of itself.

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

We'll create customers, if we can retain those customers. And then we're (Technical Difficulty) whatever works, but we are doing well without it.

A - Stefan Anninger {BIO 15867691 <GO>}

Thanks, Peter. James, we'll take our next question, please.

Operator

Our next question comes from the line of Phil Cusick with JPMorgan. Go ahead, please. Your line is open.

Q - Phil Cusick {BIO 5507514 <GO>}

Hey, guys. A couple of sort of follow-ups. On broadband, Chris, can you talk about the drivers of seasonality and customer growth in a typical second quarter and any differences we might see this year because of the pandemic? And do you think that could be offset somewhat by increasing win opportunities in EBB?

And then second, on CapEx, higher or at least stable, and not stable to lower in the core cable business, what's changing there? Do you see more opportunities? Is that a function of mobile? What's happening? Thanks.

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

Yeah. On broadband, I don't see the broader seasonality differences that have always existed in Q2. With disconnects in Q3, with reconnects, a lot of that's college impacts driven as well as the new season of people repositioning. And if anything, on one hand, I think it will be normal. On the other hand, you could argue that things really do get back to fully normalized level. There may be a pent-up demand for that type of move activity. So I don't know. The two factors you mentioned which could, around the edges, have an impact slightly, although I don't think it changes the overall curve with the -- to the extent that the subsidies and stimulus continue to drive down non-pay. And at the same time, we had an acceleration in move churn, which allowed more selling opportunities, maybe that could have a positive impact. And the other one that you pointed out with the EBB program, which could have similar type of benefits, both on the non-pay, as well as on the activation side. But I don't think that fundamentally the overall trend of Q2 compared to Q1 or Q3 or Q4 is going to be that much different.

On CapEx, we slightly tweaked what we said from an outlook perspective and it ties back to what I talked about with Ben in terms of the market is normalizing but just at a slightly slower pace. But as that market has been -- remained slow to normalize, data usage remains high. And so that has an impact on the amount of headroom we planned for in terms of capacity and network augmentation. Now it's very much possible our core cable capital intensity declines this year. But given the uncertainty, we updated the outlook slightly to say 'relatively consistent' in quotes with last year. But I want to be clear, there is no change to our long-term outlook for core cable capital intensity to decline.

Q - Phil Cusick {BIO 5507514 <GO>}

Thanks. Chris, do you think that with mobile wireless broadband coming on, does that give you any pause on your assumption for a strong second half or is that sort of built in already?

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

Mobile wireless broadband, you mean our own mobile wireless broadband?

Q - Phil Cusick {BIO 5507514 <GO>}

Wireless -- sorry, no competitive wireless broadband coming to the markets.

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

We're a mobile wireless broadband, is that -- are you talking about somebody else's?

Q - Phil Cusick {BIO 5507514 <GO>}

No, I mean, T-Mobile and Verizon, T-Mobile and Verizon mid-band wireless offerings.

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

Look, we're always concerned about competition and we're watching for it. And on the increment, I think there will be added pressure. We think it's a real product for certain areas of a customer base. And so it's something we're keeping an eye on and we have our own mobile broadband wireless together with our fixed line broadband converged, we think competes well and requires us to continue to invest in that space.

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

And we'll be on that spectrum as well.

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

Correct. From a C-band perspective, that will be something we participate through the MVNO and then we have earned CBRS, which you're aware of as well.

A - Stefan Anninger {BIO 15867691 <GO>}

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

Operator

Our next question comes from the line of Michael Rollins with Citi. Go ahead, please. Your line is open.

Q - Michael Rollins {BIO 1959059 <GO>}

Thanks. First, can you share your mix of broadband customers between entry level versus higher level tiers and how you're looking at the ARPU opportunities and pace to migrate customers to higher performance levels?

And then secondly, just from your comments earlier, can you share what the fair average rate of estimated passings growth can be for Charter if you think about on a three to five-year horizon and you could share that with or without RDOF? Thanks.

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

In terms of the broadband customer base, most of our customer base is on an entry level package, meaning 200 megabits. So, our basic strategy has been to have a very rich broadband product as our base product. And we've continuously taken that up. And so in terms of opportunity to sell up, we have a lot of it. We haven't done much of that really. We do it and obviously we satisfy the market, but the bulk of our customer base is at the entry-level speed, which is quite high. In our pass -- I'm not sure I fully understood what you were going at with the passings growth, but it's really about housing starts.

