Q3 2021 Earnings Call

Company Participants

- Chris Winfrey, Chief Operating Officer
- Jessica Fischer, Chief Financial Officer
- Stefan Anninger, Investor Relations
- Thomas M. Rutledge, Chairman and Chief Executive Officer

Other Participants

- Ben Swinburne, Analyst
- Brett Feldman, Analyst
- Craig Moffett, Analyst
- Doug Mitchelson, Analyst
- Jessica Reif Ehrlich, Analyst
- John Hodulik, Analyst
- Jonathan Chaplin, Analyst
- Kutgun Maral, Analyst
- Peter Supino, Analyst
- Phil Cusick, Analyst
- Vijay Jayant, Analyst

Presentation

Operator

Good day and thank you for standing by. Welcome to the Charter Third Quarter 2021 Investor Call. At this time, all participants are in a listen-only mode. After the speaker's 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 2021 Investor Call. Presentation that accompanies this call can be found on our website ir.charter.com under the Financial Information section. Before we proceed, I would like to remind you that there are a number of risk factors and other cautionary statements contained in our SEC filings, including our most recent 10-K and also our 10-Q filed this morning.

We will not review those risk factors and other cautionary statements on this call. However, we encourage you to read them carefully. Various remarks that we make on this call concerning expectations, predictions, plans, and prospects constitute forward-looking statements. These forward-looking statements are subject to risks and uncertainties that may cause actual results to differ from historical or anticipated results. Any forward-looking statements reflect management's current view only and Charter undertakes no obligation to revise or update such statements or to make additional forward-looking statements in the future. During the course of today's call, we will be referring to non-GAAP measures, as defined and reconciled in our earnings materials. These non-GAAP measures, as defined by Charter may not be comparable to measures with similar titles used by other companies.

Please also note that all growth rates noted on this call and in the presentation are calculated on a year-over-year basis unless otherwise specified. On today's call we have Tom Rutledge, Chairman and CEO; Chris Winfrey, our COO and Jessica Fischer, our CFO.

With that let's turn the call over to Tom.

Thomas M. Rutledge {BIO 1818216 <GO>}

Good morning and thank you, Stefan. We performed well in the third quarter with good customer growth and very strong financial results. However, we're operating in an unusual environment where the market effects of COVID-19 have not yet normalized. Market churn remains historically low such that net gains are being driven by much lower transaction activity. Despite that for the full quarter, we added 185,000 customer relationships with customer growth of 3.3% year-over-year. We also added 265,000 Internet customers in the quarter and 1.3 million over the last year, for a year-over-year growth of 4.4%. We added 244,000 mobile lines and supported by lower churn in a more tenured customer base. We grew our adjusted EBITDA by a strong 13.9% and our quarterly free cash flow by over $700 million year-over-year.

Our view is that we have a long and robust runway of customer growth ahead of us. Today, our network passes over 54 million homes in businesses and we're doing business with approximately $32 million of them, leaving us with over $20 million opportunities to create new customer relationships. There are also approximately120 million mobile broadband lines in our footprint and we're currently serving 3.2 million of those. We're currently very under-penetrated.

We're looking forward -- looking forward, we remain focused on improving both the quality and value of our products as data usage in the home and outside the home continues to increase at a rapid pace. Earlier this month we launched our new and highly attractive unlimited multiline pricing structure, which allows customers to save even more on their mobile bills. Early next year we will launch a field trial, our CBRS small cells in a full market area, allowing participants to attach to our CBS -- CBRS small cell access points when they are outside of WiFi coverage, providing our Spectrum Mobile customers with even faster speeds, while improving the economics of our mobile business.

We also continue to deliver improving wireline connectivity products. Today, over 70% of our Internet customers, subscribed tiers that provide 200 megabits or more of speed and our new WiFi 6 routers and Spectrum WiFi pods, managed by our advanced home WiFi platform in our My Spectrum app provide customers with complete home coverage and greater control of their home networks, and connected devices. As expected, we continue to see very high demand for data by our customers. During the quarter, non-video Internet customers used over 600 gigabytes per month, stable as of late, but more than 30% higher than pre-pandemic levels. And today, close to 20% of our non-video Internet customers use a terabyte or more of data per month. In order to increase the capacity and speed on our network for next-generation products and services. We've developed a multifaceted approach to our network evolution, comprised of a number of technologies, which will be deployed where they make the most sense strategically and economically, delivering the very fastest speeds and lowest latency at the lowest cost and time to deploy.

We continue to expand our capacity by splitting nodes but we have a cost-effective approach to deliver multi-gigabit speeds in the downstream and a gigabit per second symmetrical speeds in both downstream and upstream directions. All using our deployed DOCSIS 3.1 platform and high splits, which are currently being tested in the market, not only allow for increased speeds in the near term, but are also a capital-efficient way, as they currently use deployed DOCSIS 3.1 customer premises equipment and reduce the need for node splits which require an average consumer bandwidth utilization, which require -- which were acquired as consumer bandwidth utilization increase. So what I'm saying there is that the high split actually uses the capital that was needed for node splits. We also continue to actively develop our DOCSIS 4.0 technology plan architecture and rollout, which allows us to cost effectively and cost efficiently offer greater gigabit speeds in both the downstream and upstream and of course we're already using fiber to the home technology in a number of use cases across our footprint, including rural areas such as odd off build and an into use and greenfield build areas where the economics make sense.

