WOW!

Moderator: Rich Fish
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Operator: This is Conference # 12120873

Good afternoon, ladies and gentlemen and welcome to the WOW! Third Quarter 2016 Earnings 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, Christina. Good afternoon, everyone. And thanks for joining our third quarter earnings call. With me today is Steven Cochran, our CEO who will be giving an update on the operating activities and then I'll cover the financial results for the quarter 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 as well as 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-Q that we filed on March 17th of this year some important assumptions and business risks that could cause our actual results to differ materially from those in the forward-looking statements and you should refer to that filing for complete discussion of those risks. In addition, please note in today's call, and in our earnings release. We refer to certain non-GAAP financial measures including adjusted EBITDA and pro forma adjusted results. These measures are reconciled in our earnings release to the most comparable GAAP measurement in our financial statements as we filed with the SEC.

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

Steven Cochran: Thanks, Rich. Good afternoon everyone and thanks for joining us. We'll be relatively brief as we pre-released result last week, and have had a chance to speak with many of you. We're pleased that we've been able to make significant progress this year against the objectives we set for ourselves, especially as it relates to achieving a turnaround in our subscriber results and improving the health of our balance sheet.

We're pleased to be able to report that total revenue for the quarter totaled $311.2 million and the adjusted EBITDA for the quarter was $115.7 million. On a sequential basis, total revenue grew $3.7 million or 1.2 percent and adjusted EBITDA grew $0.8 million or 0.7 percent.

Excluding the impact of the 21 days from the NuLink acquisition which closed on September 9th, which are included in the reported results, total revenue and adjusted EBITDA for the quarter totaled $309.8 million and $115.2 million, respectively. On a sequential basis, this represents growth in total revenue of $2.3 million and growth in adjusted EBITDA of $0.3 million. Year-over-year, excluding the impact of NuLink for the 21 days in the quarter, total revenue grew $12.1 million or 4.1 percent and adjusted EBITDA grew $5.6 million or 5.1 percent.

As noted on the second quarter call, this year we moved our annual rate increase to July. So during the quarter, we had to deal with the negative impact of subscriber volume associated with that. Despite this challenge, excluding the increase in subscribers attributed to NuLink which were included in the September 30 results in the RGU counts, we were still able to hold our net customer growth flat on the sequential basis representing year-over-year improvement relative to last year's third quarter of 5,300. We were able to grow our HSD RGU base for the quarter by 2,700, a year-over-year increase of 3,300. And from a total RGU standpoint, we were able to do 2,600 better from a total RGU standpoint than we did in the third quarter of 2015.

On a year-to-date basis relative to the prior year, we're over 75,000 better in RGUs compared to the first nine months of last year. In addition, we've been able to manage the base, such as the product ARPUs have increased substantially on a year-over-year basis. Excluding the impact associated with NuLink, Video ARPU for the quarter was $90.30 which was up on a year-over-year basis by 18.1 percent and HSD ARPU was $42.29 up on a year-over-year basis by 2.8 percent.

While we're pleased with seeing growth in subscribers, relative to our original guidance, we didn't get quite as much of an uptick as we would have like to have seen. And we're diligently working to continue to improve our tactics related to connects and focusing on improving our competitive churn. We're also very excited about what we have been able to accomplish with our network and product offerings as we continue to offer upgraded speeds across our markets. We now have 600 meg offers in over 90 percent of our footprint and we've launched one (1) gig in five of our markets and connected our first customers to 1 gig in the month of October.

We've also signed up our first Swivel customers in Cleveland which is our new video product that we're excited about. We continue to do well in Edge Outs as well. There very encouraging results as we've completed to date a little over 31,000 new homes constructed. And after only 136 days in the market, we've achieved penetration rates of approximately 21 percent. We continue to be pleased with the progress of business services. Total business service revenue is up 19 percent over the last year. During the quarter, we benefited from $2.9 million related to construction activity in our cell tower backhaul business, excluding this; business service revenue was up 9.5 percent on a year-over-year basis. Each quarter we see incremental progress in customer acquisition activity and August sales was the best performance month we've had ever.

