Q1 2020 Earnings Call

Company Participants

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

Other Participants

- Ben Swinburne, Analyst
- Craig Moffett, Analyst
- Jessica Reif Ehrlich, Analyst
- John Hodulik, Analyst
- Jonathan Chaplin, Analyst
- Michael Rollins, Analyst
- Mike McCormack, Analyst
- Peter Supino, Analyst
- Vijay Jayant, Analyst

Presentation

Operator

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

I'd now like to hand the conference over to your speaker today, Stefan Anninger, please go ahead.

Stefan Anninger {BIO 15867691 <GO>}

Good morning, and welcome to Charter's first quarter 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 also our 10-Q filed this morning. We will not review those risk factors and other cautionary statements on this call. However, we encourage you to read them carefully.

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

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

On today's call we have Tom Rutledge, Chairman and CEO; and Chris Winfrey, our CFO.

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

Thomas M. Rutledge {BIO 1818216 <GO>}

Thank you, Stefan. First, on behalf of all of us at Charter, let me express our concerns for those that have been impacted by the COVID-19 crisis in the local communities we serve, as we endure together an extremely serious health, social and economic crisis.

The hard work and dedication of Charter's 95,000 employees has been remarkable. We're all proud of how we're serving our customers at this time. Charter's employees are in trucks, in the field, call centers, dispatch, operation centers their homes and retail stores, where we provide customer equipment and numerous support functions and enable our Company to service our customers.

We remain focused on our customers and communities, and we've been able to deliver our connectivity services without interruption to our customers across the country. We know our role as a provider of communication services and the importance of keeping connectivity services fully functioning for both new and existing households and businesses, which enables social distancing including remote working, distant learning, telehealth services and family communications.

In mid-March, as part of our effort to keep America connected during this crisis, we pledged to do a number of things. We committed to offer Spectrum Internet for free for 60 days to households with students or educators who do not already have a Spectrum Internet subscription. We recently announced that we were extending the availability of this offer through June 30.

As of March 31, we added approximately 120,000 customers connected under this offer with many more installed in April. By the end of the school year, we expect that this offer will have helped approximately 400,000 students and teachers and their families, continue schooling through remote learning.

For 60 days, we also committed to suspend collection activities, not terminate service for residential or small and medium business customers, who are experiencing COVID-19 related economic challenges. We also extended the availability of this offer to June 30.

Additionally, we've opened our WiFi hotspots across our footprint for public use and we've prioritized over 1,000 requests from government, healthcare and educational institutions for new fiber connections, bandwidth upgrades and new services that includes major hospital groups and the two US Naval hospitals in New York and Los Angeles.

And Spectrum News has opened its websites to ensure people have access to high quality local news and information. We've also donated significant airtime to run public service announcements through full footprint of 16 million video subscribers.

Charter provides essential service and we've been working to keep America connected, working and learning while at the same time protecting our employees. We've instituted guidelines in our call centers that enhance social distancing between employees, including enabling a significant percentage of those employees who remote work.

We've also altered our field operations protocol by aggressively moving to customer self-installation. So while we continue to operate at nearly full capability, we're taking the necessary precautions to promote the safety of our employees.

We're also providing our employees with outstanding benefits. We've implemented an additional two weeks of paid sick time for COVID related illnesses or when we ask an employee to self quarantine. We've given every employee an additional 15 days of COVID-19 related flex time to address other COVID-related issues, including caring children and dependents.

In early April, we increased our wage for all hourly field operations and customer service call center employees by $1.50 per hour back to February. We also committed to raising our minimum wage for hourly workers to at least $20 an hour over the next two years. Paying employees in parts of our business like residential and this SMB direct sales, as work has been put on hold and to reinforce our commitment to employees, we announced that for 60 days no employee will be laid off or furloughed. We have a great business with employees committed to our mission and that will ensure that we are able to excel through the eventual economic recovery.

We continue to perform well operationally, both through the end of the Q1 and now. In first quarter, we added 580,000 residential and SMB Internet customers. We had a good quarter, driven by demand for our higher quality products. We also saw an increase in the number of residential and business customers upgrading their speeds.

Our ability to provision the outsized demand we saw in the quarter has been a result of the investments that we have made over the last several years in our in-sourced and onshore high quality workforce, significant systems integration and automation, our online and digital sales and self service platforms and our self installation program. In fact, we accelerated the expansion of our customer self installation from 55% of sales at the beginning of the quarter to nearly 70% at the end of the quarter to over 90% today. Data usage and traffic on our network also grew significantly during the quarter. In March, residential data usage for Internet-only customers was over 600 gigabytes per month, up over 20% since the fourth quarter.

Our customers are benefiting from a continually decreasing price per gigabit. Peak traffic levels remain well below maximum capability. Our network,as well as those of other cable operators in the US, have performed better than networks in other countries because of the significant investments we've made and continue to make in our plan, like the recent roll out of 1 gig everywhere, the pro-investment regulatory climate has made this possible.

Over the coming years, we will invest in our network as we build the lower density in rural communities and pursue our 10G plan, which provides a cost-efficient pathway for us to offer multi-gigabit speeds, lower latency, high compute services to consumers and businesses customers.

With our inside out strategy, we will continue to use and develop small wireless cells powered by our network, together with our MVNO to connect customers in and beyond the home, delivering our throughput and economics for customers in fixed, nomadic and mobile environments. Our strategy will be enhanced by the FCC recently freeing up hundred 1,200 megahertz of 6 gigahertz spectrum for WiFi. The FCC's action is a transformational step toward broadband in America. It was a bold move and we look forward to making significant use of the spectrum.

Moving back to Q1 results, we also performed well from a financial perspective during the quarter. We grew adjusted EBITDA by 8.4% and combined with our lower cable capital expenditures, our first quarter free cash flow grew by over 100% year-over-year.

