Q2 2021 Earnings Call

Company Participants

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

Other Participants

- Benjamin Swinburne
- Bryan Kraft
- Craig Moffett
- Douglas Mitchelson
- Jessica Reif Ehrlich
- John Hodulik
- Jonathan Chaplin
- Michael Rollins
- Philip Cusick
- Steven Lee Cahall

Presentation

Operator

Good day, and thank you for standing by. Welcome to Charter's Second Quarter 2021 Investor Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. (Operator Instructions)

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

Stefan Anninger {BIO 15867691 <GO>}

Good morning, and welcome to Charter's second quarter 2021 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. Our operating strategy continues to deliver good customer growth and even better financial growth. Our second quarter residential customer activity remains lower than normal. Residential sales activity is slowly picking up, and because churn continues to be solo, those trends are having a meaningful impact on our net additions, and even larger impact on our financial growth rates.

Our commercial business also saw improvements in the second quarter, small business sales were up versus second quarter of 2019 and enterprise sales continue to steadily improve. Advertising also improved with second quarter revenue, seating second quarter 2019 levels driven by our advanced advertising products. So our view is the economy is improving and our business trajectory is normalizing. For the full quarter, we added over 330,000 customer relationships with customer growth of 4.2% year-over-year. We also added 400,000 internet customers in the quarter and $1.5 million over the last year for year-over-year growth of 5.5%.

We added 265,000 mobile lines, and we grew our adjusted EBITDA by 11.8%, and our free cash flow by over $200 million year-over-year. We remain focused on driving customer growth by offering high-quality products and service under an operating strategy, it's works well in various market conditions. We've spoken significantly about wireless convergence in the capital efficient nature of our expanding network capabilities and products. The key piece of our strategy also includes treating service as a product itself, and giving our customers the flexibility to manage their spectrum services and interactions with us, whenever and however they want.

We are improving the quality and efficiency of our interaction with customers by expanding our customer self-service and self-care capabilities, and digitizing and modernizing a number of elements our customers feel the network operation groups can use. Those efforts improve the customer experience and the quality of our products, while reducing transactions with customers, lowering churn, extending average customer life and reducing costs.

We've responded to digital and self-service trends in several ways. Today, over 20% of our residential relationship sales are generated through our online channel with fully automated provisioning and installation scheduling and zero touch by Charter. And close to 85% of our sales take advantage of our self-installation program reducing costs and driving higher customer satisfaction. Today, customers also choose their preferred medium of interacting with us, when they have questions or service issues, including digital chat, phone, online, in person at one of our stores or via the spectrum app.

Our ability to avoid and manage network impairments has improved significantly over the last several years by using machine learning to 10 point potential service degradation in real time and often in advance allowing us to avoid disruption all together. We're now coupling that information with customers preferred communications to proactively notify them of maintenance and restoration.

Today, over 60% of our customers engaged with us exclusively via digital means, when they have a service question or issue. Customers that still want to interact with us by a phone, can do so and service mark call centers continues to become more efficient. Given new tools, we're deploying which enhance our ability to properly answer questions and solve the first -- for the first time customer calls.

And in fact, that our call center work forces U.S. based and fully in-sourced with employees who have training and career paths here at Charter enhances that. In aggregate, all of our efforts have reduced total customer transactions, including billing and service calls, repeat service calls, truck rolls and network impairments all of which improve the quality of our products. We're executing well, yet, we've remain early in the process of optimizing -- optimizing our services product.

So together with our network and product capabilities, we've remain confident in our ability to grow our customers EBITDA and free cash flow for many years to come. That confidence stems from a number of factors, including the demand for our connectivity products, including the long-term growth rate in usage on both wireline and wireless networks. Our ability to deliver unique fully converge connectivity services, connectivity service package, whilst saving customers hundreds or even thousands of dollars a year. And our share of household connectivity spend, including mobile and fixed broadband is still low from a passing's perspective.

We remain under penetrated to our long-term opportunity. Finally, our capital efficient path to expand network capability improved the quality of our products in a manner, there's more capital efficient than our competitors gives us a structural advantage to compete over the long term. Ultimately, our strategy is founded on the principle of providing superior services at highly competitive prices.

Now I'll turn the call over to Chris.

Christopher L. Winfrey {BIO 16326284 <GO>}

Thanks, Tom. As we discussed last quarter given the effects of COVID in 2020, 2019 remains the better customer growth comparison for 2021. We continue to reference the COVID schedules we provided last year and included again on Slide 17 and 18 of today's presentation, that help with the year-over-year financial comparisons.

Turning to our results on Slide 5. We grew total residential and SMB customer relationships by $1.3 million in the last 12 months, and by over 330,000 in the second quarter. Including residential and SMB, we grew our internet customers by 400,000 in the quarter and by $1.5 million or 5.5% over the last 12 months. Video declined by 50,000 in the second quarter and wireline voice declined by 78,000.