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

Yep.

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

And versus if you take out RDOF out of it. And what's that going to look like, and -- yeah, we -- our footprint pretty much looks like the United States from a statistical perspective. And so if you look at housing starts, and you have an opinion on that, that will probably mirror our passings growth.

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

Yeah, I agree. That would be the versatility driver. Just to put in context of what's going on today, we're building it out. We're constructing about 600,000 a year, much of which is rural extensions proactive on our part already before RDOF. And the remainder in what you see of our passings growth is fill-in and other type of what we call brownfield opportunities.

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

Well, new developments (Multiple Speakers) and so that is in supportive [ph].

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

Yes, that will all depend on the overall housing starts growth. And then during the period of our RDOF, there is an additional over a million homes that will construct in these rural areas to address RDOF on top of whatever the organic growth rate is, which as the big drivers to the housing starts, as Tom mentioned.

A - Stefan Anninger {BIO 15867691 <GO>}

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

Operator

Our next question comes from the line of Jessica Reif Ehrlich with Bank of America. Go ahead, please. Your line is open.

Q - Jessica Reif Ehrlich {BIO 17655233 <GO>}

Thank you. I have a question, I guess, a two-parter on video, which hasn't come up at all. Are there any plans to offer a product similar to Comcast Flex, maybe you could talk about the pros and cons from a Charter perspective? And then is there any difference in how you're approaching programmers that are now offering direct-to-consumer services that mirror or encompass a lot of the content they have on their pay-TV channels.

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

Jessica, the video business has a lot of challenge and it's going through a transformation. And we are -- we have over 10 million customers now who receive our service through a application as opposed to a set-top box. And we have direct-to-consumer relationships and we have new relationships with programmers developing that allow us to sell traditional content in bundles. We have different kinds of bundles, some our traditional cable TV packages, some are over-the-top packages, and some are direct-to-consumers where we're representing a direct-to-consumer relationship and really essentially acting in a consignment kind of mode. So we have every business model you can imagine going on simultaneously, which I think over the long term creates opportunity for us. Right now it's quite disruptive.

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

And on approaching programmers.

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

Well, you mean how we deal with programmers?

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

Yeah.

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

From a content perspective?

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

Yeah, it hasn't changed because of the way that they're selling content into --

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

Oh, that's going to affect the value of content. And obviously if content comes out of bundled packages and goes direct-to-consumer, its value in the bundle goes down.

A - Stefan Anninger {BIO 15867691 <GO>}

Thanks, Jessica. (Multiple Speakers) All right. James, we'll take our next question, please.

Operator

Our next question comes from the line of Jonathan Chaplin with New Street. Go ahead please. Your line is open.

Q - Jonathan Chaplin {BIO 4279061 <GO>}

Thanks, guys. Two unrelated questions. First, Tom, I thought the message on the magnitude of investment you've put into building a future-proof network at the beginning of the call is pretty powerful, both in terms of what you've invested over the course of the last five years and what you'll invest over the course of next five years. I'm wondering what you'd be able to share from the conversations you've been having with the administration around their ambitions $100 billion in infrastructure investment in broadband. I'm wondering how specifically -- how you guys see the opportunity to benefit from that if it were to come to pass where you see potential threats?

And then separately, I just looked back at where voice penetration of broadband customers peaked and it peaked at 50%. And that probably understates your market share because it peaked at the end of '15 when the market was already declining. I'm wondering if you can remind us where market share of wired voice peaked for you guys? And is that basically where you're setting your expectation for mobile penetration to go over time?

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

My hope is to have all the share over time and so we have significant ambition. It will take a long, long time to get that. But if you do, I don't have the wireline share of the top of my head, but it's significant.

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

They were years and years and years where when we remodeled and forecasted and realized what we were getting, it was always at 50% of broadband to your point. And so until the wireline substitution with mobile really took place in a significant way, that was pretty reliable for a long time. So I think that where you're going gives you what you're looking for.

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

If you look at how much of the wireline business we currently own.

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

Yes.

