Company Name: Charter Communications I
Company Ticker: CHTR US
Date: 2017-05-02
Event Description: Q1 2017 Earnings Call

Market Cap: 103,845.38
Current PX: 337.315
YTD Change($): +49.395
YTD Change(%): +17.156

Bloomberg Estimates - EPS
Current Quarter: 1.086
Current Year: 5.061
Bloomberg Estimates - Sales
Current Quarter: 10443.778
Current Year: 41915.500

Q1 2017 Earnings Call

Company Participants

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

Other Participants

- John C. Hodulik
- Mike L. McCormack
- Jonathan Chaplin
- Craig Eder Moffett
- Amy Yong
- Benjamin Daniel Swinburne
- Marci L. Ryvicker
- Jessica Reif Cohen
- Vijay Jayant
- Jason B. Bazinet
- Philip A. Cusick

MANAGEMENT DISCUSSION SECTION

Stefan Anninger

GAAP and Non-GAAP Financial Measures

During the course of today's call, we will be referring to non-GAAP measures as defined and reconciled in our earnings materials

These non-GAAP measures as defined by Charter may not be comparable to measures with similar titles used by other companies

Thomas M. Rutledge

Business Results

Time Warner Cable and Bright House Integration

- As we near the first anniversary of the close of our transactions, we're successfully integrating Time Warner Cable and Bright House, and our operating and strategic plans are on track

Pricing and Packaging

- By the end of Q1, we have launched our pricing and packaging everywhere but Hawaii where we will also launch shortly
- As a result, we've finally turned the corner, and we are seeing higher y-over-y customer and PSU connect volumes with nearly all of our video connects purchasing are expanded basic video product
- And our minimum Internet speeds are either 60 megabits or 100 megabits depending on the market
- And although churn and downgrade activity from the legacy TWC low-value product set remains elevated, we expected that to be the case, that the low-value product churn and downgrade activity will improve as more customers connect to our new pricing and packaging
- As of the end of Q1, 17% of Time Warner Cable and Bright House customers were in our new pricing and packaging

Spectrum Product

- And in areas where we had the Spectrum in place for at least two quarters, 32% of our residential customers have had the Spectrum product set
- That result is slightly ahead of our expectation and where we were at Legacy Charter at this point in our plan
- Legacy Bright House is performing extremely well
- Our Spectrum pricing and packaging, combined with a better starting point in terms of its service reputation, has allowed us to accelerate growth within that footprint more quickly
- Legacy Charter also continues to perform

Customer Relationships

- Customer relationships grew nearly 6% y-over-y, even though our focus was on integration
- We remain very confident that there is a large and long-term customer and financial growth opportunity across all three Legacy companies
- This quarter, we will restart our all digital project in the 40% of Time Warner Cable and 60% of Bright House that is not yet all digital by putting two-way interactive boxes on every outlet and freeing up capacity to increase data speeds
  - That project should last through early 2019

Integration of Field Operations, Customer and Network Operations

- The integration of our field operations, customer operations and network operations is well underway and progressing as planned
- We have been able to avoid customer disruption and we're increasingly in-sourcing our field operations and call center employees in Legacy Time Warner Cable and Legacy Bright House markets in order to improve our craftsmanship, plant, and service delivery
- And we're already reducing reliance on third-party call centers and contractors

Product Development

- Our product development efforts also continue to move forward
- We're working toward launching a wireless service in 2018 under our MVNO agreement with Verizon
- We're also testing the capacities of our network with 5G-like services in a number of Spectrum bands and in a number of locations
- We intend to use these field trials to provide us with better insight into the capabilities of our wireline network when using high-frequency licensed and unlicensed spectrum, and how our various wireless network building blocks can be used in conjunction with one another to offer services that were developed over time

Christopher L. Winfrey

Financial Highlights

Customer Relationships and Residential PSUs Growth

- During Q1, total customer relationships grew by 4.3% y-over-y on a pro forma basis with 3.4% at TWC, 5.8% at Legacy Charter and 6.3% at Bright House
- Slide 6 shows we grew residential PSUs by 365,000 vs. 757,000 on a pro forma basis last year
- The lower y-over-y PSU net adds was primarily driven by elevated customer and product churn from the Legacy customer base at TWC.