As we look forward, we would expect that demand for our residential broadband product will remain strong as people work and learn from home and need to stay connected. Broadly speaking, the health of our residential business will be impacted by what happens to unemployment and income, and how long the impact of such factors will have on customers' ability to pay for service in the coming months, including government support to consumers.

Slowing household formation may also play a role in our ability to drive new customer growth by slowing activity for both new sales and also churn. We also recognize that the recent strength in video and wireline voice trends maybe temporary due to lockdowns and reverse in an economic downturn. So our SMB business is more difficult.

We serve approximately 2 million SMB customers and many of those customers are currently closed at least temporarily. As a result, SMB customer growth and revenue growth will be lower than our previous expectations. It will likely take time for this part of our business to recover, but it will and maybe with a faster growth rate than before the crisis.

I expect our enterprise business to remain more stable than SMB. Enterprise customers are larger and most, but not all, will be able to withstand the recession more than smaller businesses that have less liquidity, but our expectations for enterprise customers and revenue growth have also been tempered as enterprise customers with complex products are less likely to switch and grant installation access in this environment.

Our advertising business is inherently local and primarily supported by small and medium businesses, which have been hurt in the crisis, but we still expect political advertising to be meaningful, which will help us, particularly in the back half of the year.

So clearly our revenue growth rate will be less than what we anticipated, but as service transactions in sales slow for the market as a whole and customer adoption of self-service accelerates, there are a number of operating cost improvements and capital expenditure delays that will help cash flow growth now and in the future.

We also believe that on a relative basis, we're in a far better position than most companies as the value and demand for our service is significant and we're operating efficiently and serving our communities well as we always have in a crisis.

Chris will cover the potential impacts to our 2020 financials and reporting in more detail, but I want to be clear that, while we don't know the depth and duration of the economic impacts of social distancing, we pressure tested our business model, our liquidity and balance sheet through various scenarios.

Our analysis confirms what we have always believed that we remain well positioned. Overall, we fully expect to be in good shape over the long term and we believe our business will continue to do very well given the assets and products we have and the continued investment in those assets, our customers and our employees.

Before turning the call over to Chris. I'd like to thank Charter's employees for their hard work and dedication and diligence through this crisis. They've been asked to go well above and beyond the regular duties and they've delivered easing the strain for millions of families.

The positive feedback we've received from our customers is very gratifying. And we continue to treat our customers with respect, compassion and support and continue to deliver great products and services. We will come out stronger around the other side of this crisis.

We still have a lot of work in front of us, but I am heartened by how we have risen to the challenge and know that we will continue to deliver for our customers and for America regardless of what comes our way. I'd also like to send my regards and best wishes to all of those listening to this call. May you and your families remain safe and healthy.

Now, I will turn the call over to Chris.

Christopher L. Winfrey {BIO 16326284 <GO>}

Thanks, Tom. Our first quarter results were strong and reflect where we were heading as a Company before the COVID-19 crisis started here in the US. Our residential customer relationship net additions increased versus the prior year in each month of the first quarter and we were driving increasingly efficient operations given our customer-friendly operating strategy, and growing our free cash flow quickly.

Residential revenue grew by 4.2% in the quarter, primarily driven by accelerating relationship growth in the similar PSU, bundled and video mix trends we've been seeing over several quarters. SMB revenue grew by 5.4%, enterprise revenue declined by 3.2% year-over-year, driven by the sale of Navisite and by continued pressure from the wholesale side of the business. Excluding both cell tower backhaul and Navisite, enterprise grew by 6.9%.

First quarter, advertising revenue grew by 5.7%, driven by political. In the month of March, non-political advertising revenue declined by 18.7% year-over-year, primarily due to COVID-19 related softness, including the abrupt postponement of sporting events. Mobile revenue totaled $258 million, with $131 million of that being device revenue. In total consolidated first quarter revenue was up 4.8% year-over-year.

Moving to operating expenses, in the first quarter, total operating expenses grew by $191 million, or 2.7% year-over-year. Cable operating expenses, excluding mobile, grew by 1.1% year-over-year or 1.7% excluding NaviSite, that's despite faster relationship and revenue growth. Programming increased 0.9% year-over-year, reflecting the same rate, volume and mix considerations that we've seen and talked about in prior quarters, and we also had over $29 million in non-recurring programming benefits this quarter.

Regulatory, connectivity and produced content expenses decreased by 1.7% year-over-year, driven by lower regulatory fees and a $20 million benefit from the timing of sports rights payments. Cost to service customers increased by 1.4% year-over-year compared to 4.5% customer relationship growth. That expense includes roughly $30 million for recently accelerated hourly wage increases and COVID-19 benefits, as well as $25 million of incremental estimated bad debt for COVID impacts as of March 31. Excluding bad debt expense in both years, Q1 cost to service customers declined by 0.7%.

We continue to meaningfully lower our per relationship service cost. Cable marketing expenses increased by 4.2% year-over-year, driven by higher labor cost and commissions. And mobile expenses totaled $374 million and they were comprised of mobile device costs tied to device revenue, customer acquisition and MVNO usage cost, and operating expenses.

In total, we grew adjusted EBITDA by 8.4% in the quarter when including our mobile EBITDA loss of $116 million. Cable adjusted EBITDA grew by 8.1%. We generated $396 million of net income attributable to Charter shareholders in the first quarter and capital expenditures totaled $1.5 billion. We generated $1.4 billion of consolidated free cash flow and excluding our investment in mobile, we generated $1.6 billion of cable free cash, up about $700 million versus last year's first quarter.

During the quarter, we repurchased 5.2 million Charter shares and Charter Holdings common units totaling about $2.6 billion at an average price of $490 per share.

