WOW! Q1 2016 Earnings Conference Call

Moderator: Rich Fish
May 12, 2016
9:00 a.m. ET

Operator: This is conference # 6946402.

Good morning, ladies and gentlemen, and welcome to the WOW First Quarter 2016 Earnings Conference Call.

As a reminder, I want to advise everyone that this call is being recorded. At this time, I would like to turn the call over to Mr. Rich Fish, WOW's Chief Financial Officer. Please go ahead, Mr. Fish.

Rich Fish: Thanks, (Heidi). Good morning, everyone. And thanks for joining us on our first quarter call. With me is Steven Cochran, Our CEO who will be giving an update on the operating activities and then I will cover the financial results for the year, and after that, we'll open it up for Q&A.

Before we get started, we need to remind everyone that in our call we'll be making some forward-looking statements about our expected operating results, our business strategy and other matters relating to our business.

We disclaim any obligation to update those forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause our actual operating results, financial position, or performance to be materially different from those expressed or implied in our forward-looking statements.

We discuss in our 10-K that we filed on March 17th, some important assumptions and business risks that could cause our actual results to differ materially from those of the forward-looking statements and you should refer to that filing for a complete discussion of those risks.

In addition, please note that in our call and in our earnings release, we refer to certain non-GAAP financial measures including adjusted EBITDA and Pro

Forma results. These measures are reconciled in our earnings release to the most comparable GAAP measures in our financial statements that we filed with the SEC.

So, with that I'll turn it over to Steven to give an update on the business.

Steven Cochran: Thanks, Rich. Good morning, everyone and thanks for joining us today. We'll be relatively brief as we pre-released the results last week and have had the chance to speak with many of you.

As most of you undoubtedly already seen, we filed our 10-Q with the SEC yesterday and we're pleased to be able to report that total revenue for the quarter totaled $302.3 million and adjusted EBITDA for the quarter totaled $112.9 million. On a sequential basis, total revenue grew $1 million or 0.3 percent and adjusted EBITDA grew $1 million or 0.9 percent.

As we discussed several times before, subscriber and RGU trends were a challenge during 2015 as a result of our focus on prioritizing the profitability of our customer base, and the extremely active competitive environment, particularly during the first half of the year.

Although we saw a pressure on our customers and RGU base during the first couple quarters of 2015, we've been able to manage the base such that product ARPUs have increased substantially on a year over year basis. Our subscriber trends have stabilized and we're able to sequentially improve net customer trends each quarter throughout the year.

For the fourth quarter of 2015, average customer churn was down to 2.6 percent and we saw a net increase in our HSD customers of approximately 200 RGUs. Even more encouraging is that we've continued to see very strong recent positive subscriber trends which have continued into the first quarter of '16.

For the first quarter, average monthly customer churn was down sequentially to 2.3 percent which is the lowest level we've seen in the last couple of years. Net customer growth for the quarter totaled 6,800 customers which compared to the first quarter of ’15 was an increase of 16,700. Net HSD additions for the quarter totaled 9,700 which is a year/year improvement of 15,500.

And total RGU net additions are 43,000 better than they were in the first quarter of 2015. And as encouraging as these positive customer trends are we’re even more encouraged to say they’ve continued into the month of April.

As most of you already know, we closed on the transaction in late December whereby Crestview purchased units held by Avista and other unit holders and made $125 million primary investment in newly issued units.

In addition to the $125 million in new primary equity in December, Crestview and Avista LPs purchased an additional 40 million of new primary equity on April 29th, for a total of $165 million of new primary equity capital.

Crestview has extensive experience in telecommunication industry and this investment will help us capitalize on future EBITDA growth and deleveraging opportunities such as edge out, network expansions, commercial services, continued development of our residential HSD offerings and accretive M&A activity.

So, after a period of time whereby we managed the business inside the free cash flow constraints of the existing capital structure, the total $165 million investment provides us the ability to pivot to a more growth strategy with a specific emphasis on data and edge out opportunities.