In residential internet, we added a total of 365,000 customers in the quarter, higher than the 221,000 that we gained during the second quarter of 2019. Our residential video customers declined by 63,000 less than the loss of 150,000 we saw in the second quarter of 2019. In wireline voice, we lost 99,000 residential customers in the quarter, also less than the loss of 207,000 in the second quarter 2019, that was driven by continued fixed to mobile substitution.

Turning to mobile. We added 265,000 mobile lines in the quarter, and as of the end of the quarter, we had 2.9 million mobile lines. Despite the lower number of selling opportunities from cable sales, we continue to drive mobile growth with our high-quality attractively price service rather than using device subsidies.

Few things to keep in mind when reviewing this quarter's customer results. First, we estimate that 60,000 of our residential internet net ads would not have occurred without the emergency broadband benefit program or EBITDA, which launched in May. These incremental internet net ads had little impact on our video and voice net adds. Some of what we estimate as business as usual sales also enrolled in the EBITDA program as did some of our existing customers. Those customers did not impact our second quarter customer net ads.

Our second quarter customer net ads also benefited from certain state mandates moratoriums on internet, video, and voice disconnects. Internet benefited by about 40,000 with video and voice net additions also benefiting by laws. Some states had recently ended their moratoriums, so similar to our KAC customers last year, we will work with these customers to forgive portions of their bills and provide financing options to customers. And we expect to keep them as customers same as we did with the KAC program.

Looking at the bigger picture, residential customer activity levels in the marketplace including sales, churn and particularly non-pay churn are taking a bit longer than we expected to return to normal levels. As a result, our first half 2021 financials have been better than we expected, driven by lower operating expense given lower transactions, significantly lower bad debt. We continue to expect transaction volume to pick up in the second half of this year driving more selling opportunities in the market for cable and mobile, and we still expect the full year internet and customer relationships to be at or above 2019 net additions. So the financial effects that we expected of a higher churn environment and expected higher sales for Charters as a share taker could occur later in 2021 or even into 2022.

Moving to financial results, starting on Slide 6. Over the last year, we grew total residential customers by 1.2 million or 4.1%. Residential revenue per customer relationship increased by 1.8% year-over-year, given last year's second quarter residential revenue write-down of $76 million or customers in the Keep Americans Connected program. As well as bill credits that we provided last year as part of the Remote Education Offer, which provided two months of free internet. Those one-time comparison benefits were partly offset by the same bundle and mixed trends, we've seen over the past year, including a higher mix of non-video customers and a higher mix of choice, centrals and stream customers within our video base.

Keep in mind that our residential ARPU does not reflect any mobile revenue.

Slide 6 shows residential revenue grew by 6.8% year-over-year, reflecting customer relationship growth and last year's COVID impacts. Turning to commercial, SMB revenue grew by 6% and this growth rate reflects COVID-related impacts of $17 million that negatively impacted the second quarter of 2020. Excluding this impact from last year, SMB revenue grew by 4.2% faster in last quarter's growth.

Enterprise revenue was up by 5.1% year-over-year and was also negatively impacted last year by $18 million to COVID credits. Excluding this impact from last year, enterprise revenue grew by 2% and by 5.8%, when additionally excluding wholesale revenue. Enterprise PSU is grew by 3.7% year-over-year.

First quarter advertising revenue increased by 65% year-over-year, primarily due to COVID impacts last year. When compared to the second quarter of 2019, advertising revenue grew by 4%, primarily due to our growing advertising -- advanced advertising capabilities, partly offset by lower local ad revenue. Mobile revenue totaled $519 million with $214 million of that revenue being device revenue. In total, second quarter revenue was up 9.5% year-over-year.

Moving to operating expenses on Slide 7. In the second quarter, total operating expenses grew by $575 million or 8% year-over-year. Similar to revenue, the year-over-year operating expense growth rate is elevated due to 2020 COVID effects. Programming increased 3.6% year-over-year due to higher rates, offset by a higher mix of lighter video packages such as Choice, Essentials and Stream. Regulatory, connectivity and produced content grew by 36.9% driven by more Lakers games than normal this quarter given the delayed start to the NBA season, combined with no Lakers or Dodger games expensed in the prior year due to COVID-19. Excluding sports rights costs related to our RSNs, this expense line item grew by 3.2% year-over-year.

Cost to service customers declined by 1.2% year-over-year compared to 4.2% customer relationship growth. The decline was driven by lower transaction costs and lower bad debt, partly driven by government stimulus packages. Excluding bad debt, cost to service customers was flat year-over-year despite a higher number of customers and outsized hourly wage increases that we put through earlier this year.