Let me briefly turn to our customer results before addressing our business outlook in more detail. Including the impact of COVID-19 related customer offers and programs, we grew total residential and SMB customer relationships by close to 1.3 million over the last 12 months, or by 4.5%, and by 486,000 relationships in the first quarter. Including residential and SMB, we grew our Internet customers by 582,000 in the quarter and by close to 1.6 million, or 6.1% over the last 12 months.

Video declined by 70,000 in the quarter, better than last year's first quarter decline of 145,000 and wireline voice declined by 65,000, it was also better than last year's first quarter decline of 99,000. Through February, total customer relationships, Internet and video net additions were all better year-over-year and mobile net additions had continued to accelerate.

By mid-March, due to increased social distancing practices and shelter in place orders throughout the country, demand increased significantly for our products, but we temporarily yielded less mobile as sales call time focused on self installation instructions and our mobile retail channel has been partially impacted.

Also beginning in mid-March, we introduced three COVID-19 related offers and programs for our customers. In today's materials, we've provided an addendum showing customer counts for each of these. I expect we'll continue to report this addendum for a couple of quarters to provide investors for transparency on the impact of our COVID-19 related offers and programs.

So first of three offers available for customers is our 60-day free Internet offer for new Internet customers with students are educators in the household. We launched the offer in mid-March and it accounted for 119,000 of our 582,000 total Internet net additions in the quarter. At the end of March, we still had a large number of pending connects and customers in the offer continued to grow fast at a fast pace in April.

Interestingly and uniquely, about 50% of the customers who participated in the offer in March, chose to order additional products with immediate billing. The vast majority of these customers are taking our flagship Internet product at 200 megabits per second or 100 megabits per second, and a small minority subscribe to our low-income offer or our Ultra, and 1 gigabit premium offerings.

The profile of these customers is very similar to the profile of our typical Internet customer acquisition stream, and while some of these customers will no longer subscribe to some of these services after 60 days, the payment trends for customers who took video and phone at the same time already indicate to us that most of these customers will remain.

The second offer in our customer category reflects customers under our 60-day Keep Americans Connected pledge to the FCC. These are customers who have indicated inability to pay for the service for COVID-19 related reasons. As of March 31, 140,000 residential customers were in this program, many who would have been in a collection cycle in normal circumstances and only 1,000 of which had passed the point in the collection cycle where we would have normally disconnected their service at March 31.

To give this some color, approximately 25% of the 140,000 customers today have balances which are fully current and in total, nearly 50% have made partial or full payments since entering into this protection program. However, approximately 65,000 of those customers now have past-due balances beyond the point of normal disconnections ending at the end of April.

The number of customers requesting disconnection protection has continued to grow in April and we expect it to grow further through the rest of Q2. We intend to work with these COVID-19 impacted customers to get them back in a good payment status with the objective of fully continuing their service with us.

The final category of customers we've isolated in our addendum are SMB customers who have requested a seasonal suspension of service or temporary downgrade of a line of service while their operations are closed or diminished. Certain restaurants, bars and hotels are good examples, where we've reduced service to a minimum level and reduced the monthly bill until these customers fully reopen. We also expect this category to grow in Q2.

So what does all this mean beyond temporary ARPU dislocation and back-end subscriber risk? First, even if you exclude the impact of these offers and programs from our first quarter results, residential customer relationships and Internet grew at a faster pace year-over-year. That remains our long-term opportunity.

Second, customers may move in, out or between these categories over time as the economy contracts and ultimately expands. Our issue is not demand for our products, it will be our customers' ability to pay, and how we help them in that respect over time. So until we have a better sense for the depth and the duration of the COVID-19 crisis and its economic impact, it's difficult for us to project what the help we offer our customers will look like. However, we think we could end up creating more value over the long term, as we continue to treat our customers and our employees well.

With that in mind, I'd like to expand on Tom's remarks as it relates to our business outlook and where we're likely to see pressure and opportunities over the coming months and quarters depending on how and when the economy re-accelerates. For our residential and mobile services the quality and value of our products are clear and demand is high, with Internet up in March significantly even without the COVID-19 related offers. In video and phone also some positive net adds in March at least temporarily.

Looking forward, the risks that household formation and growth will be impacted, the other issue will be customers' ability to pay either via their wages or extended employment benefits under the Cares Act or other stimulus packages, and if, how and over what period of time, you can get some customers to repay back balances when they are able to make payments again.

So there are all kinds of questions here about financial presentation, accounts receivables, revenue recognition, bad debt provision and write-offs, which really reflected in Q2 and we'll work through in the coming months and quarters and we intend to provide our investors transparency as we go through a unique reporting exercise.

When the economy begins to recover and assuming our customers can pay us, I expect our residential business will be in a good shape. SMB represented $3.9 billion of revenue for us last year, or 8.5% of our total revenue. In the back half of March, we began to see softness in our SMB sales, where essentially our entire direct sales force has been on hold and that channel is a larger contributor to SMB sales than it is to residential.

We estimate that less than 20% of our SMB customers are restaurants, hotels, bars theaters and the like, many of which will struggle in this downturn. We are working with all of our SMB customers in this difficult time and believe we can return to growth in an economic recovery.

We expect the retail base for enterprise to be more stable. In March and April, we saw significant demand from healthcare and government segments to upgrade and add new services, which has taken the place of new connects in other areas, but we expect new sales to taper off in the retail services group in the short term for enterprise will be moderated by customers' willingness to make changes, particularly for physical services in this climate.

We'll have an offsetting benefit in churn, but absent higher new sales, it will be difficult to grow retail enterprise significantly in the short term.

For Spectrum Reach, our advertising group, the second quarter will be challenging. March revenue was below our expectations by more than $30 million due to cancellations and the April variance was more than double that amount. We are proactively working with clients to move their advertising spend from sports events to reach their audiences in different places or to move out there orders generally.

