Q2 2019 Earnings Call

Company Participants

- Christopher L. Winfrey, Chief Financial Officer
- Thomas M. Rutledge, Chairman and Chief Executive Officer
- Unidentified Speaker

Other Participants

- Benjamin Swinburne, Analyst
- Brett Feldman, Analyst
- Bryan Kraft, Analyst
- Craig Moffett, Analyst
- Douglas Mitchelson, Analyst
- Jessica Reif Ehrlich, Analyst
- John Hodulik, Analyst
- Jonathan Chaplin, Analyst
- Kannan Venkateshwar, Analyst
- Mike McCormack, Analyst
- Philip Cusick, Analyst
- Vijay Jayant, Analyst

Presentation

Operator

Good morning. My name is Jessa and I will be your conference operator today. At this time, I would like to welcome everyone to Charter's Second Quarter Investor call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. (Operator Instructions)

Thank you. You may begin your conference.

Unidentified Speaker

Good morning and welcome to Charter's second quarter 2019 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 and they 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>}

Good morning. Our core connectivity business is strong. We continue to execute well and we continue to benefit from consolidating cable operations under our centralized operating strategy in the ways we expect it, including lower customer churn, fewer service transactions per customer, and improving customer satisfaction, resulting in industry-leading growth of over 1 million customer relationships year-over-year and Internet customer growth of over 1.3 million year-over-year.

In the second quarter, we had a net gain of over 200,000 customer relationships, with customer growth of nearly 4% over the last 12 months. We added over 250,000 Internet customers. We also added 208,000 mobile lines, accelerating as our high quality, attractively-priced mobile product is beginning to resonate with customers and penetrate the marketplace. We grew cable adjusted EBITDA by 5.4%, which combined with our lower cable capital expenditures yielded strong year-over-year cable free cash flow growth of over 50%. That's nearly over 40% when including our investment in Spectrum Mobile.

We remain focused on a number of service-oriented initiatives and we have a clear pathway to drive higher customer satisfaction and retention with positive growth in financial effects. Our insourced and high quality workforce is driving an improved customer experience. In the second quarter, well over 90% of phone call volume was handled by our in-house agents, with billing and service-related calls down by 10% year-over-year and over 80% truck rolls were handled by our in-house field techs, with total truck rolls down nearly 7% year-over-year.

Our call center virtualization plans remain on track. We've gone from 13 billing instances to one front-end service environment, meaning better quality service and lower costs. Our self-installation program is also ramping quickly with customer self-installations now representing over 40% of our sales volume. Our online selling and service platforms are also becoming increasingly successful.

All of these initiatives are having meaningful impact on our core business, including enhanced customer experience by allowing customers to interact with us on their terms either through digital platforms or highly skilled employees, reducing selling friction and service transaction volumes, all of which reduce our cost to service per customer relationships now and for many years to come.

We're using our transactional selling machine and improving brand recognition to generate sales of our Spectrum Mobile product, with the ultimate goal of driving faster overall relationship growth. With over 0.5 million Spectrum Mobile lines at the end of the second quarter, we're pleased with the progress we've made since launching in September of last year. In late May, we expanded the availability of our Bring Your Own Device program to all of our sales channels, with a positive impact on sales. Previously, our Bring Your Own Device program was only available by visiting select Spectrum Mobile stores. Now, customers can purchase Spectrum Mobile while bringing their own device through all of our sales channels, including our inbound, retail, online and direct channels. Later this year, we'll expand the availability of Spectrum Mobile's service to our small and medium business customers. Mobile remains a key focus of Charter and we continue to work on broadening our mobile capabilities.

We also remain focused on opportunities to continue to develop our core asset, our hybrid fiber coax wireline network and its capacity and we have a cost-efficient pathway to do that. Our infrastructure today delivers low latency service and superior capacity and speed. And we have a scalable, relatively low cost upgrade path that allows for further low latency superiority, 10 gig symmetrical speeds with DOCSIS 4.0, also called Full Duplex, and expanded network throughput.

Specifically, over time, we can expand our network from 750 megahertz to up to 3 gigahertz to meaningfully increase our total throughput and capacity, all of which positions us to continue to be the network of choice for a wide array of applications such as gaming, 8K video, developing high capacity, low latency products such as virtual reality and medical and educational use cases. And we are doing that on a development path that is faster and more cost efficient than can be achieved by our competitors.

So, now I'll turn the call over to Chris.

Christopher L. Winfrey {BIO 16326284 <GO>}

Thanks, Tom. Turning to our results on Slide 5 of today's presentation, total residential and SMB customer relationships grew by over 1 million in the last 12 months and by 203,000 in the second quarter. Including residential and SMB, Internet grew by 258,000 units in the quarter, video declined by 141,000, wireline voice declined by 182,000 and we added

208,000 higher ARPU mobile lines. 82% of our residential customers, including Legacy Charter, were in Spectrum pricing and packaging at the end of the second quarter. And residential customer growth -- relationship growth continued to increase to 3.4% year-over-year.

