WOW!

Moderator: Rich Fish
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Operator: This is conference #66721486.

Good morning, ladies and gentlemen, and welcome to the WOW! Fourth Quarter 2015 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, Melissa. Good morning, everyone. And thanks for joining our yearend call. With me is Steven Cochran, WOW!'s CEO who will be giving an update on the operating activities and then I will cover the financial results for the year. 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 discussed in our 10-K that was filed yesterday, 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 a complete discussion.

In addition, please note that in today's call and in our earnings release, we refer to certain non-GAAP financial measures including adjusted EBITDA. 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, I'll turn it over to Steven to give an update on the business.

Steven Cochran: Thanks, Rich. Good morning from snowy Colorado. Any of you that are coming out for Spring break skiing will be very happy. So, we are going to be pretty brief on the call this morning as we've pre-release our results a couple of weeks ago. We've had a chance to speak with many of you, and there's really not a lot of new information here.

As most of you've probably seen, we filed our 10-K with the SEC yesterday and we're pleased to be able to report that the total revenue for 2015 totaled $1.217 billion and the adjusted EBITDA for the year totaled $443.9 million.

Pro Forma on the year over year basis, total revenue grew $8.2 million or just under one percent, and Pro Forma growth on year over year adjusted EBITDA basis grew $31.6 million or 7.7 percent.

As we discussed before, subscribers in RGU trends have been a challenge during the year as a result of our focusing on prioritizing the profitability of our customers and the very active competitive environment, particularly during the first half of the year.

Although we felt pressure on our customer and RGU base during the first couple of quarters, we were able to manage the base such that product ARPUs increased substantially on the year over year basis. And as the year progressed, our subscriber trends have stabilized and was able to sequentially improved net customer trends each quarter throughout the year.

For the fourth quarter, average customer churn was down to 2.6 percent and we saw a net increase of our HSD customers of approximately 200. Even more encouraging is that we continued to see very strong recent positive subscriber trends which have continued into the first couple of months of 2016. The positive customer RGU trends that we disclosed at the JP Morgan Conference at the end of February have continued into March.

In addition to the $32 million year over year improvement in adjusted EBITDA, we all also reduced CAPEX by $42 million and our integration related expense by another $30 million. As a result, we're very pleased that we're able to significantly improve our free cash flow for the year over a Pro Forma prior year by over $100 million.

As most of you already know, we closed on a transaction in late December where by Crestview acquired approximately 35 percent stake in Racecar Holdings; WOW!'s Parent Entity. Crestview funds purchased units held by Avista and other unit holders and made $125 million primary investment in newly issued units.

Crestview has extensive experience in the telecommunications industry, as does our new chairman Jeff Marcus. And this investment will help us capitalize on future EBITDA growth and deleveraging opportunities such as edge out network expansion, commercial services, the wireless backhaul opportunities, 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 cap structure, Crestview's investment provides us the ability to pivot to more of a growth strategy with continued emphasis and focus on the data business. Our over-arching strategy will be, from a data standpoint, will be higher speeds, disruptive pricing and continue to provide a great customer experience.

Going forward, as reflected in the guidance we issued, we expect to see a decline in video and telephone customers, but a meaningful increase in HSD customers as we continue to focus on acquiring and retaining profitable customer relationships.

Significant investments have been made over the last year as it relates to our HSD offerings, whereby, we now have 30, 60 and 110 meg offers in every market; 300 meg offers in 75 percent of our footprint. That 300 will be rolled out to 100 percent of the footprint by the end of the year, and we're also rolling out 600 meg in numerous markets as well as introducing one gig in three markets throughout the year.

So there's a heavy continued focus on that primary piece of the business. And with that I will turn it over to Rich to talk about the financial results.

Rich Fish: OK, thanks Steven. Just a reminder for everyone again, we divested the South Dakota systems at the end of the third quarter of '14. So our reported financial results and our filings with the SEC include the financial results of operations for the South Dakota systems for the first nine months of the year ended December 31st, 2014.

So, any year over year financial comparisons we make will be on a Pro Forma basis to strip out the results of South Dakota for the first nine months of last year (Correction: **First nine months of 2014**) as well as to pro forma again, and add the result of AAB, which we acquired on May 1st of last year (Correction: **May 1st, 2014**).

So, for the quarter, Steven mentioned total revenue is 301.3 Million which was up sequentially $3.6 million or 1.2 percent over the third quarter and was down on a year over year basis by $7.9 million or 2 percent over the fourth quarter of 2014.