Ultimately, our plant will be comprised of the most bandwidth-rich and cost-effective technologies, enabling us to deliver the fastest speeds in the industry in a more cost-efficient manner than competitors ubiquitously across 24 million passings and growing. So with our network and product capabilities, we remain confident in our ability to grow our customers penetration, EBITDA and free cash flow for many years to come.

Before turning the call over to Chris. I want to make a few comments about our recently announced management changes and promotions. On October 19, we announced that John Bickham had been appointed Vice Chairman, ahead of his previously announced retirement at the end of 2022. I've worked with John for three decades and at every turn his knowledge, leadership and steady hand had not only contributed greatly to the success of the companies we led, but made a profound impact on the growth for our industry. I'm grateful that John will continue to serve Charter in his new capacity as strategic advisor to me and the executive team. We also recently announced that Chris Winfrey had been promoted to Chief Operating Officer. Over the past 11 years, Chris' influence on Charter has expanded far beyond that of a typical CFO. He has been actively involved in all our business operations and that deep knowledge combined with his previous operational experience in Europe will serve us well as Charter's next Chief Operating Officer. And John's guidance as Vice Chairman will help ensure a successful transition for Chris into the COO role. As Chris moves to COO, we've also promoted Jessica Fischer previously, Executive Vice President of finance to Chief Financial Officer. Jessica's leadership and financial expertise has benefited Charter for many years, both in her roles at Charter and while at E&Y, where she was a key advisor during our 2016 transactions.

In her new role, Jessica will have an even greater impact on Charter's success. Finally, Rich DiGeronimo, our Chief Product and Technology Officer adds oversight of network in software operations to his current responsibilities leading the product and technology organization. With expanded responsibility Rich will both shape the customer experience and lead our networks critical evolution into the 10G future delivering to our customers a superior broadband connectivity experience.

Now I'll turn the call over to Chris.

Chris Winfrey {BIO 16326284 <GO>}

Thanks, Tom. I wanted to make a few comments about what we're seeing in the marketplace and briefly discuss our long-term market opportunity. Residential customer activity particularly churn has taken longer than we expected to return to normal levels. The overall lower level of market churn has reduced sales opportunities available to us. But interestingly, the value of net additions is even higher in this environment, we still maintain good continued customer growth.

Given that the start of Q4 feel similar to Q3, we now expect current year Internet net adds to look more like 2018 than 2019 as record low churn of every type has not offset the higher loss of selling opportunities from cust -- from competitors churn. That lower overall transaction volume has exposed the high level underlying EBITDA and cash flow growth that is normally masked by even higher unit growth. With fewer new customers than usual, we have a lower mix of customers on promotion, benefiting our customer relationship ARPU. Additionally, the lower sales volume has driven lower expense and capital expenditures associated with sales and installation, lower upfront provisioning cost, and fewer service calls and truck rolls which are more frequent with newer customers.

Ultimately market churn will return driving more sales opportunities and a return to normal net addition environment for Charter. As that happens, we would expect a reversal of some of the transactional financial benefits I mentioned a moment ago. We thought that would happen by the summer of this year, but it hasn't happened quite yet. Lower transactions have lowered cost and at the same time our cost per existing customer relationship continues to get better.

Our service model drives lower service calls and truck rolls with nearly 100% insourcing of our call centers now, improving tools for our employees, and increasing customer usage of our digital and automated platforms. The service churn and expense benefits of those initiatives will continue for years. We've also continued to invest in our product, marketing, sales capabilities and our yield for close rate has been growing, albeit on lower sales traffic.

And we continue to grow Internet customers across our footprint, regardless of the competitive technology or infrastructure. Earlier this month, we announced a new mobile multiline pricing designed to drive new mobile relationships, more lines per relationship and ultimately stimulate overall market movement and sales opportunities for all of our products, including Internet. Mobile and wireline broadband are converging into a single connectivity service package and we offer the nation's fastest overall mobile service combined with our WiFi and best mobile pricing, which offers unlimited service for just $29.99 per line per month when households have two or more lines. An average household served by the big three mobile broadband competitors with two lines in mobile broadband and wireline broadband spend approximately $200 per month on its telecom services. With our pricing and packaging a spectrum customer can purchase our Internet product and two lines of our unlimited local product with faster service for nearly 50% less, and with more lines means more savings.

And customers can also combined by the Gig rate plans for $14 per gig with one or more unlimited lines to take advantage of the new $29.99 unlimited line pricing. Today, we have roughly 2 million of our 54 million passings subscribed to this converged connectivity service.

As Tom mentioned, we have a very long runway for customer and market share growth, created by an ability to save customers hundreds or even thousands of dollars per year with better product capabilities and service. As Tom mentioned, Jessica has been promoted to CFO, I had the opportunity to work with Jessica for over 10 years. Five years while she was partner at E&Y advising us including on the structure of the Time Warner Cable and Bright House transactions. In the past five years she's has been a Charter, she has steadily grown on responsibilities from initially overseeing tax and treasury to adding procurement, internal audit, Investor Relations, and acquisitions, and capital markets activities, all of which has prepared her to take over the CFO role.

Now I'll turn the call over to Jessica to cover our Q3 results in more detail.

Jessica Fischer {BIO 22149274 <GO>}

Thanks, Chris. Now let's turn to our results on Slide 5, we will continue to reference the COVID schedules we provided last year and included again on Slide 17 and 18 of today's presentation to help with year-over-year financial comparisons. We grew total residential and SMB customer relationships by 185,000 in the third quarter and by 1 million in the last 12 months. Including residential and SMB, we grew our Internet customers by 255,000 in the quarter and by 1.3 million or 4.4% over the last 12 months.

