Q3 2020 Earnings Call

Company Participants

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

Other Participants

- Benjamin Swinburne, Analyst
- Bryan Kraft, Analyst
- Craig Moffett, Analyst
- Jessica Reif Ehrlich, Analyst
- John Hodulik, Analyst
- Jonathan Chaplin, Analyst
- Kannan Venkateshwar, Analyst
- Michael Rollins, Analyst
- Philip Cusick, Analyst

Presentation

Operator

Ladies and gentlemen, thank you for standing by and welcome to Charter's Third Quarter 2020 Investors Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Stefan Anninger. Please go ahead, sir.

Stefan Anninger {BIO 15867691 <GO>}

Good morning, and welcome to Charter's third quarter 2020 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 our 10-Q filed this morning. We will not review those risk factors and other cautionary statements on this call. However, we encourage you to read them carefully. Various remarks that we make on this call concerning expectations, predictions, plans, and prospects constitute forward-looking statements. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ from historical or anticipated results. Any forward-looking statements reflect management's current view only, and Charter undertakes no obligation to revise or update such statements or to make additional forward-looking statements in the future.

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

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

Thomas M. Rutledge {BIO 1818216 <GO>}

Thank you, Stefan. Despite the significant challenges that COVID-19 has posed, we've been able to operate our business throughout the pandemic. Early in the pandemic, we offered our customers a set of programs including our remote education offer and keep Americans Connected pledge that supported customers' needs, resulting in a significantly higher number of customers enjoying our services. In addition, we opened our Wi-Fi hotspots across our footprint for public use, opened up our Spectrum News websites to ensure people have access to high-quality local news and information, rapidly connected and upgraded fiber services to healthcare providers, and donated significant airtime to run public service announcements to our full footprint of 16 million video subscribers.

Our employees were given additional paid sick time for COVID related illnesses and a flex-time program to address other COVID issues. We also increased our wage for all hourly field operations and customer service call center employees by $1.50 an hour and we remain on the path to a $20 minimum wage by 2022. Our ability to operate for our customers and communities despite the challenging environment is a testament to the quality of our insourced and onshore workforce, our safety precautions, and in many cases, our ability to operate remotely. Our ads -- our sales and care agents have continued to sell our products and to provide outstanding service to our customers. Most of our stores have been able to remain open throughout the pandemic, serving customers in need.

Our field operations personnel have handled professional installations, and repairs have continued their work in the field, servicing customers in their homes and maintaining the quality of our physical plant. Our plant construction has continued and we've actually seen plant miles and passings increase more this year than last and our product development team has continued to develop and roll out various product improvements, including updates and enhancements to our video, internet, and mobile products. Our ability to continue to operate well under the circumstances is also the result of investments we've made in various parts of our business over the last several years, including our investments in systems integrations and automation, our self-installation program, which ran at over 80% of installations during the quarter, our online and digital sales in self-service platforms and our network, including DOCSIS 3.1, which provides ample bandwidth to withstand surging use with residential data usage for Internet-only customers remaining at an elevated 600 gigabytes per month during the third quarter.

Our operating and investment strategy has allowed us to sustain and accelerate our customer and financial growth. During the quarter, we added 537,000 residential and small business internet customers versus 380,000 in the prior-year quarter. In the past 12 months, we've added 2.3 million Internet customers and 2 million overall customer relationships. We're growing well and gaining share against all our competitors in all of our markets, regardless of competitive infrastructure.

In the third quarter, we grew our mobile lines by 363,000, 87,000 more than in the third quarter of last year and continued acceleration from last quarter. We recently purchased 210 CBRS priority access licenses in 106 counties across all our key DMAs for just over $460 million. Over a multi-year period, we'll execute on our inside out strategy with small cells attached to our existing network, using unlicensed and now our licensed spectrum based on the disciplined return on investment approach, consistent with our goal of reducing mobile operating costs.

Turning to the third quarter financials. We grew consolidated EBITDA by over 13% and our third quarter free cash flow grew by nearly 40% year-over-year. Looking forward in subject to what happens with the virus, unemployment stimulus; we expect our broadband and mobile products to continue to drive demand and churn and grow to return to pre-pandemic levels. SMB has actually performed better than we expected and our ability to grow will also be partly tied to the economy.

In the enterprise, retail sales activity is picking back up despite limited onsite access, and those new sales get installed in the coming -- as those new sales get installed in coming months, we expect enterprise revenue growth to pick back up.

Our advertising business is improving and our core ad business excluding political is about 90% back to normal, in part because of the amount of sporting events that are now airing. So core ad sales are improving and we still expect political advertising to be meaningfully contribute -- a meaningful contributor in the fourth quarter. To maintain that growth, we'll continue to invest in our networks so that we can continue to offer new and better products than our competitors.

In the coming years we expect data usage per customer to continue to grow and we're prepared to deliver more throughput across our network. The growth in demand for data is and will be driven by a number of factors including the growth of IP video services, including video conferencing and gaming, also the number of growing IP devices connected to our network, which is nearing 400 million devices, and new and emerging products and services are being developed as we speak, such as e-learning or telemedicine in 4K, virtual reality or Holographic formats for examples.