As I previously mentioned, we closed our acquisition of NuLink on September 9th. As a reminder, NuLink is a broadband provider of HSD, Video and Voice services to residential and commercial customers in Newnan, Georgia. That's about 30 miles south west of Atlanta. NuLink's Network is fully upgraded to 750 megahertz, it's 100 percent DOCSIS 3.0, serves 34,000 passings and we have 27,000 RGUs associated with the system.

The valuation for NuLink totaled $53 million and they reported $8.4 million of adjusted EBITDA for the full year 2015. We're very excited to call the NuLink employees our newest members of the WOW family and we've begun integration efforts immediately and look forward to working quickly and diligently on integrating the operations of NuLink. We're thrilled with NuLink transaction on many levels, not least of which is the deleveraging aspect of the transaction for our balance sheet. On a post synergy basis, the transaction multiple will be five times (5.0x).

Additionally, as many of you have heard, we announced the signing of an agreement with MidContinent on October 20th to divest our Lawrence campus market. The valuation totals $215 million with LTM 9/30/2016 adjusted EBITDA of $23.5 million, and represents a 9.2x multiple. We expect the transaction to close either late this year or early in the first quarter and the proceeds will be used primarily to continue to de-lever the balance sheet and pursue growth initiatives.

Lastly, as we mentioned in our second quarter conference call, we launched and closed a refinancing our Term Loan B in August. The transaction re-finances the existing $1.8 billion, Term Loan B with the new seven-year $2.065 billion facility. The additional liquidity from the upsize was utilized partially to redeem a $159.1 million of our 13.375% senior subordinated notes and to fund the NuLink acquisition. So once again, we thank all of you who supported that transaction.

And with that, I will turn it over to Rich for an update on our financial results.

Rich Fish: Thanks Steven. As we mentioned, the NuLink acquisition closed on September 9th. So our reported results that we filed with the SEC include the financial results of NuLink from September 9th through the quarter end and reported subscribers of 9/30/16 include the NuLink subs. So with that, for the quarter, we reported total revenue and adjusted EBITDA of $311.2 million and $115.7 million, respectively. However on a pro forma basis, third quarter total pro forma revenue of $315.9 million was up sequentially $2.2 million or 0.7 percent over the pro forma second quarter and was up on a year-over-year basis by $12 million or 3.9 percent from the pro forma third quarter of last year.

Third quarter pro forma adjusted EBIDTA of $117.4 million was up sequentially by $0.4 million or 0.3 percent over the pro forma second quarter and was up on a year-over-year basis by $5.7 million or 5.1 percent over pro forma quarter of last year. So at the end of the third quarter LTM pro forma adjusted EBITDA totaled $463.5 million and was up on a year-over-year basis by $15.5 million or 3.5 percent over the LTM pro forma period ended September 30th of 2015.

Looking at subscription revenue, third-quarter reported total subscription revenue increased $5 million or 1.9 percent on a sequential basis over the second quarter, consisting of $5.5 million decrease that was attributable to average video and telephony RGU losses experienced during the quarter. This amount was offset by a $9.4 million increase attributable to increases in ARPU primarily as a result of the rate increase that took place in July and a $1.1 million increase attributable to the acquisition of NuLink for the 21 days from September 9th through quarter end.

On a year-over-year basis, third quarter total subscription revenue increased $5.2 million or 2 percent, compared to third quarter of last year of which $20.8 million reduction was driven by a year-over-year decrease in average video and telephony RGUs. That amount was offset by an increase of $24.9 million that was attributable to increases in ARPU and an additional $1.1 million increase attributable to NuLink.

So ARPUs for the third quarter based on the different service categories, excluding NuLink, were HSD of $42.29, which is down sequentially by $0.23 from the second quarter of this year. Video, as Steven mentioned was $90.30 up $6.26 and phone was $46.91, down slightly by $0.6 sequentially from the second quarter of this year. Year-over-year, HSD ARPU was up $1.15 or 2.8 percent from the third quarter of last year. Video ARPU was up $13.86 or just over 18 percent, and phone ARPU was down slightly $1.52 or negative 3.1 percent from the third quarter of '15.