Video declined by 121,000 in the third quarter, wireline voice declined by 216,000 and we added 244,000 mobile lines in the quarter. As of the end of the quarter, we had 3.2 million mobile lines, despite the lower number of selling opportunities from cable sales, we continue to drive mobile growth with our high-quality, attractively priced service rather than using device subsidies. Moving to our financial results starting on Slide 6. Over the last year, we grew total residential customers by over 900,000 or 3.2%. Residential revenue per customer relationship increased by 5.6% year-over-year given last year's third quarter, residential revenue adjustment of $218 million for sports network credits that we provided to video customers, as well as promotional rate step-ups.

Video rate adjustments that pass through programmer rate increases and a greater mix of longer-tenured customers. Those were partially offset by the same bundle and mix trends we have seen over the past year, including a higher mix of non-video customers and a higher mix of choice essentials and stream customers within our video base. Keep in mind that our residential ARPU does not reflect any mobile revenue. As Slide 6 shows, residential revenue grew by 9.4% year-over-year, reflecting customer relationship growth in last year's COVID impacts. Turning to commercial, SMB revenue grew by 7.5%. This growth rate reflects COVID-related impacts of $11 million that negatively impacted the third quarter of 2020. Excluding this impact from last year, SMB revenue grew by 6.3% faster than the second quarter growth when making the same COVID related adjustments.

Enterprise revenue was up 6.4% year-over-year, and included some one-time fees which were a benefit in this quarter. Excluding the benefit from this year, enterprise revenue grew by 3.8% and by 6.5% when additionally excluding all wholesale revenue. Enterprise PSUs grew by 4.5% year-over-year. Third quarter advertising revenue declined 15.1% year-over-year primarily due to less political revenue in 2021, partially offset by COVID impact last year. When compared to the third quarter 2019, advertising revenue declined by 0.8% primarily due to local ad revenue, particularly auto, mostly offset by our growing advanced advertising capabilities. Excluding auto, the third quarter advertising grew by 8% over the third quarter of 2019. Mobile revenue totaled $535 million with $201 million of that revenue being device revenue and other revenue grew by 6.5% year-over-year.

In total, consolidated third quarter revenue was up 9.2% year-over-year. Moving to operating expenses on Slide 7. In Q3, total operating expenses grew by $460 million or 6.2% year-over-year. Similar to revenue, the year-over-year operating expense growth rate is elevated due to 2020 COVID effects, programming increased 9.4% year-over-year due to last year's third quarter benefit of $163 million related to sports network rebates and higher programming rates.

These factors were partially offset by a higher mix of lighter video packages such as choice essentials and stream. Regulatory connectivity and produced content grew by 3.5%, primarily driven by higher regulatory and franchise fees and video CPE sold to customers. Cost to service customers were essentially flat year-over-year compared to 3.3% customer relationship growth. Excluding bad debt, cost to service customers declined by 2.8% year-over-year and that's despite a higher number of customers and outsized hourly wage increases that we put through earlier this year.

Bad debt was higher by $47 million year-over-year, but still nearly $75 million lower when compared to the third quarter of 2019. Marketing expenses were also flat year-over-year primarily driven by the lower sales environment. Mobile expenses totaled $607 million and were comprised of mobile device costs tied to device revenue, customer acquisition and service and operating costs. And other expenses grew by 3.8% driven primarily by higher corporate costs, partially offset by lower advertising sales expense year-over-year given the absence of political revenue this year. Adjusted EBITDA grew by 13.9% in the quarter. Turning to net income on Slide 8, we generated $1.2 billion of net income attributable to Charter shareholders in the third quarter versus $814 million last year. The year-over-year increase was driven by higher adjusted EBITDA. Turning to Slide 9, Capital expenditures totaled $1.9 billion in the third quarter, below last year's third quarter spend of $2 billion, driven by lower scalable infrastructure spend primarily due to a stabilized level of network traffic growth and investments made earlier this year.

A decrease in line extension spend driven by housing build delays due to supply chain constraints in the housing industry and lower support capital primarily due to timing. We spent a $119 million on mobile-related CapEx this quarter, which is mostly accounted for in support capital and was driven by investments in back office systems and mobiles to our build-out. For the full year 2021, we expect cable capital expenditures to be relatively consistent as a percentage of cable revenue versus 2020. As Slide 10 shows, we generated nearly $2.5 billion of consolidated free cash flow this quarter, an increase of $722 million or 41.2% year-over-year. We finished the quarter with $87.9 billion in debt principal. Our current run-rate annualized cash interest, pro forma for financing activity completed in October is $4.1 billion.

As of the end of the third quarter, our net debt to last 12 month adjusted EBITDA was 4.32 times. We intend to stay at or just below the high end of our 4 times to 4.5 times leverage range. During the quarter, we repurchased $5.3 million Charter shares and Charter Holdings common units, totaling about $4 billion at an average price of $753 per share. Year-to-date, we purchased $12 billion of our stock and common units and since September of 2016, we have repurchased $51.4 billion or 37.5% of Charter's equity at an average price of $436 per share.,

Our results show that even in this unusual environment, our flexible and robust business and service model which benefits economically from lower customer transaction activity still drive outstanding EBITDA and free cash flow. Coupling that with our unique balance sheet structure and improving capital allocation strategy, we will continue to produce shareholder value for years to come.

