Company Name: Charter Communications I
Company Ticker: CHTR US
Date: 2017-07-27
Event Description: Q2 2017 Earnings Call

Market Cap: 99,773.45
Current PX: 366.90
YTD Change($): +78.98
YTD Change(%): +27.431

Bloomberg Estimates - EPS
Current Quarter: 1.015
Current Year: 4.092
Bloomberg Estimates - Sales
Current Quarter: 10440.118
Current Year: 41647.619

Q2 2017 Earnings Call

Company Participants

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

Other Participants

- Benjamin Daniel Swinburne
- Vijay Jayant
- John C. Hodulik
- Bryan Kraft
- Jason Boisvert Bazinet
- Michael L. McCormack
- Philip A. Cusick
- Kannan Venkateshwar
- Jessica Jean Reif Cohen

MANAGEMENT DISCUSSION SECTION

Stefan Anninger

Q2 Highlights

GAAP and Non-GAAP Financial Measures

- During the course of today's call, we will be referring to non-GAAP measures as defined and reconciled in our earnings materials
- These non-GAAP measures, as defined by Charter, may not be comparable to measures with similar titles used by other companies

Pro Forma Results

- We will also refer to pro forma results
- While the Time Warner Cable and Bright House transactions closed on May 18, 2016, these pro forma results present certain information regarding the combined operations as if the transactions had closed on January 1, 2015 in order to provide a more useful discussion of our results
- Please refer to the pro forma disclosures throughout today's materials, including the reconciliations provided in Exhibit 99.1 to our Form 10-Q filed on November 3, 2016
- Unless otherwise specified, customer and financial data that we may refer to on this call for periods prior to Q3 2016 are pro forma for the transactions as if they had closed at the beginning of the earliest period referenced

- Please also note that all growth rates noted on this call and in the presentation are calculated on a y-over-y basis unless otherwise specified
    - Additionally, all customer and passings data that you see in today's materials continue to be based on Legacy company definitions

Thomas M. Rutledge

Business Highlights

Hawaii

- In June, we finished the rollout of our new pricing, packaging and branding across our national footprint with the last launch of Spectrum in Hawaii
- We now offer a simple straightforward high-value product using a consistent and uniform approach across our 50mm passings under one brand, Spectrum
- The new product is succeeding with consumers across our footprint
- In Q2, our customers and PSU connects were higher y-over-y
- And as of the end of Q2, 30% of Time Warner Cable and Bright House Legacy customers were in our new pricing and packaging, up from 17% at the end of last quarter

Spectrum Package Products

- In areas where we've had Spectrum in place for at least three quarters, 43% of our residential customers have Spectrum package products
- Progression of product and package migration is virtually identical to what we saw at Legacy Charter
- More of our customers are getting better products with better and consistent pricing, which will drive the higher customer satisfaction, lower churn, and greater value into our business
- Today, nearly all of our video connects are purchasing our expanded basic video product, and expanded video customers grew in Q2

Legacy TWC Pricing and Packaging

- Our Internet connects are getting faster minimum speeds
- We're now offering minimum speeds of 100 megabits in over half of our footprint with minimum speeds of 60 megabits in the remaining footprint
- We're also starting to see improvements in Legacy TWC disconnects with the base of customers in Legacy TWC pricing and packaging declining in size every month
- And Time Warner Cable Legacy customer relationships grew by 3.5% y-over-y
- Legacy Bright House and Legacy Charter also continue to perform well, especially when you consider that last year's second quarter benefited from dislocation at certain key competitors

Legacy Charter

- And Legacy Charter, we grew customer relationships by over 5% y-over-y, and at Legacy Bright House, we grew customer relationships by 6% when adjusting for seasonal program changes
- Despite the transitional nature of our integration and our limited price increases this year, we grew total revenue by 4% in the quarter, and our adjusted EBITDA grew by over 8%
- Our growth plan is on track and our financial results are better than where we were at the same point in time when we were reorganizing Legacy Charter

New Spectrum Pricing and Packaging

- In June, we restarted our all-digital project in the 40% of Time Warner Cable and 60% of Bright House that is not yet all-digital
- We're early in that project, and most of our all-digital initiative will take place in 2018, but we're on schedule
- In July, we completed the launch of new Spectrum pricing and packaging for the small and medium business segment
- We're now offering simple, straightforward, fully featured and attractively priced SMB products in a consistent uniform approach nationwide, and our SMB strategy is intended to drive customer and market share growth
- The growth opportunity in front of us is very large in both SMB and enterprise where we still have a low market share

Field Operations

- The integration of our field operations, customer operations and network operations is well underway and progressing as planned
- Despite the complexity of changing product features, packaging and pricing, business rules, systems and training, we've been able to avoid customer disruption, and our in-sourcing efforts and service metric improvements are ahead of schedule