We believe there is an opportunity to both recover and earn more advertising business once the economy picks back up. We still expect significant political spend in the back half of this year. So the full year impact won't be as dramatic on a year-over-year basis.

If those are the short-term revenue challenges and long-term opportunities, what are the potential offsets in our cost structure? Churn across all of our subscription services was already declining significantly before the crisis. Move churn and voluntary churn is declining even more now, but new sales will also declined. All of which says that we expect a much lower level of service calls, truck rolls, installations, commissions and labor-related activity that applies to residential, SMB and enterprise.

As Tom mentioned, self installation is now over 90%, up from 55% in the first part of the first quarter. And with utilization of digital self-care up over 30%, our integration investments in our self-service platforms and portals are paying off. The current crisis has accelerated customers adoption curve for digital service and we don't think it goes back to where it was. So outside of bad debt and some accelerated wage increases to our front-line, our cost to service will decrease with less activity.

Employee turnover will decline and hiring activity is likely to slow across the business, which has direct cost and 10-year benefits, and we think any remaining EBITDA shortfall relative to our plans would likely be offset by CapEx that would be lower than previously expected due to higher self installation, lower churn, the timing of scalable infrastructure spend and potential construction delays.

So that's how we believe the model will flex. What we don't know is the depth and duration of a recession, but we like our business model, how we manage the business across various climates and we believe we can grow long-term. It's probably a good transition to the balance sheet and our liquidity profile.

As Tom mentioned, we've done a lot of modeling to stress test our balance sheet under various economic scenarios. We finished the quarter with $2.9 billion of cash and $4.7 billion of availability under our revolver. In early March, at the beginning of the COVID-19 crisis, we priced a long-dated high yield financing at an all-time low coupon. And on April 17, we issued $3 billion of our tightest coupons ever 10 and 30-year investment grade tranches. Pro forma for those investment grade bonds and recently called debt, at March 31, we had $8.4 billion of total available liquidity.

As of the end of the first quarter, our net debt to last 12 month adjusted EBITDA was 0.4 times or 4.3 times If you look at cable only. In that respect, we've already been deleveraging slightly.

Pro forma for our recent financing activities, our weighted average cost of debt is only 4.9% and the weighted average life of our debt is 12.2 years, with more than 90% of our debt maturing beyond 2022. We have a schedule on Slide 13 of today's presentation, which puts our maturity profile in perspective relative to last year's cable EBITDA. Together with our significant liquidity and positive free cash flow, we remain in a very good position to finance our operations organically as well as through the capital markets, which remain open to Charter.

As it relates to our stock repurchases, we've been under a 10b5-1 plan, which was entered into right before the COVID-19 crisis began here in the US. Due to lower share prices in March, we purchased more of the target volume in March than April. We have never provided guidance on buybacks because we think it can encourage bad decision making relative to better alternative uses of cash over time.

So we're going to be thoughtful and responsive to where we think the economy is going, our stock price, our liquidity and any organic or inorganic opportunities which may arise. While the current environment does suggest caution in the short term, we are not modifying our 4 times to 4.5 times leverage target range today and we'll continue to monitor the economic climate and the interest rate market and regularly evaluating our leverage target.

We know that we have a high quality, resilient asset, with dedicated employees across our local communities and we've invested significantly in our networking people over the years. And there is high demand for our product across every part of our footprint, in both homes and businesses, in good times and bad, 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.

Our goal is to stay focused on what we do well and execute a proven operating strategy that works for customers and employees across various economic and regulatory climates to create shareholder value over the long term.

Operator, we're now ready for questions.

Questions And Answers

Operator

(Operator Instructions) And our first question comes from the line of Craig Moffett with MoffettNathanson. Go ahead please, your line is open.

Q - Craig Moffett {BIO 5987555 <GO>}

Hi. Thank you. I wanted to take a bigger picture question for a moment. Just given the strength of your results and the enviable position that you find yourself in of having a business that is relatively resilient in this kind of a market, what are the things that you can do that take advantage of the dislocation, whether it's more edge outs, potentially acquisitions, a faster move in acquiring spectrum and trying to take some share in wireless, how do you think about using this dislocation as a way to make your business stronger when we come out the other side of this disruption?

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

Craig, obviously, we think about that every day. And we have some cash on hand to be opportunistic if there is an opportunity that would require investment, but the biggest opportunity we see is to continue doing what we're doing and just doing it better and well, and being able to execute better and well, and continue to succeed in the marketplace. Our biggest opportunity, as a Company, is to continue to create customer relationships and we think that we have a great set of assets that we've put together and invested in properly and therefore, we have advantages in terms of the products that we can sell relative to others at the moment. And we have a high quality, high skilled workforce that's capable of generating and operating activity, and that's our big direct upside. And we think we can continue to operate well and execute well going forward. And to the extent that we're better at that than others, we create more value more quickly.

Q - Craig Moffett {BIO 5987555 <GO>}

Thank you. That's helpful. If I could just ask another maybe slightly more prosaic question. Just given all the attention being paid to sports right now, can you just talk about the way you would like to see the issue of sports payments to RSNs and national sports networks work out and with the pressure to rebate to customers and that sort of thing?

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

Yeah. Well, look, I mean we've talked for years about the reality of programming costs and how sports drives the bulk of the programming cost. If you look at our average cost of programming per customer in the high $60 range on average, that's the wholesale costs that we're planning for customer, my guess is that, if sports was not involved in the negotiations for the creation of that cost, that it would be less than half of what it is. So sports is the major driver in the cost of content. And obviously, it makes the whole product difficult to sell because of the cost that consumers have to pay and the effect that -- yeah, I mean just simply, it's a very expensive product and people have a hard time paying for it. The reality is that, we would love to pass through the sports programming costs back to the customer if it isn't paid or the events don't occur.