From the standpoint of the company’s financial position, we’re very pleased to be able to report that we’re in a much stronger financial position than just a year ago from a credit standpoint.

For fiscal year 2015, with the $32 million year over year improvement in adjusted EBITDA, the reduction in CAPEX of $42 million, the reduction in integration expense by another $31 million, we were able to significantly improve the free cash flow over the Pro Forma prior year by 100-plus million dollars.

That momentum continued through in the first quarter of ’16 with the addition of $165 million in gross proceeds from the new equity raise. The improvement in LTM adjusted EBITDA to $447 million; we've been able to significantly improve the leverage profile of the company from 6.8x at the end of 2014 to its current level of 6.1x at the end of the first quarter.

And finally, as many of you know, yesterday we closed a refinancing of our existing $382.5 million term loan B1, which had a maturity in July of 2017. We initially went out with a similar amount of new add-on term loan B that matures on April of 2019 but ended up upsizing the issuance by an additional $50 million. We're very pleased with the outcome of this transaction and thank many of you who participated in it.

With that, I'll turn it over to Rich for an update on the financial results.

Rich Fish: OK. Thanks, Steven.

For the quarter, as Steven said, we reported total revenue and adjusted EBITDA of $302.3 million and $112.9 million respectively.

First quarter total revenue of $302.3 million was up sequentially by a ($1) million or 0.3 percent over the fourth quarter and was down on a year over year basis by $10 million or 3.2 percent from the first quarter of last year.

First quarter adjusted EBITDA of $112.9 was up sequentially by a million, or 0.9 percent over the fourth quarter and was up on a year over year basis by $3.2 million or 2.9 percent over the first quarter of last year.

And at the end of the first quarter, the LTM adjusted EBITDA totaled $447.1 million and was up on a year over year basis by $25.5 million or 6 percent over the LTM Pro Forma period ending March 31st of last year.

First quarter total subscription revenue decreased $2.2 million or 0.8 percent on a sequential basis over the fourth quarter consisting of a $4.4 million decrease attributable to video and telephony RGU losses experienced in the quarter, and that amount was partially offset by a $2.2 million increase that was attributable to increases in ARPU as a result of the annual rate increases that went into effect in the fourth quarter of last year.

On a year over year basis, first quarter total subscription revenue decreased $12.6 million or 4.5 percent over the first quarter of last year of which $28.5 million was driven by the year over year decrease in average video and telephony RGUs. And that amount was partially offset by an increase of almost $16 million attributable to increases in ARPU.

Looking at ARPU specifically for the first quarter, ARPUs for the different service categories were HSD came in at $42.20 which was up sequentially $0.20 over the fourth quarter of last year. Video was $82.85 which is up a $1.79. And phone was $46.48, which is down $1.16 sequentially from the fourth quarter.

On a year over year basis, HSD ARPUs were up $2.34 or 5.9 percent from the first quarter of last year. Video was up $6.42 or 8.4 percent. And phone ARPU was down $1.17 or 2.4 percent from the first quarter of last year.

Looking at total commercial revenue, total commercial services revenue for the quarter totaled right at $34 million which was a sequential increase of $2.5 million or almost 8 percent over the fourth quarter of last year primarily as a result of growth in wholesale.

And was a year over year increase of $3.1 million or right at 10 percent over the first quarter of last year which was also driven by an almost equal increase in wholesale and subscription revenue.

Looking at CAPEX, gross CAPEX for the quarter totaled $60.6 million. However, we also had a decrease in CAPEX related working capital totaling about $3 million, so you might have seen our statement cash flows shows total cash outflow related to CAPEX for the quarter of $63.6 million.

