Proceedings of the 3rd International Conference on Business and Policy Studies
DOI: 10.54254/2754-1169/77/20241613

Financial Analysis and Valuation of Charter Communication

Zuyi Wang[1,a,*]

[1]*Department of Economics, The University of Sheffield, Sheffield, S10 2TN, United Kingdom*
a. zwang424@sheffield.ac.uk
**corresponding author*

Abstract: One of the top companies in the telecom sector, Charter Communications, is examined in-depth in this financial research. Through an analysis of the company's financial statements from the 2022 Annual Report, significant ratios, and market trends, this research offers a thorough grasp of Charter Communications' strategic posture and financial health. To determine the operational efficiency of the business, the research starts by carefully examining Charter's revenue sources, cost structure, and profitability KPIs. The research also uses important financial statistics, such as liquidity, solvency, and efficiency indicators to assess the company's total financial performance and stability. Furthermore, the analysis examines how Charter Communications is positioned in the ever-changing telecom sector. The research is informed by examining market trends and competitive dynamics, which offers valuable insights into the company's development potential and ability to withstand industry adversities. In conclusion, the company's financial analysis contains important details on Charter Communications' financial situation and strategic orientation. Even with its low market capitalization, Charter Communications is a viable investment because of the analysis's findings, which show that the company is now effectively managed in the market in terms of its internal management skills, capital operations, and debt serviceability. Making educated decisions will be facilitated for investors, industry watchers, and stakeholders.

Keywords: Charter Communications, Performance Evaluation, Accounting Analysis, Valuation

1. Introduction

1.1. Company Description

Under the Spectrum brand, Charter, a prominent cable operator and provider of internet connection, now provides services to over 32 million consumers throughout 41 U.S. states. While Spectrum Enterprise TM offers specialized fiber solutions for major organizations and government agencies, Spectrum Business® offers the same array of broadband products. Charter also uses Spectrum Networks to provide its subscribers with award-winning sports programming and news articles.

Approximately 55 million homes and companies in the US are connected to the network that Charter owns and runs. The strategic priorities are implementing high-quality operations, including customer service, network growth, and coverage expansion. 126,000 new residential and SMB customer ties, 344,000 new Internet users, and 1,728,000 new mobile lines were added in the year

© 2024 The Authors. This is an open access article distributed under the terms of the Creative Commons Attribution License 4.0 (https://creativecommons.org/licenses/by/4.0/).

DOI: 10.54254/2754-1169/77/20241613

that concluded on December 31, 2022. Sales prospects are diminished by persistently low customer migration rates and provider switching behavior. Thus, in 2022, targeted expenditures were made in the Operations division's staff pay and benefits to increase employee longevity and skills. Additionally, ongoing investments were made in the customer service platform's digitalization and proactive maintenance.

Plans are in place to build the hybrid fiber coaxial network utilizing many technologies over the course of the next three years, with significant completion anticipated by the end of 2025. Furthermore, a platform for delivering streaming media packages will be developed by Xumo, a next-generation streaming service that Comcast Corporation jointly owns. The Company sees strategic expansion opportunities in rural build-out, with an expected investment of over $6 billion over the next few years. Government funding, including over $1.7 billion through December 31, 2022, through Rural Development Opportunity Fund (RDOF) auctions and other federal, state, and municipal grants, is expected to offset a portion of this investment. The business has also invested in equipment, training, and new teams. The firm is investing in its operations team and is implementing targeted changes to career paths, pay and benefits, and job structures to enhance employee longevity and expertise. $1.8 billion was invested in rural building projects in the year that ended December 31, 2022. It made an approximate $981 million investment in June 2022, of which $271 million is due in 2022, and the remaining amount is the non-cancellable mandatory contribution. The remaining needed irreversible payments will be paid over several years.