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

Questions And Answers

Operator

(Operator Instructions) Your first question comes from Vijay Jayant with Evercore.

Q - Vijay Jayant {BIO 1526830 <GO>}

Hi, good morning. Just wanted to sort of unpack obviously some of the trends on broadband. There are some sense out there that some of this could be competition. Is there any way you can talk about, what you're seeing in the marketplace from fiber or fixed wireless in any event.

And then question for Tom really on your CapEx comments this morning, it looks like you're going to deploy high splits and that will probably reduce the need of doing nodes that's going forward. Can you sort of talk about broadly the cost impact of that shift in strategy, if you sort of go down that sort of bring forward some CapEx, while the total CapEx does not really change over the long term, is that really the message. Thanks.

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

Let me start with a high split question first and, we are deploying it in market to see how it works and how it and how it actually works in the real world, but our sense of it is that you get symmetrical gigabit speeds out of it, but you also get the augmentation capacity that we've been spending capital on for years as average consumer growth in the usage of data continues to increase.

And so when you take the actual capital and net that against it, it becomes a very low cost of incremental capital, and at the same time becomes operationally a lot more capable in terms of the products you can deliver on the network. So we think it's a very capitally efficient way of upgrading the network and maintaining our superiority from a competitive point of view, everywhere we operate. In terms of how we're doing in the marketplace and with the competitive environments like, the competitive environment is similar to what it's been, and when we look at the effects of the marketplace in terms of net adds in the churn environment we're in, we're seeing the same effect where there are no wireline competitors as we do with wireline competitors in terms of net adds proportionately to say 2019. Aand so we're seeing that the competitive environment doesn't appear to be significantly different than it has been, it's always been a competitive environment.

And that the effects of lower activity are throughout the marketplace regardless of what the infrastructure we're competing against is.

Q - Vijay Jayant {BIO 1526830 <GO>}

Okay. Thanks so much.

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

Thanks, Vijay. April, we'll take our next question, please.

Operator

Your next question is from Ben Swinburne with Morgan Stanley.

Q - Ben Swinburne {BIO 5489854 <GO>}

Thanks, good morning everybody. And congratulations Chris and Jessica on the promotions. I want to ask questions, similar to Vijay's if you don't mind, I guess two of them. One is, you guys are obviously describing an environment that is impacting net adds tied to activity, but the market is focused on competition. If we were to look at markets that Charter operates in with fiber competition I know AT&T has been adding fiber for a number of years, would we see a dramatically different business in terms of penetration and ARPU and even kind of pricing strategy. Then if we looked at Charter's footprint in DSL markets and that'd be a helpful framework to think about this.

And then number two is on the network again sort of following Vijay's line of thought and Chris be interested in your perspective given your European experience, we're seeing some cable companies in Europe, essentially skip DOCSIS 4.0 that don't go fiber and I know there's major structural differences there versus here. But I'm just wondering if there is any thought in your head about where fiber might make sense or what would cause you to move towards fiber to the home versus 4.0 and extended Spectrum DOCSIS which it seems to be your sort of plan A right now.

Anyway, we'll love to hear your thoughts on those too. Thank you.

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

Well, I would just I would say that in fiber markets versus DSL markets that our business model works pretty much the same way and there are slight variations in penetration everywhere we operate for a variety of reasons, but they're very similar businesses and our growth rates are similar structurally. So, we've been able to grow market share in every environment we operate and pretty much in terms of facilities based competition. For variety of reasons it's not just capacity in every case, it's sometimes service, sometimes the overall product mix including the mobile piece of it. So we've found ways to make our product work regardless of the operating environment.

A - Chris Winfrey {BIO 16326284 <GO>}

On the difference between Europe and the US -- they're completely different densities and we do fiber to the home today and rural environments often in the year environments and on the increment, we're doing greenfield but the capabilities of the DOCSIS 3.1 network really has a very long runway, which is what Tom has mentioned that of extremely low capital cost has done, and provides all kinds of opportunity including picking over time, how you attack with DOCSIS 4.0 and end fiber to the home, but we have a really capital efficient path that doesn't -- that means that we don't have to go down that same path and a lot of the difference here is, I think, driven more by density than anything else.

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

Symphony and conduits and the way markets are built, it's a much different environment here, but the reality is that we can upgrade our network at way less than it cost to build the fiber platform over top of it and fiber works for us on the increment in Argo, it works for us in certain kinds of MDU environments, certain kinds of Greenfield new construction environments. But in terms of taking existing infrastructure that we've already deployed, in three quarters, one million miles of infrastructure essentially that we can upgrade at very low costs, orders of magnitude less than the cost to build fiber and get equal performance.

A - Chris Winfrey {BIO 16326284 <GO>}

In most cases faster.

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

Yes, and do it quickly.

Q - Ben Swinburne {BIO 5489854 <GO>}

Yes. Thank you.

A - Stefan Anninger {BIO 15867691 <GO>}

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

Operator

Your next question is from Kutgun Maral with RBC Capital Markets.

Q - Kutgun Maral {BIO 17682150 <GO>}

Good morning and thanks for taking the question. I was hoping for more color on residential ARPU trends. The quarter came in strong even when backing out of the COVID comps against last year. I know this was partly related to the June rate event, but you also noted benefits from a more favorable customer mix -- customer mix, given how low churn has been. I guess given your commentary on 2021 net adds, looking more like 2018, should we assume these positive ARPU trends could continue not only into the fourth quarter but also into early 2022. It's just -- I assume that even if the market activity picks up, it would likely take a few quarters to reverse some of this tailwind in your overall subscriber mix -- would appreciate your perspectives. Thanks.