Marketing expenses grew by 3.1% year-over-year driven by second quarter 2020 COVID impacts, including lower media placement rates in 2020 and a payroll tax credit. Mobile expenses totaled $586 million and were comprised of mobile device cost tied to device revenue, customer acquisition and service and operating cost. And other expenses grew by 13.5%, driven primarily by higher corporate cost and advertising sales expense given the strength of ad sales this quarter combined with the weakness in the ad market in the prior year. Adjusted EBITDA grew by 11.8% in a quarter.

And turning to net income on Slide 8. We generated $1 billion of net income attributable to Charter shareholders in the second quarter versus $766 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 second quarter in line with last year second quarter capital spend, driven by higher scalable infrastructure spend, primarily related to augmentation of our network capacity at our normal pace for customer growth and usage with incremental spending to reclaim the network headroom we maintained prior to COVID. This was offset by lower spend on modems, routers and self-installation kits given the elevated sales volume in the second quarter of last year.

We spent $124 million on mobile related CapEx this quarter, which is mostly accounted foreign support capital and was driven by investments in back office systems and mobile store build-outs. For the full year 2021, we continue to expect cable capital expenditures, excluding any RDOF investments to be relatively consistent as a percentage of cable revenue versus 2020.

Slide 10 shows, we generated nearly $2.1 billion of consolidated free cash flow this quarter, an increase of 10.8% year-over-year. We finished the quarter with $87.5 billion in debt principal, our current run rate annualized cash interest, pro-forma for financing activity completed in July is $4 billion, $4.0 billion to be exact. As of the end of the second quarter, our net debt to last 12-months adjusted EBITDA was 4.3 times. We intend to stay at or just below the high end of our 4 to 4.5 times leverage range.

In June, we converted advanced new houses preferred partnership units, which had a face value of $2.5 billion and paid to 6% coupon. They were converted into $9.3 million common partnership units, which means we no longer pay $150 million in preferred dividends per year. During the quarter, we've repurchase 6.1 million Charter shares and Charter Holdings Common units totaling about $4 billion at an average price of $656 per share.

Since September of 2016, we have repurchased $47 billion or 36% of Charters equity at an average price of $421 per share. So we have a successful operating model and growth-oriented investment approach, which been coupled with a unique balance sheet structure and improving capital allocation strategy has and will produce cash flow growth and shareholder value for years to come.

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

Questions And Answers

Operator

(Question And Answer)

(Operator Instructions) Our first question comes from the line of Craig Moffett with MoffettNathanson.

Q - Craig Moffett {BIO 5987555 <GO>}

Hi. Thank you. I'm going to instead of talking about broadband, which everybody wants to talk about, I want to ask about your other two big revenue drivers, wireless and business services. First, with business services, I think you said last quarter, the repricing is now largely over for the Time Warner Cable customers. Can you just talk a little bit about what you're seeing in business services? It looks like with particularly weak results from Verizon and AT&T, that share gains may have meaningfully accelerated now in the wake of COVID. And then with CBRS and wireless, I wonder if you could just talk about how much traffic you think you can offload from the MVNO agreement. And what kind of timeline do you think you'll be before you'll start to see those traffic reductions on your own network?

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

So let me -- I'll start with business. And then I take Tom would cover wireless. The -- on the business service segment, you have to really distinguish between SMB and enterprise. So I'll start with what we're seeing in SMB and then with enterprise.

For SMB, as businesses recover, new businesses open and the share flow opportunity for us is growing, and you see us returning to higher growth rates. And at the same time, most of the repricing in the SMB space at the legacy TWC base is behind us with the exception of the voice product. So it's largely behind. So what you're seeing is accelerating net add growth accompanied by less price pressure, which is resulting in accelerating sequential revenue growth in SMB. And we're steadily marching down a path to continue to go higher on both. And I think the runway for us on SMB continues to be very long, even though we're -- we have a meaningful percentage and participation in that marketplace.

On the enterprise side, we're lower penetrated. And our value-added opportunity is due to our significant amount of deployed fiber throughout our footprint to be able to drive connectivity services as well as software-defined network overlay products, including SD-WAN, unified communications. And so, our opportunity there is not only to provide more fiber connectivity, but to establish ourselves in the marketplace for these additional services and increase the stickiness of our fiber connectivity with additional product. And we're early on in that. That marketplace had really slowed down significantly during COVID. And our selling activity is back and above 2019 levels, despite the fact that certain key markets of ours, L.A., New York City, are not back to where they were. So despite that, we're above where we were in 2019, both from a units as well as revenue takeout on selling.

What you're not seeing is the full impact of that yet inside of our revenue for enterprise, because those sales have long cycle times to installation and therefore, revenue conversion into billing. So our outlook on that is pretty strong. It's going to continue slowly, but continually get better and better in the enterprise space. But we're optimistic about both the SMB and enterprise. And I think we can be a share taker there for many years to come.