The company believes that mobility services under the Spectrum brand would eventually boost sales of main products, expand client usage, and enhance cash flow and profitability. Mobile product line revenues increased by $3.0 billion and $2.2 billion for the years ended December 31, 2022 and 2021, respectively. Adjusted EBITDA decreased by approximately $343 million and $311 million, and free cash flow decreased by approximately $250 million and $311 million. There was a decline of almost $1.1 billion and $853 million in free cash flow, respectively. Depending on the growth rate, customer acquisition expenses for sales, marketing, and other mobile services linked to growth might keep mobile Adjusted EBITDA negative.

1.2. Recent Events

Capitalization is based on particular activities. This is accomplished by establishing capitalization criteria for direct labor and overhead based on real expenses and relevant operating data, and then continuously updating internal studies to assess if facts or circumstances have changed and monitoring the suitability of the company's capitalization strategy [1]. Although the capitalization policy is suitable at this point, management's assessment of the future level of capitalization of direct labor or indirect expenses may be impacted by a substantial change in the type or scope of operational practices during the operation [2]. Therefore, cost capitalization might greatly influence the company's future.

Charter holds federal tax net operating loss carryforwards that will expire in 2035 due to the business activities of Charter Communications Holding Company, LLC and its subsidiaries, as well as loss carryforwards obtained as a result of the Merger. Furthermore, Charter has net operating loss carryforwards from state taxes, which typically expire between 2023 and 2042. The federal tax loss carryforwards of the Charter are subject to the restrictions of Section 382 and other laws, and they may be accumulated and utilized to reduce the company's future taxable income. Because of Section 163(j)'s interest limits, the Charter also provides unlimited carryforwards.

In light of continuing investigations, attempted settlements with different taxing authorities, and modifications to tax laws, rules, and interpretations, the Charter regularly modifies its estimate of the reserve for uncertainty taxes. Nevertheless, these adjustments may nevertheless have an effect on future earnings.

DOI: 10.54254/2754-1169/77/20241613

Conversely, the Company offers qualified and non-qualified defined benefit pension plans, intended to offer pension benefits to most workers who worked for TWC before the merger. With the exception of the anticipated long-term rate of return of 5.00%, which was utilized to calculate net periodic pension benefits for the year ending December 31, 2023, the cash flows from these bonds are now sufficient in time and amount to fund the predicted future defined benefit payments. It would be challenging to carry out the long-term plan if the projected long-term rate of return dropped by 25 basis points to 4.75%, all other things being equal. This would reduce net periodic pension benefits by around $6.0 million in 2023.

2. Accounting Analysis

2.1. Revenue Recognition

Accounting Standards Codification (ASC) No. 606, "Revenue from Contracts with Customers," published by the Financial Accounting Standards Board (FASB), states that revenue should be recognized by type and at a specific moment in the process of meeting performance commitments.

The Company's 2022 Annual Statement mentions that it offers interest-free monthly payment plans for its residential services. For equipment payment plans offered through its direct channels, the Company does not charge interest since the financing component is not deemed relevant for commercial reasons. When the client delivers and accepts equipment, revenue from equipment sales is recorded. Company customers are charged monthly fees imposed by different government agencies, which are paid to the relevant authorities regularly. Since the Company serves as an agent in certain situations, some taxes, such as sales taxes imposed on the Company's clients, are recorded on a net basis following collection and payment to state and local authorities.

After the monthly service period, small and medium-sized business clients are often free to terminate services without incurring liquidated damages. Revenue is recognized on a prorated basis during the monthly service term, with each subscription service being treated as a distinct performance obligation. Contractually, non-cancellable periods ranging from one to seven years, with a weighted average length of around three years, apply to the largely subscription-based services. Customers receive recurring monthly billing for business subscription services. On the other hand, if required, the client is invoiced for installation services after they are finished. Deferred installation payments are recognized as revenue during the relevant contract period, as installation and non-installation services are not considered independent performance obligations but essential components of the connecting service. Business commission costs for sales Commissions for corporate costs of sales are deferred and recognized using the portfolio approach over the weighted average contract duration.