Wireless and Product Development Efforts

- Our wireless and product development efforts also continue to move forward
- We intend to launch a wireless service in 2018 under our MVNO agreement with Verizon
- And together with Comcast, we're working to find ways to cooperate in order to drive additional value for customers from our common wireless MVNO efforts
  - We're also testing the capabilities of our network with 5G-like services
- We've already received permission to test in a number of areas from the FCC and began some field trials just last week
- We intend to use our trials to provide us with better insight into the capabilities of our robust broadband network architecture

Christopher L. Winfrey

Fanatical Highlights

Performance

- And I wanted to remind everyone that we aligned Bright House's seasonal customer program with Legacy Charter and Time Warner Cable
- As a result, seasonal customers at Bright House now remain reported as customers throughout the year
  - That reduced the negative net additions impact we would have seen in Q2 from customers activating a seasonal plan at Bright House
- And it will reduce the positive net adds impact from seasonal customers returning to Florida in the winter when comparing to historicals
- So, today, when I reference our second quarter 2017 results, I'll be comparing to second quarter 2016 results that have been adjusted to exclude the seasonal disconnect activity in 2016
  - We've provided that more meaningful y-over-y comparison on slide 6 of today's investor presentation

Q2 Results

Pricing and Packaging

- Turning to our results, during Q2, total customer relationships grew by 1.1mm, or 4.2% y-over-y, with 3.5% at TWC, 5.3% at Legacy Charter, and 6% at Bright House, which reflects higher quality Legacy products and service relative to TWC and the impact of Charter's strategy on an already strong base
- As Tom mentioned, at the end of Q2, 30% of TWC and Bright House customers were in Spectrum pricing and packaging
  - That pricing and packaging continues to drive strong connect activity, with sales up y-over-y across the TWC footprint

PSU Net-Adds

- As slide 6 shows, we grew residential PSUs by 155,000 vs. 340,000 last year, again, already adjusted for seasonal disconnects last year
- The lower PSU net-adds were primarily driven by lower voice net-adds at Legacy TWC and lower Internet net-adds across all three Legacy entities
- Over the last year, TWC residential video customers declined by 3.2%
- Pre-deal Charter grew its residential video customer base by 0.4%, and Legacy Bright House lost 0.7% of its residential video customers, but continues to improve its y-over-y video results

Net Loss

- TWC's video net loss was 5,000 better than last year, with all of the net losses this quarter driven by churn from low value limited basic packages
- Importantly, Legacy TWC's expanded basic video customer base grew significantly in Q2 compared to a loss in last year's second quarter
- The improvement in expanded video relationship net-adds in Q2 from sell-in mix and migration was well over 200,000 y-over-y

Legacy Charter

- Similar to what we saw at Legacy Charter, after launching our new pricing and packaging, TWC video net gains should improve as the headwind of the limited basic churn declines as the limited basic base get smaller, and once we get a majority of the Legacy TWC base into Spectrum pricing and packaging
- Legacy Charter lost 10,000 video customers in the quarter vs. a loss of 7,000 a year ago, and Bright House lost 12,000 video customers vs. a loss of 20,000 last year
- In total, we lost 90,000 residential video customers in a seasonally-weak quarter
  - That result was already 10,000 better than the prior year loss of 100,000, with this quarter's losses primarily driven by limited basic relationships at Legacy TWC.

Residential Internet

- In residential Internet, we added a total of 231,000 customers during the quarter vs. 308,000 last year
- Adjusted for the seasonal plan at Bright House was Legacy Charter declining from 90,000 in Q2 2016 to 61,000 this quarter
- As Tom mentioned, the y-over-y decline was in part related to Q2 2016 Internet net-adds that benefited from challenges faced by competitors
- And on the other hand, this year, we've admittedly been focused on putting 75% of our company's new footprint on to the Charter growth trajectory

TWC

- Over the last 12 months, we grew our total residential Internet customer base by 1.3mm customers, or 6.2%, with 5.4% growth at TWC, 7.5% growth at Legacy Charter, and over 8% at Bright House
- In voice, we grew customers by 14,000 in Q2 vs. 132,000 last year, with the lower growth largely driven by higher churn at TWC, in part driven by a low price promotional voice offer in TWC markets in prior year quarters
- Over the last year, total residential customers grew by 934,000 or by 3.8%
- And residential revenue per customer was down modestly, given smaller price increases this year vs. last, continued standalone Internet sell-in and migration activity of TWC and Bright House to Spectrum pricing and packaging, which is richer in value, in particular, as it relates to equipment