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

Yes. And Craig, with regard to CBRS and offload, we have our first infrastructure project that we're building that will use CBRS that won't be active until early next year. And I don't anticipate any meaningful national offload until beginning in '23.

But that said, it is a long-term opportunity, and we're a nascent player in the mobile space and just beginning our acceleration. And we're incented to move significant amounts of traffic onto our own network, and we already do through our Wi-Fi network, which we can also optimize for traffic flow going forward. And we can do the same with CBRS and potentially other parties as well. So, we have an opportunity to continuously lower our cost going forward, and to -- even if we were not using CBRS, we have an opportunity just through our volume activity to continuously move down the price curve. So, we're optimistic about our ability to grow our mobile business, and at the same time, take costs out of our mobile business as it grows. And there are a variety of tools, including CBRS, that allow us to do that. But I would say that without giving you an exact number, it would be material.

Q - Craig Moffett {BIO 5987555 <GO>}

That's helpful. Thank you.

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

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

Operator

The next question comes from the line of Jonathan Chaplin with New Street.

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Q - Jonathan Chaplin {BIO 4279061 <GO>}

Thank you. Chris, I'm wondering if you can give us an update on when you think you'll switch from splitting nodes to potentially adding capacity to the plant with maybe an upgrade to 1.2 gigahertz with a high split. And if that happens later this year, is that contained within the CapEx envelope that you've guided to for the year? Thank you.

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

So I'll start off and let Tom add into it. I don't think it's going to be, one, we haven't announced a definitive plan as of yet to if and when we're moving into a high split territory. It's not going be like you're going to flip the switch nationally, you'll start off market by market. And it's not going to be heavy inside of this year in any event. So, I don't think it's going to have any material impact to our CapEx this year. So, you look out for a five, six year period, and really what you would be doing is using high split to replace augmentation that you'd be doing otherwise to increase the capacity of our network.

And so, when you look at it over a five to six year time period, it would be at very low, if any, incremental cost. There may be pockets in that five to six year window where you'd be doing effectively capital pull forward. And I'd like to use the word lumpiness you might have in some of your capital expenditure. But we're going to do what's right. And if we can move fast and get additional augmentation and capacity, we'd do it, but I don't see a material impact this year. Over a five to six year period, I don't think it changes the trajectory of our investment cycle. It give us additional capabilities, additional speeds at a lower cost than what we'd otherwise incur.

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

The only thing I would add is the one thing it does, it gives you the ability to sell symmetrical data speeds at over a gig. And you can do that without really spending out much incremental capital. And at the moment, you really don't need that from a market-facing perspective or from -- I mean there's a perception issue in the market, but in terms of product use, there's none. And so, we don't need it yet from a marketing perspective. And it's not the only tool in our toolbox. We have other technologies, including DOCSIS 4.0 and Full-Duplex, which we can use selectively and efficiently wherever augmentation or product definitions require. But I think the main thing to keep in mind is that pathway we have to continuously upgrade our network capabilities is very efficient from a capital perspective and flexible.

Q - Craig Moffett {BIO 5987555 <GO>}

Great. Thank you.

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

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

Operator

Our next question comes from the line of Michael Rollins with Citi.

Q - Michael Rollins {BIO 1959059 <GO>}

Thanks. Good morning. Curious if you could talk a bit more about what you're seeing in the broadband market and your performance in terms of just overall market expansion versus market share. And then separately, on the video side, can you share what you find is contributing to the better trend line of video losses? And how you see that going forward? Thanks.

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

Michael, I think the broadband market continues to expand, both through housing growth, population growth and adoption. The big issue in general adoption is more of a digital literacy issue than it is a cost issue. And it's continuing to improve in terms of market adoption, because of the way people can use the tools on the Internet today at any level and at any age. And so, I think you have a continuous march of a broadband adoption right up to occupied housing over the next five years.

And so, you have that, and then you have our ability to have a superior service as capitally efficient, ability to continuously upgrade that service. And we think we -- and with a full range of products, including mobile and video, and we think we can continue to take share as a result of our ability to have high-quality, low-cost products available to consumers across the marketplace.

With regard to video, why do we -- why our number is relatively better? We're selling more packages that allow us to tailor video to customer needs. It's a difficult business, because in general, video is very expensive. Our cost for video to provide it to customers are very high and continuously going up. And so, there's people being priced out of the market. We put lower-priced packages into the market. The new products have been developed, direct-to-consumer products are churning at higher levels. And so, our products also are in that re-adoption process of -- that occurs as a result of churn.

So to some extent, we think our video business is stabilizing. But at the other -- on the other hand, the fundamental trends haven't stopped, which is that prices are being continuously passed through to consumers, and there's real pressure on the total cost of the bundle. The reason we're relatively better as we have- -- we've been moderate with our pricing, and we've been moderate, and we've created new packages that cost less.