A - Jessica Fischer {BIO 22149274 <GO>}

Yes. So first, I would point you back to cities and the COVID picture that there is a big piece of the year-over-year ARPU increase that's related to the revenue credits in Q3 of last year. But I do think you pointed out something, the lower churn environment benefits us in a large number of ways and one of those is on the ARPU side. The longer that a customer stays with RDF, more customers roll-off with promotional packages and therefore roll into higher pricing packages and as we have sort of a low churn environment where you have additional longer-tenured customers.

We do see some impact on ARPU from that. The other piece that's in there that you pointed out is, is the additional programmers sort of pass-through costs that we pushed at the end of the quarter. So this is a mix of the three, there will, I think if we continue to be in the low churn environment continue to be some ARPU impact, just of having longer-tenured customers in the system and the financial results of having those customers in the system for a longer really are very good both on the revenue and the transaction side, which is somewhat you see in the overall financial results for the quarter.

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

I would just add to that, if you think about it from a return on investment perspective, every customer you add in a low churn environment is more valuable than a customer you add at higher churn environment because the average life of the customer is longer. Therefore the total cash flow of the customer is longer and the cost to serve the passing from a transaction cost perspective is less. So it's a, from a financial point of view, slower growth environment related to churn-being reduced is actually economically positive from an ROI perspective.

Q - Kutgun Maral {BIO 17682150 <GO>}

That's perfect. Thank you, both.

A - Stefan Anninger {BIO 15867691 <GO>}

Thank you. April, we'll take our next question, please.

Operator

Your next question is from Phil Cusick with JP Morgan.

Q - Phil Cusick {BIO 5507514 <GO>}

Follow-up on another question and echo my congratulations to Chris, Jessica and Rich, it's well deserved. First on Vijay's question, you said that ads are more valuable. I think, Chris, does that mean you're seeing something similar to Comcast in a slower low end customer and consistent high-end and any thoughts on whether wireless fixed or mobile might be pulling more of that low end. And then Tom, can you expand on your CBRS trial comments, how wide a trial is this, how many sites, anything you can help us with there. Thank you.

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

I'll do a quick answer on the CBRS. It's an entire DMA market test, thousands of sites -- because they're full-mounted sites. Small cells, relatively speaking, I don't know the exact number, but it's an entire DMA.

A - Chris Winfrey {BIO 16326284 <GO>}

In terms of customer mix acquisition. It's true that the programs that we put in place in the midst of COVID last year where the risk is remote education offer or the way that we worked with customers where they keep Americans Connected credit meant that both from a sales as well as from a retention perspective, there was a locking in secured. The lower income population and for any of the modest Charter customers. We're really pleased that we did it. So is that a pull forward, maybe that took place last year, but that doesn't mean that we haven't stopped, that we stopped marketing and selling into that base.

We've been an active participant in the Emergency Broadband Fund and I wouldn't say that it's created in the third quarter any incremental acquisition, vast majority has come into that program through our existing subscribers. But we're utilizing our federal program to make sure that we service that community and continue to actively market sell and service into the space. But your point is true. There is certainly a lot of people who have been on wireless substitution in the past or had affordability issues that through, the things that we did cooperating with the federal government. We were able to get them to proper broadband, we benefited from that last year and we managed to keep those customers through the course of this year, but at the same level of inflow of sales, little lower.

Q - Phil Cusick {BIO 5507514 <GO>}

Thanks, Chris.

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

Yes. That contributes to lower churn environment as well.

A - Chris Winfrey {BIO 16326284 <GO>}

Correct.

A - Stefan Anninger {BIO 15867691 <GO>}

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

Operator

Your next question is from Craig Moffett with MoffettNathanson.

Q - Craig Moffett {BIO 5987555 <GO>}

Hi, good morning. And let me join the parade of all the congratulation to Jessica and Chris and to Rich and to John. So, two questions, if I could. First, just digging into the broadband dynamics, one more time. In this low churn environment have you seen any change in the share of gross additions that you're winning. So, my understanding is the gross addition pool is clearly suppressed by low churn, but has there been any change in your win share as far as you can tell among what's left in gross additions.

And then as you think about the upcoming CBRS offload trial, what's your expected offload, what's your target for how much of the -- what would otherwise go over the cellular contract with Verizon, that you think you can offload onto the CBRS small cells.

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

So in that in your -- the first part of your question on the broadband growth. Are you talking about new construction growth.

Q - Craig Moffett {BIO 5987555 <GO>}

No, just in the, in the smaller gross addition pool that's available, given that customers are just moving less and churning less, but in that smaller pool that's available. Do you have any sense that your share of wins has changed at all.

A - Jessica Fischer {BIO 22149274 <GO>}

No.

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

Go ahead.

A - Jessica Fischer {BIO 22149274 <GO>}

I guess we've seen that in the sales that do come in the door the yields are actually going up. So the number of sales that come in the door that we're able to close and convert to customers has been increasing and it looked at it exactly in the group.

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

Yes, that's -- our share of activity is actually higher from the activity that we see in front of us. So our ability to attach mobile units to transactions is going up. There's just less of them and -- but no, in terms of, I don't see really a change or shift of any material way that I can see in the numbers in terms of our acquisition share.