Pricing and Packaging

- As Tom mentioned, at the end of Q1, 17% of TWC and Bright House customers are now in Charter's pricing and packaging
- This is available everywhere for residential customers except Hawaii which launches next month
- Bright House markets were completed first back in November, and together with a better value and service proposition in the Legacy base, you can see the positive effects of our new pricing and packaging already
- And those TWC markets that had launched Spectrum as at December 31, relationship and video connects were up vs. last year's quarter with better quality product and sales as Tom mentioned

Legacy TWC Churn

- At the same time, Legacy TWC promotional offers in the past have been rolling to high rates on lower value legacy products, which is why TWC billing and retention call rates have been 50% to 60% higher than Charter's
- And as we've implemented consistent retention policies nationwide, we're managing through higher churn at TWC in the short term
- As we migrate and replace the legacy base through a disciplined approach, legacy TWC churn will improve

Residential Video Customers and Net Video Losses

- Over the last year, TWC residential video customers declined by 3.2%
- Pre-deal Charter grew its residential video customer base by 0.5%

- And Bright House lost 1.1% of its residential video customers but continues to significantly improve its y-over-y video results
- TWC's video net loss was 129,000 worse than last year, with over 90% of legacy TWC's 108,000 net video losses driven by churn from lower-value limited basic packages
- Legacy Charter lost 13,000 video customers vs. a gain of 10,000 a year ago
- Bright House added 21,000 video customers in the quarter vs. a loss of 7,000 last year
- In total, we lost 100,000 residential video customers in the quarter, primarily driven by the losses at TWC

Residential Internet and In Voice Customer Growth

- In residential Internet, we added a total of 428,000 customers during the quarter vs. 520,000 last year
- And over the last 12 months, our total residential Internet customer base grew by close to 1.4mm customers or close to 7%, with over 8% growth at pre-deal Charter and over 9% at Bright House
- In voice, we grew customers by 37,000 in Q1 vs. 213,000 last year, the lower growth largely driven by higher churn at TWC, in part driven by a low-price promotional voice offer in TWC markets in prior-year quarters

Pro Forma Residential Customers and Legacy Charter's Customer ARPU

- Over the last year, total pro forma residential customers grew by 951,000 or by 3.9%
- Residential revenue per customer was virtually flat y-over-y given much smaller price increases this year vs. last and continued standalone Internet sell-in
- Legacy Charter's customer ARPU declined y-over-y primarily driven by the continued strength of Internet single play sell-in and the lack of meaningful rate increases y-over-y

Commercial Revenue, SMB and Enterprise Growth

- As slide seven shows, our customer growth combined with our ARPU growth resulted in y-over-y pro forma residential revenue growth of 4.2% with a different mix of rate and volume across the Legacy entities
- Total commercial revenue, SMB and enterprise combined, grew by 10.8%
- SMB revenue grew by 11.3% and enterprise grew by 10.1%
- Excluding cell backhaul and NaviSite, enterprise grew by 15%
- Enterprise launched the new national pricing structure at the end of last year designed to drive higher customer growth, and we'll do the same with SMB at Legacy TWC and Bright House in the middle of the year

Advertising Revenue

- First quarter advertising revenue declined by 7.7% y-over-y, driven by political advertising in the prior year
- Excluding political and barter, advertising revenue was down about 2% y-over-y
- In total, first quarter pro forma revenue for the company was up 4.3% y-over-y and up 4.8% when excluding advertising

Revenue Growth

- Looking at total revenue growth at each of the Legacy companies, TWC revenue grew by 4.1%, driven by a mix of customer and ARPU growth
- Pre-deal Charter grew by 4.4% driven exclusively by customer growth
- And Bright House revenue grew by 5.4% with improving unit growth and little reliance on rate
- Before moving on to expense, I wanted to note two items which impacted our revenue growth in the quarter
    - In March, we decided to provide bill credits to certain TWC residential customers
    - And in last year's first quarter, TWC and Bright House revenue benefited from a contractual settlement
- Excluding the impact of those items, total revenue growth would have been 4.7% of consolidated Charter or 5.2% excluding advertising

Operating Expenses

- Moving to operating expense, in Q1 total operating expenses grew by $201mm or 3.2% y-over-y with transition expense accounting for $51mm of our total OpEx this quarter
- Excluding programming and transition, operating costs were essentially flat given the realization of transaction synergies and continued operating efficiencies at Legacy Charter
- Programming increased 8.2% y-over-y driven by contractual rate increases and renewals and a higher expanded mix, partially offset by transaction synergies
- Regulatory connectivity and produced content expense declined 1.5% y-over-y as we start combining the company's networks and contracts
- Cost to service customers was essentially flat y-over-y despite 4.3% total customer relationship growth, reflecting financial benefits from the combination of three companies and lower service transactions per customer and churn Legacy Charter
- Marketing expense declined by 1.5% y-over-y as we continue to drive synergies from our transactions, and other expenses were also down y-over-y driven by elimination of duplicate costs