Customer Growth

- There was also some mechanical ARPU effect from changes to the Legacy Bright House seasonal plan
- The slide 7 shows our customer growth combined with our ARPU growth resulted in y-over-y pro forma residential revenue growth of 3.8%
- Total commercial revenue, SMB and enterprise combined, grew by 9.5%
- SMB specifically grew by 9.7% and enterprise grew by 9.3%
- Excluding cell backhaul and NaviSite, enterprise grew by over 13%

Customer Growth and Market Share Gains

- As Tom mentioned, we have now launched new national pricing and packaging for both enterprise and SMB designed to drive higher customer growth and market share gains
- Second quarter advertising revenue declined by 5.8% y-over-y, driven by political advertising in the prior year
- Excluding political, advertising revenue was still down about 3% y-over-y given lower y-over-y local and barter revenue
- So, in total, second quarter pro forma revenue for the company was up 3.9% y-over-y and 4.3% excluding advertising
- Looking at total revenue growth at each of our Legacy companies, TWC revenue grew by 3.4%
    - Pre-deal Charter grew by 4.9%, driven by customer growth
    - And Bright House revenue grew by 4.1% with improving unit growth and little reliance on rate

Operating Expenses

- As we move to the operating expenses on slide 8, note that this quarter, we reclassified some operating expense between expense lines
- We moved bad debt expense and customer bankcard fees from other expense to cost to service customers
    - We also moved some expenses from the other expense category to marketing expense
- And so, today's materials, including our release, trending schedule and presentation provide these reclassifications on a pro forma basis, which allows for proper y-over-y comparison

Transition Expense Accounting

- In Q2, total operating expenses grew by $83mm or 1.3% y-over-y, with transition expense accounting for $30mm of our total OpEx this quarter
- Programming increased 9.6% y-over-y, driven by contractual rate increases in renewals and a higher expanded mix, partially offset by transaction synergies
- When you think about programming, keep in mind, we had some synergies already in Q2 2016, but you won't have the same y-over-y benefit later this year
- We're also shifting our mix pretty dramatically to higher-value expanded basic, and we've had recent renewals, and we expect significant pay-per-view revenue and expense in Q3 from an August event

Conductivity and Produced Content Expense

- Regulatory conductivity and produced content expense declined 3.3% y-over-y this quarter as we continue to combine the company's networking contracts
- Cost to service customers also declined y-over-y, driven by benefits from the combination of three companies and lower bad debt expense
- We're also seeing early productivity benefits from simplified pricing and packaging and higher in-source labor

Marketing Expenses

- Marketing expenses declined by 2.4% y-over-y as we continue to drive overhead synergies from our transactions, which were partially offset by a higher level of marketing and sales activities under Charter's operating model
- And finally, other expenses were down 5.2% y-over-y, driven by the elimination of duplicate costs

Adjusted EBITDA

- Adjusted EBITDA grew by 8.6% in Q2
- And excluding transition cost, adjusted EBITDA grew by 8.7%
- As we look to the back half of the year, in addition to the lack of political advertising, our EBITDA growth rate will benefit less from transaction synergies than it has over the last four quarters
- And the next wave of additional transaction synergies will take some time
- As I mentioned last quarter, the full elimination of duplicate costs will take us until early 2019 as we fully integrate the platforms of three companies in multiple billing, provisioning network environment

Operating Model

- And the separate financial benefits from our operating model increase over the same period as the customer base migrates, and the operating investments around in-sourcing and all-digital, for example, as those subside
- So similar to subscribers, where we've already turned the corner, and revenue, which will take a few more quarters, our expense development won't be linear
  - But our view on the long-term growth and profitability potential for Charter remain the same

Net Income

- Turning to net income on slide 9, we generated $139mm of net income attributable to Charter shareholders in Q2 vs. pro forma net income of $248mm last year with higher y-over-y adjusted EBITDA in Q2 this year, more than offset by higher depreciation and amortization and the one-time pension curtailment gain that we had last year

CapEx

- Turning to slide 10, CapExs totaled $2.1B in Q2, including $86mm of transition spend
- Excluding transition, second quarter CapEx increased by $98mm y-over-y or 5%, driven by higher spending on CPE, which was offset by timing of spend on scalable infrastructure
- The higher CPE spend was largely the result of higher connect volumes, and two-way set-top box placement rates now that Spectrum pricing and packaging has been launched across all of our markets, as well as inventory build related to the same

FCF

- As slide 11 shows, we generated over $1.1B of FCF in Q2 vs. $524mm of actual, not pro forma, FCF in Q2 last year
- That growth was largely driven by cash flow from acquired systems, but also by EBITDA growth
- We also have a continued working capital benefit from timing and our continued improvements on that front