In residential Internet, we added a total of 221,000 customers in the highest seasonal disconnect quarter, just above last year's second quarter, resulting in residential Internet customer growth of 5.1% year-over-year. Both Legacy Charter and Legacy Bright House net additions were meaningfully better year-over-year in the second quarter, with residential Internet relationship growth rates of 5.9% and 7.7% respectively despite higher penetrations than the legacy TWC footprint. So, while Legacy TWC's residential Internet growth rate of 4.3% year-over-year is still good, the relative size of that footprint and the time it has taken for growth rates to mirror Charter impacts the consolidated results.

Key metrics like calls per customer, truck rolls per customer and churn are all moving in the right direction across the company and we remain confident in our ability to continue to accelerate residential customer relationship and Internet customer growth for the full year of 2019. Over the last year, our residential video customers declined by 2.5%. Similar to Internet and overall relationship churn, we benefited from a decline in total video churn year-over-year, but that was offset by lower video gross additions.

Despite some video loss, we expect to continue to grow our EBITDA and cash flow at healthy rates. And as part of a bundle, video drives Internet sales and reduces churn for our connectivity services. It remains an integral part of our business strategy for connectivity services, even as it drives less standalone profit over time. In wireline voice, we lost 207,000 residential customers in the quarter, driven by lower sell-in following our transition to selling mobile in the bundle and continued fixed and mobile substitution in the market generally.

Turning to mobile, we added 208,000 mobile lines in the quarter versus 176,000 in the first quarter of 2019. So, a nice acceleration driven by growing brand awareness and expansion of our Bring Your Own Device capabilities across all sales channels, which occurred late in the quarter. As of June 30, we had 518,000 lines with a healthy mix of both Unlimited and By the Gig lines. So, mobile is ramping nicely and the early results of this product launch remain promising.

Over time, we not only expect Spectrum Mobile to become a meaningful driver of our connectivity sales and retention, we also expect it to be profitable on a standalone basis once it reaches scale. And beyond that, we believe that there will be opportunities to further improve the economics of our mobile business and offer unique connectivity services. Over the last year, we grew total residential customers by 884,000 or 3.4%. Residential revenue per customer relationship grew by 0.3% year-over-year, given a lower rate of SPP migration and promotional campaign roll-off and rate adjustments. Those ARPU benefits were partly offset by a higher mix of non-video customers, a higher mix of Choice and Stream within our video base and $24 million lower pay-per-view revenue year-over-year in the second quarter.

Slide 6 shows our cable customer growth combined with our ARPU growth resulted in year-over-year residential revenue growth of 3.7%. Keep in mind that our cable ARPU does not reflect any mobile revenue.

Turning to commercial, total SMB and enterprise revenue combined grew by 4.7% in the second quarter. SMB revenue grew by 5.3%, faster than last quarter, as the revenue effect from the repricing of our SMB products in Legacy TWC and Bright House continues to slow. Enterprise revenue was up by 4%. Excluding cell backhaul and Navisite, enterprise grew by 6.7%, with nearly 10% PSU growth year-over-year. Our enterprise group is at an earlier stage of its own pricing and packaging transition, similar to what we've done in our SMB and residential businesses over the last two years and the process of moving customers to more competitive pricing pressures enterprise ARPU in the near term.

Second quarter advertising revenue declined by 7.5% year-over-year, exclusively due to less political revenue in 2019. Other revenue declined by 11.3% year-over-year in the second quarter, driven primarily from lower late fees and fewer delinquent accounts, which is also reflected in lower bad debt year-over-year. Mobile revenue totaled $158 million with $111 million of that revenue being EIP device revenue. In total, consolidated second quarter revenue was up 4.5% year-over-year with cable revenue growth of 3.1% or 3.8% when excluding advertising and pay-per-view.

Moving to operating expenses on Slide 7, in the second quarter, total operating expenses grew by $359 million or 5.3% year-over-year. Excluding mobile, operating expenses increased 1.7%. Programming increased 0.9% year-over-year due to higher rates, and that was offset by a video subscriber decline of 2.2% year-over-year, a higher mix of lighter video packages such as Choice and Stream, and lower pay-per-view expenses year-over-year, which was roughly a 0.5% of programming growth rate impact. Despite the lower overall growth rate, our programming expense can vary and we do have some renewals in the back half of this year. Regulatory, connectivity and produced content grew by 6.7%, driven by cost of video CPE sold to customers, franchise and regulatory fees and original programing cost, in that order.

Cost to service customers declined by 0.9% year-over-year compared to 3.8% customer relationship growth. Even excluding some bad debt improvement, cost to service customers were essentially flat year-over-year. And as Tom mentioned, we're meaningfully lowering our per relationship service cost through a number of operating efficiency improvements which is core to our strategy. Cable marketing expenses were essentially flat year-over-year and other cable expenses were up 8.4%, driven by software costs, insurance, property taxes and enterprise costs.

Mobile expenses totaled $277 million and were comprised of mobile device cost tied to the EIP device revenue I mentioned, subscriber acquisition and usage cost and operating expenses to stand up and operate the business, including our own personnel and overhead cost and our portion of the JV with Comcast. Cable adjusted EBITDA grew by 5.4% in the second quarter, including a roughly 1.5% negative growth rate impact from 2018 political advertising revenue, net of its associated expense. And when including the mobile EBITDA start-up loss of $119 million, the total company adjusted EBITDA grew by 3.3% in the quarter.