Total reported commercial services revenue for the quarter totaled $37.5 million which was a sequential decrease of $3 million or 7.4 percent, primarily as a result of cell backhaul revenue and was a year-over-year increase of $5.9 million or 18.7 percent over third quarter of last year. That was driven by other commercial revenue of $3.7 million and subscription revenue of $2.2 million. As Steven mentioned, excluding the tower backhaul revenue, total commercial was up 9.5 percent on a year-over-year basis.

Gross CapEx for the quarter totaled $77.5 million. However, we had an offsetting increase in CapEx related working capital totaling $5.2 million. So the face of our statement of cash flows shows total cash outflows related to CapEx for the quarter totaling $72.3 million.

We ended the quarter with $36.1 million in cash and cash equivalents on WOW Finance's balance sheet and at the end of the previous quarter, we have additional $93.2 million of proceeds at the company's current entity Racecar holdings related to the new primary equity raise from last December for a total of $129.3 million in cash on hand. In addition to cash and cash equivalents, we have $192.3 million of available borrowing capacity under our existing revolver. So from a leverage standpoint, including cash on Racecar's balance sheet, on a pro forma basis including the results of NuLink, net senior secured leverage at the end of the quarter was 4.2 times, and total net leverage was 6.1 times.

And finally, from a capital structure as Steven mentioned, we closed the refinancing our Term Loan B in August. The transaction refinanced the previous $1.8 billion Term Loan B with a new seven-year $2.065 billion facility. Pricing on the new term loans remained unchanged at LIBOR + 350 over a 100 basis point floor and the facility has a maturity in August of 2023. The additional $240 million in liquidity from the upsize was utilized to redeem $159.1 million of our outstanding Senior Subordinated Notes and to fund the NuLink acquisition. So the combined annual interest savings from all of these transactions will total about $17 million, which is obviously a great improvement in the company's go forward free cash flow profile.

So, Christina, that concludes our remarks so I'll turn it back over to you now to open it up for Q&A.

Operator: At this time, I would like to remind everyone in order to ask a question, press star then the number one on your telephone keypad. Your first question comes from David Phipps from Citigroup. Your line is open.

David Phipps: Thanks for taking my question. Have you talked a little bit about what you would plan to do with some of the asset sale proceeds from Lawrence?

Steven Cochran: Yes. I mean – I think clearly it's primarily focused on de-leveraging. We still have $90-ish million of the sub notes outstanding. We also, come next July, have the next step-down in our Senior Notes and, you know, we'll be probably strategic about how to best deal with both of those but clearly it's – you know, heavy focus around that but then also giving, you know, this just kind of further gives us certainty around the liquidity we need to make sure that we continue to be aggressive in edge outs and other investment opportunities.

David Phipps: And for the $89 million of this – of the Senior Subs, have plenty of RP capacity that you can still handle this?

Steven Cochran: We do with the push down from the original investment from Crestview last December.

David Phipps: OK. And you still have $93 million left at Racecar Holdings, right?

Steven Cochran: Currently, yes. That would get pushed down in the context of paying that out, so that would create the capacity.

David Phipps: OK. Fair enough. And so maybe some modeling on the Lawrence systems. You say end of the year, maybe early next year, is it safe to put in kind of a very early first quarter or is it likely to close sometime in December?

Steven Cochran: Yes, I mean I think it's so dependent upon the review process. You know, when we acquired Knology, it happened in 90 days and that was a pretty good size deal. This is a smaller transaction. And so, you know, our NuLink deal, what did we close that in Rich? Less than 45 days? So, you know, I think that's probably the over under, 45 to 90 but, you know, there's not much from a local standpoint. It's really all just kind of the HSR related approval that is needed and, I think otherwise, we're both in good shape to close it. I think MidCo was in the market last week and raised some additional funds. And so I think it will literally be waiting for that to be the main driver of close.

David Phipps: And then do you have the number of video subs and the HSD subs from, that will be lost from the large acquisition or was it kind of proportional to what your mix is now or is it a little bit different?