Debt Offering

- On a pro forma basis, adjusted EBITDA less CapEx grew by 16% in Q2
- We finished the quarter with $61.8B in debt principal and our run rate annualized cash interest expense is currently $3.4B pro forma for our July debt offering; whereas our P&L interest expense in the quarter suggests $3.0B annual run rate
  - That difference is due to purchase accounting

Pro Forma Adjusted EBITDA

- As of the end of Q2, our net debt to last 12 month pro forma adjusted EBITDA was 4.1 times and our long-term target leverage remains at 4 times to 4.5 times
- In April, Charter redeemed TWC 5.85% senior secured notes due 2017
- Also in April, we closed on $1.25B of high-yield notes and $1.25B of investment-grade notes
  - Then in July, we closed on an additional $1.5B of investment-grade notes
- The proceeds from these offerings have and will be used for general corporate purposes, including potential buybacks
- Our weighted average cost of debt is now 5.4%, the weighted average life of 11.5 years with over 90% of our debt maturing after 2019

Share Repurchasing

- During Q2, we repurchased 11.2mm shares in Charter Holding common unit totaling approximately $3.7B at an average price of $331 per share
- As slide 11 shows, since the start of our buyback program in September of last year until June 30, we spent $6.1B on repurchases, reflecting 6% of the company's equity on a fully diluted basis
- Our share repurchase activity will continue to depend on other potential uses of capital and market conditions

Tax Assets

- Turning to our tax assets on slide 13, we estimate the total present value of those assets, reflecting our current NOL utilization, is approximately $5.5B and we don't currently expect to be a material cash income taxpayer until 2019 at the earliest

QUESTION AND ANSWER SECTION

<Q - Benjamin Daniel Swinburne>: Tom, could you talk a little bit about what you and Comcast are working on, on the wireless front? Obviously, there's been a lot in the press about discussions with other wireless companies and Verizon. But just what are you spending your time on in that partnership today? What are your objectives and goals? What do you think you can get out of that as you guys start to launch in 2018? And then, Chris, it's great to hear that connects are growing year-on-year, and I think that's happening despite marketing actually being down. I know there's other drivers of connects than just marketing spend, but could you just talk about the efficiency you're seeing on the customer growth and how you think about sort of cost to add customers as we move forward? It seems like you guys are getting better at that as you integrate these assets. Thanks.

<A - Thomas M. Rutledge>: So, Ben, to the first part of your question, we did announce that we were working with Comcast, because we share the same MVNO, the same company with Verizon, we picked up our MVNO agreement as part of the Time Warner merger. And it is very similar to what Comcast's MVNO is. And they're already launched and down the road and successful with their effort. And because we have the same opportunity as Comcast in terms of using the MVNO to drive our business forward, it makes sense for us to find ways to work together, to be efficient and to know how that MVNO works and to have a good relationship with Verizon. We expect to generate significant growth, ultimately, in that MVNO and significant growth for Verizon as a result of that. And there are opportunities on a national level, which neither Comcast nor Charter has as regional players, that come together in this MVNO, and we'd like to take advantage of them. And that's the reason why we have the relationship.

<Q - Benjamin Daniel Swinburne>: Thank you.

<A - Christopher L. Winfrey>: And on the second question, connects were up at TWC and across the entire company q-over-q. And as you mentioned, the marketing and sales costs actually came down. I would argue that we're actually spending more and we're doing more activities and, obviously, we have higher sales. The efficiencies you're seeing are really from just the reduction of three different corporate overheads for marketing and sales. So when you think about creative and research and that type of activity, the quote-unquote transaction synergies would actually be much higher than what you're seeing, because the variable activity that we're doing and our willingness to pay commissions and to go drive sales is actually higher. So, I think that – not to be Debbie Downer, but I think that's short-lived. And as we continue to increase our connects in the transaction synergies in that relatively easy area to get synergies out of will subside, I think you'll see that normalize and be more reflective of what we know at Charter. Now, with the bigger company single set of overhead, can we be more efficient than Legacy Charter was? Yes.

<Q - Benjamin Daniel Swinburne>: Right.

<A - Christopher L. Winfrey>: But the y-over-y benefits as we get through the back half of this year will probably start to decline.

<A - Thomas M. Rutledge>: There is efficiency in the way the new assets fit together, too. In terms of our ability to buy a DMA and buy the same amount of advertising as we used to buy, and reach more serviceable passings than we historically could reach, so just the footprint of the assets makes marketing more efficient.