Turning to net income on Slide 8, we generated $314 million of net income attributable to Charter shareholders in the second quarter versus $273 million last year. The year-over-year increase was primarily driven by higher adjusted EBITDA and lower depreciation and amortization expense, partly offset by higher interest expense, a greater non-cash loss on financial instruments and higher GAAP tax expense.

Turning to Slide 9, capital expenditures totaled just under $1.6 billion in the second quarter, with our cable CapEx declining by over $800 million year-over-year, driven by lower scalable infrastructure, primarily driven by the completion of DOCSIS 3.1 last year and the associated bandwidth benefit in 2019, lower CPE and installation CapEx due to fewer SPP migrations year-over-year and the completion of all digital in 2018. There is also the positive capital effect of increasing self-installation, lower video sales, newer average life of boxes deployed and the higher mix of boxless video outlets.

Support spending for cable was also lower driven by declining investments related to insourcing and integration, and that was partly offset by higher spend on line extensions as we continue to build out and fulfill our merger conditions. We spent $93 million in mobile-related CapEx this quarter, which is mostly accounted for in support capital and was driven by retail footprint upgrades for mobile and software, some of which is related to our JV with Comcast. As a reminder, for the full year 2019, our internal plan reflects roughly $7 billion of total cable CapEx in 2019, and that's despite a lower run rate in the first half of this year.

Slide 10 shows we generated $1.1 billion of consolidated free cash flow this quarter, including just under $300 million of investment in the launch of mobile. Excluding mobile, we generated $1.4 billion of cable free cash flow, up nearly $500 million versus last year's second quarter. The year-over-year growth was driven by the higher adjusted EBITDA and the lower cable CapEx I mentioned. And that was partly offset by a negative cash contribution from cable working capital of $284 million during the second quarter, primarily due to continued lower payables from lower CapEx and a one-time receivables impact from standardizing our residential bill cycle time timing, and that was to simplify our bill for customers and reduce related billing increase which pushed out collections and customer payments by a few days.

Although I expect our full-year change in capital, working capital to be negative, driven by the reasons we discussed on these calls, the second half of this year should have a more net neutral impact to free cash flow. And as we move beyond this 2019 calendar year, I would expect changes in our cable working capital to be neutral to beneficial to our full-year free cash flow results.

On the mobile side, we continue to add mobile customers, which drives handset-related working capital needs as we accelerate growth rates, and we expect that trend to continue for the foreseeable future due to growth. Finished the quarter with $72.6 billion in debt principal. Our current run rate annualized cash interest, including the impact of issuing investment grade and high yield notes earlier this month, is $3.9 billion. As of the end of the second quarter, our net debt to last 12-month adjusted EBITDA was 4.4 times. We intend to stay at or below the high end of our 4 to 4.5 leverage range and we include the upfront investment in mobile to be more conservative than looking at cable-only leverage, which was 4.28 times at the end of Q2 and it's declining.

During the quarter, we repurchased 2.7 million Charter shares and Charter Holdings common units totaling about $1 billion at an average price of $370 per share. Since September of 2016, we've repurchased 21% of Charter's equity at an average price of $330 per share. So, our operating model, 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 continue to reflect a growing infrastructure asset with a lot of ancillary products to use for, and so 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 are now ready for Q&A.

Questions And Answers

Operator

Thank you. (Operator Instructions) Your first question comes from the line of Ben Swinburne from Morgan Stanley. Please go ahead.

Q - Benjamin Swinburne {BIO 5489854 <GO>}

Thank you. Good morning. Hey. I wanted to ask you guys first about mobile and a couple of questions. Are you now sort of in full sales mode across the footprint in terms of devices you're supporting, all your sales channels for marketing push? I know you introduced more BYOD in May, but I just -- as we think about the second half of the year, should we expect that business to continue to accelerate? And are we going to see sort of the full push on that product? And I'm wondering, also as you think about profitability and your ability to use Wi-Fi offload to sort of manage your bandwidth costs and if there are opportunities to get better at that as you move through the year.

And then, just a question, Chris, on CapEx. I know you reiterated the $7 billion. But I just wanted to come back because, as you mentioned, you're run-rating below that. You've got to spend about $4 billion or accrue $4 billion in the second half to get to $7 billion. So, was just curious if maybe there -- what's driving that second half step up in CapEx, given sort of we know what the sort of sub trends are? Thank you, guys.

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

All right. Ben, so are we in full sales mode? Yes. I would say we're just getting to full sales mode at the end of the second quarter. And will that accelerate our ability -- will our ability to grow accelerate? We think it will and that we'll continue to grow the mobile business at a more rapid rate with all of our sales channels available, with a fully supported device inventory. We're not 100% there from devices, but we're nearly there in terms of the market share, distribution of devices. And so, we do expect the mobile business to accelerate. And we expect our ability to close sales in through our transaction volume at a higher and higher rate.