The fourth quarter adjusted EBITDA of $111.9 million was up sequentially $2.3 million or just at 2.1 percent over the third quarter, and was up on a year over year basis by $4.2 million or 3.9 percent over the fourth quarter of last year.

Again, as Steven mentioned, total revenue for the year was $1.217 billion; up on the year over year basis $8.2 million or just under 1 percent over Pro Forma 2014. In 2015 adjusted EBITDA, $443.9 million was up on the year over year basis by right at $32 million or 7.7 percent over the Pro Forma last year.

Looking into revenue at the subscription line item fourth quarter total subscription revenue increased $2.8 million or 1.1 percent on a sequential basis; of which approximately $9 million was attributable to increases in ARPU, which was driven by the annual rate increase that went into effect during the fourth quarter of 2015. And that increase was offset by approximately $6.2 million of a decrease that was attributable to the customer losses experienced in the quarter.

On a year over year basis 4Q subscription revenue, decreased $7.1 million or 2.6 percent over the fourth quarter of last year of which $25.2 million was attributable to increases across the service portfolio in ARPUs but was offset by $32.3 million reduction that was driven by year over year decreases in average total customers.

In total, 2015 subscription revenue for the year increased $2.6 million or just around 2.2 percent on a year over year basis over the Pro Forma total for last year of which the components of the change are $88.8 million that was attributable to positive increases in ARPU, and a reduction of $86.2 million that was attributable to losses in average customers over the year.

Looking at ARPU, we published the ARPU for each of the individual service categories at the JP Morgan Conference. So you may have already seen that HSD ARPU for the fourth quarter was $42 per RGU which is up $2.25 per RGU from the fourth quarter of 2014, or 5.7 percent.

Video ARPU for the fourth quarter is 81.06 up almost $10 on a year over year basis or 13.7 percent. In phone, is at 47.63 per RGU which is up $1.28 on a year over year basis or 2.8 percent.

Looking at CAPEX, gross capital expenditures for the year totaled $216.2 million, which is a year over year decrease from last year of approximately $42 million from the Pro Forma amount for 2014. However, we also had a decrease in CAPEX related working capital totaling about $16 million. So on the face of our statement the cash flows is it shows total cash outflows related to capital expenditures for the year totaling $231.9 million.

So as Steven mentioned, with the improvement in EBITDA of approximately $32 million on the year-over-year basis, coupled with the reduction in CAPEX before the working capital change of about $42 million in the reduction in integration related expenses on a year-over-year basis of about $31 million, we're able to improve the free cash flow profile for the company on a year-over-year basis by, you know, over a $100 million.

Looking at liquidity, and leverage we ended the year with approximately $66.6 million in cash and cash equivalents on WOW Finance’s balance sheet. And we have borrowing capacity under the revolver of about $193 million available to us.

In addition, because the Crestview transaction closed in late December, we had not yet, by the end of the fiscal year moved the $102.8 million in net proceeds from the new primary equity issuance from Racecar Holdings which is WOW! Finance’s parent entity down to the balance sheet of WOW! Finance yet.

However, on a combined basis, we have a total of approximately $169.4 million in cash & cash equivalents at the end of the year which includes the proceeds from the Crestview transaction, so from a leverage standpoint including those proceeds, senior secured leverage at the end of the year was 3.6 times and total leverage was 6.2 times.

And finally, for guidance, we put out guidance for 2016 earlier this month at the JP Morgan conference. That deck is up on our IR investor site, which has a bit more detail but just to repeat a few highlights as Steven said, we anticipate net positive growth in HSD RGUs for the year between 50 and 65 thousand.

In that, total RGUs will be essentially flat on the year-over-year basis as a result of the contraction in both Video & Phone RGUs offsetting that Data growth. Total revenue is expected to be between $1.22 billion and $1.24 billion.

And we expected adjusted EBITDA to be between $455 million and $465 million. Total CAPEX for 2016 is estimated to be between $270 and $295 million. That total includes approximately$ 70 to $85 million for growth initiatives for edge-out in the tower back-haul projects, it is funded off the balance sheet out of the proceeds from the primary issuance.

So before those growth investments, we're expecting to see free cash flow positive profile by approximately $40 million, which comparing back to 2014, we've seen an improvement from 2014 in free cash flow of close to a $150 million for the combined two-year period.

So that concludes our prepared remarks, so I'll turn it back over to Melissa, if you open it up for questions.

Operator: At this time, I'd like to remind, everyone, in order to ask a question, 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 David Phipps with Citi. Your line is open.