Revenue is recognized at the time of placement of the advertising, which is regarded as a distinct performance obligation. The Company pays amounts to distributors as operational expenditures and records income from advertisements on a gross basis. In some agency arrangements, the company records the revenue net of any fees paid to the distributor, even if it does not control the advertising sales and serves as an agent in the transaction.

The revenue accruals mentioned above are correct and reasonable accruals that fully conform to the revenue recognition guidelines outlined in the Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) 606, "Revenue from Contracts with Customers."

2.2. Franchises, Goodwill, and Other Intangible Assets

The financial statements on Form 10-K typically account for royalties, goodwill, and other intangible assets in compliance with the applicable accounting principles. Companies in the US

DOI: 10.54254/2754-1169/77/20241613

usually report using either International Financial Reporting Standards or U.S. Financial Accounting Standards.

According to the legislation, franchises are normally amortized throughout the course of their brief useful lives following formation or acquisition. The practice of distributing a franchise's costs across its anticipated financial gains is known as amortization. A franchise's amortization period is typically established at the time of purchase. Although goodwill is not amortized, it is yearly assessed for impairment. A goodwill impairment may be necessary if the goodwill's value is lower than its carrying value. Depending on the particular kind of intangible asset, there are differences in how they are recorded and amortized.

According to the Company's reports, franchise assets are combined into practically indivisible accounting units for value purposes. The accounting unit for franchises is the geographic grouping of cable systems representing the highest and best usage grouping sold to market participants. To ascertain whether events or circumstances exist that would raise the possibility of impairment of indefinite-lived intangible assets, the company assesses qualitative factors. No additional quantitative testing is carried out if, following this voluntary qualitative evaluation, the Company concludes that there is no more likelihood than not that the indefinite-lived intangible asset is damaged.

The Company considers many aspects that impact the fair value of its franchise assets while performing the qualitative impairment test. In 2022, the Company conducted a qualitative evaluation. Consequently, no quantitative analysis was carried out at the time of appraisal. As of November 30, the impairment test is conducted yearly or more often in response to events or changes in circumstances. The assessment's findings led the company to conclude that goodwill was unaffected.

The business regularly assesses client connections' remaining useful lives to see if any events or conditions have transpired. Customer relationships are assessed for impairment in the event of a change in circumstances; no impairment of customer relationships was noted for the years ending December 31, 2022, 2021, or 2020.

The Company possesses priority access licenses for Citizens Broadband Radio Service ("CBRS") for about $464 million. The Company's consolidated balance statement lists these wireless spectrum licenses under other non-current assets and is regarded as indefinite-lived intangible assets. Payments and deposits are categorized as investment cash outflows on the business's cash flow statement. The Company decided to carry out a qualitative impairment evaluation in 2022 and came to the following conclusion: the CBRS Priority Access licenses were not impaired. Therefore, I don't believe that goodwill, franchises, and other intangibles are being valued higher or lower.

2.3. Operating Costs and Expenses

The majority of programming expenses are the programme creators' compensation for their work. Fees paid to regulatory and franchising agencies, expenses directly associated with service delivery, and fees paid for news material generated by the company are all included in the regulatory, connectivity, and production content costs.

Labor expenditures are included in marketing costs. Other include indirect costs related to the Company's corporate business clients, local sports and news, and advertising and sales expenditures. These expenses are fair because they have been examined for impairment, are equivalent to industry norms, and are subject to internal controls.

DOI: 10.54254/2754-1169/77/20241613

3. Performance Evaluation

To determine the future course of development and offer assurance for investment decisions, this paper will thoroughly examine this company's performance data for 2022 as part of the performance evaluation process, which is a crucial component of organizational growth.

3.1. Liquidity

Table 1: Liquidity ratios of CHTR and its competitors.