Q - Michael Rollins {BIO 1959059 <GO>}

Thank you.

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

Tabitha, we'll take our next question, please?

Operator

Our next question comes from the line of Ben Swinburne with Morgan Stanley.

Q - Benjamin Swinburne {BIO 5489854 <GO>}

Hey, good morning, guys. Two questions. I'm wondering if you could talk a little bit about wireless sell-in. I don't know if you'd be willing to give us a number on percentage of new customers or connects that are taking wireless or any trends you're seeing or your ambitions long-term? It would seem like that business is really starting to get a lot of momentum. And I was wondering if all your sales channels are turned on and just sort of how to think about the potential acceleration of that business, I think, you could share it would be helpful.

And then probably for Chris. Chris, just as we think about the third quarter broadband net adds, do we need to think about anything as it relates to either the EBB number you called out or the New York order, like definitely need to factor in, in our thought process for third quarter at all? Any thoughts would be appreciated.

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

Sure. I'll take a crack at both of those, and then Tom may want to add additional. On the wireless selling, so we're -- the answer is no, we're not going to give you the percentage of selling for obvious competitive reasons, but I can provide some color on it. We're essentially selling through all of our channels. It is a focus we have to make sure that on every conversation that we have inside of our selling channels that we're bringing up the conversation to how we can save customers' money if they take mobile with us. Our sales success rate, our compliance for that conversation taking place and the sales success rate is going up.

And what happened inside of Q2 and also inside of Q1 is we just have less selling opportunities, but our success rate in selling in is going up on the steady march across all of those channels, which includes retention, by the way. So in all of our sales channels, and we're using it as a retention tool as well. Customers call in and want to save money. This is a great way to save hundreds and even thousands of dollars a year for a customer by taking your mobile product. So it's working well, and we have a lot of confidence that it's going to keep on increasing.

And as soon as the market flow opens back up in terms of selling opportunities, I think we're well positioned. And the Q3 broadband, I don't expect EBB to have any negative impact on us in Q3. The customers that were protected from the state mandate perspective, we've already -- inside of our Q2 results, it was small, but we've written off a portion of their balances. We're working with those customers. We've been successful in keeping those customers, those type of customers to the Keep Americans Connected programs. We'd want those customers to stay with us, and we're working with them to make sure that takes place. And it's worked in the past, and I don't expect any major impact there.

I guess the only thing that I would say and -- well, two things I would say about. Q3, and not so much even Q3 is just when you think about the coming quarters. Q2 2019 wasn't our strongest quarter. So, we've really outpaced that this quarter versus 2019. And I think Q3 2019 was better than Q2 2019. So I'd just caution not to get over your SKUs on relative expansions of net adds and comparison to 2019.

And there will be a moment where -- we were just talking about it yesterday. There will be a moment where there's dislocation where the market churn picks up, your sales should pick up. And so, there's always this question of does the timing lined up exactly right. As a share taker over a period of time, that means we're going to have higher sales, and we're going to have higher net adds. But in order to get there, the market churn rate has to pick up. And there's a timing question of does it all flow through inside of the quarter the way they think it should.

And so, what we always say, I wouldn't pay too much attention to a particular quarter. Our growth rate is good. It's going to continue to be good, and we tend to look over longer periods of time as opposed to just a particular quarter.

Q - Benjamin Swinburne {BIO 5489854 <GO>}

Got it. Thanks, Chris.

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

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

Operator

Your next question comes from line of Doug Mitchelson with Credit Suisse.

Q - Douglas Mitchelson {BIO 1897051 <GO>}

Thanks so much. First question, one clarification. Did you say that CapEx this year would be, I think, stable including RDOF or excluding RDOF, because I think the press release said excluding RDOF.

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

Excluding RDOF.

Q - Douglas Mitchelson {BIO 1897051 <GO>}

Okay. For some reason, I thought I heard including, which would have been a surprise. I'm just -- another question on wireless on the go-to-market strategy and the position and look, you've been pretty clear on not offering phone subsidies, which obviously is somewhat self-limiting for subscriber growth. Are you already leveraging all of your marketing channels for wireless? Is the Elbogesoure putting into driving gross additions, something that we should consider as relatively stable over time. I mean as we scale forward, it's partly selling opportunities as you indicated, and it's partly churn on a growing subscriber base, and that's how we run the subscriber model. Or should we think of this as more of a financial decision as the economics of the business improve either through scale or learnings and operating smarter or offlaying on CBRS and Wi-Fi. As the economics of the business improve, should we assume that you'll spend more on market and ultimately consider phone subsidies? Just trying to understand that top of funnel approach over the next bunch of years for wireless. Thanks.