David Phipps: Hi. Thank you for taking my question.

Can you talk a little bit about how the Crestview investment, the primary issuance will come into the cash flow this year? You talked about how we should look for ramped up CAPEX with a lot of it being on the growth aspect, so I'm trying to figure out how do we balance out what the cash on the balance sheet will be as we go through the year?

Steven Cochran: I think it's just the math of the numbers Rich gave. I mean from a total free cash flow standpoint, we end up at about negative $30 to $40 million inclusive of the CAPEX, you know, the growth related investments of which, essentially we feel we're funding from the balance sheet, that'll be the net use of the cash.

So we would anticipate at the end of the year, that we would still have a nice cash balance and we won't, you know, assuming no M&A transactions of any kind, there would be a net still cash on the balance sheet without a draw on the revolver, but obviously, there's other things that, we look at and continue to do that will impact that, but as we sit here today, without any kind of known transaction that would be -- that would be the anticipation.

David Phipps: So you have enough cash that if you do -- if you were negative $30 million of cash flow, you wouldn't need to pull the Racecar funding down into the WOW! Finance entity. Is that -- so is that kind of what you're thinking?

Steven Cochran: Yes. I mean, I guess technically we wouldn't. Yes. I guess technically based on where we are we wouldn't have to, you know, I don't believe that's not the intention but, yes, we definitely have enough cash on the balance sheet and clearly revolver capacity that we wouldn't have to.

David Phipps: Just one more on this Steven. Would you imagine that whenever the money comes down from Racecar into WOW! Finance, it would be all at one or should we expect it in pieces? Or how are you thinking about that?

Steven Cochran: Honestly, I haven't given a lot of thought, mostly because there is not the need for it at this time, so I haven't given a lot of thought, but it probably has -- will be more specific to when we might do a financing transaction, when we might do an M&A transaction and in concert with something like that.

David Phipps: Yes.

Steven Cochran: So -- but not -- I think it has a whole lot more to do with the other activities that we're pursuing this year and, when those transactions happen.

David Phipps: And then finally, you're going to ramp up your CAPEX to get more homes passed and to increase some of the speeds, so what has been the typical lag of when you hit homes passed and when you start to see the benefits from customer additions?

Steven Cochran: Yes, so I think, right now we're -- you know the current target for the year is about $25 million that we'll spend on edge-out and it probably contributes about $2 million in EBITDA for the current year, but it probably contributes $6.5 million of EBITDA next year, so that's kind of the flow and I think the third year is probably an $8 million contribution, you know, there are a few additional projects we're looking at that may cause that number to bump up a little bit more which would probably only have the slight increase in the current year EBITDA but have a nice increase in the '17 EBITDA.

From a how it ramps standpoint, I mean it -- we were early in the year. I think we have built about 5,000 homes so far. And we have about 21 percent penetration on those homes, average activation is somewhere in the 90-day mark, so, we're seeing really good receptivity to it.

We did a lot of this for three years before the Knology transaction had to slow it down, I think through that process, we learned a lot of what works best and I think what we're seeing now is even better results than we saw in the early days because of the things we learned through the process.

David Phipps: OK. All right. Those are my questions. Thank you.

Steven Cochran: Sure, David.

Operator: Your next question comes from Michael Pace with JP Morgan. Your line is open.

Michael Pace: Hi. Thanks, guys. I'm just wondering if you can give us maybe the top few -- I'm sure there's many reasons why you're seeing I guess the recent success that you're having with unit additions and maybe in that context, can you talk about -- because there's a lot of different moving parts to get to the consolidated numbers, you know, how much the recent edge-outs, so you just said 20 percent to 5,000 homes, so we can do the math there.

But how much the recent edge-outs are impacting the unit additions or other recently upgraded properties like Pinellas and maybe an update there, but I'm kind of trying to get at the core business and ultimately kind of the competitive landscape in those markets, so any help there, just overall …

Steven Cochran: Sure.

Michael Pace: Yes.

Steven Cochran: Sure. So year-to-date, we have positive HSD and positive customer growth in every market, so it's not a market that's driving it. It's all of the markets that are contributing, Michigan and Illinois had been challenges, especially second half of '14, first half of '15.

And, those markets are contributing positively now which is a big help, yes, I think you can do the math on the edge-outs, it's a -- it's a piece, but it's a pretty small piece.

It's probably, you know, less than -- less than 15 percent of the overall growth that's happened year-to-date. Nonetheless, it's a piece of the overall story, but I think a lot more of it has do to with the, a number of steps that were taken last year.