Duplicate Costs

- Taking a step back on expense, the full elimination of duplicate costs will take another two years as we fully integrate the platforms of three companies and multiple billing, provisioning and network environments
- And in areas of the business with labor and third-party costs tied to systems, we've actually been temporarily adding cost as we maintain legacy systems and processes and prepare for back-office integration
    - That's all according to plan, and so similar to subscriber, revenue and cost to service trends, our expense development will not be linear
- But our views on the long-term growth and profitability potential for Charter remain the same
- In fact, our confidence has grown
- Same applies to the transaction synergies I outlined on the last call

Adjusted EBITDA Growth and Net Income

- Adjusted EBITDA grew by 6.4% in Q1, and excluding transition costs, adjusted EBITDA grew by 7.3%
- If you further exclude the two revenue items I mentioned, both in 2016 and 2017, EBITDA would've grown by over 8%
- Turning to net income on slide nine, we generated $155mm of net income attributable to Charter shareholders in Q1, vs. net income of $179mm on a pro forma basis last year
  - This higher y-over-y adjusted EBITDA in Q1 this year more than offset by higher depreciation and amortization, driven by purchase accounting and last year's CapEx and other below the line operating expenses, including transaction-related severance costs

CapExs

- Turning to slide 10, CapExs totaled $1.56B in Q1, including $76mm of transition spend
- First quarter capital intensity as a percentage of revenue of 15.3% should not be straight lined as we had timing delays on some big network projects, facilities and truck spend, as well as vendor delays and staging CPE.
- Excluding transition CapEx, first quarter CapEx declined by $302mm y-over-y or 17% with lower spending on scalable infrastructures, CPE and support capital, mainly driven by timing

FCF and Working Capital

- As slide 11 shows, we generated $1.1B of FCF in Q1 vs. negative $61mm of actual, not pro forma, of FCF in Q1 last year
- And that growth was largely driven by cash flow from acquired systems
- Working capital did not have a meaningful impact on our FCF this quarter and they're often large quarterly swings
- But for the full year 2017, I'd expect working capital to have a neutral to slightly positive impact on our FCF

Debt Principal and Cash Interest Expense

- We finished the quarter with $61.3B in debt principal
- Our run rate annualized cash interest expense is currently $3.4B, whereas our P&L interest expense in the quarter suggested $2.9B annual run rate
  - That difference is due to purchase accounting
- At the end of Q1, our net debt the last 12 months pro forma adjusted EBITDA was 4.0 times and our long-term leverage remains at 4 times to 4.5 times

CCOH and TWC Notes

- In February and March, we issued a total of $2B of 10-year 5.125% notes at CCOH with the proceeds being used to call $750mm of CCOH 6.625% notes and repay $2B of 5.85% TWC notes
- On March 30, we concurrently offered and priced $1.25B of notes in the high yield market and at the same time $1.25B of notes in the investment grade market for a total of $2.5B
  - The proceeds from those notes will be used for general corporate purposes including potential buybacks

Weighted Average Cost of Debt

- Our weighted average cost of debt is now 5.4%
- The weighted average life of 11.6 years with 90% of our debt repayable after 2019
- And our hybrid debt structure gives us access to the bank, investment grade, and high yield markets providing us significant operating, financing, and strategic flexibility

Share Repurchases

- During Q1, we repurchased 2.5mm shares in Charter Holding common units totaling approximately $826mm at an average price of about $324 per share
- I mentioned on our last call that from late in Q4 through Q4 earnings in February, we were not buying shares due to parameters set in an earlier 10b5-1 program
- Share repurchase activity will continue to depend on other potential uses of capital and market conditions

Tax Assets

- Turning to our tax assets on slide 13, we estimate the total value of those assets is approximately $6B, and we don't expect – we don't currently expect to be in the general cash income tax payer until 2019 at the earliest

Seasonal Customer Program

- So, getting ahead of next quarter's reporting, I wanted to note that we have now aligned Bright House's seasonal customer program with that of Legacy Charter and Time Warner Cable, which provides a reduced monthly charge instead of onetime suspend and restart fees historically at Bright House
- As a result, seasonal customers at Bright House will now remain as reported customers throughout the year which will reduce both the negative net adds impact in Q2 and the positive net adds impact in Q4 when comparing to historicals
- In Q2 2016, there were approximately 60,000 seasonal customer disconnects with most of the seasonal reconnected volume are currently in Q4
- We'll do our best to quantify the y-over-y onetime reporting effect at Bright House when we report Q2 and Q4

QUESTION AND ANSWER SECTION

<Q - John C. Hodulik>: Maybe if we could just talk about the Legacy Charter markets. You guys saw a 13,000 sub-decline in the quarter, and I guess it's driving the ARPU, sort of accelerating decline. Any color on sort of what's going on in the market? Is it cord cutting? Are you seeing some sort of economic weakness or – it doesn't seem like it's competitive issues. But maybe how you expect that – those sub-trends to develop over the course of the year and have we seen the worst in terms of the ARPU decline? Thanks.