We are continuously increasing the capacity in our core hubs and augmenting the network to improve speeds and performance. In the near-term however, we have a large opportunity to improve throughput and latency by continuing to use already deployed DOCSIS 3.1 technology, which still has a long runway and additional bandwidth tools available with us today include the conversion of the distribution network to DOCSIS 3.1 delivery for all products including video, broadband and telephony. By allocating more plant spectrum to DOCSIS 3.1 IP services, we have the ability to offer symmetrical gigabit plus speeds. We'll also continue to invest in DOCSIS 4.0 with key vendors in the rest of the industry for even greater capacity and functionality. The DOCSIS 4.0 specification allows for multiple paths to reach 10 gig and higher speeds including Full Duplex DOCSIS and Extended Spectrum DOCSIS. Both DOCSIS 3.1 and DOCSIS 4.0 can be deployed in an economically efficient way as the market dictates. Our network evolution strategy allows us to offer superior connectivity products to meet changing consumer demand and extend our growth strategy and drive free cash flow.

Before turning the call over to Chris, I'd once again like to thank Charter's employees for their hard work, dedication and diligence throughout the pandemic. They've been asked to go above and beyond their regular duties and they have delivered. Now I'll turn the call over to Chris.

Christopher L. Winfrey {BIO 16326284 <GO>}

Thanks, Tom.

Turning to customer results on Slide 5 of our presentation, we grew total residential and SMB customer relationships by approximately 2 million over the last 12 months or by 6.8% and by 457,000 in the third quarter. Including residential and SMB, we grew our Internet customers by 537,000 in the quarter and by 2.3 million or 8.8% over the last 12 months. Video grew by 67,000 in the quarter, better than last year's third quarter decline of 75,000 video customers. The positive performance was driven by churn benefits, particularly when bundled with broadband. And similarly wireline voice declined by only 25,000 compared to a loss of 190,000 in the prior year quarter. Mobile line net adds accelerated again to 363,000 in the quarter. To put what is already a strong third quarter subscriber results into perspective, remember that our Q2 results of 755,000 customer relationship net adds and 850,000 Internet net adds, already included the benefit of our COVID programs. And our third quarter results reflect any churn out of those programs.

Our year-to-date customer growth shown on Slide 6, remains the right metric for industry comparability given different reporting. So in the third quarter, we saw excellent retention rates for our remote education offer. Churn has been similar to regular new customer acquisition churn. We've re-launched the program very late in September with de minimis impact on our third quarter Internet net adds. Going forward, we expect the acquisition volume of this offer to be significantly lower than the original program and given the high retention rate of customers added during the first half of this year, we won't be breaking out this offer separately.

Our Keep Americans Connected program completed in late June and we saw good retention of those customers in the third quarter. In the second quarter, we put approximately 200,000 customers that were past normal disconnection back into current status through a write-off of their debt and so far, the vast majority are paying with minimal difference to normal customers. So the retention has been much better than our expectations. The development of customers' ability to pay generally though, through employment or subsidies remains the key driver for our short-term residential outlook. As I mentioned last quarter, our customer growth performance should be measured by our full year performance rather than a particular quarter. As the third quarter progressed, we could already see the market return into more normal churn activity and net add levels and we expect that to be the case in Q4.

Turning to the financials on Slide 7. As we expected, there continue to be moving parts due to COVID. Now referenced some of those items, which we've again laid out on Slide 9 of today's presentation with full year summary on slide 19. Residential revenue grew by 4% in the quarter, primarily driven by accelerating relationship growth and similar PSU bundle and video mix trends we've seen over several quarters. The 6.9% customer relationship growth in residential was partially offset by a $218 million one-time adjustment for estimated sports network rebates that we intend to credit to video customers.

Due to the accounting treatment, which I'll cover in a moment, not all of that rebate estimate was offset in the current period expense. SMB revenue grew by 1.5% and while revenue growth was slow this quarter due to the first half volume and SMB customers that remain on our seasonal plan, our customer growth has accelerated despite a still tough economic climate for small and medium business.

Spectrum Enterprise revenue declined by 4.3% year-over-year driven by the sale of Navisite in the prior year period and the continued pressure from the wholesale side of the business. While the comparability issue for Navisite goes away after Q3, wholesale, in particular cell tower backhaul has been challenged and probably continues that way until late next year based on current activity. Retail enterprise, which is the vast majority of our Enterprise revenue is growing around 6% driven more by pre-COVID sales in the last six months performance. As Tom mentioned, Enterprise sales activity has now picked back up despite limited on-site access. As those new sales get installed in the subsequent months, we expect Enterprise revenue growth can recover and begin to accelerate next year.

Spectrum Reach's third quarter advertising revenue increased by 17% primarily driven by political. Excluding political, core ad revenue was down by about 10% which is reflected on Slide 9's COVID impacts. So our core very much tied to the economy is coming back and we are significantly better than the second quarter with or without the recent heavy sports load. Obviously, we expect the fourth quarter to benefit from political as well. Mobile revenue totaled $368 million with a $172 million of that being device revenue. In total, consolidated third quarter revenue was up 5.1% year-over-year.