In terms of bandwidth cost on Wi-Fi, I think, on a relative basis, I don't expect that will improve this year on a per unit basis, but a significant portion of the traffic is already on our Wi-Fi network on a per customer basis. There are opportunities that we're experimenting with using additional spectrum like CBRS, which is also free spectrum like Wi-Fi is, and using that to offload traffic, but I don't expect that to be a meaningful contributor in 2019.

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

Ben, on CapEx, if you take a look at traditional cable capital expenditure, it does tend to be back-ended through the course of the year. At the end of 2018, we're coming off a pretty large investment cycle as it related to big integration projects, DOCSIS 3.1, all digital. And so, some of that has pushed out our planning and spend for this year a little bit later than, frankly, what we had even budgeted for. It doesn't mean that I don't think that the business is capable of spending it and that they are not good ROI projects and they need to get done. So, it's going to be a little bit of a challenge to get to the $7 billion. But in a sort of perverse way, we're hopeful that that can get done because it's good capital to spend and it benefits the business. So, time will tell, but for now that's still our goal is in spending at or just below $7 billion.

Q - Benjamin Swinburne {BIO 5489854 <GO>}

Okay. Thank you, both.

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

Yeah. And by the way, that's for cable CapEx, just to be clear. I know I've said it before, but...

Operator

Your next question comes from the line of Craig Moffett from MoffettNathanson. Please go ahead.

Q - Craig Moffett {BIO 5987555 <GO>}

Hi. Thank you. Two questions, if I could. First, there were reports that you had been -- that you had submitted a bid for at least certain Sprint assets. I'm wondering if you can just share some insight into what assets you were interested in and if you could just add some color to that story. And then second, obviously, the bull case for your shares is, at this point, very focused on margin expansion. Your margins did expand in the quarter, perhaps not quite as quickly as some had hoped. But I wonder if you could just share some observations about the trajectory for your margins going forward, particularly given that your margins are still some 10 points lower than what are best-in-class margins in this sector now. Is there any reason why we shouldn't expect to see those kinds of numbers from you at some point down the road?

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

Well, I don't want to give you any color. But we've read a lot of reports about us over the last several months and weeks, and many of them weren't accurate. In terms of margin expansion, we are seeing margin expansion. We expected to see margin expansion, and that's occurring because of the nature of the products that are more predominant in our selling machine today. We're getting significant impacts from our cost to serve. But you can get high margins a variety of ways. You could cut your costs dramatically, but inhibit your ability to grow. And we have industry-leading growth. And so that has an impact on our margin, but we think that the free cash flow generation, by having a high growth machine in the long run is a significantly greater asset valuation builder. So we're not trying to be the highest margin company in the country by any means.

That said, we expect our margins to continue to go to improve because, as you penetrate deeper into the market, your network costs are allocated over a bigger customer base and, therefore, your average cost per customer goes down. And the change in videos means that there is less transaction activity associated with that service, which is relatively low margin from a gross margin perspective. And the cost to serve using digital byflows and using self-service that's now capable in an all-digital environment takes cost out of the business. So, we think the fundamental output of our business is lower capital intensity, higher free cash flow, and higher operating margins.

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

Just to piggyback on what Tom said, what is our target is, to be the highest free cash flow growth in the industry, not only on a gross basis, but also on a per share basis. And we feel pretty good about that opportunity given the operating strategy.

Q - Craig Moffett {BIO 5987555 <GO>}

Thanks.

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

Thanks, Craig.

Operator

Your next question comes from the line of John Hodulik from UBS. Please go ahead.

Q - John Hodulik {BIO 1540944 <GO>}

Okay, great. First, maybe a couple of quick follow-ups on the longer-term wireless strategy for Tom. Obviously, you don't want to comment on those press reports, but have you guys looked at or are you looking at eventually providing wireless service outside your footprint? And then, as it relates to the Spectrum strategy, you guys have been active in terms of CBAD and I think it makes a lot of sense to talk about and look at the CBRS, but would you also look at Spectrum opportunities from third parties or is it just sort of CBRS and upcoming auctions?

And then, one more question on video. It seems pretty clear that the pace of change in the video ecosystem is accelerating. And we've heard from sort of a change in strategy, I would say, at Comcast and certainly at AT&T to focus more on profitability. How would you characterize your own sort of video strategy? And should we expect the mix of Choice customers and Stream customers to continue to increase from here going forward?

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

So, in terms of wireless, we don't have plans today to serve outside of our footprint. As you know, we are fundamentally a regional operator and wireless companies are national companies. We do have a joint venture with Comcast, so that you have two regional companies providing, on a similar platform, wireless services nationwide. Customers who buy from us in our footprint and move out of our footprint can remain our customers. But our fundamental wireless objective today is to drive our overall customer relationships inside our physical assets using wireless and video and broadband and wireline and all new products to drive those customer relationships on the existing physical infrastructure.