There's still a big question about whether the games are going to be playing if they are played, most likely, the cost will not be rebated to the customers. So I don't know -- at this point in time, we have a structure in the industry on how we pay for content. It's all bundled together and tied together and contractually and we have very little control over it directly. So we'd love to see our customers relieved if they can be. Ultimately, it's the athletes who are getting the money and if at some point somebody has to give up their money and give it back to the customer and that hasn't happened yet.

Q - Craig Moffett {BIO 5987555 <GO>}

Thanks, Tom.

A - Stefan Anninger {BIO 15867691 <GO>}

Thanks, Craig. James, we will take our next question, please.

Operator

Our next question comes from the line of Vijay Jayant with Evercore. Go ahead please, your line is open.

Q - Vijay Jayant {BIO 1526830 <GO>}

Thanks. So Tom, given that you obviously have exposure across the country, can you just talk about how the markets are different for areas like New York and California, where lockdown started early and compared to the other markets are you seeing any green shoots as some of these states start opening up and any change in direction of business? And then, just a simple question on the network. Obviously, it's highly resilient right now, but I'm assuming that from the work from home orders right now that the data transfer is becoming more symmetrical and your upstream on your network is not conducive for that kind of thing, I think. Can you help us think about, is there any stress on the net book from that side and what needs to be done, if any? Thanks.

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

So well in terms of variation by various parts of the country, obviously, there are re-openings occurring and we're preparing to operate differently in different parts of the country, depending on what the local regulatory climate is with regard to what's allowed from a business practice perspective. As an essential business, we've been operating the whole time and obviously, we have to keep our business running. So we've been running it under the tightest conditions that exist in terms of what we can do and how we have to take care of our employees and how we have to take care of our customers. So as we begin to see places opening up, we are preparing to respond to the local markets individually and project our capability locally.

I can't tell you that I can see at this moment any differences from one location to another in terms of the New York City's unique place, but it's unique in every way, always is, but broadly speaking, we've been locked down everywhere up till now.

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

And we are growing market share everywhere.

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

We are growing consistently everywhere. Now in terms of the future of the network and the load on it. We've been able to handle the very quick change in demand. And one interesting thing about the demand has gone up a lot in terms of network utilization, but it's also spread out. You build your network to maximum peak utilization and not total utilization. So it's the Mother's Day call effect from a network build perspective. You build for the one day a year when you need every bit of your network. And the network has been built and it's absorbed what we think of as a year's worth of augmentation in a few weeks. But the general trend that we now see in a few weeks has been going on for quite a long time, and we expect it to continue.

And so we have a pathway in terms of our assets to developing what we think the future of communications is, including an upstream capability as upstream utilization continues to grow. So that's what we call 10G. It's also called DOCSIS 4.0 in terms of the way we described it from a specifications perspective. But we're still rapidly moving down the path of augmenting our networks in smart ways, in capital efficient ways to continue to allow capacity to grow and to create new products that are hard to even envision. And we think that we're very well positioned to do that over the long term. It's going to require continued investment, but a proportional investment that's significantly less than any sort of brand-new build.

So we think we're in great a great position to make those investments and to realize the benefits of them and to create the new products that are going to come from them. But we don't have an immediate upstream problem and we don't have a downstream problem. We have opportunities in both places in the long run.

Q - Vijay Jayant {BIO 1526830 <GO>}

Thanks so much.

A - Stefan Anninger {BIO 15867691 <GO>}

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

Operator

Our next question comes from the line of Mike McCormack from Guggenheim Partners. Go ahead please. Your line is open.

Q - Mike McCormack {BIO 5717983 <GO>}

Hey, guys. Thanks, Tom, maybe just a quick question on spectrum. I know you mentioned the FCC's move recently, does that change your appetite in any way for the CBRS spectrum auction later this year? And then thinking about sports rights, I know you touched on it briefly, but what are your thoughts just more generally on the value of sports rights coming out of all this? Thanks.

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

Well, in terms of the -- you mean, did -- If I understand your question, are you saying that the FCC's 6-gigahertz WiFi spectrum will affect our valuation of CBRS? The answer is, no. They're really separate notions. I look at the 6-gigahertz spectrum as inside house type spectrum. So all of our products are delivered wirelessly. So the real issue is mobility versus stationery or sedentary behavior and the 6-gigahertz spectrum is really for in-house, high capacity use for a whole new set of products that will come along. The CBRS spectrum really allows for a more efficient use of the mobile platform, at least the way we look at it. Although it could be used indoors as well and it can be used indoors, both for mobile service in enterprise environments and externally. And so we see them as separate notions and separate values. And it hasn't affected -- one hasn't affected the other in our view.

Regarding sports rights, everybody misses sports and it really -- it obviously is an extremely valuable product and it is the glue that holds the bundle together. And assuming that sports come back and that leagues generally play, the secular trends that are going on shouldn't change in my view. The same forces will exist going forward that existed before the crisis. So absent a complete collapse of the sports business, I don't see a major change. (Multiple Speakers)

Q - Mike McCormack {BIO 5717983 <GO>}

Got it. Thanks, Tom.

A - Stefan Anninger {BIO 15867691 <GO>}

Thanks, Mike. We will take our next question, James, please.

Operator

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

Q - Michael Rollins {BIO 1959059 <GO>}

Thanks and good morning. I was curious if you could frame some of the scenarios that you were running for your SMB customers in trying to think through the exposure and how you frame the bad debt reserves in the quarter? Thanks.

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

Sure. And --

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

Yeah. Go ahead,

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

Mike on the SMB, I'd just put it a little bit in perspective. It's a 8.5% of our revenue, and so you can get some pretty wicked scenarios and it still doesn't have that material of an impact to the Company, certainly, when you're talking about liquidity or balance sheet perspective. It has an impact on the revenue growth rate for the entire Company, and so I think, given some of the stats that everybody is providing inside their prepared remarks, the idea is that people can take their own view of how bad in particular that segment of bars, restaurants and theaters could be hit and for how long. And that will give you some sensitivity of what the trough looks like. We don't know any more than anybody else in terms of the depth and duration of a recession, but that's why we wanted to give some of those stats to give a framework so you can think about it.