Moving to operating expenses on Slide 8. In the third quarter, total operating expense grew by $36 million or 0.5% year-over-year. Cable operating expenses excluding Mobile, declined by 1.2% year-over-year, or 0.8% excluding Navisite, with a number of COVID related items outlined on Slide 9. Programming decreased 2.3% year-over-year, reflecting the same rate, volume and mix considerations that we've seen in prior quarters. And this quarter includes a $163 million benefit related to sports network rebates. The difference between the $218 million estimated credit to video customers, which lowered revenue and a $163 million programming benefit relates to an expected reduction in sports rights content cost, which is recognized in the produced content line over the remaining life of the contract, similar to the delayed expense recognition in Q2 when games were canceled. From a cash perspective, however, we will provide our customers a bill credit for the rebates received from the sports programming networks when those details are finalized.

Regulatory connectivity and produced content expenses were essentially flat year-over-year and were comprised of lower regulatory and franchise fees, offset by higher video CPE sold to customers and higher sports rights costs. Cost-to-service customers increased by 0.4% year-over-year with meaningful productivity improvement, lower bad debt and higher wages and benefits as drivers. Bad debt expense was down year-over-year given surprisingly -- probably our best ever payment and collection trends. Excluding bad debt from both years, cost-to-service customers was up 7.5% year-over-year in the third quarter, primarily driven by 6.8% customer relationship growth, the hourly wage increase we instituted earlier in the year, COVID flex time and the timing of medical benefits costs.

In Slide 9 of today's presentation, we've isolated the temporary bad debt benefit, as customers pay better than usual and the labor cost increase from an acceleration in frontline wage increases and benefits timing. I expect continued nonrecurring puts and takes on this line item for a few more quarters. Over time, cost to service customers should again grow at a slower rate than customer relationship growth due to lower transaction volume and higher self service trends despite the step up in minimum wages.

Cable marketing and sales expenses declined by 0.7% year-over-year as our unit growth did benefit significantly from lower churn. Other expense declined declined by 2.5% year-over-year primarily due to Navisite costs in the prior year period. And mobile expenses, totaled $456 million and they were comprised of mobile device costs tied to device revenue, customer acquisition and MVNO usage cost and operating expense. Mobile EBITDA is still negative because of customer growth cost, but my -- by much less despite the higher growth.

Another way of describing that trend, is that we have now crossed 2 million lines and our mobile service revenue now exceeds all regular operating cost excluding acquisition in growth related mobile cost. In total, we grew adjusted EBITDA by 13.6% in the quarter when including our mobile EBITDA loss of $88 million. Cable adjusted EBITDA grew by 11.7%. We generated $814 million in net income attributable to Charter shareholders in the third quarter and capital expenditures totaled $2 billion in the third quarter.

Our third quarter capital expenditure shows we've continued to invest to support current and future growth. We invested significantly in continued capacity upgrades at the national and local levels to stay ahead of higher data usage. We have not slowed down on new build including construction in rural areas. We continue to purchase significant DOCSIS 3.1 modems for new connects and swaps as well as a high attach rate for advanced in home Wi-Fi service. We also continue to invest in facility improvements back office systems and mobile store build-outs.

For the full year 2020, we still expect cable capital expenditures as a percentage of revenue to decline year-over-year, but maybe only slightly due to the significant customer growth in related CPE and capacity investments. We generated $1.8 billion of consolidated free cash flow in the third quarter and excluding our investment in mobile, we generated $2 billion of cable-free cash flow, up about $500 million versus last year's third quarter. Currently, we don't expect to be a meaningful federal taxpayer until 2022. We finished the quarter with $1.3 billion of cash and $4.7 billion of availability under our revolver. As of the end of the third quarter, our net debt to last 12 month adjusted EBITDA was 4.3 times or 4.2 times, if you look at cable only.

Earlier this month we issued $1.5 billion of 12-year high yield notes at a yield of roughly 4%. Pro forma for our recent financing activities, our current run rate annualized cash interest is $3.8 billion and we remain comfortable in the middle to high end of our target leverage range of 4 to 4.5 times.

During the quarter, we repurchased 6.1 million Charter shares and Charter Holdings common units totaling about $3.6 billion at an average price of $592 per share. We will always evaluate the best use of our capital to generate long-term returns for shareholders, be it organic investments such as our launch of mobile or network edge-out, accretive M&A, we're purchasing our own shares and probably in that order.

The prioritization of organic investments is because there is high demand for our products across every part of our footprint, which is why we continue to aggressively build out more broadband passings and ensure that our network is well-invested, ready and working for future opportunities. As the environment continues to evolve, our goal is to stay focused on what we do well and to execute a proven operating strategy that works for customers and employees to create shareholder value.

Operator, we're now ready for questions.

Questions And Answers

Operator

(Operator Instructions). And our first question comes from the line of John Hodulik from UBS. Go ahead, please. Your line is open.

Q - John Hodulik {BIO 1540944 <GO>}

Okay, thanks guys.