Would we use third-party spectrum? Of course. We are looking at CBRS. There are other opportunities to improve in specific locations, in a cost-efficient way, our ability to provide high-capacity mobile services to our customers. And we will, to the extent they develop for us, take advantage of them. Our video strategy is really today to not look at video as a standalone business. There is still a lot of value in the bundle to a lot of consumers. The problem with the bundle of video today is that the content companies that supply it have essentially put their service for free, available everywhere, through TV everywhere and excessive streams and password sharing and free over-the-air television, which can be received through antennas, all of which are unencrypted and essentially free. And it's hard to compete with free.

We look at video as an attribute of our overall customer relationship. We want to have the best video services of all kinds available and make it easy for consumers to consume video on our product, but we don't look at it as a standalone business. We look at it as a attribute of the connectivity relationship that we've established with the customer. And so we have gross margins in that business. And I don't think we want to go underwater from a gross margin perspective. But we'd look at that as a product enhancement to our connectivity, not as a standalone individual line of business.

Q - John Hodulik {BIO 1540944 <GO>}

Got you. Thanks, Tom.

Operator

Your next question comes from the line of Jonathan Chaplin from New Street Research. Please go ahead.

Q - Jonathan Chaplin {BIO 4279061 <GO>}

Thanks. Two quick ones for Chris. Generally, Chris, you guys generate more broadband adds in the second half of the year than the first half of the year. And I'm just wondering if there is any reason why that trend wouldn't continue this year. And then, just curious, following up, Tom, on your comment on profitability in video, the cash flow contribution from a wireless sub when you get to scale, how different is that from the cash flow contribution you get from a video sub today? Thanks.

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

Second one is an interesting question. And I don't think how I will answer that without going too deep. So, broadband, you're right, trends tend to be better in the second half of the year than the first half. There is nothing going on that would change that normal seasonality, for all the reasons that Tom spoke about earlier and I did as well. All the operating metrics are moving in the right direction and we expect to -- our target and our goal is to be accelerating customer and Internet relationship growth rate for the full year. And I think that implies also doing pretty well in the second half as well. We'll see where we end up, but that's the goal.

Cash flow contribution from a wireless customer once we've reached scale. Yeah, I think you have two opposing trends. When you think about cash flow contribution going all the way down to EBITDA and including the effects of CapEx, you're comparing a video business where the contribution margin is declining over time, its utility to Internet is not. But its cash flow on a standalone basis, which Tom just went through why it's not the right way to look at it. But those lines will cross. And at what point in time, I'm not going to get into exactly what your models would say, but I think your premise is generally right.

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

I would add that the mobile contribution, as the networks converge, the opportunity to move that to a higher contribution exists. And the other aspect of the mobile contribution is its pull through to the overall relationship and how significant that is. And so, you can look it as a standalone business with a margin contribution, but you can also look at it, as I just described video, which is the product that you carry on a network that is ultimately an attribute of the network and drives our overall customer relationships.

Q - Jonathan Chaplin {BIO 4279061 <GO>}

Thank you.

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

Thanks, Jonathan.

Operator

Your next question comes from the line of Jessica Reif Ehrlich from Bank of America Merrill Lynch. Please go ahead.

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

Yeah, hi. Thank you. Tom, I just wanted to follow up on something you said in your prepared remarks. Can you elaborate on your plans to upgrade to 3 gigahertz. I know you said you could, but you also alluded to, like, a whole new suite of products and services. So, I guess, what's the plan, timeframe, cost and what are you -- what services.

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

Yeah. Well, I would say, we just upgraded the network to 1 gig and we did that for less than $10 per per home passed, and so every home passed that we currently have, which is 51 million as a 1 gig capable network sitting in front of it, and we think there's a significant amount of product development that can occur within that capacity that we're making available everywhere right now. And so, we don't have any plans to immediately upgrade our network.

And, in fact, because we have the 1 gig everywhere, certain costs of network development have actually come out of the business because we have so much more capacity in the network and what we call contention costs, the cost of continuously upgrading your network to make the volume of data go through it. And so, capital intensity has come out of the business as a result of the last upgrade we did. All I'm saying is that we have a relatively inexpensive pathway to future services which are even hard to describe, but that can be very high capacity, very low latency, high compute, distributed high compute and we can make new products and services develop over time more efficiently than our competitors. And that is a great asset over the long term.

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

Thank you.

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

Thanks, Jessica.

Operator

Your next question comes from the line or Philip Cusick from JP Morgan. Please go ahead.

Q - Philip Cusick {BIO 5507514 <GO>}

Hi, thanks. Chris, you've have expressed confidence in accelerating broadband growth in the back half and you've talked a lot about the sort of slow changes that are happening in the business. But I'm still having a hard time seeing what needs to change for that to happen versus the stable broadband adds from last year this quarter.

And then, second, and we've talked about this before, but as you think about pricing, can you get this business to double-digit broadband revenue growth without taking more price, especially as video trends weaken? Thanks.

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

Repeat the second question. Your question was double-digit broadband revenues or --?

Q - Philip Cusick {BIO 5507514 <GO>}

Yes. So we get to double-digit broadband revenue growth as video trends weekend, and is that sort of dragging broadband down with it. Thank you.

