COMPANY PROFILE

Charter Communications, Inc.

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COMPANY OVERVIEW

Charter Communications Inc. (Charter or "the company") is a cable service provider offering entertainment, information and communications solutions to residential and commercial customers. The company primarily operates in the US. Charter headquartered in Stamford, Connecticut, the US.

The company reported revenues of (US Dollars) US$29,003 million for the fiscal year ended December 2016 (FY2016), compared to a revenue of US$9,754 million in FY2015. In FY2016, the company's operating margin was 11.2%, compared to an operating margin of 10.1% in FY2015. The net profit of the company was US$3,522 million in FY2016, compared to a net loss of US$271 million in FY2015.

The company reported revenues of US$10,164 million for the first quarter ended March 2017, a decrease of 1.1% over the previous quarter.

KEY FACTS

Head Office	Charter Communications, Inc. 12405 Powerscourt Drive St. Louis Missouri St. Louis Missouri USA
Phone	1 314 9650555
Fax	1 302 6365454
Web Address	www.charter.com
Revenue / turnover (USD Mn)	29,003.0
Financial Year End	December
Employees	91,500
NASDAQ Ticker	CHTR

SWOT ANALYSIS

Charter Communications Inc. (Charter or "the company") is a cable service provider offering entertainment, information and communications solutions to residential and commercial customers. Established market presence and growing customer base of the company ensure stable revenues in the coming years. However the intense competition may reduce the company's market share and affect its revenues in the future.

Strength	**Weakness**
Established market presence and growing customer base Extensive network technology and customer premise equipment Diverse revenue sources	Substantial debt could limit growth prospects Concentrated operations
Opportunity	**Threat**
Increasing demand for bundling services offers growth opportunity Robust growth in on-demand services market Strategic merger with Time Warner Cable and Bright House Networks	Intense competition Increasing programming costs

Strength

Established market presence and growing customer base

The company has established market presence and wide customer base. The company is the fourth largest cable provider in the US with its services passing through 49.2 million passings. Further the company also has a wide customer base. Charter had a customer base of approximately 26.2 million residential and small and medium business customers as on December 31, 2016. The company had approximately 16.8 million residential video customers; 21.4 million residential internet customers; 10.3 million residential voice customers; and 2.4 million commercial primary service units' as on December 31, 2016. The established market presence and growth in the customer base ensures stable revenues in the coming years. In addition, the strong customer base also allows the company to cross-sell and up-sell its products and services generating additional revenues.

Extensive network technology and customer premise equipment

The company has extensive network technology and customer premise equipment. Charter's network includes three components: the national backbone, regional/metro networks and the "last-mile" network. This national backbone provides connectivity from the regional demarcation points to nationally centralized content, connectivity and services. In addition, the regional/metro network components provide connectivity between the regional demarcation points and headends within a specific geographic area and enable the delivery of content and services between these network components. Charter's last-mile network utilizes a hybrid fiber coaxial cable (HFC) architecture, which combines the use of fiber optic cable with coaxial cable. In most systems, the company delivers its signals through fiber optic cable from the headend to a group of nodes, and use coaxial cable to deliver the signal from individual nodes to the homes served by that node. Such hybrid network design provides high capacity and signal quality. In addition, it provides two-way signal capabilities for the support of interactive services. Approximately 98% of Charter's estimated passings are served by systems that have bandwidth of 750 megahertz or greater and 99% was two-way activated as on December 31, 2016. This provides the company's unique competitive advantage as this bandwidth capacity enables Charter to offer digital television, internet services, voice services and other advanced video services.

Diverse revenue sources

The company generates revenues through diverse sources. The company operates through six product lines out of which video product line generated 41.3% of the total revenues during FY2016. This was followed by internet (32%), commercial (13.5%) voice (6.9%), advertising sales (4.3%) and other (2.1%). The diverse revenue sources allow the company to offset the weak performance of a segment by the strong performance of another segment. For instance in FY2016, the company's video, internet, and commercial product lines showed significant revenue growth. The video product lines recorded revenues of $11,967 million, an increase of 160.9% over FY2015. The internet product lines recorded revenues of $9,272 million in FY2016, an increase of 208.8% over FY2015. Further, the commercial product lines recorded revenues of $3,909 million in FY2016, an increase of 246.9% over FY2015. These allowed the company to offset the weak performance of the voice product line. Diverse revenue sources reduce business risks and ensure stable revenues in the coming years.

Weakness

Substantial debt could limit growth prospects

Charter is highly leveraged. In FY2016, the company's total debt was $61,747 million. The heavy long term debt could force the company to allocate a considerable portion of its cash flow from operations towards servicing its debt. It will limit the company's ability to obtain additional financing and Charter might suffer competitive disadvantage in comparison to peers with low debt. As a consequence of such heavy debt, Charter incurred interest expense of $2,499 million, which impacted the company's net profits and margins. Substantial debt limits the company's flexibility to plan for, or react to, changes in its business and the industry in which it operates.

Concentrated operations

The company's operations are highly concentrated. Charter is highly dependent on the US market for majority of its revenues. Substantially all of its revenues are from customers located in the US. Overdependence on one single geographic region makes it susceptible to changes associated with the economic and political situation of the country. Concentrated operations could also make Charter uncompetitive against rivals who have globally diversified operations.

