Company Name: Charter Communications I
Company Ticker: CHTR US
Date: 2017-10-26
Event Description: Q3 2017 Earnings Call

Market Cap: 88,314.47
Current PX: 316.35
YTD Change($): +28.43
YTD Change(%): +9.874

Bloomberg Estimates - EPS
Current Quarter: 1.357
Current Year: 3.714
Bloomberg Estimates - Sales
Current Quarter: 10657.118
Current Year: 41657.909

Q3 2017 Earnings Call

Company Participants

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

Other Participants

- Craig Eder Moffett
- Marci L. Ryvicker
- Vijay Jayant
- Philip A. Cusick
- Jason Boisvert Bazinet
- Brett Feldman
- Benjamin Daniel Swinburne
- John C. Hodulik

MANAGEMENT DISCUSSION SECTION

Stefan Anninger

Q3 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 also may refer to pro forma results
- While the Time Warner Cable and Bright House transactions closed on May 18, 2016, these pro forma results present 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
- 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
  - Pro forma reconciliations are provided in Exhibit 99.1 to our Form 10-Q filed on November 3, 2016
- 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 customers and passings data that you see in today's materials continue to be based on legacy company definitions

Thomas M. Rutledge

Business Highlights

Opening Remarks

- In the past quarter, we remained focused on the integration of three large companies and increasing the high-quality sales with Spectrum pricing and packaging in the acquired footprints
- We're creating one company with a unified and centralized operating approach, which puts Charter on a path to be able to grow faster over a multiyear period
- The integration is going well and remains on schedule

Operating Results

- Our third quarter operating results were as planned, despite all the complexity that comes with completely changing the way we do business in 75% of our footprint
- We're growing our customer relationships by 4%, and our customer and financial growth will continue to improve as more and more of our customer base migrates to Spectrum pricing and packaging and all-digital is completed and an even better video and Internet product rolls out and our unified service platform, which is a product in itself, is deployed
- In 2017, we're seeing all the short-term effects of implementing a sustainable growth strategy, including high churn from legacy products and temporary ARPU pressure from migration, partly offset by higher sales and better product

EBITDA Growth

- And our EBITDA growth is better than when we took legacy Charter through a similar process
- Inside the businesses, we're executing well and have put the highest risks associated with our integration behind us
  - Hurricanes Harvey and Irma tested the integration of our people, processes, and systems
- All performed well, and we've recovered nicely and are essentially back to business as usual
- The hurricanes did impact our customer net adds and financial results this quarter, but only marginally
- Chris will cover these effects in a moment

Pricing and Packaging

- In Q3, our customer and individual product connects inside our new footprint were higher y-over-y, as they were in Q2
- The higher connect activity shows that our Spectrum pricing and packaging is working

- At the end of Q3, 41% of Time Warner Cable and Bright House customers were in our new pricing and packaging, up from 30% at the end of last quarter
- In areas where we've had Spectrum in place for at least four quarters, 52% of our residential customers have Spectrum package products

Video Connects and Spectrum Migration

- We're selling and migrating better products with better and consistent pricing that drives higher customer satisfaction
- Nearly all of our video connects and Spectrum migrations subscribed to expanded basic video product, which some people call fat basic, with VOD on every outlet
- As of today, we offer Internet speeds of 100 megabits in over 75% of our entire footprint, up from just 50% at the end of Q2
- And we expect to offer minimum speeds in excess of 100 megabits in nearly all of our passings by year-end

DOCSIS 3.1

- We'll continue to increase our minimum speeds in 2018
- In a couple of months, we'll also launch gigabit speeds offerings in several key markets using DOCSIS 3.1, with more launches planned through 2018
- We expect DOCSIS 3.1 modems to be priced similarly to DOCSIS 3.0 modems when purchased at scale, and we'll begin to buy exclusively DOCSIS 3.1 modems and drive higher entry-level speeds

Wave 2 Wi-Fi Router

- We'll also begin to deploy our Wave 2 Wi-Fi router, which is similar to our Worldbox, having been developed and designed and specified by Charter
- It has much faster speeds and even better propagation of reliability throughout the home
- Our all-digital activity in legacy Time Warner Cable and Bright House is accelerating
  - However, the bulk of that activity will still take place in 2018

Worldbox

- At the end of Q3, we have deployed over 1mm Worldboxes across our national footprint
- Worldbox is faster, smaller, cheaper, and more flexible for QAM and IP video and guide delivery, and it can be used across all three legacy footprints
- Going forward, Worldbox will be the only set-top box we buy and will be the workhorse for our all-digital project