Couple of questions about broadband. I can't help but notice that you guys talked about the fact that you're competing well really regardless of the infrastructure that you're going against. Obviously strong numbers across the board for the industry in terms of broadband net adds. Can you talk about how you're competing against fiber competitors and sort of market flow share, if you could set some numbers there? And then the other number that stuck out to me was the 600 gigabytes of usage and the continued growth there. It looks like maybe we're a couple of years away from a terabyte on average for broadband only customers.

Tom, how does that effect competition as you look out over the next few years. I think specifically against fixed wireless access, does it make it more difficult for fixed wireless to be a true competitor to wired cable service? Thanks.

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

Well, John. Yeah. How do we compete -- we have -- it's not just the products but the products do matter, and it's obviously what you're selling as a product, how much capacity? How much speed, how much throughput with the reliability is? But also how well you service it and how efficient you are at delivering the product? And so we are competitive with the infrastructure that we have against all of the various competitive infrastructures we go against, fiber, fixed wireless, satellite and copper-based high capacity networks.

And so our network is highly capable, it's easy to augment from a capital investment point of view. It's very efficient to augment and we keep our product sets and our service sets, better than our competitors and we prevail in most -- almost everywhere we operate. How do I think about that going forward with fixed wireless? I think that all of the various opportunities for competition require significant capital investment by our competitors and I think our networks sets up better from a capital investment perspective, going forward. So that we can provide more capacity and more capability at lower costs than our competitors. So, it's a very competitive environment, there's a lot of different ways of making the competition work, but I think our network has superior capabilities and properly managed.

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

John, I would just add, I kind of went out of my way in my prepared remarks to say if you want to compare against some of that competition, you really need to take a look, because of the moving parts throughout the different quarters. You need to look at the year-to-date results and compare that in terms of what's Charter doing in front of competition. As Tom mentioned, we have competition essentially everywhere. We operate, we've had that, it's not new but we're performing very well. And if you take a look at our Q3 year-to-date results, I think that's probably the most indicative way to really look at it and think about the performance.

Q - John Hodulik {BIO 1540944 <GO>}

Okay, thanks guys.

A - Stefan Anninger {BIO 15867691 <GO>}

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

Operator

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

Q - Benjamin Swinburne {BIO 5489854 <GO>}

Thanks, good morning.

Picking up a little bit on the same themes that John asked about, I wanted to ask Tom about the network evolution you discussed. Going to IP video, just so I understand, are you taking down MPEG across the system and is that something that requires a swapping out of boxes, just what are the capital business implications of moving video over to IP on 3.1? Obviously that seems like a big transition from the historical approach. And then again, just going back to the broadband results this year, across the industry, it seems like we've pulled forward penetration in broadband in the United States. You just look at the year-to-date growth, it's an unbelievably strong year across the industry.

So I'm just wondering, I don't know, Chris, if you want to take this one but just thinking about lapping this year, next year and thinking about the quality of the customers you brought on. I know you've seen good churn stats so far but should we be thinking about this pull forward having maybe lapping this next year and next year is going to be a below average year. I don't know if you have any thoughts on sort of where we go from here as we come out of COVID, which is obviously just pulled all this growth into 2020. Thank you, both.

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

Okay, Ben, so the -- how does the network work? Right now, we actually run three, actually more than three but I'll -- three major networks inside of one physical infrastructure. So we have DOCSIS 3.1 which is a -- which we use capacity to deliver IP-based services to specifics modems households and customers.

We also have a DOCSIS 3.0 infrastructure inside of our network and we have a QAM-based video infrastructure. Most of the network is still dedicated by QAM-based video, the traditional cable TV service, and delivered to consumers that way. So you can actually -- and today, we have multiple ways of delivering video to our customers and other services. And we have 10 million app-based streaming products -- devices connected to our network, where the customer has downloaded an app and we're feeding that app -- our app with a full bundle of video packages. And the consumer brings their own device.

We also have a significant distribution of QAM-based traditional cable TV services. And we are planning on mixing the two together in the same device and we do, for instance, we have Netflix on our set-top boxes in a device we provide, but it's actually being delivered through a different path to the box. So the box will look at video from the traditional cable TV path and we'll also look at the new IP path and combine them together in a seamless experience for the customer. So we have the ability to manage CPE and customers through time and manage the way we use our network in an efficient way to provide a full range of services. And with regard to MPEG, even if we deliver IP video, we'll -- as we do, we still use MPEG to do it. That's the digital format the video is in and there is an opportunity through compression going from MPEG-2 which is still widely distributed by us to MPEG-4 and there's opportunity through the addition of products to, what we call switched video, which can be either IP or MPEG, traditional QAM based MPEG, and we can manage how much is switched, how much is in MPEG-2, how much is in QAM, how much is in DOCSIS 3.0 and how much is in DOCSIS 3.1, and actually run all of that at the same time. So we have a lot of room and I think the key takeaway is that traditional video is still the largest single -- it's more than half the capacity of the infrastructure.

Q - Benjamin Swinburne {BIO 5489854 <GO>}

Yeah, but you don't need to replace boxes in order to move that if that network...

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

No.

Q - Benjamin Swinburne {BIO 5489854 <GO>}

Okay. The key point here. Got it.