The second question was -- first one was SMB and the second one was -- what was it Mike?

Q - Michael Rollins {BIO 1959059 <GO>}

How are you seeing your bad debt?

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

Well, look, every company has had to modify to a new GAAP standard, which requires you to estimate your bad debt reserves for the receivables that you have at a period of time as opposed to when they age. And so you have heard everybody talk about that this quarter. We're no different. We had in total, between cable and mobile, about $30 million of additional bad debt as an estimate for what might not be payable on the accounts receivables that existed at the time of close.

In Q2, let me start maybe backward, the first objective. Our goal through all of this is: A, to do well by the customer by providing good offers for remote education, as well as for, in this case, keep American connected pledge, but our goal is also not going to be too quickly get into a collection environment and cut them off. Our goal is going to be to keep these customers. And in the second quarter, to the extent that we work with the customer to right size their receivable, some of that could impact the revenue recognition inside of Q2 and some of that for a financed portion that they may need to pay back over time, could impact our estimate for bad debt reserve. That will apply for residential and SMB.

And so when I mentioned in the prepared remarks that we're going to have a lot of technical, accounting and reporting issues to deal with in Q2, it's true, but we're going to be focused on not the accounting outcome or how Q2 is going to look, we're going to be focused on what's the right long-term outcome for the customers and for the Company, and we'll make sure that the accounting does what's appropriate on the back end. But I think there will be a little bit of noise and we'll make sure that we disclosed any revenue impacts and any bad debt impacts in our Q2 reporting.

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

So that's kind of an accounting information. The way I look at bad debt is, have you created customers and that you keep them and do they pay you. And if you create customers and they pay you, that's good. And if you don't, yeah, a lot of bad debt. And when I look at the customers that we're creating, we have -- they're taking our high quality products in the residential space and from a profile perspective, they look like the customers we've always created. And so they're going to be affected by the macro climate, obviously, but we have products that we can sell to those customers that have value, regardless of where they fall in the income range. We sell to very poor people and we sell to very rich people and we have a product mix that can work across the entire marketplace.

So I'm confident that we can create valuable customer relationships through time. Even in the small business arena, we're still creating customers today. And even in, if you think about the restaurant business which is closed, the vast majority of those customer relationships are still intact. They still want websites and they may have take out businesses or whatever, but even if the business is closed, it doesn't mean that they don't want to have a relationship with us.

Q - Michael Rollins {BIO 1959059 <GO>}

Thank you.

A - Stefan Anninger {BIO 15867691 <GO>}

Thanks, Mike. James, we will take our next question.

Operator

And our next question comes from the line of Peter Supino with Bernstein. Go ahead please, your line is open.

Q - Peter Supino {BIO 21231716 <GO>}

Hey. Thank you. When you all analyze the improvements in churn, what are the drivers of that other than the all digital upgrade that we've talked about at length and the in-sourcing of customer service? I wonder if your performance in the legacy Charter territories continues to provide any helpful data to answer this question?

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

So, what's good for churn -- look, churn was before the impacts of COVID. Our churn was coming down steadily. And everything we've done post-COVID has been consistent with the strategies that we had before in terms of having high quality service, high quality products, high quality workers in-sourced in the United States, who are trained and capable of providing excellent service. If you do that, you have less activity. And the ultimate value proposition that drives the cost to serve is activity. And if your service is better and your products have longer lives, inherently you have less activity per dollar of revenue generated, which means that you have a higher margin or lower cost to serve. And churn is one of the measurement of customer satisfaction. It's also a measure of mobility in the economy and other things of that nature, but all of those things being held constant, if you're churn rate is going down, that means your customer satisfaction is going up because your products are better. And that's been our objective in terms of managing the Company and it still is.

So the legacy Charter platform, churn was coming down and legacy Time Warner platform and legacy Bright House platform churn was coming down across all of those businesses and cost to serve is coming down too, because of the self-installation models and the all-digital models in terms of digital pi [ph] flows that we created, allow for ease from a consumer perspective of dealing with us and less friction in the actual transaction because an appointment is necessary to keep for that process to occur and all of that creates less activity and higher satisfaction, which is a very virtuous cycle in the sense that, if you have less activity and you have less failure in your activities, meaning you have less service calls, you have less missed appointments. You actually create more satisfaction, which extends subscriber life even longer, which by itself, reduces activity. So that is the path we were on and it's still, I believe, the path we're on. It's a little bit confused by the volume that we're currently under. We've had enormous uptick in activity in the last two months due to sales. And interestingly, we've created in the last 60 days 10,000 broadband customers a day, so 600,000 customers in 60 days. That's a lot of work and we've done that pretty seamlessly

Q - Peter Supino {BIO 21231716 <GO>}

Thank you.

A - Stefan Anninger {BIO 15867691 <GO>}

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

Operator

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

Q - Jonathan Chaplin {BIO 4279061 <GO>}

Thanks. Two quick ones, if I may. Tom, for you, you mentioned that the importance of the secular trends in sports haven't changed. I'm wondering if you can touch on some of the secular trends in the business that you think have changed? How the business is going to look different when we come out of the current environment?

And then, Chris, I think you said that non-programming costs were down year-over-year when you exclude the COVID impact from wages and bad debt. Is that a trend that you would have expected to continue throughout the year, but for the impacts of the pandemic? And then, should we annualize that $30 million and $25 million of COVID-related impacts or does it flow differently as we go through the year? Thank you.