<A - Thomas M. Rutledge>: Look, I think given all the integration activity that the y-over-y Charter Legacy would've been positive if we weren't doing all this activity. We moved a lot of assets around it at different management structures during the period, and a slight change in the direction of the video customer growth. The subscriber growth in general is still performing well in the marketplace as we expected, and I think you'll see that accelerate in the future. So, I think the – I don't think it's a significant issue, but I also think it is an effect of our integration process more than anything else or any specific change in the market.

Our opportunity with regard to video, I think there's market share shift from satellite to us. I do think there is a general decline in MVPD marketplace that is mostly price-driven, and I think that those trends are unlikely to change in the near term but not to particularly accelerate. And so I think that the Charter opportunity in video and subscriber growth in general in Legacy and in new footprint continues to improve.

<A - Christopher L. Winfrey>: From an ARPU perspective, the big driver there really isn't anything that's happening systemically in the market. It's really just about the amount of single-play Internet sell-ins. So, if you take a look at the percentage of the non-video customer relationship base and the percentage growth in the next – in the new, compare that to total customer relationship growth, there are ways that you can mathematically get to figure out what the full effect of that mix shift is. And that's really what the big driver there is on ARPU.

<A - Thomas M. Rutledge>: I think the other thing about ARPU that's significant and in the way our numbers work is that there is virtually no rate in these ARPU numbers. So, it's all driven by subscriber growth. And we want it that way. And we think in this environment of integrating three companies and introducing ourselves to lots of new customers and customer relationships that that's the appropriate approach.

<Q - Mike L. McCormack>: Tom, maybe just a comment. We've seen a lot of over-the-top launches. We saw this report yesterday obviously, and we know what the mix is. But just thinking about the threat of that and how much of an impact you're seeing from that. And then maybe secondly, your thoughts on the Charter plans. There's been a lot of discussion around 5G deployments and how you guys sort of see yourselves playing it out over time. Thanks.

<A - Thomas M. Rutledge>: Right. Well, as I said, I think obviously we sell more than video, and we're creating lots of customer relationships. And we expect to continue to do that. We expect to be able to continue to create video customer relationships too because we think that our two-way interactive footprint and our capability of providing SVOD in an appropriate user interface, along with the kind of linear channels we've historically provided and other on-demand services, makes us a more compelling product than our competitors. And so we expect to grow video.

What the overall share of over-the-top providers will be over the next five years, I don't really know. But none of them have a product that is better than ours that we can see in the marketplace. So, we expect to succeed in the marketplace going forward.

With regard to 5G, we've been experimenting with frequencies. But basically, our view of it is that small cell connectivity to our high capacity network is our future and our current state of wireless. We have Wi-Fi devices in almost every home. The speeds that you can get out of our current Wi-Fi routers incrementally is in the range of a gigabit, and we expect that to accelerate with the addition of additional frequencies in the millimeter waves type spectrum that 5G is proposed in and other spectrum that will become available in the future.

So, we think that speeds will continue to increase in the home and in the workplace. And if we need to put that into a mobile environment that our plant in and of itself that as well in the long run. So, at this point, those kinds of 5G opportunities are still a number of years away, and they're certainly even farther away from a market-wide deployment perspective. But we are using experimental licenses to test our capabilities across the spectrum.

<Q - Jonathan Chaplin>: Because I'm wondering if you could just expand on your ARPU comment from [ph] M&A (25:27), I'm wondering specifically what the growth in broadband ARPU is in the Legacy Charter footprint. And I understand not wanting to take rates while you're going through the integration and seeding a new base with new packages and pricing. When do you think you'll be in a position to start pushing up rate again and accelerating ARPU growth?

And then my last question will be, not that we're sort of one year– we'd sort of lapped the one-year mark on the integration. But we're at the sort of the most difficult part at this point in shifting subscribers over to the new pricing and packaging such that we should start to see an improvement in the back half of the year or is that still a quarter or two away?

<A - Christopher L. Winfrey>: That was a mouthful. Let me start to answer the broadband ARPU question. My comment earlier was more about total customer relationship ARPU.

<A - Christopher L. Winfrey>: And the impacts that multiple PSUs per relationship have on that. And so to the extent that you have a higher mix of Internet standalone or non-video bundles, then it has the impact of artificially pulling down your customer relationship ARPU. It wasn't so much about that ARPU per PSU. We actually don't manage the business that way. Our goal is to get as much ARPU per household by providing high-value products as possible.