Spectrum Guide

- The deployment of our Spectrum Guide also continues to progress

- We've seen a significant increase in on-demand utilization by customers that have Spectrum Guide today, exposing the value of the content packages they already purchase
- In 2018, we'll provide Spectrum Guide to new customers in legacy Time Warner Cable and Bright House markets
- Existing customers in those markets will, over time, have the choice to switch to Spectrum Guide at the push of a button
- We'll deploy the same approach in certain legacy Charter markets that are contiguous with legacy Time Warner Cable or Bright House markets, what we call mixed markets, where we waited to roll out to the full DMA

Enterprise Group

- In Q4 last year, our Enterprise group launched new national pricing structures designed to drive higher customer growth
- That pricing structure is working well, and we saw higher y-over-y enterprise product net adds in Q3
- The short-term revenue effects of that market share growth strategy are similar to what we've been seeing where we're making changes to pricing and packaging in residential and SMB markets

Footprint

- We're also improving the product set for Enterprise, deploying our hosted voice product to 13 more states in Q3, with plans to launch that product across our entire footprint by the end of this year
- And in the coming months, we expect to launch a software-defined wide-area network solution that should increase our addressable opportunity and provide businesses with another choice as they migrate from legacy technologies

MVNO Agreement with Verizon

- We're on track to launch our wireless service in 2018 using our MVNO agreement with Verizon
- Our core operation agreement with Comcast has helped with that process
- When offered as part of our bundle, we expect Spectrum branded wireless services to drive more sales of our core products and to create longer customer lives

Product Offerings

- Our next-generation wireless field testing is also going well
- Our existing infrastructure puts us in a position to uniquely scale deployment of new wireless small-cell products
- And we expect a number of emerging technologies, including better Wi-Fi, 5G, public spectrum brands, and radio management protocols will all support our ability to innovate new network-based product offerings for the foreseeable future, using a technology transformation similar to what the cable industry has done in its infrastructure so many times

Christopher L. Winfrey

Financial Highlights

Customer Results

- Before covering our results, a couple of administrative items:
- First, I wanted to remind everyone that when I reference third quarter 2017 customer results, I'll be comparing to third quarter 2016 results that have been adjusted to exclude the seasonal program customer activity in Q3 2016 at legacy Bright House
- We've provided that y-over-y comparison on slide 6 of today's investor presentation
  - Q3 impact is really modest
- Q2 was relevant, but we expect Q4 and Q1 to also be relevant

Hurricanes Irma and Harvey

- Secondly, as Tom mentioned, our third quarter results were impacted by hurricanes Irma and Harvey, although not materially
- In total, we estimate the impact was about 10,000 to 15,000 net residential customer relationships in storm-affected areas, some of which may come back in Q4
- The storms also reduced our third quarter revenue by $4mm in the form of residential customer bill credits
  - We also provided some modest SMB customer credits
- And there was some impact to September advertising revenue, but difficult to say precisely how many orders would have been placed

Operating Expenses

- Our third quarter operating expenses were elevated by $8mm, mostly related to storm cleanup and call center labor costs
- In Q3, storm-related CapExs were about $20mm, mostly related to line and equipment replacements
- We expect a similar amount of storm-related CapEx in Q4, and we'll provide updates on those amounts and any material credits, if any, when we report our fourth quarter results
- Some of these costs will ultimately be covered by insurance, but there are no potential claims impacting today's results

Q3 Results

Volume

- Now turning to our results, during Q3, total customer relationships grew by 212,000 or 1mm over the last year, with 3.4% growth at TWC, 4.5% at legacy Charter, and 5.4% at Bright House
- As Tom mentioned, 41% of TWC and Bright House customers were already at Spectrum pricing and packaging at the end of Q3
- We're driving higher sales y-over-y into better products with more value, even as we migrate or churn legacy products, driving significant transaction volume

- Slide 6 shows we grew residential PSUs by 172,000 vs. 322,000 last year
- Over the last year, TWC residential video customers declined by 3.4%
- Pre-deal Charter has been about flat, and legacy Bright House improved its residential video customer loss to 0.6% y-over-y

TWC

- TWC lost 25,000 more video customers than last year, as we continue to see churn from the same low-value, limited basic packages, net of migration to a full video product
- Importantly, limited basic losses were responsible for all of the video losses at TWC this quarter, with legacy TWC's expanded basic video customer base growing by just over 50,000 in Q3 vs. a loss of approximately 130,000 expanded customers in last year's third quarter
  - So that means there's a 180,000 swing in the expanded video relationship development in the quarter at TWC
- The better expanded basic performance was driven by higher connects and a better sell-in mix and from legacy TWC limited basic customers migrating to our Spectrum pricing and packaging