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

It's significant. And oddly we got the right to be to compete in the telephone business and we are a telephone company now. And that's kind of strange when you think about it. In terms of how we're communicating with regard to broadband buildout and subsidy and infrastructure subsidies, our view is that the job one is to get the unserved areas of the country served and that subsidies should be directed to do that. And we're willing to help invest and to make that happen. And that the private capital that's been deployed in the United States in the communications networks, the capital that just got spent on spectrum by the wireless companies and us and Comcast in the CBRS auction and the capital that's going into -- that has gone into and continues to go into, communications infrastructure in the country is good and held us in good stead in -- through the pandemic, when we were able to operate networks at high capacity instantaneously, unlike Western Europe and other places where communications services and entertainment services were actually down-res-ed. So we think there is a good model there and an opportunity to serve the unserved and we'd like to help and be part of it.

A - Stefan Anninger {BIO 15867691 <GO>}

Thanks, Jonathan. James?

Q - Jonathan Chaplin {BIO 4279061 <GO>}

Great. Thanks, guys.

Operator

Our next question will come from the line of Bryan Kraft with Deutsche Bank. Go ahead, please. Your line is open.

Q - Bryan Kraft {BIO 20667157 <GO>}

Hi, good morning. I'm going to go off the beaten path a little bit here. Can you talk about how you're thinking about the feature of your Los Angeles RSNs, given the pressures on pay-TV bundle volumes that you just talked about against your fixed rights and production costs? What's the right long-term model for the business? And also under your Rights Agreement, could you actually bundle it as an app with broadband outside of a bundled service? Thanks.

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

Well, luckily it's not a material part of our business. It's difficult and it's expensive and the prices continue to go up. And it's hard to say how we could monetize it effectively over the long run.

A - Stefan Anninger {BIO 15867691 <GO>}

Thanks, Bryan. Operator, we'll take our last question, please.

Operator

And our last question comes from the line of Vijay Jayant with Evercore. Go ahead, please. Your line is open.

Q - Vijay Jayant {BIO 1526830 <GO>}

Thanks. I've got two. Chris, given where you are on your wireless subscriber growth, I think it's sort of like 10% behind Comcast and they've sort of broken even from a profitability standby point. Is that something we can extrapolate a quarter or two away that it's no longer -- wireless is no longer going to be sort of a headwind on EBITDA growth? If not, is there any reason in economics that changes that.

And for Tom, your comments even last quarter and this quarter talked about obviously healthy broadband growth this year. But interestingly, you talked about acceleration in

2022, can you sort of talk about what gives you the confidence on that? Is that RDOF contributions or just sort of natural in the core base?Thanks.

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

So on the wireless EBITDA, our goal is -- this is going to sound bad, but our goal isn't to drive short-term EBITDA profitability. Our goal is to drive as much growth as we can, because we know what the underlying profitability is and what it does for the overall business. So I don't think we're going to be forecasting EBITDA breakeven on a consolidated wireless business basis, which isn't even how we look at the business, because we think about it combined. That being said, we have essentially the same economics as Comcast and so the model is very similar. And -- but we are focused on really driving as much subscriber acquisition as we can. The business itself, absent any subscriber acquisition costs, so absent any marketing and sales, already cleared profitability, absent growth costs at the 2 million lines mark. So we're well into that territory. So really what you're looking at in terms of an EBITDA drag right now is really about new subscriber acquisition. And that's something if we have the opportunity to push, we're going to go do that. And so I don't want to give necessarily a guidance or an outlook on that. But the trend continues to improve despite the fact that we have a very strong net addition rate on wireless lines.

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

And if I understand your question, it was why do we have confidence that broadband will accelerate and why '22 will be better than '21. I think that our basic view is that if you go back over the last few years that we've been on a growth track, and that growth track has been accelerating. And we had a very anomalous situation in 2020 that carries into '21. And that if you sort of trend out that long term line, it gets back on that line in '22. And that's really what we're saying, it's that simple.

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

I don't think RDOF is going to be a significant contributor in 2022, just given the limited number of activated passings that will be there. So I don't think about that as a material driver. I think about it as the momentum and the ability to use mobile, which we've treated as an attribute to the broadband product is a way to continue to drive growth and to continue to improve retention on the broadband side.

Q - Vijay Jayant {BIO 1526830 <GO>}

Great. Thank you.

A - Stefan Anninger {BIO 15867691 <GO>}

Thanks, Vijay and thanks to everyone for listening. James, I'll pass it back to you.

Operator

This does conclude today's conference call. We thank you for your participation. You may now disconnect.