And so we haven't done anything to materially impact at Legacy Charter, the broadband ARPU, other than having a slightly higher amount of single play which if you were to look at as standalone PSU ARPU would suggest that the broadband ARPU is increasing slightly. The fallacy of that is that we sell, for the most part, broadband inside of a bundle, and at that point it's just an allocation of revenue across the different products that's on the bill. And it's really, from our perspective, more about pricing all the services in the household and putting as many of those services in as we can.

Pricing, I think if you can take a look back to what Charter's historically been able to do is with very minimal price increases be able to grow total customer relationships by 6% and residential customer relationships by 5%. And if you see the opportunity to go get that type of growth and to have that type of market share shift, introducing pricing can stunt that growth. And it doesn't mean that you've lost pricing power or rate power over time. In fact, one might argue that it's actually increased because of the larger base.

And if you have the opportunity to grow, we think it's much better to grow. And if you stop growing and you need to get revenue growth, you always have the ability to take rate. But that's not really Charter's strategy and we see the opportunity to grow, and I think that's the better path.

Tom, I don't know if you would add anything to that but...

<A - Thomas M. Rutledge>: I think that it's been our strategy to create high value, high quality products that improve the life of the customer. And that results in not necessarily ARPU growth that comes from rate, but ARPU growth that comes from the creation of customers. It also reduces costs and so increases EBITDA relative to ARPU at a better rate if your customer service experience adds to average customer lifetime length. What that does is it reduces transaction volume, which means that for the same amount of revenue, you have a higher EBITDA because your costs, connects or servicing the customer go down.

So, our view of the model is that it's much more virtuous to have high-quality, high-value products that last in the marketplace, meaning customers like the products, think they're fairly priced and continue to subscribe to without looking around and trying other competitors and increasing your cost of operation.

So, while we expect to grow our ARPU and we expect to grow our customer base, we expect most of that to occur because the quality of our products stand in the marketplace and people want to subscribe to us as opposed to trying to use temporary friction in the marketplace to get a rate.

<Q - Jonathan Chaplin>: And at the one-year mark?

<A - Thomas M. Rutledge>: Well, we had one year-- we have a multiyear strategy. And as I said in our – in my remarks, we have turned the corner in terms of y-over-y growth in connects. And that's a good sign and it's the first sign that you expect after you change every price and package and process involved in the selling of a business with 26mm customers and growing at 4%.

<A - Christopher L. Winfrey>: The more customer relationships that we have in Spectrum pricing and packaging, the more protected we are for all the reasons that Tom mentioned, and that's why we read out that statistic. And it's line with what we had at Legacy Charter at this stage. And in fact it's actually slightly above. So, we're pleased. But until you either migrate or churn the legacy base that has low-value, high-priced products, you're going to have a little bit of volatility from one quarter to the next. But that number's increasing. It's growing well, and I agree with Tom.

<A - Thomas M. Rutledge>: Yeah, I mean, you're really looking at what is the EBITDA per customer you're gaining on the increment and are you piling those up one after another in an appropriate way so that your long-term outcome is good. And we believe that we're doing that and we've turned the corner on that, which is what our plan was.

<Q - Craig Eder Moffett>: Hi. Tom, now that the incentive auction is over and Comcast bought Spectrum and its footprint not nationally, that leaves you without a sort of coverage layer of low frequency. Can you talk about that at all? Was that part of your plans, or is it still -- or is it part of your plans to think about a coverage layer to augment the MVNO, or is the MVNO a satisfactory full solution to wireless beyond your Wi-Fi network?

<A - Thomas M. Rutledge>: As you know that that low frequency opportunity is still from a practical point of view a number of years away. So, it has no impact on sort of a short midterm opportunity in the marketplace. We think that the MVNO does have that potential. And so we're happy with our MVNO. We're happy with going forward with it and don't feel today that we have any need for that kind of spectrum. And we think that if we ever do have such a need that opportunities will be available and get it.

<Q - Amy Yong>: So, two questions. First, on the video product. Tom, you talked about how video trend should accelerate. Can you talk about some of the initiatives that you're working on, perhaps the programming, exclusive agreements with AMC, maybe Netflix or YouTube into the box? Just some of the things that you're working on in the pipeline that we should be thinking about.

My second question is on cost. Can you just give us an update, Chris, on kind of the synergies and where we are in that $1B mark? Thank you.

<A - Thomas M. Rutledge>: So, Amy, in terms of things we're doing with the product and AMC, the AMC opportunities and experiment to see if we can create some high-value product for our customers for a period of time, and we think it's an interesting opportunity to put original programming to our customers and still allow the market place realities in terms of the cost of amortizing programming to work over a bigger market place over time. And so we're interested in finding ways to improve our video product and we have lots of thoughts about those. AMC is one step in that direction.