<Q - Vijay Jayant>: I just want to focus on your pricing strategy, rather lack thereof. Obviously, you're transitioning the Time Warner Cable and the Bright House base to a common pricing promotion, but you haven't really had any rate increases of any size on the Legacy Charter side. Do we have to sort of wait for that transition to complete to actually have across-the-footprint rate increases? Because I think that's a lever that you haven't used at all. And just depending on this pricing, looking at your standalone broadband offer, which looks so attractive relative to your peer group, I just want to understand the strategy, so sort of helping these virtual MVPD products to probably scale given they can buy broadband at a relatively lower costs, just thoughts on that? Thanks.

<A - Thomas M. Rutledge>: Well, I'll answer your question. We have a strategy of providing high-quality fully featured, rich products and packages to our customers so that we can grow our customer base and retain our customer base. And we believe that we can continue to accelerate our growth rate through that strategy and drive revenue growth and operating efficiencies with a higher penetrated network and lower network cost per customer, and maximize the FCF of the business, ultimately, as a result of our strategy.

So in the pricing and packaging issues that we face today, our biggest issue is the fact that our Legacy customer base has a variety of different pricing scenarios that are inconsistent with the way we're packaging going forward. And in many cases, the equipment rates, for instance, modem charges and other, and set-top boxes are significantly higher than what we're charging on the increment. And we're mixing and matching our growth rate and packagings to maintain existing ARPUs without rate increases and to create products that drive more satisfaction and are stickier in the long run, and do all that with an accelerating growth rate. And so, we're happy with our pricing strategy as it is today.

<Q - John C. Hodulik>: Great. Maybe a couple of questions for Chris, first, on the video trends, you talked about growth in the expanded video sub base and, obviously, still some churn on limited basic side, I think, largely from the

TWC deal. How far through that process are you? Is there any color you can give us on how long that's going to last? Does it end sort of this year as we sort of anniversary some of the completion of those promotions? That's number one.

And then number two, on the CapEx side, I think I'm looking at the chart right, but in terms of restarting the all-digital effort, you saw an increase in CapEx and the CPE as you sort of – I guess it's through front-end loading, the equipment purchases. Should we see that number continue to move up as you move through that process and scale that up? And it's also clear that you've offset some of the spending, because CapEx, in total, were sort of largely flat. Is that sort of how we should think of things as we sort of move into the latter part of the year, and really scaling that all-digital effort? Thanks.

<A - Christopher L. Winfrey>: On the limited base development, they're started and announced [ph] and I'd say, very large base, a limited base of (28:20) customers at TWC. Not inconsistent with where Legacy Charter was in 2012 and the type of progression that we expect to see there so far has been pretty identical to what we experienced before. So, I think it'll take more than a few quarters, but the real question is at what point do you reach the tipping point where the expanded relationship growth is so large that it overcomes the continued migration and churn that comes out of the limited basic base. And that, I think, still takes a few quarters, but it's significantly improving.

The other metric to keep your eye on is at what point has the TWC base crossed the line of being over 50% in Spectrum pricing and packaging, which is competitive, [ph] an advanced product set at peer (29:09) rates that don't explode upon promotional roll-off. And that's why we continue to provide that statistic, because that's when at least one bucket is bigger than the next.

<A - Thomas M. Rutledge>: Well, the only thing I would add is that after three quarters, where that's been rolled out, 43% of the people in our Legacy Time Warner and Bright House footprint are on new pricing and packaging. But we have been doing a rolled phase of the pricing and packaging, so we just finished that in Hawaii. And so, you've got a lot of different quarters in there that came in at different weighted averages.

<A - Christopher L. Winfrey>: Right.

<A - Thomas M. Rutledge>: So, it's hard to forecast it, but ultimately it turns.

<A - Christopher L. Winfrey>: We're in total, TWC and Bright House, about 30% of that base at the end of Q2. And if you look back to all of our previous disclosure at Legacy Charter and the video trends there, I think that's still as good a proxy as any.

On the CPE side, the CPE inside the quarter was really driven by, frankly, replenishment of inventory out of Q1, higher sales and connects in Q2, higher set-top box placement – two-way set-top box placement per connect in Q2. Very little of Q2 CPE spend was really driven by inventory build for all-digital, that's still yet to come. And I think, as you think about the back half of this year, particularly Q4, my guess is that we'll want to highlight that at some point as to what the all-digital CPE build is for inventory in preparation for the larger amount of activity that is taking place in 2018.

From an overall CapEx for this year, relatively flat y-over-y. We've approved a fair amount of capital and we hope that we can spend it. We're not limited by budget, per se, but more about what can practically be done. I think if we're successful, you'll see a higher level of spend in Q3 and Q4, but it makes it a little bit difficult to forecast, because it's simply a function of how much you can get done. I would argue the faster you can get it done and behind you, the better it will be.