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

Yes. Doug, we haven't fully deployed all of our channels. We have a store strategy that's multiyear, and that's still rolling out, and we expect to complete it by the end of this year, but a substantial portion of our stores are not done. And so, even the channels that we wanted to deploy are not fully rolled out. But we have a variety of tools to grow our market share. And we have -- and I would not preclude any of them that anybody else has ever used in history. But fundamentally, we haven't changed our pricing since we launched the product. And we have that ability to be -- to move the needle in terms of the amount of mobile customers that we create as part of our broadband growth strategy.

So, I would say that we set up a strategy that was based on activity levels. Those activity levels are lower than we thought, because churn is lower than we thought. But there's -- there are more ways to get into the market than we are using.

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

And I'd just add, since you asked the question, is it -- are these financial decisions driving how aggressive we are is the essence of what you're asking, the answer is no. We have a lot of confidence. We know what the economics are. They're very good of what we're doing. And over time, it's not going to be a short-term financially driven decision in terms of how we deploy those channels.

Q - Douglas Mitchelson {BIO 1897051 <GO>}

Great. Very helpful. Thank you.

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

Thanks, Doug. Tabitha, we'll take our next question please.

Operator

Our next question comes from the line of Phil Cusick with JPMorgan.

Q - Philip Cusick {BIO 5507514 <GO>}

Hey guys. A couple of follow-ups. Maybe expand on the comment about business trajectory normalizing. Was that improving through the second quarter or since? And is your own churn starting to pick up as well? And then on mobile CapEx, as store spending comes to an end, do you expect mobile spend from those traditional uses to fall? And how could your strand mount spend come in relative to that in maybe '22 or '23? Thanks.

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

Look, I don't think I want to go down the heavy path of the intra-quarter trajectory. And SMB has been steadily improving each quarter. You can see it in our results. Enterprise, clearly, as more businesses become occupied, which is still relatively low, the selling opportunity for us increases and the willingness for people to take decisions on their IT network, including our services increases. And so, a lot of that's really been moving with

COVID and in office occupancy as people are making decisions. And that's going to continue to -- that has been improving steadily and -- but for what you're seeing in newspaper, I think we'll continue to steadily improve. So, our price selling opportunities should continue to get better.

Your question -- go ahead.

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

Well, I was just going to say that in terms of churn, fundamentally, recovery is slower than we thought it would be in terms of activity levels. And while we're performing well in all of that, it's not what we thought. So we're a little surprised at how slow move activity has rebounded. And so, I'm -- it is rebounded. Everything is moving and increasing and returning to normal. But it is not there, and it's still an unusual marketplace.

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

On the CapEx side, the stores that we plan to rollout will be largely completed this year. Some of that's going to roll little bit into next year. Then we'll have another investment decision to make of how we're deeply penetrated in the market we want to go. We've not made that decision yet. We'll take a similar ROI approach to how we deal with that in stores, but our original plan will be complete largely. And at this year, as Tom said, maybe a little carryover into next year.

You rightfully point out that we'll be stepping up the CBRS investment. And could that take the place of store capital, yes, but not into perpetuity, I think. So it may have been view who published. That's not the way we think about it. It's not the way that all we think about. It just happens to be some coincidence. But I think you had stepped and told me you had published a number that was relatively high for what we would spend on CBRS. The number that NVC told to me was a multibillion dollar number, and that's way more than what this project is going to cost. And that will be ROI-based. We don't have a specific time line other than we'll roll out market by market based on where we have the best ROI to achieve that, but the capital spending is -- it's large. But in the overall context of Charter, it's not that big.

Q - Philip Cusick {BIO 5507514 <GO>}

That's helpful. Thanks guys.

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

Thanks.

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

Thanks, Phil. Tabitha, next question, please?

Operator

Your next question comes from the line of John Hodulik with UBS.

Q - John Hodulik {BIO 1540944 <GO>}

Great. Hi, thanks, guys. During the quarter, you signed a new affiliate agreement with Viacom. And it seems like the wording has changed a bit. So anything you could tell us about maybe not a specific deal, but just affiliate deals in general? Are you getting more flexibility as you're more sort of a B2C participation, because there's obviously fewer blackouts, and so that seemingly, the negotiations are going better. So just any evolution there that you're seeing?

And then going back a couple of years, you guys talked about 500 basis points or so of sort of visibility on margin improvement. And in the prepared remarks, you talked about all the digitalization and the efforts there that should sort of keep that trend going. But just in some -- any change in your visibility for margin improvement from the sort of 39% levels as you look out over the next couple of years? Thanks.