Bright House

- Legacy Charter lost 11,000 video customers in the quarter vs. a gain of 19,000 a year ago, driven by our integration focus on the acquired footprints and some additional competitive build-out and price-driven promotional offers advertised by competitors
- Bright House lost 7,000 video customers vs. a loss of 9,000 last year
- In total, we lost 104,000 residential video customers, primarily TWC limited basic video relationships

Legacy Footprint

- In residential Internet, we added a total of 249,000 customers during the quarter vs. 344,000 last year, with legacy Charter declining from 121,000 in Q3 last year to 70,000 this quarter, partly from the same drivers we saw on video at legacy Charter and believe to be temporary in nature
- We also had a strong Internet quarter last year, and each of our legacy footprints benefited from integration activity at key competitors
- Over the last 12 months, we grew our total residential Internet customer base by 1.2mm customers or 5.7%, with 5.3% growth at TWC, 6.4% growth at legacy Charter, and 7% at Bright House

Voice

- In Voice, we grew customers by 27,000 in Q3 vs. 29,000 last year, with higher triple-play sales offset by higher churn of legacy promotional offers at TWC.
- Over the last year, we grew total residential customers by 865,000 or 3.5%
- Residential revenue per customer relationship was up modestly, helped by some $50mm of revenue from the August Mayweather-McGregor fight

ARPU Growth

- Similar to last quarter, ARPU growth remains muted by smaller price increases this year, continued standalone Internet sell-in and higher sell-in at promotional rates, and migration activity of legacy TWC and Bright House to Spectrum pricing and packaging
- It results in a mechanical ARPU hit similar to Q2 from changes to the legacy Bright House seasonal plan

Product and Rate Transaction

- Before the close of our transactions, one of the biggest concerns of our investors was our ability to manage ARPU through the transition to higher-value Spectrum pricing and packaging, with generally lower pricing for more product, lower box fees, and lower modem fees
- Now, nearly one year in, it should be 50% migrated by year-end
- So that's a lot of product and rate transactions in a large portion of our base now with more value and less reason to call or churn
  - We've rationalized the commercial roll-off and the retention environment
- And the ARPU and revenue still look pretty good despite that planned disruption

Customer Growth

- Slide 7 shows our customer growth combined with our ARPU growth resulted in y-over-y residential revenue growth of 4.4%, or 3.7% when excluding total pay-per-view in both periods
- Total commercial revenue in SMB and enterprise combined grew by 8%, SMB revenue by 7.4%, and Enterprise up by 8.9%
- Excluding cell backhaul and NaviSite, Enterprise grew by over 13%
- Sales are up in both SMB and Enterprise, and we're managing the transition to highly competitive pricing in these service markets as well

Advertising Revenue

- Third quarter advertising revenue declined by 11% y-over-y, driven by political advertising in the prior year
- So excluding political, advertising revenue was still down about 2% y-over-y, given lower y-over-y barter and local revenue
  - That includes some for hurricane-related effects as I mentioned at the outset
- In total, third quarter revenue for the company was up 4.2% y-over-y and 4.9% when excluding advertising

Pre-Deal Charter

- Looking into the revenue growth for each of our legacy companies, TWC revenue grew by 3.8%
- Pre-deal Charter grew by 5.2%, driven by customer growth
- And Bright House revenue grew by 4.3%, given improving video and triple-play sell-in

Operating Expenses

- Moving to operating expense on slide 8, in Q3, total operating expense grew by $238mm or 3.7% y-over-y. the transition expense accounted for $23mm of our total OpEx this quarter
- Programming increased 12.3% y-over-y, driven by contractual rate increases and renewals, a higher expanded mix, which accounted for roughly 2% of that growth, the cost of the Mayweather-McGregor pay-per-view fight, which accounted for a little over 1% of the growth, and the lapping of synergies generated in Q3 last year

Marketing Expenses and Adjusted EBITDA

- Regulatory, connectivity, and produced content was up 1.6% y-over-y
- And cost to service customers declined y-over-y, driven by the benefits from the combinations of the three companies, productivity benefits, including from simplified pricing and packaging, and a higher in-sourced labor mix, partly offset by higher labor costs driven by the recent storms
- Marketing expenses grew by 5.6% y-over-y, given a higher level of marketing activity and a higher number of sales in the acquired footprints
- And other expenses were down 2% y-over-y, driven by elimination of duplicate costs
- Adjusted EBITDA grew by 5.0% in Q3
- And excluding transition costs in both periods, adjusted EBITDA grew by 4.7%