From a liquidity and a leverage standpoint we ended the quarter with $48.9 million in cash & equivalents on WOW! Finance's balance sheet and have an additional $84.3 million of proceeds at the company's parent entity Racecar Holdings related to the new primary equity raise in December for a total of $133.2 million in cash on hand on a combined basis, including the net proceeds from the additional $40 million of primary equity that was sold on

April 29th on a combined basis the company has approximately $172 million in total cash & cash equivalents Pro Forma for the end of the quarter.

In addition to the cash and cash on hand, we have available borrowing capacity under the revolver of an additional $192.3 million. So, from a leverage standpoint, including the cash that's still on Racecar's balance sheet, senior secured leverage at the end of the quarter was 3.7x and total leverage was 6.2x.

Pro Forma for the April issuance of the $40 million of additional primary, at Racecar, senior secured leverage at the end of the quarter would be down to 3.6x, and total leverage would be down to 6.1x.

And then finally, as Steven mentioned, we closed on a refinancing of our Term Loan B1, $382.5 million that had a maturity in July of 2017. Yesterday, we upsized that facility by $50 million and issued $432.5 million of new Term Loan B loans at L+350 having a floor of 1.0% and repaid all outstanding B1 term loans yesterday.

So, that concludes kind of prepared remarks, so I'll turn it back over to Heidi to open it up for question.

Operator: For those of you on the -- if you would like ask a question, please press star then the number one your telephone keypad. We'll pause for a moment to compile the Q&A roster.

Your first question comes from the line of Michael Pace with JP Morgan Chase. Please go ahead.

Michael Pace: Hi, guys. Good morning.

Rich Fish: Good morning.

Michael Pace: A question for Rich to start. There was a lot of numbers there and I was trying to write them all down.

So at the end of the first quarter cash at the WOWFIN level, I believe you said was almost $50 million, and raised, and then $84 up at the Racecar, right? You have $40 million of additional equity proceeds, so $40 million more at Racecar?

Rich Fish: Yes.

Michael Pace: And then you raised an incremental $50 under the term loan, so another $50 down at WOWFIN. I just wanted to make sure that I -- excluding the expenses and things like that. Just wanted to make sure that that's correct.

Rich Fish: Yes, that's correct, Mike.

Michael Pace: OK. And then you moved $25 million down from Racecar, down to WOWFIN during the first quarter, and I'm curious what was the purpose of that? And should we just think of the cash up at Racecar as for WOWFIN ultimately and just the use of those proceeds going forward would be helpful.

Rich Fish: Yes. The $25 million that was down streamed from Racecar to WOWFIN was in January. Interest on the high yield notes is due semi-annually in January and July, so we down-streamed $25 million of the original proceeds to utilize for payment of the interest in lieu of drawing on the revolver.

So the second question is, you know, the proceeds that are sitting up at Racecar, you know. I think it's fair to say that those are ultimately going to be utilized by WOW! Finance but the plan would be to move it down as, you know, on an as needed basis.

Michael Pace: OK. And then can you just give us an update on your CAPEX budget? And I think in the past, you've talked about core CAPEX for the business, and then in addition to that, you have growth CAPEX.

So, you know, what's core CAPEX? And then as far as growth, can you just break out a little bit in more detail what you expect to spend in '16 and maybe in '17 on the backhaul project and edge outs.

Rich Fish: Yes. The total guidance for the year, for CAPEX is $270 to $295 million. So included in that, Mike, is approximately $70 to $85 million related to the growth initiatives for edge out and tower backhaul.

So we look at a baseline CAPEX as, you know, kind of being in that $200 to $210 range. And then inside of the $70 to $85 million in growth initiatives, we will probably have this year close to, you know, $35 to $40 million related to network expansion activities for edge out. And the balance would be for in support of the tower backhaul.

Michael Pace: Got you. And then for Steven, can you, can you update us on -- I believe you built out some more network towards the end of 2015. And I think you hinted in the past that you've seen a very quick penetration rate in those systems, strong double digits I think kind of the numbers you've thrown out.

Can you just update on how that's going? And are you still seeing success there?