A - Chris Winfrey {BIO 16326284 <GO>}

Our churn is down in all types of markets with all types of infrastructure that we operate in front of and our gross adds are down proportionately inside all of those same footprints. So, there isn't any incremental change in any material way in gross adds based on the footprint in which we operate just lower transaction volume taking place across the entire Board.

Q - Phil Cusick {BIO 5507514 <GO>}

And so it sounds a lot like, the way you're describing is just that a low mobility and low household formation market.

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

That's true and how that unwinds is unclear, I mean there was -- it's a very unusual market situation people sheltered in place so to speak, and so you had all the friction of the market came out that used to exist people in transition and they settled into subscriptions and when the market remobilizes, so to speak. I think there'll be continued pressure on growth because of the pull forward of all of that activity, but it is, I mean, I think the fundamental opportunity for growth and long-term growth is still the same and our ability to take share out of the market is still the same.

In terms of CBRS, today 80% of the traffic on mobile platforms is on WiFi and our -- and we continue to use the WiFi network effectively and there's a whole new piece of spectrum available to WiFi, available to us. So WiFi and CBRS together have an opportunity to make a significant change in how much traffic is on our network versus on the MVNO. Our target for CBRS, I said before could be pushing a third of the marketplace If everything works and it's fully deployed now.

You're talking years of runway necessary to deploy that and to get it fully utilized, but the good thing about it is that the capital associated with any construction we do is dedicated to the lower cost. In other words, if we're going to put out a device or radio, we know where the traffic flows are and we know that the traffic flows in that particular area justify the capital of placing that device and that they offload percentages associated with that specific geography is sufficient to pay back the capital investment in the radio, so it's a -- we'll deploy that based on actual utilization. But our modeling shows that it could be a significant reduction in the overall traffic loaded on the MVNO.

Q - Phil Cusick {BIO 5507514 <GO>}

Thanks, that's helpful.

A - Stefan Anninger {BIO 15867691 <GO>}

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

Operator

Your next question is from Jonathan Chaplin with New Street Research.

Q - Jonathan Chaplin {BIO 4279061 <GO>}

Thanks guys. Just to start off with a quick housekeeping question and then I've got another one as well. For anchoring off of 2018, and I guess this is a question for Chris, should we be anchoring off of residential net adds of 1.1 million or total net adds of close to 1.3 million. And then following up from one of the earlier questions, to recognize the color you're giving on the transition of the network too high splits not extremely helpful.

I'm wondering if you can give us some indication of how long that transition to high splits across the network will take. And then when more or less you expect to start building in the DOCSIS 4.0 upgrade. And then my final question on broadband add. Are you assuming any benefit in the broadband add guidance that you're giving for 4Q effectively from a pull-through from the lower wireless plan, rate plans that you've put out there.

So if wireless accelerate, should that have a pull-through benefit to broadband and is that baked into your expectations. Thanks guys.

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

Okay. In the timing -- the high split opportunity from a timing perspective is also opportunistic like I was describing CBRS, but it's relatively inexpensive like a CBRS deployment was, excuse me that's like a 3.1 DOCSIS deployment was. And it's on a per passing basis, we think it will be quite efficient, but the other beauty of it is it's pretty much in electronic drop in and it could be done quite rapidly and cover huge swaths of geography in a very short period of time and so it has two benefits. One is just if you do it in a sort of a normal management of augmentation network growth pattern sort of deployment. It replaces, it replaces the need to do node splits, but if you do it quickly, it also has the same effect. But it gives you greater capacity in terms of what products you can deploy in a market and what marketing claims you can make. So it can be done quite quickly and that's the beauty of it.

Do you want to?

A - Chris Winfrey {BIO 16326284 <GO>}

Sure. The 2018 comments that I made was really in the context of total Internet additions. So the answer to your question is yes. And it's going to pull forward -- the mobile pricing put forward. It's only been out in the market for two weeks, so we should be careful what we say. But the initial uplift of mobile sales has been a fairly significant as we expected. And while we think it could and should have a material impact on broadband over a multiyear period. We haven't seen anything yet that indicates that's the case and so I think it's

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

Nor would we expect it.

A - Chris Winfrey {BIO 16326284 <GO>}

Nor would we expect it, -- and we didn't expect it. So I think it's premature to think that we're going to see that kind of pull through to Internet just yet.

Q - Phil Cusick {BIO 5507514 <GO>}

Got it. Thanks guys and congratulations to both you and Jessica, Chris.

A - Chris Winfrey {BIO 16326284 <GO>}

Thank you.

A - Jessica Fischer {BIO 22149274 <GO>}

Thank you.

A - Stefan Anninger {BIO 15867691 <GO>}

Thanks, Jonathan. April, we'll take our next question, please.

Operator

Your next question is from Brett Feldman with Goldman Sachs.

Q - Brett Feldman {BIO 3825792 <GO>}

Thanks. Just a couple of follow-up questions on wireless, when we look at your wireless pricing strategy, you've done the exact opposite of what the major carriers are doing which is you've offered your consumers a great deal on their service price, but you're not necessarily offering the promo on the handsets. And that leads to sort of two questions. The first is, what are you thinking about the handset promotions, menaing would you be willing to also incorporate them into your price point particularly as consumers look to upgrade to 5G devices and they're offered promos elsewhere and then bigger picture, I mean, the key reason it looks like you were able to lower your prices recently is because you were able to get a better cost structure under the MVNO agreement, meaning that you took your lower cost and you converted them into lower prices and so the question would be, if you're pleased with the success of the CBRS trial, what does that mean for your wireless business.