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

Got it. And let me start with the first question. I think -- pretty sure whether it is at your conference or whether it was on the last earnings call I mentioned, Q2 is a seasonal disconnect quarter. So, trying to evaluate the success of a multi-year strategy based on a seasonal disconnect quarter, it's a little fraught. We had a really good year-over-year in Q1. We expect accelerated customer relationship and Internet growth for the full year. I just commented, I think the back half will be better. It's also true that, during the first half of last year, we were still working through a number of different integration issues. And it's also true that churn is coming down across every single type of churn. Three major types of churn across three different companies or legacy platforms. So, nine different metrics of churn that are all going south in a good way.

And so, all you need to do is maintain or increase your sales to have improved net adds. And given everything that we've been talking about in the business, while it's not guaranteed, we're pretty confident that that's where we're heading. It doesn't mean a single quarter. It means for a year, which I think is more important than a single quarter. And that's where we're heading and we're pretty confident.

As it relates to double-digit broadband revenue growth, keep in mind that GAAP forces us to reallocate revenue across all these products. So, I wouldn't spend too much time on a single product line looking at the revenue growth of that. What makes more -- the bigger difference is customer relationship growth and on the bill to the extent that we have a change in rate, either because of higher amount of single play that's coming through or because of some additional speed uptakes, which we are getting a fair amount of that going into the 400 megabit service more than we probably expected. I think the broadband business has the ability and the potential to grow at a really healthy rate for a long period of time. Whether or not with GAAP allocations that are moving across voice back into broadband and video or not, I think it's going to be healthy for a long time, and I think that's where I'd leave it.

Q - Philip Cusick {BIO 5507514 <GO>}

Can I clarify that for a second? it sounds like, if churn is down and units are flat year-over-year, then sales must be down as well?

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

So, if you go back to what I said...

Q - Philip Cusick {BIO 5507514 <GO>}

With more efficient sales, I would think margins would be better than they're showing if sales are down.

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

Margins are up, what, 0.8% year-over-year in cable, and that's not a small move. And so, I don't know. I think it's pretty healthy and attractive. What I mentioned in the prepared remarks is, if you think about the -- I disclosed it because I think it matters, the growth rates, if you take a look at Legacy Charter growing in the high 5s and Bright House growing at even 7.7% and TWC growing at 4.3% -- 4.3% is a great growth rate, but it's not where we'd like to get it. And so, to your point, in the second quarter of having slightly lower sales, that was occurring in the TWC footprint. And I don't think there's anything systemic there. We're just now hitting our stride and I think we'll look at it throughout the year.

Q - Philip Cusick {BIO 5507514 <GO>}

Okay, thank you.

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

Thanks, Phil.

Operator

Your next question comes from the line of Brett Feldman from Goldman Sachs. Please go ahead.

Q - Brett Feldman {BIO 3825792 <GO>}

Yeah. And just to follow-up on that, is there any incremental color around the competitive backdrop within the legacy Time Warner footprint that we need to be thinking more about? Or is it just normal ebbs and flows in the business? Because it would seem like, with that being your biggest subsidiary, that's the biggest opportunity for a needle mover in terms of improved broadband trends. And then, just a question on the billing cycle migration or standardization, you mentioned the working capital impact. Were there any other impacts, whether it was the subscriber trends, ARPUs or anything else we should adjust for as we work through our models? Thanks.

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

So, Brett, Tom Rutledge. I think that the performance of all of the assets -- Bright House, Time Warner Cable and Charter -- should converge, and that's our expectation. And there's nothing that we see specific about the marketplace or the competitive environment that would prevent that. So, we think that there are still execution issues that we can improve upon as we have consolidated the company and consolidated call flow and workflow and sales flow, so that we get similar results across the platform. And that has taken us some time, but we're getting there. And we anticipate that we'll get to a kind of a converged output, which will be higher than what we have today.

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

And on the billing standardization, Brett, really it's a small change, but it's just had a working capital impact. It actually has a meaningful impact on the number of billing calls that we expect to receive, so we expect a significant reduction as a result of having less service calls per churn over time. But there is no impact to ARPU. There is no impact to subs. And there is no financial impact other than the working capital that I had mentioned on the call. So, net-net, a one-time change and it should be for the long-term benefit of the company.

Q - Brett Feldman {BIO 3825792 <GO>}

Thank you.

Operator

Your next question comes from the line of Vijay Jayant from Evercore. Please go ahead.

Q - Vijay Jayant {BIO 1526830 <GO>}

Thanks. Mostly for probably Chris. So, obviously, there is a lot of question about margins given the sub trend. So, I just wanted to come back to a comment you made that, in second quarter, there was a 1.5% negative growth impact from advertising to EBITDA. I didn't quite understand. So, advertising had negative contribution? And so, I just want to understand that. And second, the other operating expenses, which normally grow about 5%, was up more like 8% this quarter and some property taxes and enterprise costs. Is that the new run rate, if you can help us that? Thanks.