Net Income

- Turning to net income on slide 9, we generated $48mm in net income attributable to Charter shareholders in Q3 vs. net income of $189mm last year, with higher y-over-y adjusted EBITDA and lower severance-related expenses more than offset by higher depreciation and amortization, pension withdrawal and remeasurement charges, and higher interest expense

CapEx

- Turning to slide 10, CapExs totaled $2.4B in Q3, including $125mm of transition spend
- Excluding transition, third quarter CapEx increased by $629mm y-over-y, primarily driven by higher spending on CPE, scalable infrastructure, and support
- The higher CPE spend was marginally 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
- And we've already reduced our DTA footprint by over 30% since closing the transactions

CPE

- All-digital spend was about $50mm in the quarter, primarily related to CPE
- The higher scalable spend was driven by the timing of in-year spend in video and Internet product development
- And the higher support spending is related to the timing of vehicles and tools and test equipment, software development and facility spending, in each case, some related to in-sourcing and some related to the transaction

FCF

- As slide 11 shows, we generated about $600mm of FCF in Q3 vs. $1B in FCF in Q3 last year
- And the decline was largely driven by higher CapEx and a smaller working capital benefit – a benefit in both years, at least y-over-y
- And that was partly offset by higher EBITDA

Debt

- We finished the quarter with $66.8B in debt principal
- And our run rate annualized cash interest expense September 30 was $3.6B, whereas our P&L interest expense in the quarter suggests $3.2B annual run rate
  - That difference is due to purchase accounting
- As of the end of Q3, our net debt to last 12-month adjusted EBITDA was 4.3 times, in the middle of our target leverage range of 4 to 4.5 times

Investment-Grade

- In July, we closed on $1.5B of investment-grade notes
- In August, we closed of $1.5B of high-yield notes
- And in September, we closed on another $2B of investment-grade notes
- And finally, earlier this month we closed on another $1.5B of high-yield 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% with a weighted average life of 11.5 years, with over 90% of our debt maturing after 2019

Share Repurchasing

- So in Q3, we repurchased 10.9mm shares in Charter Holdings common units, totaling $4.0B at an average price of $367 per share
- As slide 11 shows, in the past 13 months we spent $10.1B on repurchases, reflecting 10% of the company's equity on a fully diluted basis

Capital Return Policy

- I want to be very clear
- Our share repurchases are not part of a programmatic capital return policy
- Buybacks reflect:
  - Confidence in the trajectory of the proven operating model as we head into the back half of our integration
  - Positive cash flow despite significant organic investment

- And attractive debt markets and a high-quality capital structure, which provides us flexibility in different markets

- Going forward, our share repurchase activity will continue to depend on other potential uses of capital for organic or inorganic opportunities 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 NOA utilization, is over $5B
- And we don't expect to be a material cash income tax payer until 2019 at the earliest

QUESTION AND ANSWER SECTION

<Q - Craig Eder Moffett>: I'm not sure whether this is for Chris or for Tom, but I wonder if either of you could just speak about what really looks to be an industrywide transition, at least on the margin, to more single-play broadband subscribers. Your pricing for standalone broadband doesn't recapture as much margin from a lost video subscriber as the pricing does at, say, Comcast. I'm wondering. As you think about that going forward, how do you think about that? When is the right time to maybe adjust that pricing, or is it more that you really do think that you can keep customers in double-play and triple-play bundles for longer than most in the market expect?

<A - Thomas M. Rutledge>: Craig, it's Tom. We still have a very rapidly growing, good business. And if you look at all these numbers, we're growing the company quickly. And, yes, the Video business has pressure in it and it has had pressure in it. We still think we can grow the Video business going forward and expect to grow the Video business going forward. And we expect to sell packaged products going forward, including data, mobility, landline voice, and video.

And it's true that there are lots of pressures on the video bundle, the biggest pressure being price. The second biggest pressure, which also contributes to the price/value relationship, is that many programmers now are distributors, whether they know it or not, whether it's through TV Everywhere or direct-to-consumer streaming services. And because of password sharing and multiple-stream products to households that have – there are 35mm one-person households in the United States. So you have 10% of the population with almost 30% of the households. And multi-stream products being sold to those households allow consumers to purchase one product and share it among multiple users. That affects the price/value relationship of video in general, and that affects what people are subscribing to.

And so there's an enormous pressure that comes out of the total price of content plus the availability of it for free that content is now being – I should restate that. There's an enormous ability for people to receive free content because of the way content distributors are securing their product so ineffectively. And as a result of that, I think you'll see continued pressure on video. But we expect that we can still grow a rich video package inside our product bundles, and we think we'll do that at the expense of our competitors, and we think that the general category will continue to decline slightly.