Does it mean that you have an opportunity to be more profitable or do you think that's an opportunity to take your price point down even further, because once again you're below your costs. Thank you.

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

I think both.

A - Jessica Fischer {BIO 22149274 <GO>}

If you look at our total opportunity, relative to customer spend on a combined mobile and broadband. There's a lot of broadband spend, a lot of mobile spend out there relative to broadband spend. So if you think about a customer typical two line household, they might be spending a total of $200 on broadband and mobile and today we're only getting a relatively small piece of that. And so if we continue to sell mobile product, even if we do it by bringing the pricing of mobile down. Our expectation is that that, that will continue to drive both revenue growth and bottom line EBITDA growth from that business, all while driving pricing down in the mobile industry. And from the perspective of our mobile business, I mean even today our mobile business is profitable if you take customer acquisition costs out and like what we've done across our business, our goal is always to further penetrate the market and so if we can increase our penetration of the mobile market and have more sort of ongoing revenues and less customer acquisition cost or if not less, even with additional customer acquisition costs. We'll generate strong profits out of that business justified penetrating the market, sticking with our strategy of having very competitive pricing for our customers.

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

Yes I agree that with, I think that one way of thinking about it is, we have about 55% penetration of our broadband business at about $60 ARPU on average and the average spend on mobile on a per home basis inside our footprint is over $120 a month and the average number of devices inside our footprint is about $120 million and so when you really look at our 6% mobile penetration and our 55% broadband penetration and look at that as a share of spend even if you cut the mobile average household price in half, we're -- our penetration of the dollars is less than 30% which is -- which means, what I said earlier in this presentation, which is we're really under penetrated and there is lots of telecom spend in which to grow our business at the household level.

A - Stefan Anninger {BIO 15867691 <GO>}

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

Operator

Your next question is from Peter Supino with Bernstein.

Q - Peter Supino {BIO 21231716 <GO>}

Hey, good morning. I wanted to go back to the high effect of ARPU with fiber and fixed wireless segmenting broadband presumably in 2022 and beyond. I wondered if you could talk with us a bit about how you manage local pricing in response to those local deployments and whether that might result in some ARPU growth deceleration, albeit still positive rates in the years to come.

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

Probably get started.

A - Chris Winfrey {BIO 16326284 <GO>}

Sure. So we have national pricing everywhere for retail pricing and it's low compared to any of our peers or competitors and we have the ability to bundle products that most of those competitors that you mentioned don't have. So if you think about low broadband pricing is a national retail pricing combined with the ability to save customers, 100's of 1000's of dollars in mobile and increasingly because of where the rest of the market has gone. We have the very best video product out there and that may not be for everybody, because there's a lot of different ways to take video, but our video product, we have something for everybody, whether it's full expanded package, whether it's (inaudible) whether it's essential stream choice in the home outside the home on every single device.

So we have a packaging and price point for just about everybody and still about half of our Internet sales still take video and it causes them to retain. So we're able to add value to these households, not just by having a national low retail pricing structure for broadband, but the ability to use video and to use the savings from mobile to compete now and really for a long period of time.

So that's how we approach the marketplace, really how we've always approached the marketplace including back to if you think about phone, where the pricing and again it's only maybe half the customer base that's relevant for, but it is relevant for half where we have a $12 price point for phone as well. So we have different ways we can save customer's money and we think the product that we offer anyway in broadband is as good, if not better than any of the competitive footprint that we face.

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

And ultimately price, what you can do with price is a function of what costs are and the -- and we have lower costs

A - Stefan Anninger {BIO 15867691 <GO>}

Thanks, Peter. And April..

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

Thanks very much.

A - Stefan Anninger {BIO 15867691 <GO>}

We'll take our next question please.

Operator

You next question is from John Hodulik with UBS.

Q - John Hodulik {BIO 1540944 <GO>}

Great, thanks guys. First question on video. You guys saw some accelerating video and voice losses actually this quarter, is that just a function of the attach rates and lower broadband adds or is there a sort of a reopening issue there as well or maybe the, did the price increase in June affect those number. And then, getting back to the wireless, clearly wireless and broadband is sort of a new bundle, and thanks for the number 2 million households so far having that bundle.

I mean it's early yet, but can we look at the churn within that cohort and see whether or not you're actually seeing an improvement versus sort of stand-alone broadband and if so, can you maybe give us a sense of the change in churn that you may be seeing. Thanks.

A - Jessica Fischer {BIO 22149274 <GO>}

On the video and voice losses front, I mean I think that that one is just the impact of having the video -- not having the level of broadband additions that we had in 2020, when you have a lot of broadband additions we pull through a lot of voice and video and in bundling there and in this sort of lower growth add lower churn environment, it's just a carry through of the prior trends, no overall change in trends.

A - Chris Winfrey {BIO 16326284 <GO>}

On the churn benefits for a broadband customer also takes wireless. I mean I could sit here and advertise and tell you how fantastic it is the churn is definitely lower and I could -- Peter just about it, but some of that a lot of that is really at this point due to sort of selection customers are happy with our service, they like who we are. They like the pricing that they have on the products, and as a result, they take more product from us. I don't know that. That means there is enough evidence now to say systemically but our gut tells us the answer is yes. And while the numbers would tell us yes today as well. I don't think you should rely on that in terms of in order of magnitude until we get further down the road.

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

And the churn, It's all churn, it's so low. Yes. It's lower churn that it's hard to attribute at all. That's right.