<Q - Bryan Kraft>: I wanted to follow up on the cost synergy comments that Chris had made. Chris, cost to serve customers was down meaningfully y-over-y this quarter. As we think about the next phase of the cost synergy opportunity from here, is that an area where we should expect to continue to see the most operating leverage? And just wondering if you could also comment maybe on some of the other areas and how we should think about operating leverage in the other costs, marketing, regulatory, et cetera?

<A - Christopher L. Winfrey>: Yeah. So, the last thing I want to do is get – we don't provide overall guidance, and I don't want to get into, certainly, a line-by-line cost guidance. I think, as you look back, after the call, some of the prepared remarks I had around the trends and the different moving pieces were designed to help people so that as they're putting their own models together, at least, they can think about it the way we think about it.

Y-over-y, on cost to serve, they're benefits of the combination of the transactions that are accelerated upfront. What hasn't flown into that yet is some of the investments that we make on the operating costs side as we more fully in-source and have the duplication of labor from outsourced labor that's being transitioned out, in-sourced labor that's being transitioned in. And so, the doubling up, so to speak, hasn't totally taken place as of yet.

But we are seeing already, through better utilization and better statistics, the management of the call centers and, fundamentally, a lower drive of calls from Spectrum pricing and packaging because the way it's put together, we are seeing some upfront operational synergies as well as the transaction synergies from the elimination of overhead. But I think it gets a little bit more complicated as time progresses as you have the investments flowing in and the benefits – the further benefits that take a little bit of time to flow back into the P&L. And that's really the nature of the comments that I was providing in the prepared remarks.

So, I think our expense development is not going to be linear. We know exactly where we're going, but there are a lot of moving parts in each one of those lines. And I think people will have to take a look back to – in terms of operating leverage, what we said from the outset is that we think the margin on this business, as we sell more and get better utilization of fixed assets, is very, very good. But it doesn't mean that it won't go up and down, and it certainly won't be a straight line.

<Q - Bryan Kraft>: Thanks, Chris.

<A - Thomas M. Rutledge>: Yeah. So, in the transition process, obviously, you have more anomalies in terms of q-over-q price – or cost changes, because of the synergies of the company coming together and the work that's necessary to put the company together. But the fundamental objective of creating high-value packages with high-quality service, which improves customer satisfaction, which extends customer life and reduces total volume of transactions because longer life, less churn means that, for the same amount of revenue, you have less connects and disconnects and less marketing expense per dollar of revenue. And with higher-quality service and less repeat service calls, you've less service cost per customer. And with higher penetration, you have less network cost per customer, if you're growing your business. And so, all of our trend lines and all of our strategy is designed to be a more efficient business through quality service.

<Q - Jason Boisvert Bazinet>: Just a quick question for Mr. Winfrey. We're using EBITDA less CapEx per home passed to sort of benchmark you guys vs. some of your peers. And you guys are doing a great job. But as I sort of think about that gap closing, it seems like there's two buckets. There's the operational side and then there's the synergy side. I think you've given us good percentages on the operational side, the 43% that are on the new packages and pricing, Legacy TWC/Bright House. On the synergy side, high level, without a dollar number, how far along do you think you are on that process of realizing sort of all the synergies?

<A - Christopher L. Winfrey>: Sure. A couple of things. One, when you think about EBITDA minus CapEx per home passed…

<Q - Jason Boisvert Bazinet>: Yeah.

<A - Christopher L. Winfrey>: You really have to think about customer relationship growth in that mix. It is expensive to go acquire customers, both on the OpEx side, through marketing and sales costs and the upfront cost to provision and call centers; and it's expensive on the CapEx side as well. So, if I wanted to drive our EBITDA minus CapEx to industry-leading numbers, we could do that and we could do it relatively quickly, and I think it'd be very bad for the equity. So, you just need to be careful with are you looking at it moment in time, you looking it over two years, or are you looking at it over five years, because that…

<Q - Jason Boisvert Bazinet>: Yeah, over five. Let's say, over five years.

<A - Christopher L. Winfrey>: Okay. So then, from a synergy perspective, we've done everything that we thought we were going to do so far, and we're very pleased with where we're at. And there is nothing that would cause us to be any more conservative around what we thought we would do over a three-year time period.

<Q - Jason Boisvert Bazinet>: Okay.

<A - Christopher L. Winfrey>: But offsetting that, as I've said many times before, we have – you see a transition cost line, that is not the tip of the iceberg in terms of the amount of friction and the investment that is going on inside the business and intentional duplication that occurs until you're able to transition some of these systems. And all of that's designed to minimize customer service disruptions so that you can continue to grow [ph] fencing (37:52) along the way.

<Q - Jason Boisvert Bazinet>: And do you think all of that will be complete, say, in five years?

<A - Thomas M. Rutledge>: Yes.