But to your broader question about pricing, we're happy with the way we're pricing our packaging today. We're happy with the way we're pricing our single-product services today, and we think we have an excellent growth trajectory based on our pricing structure.

<Q - Marci L. Ryvicker>: In the prior call, Comcast mentioned several times they were prepared for the change in the competitive environment. And I guess I would ask you, along those same lines, when you went into the Time Warner Cable and Bright House transactions, how much did you think about a potential change? I guess the stocks are telling us that the market thinks this is happening faster than they had expected. Do you think this is a case as the competitive environment changed faster, and how prepared are you?

<A - Thomas M. Rutledge>: I guess we expect change. There's always change, but we don't think it's faster than we thought. We think that we're actually exactly on plan, where we planned to be in our acquisition model, and we're happy with where we are. We've actually made a very complex integration of very large companies, and we're growing those companies. And we're actually in better shape transactionally than we were in legacy Charter doing a similar kind of approach.

And, yes, the markets move. Our data speeds continue to improve. Our video product can continue to improve on a relative basis, and our voice products and mobility products are new additions that didn't exist in prior iterations of this operating model. So, yes, markets move around. Competitive pressures change. We still think we have a very superior infrastructure relative to our competitors. We can use that infrastructure to be a high-quality competitor. Then we can move our mix of services and pricing and packaging around in an appropriate way to be responsive to the market and still grow rapidly.

<Q - Marci L. Ryvicker>: Thank you.

<A - Christopher L. Winfrey>: Marci, I went back and looked through the past couple quarters what we've said on earnings calls as well as on the transcripts. In fact, the description that we gave of the model and the performance of the units and the performance of revenue as we get in the back half of this year and into 2018 and what we look like in 2019, and I wouldn't have changed any of it. I think it's all still the case, and I don't think the markets change that dramatically in such a short period of time.

<Q - Marci L. Ryvicker>: Thank you.

<A - Thomas M. Rutledge>: The other thing that I would add. I mentioned in Craig's question, there's a lot of unsecured video out there, which is impacting the value relationship of video in a dramatic fashion. And you would think that people would be responsive to that that sell video, and so markets correct as well.

<Q - Vijay Jayant>: So, Tom, based on your comments just now about price being the factor on video, and these virtual MVPDs doing what they're doing, one, I think Charter is one company that has not used skinny video as a proposition in the market. And I think if anything, you've gone the other way as you've been moving the Time Warner Cable cohort to the Spectrum pricing. So the question really is, so is that a level you believe you need to pull to grow video longer term?

And second, just a housekeeping question; with respect to the total revenue growth we saw in the quarter, which seemed to have accelerated, but can you help us understand how much was the Mayweather fight on those numbers? Thank you.

<A - Thomas M. Rutledge>: So your fundamental question about our pull-through of video is we are selling a rich package of video. We believe most consumers want as much video as they can get. Not everybody is paying for it, but people like lots of video. And we sell a high-quality video service on the increment to all new customers.

So when you look at our programming expenses, a substantial piece of that is unit growth. We are actually growing customer relationships with high-quality, rich-featured, fully serviced and fully featured video products. We believe that those packages properly sold and properly contained within another value proposition, the whole customer relationship proposition that we make from a pricing impacting perspective, creates a more valuable, long-term, happier customer that creates value for us because of the length of that subscriber relationship. So that's our strategy.

On the edges, we're selling packages that have more targeted, less full-service component features. But the bulk of consumers that are purchasing video from us are actually buying richer packages than they've historically received from the legacy companies that service them.

<A - Christopher L. Winfrey>: Vijay, on the revenue, the biggest drivers in revenue are the really significant rate migration activity that we have going on at TWC and Bright House, and I gave the statistic. Over 40% of our customer base at TWC and Bright House has been migrated. If you take that over roughly 20mm customer relationships, that means 8mm rate, phone call, and in many cases equipment transactions taking place in the business [indiscernible] (32:34). So that's the biggest driver in terms of the negative impact, and it's temporary in nature. The further we get on to the progress with that, the less impact it has.

But the Mayweather fight also had a positive impact, so it's going the other direction. $50mm in the quarter is what I mentioned in the prepared remarks. And then the other impact that I also mentioned in the prepared remarks was the amount of political advertising that was in last year's third quarter, but the biggest driver being the first one that I mentioned.

<Q - Philip A. Cusick>: If I can, a follow-up and then a question. First, I think there's a disconnect between what you expect and how investors read your comments. Last quarter you talked about having turned the corner on subscriber momentum, but this quarter showed weaker numbers y-over-y in every segment. How should we think about this as a competitive issue vs. the natural evolution in the base? And how can we better understand your plans going forward?