Steven Cochran: Yes. So, we did a little bit, I would say, of build at the end of the year… I think we really only spent like $1.5 million or something like. that was much more around getting ready for the current year.

I think to date, through literally probably this week, we've probably built somewhere in the neighborhood of 8,000 homes. And we're, you know, at over 20 percent penetration on that already.

And so, you know that's the number that the new homes get added in each week and so you've got a bunch of homes that are being turned on with zero penetration. So I think, you know, for I think on average were at like 98 days active and sitting at over 20 percent penetration.

So, we feel really good about the, you know. It was something we have a lot of confidence going into and we've been happy with our continued success in that area. And so, I think as of right now, we're actually a little bit behind on the number of homes built but we're ahead on penetration. So, we're right on track with where we need to be from that piece of the contribution for the current year.

Michael Pace: OK. Great. Thanks, guys.

Steven Cochran: Thanks, Mike.

Operator: Again, if you would like to ask a question, that's star then the number one on your telephone keypad. Your next question comes from the line of Fuentes, Carlo. Please go ahead.

Carlo Fuentes: Hey, Rich and Steven, it's Carlo. Just clarification on the growth initiatives CAPEX guidance. Is there a way you could break out what, what was growth CAPEX in the first quarter in that $63.6 million?

Rich: I may need to follow up with you on that question. I don't have the breakout handy. So why don't I follow up with you directly on that?

Carlo Fuentes: OK. And then just as, just as a follow up, you know, just from the press release in terms of looking at… I know you guys can't be specific but on potential asset sales. Is there a little bit more color in terms of which markets, you know, what types of markets you're looking or looking at divesting, you know?

Rich Fish: Yes. I think, I think until we're kind of out. We probably don't want to get specific on that just… I promise you that when there's real action on that, we'll be, we'll disclose fully but I think, until then we want to probably hold back a little bit.

Carlo Fuentes: Great. Ok. Thank guys.

Rich Fish: Yes.

Operator: Again, that's star then the number one to ask a question. Your next question comes from the line of Nick Lawson from Covenant Credit. Please go ahead.

Nick Lawson: Hey, guys. Thanks for the call. I was just curious about the decline in ARPU. I think I saw it on the lender presentation a couple of weeks ago and I just calculated it based on the numbers. But it looks like Q1 ARPU is down.

Steven Cochran: So you're talking, you're talking the on global customer ARPU versus any product line ARPU?

Nick Lawson: Exactly. I don't know--

Steven Cochran: Yes. That's just the nature of losing video customers and losing phone customers, primarily, the video customers with the real high ARPU. So the mix is less, so our bundled penetration continues to go down, whereas, at a high point, we had nearly 88 percent of our customers in a two or three product bundle, we're down now to where it's under 70 percent.

And that's just the, that's just the math of that. And I guess that part of, honestly, part of where we see our business going and the strategy is that we're going to live with lower total customer ARPU and higher product ARPUs which we think at the end of the day actually drives higher EBITDA even though it's probably, you know, either lower revenue or much lower growth revenue than what we have historically. It's just a more profitable customer base.

Nick Lawson: It makes sense. And then could you, could you remind us when the price increase was this past year?

Rich Fish: So, there was really kind of two piece parts to it. There was a piece that took effect in September. And then there was a piece that took effect in January.

I mean there no time where we're actually, you know, kind of going across our entire customer base, primarily just because of the nature of the different offers we have in place, and when the guarantees are going and all of that. But I think we increased about 40 percent of our customer base last September and maybe just under 20 percent of our base in January.

Nick Lawson: OK. Thanks. That's it for me.

Rich Fish: Sure.

Operator: And there are no questions, further questions at this time. I turn the call back over to the presenters.

Rich Fish: Great. Thank you very much. Once again, thanks for the support and the refinance and your continued support overall. And we look forward to talking to you again soon. Take care.

Operator: This concludes today’s conference call. You may now disconnect.

END