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

Ben on your broadband question, I'll take a crack at it and Tom may want to add, as more to it. The industry is growing at a faster pace and we've taken in a higher amount of share across all areas of our footprint and infrastructures, as Tom mentioned. Where you're seeing that come from is, broadband networks and also the acceleration of mobile-only in addition to the significant share shift that we're seeing is cable, generally. And I don't think whether there was a pull forward or not, I don't know, but it doesn't go backwards. I think the demonstration, the need for the product is there. I don't think it goes away. I think it's a permanent either shift or trend of reducing the mobile-only and requiring more broadband in the household. And what I think we are seeing already and I mentioned in the prepared remarks is late in Q3, you could already start to see the market move to more normal transaction activity. And that includes both churn and sales. We think that's indicative of where Q4 is probably heading and I think probably for next year as well, you'll have higher levels of mover churn and market churn and as a result, you have higher sales, as that moves through and I think next year right now probably looks more like a normal years as opposed to 2020.

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

The other thing I would add just in terms of longer run trends, yes, COVID had some impact on the broadband adoption but so does the change in the video business that's going on rapidly. And as more and more people are using IP connected devices to bring video services that traditionally would have been delivered either over the air or by cable, that increases overall demand for broadband in the home. And I think that also is simultaneously going on. So you have a sort of overall demand change as a result of what's really going on in video, and so I don't know that it changes adoption rate so much going forward but as it just shifted the entire amount of people that would be interested in having in-home broadband service.

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

Which kind of ties into John's question about the suitability of wireless access over time when you have that kind of throughput going through.

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

I agree.

Q - Benjamin Swinburne {BIO 5489854 <GO>}

That's good point. Thank you.

A - Stefan Anninger {BIO 15867691 <GO>}

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

Operator

Our next question comes from the line of Jessica Reif Ehrlich from Bank of America. Please go ahead. Your line is open.

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

Thank you. So even with the increase in broadband demand, which is quite evident. You posted video net ads for the second quarter in a row, significantly bucking industry trends. So first I have trends in fourth-quarter indicated that you can continue those trends or was it COVID related, the pull-through that you were talking about. And second, what specifically about your offering, do you believe consumers are responding to? And then just as a second topic. Tom, just a follow-up on your advertising comments, you said that the core underlying advertising is 90% back to normal, what do you think the drivers there, because it still seems that local businesses are struggling? And so what are you doing differently or what metrics you do -- what data are you using that's different?

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

All right, well. If you look at our overall connectivity growth as Charter versus the industry, we have higher and faster connectivity growth, generally speaking, to the industry. And as a result of that, we're pulling through video with that growth if you just think about overall video penetration as a percentage of household and you think about changing households over to your network, you're going to pull through a certain percentage of the video and if you grow fast enough you'll grow video as a result of that, and we said that in the last call in terms of why we think our video growth is positive. We don't think that the overall video marketplace has changed, meaning we still think fat bundles of very expensive video or under pressure and we will continue to be. And so you're going to have continued erosion of that bundle, we think through time, but we're just growing faster than that erosion. With regard to ad sales, I'll let Chris answer that, but I want to say one thing about local businesses, they are under duress but our SMB growth rate is higher this year than it was last year, in the third quarter. And so we're actually seeing a lot of -- yes, there is a lot of damage out there, but there's also a lot of reinvention and a lot of new business formation and at the very small business level and we're taking advantage of that.

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

Jessica, the spectrum reach, which is our advertising work, as you mentioned, is back to 90% of prior year on the non-political so to local advertising. And from what I've seen so far, most of our peers are reporting kind of a similar range of their core advertising being back. And so I don't think we're that unique, I think for the industry, some of that benefit was the lack of advertising in Q2 and people wanted to get back into the market, some of that was tied to work a lot of that, was tied to what Tom said, is where the SMB spaces is behaving well for us on the business side. And, but also the sports timing in the third quarter, you had a doubling or in some cases tripling of sports activity inside of the third quarter related to a lot of the delayed seasons for the different sports and that was encapsulated inside of Q3, so that admittedly helped. And from a Charter specific perspective, we have New York City and LA, and they've been more locked down than other markets. So from an economic perspective, we have a slight drag or delay in that returning relative to others. But if you really step back, despite the overall market having negative video trends and everything that's said about the traditional advertising space, we have a good runway for growth in front of us because of our ability to monetize the long tail of the inventory by tools that we've developed to really drive impression-based viewing measurement and to be able to sell our product, our advertising product on that basis. So, traditional channels that weren't able to be monetized are now able to be monetized and packaged in a really different way and sold at a different price and together with addressability and a lot of the additional interactive advertising features that you're well aware of that we've been adding to the portfolio. So, even in an environment where video is slightly declining. I think absent to pandemic, we have the ability to grow our core advertising in political and non-political years alike. And so that business is -- outside of the pandemic that business is actually in very good shape.

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

Great, thank you.

A - Stefan Anninger {BIO 15867691 <GO>}

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

Operator

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

Q - Jonathan Chaplin {BIO 4279061 <GO>}

Thanks guys. Two quick ones. So, Chris, you mentioned that next year would be a more normal broadband year but we -- you've been accelerating broadband subs ever since the Time Warner Cable acquisition. What do you think of is a normal broadband subscriber growth here? Is that sort of 6% year-over-year growth? And then...