Steven Cochran: I would say it is proportional to what the overall mix is. Maybe slightly more skewed to more HSD.

David Phipps: OK. And then…

Steven Cochran: but in the ballpark.

David Phipps: And then on your tower build out, it was 14. You had a big number in the second quarter and the smaller number in the third quarter it looks like. How should we think about the tower…

Steven Cochran: Well, I guess it is that…

David Phipps: …build out over the couple of quarters…

Steven Cochran: Yes, two pieces to that. So that – you're just talking about the piece of revenue that we mentioned.

David Phipps: Yes.

Steven Cochran: There was a little bit of a catch up in the second quarter associated with that and that's just the pass through piece. So there's not, you know, there's not EBITDA with it. As we look at it going forward. Rich, I don't know if you got the number on the fourth quarter what we're expecting from…

Rich Fish: From a forecasted standpoint.

Steven Cochran: Yes, from a forecast standpoint. I mean it really is much more – I mean I think in general going forward through the rest of the project through next year, what we saw in the quarter is going to be in that ballpark, you know, \$2 million to \$3 million but it is also based on, you know, what they ask us to do. I mean they're definitely, you know, we're building a project for them and, you know, when change orders happen, we'll accommodate and it's all pass through. So it's not a big driver at the end of the day, just unfortunately the accounting rules forcing us to put it in both the revenue and expense.

David Phipps: Fine, and then finally, could you talk about the competitive environment and do you expect any price changes in any of your major markets in the fourth quarter?

Steven Cochran: Yes. I don't think we expect anything to change significantly in the fourth quarter. I mean Comcast has been aggressive for some time now in primarily Detroit and Chicago, and we continue to see that, we continue to work through our plans to make improvements in both of those markets. You know, in the Charter, Time Warner, Bright House markets, we've seen – obviously less activity that we did before the transaction closed and, you know, don't expect any near-term changes in that if they continue to go through their integration. But as far as the fourth quarter, I think we expect to see what we saw in the rest of the year in the fourth quarter. That being said I believe that, the fourth quarter from a subscriber standpoint will be stronger then both the second and the third quarter; probably not as strong as the first quarter was, but definitely stronger than the second or third quarter.

David Phipps: OK. Thank you.

Operator: Your next question comes from Michael Pace from JPMorgan. Your line is open.

Michael Pace: Hi guys, good afternoon. And thank you. Just wondering, I think you yourselves acknowledge that, you know, the unit adds in the third quarter might not have been where you were expecting or at least you can see the uptake that you maybe earlier thought in the year. So I'm just wondering, is that coming from lower gross additions or higher churn or both and I'm just wondering given the answer, could you just dig in and explain why?

Steven Cochran: Yes. So I think from a connection standpoint, it was slightly lower. But they have been slightly lower all year and we had made up for it throughout the rest of the year by having lower churn. And so we did see an uptick in the third quarter in overall connects but we also saw an uptick in churn. Some of that was related to the rate increase, and I think, we, once again, we're heavily focused on making sure we maximize rate compared to maximizing customers and I think our numbers are reflective of that. There's probably a balance somewhere in between that might have been better from an overall longer-term outlook but, you know, we definitely knew we needed to maximize on the rate. And I think there's clearly – clearly there's been some competitive dynamics as well that have continued on that we saw spike a bit in the third quarter and dealt with that.

I mean I think a lot of it is – we're – there's a lot of focus, you know, coming out of the, 2015 where we heavily focused on free cash flow, we were very metrics driven. You know, there was parts of that that had a short-term impact that we knew would have longer term outcomes and we're seeing some of that now. Just dealing with we're forcing techs to get a bunch of jobs done in a day because that's the metrics. And basically, Michael, we're just really focused on how to get that right balance; how to maximize the efficiency at a level where we're still allowing our technicians to WOW the customers every day.

And so those are the things we've been focused on as we have kind of worked through why was churn a little bit higher 1) We're really going to deal with it on the rate increase side, how do we plan for that better and 2) continuing to stay true to who we've always been which is creating WOW experiences for our customers and making sure that we don't sacrifice too much of that whenever we focus on efficiency.