Netflix is being integrated into our user interface and we plan to launch it. We've had similar discussions with YouTube. Our view is that the user interface that we're deploying across our footprint will allow a seamless integration of content. Fundamentally, we expect customers to subscribe to services like Netflix, Hulu and other over the top products in combination with our MVPD products and maybe over the top products that we also provide.

And we think having a common user interface that allows that to work on all the devices in the house makes a lot of sense. Our fundamental obligation to our customer is to make that customer's life easy in terms of using video. And so, when we look at our whole relationship to content and the customer, we come out toward the customer side of the equation, meaning, while we'd love to creative new content, we'd even more love to have happy subscribers who have access to all the content that they can get. And that's what our user interface is designed to do.

<A - Christopher L. Winfrey>: And on the synergies, on the last call I mentioned after the first year we expected to be over $700mm and that after a three-year period we expected to be a over $1B. That three-year period is really what I was highlighting about the time it takes to combine network provisioning, billing activities which takes time, so that's the driver for that . We're not going to report quarter-by-quarter how much is in the number because frankly, once we go out to January 1, it became a little more challenging for two reasons. One is that, one, in order to hit those synergies, a lot of times it requires operating investment to combine platforms, systems, people. And then secondly, the programming side, you have to take an estimate of what you think your renewals – your contractual rate increases for renewals would have been without the deal. So, it becomes a little bit more art than science. And so we wanted to get away from that and provide our best view at that time.

But there's nothing that's impacted our optimism as it relates to the transaction synergies And as I mentioned, programming was one of the harder ones. Since I know that will be the next question, I'll try to hit that one head-on, which is we don't comment on the details on programming agreements, but we are generating the synergies we expected. Sometimes that can be obscured by escalators and existing agreements and renewals. But those renewals, they generally include better starting points, better CAGRs or growth rates they have longer terms when we want them. And we're getting better rights than we believe Charter, TWC or Bright House would receive previously.

And that you're going to see it from one quarter to the next, accounting for the economics of these deals including what some – one party may see as past or future. It can be complicated and at times, payment streams can be lumpy along the way. But we're focused on the overall economics over a longer term, and we are getting the strategic and financial benefits of the transactions as we laid out.

<Q - Benjamin Daniel Swinburne>: As you guys think about the rest of this year, I think you mentioned that connect volumes are up year-on-year. Well, you've rolled out Spectrum pricing and packaging which is almost done. So, with that, are you able to look at the churn which are on the pool of Time Warner Cable legacy customers that you would argue or on sort of the wrong package or low-value services. And how much – how big that pool is and how long it will take to churn them out or get them into the right place? Because if the connects are growing and that churn issue is sort of finite in length then it would help us think about when we might see PSUs start to improve on a y-over-y basis. I don't know if you'd want to talk to some of those puts and takes, but we'd be interested in any comment.

And I just wanted to ask, Chris, if the expectation that CapEx is up year-on-year pro forma is still the right one? I know you mentioned before not the run rate Q1. But just want to throw that out too.

<A - Christopher L. Winfrey>: Yeah. Well, it's the same issue that we faced with Legacy Charter beginning late 2012. Right now, at the end of Q1, 17% of the TWC and Bright House was in Spectrum pricing and packaging, which means we're in a much better position to that 17%.

Flip side is we've got 83% of the base that continues to be in legacy pricing and packaging offers. And that has elevated churn and it's going to, as long as that number remains high. But it'll decrease the amount of customer's Spectrum pricing and packaging with a better term profile will increase. The real question is when you get a tipping point, that's already started to get better from here on out. And so I think right now it looks like it will follow a very similar path as to what we saw at Legacy Charter in terms of subscriber development.

Second question was – Ben, what was your second question? I think we've lost Ben. Did you make a note of it, [ph] Stephanie? (40:28)

<A - Thomas M. Rutledge>: Yeah.

<A - Christopher L. Winfrey>: Oh, CapEx.

<Q - Benjamin Daniel Swinburne>: Yeah, y-over-y – are we still up y-over-y [indiscernible] (40:34).

<A - Christopher L. Winfrey>: So much passion on the first topic. Everything I said about CapEx last quarter still remains the case. I mean, we're a little bit behind in terms of where we'd like to be on spending on CapEx just because it's timing-related issues. So, in a weird sense, it's going to be tough to hid the plan that we have for CapEx this year. But our intent is still to be able to be in a position to spend more than we did last year. I don't think from the capital intensity it'll be that different from where it was last year just because of revenue growth, but nothing's changed. And since we want to spend the capital so we can grow faster and quicker, our goal is to spend as much as we can this year.