Q - John Hodulik {BIO 1540944 <GO>}

Thank you.

A - Stefan Anninger {BIO 15867691 <GO>}

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

Operator

Your next question is from Doug Mitchelson with Credit Suisse.

Q - Doug Mitchelson

Thanks so much and my congratulations to Jessica and Chris and Rich. And I will stick with the broadband and wireless seems, Tom, just a clarification on -- you sort of mentioned the pandemic was a pull-forward and I think you emphasized share opportunities. Should we think about the growth opportunity really as share focus going forward in that the broadband marketplace is broadly fairly mature after this pandemic pull forward.

And then I guess jump although Chris, I know your experience in Europe might inform this and it seemed like Brian Roberts yesterday was implying that they're thinking about launching a converged sort of in-home out of home broadband offering and I'm sure you've been thinking about the same thing. Is there an opportunity to disrupt the marketplace by having a single converged by the home subscription rather than thinking about it as a per phone, plus per home subscription model. Thanks.

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

So Doug, I wouldn't say broadband is mature in the sense that we think high capacity broadband, which we sell and packaged with mobility and packaged with great home connectivity in managed WiFi is still a growth opportunity in two ways. You have what was the number of people that ultimately take that level of service fee and in our footprint today, we think 93% of houses are occupied and I think the penetration of any kind of Internet service in that footprint is about 85%. So there is still opportunity to grow the overall connectivity broadband market and then there is the opportunity to actually flow it into the high capacity service that we sell and high-quality service we sell.

So we think that, while we have 55% penetration, there's 37% penetration more to go in terms of what our possibilities are there, plus the whole broadband and mobile broadband platform as well in which we're very under penetrated.

A - Chris Winfrey {BIO 16326284 <GO>}

So Doug, to your question, yes, it's Christ, I spent a decade in European cable, but it's also been a decade since I've been there. So I don't know that I'm really, any longer qualified to make comparisons are talk about it. But your question was, and I apologize if I haven't followed it, but the -- that could you offer a mobile subscription together with broadband and how the mobile lines be part of the home-subscription to multi-line and...

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

You just have -- it is a single price for household to have sort of as many devices as they want out-of-the-home.

A - Chris Winfrey {BIO 16326284 <GO>}

Yes, It's an interesting concept and I know what it's trying to solve. I mean, for all the reasons that you can think, convergence technically makes a lot of sense. The ability to have an ubiquitous Internet product inside the home, outside the home, in the neighborhood, in the coffee shop, etcetera, all that which we talked about, and it worked.

The ability to save customers tons of money which we do. There are not that many markets where from a marketing and sales machine, it's been fully proven out yet of how you combine that together with lines are often sold at a personal level and broadband subscription wireline is sold at a household level. So I think it's an interesting concept, one that we're keeping our eye on and when you think about as our pricing gets lower, mobile, we're inching our way towards that one way or another, another way of thinking about it. But I think those type of models and taking a look at how to fully get convergence also from marketing and sales and solve the difference between per line versus per household is interesting.

Q - Doug Mitchelson

Great, thank you.

A - Stefan Anninger {BIO 15867691 <GO>}

Thanks, Doug. April, we'll take our last question, please.

Operator

And your last question is from Jessica Reif Ehrlich with Bank of America Securities.

Q - Jessica Reif Ehrlich {BIO 22467840 <GO>}

Thank you for getting me in. I guess one last question on broadband to beat a dead horse and then one of the questions. On the Internet adds on the SMB side that's slowed as well and that's an area that seems to have kind of normalized a bit more than residential. Can you talk a little bit about what's going on commercial. And then on XClass TV that Comcast talked about rolling out. Is there anything in the service to the extent that yourself to buy an XClass TV. Are there any benefits or economics that you get or would you consider shifting to becoming an aggregator of streaming services, with a different set of economics from linear.

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

You're going to answer?

A - Chris Winfrey {BIO 16326284 <GO>}

I can answer SMB. I think the SMB space is really more about cyclicality right now related to COVID and I think it opened and shut down and businesses closed and restarted and new businesses formed. I think it's much more tied to that than the things that we're seeing in the residential side. Generally, I would say that our SMB capabilities are as good as ever right now and in a market where you have new businesses forming or coming back online where our competitive posture there is very good and I don't see the same type of issues that we've talked about in residential for SMBs. So the fluctuations you've been seeing is really much more about and just the overall economic cyclicality is taking place with COVID.

But I wouldn't -- we don't face the same type of issues from market where FinTech is seeing in residential in the SMB space. I think our opportunity to grow there remains good in segments for residential long-term.

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

Yes. So from a streaming perspective, it's interesting. Charter is actually the biggest live streaming app in the country and the most highly rated app in the country. We distribute streaming products on Roku, Apple TV on our own set-top boxes. We've got a cloud-based streaming application that can be placed on our app-based streaming system that can be placed right on our set-top boxes. And so we've got more than 10 million customers who are connected to us strictly through a streaming relationship and we like the Comcast strategy with regard to their -- putting their platform on televisions and so.

We think there's lots of opportunity for us to continue to change the video model and to take advantage of our relationship with customers and to make the video model more efficient for programmers and for operators and to bring value back into television.

A - Stefan Anninger {BIO 15867691 <GO>}

Thanks, Jessica. That concludes our call. Thanks to everyone and April I'll hand it back to you.

Operator

This does conclude today's conference call. Thank you for participating. You may now disconnect.