COMPANY PROFILE

Charter Communications, Inc.

REFERENCE CODE: BD033134-503A-4198-A5F6-FE42651EF54C
PUBLICATION DATE: 18 Dec 2015
www.marketline.com

MarketLine

TABLE OF CONTENTS

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 where it is headquartered in Stamford, Connecticut and employed 23,200 people as on December 31, 2014.

The company recorded revenues of $9,108 million during the financial year ended December 2014 (FY2014), an increase of 11.7% over FY2013. The operating profit of the company was $971 million in FY2014, an increase of 6.8% over FY2013. The net loss of the company was $183 million in FY2014, as compared to a net loss of $169 million in FY2013.

KEY FACTS

Head Office	Charter Communications, Inc. 400 Atlantic Street 10th Floor Stamford Connecticut 06901 USA
Phone	1 203 905 7800
Fax	
Web Address	http://www.charter.com
Revenue / turnover (USD Mn)	9,108.0
Financial Year End	December
Employees	23,200
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 the company's revenues in the future.

Strengths	**Weaknesses**
Established market presence and growing customer base Diverse revenue sources Extensive network technology and customer premise equipment	Concentrated operations Substantial debt could limit growth prospects
Opportunities	**Threats**
Strategic merger with Time Warner Cable and Bright House Networks Increasing demand for bundling services offers growth opportunity All digital strategy	Intense competition Increasing programming costs

Strengths

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 with its services passing through 12.9 million passings. Further the company also has a wide customer base. Charter had a customer base of approximately 6.2 million residential and commercial customers as on December 31, 2014. The company had approximately 4.2 million residential video customers; 4.8 million residential internet customers; 2.4 million residential voice customers; and 619,000 commercial primary service units' as on December 31, 2014. In addition, Charter witnessed a strong growth in its services penetration in FY2014. The company's digital video penetration reached 98.5% of its estimated video passings in FY2014 compared to 91.8% in FY2013. Further, its internet penetration was 40.4% of its estimated internet passings in FY2014 compared to 37.1% in FY2013. Also the voice penetration of estimated voice passings increased from 20.3% in FY2013 to 21.7% in FY2014.

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.

Diverse revenue sources

The company generates revenues through diverse sources. The company operates through six product lines out of which video product line generated 48.8% of the total revenues during FY2014. This was followed by internet (28.3%), commercial (10.9%) voice (6.3%), advertising sales (3.7%) and other (2%). 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 FY2014, the company's video, internet, and commercial product lines showed significant revenue growth. The video product lines recorded revenues of $4,443 million, an increase of 10% over FY2013. The internet product lines recorded revenues of $2,576 million in FY2014, an increase of 17.8% over FY2013. Further, the commercial product lines recorded revenues of $993 million in FY2014, an increase of 22.3% over FY2013. These allowed the company to offset the weak performance of the voice product line. The voice product lines recorded revenues of $575 million in FY2014, a decrease of 10.7% compared to FY2013.

Diverse revenue sources ensure stable revenues in the coming years.

Extensive network technology and customer premise equipment

The company has an 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 deliver its signals via 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; and signal quality and high service reliability. Approximately 97% of Charter’s estimated passings are served by systems that have bandwidth of 550 megahertz or greater and 98% were two-way activated as on December 31, 2014. 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.

Weaknesses

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.

Substantial debt could limit growth prospects

Charter is highly leveraged. In FY2014, the company's total debt was $21,023 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. In addition, the company' long term debt to equity ratio was 144 times in FY2014. High long term debt to equity ratio indicates that the company has been aggressive in financing its growth through debt. As a consequence of such heavy debt, Charter incurred interest expense of $911 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.

Opportunities

Strategic merger with Time Warner Cable and Bright House Networks

In May 2015, Charter entered into a definitive agreement for Charter to merge with Time Warner Cable, one of the largest cable operators in the US, in a transaction valued at $78.7 billion. In addition, Charter and Advance/Newhouse Partnership amended their existing agreement, whereby Charter agreed to acquire cable systems operator Bright House Networks in a transaction valued at $10.4 billion. The combination of Charter, Time Warner Cable and Bright House is expected to create a leading broadband services and technology company serving 23.9 million customers in 41 states. 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.

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, high-speed internet and telephone 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 62% 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 announced to launch Charter Spectrum that offers over 200 HD channels, internet speeds of 60 Mbps, 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.

All digital strategy

The company completed the all-digital initiative in 2014, which involved the transition from analog to digital transmission of the channels which the company distributes. All-digital strategy allows Charter to offer more advanced products and services, and provides residential customers with two-way digital set-tops, which offer higher picture quality, an interactive programming guide and video on demand on all television outlets in the home. Further, this enables the company effectively utilize its two-way high capacity cable plant offering bandwidth capacity. In addition, this is expected to enable the company to increase the minimum offered internet speed to 60 Mbps, and 100 Mbps in certain markets. Also, the company has been making significant investments to increase its digital and HD-DVR penetration, place higher levels of customer premise equipment per transaction and progressively move to an all-digital platform. As a result, the digital penetration of video customers increased from 91.8% in FY2013 to 98.5% in FY2014.

The company's all-digital strategy will enable the company to enhance its bandwidth and expand its video and broadband offerings. This would enable the company enhance and strengthen its video subscriber base and revenues.

Threats

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, DirecTV (acquired by AT&T) and DISH Network. It also 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, Verizon and CenturyLink. 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, additional programming, including new sports services and non-linear programming for on-line and OnDemand platforms. Further, the company has programming contracts that are expected to expire by the end of FY2014. The programming costs of the company were approximately $2.5 billion, $2.1 billion and $2 billion, representing 41%, 40% and 40% operating costs and expenses during FY2014, FY2013 and FY2012, 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.