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

We love you, Jonathan. Alright, I'm sorry. Next question.

Q - Jonathan Chaplin {BIO 4279061 <GO>}

I'd still expect an answer to the question, though Chris.

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

Yes.

Q - Jonathan Chaplin {BIO 4279061 <GO>}

And then on EBITDA growth, the contribution from wireless this quarter was also M&A. I assume that just continues -- the losses continue to recede and that will be a propellant for EBITDA next year as well. Do you have a sense of what that could contribute to year-over-year growth for EBITDA next year?

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

So on both of those kind of -- kind of bit of guidance questions which isn't what we do. The honest answer to your first question is we don't know. And if we see trends reverting back to normal, which would mean more normalized growth, does that mean more like 2019. Does that mean continued acceleration somewhere? Yes, I guess is the answer to both of those questions. I don't know, but I think it's going to be good either way, and so we're really positive on the outlook for broadband, obviously as we look further out, to the extent that we're doing rural build and expanding our footprint to the extent that mobile really has a significant impact both the acquisition as well as churn, to the extent that there is additional mobile substitution that declines for all the reasons that we talked about before, all of those things will be positive relative to our normal growth rate. And so we need to see how all that develops.

The wireless side and to your point, you can look at it a few different ways, you can take a look at our losses from mobile line, which is doing very well. You can think about it in terms of what I said before is that once we got to 2 million lines which we crossed over inside this quarter that it's now an incrementally positive business but for the subscriber acquisition cost. so it's already EBITDA positive if we decided to stop growing, which of course we won't do. So the answer to your question is, yes, it's going to continue to get better, but the amount that it continues to get better in terms of its contribution to our EBITDA performance really depends on the growth rate of wireless and subscriber acquisition cost. The faster you grow, the more you're going to spend and we're going to try to grow as fast as we can. So it depends on growth.

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

Yeah, it's a way to think about mobile is -- yes it's EBITDA positive going forward, and it's -- and as it's currently priced, but if you grow mobile rapidly as we are, it grows your broadband rapidly too.

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

Correct.

A - Stefan Anninger {BIO 15867691 <GO>}

Thanks, Jonathan.

Q - Jonathan Chaplin {BIO 4279061 <GO>}

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

Operator

Our next question comes from the line of Kannan Venkateshwar from Barclays. Go ahead, please. Your line is open.

Q - Kannan Venkateshwar {BIO 15351027 <GO>}

Thank you. Chris, I guess, a couple for you. The first is on the gross additions front, I mean obviously because gross adds have been really strong this year and many of them have come in at a lower price and in general gross additions come in at a lower price, so when you look at ARPU next year, it should be stronger than normal because of the cohort shift this year and the bigger volume of gross additions. So I just wanted to understand if that's the right way to think about it or if there are other things that offset that benefit.

And then secondly, in terms of home passings you guys have been, I think growing at more than 2% this year, which is higher than household formation and higher than most others in the industry. If you could give us some sense of the attach rates for these newer homes passed versus your existing base to give us a sense of what is the mix of these newer homes looks like. That would be useful. Thanks.

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

So I think the answer to your first question on gross additions is, it's going to be a little bit of a mixed bag. Q2 of this year definitely had higher gross additions for all the reasons that we talked about inside of Q2. Q3, did not and as I mentioned, the activity levels dropped significantly both on those particularly related to churn, which also has the impact of reducing sales across the entire market because you have less flow. And so inside the third quarter, one of the reasons our marketing and sales cost were so low despite the significant growth that we had was tied to that very fact. So I think you're going to see a mixed bag inside of next year as it relates to ARPU impacts from promotional pricing roll-off. On top of that, I would argue that the biggest driver of our ARPU development really is less about the individual PSU pricing at roll-off and it ties much more to the amount of single play sell-in. And so that's the biggest driver that's going on, together with the video-tier mix. So when you think about our success in selling Spectrum Stream and choice and essentials, products has a bigger impact in the mix that you were referring to.

On the homes passed, when we do new construction and depends is what we call brownfield or greenfield but we have pretty steady penetration curves over each vintage if you want to call it that, if what we're building and that's what gives us a lot of confidence to go do more of it because we can see at a high level of consistency in terms of our ability to get to very high terminal penetrations when we built into markets. And so, that's what gives us confidence in our ability to go extend that investment concept. I don't know if that's helpful in answering the question but we'd like the penetration, the speed and the curve of the penetration that we're getting in these new passings.

Q - Kannan Venkateshwar {BIO 15351027 <GO>}

Got it. Thank you

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

Yup.

A - Stefan Anninger {BIO 15867691 <GO>}

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

Operator

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

Q - Craig Moffett {BIO 5987555 <GO>}

Alright, thank you. Two questions, if I could. First, if I can just stay with what you were just talking about with the adoption curves in new markets. Can you share with us how much of this quarter's growth came from newly passed homes or is there home passed within the last 24 months or so, just to get a sense of where we're seeing penetration of newly opened markets versus where we're seeing increases in penetration of mature market?