And then, Chris, if you could, expand on your thinking behind the buyback pace. I understand returning the cash flow, but talk about the confidence in the business and why you lever up the company to buy back stock in a quarter where shares are elevated on M&A speculation and your numbers were trending weaker y-over-y. Thanks.

<A - Christopher L. Winfrey>: Great. So if you go back and take a look at everything I said at recent investor conferences as well as on the call, what I said is the back half of this year subscriber net adds would improve. We're not through the back half. We're only through Q3. And we said we had turned the corner. We were either turned at the point where we had bottomed out and turned the corner or very close. That's specifically what I said at an investor conference, all of which is true. Our sales are up y-over-y, and we've mentioned that the TWC churn continued to be highly elevated, and the point at which that would subside was after we've crossed the 50% mark.

So if somebody was reading in and wanted to look for monthly guidance, that's not how we operate, and we talk about things in terms of a longer-term timeframe. The back half of this year is going to be significantly improved. The revenue effects of that will continue through 2018. The benefits of the transactions, the operating and the transaction synergies, the next wave will fully flow through by 2019. And we're going to spend a lot of capital in the back half of this year, which I mentioned on those calls as well, and we're going to spend the capital next year too for all-digital.

If you go back and take a look at the way that I described the business, it was ready for analysts to be able to put a model together, and we stand behind everything that we said and the optimism that was there. I think people are taking a look at it in too short of a timeframe. And that's never how we've talked about the business or the way that we operate it.

As it relates to the balance sheet, because of all the things that I just said, we have a fundamental view on the value creation that's going to take place at Charter over time. We're not stock pickers. We don't understand the vagaries of the marketplace from day to day, and we have a fundamental view on what the long-term value creation of the company is going to be.

It looked cheap then; it looks cheap now. I haven't looked today, but it's probably a little bit cheaper than it was. But at the end of the day, the value creation is going to be significant either way. And the capital markets are good. We have a full understanding of how mixed things could look for a period of time as they got through the operating integration that applied to Q2 results. It applies to Q3 results and probably still applies a little bit to Q4 results, although it continues to improve. And so it's a great opportunity and it's a good time for all those reasons, including the debt markets being available to go do everything that we've been doing.

<A - Thomas M. Rutledge>: Just to clarify something that Chris said, we have turned the corner in terms of our operating strategy, which will produce future revenue growth in excess of current revenue growth. And the reason we've turned the corner and the way we know we've turned the corner is we have more sales than we had y-over-y and we have less disconnects. And that translates ultimately into more customers, higher quality of customers too through time that produce revenue and produce net gains as well. And so given the way we budgeted this business and the way we operate this business, it's almost exactly on the screws as to where we thought it would be.

<A - Christopher L. Winfrey>: Tom mentioned it in the prepared remarks. When you take a look at it from an EBITDA growth, it's performing better than what we did at legacy Charter. And we've said multiple times, when we did it at legacy Charter in 2012 and 2013, same comment. It's not going to be linear, it's going to be very choppy along the way. We know what to expect and have confidence, and that's why we've been buying back stock as well.

<A - Thomas M. Rutledge>: We also said that we thought that these assets were in better shape than legacy Charter, and they are, and therefore we should have a little better performance.

<A - Christopher L. Winfrey>: That's right.

<Q - Jason Boisvert Bazinet>: I don't know if this is for Mr. Winfrey or Rutledge, but I'll just throw it out there and however you want to address it. When the buy side I think segments and thinks about buying a cable stock, those that pick your stock are I think willing to take more leverage, because they see faster growth. This year, it doesn't look like you've grown revenue or EBITDA demonstrably faster than the industry. And so as you look at all of the internal metrics that you guys are looking at that get you excited, without giving an absolute number, how much faster do you think you will end up growing than the industry grows, whatever that grows at, as we move out to 2018 or 2019?

<A - Christopher L. Winfrey>: So it's a very smart way of asking for guidance. I give you credit, Jason. [ph] It's revolting (38:48). What we've said before remains the same is that the operating model that we have allows us to drive customer relationship growth in the, call it, 5%, 6%, 7% range, depending on the quarter and on an annualized basis. And with very little rate increase, that means that your revenue growth is going to be somewhere north of that. And that legacy Charter had demonstrated the ability to deliver double-digit EBITDA growth as a result of the operating strategy that we have that actually increases sales and reduces service calls and reduces churn, which creates further penetration on a fixed set of base and drives operating margin, leverage, operating leverage, and EBITDA margin. And none of that's changed.