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

So, Jonathan, on secular change, I would say it this way, I don't know that they are permanently changed, but they are permanently advanced. Meaning, we took years of secular change and compressed it into a very short period of time and we're not going to go back to the original trend line, we may have just moved way up the trend line. And I think network utilization is one of those and I think customer self-serve is the other, and the cost to serve as a result of that. We were already fairly far down the road in the customer self-service model and we were fortunate, when we got hit with what we did and with the marketing tactics that we employed, that we were able to actually deal with it because we had started the quarter in the 55% range, I think, of self-installation and we were about at 70% when everything changed and we're over 90% now of self-installation. So the fact that we were already at 70% allowed us to get to 90% with a fair degree of operational efficiency. And so we were prepared fortunately at that moment. But I think that's a big change in the business going forward. And I think people using Zoom and other kinds of two-way communications in a work like environment in their homes has probably advanced by a number of years to the long term.

A - Stefan Anninger {BIO 15867691 <GO>}

And Jonathan, you talked about non --

Q - Jonathan Chaplin {BIO 4279061 <GO>}

All right. Just a follow-up on that and this is probably directed at you Chris, going from 55% to 90%, what does that do for margins in a year or maybe it's two years when we get out of this environment? How much are margin structurally higher because of that?

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

Yeah. I don't want to get into a percentage margin discussion, but the cost of the self-installation is about a third of the cost of a professional install and the benefit of that (inaudible) to both OpEx and CapEx depending on what type of installation it is. So it's significant. And keep in mind that we were already at 55%. We would have been at 70% by the end of the quarter, absent the acceleration.

And your second question was on non-programming expense. There's marketing, there is advertising expense, there is enterprise expenses, and there is, I prefer to think about, cost to service customers, which is really the residential and SMB and cost to provide network operations, field operations and customer service operations, so call centers and billing, just the bulk of our costs. That cost, as I mentioned in the prepared remarks, absent -- leaving aside just bad debt, was down year-over-year in gross dollars and it was down as a per relationship basis. And I know I've cautioned in the past that, what we're committed to is that per relationship to cost to serve is going to continue to decline.

And I've been hesitant to say that the dollar cost to serve, excluding bad debt, would also decline on a gross basis. Clearly, it would've inside of Q1 year-over-year, and given that we do expect -- once we get beyond April, April has been a high activity month, we think that transactions -- sales transactions and move churn and all of the different service transactions will start to slow down. And so that could actually accelerate, excluding bad debt, the cost to serve decline year-over-year, certainly, on a per relationship basis.

So I think the trends there are good and they continue to. There is an increase in the amount of our labor expense because we accelerated the path that Tom was already putting the Company onto at $20 minimum wage. That was $30 million in the quarter for really a month and a half of expense. So yes, that will get annualized at the appropriate rate, but I think that's a small dollar amount relative to given how the transactions that come out of the business and I think our operating strategy fully funds that. And the acceleration of the adoption of self-service and self-install are very helpful and making that viable for not just our employees, but for all stakeholders.

Q - Jonathan Chaplin {BIO 4279061 <GO>}

Great. Thanks.

A - Stefan Anninger {BIO 15867691 <GO>}

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

Operator

And our next question comes from the line of Ben Swinburne with Morgan Stanley. Go ahead please, your line is open.

Q - Ben Swinburne {BIO 5489854 <GO>}

Thanks. Good morning. I just want to ask you both about two comments you made in the prepared remarks. Now, Tom, you've been in the business for a long time and you've been through lots of cycles. And I don't think I'm breaking news to say that the cable company historically has not had the best customer reputation and even reputation with regulators and politicians. And you mentioned the reputational benefits that the Company is seeing. I'm just wondering if you have conviction in that being sustainable, or any real data behind that because obviously that's not been the lens with which cable operators historically have been looked at?

And then, Chris, you were talking about capital allocation and the buyback. You mentioned organic or inorganic opportunities. I'm just wondering if you could just take a minute to remind us of your M&A framework and the kinds of things you guys historically have talked about, either being interested in or not interested in, just so we can flush out that comment a little bit more if you're willing? Thanks.

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

Well, Ben, I've always loved the cable industry and what it does. And I've always thought that it has done great things consistently. If you think about the upsides of our reputation, we transformed telecommunications. And if you think -- I remember just 15 years ago, 20 years ago, the average wireline phone bill was $75 in the New York area. Today it's $9.99 and if you look at what the cost of broadband was, particularly on a per-gigabit basis, think about dial-up, AOL dial-up in the year 2001, (inaudible) Time Warner was $20 a month, and you got 56 VOD or 56K. The cost of broadband has gone way down and the telecommunications outputs of the investments that the cable industry has made have been tremendous in terms of the benefits that it's created for consumers