And then, separately, just given how promotional the wireless market has become in the last few months, over the last month or so in the wake of the iPhone launch, how does that affect your thinking about your own promotional stance in customer acquisition for wireless? And, how should we think about what cost that might fare for the fourth quarter?

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

So Craig, why don't I take the first one and Tom could grab the second? I don't have the number in front of me, but it's not the material driver for our net additions. The new passings construction, it's been relatively small when you consider that compared to our 52 million passings overall. It's helpful but it's not the material driver of our growth. A simple way to think about it is if you think about Greenfield new construction anywhere and historically past couple of years, than 500,000 to 600,000 homes. And so that gives you what you would need to go model and save to apply an adoption curve to that number of passings and you can get to a number and what you'd see is, it's meaningful, but it's not material to our overall Internet net additions growth rate.

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

Yeah, I'd say it's meaningful but not material.

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

I agree with that.

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

Promotional -- our basic proposition when you think about wireless is that we can save consumers a lot of money. And if you look at the average wireless bill most households are paying, they can connect to us and buy the right package from us and save a significant amount of household spend, telecom spend and reallocate that. So that's our primary objective. And we don't -- we have the ability to switch customers over, who already have a wireless account to our product and we're not driven by new hardware for the consumer to drive our business. The consumer can bring their hardware with them and connect to us and save money. And so yes, we are oriented toward making our price successful in the marketplace, and we'll have to compete with that price, but we already have a significant price discount to what most people are paying for their wireless service and as a result of that -- and we've had accelerating growth in wireless connections and so we're offering real value to consumers and real overall savings by having them connect to us, both for their broadband and their wireless products.

Q - Craig Moffett {BIO 5987555 <GO>}

Thanks. And Tom, I just wanted to say I was delighted to see the extension of your contract this morning. So, are we to understand that is, you are now under contract until the end of 2024?

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

Yes, more time in the salt mine.

Q - Craig Moffett {BIO 5987555 <GO>}

Then I think I can speak for a lot of Charter shareholders in saying that, I think they're going to be a lot of people that are delighted to have you there.

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

Oh, thank you very much. It's very kind of you to say.

A - Stefan Anninger {BIO 15867691 <GO>}

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

Operator

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

Q - Philip Cusick {BIO 5507514 <GO>}

Hey, guys. Two, if I can. First a follow-up on Jessica's question, what is the video attach rate to broadband sales these days and how has that changed in the last few years? And second, a little more on wireless, you talked about a network build over time with the inside-out strategy. How does that take advantage of spectrum and does cellular get integrated into your home-routers over time, do you build that in dense outdoor markets like Comcast talked about yesterday? What's the sort of the plan over time?

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

Yeah, So, I mean the attach rate of video to broadband is, it has been declining steadily and that's because the overall penetration of video -- traditional video is declining steadily. And so the reason we are growing video isn't because that ratio has changed, it's because we're growing broadband faster and therefore pulling some video through with it.

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

Interesting stat attached to that is related, is we really don't sell video, we sell the packaging connectivity service. If you asked how many video single play do you sell? It's about 5% of our video sales are coming through in single play. So we really don't sell video, we sell it as an application or service attached to the connectivity service.

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

Yeah. And with regard to your second question...

Q - Philip Cusick {BIO 5507514 <GO>}

Maybe I wasn't clear...

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

Go ahead.

Q - Philip Cusick {BIO 5507514 <GO>}

I was going to say, so what is -- if 95% of your sales are...

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

Attached to broadband.

Q - Philip Cusick {BIO 5507514 <GO>}

Attached to broadband and not -- yes, so what is video as a percent of?

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

Yeah, we're not providing that I think for competitive purposes, but we're saying, it's been declining and that hasn't changed. We've just sold more broadband, which is why we have more video.

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

Okay, thanks. And so this inside-out strategy and how do you use Spectrum and can you put it in the house? Interestingly, our Wi-Fi capabilities and the available spectrum for Wi-Fi has continued to improve. The FCC has just granted significant amounts of Wi-Fi spectrum to the public for use and we plan to use that spectrum inside dwellings. And so, when I -- when we think about spectrum and the spectrum we recently got with CBRS, it's can you augment your Wi-Fi spectrum with the CBRS spectrum to move traffic on to your own network, that you might be paying someone else to carry? And the answer is yes. And you can do that in an efficient way, depending on the location and where you put the radio in such a way that you can actually reduce your overall cost and as a result of that cost reduction, you get a return on investment on the capital you spend on both the spectrum in the radios that you've deployed.

There were applications where CBRS spectrum or Wi-Fi spectrum used differently than it has in the past but can be used in Enterprise Connectivity using 5G factory kind of notions where you would control the inside of a building using spectrum. So there are individual products, where you would want to have multiple radios potentially in the same environment. Whether you need to do that in a household in the short run or not, is not that clear because there's so much Wi-Fi spectrum available, but there are applications that I can think of like farms and other places like that where CBRS could cover the whole property, 100 acres or 500 acres of property or even more for connectivity services. So it's a tool. We look at spectrum as a tool to extend connectivity and we plan to use it in ways where it takes our cost structure down.