When we went kind of to the heavy prioritization of data last year, I think early on we went -- and I would say the focus on the profitability of all customers, I think we went probably overly aggressive on the rate side early on and especially as it related to the bundle customers.

And we were seeing nice adds of HSD only but we had too many bundles falling on the outside and a not enough new bundled customers coming in and we made tweaks along the way. And, I think one of the things we were very disciplined about was making sure that we didn't go, well, we had a really bad quarter, let's go and just move back to what we were doing back before.

We just made tweaks along the way. Still realizing really nice product ARPU growth, but allowing more focus on some, some marketing on the bundle side, especially a two-product bundle side -- excuse me the two-product bundle side and the save\retention side on the two-product bundle side and did a really good job at that.

And I think that's part of the reason we've also seen really nice improvement in churn throughout year. We made tweaks to the plans along the way to make sure that we are balancing growth and profitability as much as possible.

We also made significant investments in our network, making -- launching 300 meg across the footprint the way we did. We got out of a number of other issues that, getting through a number of digital conversion related issues, all those types of things that had a huge impact.

We recently launched a new pricing program; that our sweet 16 or WOW Choice Plans that have had a nice impact. And another fact that I think is really important but gets lost in the transition sometimes is last year, the first quarter, we were coming off a significant headcount reduction, which for a company like ours that has the culture that it does was really challenging.

And we had a lot of people who, were a bit shell-shocked who, were going through motions and, you know. What accomplished in '15, especially both with hitting the performance numbers as well as Crestview coming in has really turned morale around and everyone feels like they're a winner again.

And it's amazing what you get from the people who's, you know, interacting with the customers on the daily basis, whether it's in a call center or their technicians in the field, when they feel like they're part of a winner, the job is just that much better and I think that's had a huge impact on our first half of the year growth.

And so, there is not one thing, Mike. It's a combination of a lot of things. It's a combination of a lot of hard work last year to put us in position to do what we're doing this year and we're excited about the trends we're seeing and feel really good about it continuing.

Michael Pace: And then you made a comment that the competitive landscape changed during the course of '15 first half versus second half, can you just -- what exactly did change? How aggressive folks were? What types of offers did they move--?

Steven Cochran: Yes. I don't -- I mean, I think I wouldn't -- our positioning changed. It's probably the only place we saw, we saw a difference, clearly Time Warner and Charter have been doing what they've been doing for some time now, we don’t have nearly as much Charter exposure as we do Time Warner exposure, but they've been aggressive, literally for the last two years that Time Warner has been in a deal process.

Comcast, we did see a bit of a slowdown in the aggressiveness of their side, not with the offers themselves, but more on the magnitude of up fronts, how much, there were points where there was $500 gift cards for signing up.

We haven't seen as much of that lately. And so, that clearly helps, but I think there's a lot more going on with what we're doing from a connect side than the competitive dynamic changing dramatically.

Michael Pace: Got you. And then can you just comment just so that none of us are surprised by the trajectory of numbers throughout the year, can you just comment on that trajectory what we should expect for revenue and EBITDA growth throughout the course of '16? Not specific numbers, but -- and then I guess and that same vein in just the timing of CAPEX to the Tower and edge-out projects.

Steven Cochran: Sure. So I think, honestly, you'll see a fairly flat first and second quarter over the fourth quarter. So, our LTM EBITDA won't move up dramatically over the first two quarters. You'll start to see a decent lift in the third quarter and a nice lift again in the fourth quarter. From a CAPEX standpoint, it's not -- it's not -- it always a bit lumpy, I think …

Rich Fish: It's a bit back weighted simply because of some of the timing, Mike, of the deployment of capital for the edge-out projects. It is a little bit lumpy, but it is primarily in the latter half of the year.

Steven Cochran: Yes.

Michael Pace: OK. Great. Thanks so much, guys.

Operator: Your next question comes from the line of Umesh Bandhary with Jefferies. Your line is open.

Umesh Bandhary: Yes. Hi, guys. Thanks for taking my questions. Maybe the first question, just in terms of this revenue trajectory that you talked about in the last -- to the last question, I mean what are some of the reasons that is driving the -- I mean, why that kind of trajectory that the second half being just a little bit up versus the first half?

Steven Cochran: Well, there are a handful of things. One, we do the rate increase in the second half of the year. Two, we have edge-outs which will, if you're spending capital of the first half of the year, you get it. We have our tower -- five percent of the tower build that you're activating towers throughout the year, so you have the ramp in that.