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

John, with regard to Viacom, I would say this, it was a modern agreement, a new agreement and recognized that the video business is changing, and it addressed our legacy relationship and addressed our new direct-to-consumer relationship with Viacom. And they were, I think, happy with the discussion, and we were obviously since we agreed to it. And the -- it's different than prior agreements, because they have direct-to-consumer products, and those were integral to the discussion. And consistent with our view that we'd like to be part of the marketplace, and to enhance our video and customer relationship with customers through managing transactions for them. So, it did that.

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

On the margin, I think you know us well enough, John, that we don't think about the business in terms of percentage margin terms. It doesn't drive how we do investment planning or operating plans or budgets. But the part of your question is, are we going to continue to get more efficient? And the answer is yes. I mean, you have double-digit percentage increases in the number of trouble calls and service calls per customer relationship year-over-year. And that continues. It has a long runway. I think the bigger driver for consolidated margin really is much more about revenue mix.

So, if you think about what we're doing, we're adding mobile in, which has a positive EBITDA on the increment, but it has a lower structural percentage margin, if you think about it that way. We use video and mobile to drive higher attach rates for broadband, which is a high growth margin. We use it to drive higher retention of broadband. So, we use lower standalone margin products to drive higher-margin acquisition and retention. And at the end of the day, that's not at all how we think about the mix. What we're thinking about is how can we create the most value in the household to drive the most products going in that gets the most EBITDA and the most cash flow per household.

And so, you could have a low revenue business with a high percentage margin and have this victory lap of high percentage margin, but you could have lower EBITDA and lower cash flow per household, and that's not the model that we deploy. So we're looking to put as much product in, much value in to get as much EBITDA and cash flow out of the household by providing products that -- and packages that our customers can't replicate and make it easy to -- for customers to stay with us for a long period of time.

So I don't want to give a guidance on where margin is going, other than it's going to be much more of a function of our lower video losses, continued growth in mobile, continued growth in Internet, which goes the opposite direction. But the biggest thing to focus on us is free cash flow and free cash flow per share.

Q - John Hodulik {BIO 1540944 <GO>}

Right. Thanks Chris.

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

Thanks, John. Excuse me, Tabitha, we'll take our next question, please.

Operator

Your next question comes from the line of Steven Cahall, Wells Fargo.

Q - Steven Lee Cahall {BIO 18496900 <GO>}

Thanks. Could you maybe talk about costs a little bit, both in the P&L and in CapEx in the back half of the year? You mentioned some of the labor cost increases? And I know labor is also a big piece of CapEx, and especially with a strong selling environment. Just how should we think about cost growth in the back half of the year? And then on share repurchase, you're annualizing to a pretty big share repurchase here. I know you don't guide on it. I'm just curious if you could talk about what informed your thinking on share repurchase in the first half of the year, and if there's anything that's shifting as we move into the back half of the year? Thanks.

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

Sure. The cost commentary, if you go back after the call, take a look at the prepared remarks, what I was trying to make clear is as the -- as churn returns into the marketplace, that will give us better selling opportunities, which should ultimately lead to net adds. Some of that will be timing driven, but as I talked about earlier. But it's going to increase our sales commissions. It's going to increase the number of installations that we do, which has OpEx into, a lesser extent CapEx. And it will increase the number of newer tenured customers who tend to call more frequently at the beginning. So operating cost in a higher transaction environment and higher churn environment move up.

And in some sense, that's what we're hoping for is that we'll have OpEx pressure, because our sales will be accelerating and our net adds would be higher, and that's not in the environment that we've been in the first half. And so, we'll just do a good job of explaining that as it's taking place, but we've been trying to condition people for that environment since the beginning of the year, and it's happening later than we expected and may continue to push out.

The other item in the cost category of the bad debt, which goes along if you're non-pay. And it also attaches to -- it's driven as well by people just moving and churn generally.

And the CapEx is less impacted. From a volume standpoint, yes, you'll have a little bit more CPE purchase. You'll have a little bit more capitalized install, but it doesn't move around quite as rapidly in that environment as you'd see in OpEx.

On share repurchase, we've been targeting a leverage to be at the mid- to high-end of our target leverage range. And so the buybacks, we think about the long-term value of Charter, and we think it's high. And so really, when we look at buybacks, it's more about the target leverage range target as opposed to trying to be opportunistic for not day triggers. We have a good long-term view on the value of Charter. And so, our buyback is much more enforced by the target leverage, and where we expect to be at the end of the...

Q - Steven Lee Cahall {BIO 18496900 <GO>}

Thank you.

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

Thanks, Steven. Tabitha, we'll take our next question, please?

Operator

Our next question comes form line of Jessica Reif Ehrlich with Bank of America Securities.

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

Thank you. I guess two separate questions. Comcast has flexed in the market for quite a while. And Altice recently announced their own streaming hardware. Are you planning on introducing anything similar for your customer base? And if you are, would you build it or potentially license flex from Comcast? Or how are you thinking about it?