Q - Philip Cusick {BIO 5507514 <GO>}

That's helpful. Thanks, Tom.

A - Stefan Anninger {BIO 15867691 <GO>}

Thanks, Phil. Operator. We'll take our next question, please.

Operator

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

Q - Bryan Kraft {BIO 20667157 <GO>}

Hi, good morning. Wanted to follow up I guess on a couple of topics. So, one for Tom. And then one for Chris. Tom, I wanted to follow up on your earlier comments on the HFC network. I think there's been more talk recently in the industry about operators over building with fiber-to-the-home, the advantage is obviously being upstream in latency. How are you thinking about the trade-offs now between deploying more fiber-to-the-home versus continuing with HFC, particularly given some of the changes in upstream traffic pattern during COVID? And can you just help us to understand how that upstream bandwidth latency improves as the DOCSIS infrastructure evolves?

And then, Chris, I wanted to follow up on the build-out or the inside-out strategy that Tom mentioned in his prepared remarks. Can you give us any color on the magnitude or the significance of the capital investment that we could expect there and maybe just some timing comments, broadly speaking, and is that a long time to reach positive ROI or is it a fairly short duration? Thank you.

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

So, Bryan. On the HFC plan, we think that there is a lot of capacity in the HFC plan, but both downstream and upstream and we think that given the current marketplace and utilization behaviors of consumers that we have plenty of upstream capacity and we have a pathway using DOCSIS 3.1 technology and later DOCSIS 4.1 technology to continue to increase that and we have a vision that in the event that there is a transformative product set that needs upstream, that would create value for consumers and for us that we could fairly rapidly upgrade our plan to get a massive change in upstream capability.

So we build with fiber on the increment because it's cheaper. But we think that the HFC plan can be equal to fiber from a capability latency capacity perspective for years to come. And we think that with relatively small capital investments compared to replacement cost new, which is what fiber is that we can upgrade the network and be competitive for a very long period of time.

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

And as it relates to the CBRS build out, it's really a function of a few variables. One is the number of subscribers that you have, the more you have the more economical the build would be. The usage of those subscribers, the amount of Wi-Fi offload that you can get already. What is your rate on MVNO and what's your density in the build cost? And as Tom mentioned, we wouldn't be building just to build a network, we would be building tied to a guaranteed effectively cost reduction, and so the ROI is not only relatively quick, but it's very clear and there is very low risk and so we're not building any inside out strategy just to have a network or for other network type reasons other than the cost reduction and I don't think that it's going to be material in the short term, I think it will occur over a many multi-year period. And you could argue that as the mobile retail store build out declines for mobile that could be substituted over time with some additional build out, which has a direct correlation to cost reduction. And as we start to do that, we're not doing that yet, we'll probably provide a little more color on what we think the effective pay back of that is, but I think the thing you should take comfort is that we're not building just to build, and it's going to be tied to a clear cost reduction in ROI.

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

Yeah. The thing I would add to it is, yes, we have the $460 million of cost for CBRS spectrum. But the incremental capital is very specific to the location and the amount of traffic that we would save on essentially radio by radio kind of investment. It doesn't require building out a complete footprint, it's actually opportunistic by location.

Q - Bryan Kraft {BIO 20667157 <GO>}

Great, thanks.

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

Thanks, Brian. James, we have time for one more question.

Operator

Thank you. And our final question comes from the line of Michael Rollins with Citi. Go ahead, please. Your line is open.

Q - Michael Rollins {BIO 1959059 <GO>}

Thanks, and good morning. So over time you've given us a lot of insight into broadband consumption trends. I was curious if you can give us an update of how your video customers are now engaging with your platform, especially, as you're growing subs year-to-date with respect to maybe what percentage of your customers engage with your VOD platform or the digital applications that you offer or the cable networks to offer and need to be authenticated through Charter and then if you take all of that in aggregate, how much time they're spending with you guys? And then, as you roll that up then, how does that in struck fewer video strategy going forward in terms of the way you want to aggregate and distribute content? Thanks.

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

I don't know that I can answer that directly except to say this. We track what our customers do with our video products and we also track how they radar applications and what the customer experiences and what our availability of content is to sell to the consumer. And we try to mix and match that in a way that we create an overall value in the relationship we have with the customer, but also create a product that makes money. And we've had some success in managing new ways of delivering video. As I said, we have about 10 million users who are getting their service through applications as opposed to traditional hardware. And so we look at the business as evolving. We think that people will continue to buy rich packages for years to come. But we also think there are other opportunities to sell a variety of video services to consumers in different formats and that we can improve the customer experience by being a good place for consumers to interact with us to get those video services. And so we're working toward that and we are making some success, and we're actually optimistic in the very long-term about our video business.

Q - Michael Rollins {BIO 1959059 <GO>}

Thanks.

A - Stefan Anninger {BIO 15867691 <GO>}

Thanks, Mike. That concludes our call.

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

Thank you, everyone.

A - Stefan Anninger {BIO 15867691 <GO>}

Thank you all.

Operator

Ladies and gentlemen, this concludes today's Charter's third quarter 2020 investor call. We thank you for your participation. You may now disconnect.