Nobody likes paying their cable bill and nobody likes paying for programming costs and that's always been a difficult aspect of our business. Since we've had competition in video, since the rise of satellite and the cable industry had to divest itself of programming essentially because of the vertical integration rules, the programming costs have increased massively because programming is a copyright, which is a legal monopoly and they've had pricing power over a competitive video business. And consumers don't like that, but now you have the rise of a la carte direct-to-consumer programming in that section in Warner Home Media and Disney and so forth. And so a lot of our customers have the video they want to buy at prices they want to pay. And so I think it's from -- the biggest driver of negativity in the cable business, I think, has been the price of video. And to some extent, that's breaking up. So I'm relatively optimistic about our status and I think that when you really look at it objectively, we have done great things. And I think that the facilities based competition model that we have in the country has done a really great job of producing really high quality communication services for consumers. Ben, on the M&A framework on the inorganic side, I think the prospect is probably more actionable on the organic side, and some of the things that Tom's talked about in the past, but on the inorganic side, it would be M&A. Nothing has changed with the way that we think about opportunities. As Tom just mentioned, we love cable. At the right price, we would do cable all day long and that means tack-ons which we do frequently as we can, as well as bigger acquisitions. That hasn't been the case today. They are mostly family controlled or family owned. And so that will be not in our hands, that will be in the hands of others to decide that. We have looked all around to see if there is anything on the content side. We haven't found anything that really matches up well with our assets and capabilities, other than some of the local news that we have extended organically and that makes a lot of sense for us, and particularly in this environment has been the big asset. And we've thought a lot about wireless, but given the assets that we have, the ability to deploy small cells, the attractive MVNO that we have, we haven't found a scenario that made a whole lot of sense for us or for the industry. And there are pieces that we can take a look at to accelerate growth, whether that's in enterprise or whether that's in wireless technology, where we've made some minority and some joint investments with Comcast. The same would apply to advertising, but none of those are going to be particularly material. They will be great for those segments of business and the ability to accelerate growth hopefully, but it's not going to be something that really materially shows up on the balance sheet and impacts our liquidity. All of which, leads you back to -- I think unless Tom's got something else he'd add, it leads you back to, we think the organic opportunities, and if you can't buy somebody else's cable stock, buying more of your stock at some point in the future is probably between organic and that is where we are going to end up in the meantime.

Q - Ben Swinburne {BIO 5489854 <GO>}

Thank you, both.

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. Go ahead please, your line is open

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

Thanks. I was just wondering if you could talk about maybe some of the new offers for customers. I think you said something that you're doing with Sirius. And could you talk about any plans you have for Peacock, do you need to wait for your NBCU renewal at the end of the year? And then, finally in terms of customer offers, does the AT&T promo offer for HBO impact the way you would sell or offer HBO?

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

I had a hard time hearing.

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

So the first question was, any new offers including, I think, the Sirius trial that we've run out in the marketplace was the question there. And then the second was Peacock, whether that needs to -- that could happen now or needs to wait until future renewal. And the third was the HBO Max, to the extent that it impacts the way that we sell or package the HBO product.

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

In terms of our offer strategy, I couldn't disclose those before we do them. We experiment with various offers through time, but not to minimize our marketing prowess, but ultimately it's, do you have good products and are they worth what they cost and that's what affects your ability to sell and take the marketplace. But we experiment with the marketing tactics all the time and Sirius is one of them. And so we don't have any announcements about future tactics that we might employ.

In terms of Peacock, we have ongoing discussions with NBC and we haven't concluded anything yet. In terms of HBO Max, we just completed an agreement with AT&T and we're going to convert our customers who have HBO to the new product and then we're going to market the new product as part of our overall video offering and we look forward to doing that

A - Stefan Anninger {BIO 15867691 <GO>}

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

Operator

And our last question comes from the line of John Hodulik from UBS. Go ahead please, your line is open.

Q - John Hodulik {BIO 1540944 <GO>}

Great. I'll make a quick. First, I guess just two quick ones. First, Chris, on the comment on the March advertising or April advertising. I guess you said it's twice as -- variance is twice what you saw in March. Does that mean that we're down 36% so far in April? And any color you can give on what you think how the quarter is going to shape up there?

And then, on the CapEx question, you said that given the outbreak it will likely come in lighter than you previously expected, which is already lower capital intensity. Is there any magnitude of change there, and if you could give us any color on the buckets it would be great too? Thanks.

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

So the April comment that I made was really not related to the percentage decline year-over-year. It was really the variance to what would have been our expectation. So the $30 million, we had literally come off the books in March, it was already sold, came off the books, so over twice that that came off the books for April. We think that will probably be the trough in April, small if that recover in May and maybe depending on how the openings occur during the start to come back. So Q2 is going to be a rough advertising. It's not a big part of our business, but it's going to be a rough advertising quarter. And we do think that as things come back online, that there'll be some pent-up demand for advertising on the core local, which for us has been growing. Our core business has been growing at 3% to 4% year-over-year on top of that there will be pent-up demand.

So whenever the market opens back up and a lot of that's tied to (inaudible) and when the recession or when the distancing starts to open back up, but Q2 will be the rougher point. And then the back half of the year, we'll have political advertising, which takes a little bit -- from a full-year perspective, takes a little bit of the sting out of the collapse that we're seeing inside of Q2 and there's nothing about us that's unique there right.

The CapEx side, I think, it's way too early. I think all we're signaling at this point is that we've been focused on a lot of different activities right now and there is the possibility that some of the programs that we've had might be slightly delayed, construction could be slightly delayed. Your installation CapEx certainly is on one hand going to be lower because of the lower unit cost because of self-installation, on the other hand, we're doing a lot of installations. The volume is very, very high, as Tom mentioned. So there's a lot of moving parts there, but if we had to guess, it will probably be slightly off relative to the dollar amount that we intended to spend. I think as Craig asked at the very beginning of the Q&A, are there areas that we can accelerate our spend given the strength of our balance sheet and the strength of the business. And we'll be moving from a reactive mode into very much a proactive to thinking about what are the things that we could do longer term to even take more advantage of the assets we have. So I don't want to prejudice too much of it, and say, right now we are on the path along, it probably looks it would be slight minimal lower dollar amount than we intended to spend this year.

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

The other thing I would say about capital spending is, we were -- we talked about it in terms of pressure testing really. And we haven't changed our commitment to the projects that we're building and the products that we're building. And we're continuing to take the business forward, but a lot of our capital is success based and so it's modulated automatically by customer creation. And so to the extent that the market moves around based on the macroeconomic effects, do does capital

Q - John Hodulik {BIO 1540944 <GO>}

Got it. Thanks guys.

A - Stefan Anninger {BIO 15867691 <GO>}

Operator, that concludes our call.

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

Thank you all very much.

Operator

And ladies and gentlemen, this does conclude today's call. We do thank you for your participation. You may now disconnect.