<A - Christopher L. Winfrey>: Five years, yeah, I think as you get into early 2019 or, call it, mid 2019 is when you start to see it moving on all fronts.

<Q - Michael L. McCormack>: Tom, maybe just a comment, Comcast made some comments this morning regarding wireless, and obviously we know what they're doing and at least the timing of what you're planning to do. So, the comment was just sort of saying that wireless is a tough industry and historically, I think, people have thought you guys might be interested in owners' economics at some point. Has anything changed in your view on that front? And then secondly, just on the single-play penetration, how high do we think that should go over time, and what impact, maybe for Chris, would that have on the margin profile of the company?

<A - Thomas M. Rutledge>: I [ph] would (38:59) say I agree with Comcast's point of view on that. But we like our MVNO, We like our relationship with Verizon. We like our potential relationship with Comcast. And we do think that the industry has a lot of challenges in front of it, and that it's fully penetrated. That gives us a tremendous opportunity as new entrants with other high-quality services to package with it. But I agree with their point of view.

<A - Christopher L. Winfrey>: On single-play, look, it's not our stated goal. Our stated goal is to get as many services into the home, because we think that's the best way that we can deliver value to the consumer and retain that consumer for a longer period of time. And by having a higher amount of revenue per household, even if we're saving the customer a lot of money, means that we've got better utilization of our network. Your question is, what's the margin profile of a company that becomes more Internet and single-play focused over time. And I think the answer is, it depends on how far penetrated you get with that Internet product in that single play. If you had 100% of the households on single-play Internet, that'd be a pretty nice business with very high margin, and it has lower CapEx.

But they're small, and I don't know how relevant they are to Charter, but there are some other companies who have public numbers who have gone down – intentionally gone down the path of that strategy, because they've given up on video. And when you look at revenue and EBITDA growth, I think our plan is working better from an overall output perspective. And I think it provides us much more optionality down the road. And we still think video is a very good business. It doesn't have a dissimilar gross margin as it relates to Internet. It maybe has a different margin percent – gross margin percent, but dollars of margin is what matters. And we think video is still very important to selling Internet. And if we didn't push or have an attractive video product, we would sell less Internet, and I think, one way or another, that's the right way to think about it.

<Q - Philip A. Cusick>: First, where are we in the IT and billing system migrations? I saw headline last week that you'd signed a contract with someone. And then second if, Chris, you could dig in a little bit more the Legacy TWC improvements, gross adds and really picking up of new connections or – vs. shrinking pool of potential churners? And are you doing better with saves and upgrades as people call and are pushed up in terms of price? Thanks.

<A - Thomas M. Rutledge>: So with regard to IT, we actually have four billing vendors, one of which is quite small, Hawaii-only, so three for most of the country. And we have continued relationships with those vendors. Our strategy is to build a uniform front-facing engine over top of all the legacy billing systems and provisioning systems so that every customer service representative that we have and every field person who also has a tablet, essentially every front-line person in the company and every customer is looking at the same set of prices, packages and service infrastructure information about their account in the same format everywhere across the country, regardless of who the underlying IT vendors are. And we're well on our way to doing that.

When we closed the deal, we had 11 different billing environments. So, even though we had four billing vendors, we had multiple instances of the same vendor, where traffic, meaning calls and customer service activity, couldn't be moved from one zone to another. Although they're not geographic, the customer base inside of any one of those instances is limited to the service infrastructure that was built at that scale. And so, by the end of this year, we'll be at three. And at the end of next year, we'll be at one, meaning one environment with an umbrella over top of, what we call an abstraction layer. And we'll be able to provide a consistent high-quality service product and have virtual service anywhere, anytime, any place from any person in Charter, and that's our objective. And so, our relationship to the billing vendors is consistent with that strategy.

<A - Christopher L. Winfrey>: Churn for the TWC Legacy base, it remains elevated, and for the base that's not converted over to Spectrum pricing and packaging. And it's going to continue to remain elevated in that segment until it's fully migrated or churned out over time. We're doing on the margin better on saves inside that footprint now that Spectrum pricing and packaging is rolled out, but given the nature of some of the packages and the level of promotional pricing vs. rack rate pricing that existed in those legacy packages, even with Spectrum pricing and packaging, sometimes, that's a difficult save because of the way that it was sold in. So it will happen over time, but it's not going to be overnight, and there's no special pill.

<Q - Philip A. Cusick>: Should we think about the new Spectrum pricing and packaging churn as sort of similar to Legacy Charter churn? And even within older pricing base, that churn is coming down as well, that's a fair way to interpret what you said?