Opportunity

Increasing demand for bundling services offers growth opportunity

Over the last few years, there has been an increase in the customer adoption of bundled services. The triple play services where the wireline or wireless carriers offers video, telephone and broadband internet in a single bundle is gaining popularity in recent times as customers feel bundled offerings reduce the overall spending. Further there is also an increase in the adoption of quad-play services which also includes wireless telephone services in addition to the triple play services. According to industry estimates, triple play subscription revenues are expected to reach $144 billion in 2018. Further, triple play subscribers are expected to reach 333 million subscribers by 2018. Also, the US is expected to account for 40% of the global triple play revenues by 2018.

Charter offers video, internet and voice services often in a bundle of two or more services. The company's bundled services are made available to about 98% of the company's customers and approximately 61% of the company's customers subscribe to a bundle of services. This indicates that Charter was able to effectively tap into the customer base with the highly penetrated bundled services. In addition, the company launched Charter Spectrum that offers over 200 HD channels, faster internet speeds and voice service. This service is expected to enhance the company's market share in both residential and business markets.

The company's robust portfolio of bundled services allows it to take advantage of the increased customer adoption of bundled services, enhancing revenues and market share.

Robust growth in on-demand services market

The market for video on-demand (VoD) has been growing robustly over the years and is expected to grow further. According to industry estimates, the global VoD market accounted for $33.3 billion in 2015 and is expected to expand at a compound annual growth rate (CAGR) of 9.3% from 2016 to 2024 to reach $73.9 billion by the end of the forecast period. Further, North America is expected to be the biggest market in terms of revenue contribution during the forecast period, with 40% share in the global video on demand market in 2015. The strong growth is attributed to a wide range of premium and exclusive content offered by on-demand service providers.

Charter offers video on demand service which allows customers to select from 10,000 or more titles at any time. The company’s video on demand services includes standard definition, HD and three dimensional (3D) content. Charter also offers video on demand services based on subscription. The robust growth in on demand market is expected to provide new revenue generation opportunities for the company, diversifying its business risk and boosting margins.

Strategic merger with Time Warner Cable and Bright House Networks

The strategic merger of the company with Time Warner Cable and Bright House Networks is expected to provide significant scale efficiencies and boost topline performance. In May 2016, Charter completed its merger with Time Warner Cable, one of the largest cable operators in the US, in a transaction valued at $79 billion. In addition, Charter and Advance/Newhouse Partnership amended their existing agreement, whereby Charter agreed to acquire cable systems operator Bright House Networks. The combination of Charter, Time Warner Cable and Bright House is expected to create a leading broadband services and technology company. The announced transactions are expected to drive investment into the combined entity's advanced broadband network, allow for wider deployment of new competitive facilities based WiFi networks in public places, and the footprint expansion of optical networks to serve the large marketplace of small and medium sized businesses. This would result in faster broadband speeds, better video products, including more high definition channels, more affordable phone service and more competition, for consumers and businesses. Further, the scale of the new entity would also result in greater product innovation, bringing new and advanced services to consumers and businesses, including Charter's Spectrum Guide and World Box and other product innovations.

Threat

Intense competition

The company faces intense competition in the marketplace based on price, service offerings, and service reliability. The company's major competitors include direct broadcast satellite (DBS) providers and telephone companies and utilities. It competes with telephone companies, such as AT&T and Verizon Communications, which offer video and other services. The company experienced customer losses in areas where AT&T and Verizon Communications offer video services. The company also competes with digital subscriber line (DSL) service providers including AT&T and Verizon. Moreover, the telecommunications and voice services industry is highly competitive and includes competitors with greater financial and personnel resources, strong brand name recognition, and long-standing relationships with regulatory authorities and customers. Further, consolidations among the company's competitors have resulted in providers capable of offering cable television, internet, and telephone services in direct competition with the company.

The company also faces increasing competition for the leisure and entertainment time of consumers. Its business competes with all other sources of entertainment and information delivery, including broadcast television, movies, live events, radio broadcasts, home video products, console games, print media, and the internet. Further, due to consumer electronic innovations, content owners are allowing consumers to watch internet delivered content on televisions, personal computers, tablets, gaming boxes connected to televisions and mobile devices, some without charging a fee to access the content. Furthermore, technological advancements, such as video on demand, new video formats, and internet streaming and downloading, have increased the number of entertainment and information delivery choices available to consumers, and intensified the challenges posed by audience fragmentation.

Intense competition may reduce the company's market share and affect the company's revenues in the future.

Increasing programming costs

Programming costs are the biggest outlay of expense for a cable company. Programming costs are expected to increase at a faster rate in the future than in prior years. The programming costs are expected to increase further due to various factors, including amounts paid for retransmission consent, annual increases imposed by programmers with additional selling power as a result of media consolidation, incremental programming, including new sports services, out-of-home or non-linear programming for on-line and on-demand platforms. Further, the company has programming contracts that are expected to expire by the end of FY2017. The programming costs of the company were approximately $7 billion, $2.7 billion and $2.5 billion representing 38%, 42% and 41% operating costs and expenses during FY2016, FY2015 and FY2014, respectively.

Over the past several years, increase in video service rate has not offset increasing programming costs, and with the impact of increasing competition and other marketplace factors, Charter does not expect them to do so in the foreseeable future. In addition, the company's inability to fully pass these increasing programming costs on to the video customers is expected to have an adverse impact on cash flow and operating margins.