But just on the CapEx issue just to give the speech again, the customer life and the less activity ultimately related to servicing and base of more high-quality customers with high-quality products is, if you have a high-quality service organization, you ultimately end up spending less capital as well, as well as less operating costs and your capital intensity comes down. It comes down due to operational efficiency, but it also comes down due to our ability to go all digital and once that project is completed, to have a lower capital intensity and less activity that is also capitalizable, associated with [indiscernible] (42:10).

<Q - Marci L. Ryvicker>: I have a quick one, and then not so quick one. On the quick side, can you quantify just the TWC credits? We're trying to isolate the revenue and ARPU impact. And also talk about if these will continue.

And then, the second question is, with customers migrating to the single-play offering, do you notice behavior differing among the Charter, Time Warner Cable and Bright House markets? We can act if maybe the streaming bundles are taking advantage of the disruption in TWC markets. Thanks.

<A - Thomas M. Rutledge>: The amounts of the credits, we didn't provide it in the Q. So, I don't want to provide preferential disclosure here. But I think if you take the comments we had about the amounts of revenue growth absent those two items, the two items being the credits in 2017 and the onetime contractual settlement in 2016, you can solve for the combination of the two. You also have, if you wanted to go back and take a look, I'm pretty sure that TWC would've disclosed the amounts of the contractual settlement with the programmer that resulted in higher revenue in Q1 2016. So, I'm laying you out a very convoluted map to get there.

<A - Thomas M. Rutledge>: Wish you luck. The two items combined is what drove that differential revenue growth that I highlighted in the prepared remarks. I didn't follow the second question, which was more about customer analysis market by market.

<A - Christopher L. Winfrey>: The idea that we're being ticked off in certain places where we have operating issues, we've seen no evidence to that fact. And at this point, we have a fully featured product set in every market we will other than Hawaii, which we'll have shortly priced and packaged the way we want it. So, we're in the right competitive posture, but we're in the posture we want to be anyway.

<Q - Jessica Reif Cohen>: Can you go back to some comments you made earlier about SMB and setting national pricing for the enterprise business? Can you give us some color on where you see the potential upside from your perspective, what the margins could be in that business and how we can measure success or the milestones that we should look for?

And the second question is just on programming cost, can you give us an idea of what to expect for programming cost for the full year vs. the 8% in Q1?

<A - Christopher L. Winfrey>: On programming cost, I knew it would come up, which is why I said what I did. It's going to be lumpy throughout the year. So, we don't provide guidance generally. And so, I think providing it on one single line item would be somewhat strange to not provide an overall revenue EBITDA or CapEx guidance and then start [ph] 200 (45:20) on the single expense line. But we're seeing synergies in the programming side. We are seeing renewals as well. We're getting longer terms, better rights. Longer-terms where we want them, shorter terms where we want them and getting better rights along the way. So, beyond that it's not something we're going to go into a great detail on.

<A - Thomas M. Rutledge>: Jessica, with regard to SMB, we have a similar strategy with SMB, to what we have with residential in many ways, which is to create high-value, high-volume opportunities in the market place. And we price and package our SMB product in such a way that we've accelerated unit growth significantly and the revenue growth and ARPU growth catch up with that. And that we expect to have happen just like we do in our residential base.

We've also done that in a new way going forward in the new company with our enterprise business as well. And we – which is the market above small business. And we are – we've gone to a lower-priced, higher-volume, higher-quality product mix with a service infrastructure to reduce installation times for all fiber products to businesses. And so we've developed a construction infrastructure, meaning personnel that are able to build fiber infrastructure to new business customers in a rapid way. And by creating more high-value, high-volume products with the capability of getting them installed in a short period of time, we think we can start to move some of that share which we have a very miniscule piece of today. So we're very excited about the future of both SMB but also of enterprise as well.

<A - Christopher L. Winfrey>: And the PSUs is the way that you'll see that manifest itself through accelerated net adds growth. And over time, as the volume catches up to the pricing, you'll see it come through revenue.

<Q - Jessica Reif Cohen>: And can you comment on margin potential?

<A - Christopher L. Winfrey>: We don't break out margin.

<A - Thomas M. Rutledge>: We do not, except that the margins act like residential margins in the sense that if you improve your activity levels per dollar of revenue, your margins improve.

<Q - Vijay Jayant>: A couple of bigger picture questions. Tom, obviously, you have an IP-only product that I don't think you really market. But we've seen Comcast talk about probably doing something there and you have the satellite guys doing it. Is that something that we should sort of see as a product set in the next few months or you're happy with the current strategy?

And just a question that we get and to sort of understand this Time Warner Cable churn that we're seeing and, obviously, over time you will have the gross adds with the pricing and promotion at Spectrum. Why can't there be a more seamless transition? Are these customers so poor in quality that you wouldn't want to save them, so let them churn, then have gross adds? Again, I'm just trying to understand why do we have that sort of a disconnect rather than a seamless transition? Any...