And then separately, can you -- you've called out advanced advertising or addressable everything a number of times as a driver. You've always been an industry leader in this area. Can you give us some color on current initiatives? And where you see it like?

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

Jessica, with regard to our IP box solution, we've got a bunch of techniques and market-facing IT strategies. One is that we have a app-based user interface, and a lot of our customers bring their own hardware and use our apps and get their MVPD service in that way from us.

We also have the existing world box that we've deployed to our customer base. And in that world box is an IP platform. And we have -- we are beginning to put apps, Netflix, YouTube and other apps on to our existing set-top box. And we continue to engage with

Comcast on a discussion about their Flex technology and what it might be a capable of doing for us.

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

And I'll take the advertising question, and maybe we can have an idea if needed. David Kline appreciates your complement to the industry-leading, I'm sure, Jessica. But the driver here is we've really had an enhanced ability to sell the long-tail inventory and be able to monetize what was previously not utilized. And we have a tool that's called Audience App. Because we have all of the set-top box data in an aggregated anonymized way for all of our customer base, we have the ability to present that to buyers of advertising and sell the long-tail inventory in a way that you were never able to do because Nielsen doesn't go very deep. And so, we can sell that on a zone basis. We can sell it on a split-avail basis, addressable. And we can really effectively guarantee a buyer impressions across not just the traditional set-top box base, but clearly, through the increasing amount of IP-based viewing that we have off a Spectrum TV app, which is on Apple TV, on Roku and Samsung TV and all these other devices, iOS devices, Android and really monetize those impressions and monetize the set-top box inventory in a very similar way.

So, I do think that we're leading the charge of moving the entire advertising space to an impression-based viewing and being able to show it to a buyer where across all of the different channels that they can get placement and to be able to validate and verify on the back-end that those liables were actually captured and that they had a good return. We've also been investing in addition to more forward thinking areas like addressability which we're selling, split avails, which we have capabilities on, but also moving into using everything that I just described before, moving into attribution as well. And that's the Holy Grail here of being able to sell and then to go back and or take a lead to the customer what exactly it drove in terms of sales for them.

So we have a fully -- full set of advertising capabilities that we offer to a client, super local when needed, addressable when needed. And we do it in traditional set-top box impression-based viewing and digital, which we sell as well. So, despite the fact that the local ad sales market isn't all the way back, it's actually down relative to 2019. Certain segments like auto aren't performing as well, because they don't have a lot of inventory. But despite that, our overall ad sales are up versus 2019, primarily driven by all the different capabilities that I described, and the ability to make use of inventory that wasn't previously monetized.

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

At higher CPMs.

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

At higher CPMs, because it's more valuable.

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

Can you license that across the industry or volume?

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

I think you went soft, but I think you asked if we could license that across the industry? We're always open to revenue opportunities.

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

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

Operator

Your last question will come from the line of Bryan Kraft with Deutsche Bank.

Q - Bryan Kraft {BIO 20667157 <GO>}

Hi, good morning. Wanted to ask a couple, if I could. In broad strokes, just following up with the last question, can you talk about how the agreements you're reaching with programmers to carry their streaming services provide you with ad inventory that you can monetize in the future as you gain scale there?

And then secondly, I just wanted to see if you could comment on what you're seeing in terms of any incremental competitive fiber-to-the-home expansion in your footprint and/or fixed wireless? Is there anything observable there? Or is it pretty much business as usual? Thanks.

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

Well, I think your last question on competition, we continue to see a similar marketplace that we've seen for a number of years now in terms of competitive overbuilds. We're continuing to do well everywhere we operate, and we are the share leader everywhere we operate, competitively speaking. With regard to programmers, yes, there's an opportunity depending on the model, either for an advertising sale in the app and at multiple levels, and the transaction opportunity as well in creating new subscriptions. So I guess the short answer is, yes.

Q - Bryan Kraft {BIO 20667157 <GO>}

Is -- and Tom, maybe just to follow-up there. As you -- it sounds like you're building some of these revenue streams now as you make the apps available through your current set-top box infrastructure as you shift to sort of your next gen, whether it's Flex or something else, do you see those opportunities kind of expanding significantly?

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

I do, yes. Yes, I do. I think there's an opportunity to have a better advertising business than we've had historically. That works better for advertisers. It's more direct. It's got attribution. And we have a large skilled sales force on the streets, in the cities that we operate. So yes, I think it's an opportunity to create increased revenue.

Q - Bryan Kraft {BIO 20667157 <GO>}

Okay. Thank you.

A - Stefan Anninger {BIO 15867691 <GO>}

Thanks Bryan, and thanks to everyone. We will see you next quarter.

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

Thank you very much.

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

Thank you.

Operator

Thank you, ladies and gentlemen. That concludes today's conference call. You may now disconnect.