<A - Christopher L. Winfrey>: Over time, that's correct, is that it should all converge and we know what that should look like. The difference in the short term is that the tenure of a customer has an impact on the level of churn. So as you sell more, that has a temporary impact of having slightly higher churn. And that's the case with any cable business. So, the answer to your question is, yes, over the mid to long term, but the level of selling activity also has an impact.

<Q - Kannan Venkateshwar>: So, Chris, a question on programming cost, basically, you guys just signed a deal with Fox News, I think, and it looks like you guys have a couple of other big deals coming up over the course of the next one year. How should we think about that now that the synergy component in that cost line is more or less behind us? If you could help us with that, that will be great. Thanks.

<A - Thomas M. Rutledge>: Well, I think the fundamental issue is that we have achieved synergies in our programming costs as a result of the transaction and our management of the contracts within the company. That said, the general trend is still pretty much like it has been for a number of years. And when people talk about what's going to happen to the video business three, five years from now, I say it looks a lot like it does now. And you still have large programming entities with a need for pricing, even though that pricing on the margin is negatively affecting the whole category, because you're pricing people out of the market for video, rich, fat bundles of full-service video.

Given what's happening to advertising and distraction of viewers, and that overall penetration of MVPD-like services, the revenue that programmers are going to drive is primarily going to come from rate. So, you're going to still have the kind of environment we've been in, I think, going forward, for a significant period of time. And so, our objective is to manage that and to manage our customer relationships and to keep the video business working for us. But it is the high-cost business, and one of the big inputs is programming, and it's going to continue to be outsized in terms of its impact on cost.

<A - Christopher L. Winfrey>: And for Charter, we'll need to be talking about it on a per expanded customer relationship, similar to what we did at Legacy Charter over time given the transition of the base out of more limited packages of TWC into more expanded. So, there are going to be multiple pieces, and similar to what we've done in the past, we'll be breaking that out over time.

<Q - Kannan Venkateshwar>: And Tom, if I could follow up, recently there has been, I think, some announcements from you guys as well on skinny bundles. How do you see the opportunity there? Is it largely a broadband-only opportunity, and how big is that market from your perspective and your footprint?

<A - Thomas M. Rutledge>: I think there may be some market there and we have some experimental marketing activity in that space, but it hasn't yet been demonstrated to be a significant niche. And most of the people that are looking at skinny bundles are looking for price. And the problem is that they don't satisfy from a consumption perspective. And so, people come in and out of the category, there is more churn as a result of that with – the demand is still there, but the ability to pay for it isn't. So, the answer is, I don't know. But it's not in programmers' interest to have themselves get disaggregated from the big bundle and become much lower-penetrated niche services. And so, I think that continued objective of staying in a big package will continue to drive a model, so to speak, of programming distribution.

<Q - Jessica Jean Reif Cohen>: I have three follow-ups, I guess. First, I guess on the programming discussion, there's a lot of talk about consolidation on the programming side. Can you talk about your views of how that potentially changing landscape might affect you? Does it change anything that you just said? Second, Tom, just a follow-up on the comments you made about the Comcast deal. Can you just give us some color behind why the exclusivity, the one-year exclusive deal? What benefits do you get out of that as opposed to just a general deal? And then, finally, I guess, for Chris, I heard your comments on the buyback. But can you give us some kind of a near-term outlook about the pace? I know you said it depends on other uses, but you are at kind of the low end of your target leverage of 4 times to 4.5 times. Thanks.

<A - Thomas M. Rutledge>: Well, on programming consolidation, obviously depending on how significant it was, it could have an impact on pricing power of entities. And I think there are some smaller companies there that have questionable pricing power and you can see them wanting to align themselves to get it. And so, I think you'll see some. But it's hard for me to quantify it, other than to say that it's consistent with what I previously said. Why the one-year exclusivity with Comcast? I said earlier that we have the same MVNO. We wanted to work together, we wanted to find a way to make that in MVNO work, and we thought we needed a significant period of time to be able to work together comfortably on the same business plan with regard to the MVNO. And the one year gives us that. Chris, I don't know if…

<A - Christopher L. Winfrey>: On the buyback, Jessica, look, I get it. I understand why everybody would like to have quarterly or annual guidance for knowing what portion of our FCF would be used for buybacks or otherwise. But I don't believe that's smart for us or it's the best outcome for shareholders. And by that, I mean, getting locked into a guidance of sort and having people be disappointed if you found the better opportunity somewhere for deploying that capital may put you in a situation where you end up taking a bad decision just to please previous guidance. And so, that really is the driver of not providing the guidance or an outlook, and making sure that we have the flexibility to do what we think is right in terms of where we deploy the capital, either internally or externally, or as it relates to buybacks. So, we're not going to be, at least at this stage, getting into that mode of providing that guidance.