<A - Christopher L. Winfrey>: Let me take the first one – the second one first. The TWC churn, somebody was given $10 unlimited video basic package, where can you move them? And they have an exploding offer. It was promotional offer. Where can you move them that's a satisfactory place relative to what they were given before? Same thing exists across voice. And so we've spoken at length about that before. Now, that we have Spectrum pricing in packaging in place across the entire footprint, is there a better path to migrate them into that pricing and packaging? Yes. But can we completely solve the issues that were installed in the base? Maybe; maybe not.

Your first question was – and I think more directed at Tom, but I didn't capture which product you were talking about.

<A - Thomas M. Rutledge>: Security?

<A - Christopher L. Winfrey>: We don't actively market.

<Q - Vijay Jayant>: No. An IP-only TV product.

<A - Christopher L. Winfrey>: Oh, IP-only video product?

<Q - Vijay Jayant>: Yes. I guess the question is that you have these virtual level [ph] UPDs (49:57) out there and some of the incumbent distributors are also looking to launch their versions of it. Just from your perspective, is that something – is this [ph] style on (50:05) IP-only product, is that something you could see in the not-too-distant future?

<A - Christopher L. Winfrey>: Yeah. Look, we do have an IP-only video product. Our entire cable service is IP-only delivered if customers want to receive it that way. So, IP is a format. All of our product can be delivered on any device, in the home, all of our TV Everywhere product can be delivered outside the home anywhere depending on the service relationship and the contractual relationship with the provider. And our – to the extent we want to sell over-the-top products inside our footprint – or outside -- in some cases, we have those rights. We haven't done that because we don't really see any opportunity to create new customer relationships out of that that have a high value to us, but we certainly have the capability of doing that.

So, when you say IP, all of our app-based products are IP. All of our products are now service, including our video on demand infrastructure, 50,000 titles are capable of being delivered in IP to any device. And the real question is what's the footprint of the service area. And that depends on the right structure. TV Everywhere obviously can be delivered nationally, and is. The story from the programmer since some of the virtual MVPD operators was that this was going to grow the market, and then the programmers had thought the same as well. I think you should take a look at the evidence so far.

The current OTT offerings that are out there right now just seem to be cannibalizing the same satellite providers and base. And so it's just a shift in what's the base as opposed to actually growing the market. Charter has all the rights and has all the technical capabilities and it has the programming. And if we can put together packages that will generate incremental customers, I think we're uniquely positioned to go to do that over time.

<Q - Jason B. Bazinet>: You mentioned all your synergies are on track including programming synergies. And I was just wondering if you could remind us on Fox. If I remember, there was sort of a little bit of a debate around who is the surviving entity, and I just didn't know where that stood and what I really care about is sort of how are you booking it now and is there any risk of sort of an adverse outcome where things get recast adversely, I guess?

<A - Christopher L. Winfrey>: Yeah. Look, I understand the interest, but we're in the middle of a litigation with a few different programmers right now, so I don't think it behooves us to go – we never have gone to a data programmer-by-programmer detail and I think even more so now that doesn't really – it's not really in our interest to do that. We're confident that we'll have successful programming relationships for years to come, and we're taking all the appropriate stuffs we needed to from an accounting perspective.

<Q - Jason B. Bazinet>: Can you at least just share how you're looking at now and when you expect resolution to the litigation?

<A - Christopher L. Winfrey>: No, I can't.

<Q - Philip A. Cusick>: First, Chris, can you expand on – you said something about network and vendor delays and CapEx in Q1. And then second, can you remind us of transition expense, expectations and timing from here? Thank you.

<A - Christopher L. Winfrey>: So, you know, I don't want to overplay that. At the beginning of every year, there's an operating plan at a detailed project-by-project level that's getting put in place and it drives orders and sometimes those orders get delayed either from internal submission of the orders or from vendors. So, there's nothing more than that other than we have a lot of moving parts with a lot of projects and to get that organized in place takes a little bit of time.

We have had some supply chain issues as it relates to set-top boxes, none of which has been customer impacting so far. I don't expect it to be. It just means that we're running a little bit light on the inventory compared to where we'd like to be, and that has an impact on CapEx in a particular quarter. It also means that when the supply chain flips the other way, you can end up a little heavy on CPE relative to connects just as you go do that. So, it's just timing.

On transition CapEx, we'd expect to be through all of that, essentially this year. It doesn't mean that there's won't be – continue to be some going on beyond. But I think our goal would be to have it down to a stage where there's not a need to separate that anymore beyond 2017 and look at it from a consolidated basis at that point