Michael Pace: And then can you just confirm. I thought you said earlier that your Edge Outs, or new builds, 136 days in market. And is that an average or just curious…

Steven Cochran: Yes. Basically, what we do is it's kind of a running average of one home is turn on. So what we – I mean every week, you're turning on anywhere from, I don't know, a thousand homes now, we're probably at a phase were we are turning on 1,000 homes a week and those homes come on at zero days and zero penetration and add that all in to mix. We have plenty of stuff that's been built for six, seven, eight months now that we're seeing north of 21 percent penetrations, some we're seeing in the 40 percent penetration but, you know, at any given point, we also have anywhere from a thousand to 5,000 homes that probably have very little penetration because they've just been activated. And so it's kind of always a running number that you only see the homes increased and you hope that the penetration stays flat because that means you're probably growing on the rest of it because you know you're bringing the zeros on.

Michael Pace: Got it and then maybe two for Rich. Rich, I think in the past you've said there's this, you know, baseline CapEx for the company of 200 to 210 and guessing net net for the NuLink and the Lawrence may be the low-end of that going forward. Can you just talk about what your CapEx spend may be for 2017 is given that baseline and given, you know, what may or may not be different from a growth perspective versus 2016?

Rich Fish: Yeah. It's a bit early, Mike to talk about '17 CapEx at this point. We're obviously still working through the various iterations of the budget. I guess what I could say is that, you know, 2017 in total, will probably be, directionally in the same amount of the similar size as, you know, 2016. When you add in, you know, the two buckets, baseline CapEx plus the incremental growth initiatives, so baseline will, probably slide up a bit just, given activity volume, you know, a bigger base to take care of, etc. We will have most likely an uptick in our Edge Out opportunity for next year from where we are this year. I would anticipate that we would try and move that number up to, kind of in $50 million range. But what is – what we'll be offsetting that will be a reduction in the tower backhaul construction coming down. So that, those three moving parts kind of put you in kind of directionally the same zip code I think that of 2016.

Michael Pace: Got it. And then just you've said 4.2 times secured, 6.1 times total pro forma leverage earlier. Is that pro forma for NuLink or pro forma for NuLink and Lawrence, Kansas?

Rich Fish: Just NuLink.

Michael Pace: Thank you.

Rich Fish: And that is inclusive of the Racecar cash so its HOLDCO cash.

Michael Pace: Understand. Thanks, guys.

Steve Cochran: And, what, we get another, basically a tick down…

Rich Fish: We…

Steve Cochran: …with the …

Rich Fish: We do. If you were to pro forma Lawrence into the mix, that would reduce it roughly a 10^{th}, or slightly over a 10^{th}.

Operator: Again, if you would like to ask a question, press star and the number one on your telephone keypad. Your next question comes from Carlo Portes from Carvale. Your line is open.

Carlo Portes: Hey, guys. Thanks for taking my question. Just a little homework/granularity on your CapEx. Usually you guys breakout, what, you know, what portion of that quarterly is the Crestview funded Edge Outs? Is that something you could do again for this quarter?

Rich Fish: We could. I don't know that it's something that – yes, we could. I don't know if it's something that I have …

Carlo Portes: Right. I could follow-up offline.

Rich Fish: … on hand immediately but I can – we can follow up and put that information out for sure.

Carlo Portes: OK, great. That was it. Thank you, guys.

Operator: Your next question comes from David Phipps from Citigroup. Your line is open.

David Phipps: I forgot to ask, are there any cash taxes that will be attributed to the Lawrence system assets sale?

Rich Fish: No. The subsidiary that owns the Lawrence assets is the old Knology Inc. and there's approximately $200 million of federal NOLs that is set at that taxpayer, so any taxable income will be offset by the existing NOLs. It is likely that we have a little bit of AMT related to that but, you know, that would be measured in the, you know, couple of million dollar range.

David Phipps: OK. Thank you.

Operator: There are no further questions at this time.

Rich Fish: OK.

(Crosstalk)

Steven Cochran: Thanks, everyone. Thanks for joining the call and look forward to talking to you at the end of the year.

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

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