And so the type of things that we did at legacy Charter is exactly what we're doing here, and we expect the same type of results and even better because of the significant synergies that the scale of the three companies combined could potentially bring.

<A - Thomas M. Rutledge>: But just in terms of preparing the company to be in that position requires some capital in excess of what normal CapExs in the business would require, going all-digital, freeing up spectrum, opening up additional spectrum for high-speed data to take speeds up, to improve product sets, to remain competitive, to differentiate on a speed basis from other wireline competitors, our data business.

All of that requires investment, and it also requires repricing and repackaging of the business, which means that we have to shift customers out of existing rate structures into new rate structures, and do that in a way that doesn't cause our revenue to go backwards hopefully, and to do it in as revenue-neutral a way as we can possibly do it and continue to grow our customer base going forward so that we have long-run value propositions for the consumer. That costs money.

And in order to get to a high-quality service operation, we're in-sourcing people, which means that we have to have costs associated with that while we stand up new buildings to house these people, while we train these people in duplicate with the offshoring costs that we currently have. As those people come online and become productive, costs drop away, EBITDA growth accelerates. But we're in a moment that was planned where we would make these capital investments and make these operating expense investments and repricing investments in order to put ourselves in a position to get the double-digit growth that Chris just spoke of and which we've produced in the past and the double-digit EBITDA growth. And so we are a high-growth company, and we're executing our plan as we envisioned it.

<Q - Jason Boisvert Bazinet>: Okay, that's perfect. Thank you.

<A - Christopher L. Winfrey>: A final point for you, Jason.

<Q - Jason Boisvert Bazinet>: Yes?

<A - Christopher L. Winfrey>: I think it's been now five years, four or five years. But if you go back and take a look at legacy Charter at this stage, EBITDA growth was zero, minus 1%, plus 1%. It was choppy then and it wasn't linear.

And so we're at the point where we're seeing all of that and to be growing at 5% EBITDA growth throughout that. And we had a similar capital structure philosophy back then too. It all is consistent and just requires taking a look at it on an annual and multiyear view as opposed to a quarterly view.

<Q - Jason Boisvert Bazinet>: Understood, thank you.

<Q - Brett Feldman>: I want to talk about wireless. You mentioned you're still on track to launch the wireless product in H1 next year. And you noted that you're actually leveraging the cooperation agreement with Comcast. So I was curious if you can maybe elaborate on that. To what extent are you guys actually doing cooperative work? And are you starting to discover that there may be ways you guys can actually collaborate together in wireless on a long-term basis beyond the scope of the one-year agreement you have in place?

<A - Thomas M. Rutledge>: As part of that agreement, we said that we were going to work together to try to form a cooperative relationship to manage the Wi-Fi or to manage the MVNO that we jointly both share with Verizon. And we've made good headway with our relationship with them and we've learned a lot from them. And we have an opportunity together to run the business more effectively from a back-office perspective.

And so we're looking forward to entering the wireless business by Q2 next year and being operational. We're doing field testing today with our own employees.

We're also doing other kinds of wireless testing that is unrelated to this MVNO entry, but the learning that we've received from Comcast has been very helpful to our implementation strategy. And we share many of the same, if not all the same, vendors from an operational and provisioning and back-office infrastructure perspective. So we're using their experience today to make our experience and our customer service experience better.

<Q - Brett Feldman>: Is there any actual joint collaborative operations, or is it still all consultative and informative and educational at this point?

<A - Thomas M. Rutledge>: I think there's the potential for something along those lines, but there's nothing to announce here today.

<Q - Benjamin Daniel Swinburne>: Tom, just continuing on wireless, you sound particularly excited or interested in looking at fixed wireless, some of the small-cell stuff you were mentioning. I'm curious if you could expand on how you think about deploying that in your business and what the revenue opportunities are and if this 3.5-gigahertz CBRS spectrum is of potential interest to the cable industry and to Charter.

And then, Chris, just going back to the quarter, can you give us a little more color on the legacy Charter subscriber performance? I think you mentioned you thought some of the y-over-y declines in broadband and video were temporary in nature. You might have mentioned some comp issues. But just any more color since we all look to that performance as a bit of a leading indicator for the rest of the business.

<A - Thomas M. Rutledge>: So, Ben, we have an existing Wi-Fi business, meaning that our data business is delivered by Wi-Fi. There are 200mm Wi-Fi devices currently connected to the Charter high-speed data plan physical infrastructure. So we operate small-cell high-capacity networks in homes today, which is what 5G envisions to be and some of the new spectrum that may become available envisions to be able to provide.