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

Sure. So, the 1.5% EBITDA impact from advertising, that's net of the costs related to political advertisers. We're in a non-political year. And when you have political advertising last year, you don't this year. It's just to say if you didn't have political advertising impacting, the EBITDA margin for cable would have been 1.5% higher. The reason I provided that is, I didn't want people to just flow through the revenue effects without taking into account that there are some costs attached to political advertising as well. So, I think for this quarter, we wanted to provide and we'll probably do the same in Q3 and Q4 just so people can take a look at it on an apples-to-apples basis.

I'm sorry, the second question was related to --

Q - Vijay Jayant {BIO 1526830 <GO>}

Other...

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

Other expenses. Yeah. Oddly enough, some of that expense is actually being driven by our in-sourcing where property cash -- I know this is in the weeds, but it's the truth. Property and casualty insurance expense related to insourcing your labor force is flowing through us as opposed through contract labor. Now that we're towards the tail end of insourcing the labor force to the target levels, I think, over time -- I'm not telling you Q3, Q4. I'm telling you, looking out into next year and beyond, my hope is that that's not the new run rate.

Q - Vijay Jayant {BIO 1526830 <GO>}

Great. Thanksy so much.

Operator

Your next question comes from the line of Doug Mitchelson from Credit Suisse. Please go ahead.

Q - Douglas Mitchelson {BIO 1897051 <GO>}

Thanks so much. Tom, I guess, if you look at what AT&T is trying to do in terms of bending the cost curve on programing costs and, obviously, you've got Disney next week and Fox in the not-too-distant future, sort of at the end of the year. Do you sort of think there is an opportunity for pay TV companies to get tougher with the programmers or is that something -- or do you sort of take the other side of it and say, you know what, let's just keep raising the price of our video services enough, so that our dollar gross margin stays unchanged on a per customer basis. And if the programmers want to push through price increases and basically price the product out of the business, that's okay because your sort of baseline here is you're a connectivity company and they're not going to get those video services any cheaper outside piracy anyway. So, any thought on just sort of video strategy around programming costs and how to manage it would be helpful.

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

Well, I feel strongly both ways. And I'm not really trying to be funny. I don't like raising the prices to our customers. Our customers don't know what the value -- where the price increase is coming from, and they attribute it to us and that affects our overall satisfaction and it affects our overall relationship and our brand equity, so to speak, with the customer. And so, I think, hitting rates and asking people to disconnect is not a very attractive way to manage the video business.

On the other hand, if you don't fight with programmers to maintain some sort of price integrity for your customer, you would pass through a lot of product. So, it's a balancing act from my point of view. What I really wish is that the price value of programming wasn't being destroyed by the programmers. And the reason I say that is that, if you do a 10% programming price increase and you lose 10% of your customers, you don't really get anywhere, and yet you've alienated a lot of people. And, in fact, that's actually happening and it has been happening.

And the reason price increases aren't able to go through it -- and if you look at the difference between where prices have gone and where revenues have gone to content companies, they are not able to realize their price increases in their revenue line. And the reason is the product is available for free everywhere -- over the air, TV Everywhere, all sorts of excess streams being sold through virtual multi-channel video providers and through TV Everywhere, and there is absolutely no security on the product whatsoever. That changes the price-value relationship to customers and makes it impossible to raise prices and generate revenue. So, my wish would be that the content industry would manage their content and their copyright to their own benefit instead of pushing through price. And we still think that we have a lot of video customers and they don't want to have price increases, and so I expect continuous fighting for the foreseeable future.

Q - Vijay Jayant {BIO 1526830 <GO>}

This might not be something you have at your fingertips, Tom, but you can see what people are doing on broadband. Is there any sort of quantification you can give us relative to the piracy? Or are you sort of seeing in the traffic sort of obvious increases in piracy over time?

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

Yes. it's massive. And essentially, all the customers that are lost to video are still watching TV.

Q - Vijay Jayant {BIO 1526830 <GO>}

All right. Very interesting. Thank you very much. All right. Thank you, Tom.

Operator

Your next question comes from the line of Bryan Kraft from Deutsche Bank. Please go ahead.

Q - Bryan Kraft {BIO 20667157 <GO>}

Hi, good morning. I had two. The first one is a free cash flow question. Chris, as we think about mobile CapEx next year, should we expect it to continue at this, call it, little less than $100 million per quarter rate beyond this year? Or at some point, does it tail off as you complete your structure retail footprint build-out? And then, the other question I had is, if you were to build out your own wireless network capacity over licensed spectrum, would your existing MVNO agreement have to be modified? In other words, does the MVNO agreement allow you to incorporate your own network capacity into the service model and have customers switching between Verizon's network and your own? Thanks.

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

So, mobile CapEx, it really is a function primarily of the retail footprint upgrade. We won't be 100% done by the end of this year. So, I think some of that will continue at least for the first half of next year, but it has a finite life attached to it. So, that CapEx is going to be largely non-recurring. There is some software development CapEx which is elevated as you get into the business and that should also come down. It won't -- that piece won't 100% disappear.

And as it relates to the MVNO, what we talk about particularly on the last call was -- Tom went through is, we are testing aggressively what's called dual SIM and that, under our current MVNO, would give us, we believe, the ability and a high quality way to offload traffic. But that comes from any small cell build that we did using CBRS or other unlicensed or licensed spectrum. That all looks really promising at this point. It would be ROI based to the extent that we work through any of that small cell build in the home, in the business or on strand. And that would have an implication -- a positive ROI, but it would have an implication on some CapEx associated with that, tying to your first question.