Ad sales, is always big in the fourth quarter, but it going to be especially big in the fourth quarter with political, there's just a lot -- there is a lot of, as part of our pivot from a growth standpoint, I mean there's a lot of investments that you make in, first of the year marketing and other things.

We also take a little bit of a hit in the first quarter -- over the fourth quarter from programming rates going up, you don't have that phenomenon throughout the year, so as you're growing customers, as you're, driving our ARPU's, all those kinds of things, you're not getting that big programming hit, offsetting at any time other than in the first quarter.

Umesh Bandhary: (OK). Got it. And then like, you know, in order to hit those numbers, what kind of assumptions are you making just in terms of the competitive landscape?

I mean, do you feel like, you know -- I mean, if the competitive environment were to worsen, do you think you can still make those numbers in the second half of the year?

Steven Cochran: Yes. I mean I don't know. We've been in this. I've been here for 13 years now and we've been competing with Comcast for that entire period of time.

And I think, what we've seen the last two years is, you know, the -- as aggressive as they've been, I think the assumptions we put in our budget was that the level of aggressiveness is going to continue, so, could they go and do more? I mean I guess they potentially could, but it's been at a pretty elevated level for a couple of years now, so I think we built a budget around that continuing.

Umesh Bandhary: Got it. Got it. And then maybe just some housekeeping items, just the symptoms of the cash coming from Crestview, so the total gross investment was $125, seems like the net investment is about at around $103, so what is the difference there?

(Rich Fish): Sorry.

Steven Cochran: Fees and expenses of the total transaction.

Rich Fish: Yes. Total transaction fees and expenses…

Umesh Bandhary: That $22 -- $23 million of fees and expenses. Is that the right way to…

(Multiple Speakers)

Rich Fish: …yes, roughly $22 million.

Umesh Bandhary: Got it. Got it. And then maybe the final question here is, obviously you know, you have some maturity in ‘17, right? So how do you -- how do you -- how do you kind of sort of think about the balance sheet, you know, that have obviously keeping with what the markets have today in terms of refinancing and I guess potential debt buybacks?

Steven Cochran: Yes. So on the '17 that's probably the key focus that we together with our board are working on now, talking to a variety of groups about the best way to address that and, there is a number of -- there's a number of alternatives to do it and I think we're going to -- hopefully we'll be able to get more information on that in the not too distant future.

From a debt buyback standpoint, I don't think we'll be buying anything back until that piece is resolved. I think we want to make sure that we've got as much liquidity as possible to -- as we deal with that issue, so, we're not going to be out buying the bonds until that piece is taken care.

I'm not saying that we will buy the bonds after that, but we definitely aren’t going to until that issue is taken care of. And so that's kind of the order of priority is taking care of the, the balance sheet related items.

Umesh Bandhary: Got you. So I mean, I guess one of the potential options is there an option for a new equity injection? I mean is that kind of, you know, one of the options that you are potentially considering?

Steven Cochran: I mean I definitely, I think there is the potential for some incremental equity, but I don't think -- not at the level to take care of that. I mean there is not -- I think our debts at $380-ish million, we're not -- we're not looking for equity to resolve that problem that doesn't mean though that there may not be some additional new equity that comes in over the coming months.

Umesh Bandhary: Great. Thank you very much. Those are my questions.

Steven Cochran: Sure.

Operator: Again, if you'd like to ask a question, star one on your telephone keypad. Your next question comes from the line of Aeon Wolfe with LCM. Your line is open.

Aeon Wolfe: Good morning. I had a question related to the transaction with Crestview, so you mentioned the $125 million primary investments in newly issued units. My question was related to the second part of the transaction. Crestview purchased units held by Avista Capital. I was just wondering if you have the price of the secondary transaction.

Rich Fish: Yes. That actually has not been disclosed on the secondary.

Steven Cochran: Yes.

(Aeon Wolfe): OK.

Steven Cochran: I think, ,you know, there's plenty of public reads out there on what it was, but the specific, the specific number hasn't been disclosed.

(Aeon Wolfe): OK. Thank you. That's all of my questions.

Steven Cochran: Sure.

Operator: And there are no further questions in queue at this time. I turn the call back over to Mr. Steven Cochran for any closing comments.

Steven Cochran: Great. Thanks, all, again. I look forward to talking to you again in a couple of months about our first quarter. Thanks.

Rich Fish: Thanks, everyone.

Operator: Ladies and gentlemen, this concludes today's conference call. You may now disconnect.

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