We think that the Wi-Fi technology that we deploy will get better and allow us to take speeds up over 1-gig in the home with better control over those devices connected to the Wi-Fi network in the home. We think that the outdoor deployment of Wi-Fi will enhance our ability to reduce our MVNO costs as well as our ability to reduce those MVNO costs in the home.

And we think that new services will come along, which will allow us to use the new spectrum in a mixed way using 5G technology. We think the mixed way, meaning a combination of licensed spectrum with Wi-Fi spectrum, and I called that jokingly 6G the other day. But we have an opportunity to use all of the tools at our disposal to create products that we think work on our network better than any other deployed network currently in existence.

And so we think that there's a tremendous opportunity not just to have a MVNO and a mobile business, but to create new products in a fixed environment. And that may mean specific point-to-point products that allow us to get to buildings that we don't serve currently in a less expensive way. That's a simple across a parking lot for commercial services type deployment, but also to reaching unserved rural areas and also to creating brand-new products that don't even exist today that require high capacity, low latency, high-compute networks, what people think of as virtual reality products.

So we're going down the path in investing in our network for a future that we see as very bright, which is high-capacity wireless attached to high-capacity wireline. And we have a pathway and a development pathway to get to 10-gig symmetrical on our wireless, Wi-Fi, and wireline networks, and we think we can get there relatively quickly. And when we do, a whole new set of products will become available on that technology platform that don't exist today, as well as all the existing products that we do have will work better.

<Q - Benjamin Daniel Swinburne>: Got it.

<A - Stefan Anninger>: The second question was on legacy Charter.

<A - Thomas M. Rutledge>: Legacy Charter is the fastest growing piece we have in this business. And it has quarterly challenges y-over-y, including the hurricanes, including the fact that one of our biggest operations, many of our operations in legacy Charter were subsumed into legacy Time Warner operations. Like our LA footprint, for instance, had our second biggest operating platform go into a legacy Time Warner platform from a managerial point of view. So those transition issues affect our y-over-y growth, but our y-over-y growth is good in legacy Charter.

And yes, there are some competitive changes that have occurred in the wireline business. AT&T has expanded its footprint that's consistent with its commitment to the FCC in the DIRECTV acquisition, and we've had to respond to that. But the general situation is that business is performing nicely. The change y-over-y isn't significant on a relative basis. And it's still performing better than any part of the company we have, and we expect that to continue.

But some of the change that would have occurred in legacy Charter didn't occur because of the transition process. The user interfaces in Los Angeles, for instance, are still the old ones, and because of the integration issues we had to delay that. So generally, I would say that everything we expect out of legacy Charter is working. There are some additional competitive pressures, but in the grand scheme of things, it's pretty much on track.

<Q - John C. Hodulik>: Guys, maybe just two quick ones. First for Chris, given the equation that you laid out in terms of attractive capital markets and the discount in the stock and confidence in the numbers as we look out to 2018, what are the chances that you guys could actually exceed that 4.5 times leverage limit, at least temporarily? So that's number one.

And then number two, I guess similar to Ben's question, if we drill down a little bit on the video losses, maybe this time in the Time Warner Cable markets, there I think you pointed to some churn in the limited basic set. Can you give us a sense of how far through that process we are? Maybe you don't want to give us how many limited basics you have in the base, but how long you expect that trend to continue. Thanks.

<A - Christopher L. Winfrey>: Sure. Look, we're committed to the target leverage range of 4 to 4.5 times. And I won't lie to you, it's tempting if you see a big market opportunity open up but the credibility that we have in the debt capital markets is equally important to what we have with the equity capital markets. And we're not going to sit here and willy-nilly just start moving that around.

So we're committed to the target leverage range that we have. It will move at the bottom end, as it has. It will move to the top end over time and then back depending on the strategic organic and inorganic opportunities that are in front of us. That's our target leverage range. We talked at length on multiple occasions about what are the factors that we look at that would cause us to alter that. None of that's the case.

For TWC, I'll say also we've had the benefit of looking back at what I said in the past couple quarters. It's the same I said before, unlimited basic. The minute we get over 50% migration into Spectrum pricing and packaging, the weight of those declines starts to subside. And particularly as the sales continue to increase y-over-y, then the pressure really goes away. So that crossover point will be reached relatively fast. We're already starting to see, as you would expect, continued better sales, a better output from the base that's been migrated, and things from the legacy TWC perspective will just continue to get better from here.

It's difficult to project the exact month or day that you'll cross over, but I think legacy Charter in terms of its migration path has been nearly spot-on in terms of how we're migrating this space and continues to serve as a good proxy in that regard.