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

And the other thing, Bryan, I would add to that is 80% of all the bids in the wireless mobile platform are currently being carried on our Wi-Fi network. And that's true of all the bits of all the carriers. And so, I said last time, our average customer is using over 250 gigs a month. And if you look at our average customer who is broadband only and who is still watching TV, a la the last discussion we just had, but they're watching it for free or they're paying for Netflix or some other service and watching it for free. They are using over 450 gigs a month. And so, the average cellular customer is using between 600 gigs and 800 gigs. So, you have this tremendous offload already occurring on our network and we expect that trend to continue. And we go -- and take advantage of it from an investment and cost of service perspective.

Operator

Your next question comes from the line of Mike McCormack from Guggenheim Partners. Please go ahead.

Q - Mike McCormack {BIO 5717983 <GO>}

Hey, guys. Thanks. Maybe just a quick comment on the Stream products, what you're seeing there as far as the demographic that's taking it up? I presume we might know the answer. And then, maybe just frame how you think about that from a success based standpoint, like how successful is it so far? And then, thinking about the plans, I know, Tom, you're talking about the 1 gig ubiquitous product. When you get into the neighborhood, what's the real experience there if we need to -- thinking about longer-term, having all those homes guaranteed at 1 gig, what might be required from a CapEx standpoint to do that? Thanks.

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

So, the Stream issue, we are selling more Stream products proportionally to video products. That's cost driven for consumers. The price of the bundle is very expensive and we talked about content companies trying to push rate buttons. And so, there are a lot of customers who can't afford it, don't necessarily know how to go over the top and take it free or wouldn't consider doing that. And so, they're downgrading to Stream both from existing packages and going there from on the increment. And it's really the save money. Most consumers would like to have it all.

And so, we're trying to smartly market Stream products to those consumers who are income constrained. And it's -- we're generally pretty good at targeting that, but it's not a perfect science. So, there's a tension between our strategies in trying to sell full packages and to sell Stream at the same time to those who are income constrained. And we're just playing the marketplace and trying to be responsive to consumers' video needs. So, I don't know where it goes. And I don't know where our contractual relationships will allow us to take it either.

With regard to upgrade and throughput in the plant, we have a lot of capacity in the plant already and we don't expect material changes in our capital trends as a result of the growth of data throughput in sort of a foreseeable future. We do think there is a long-run opportunity to create new products that can't work in today's environment for relatively small capital investments. But if you look at the current operating model, the current marketplace, we don't anticipate, even with the rate of data consumption increasing, that we're going to have any sort of outsized trend in capital required.

Q - Mike McCormack {BIO 5717983 <GO>}

Thanks, Tom.

Operator

Your last question comes from the line of Kannan Venkateshwar from Barclays. Please go ahead.

Q - Kannan Venkateshwar {BIO 15351027 <GO>}

Thank you. I guess one for Chris and one for Tom. So, Chris, I guess the programing expense on account of some of the new content that you're producing is on the exclusives. I think they show up in the franchise fees line and I think that number has been growing mid-single digit recently. So, how long should we expect that line to be elevated in terms of content? And, Tom, from your perspective, I think you've expressed an interest in potentially other cable assets if they do become available. So, just wanted to get your updated thoughts on priorities relative to wireless. If there are opportunities that do come up, how do you stack up those priorities? Thank you.

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

On the original content programing expense, if you take a look at, I think, what's in the Q as well as in the prepared remarks I had, it's the tiniest of all the drivers in that line. We're talking single digit millions. And that's a function of the cost of production being amortized over the life of the asset, which is typical content industry accounting. So, it's not a material driver inside of Q2 and it's not going to be significant in any way, particularly when you look at it as it relates to our programing. So, very, very small. We just mentioned it because I think it was the third or fourth largest driver in that category.

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

And so, your second question about what's more important from an asset perspective if you're doing M&A, look, I think the cable business is a great business and I think it's well positioned to be the connectivity infrastructure going forward and has cost opportunities that can't be easily replicated and, therefore, makes it a wonderful business that allows you to move massive capacity through it and it's fully deployed. And I think there are scale advantages to having more cable. And so, I would look at the cable asset as the most valuable asset.

We don't have any need today to do any wireless M&A and I don't know that I would do any if it were available. Obviously, it depends on what it costs, but the cable business is the predominant distribution vehicle for data even in a mobile environment because, as you think about the future of mobile, the cells are very small. We already are a small cell provider through our Wi-Fi platform. And as other small cell technologies become available, we have a fully distributed high capacity, easy to upgrade, efficient to upgrade network pretty much everywhere on the streets and byways, and that gives -- makes the cable business a great business.

Q - Kannan Venkateshwar {BIO 15351027 <GO>}

Thank you.

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

Thank you.

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

Thanks, everyone, for being on the call today.

Operator

Thank you. This will conclude today's conference call. Thank you for your participation. You may now disconnect.