Company Code	Current ratio	Quick ratio	Cash ratio
CMCSA	0.78	0.26	0.39
CHTR	0.33	0.24	0.05
ATUS	0.64	0.37	0.08
T	0.59	0.06	0.07

Based on Table 1, it can be inferred that Charter has the lowest current ratio. This could be attributed to the company's efficient asset allocation, which avoids excessive idle funds and allows for more flexible use of funds for business development or other investments. However, it also raises the possibility of difficulties repaying short-term debts and debt service risk. This might result in higher financing charges, a drop in credit score, or even default. However, a low current ratio might also mean that the firm is having trouble running its operations and can't handle unforeseen requests for funds, which could interfere with regular business operations [3].

A healthy quick ratio may help the company's reputation with creditors and investors, but it may also cost it some chances for expansion or investment. Charter's quick ratio, at a medium level, shows that the company has strong short-term solvency and good risk management capabilities.

The company is investing the money in different investment vehicles, like stocks or bonds, according to the lowest cash ratio of the Charter, which helps to spread the risk and boost portfolio diversification. However, it can also result in insufficient financial liquidity when the company needs money quickly, making it harder to pay off short-term loans. Financial instability may result from the company's increased susceptibility to unfavorable occurrences and external economic swings when the cash ratio declines.

The fact that Charter's liquidity ratios are in the center of the sector suggests that the firm is in a reasonably good financial position and has enough cash on hand to cover its short-term obligations. Quick, cash, and medium current ratios suggest that the business aims to expand while managing financial risk. The sector would need substantial capital expenditure and technical innovation, so relatively large current assets might be expected.

3.2. Solvency

Table 2: Solvency ratios of CHTR and its competitors.

Company Code	total debt ratio	Long-Term Debt to Total Capital	times-interest-earned
CMCSA	10.84%	36.17%	2.37
CHTR	91.32%	82.97%	2.63
ATUS	98.50%	86.50%	1.35
T	73.57%	31.88%	0.75

In Table 2, a relatively high total debt ratio of a chart indicates that the company has a tax advantage, which can lower corporate tax payments and increase tax efficiency; debt is also less expensive than equity financing, and when the company's earnings are increasing, the leverage effect can further increase shareholder returns. Conversely, excessive debt levels raise the danger of defaulting on the loan. They might reduce the company's financial flexibility, restricting its ability to make future operational and investment decisions. Additionally, it results in a smaller part of the company's net profit going to shareholders, which dilutes their shareholding.

Due to its high long-term debt to total capital ratio, Charter can get capital cheaper, boosting profitability and providing certain tax benefits. Returns to shareholders can rise with a reasonable amount of debt. Shareholder returns may rise if a business can provide a return on investment higher than the interest rate on borrowed money. Because interest payments must be made even if sales decline, a firm with high ratios is more financially leveraged and may be more susceptible to economic changes.

The Times Interest of Charter Earned is greater than that of other firms, suggesting that the business has enough revenues to cover its interest costs. This suggests to investors that the business has stronger earnings potential but also has the risk of squandering prospective earning chances.

A high total debt ratio and Long-term debt to total capital may suggest a relatively high degree of indebtedness, hence raising financial risk, given the company's higher-than-average solvency ratios. The fact that the business makes enough money to pay for its interest costs may be a good indicator. Building and maintaining infrastructure in the communications sector requires significant capital expenditures. Therefore, the industry may be characterized by relatively high amounts of debt.

3.3. Profitability

Table 3: Profitability ratios of CHTR and its competitors.

Company Code	net profit margin	operating margin	asset turnover
CMCSA	4.42%	7.62%	0.47
CHTR	9.36%	22.14%	0.38
ATUS	2.29%	18.68%	0.29
T	7.23%	3.8%	0.22

Table 3's extremely high net profit shows that the business effectively controls expenses and uses its resources. Since it can better manage operating costs and boost profits from sales, the company has gained a competitive edge in the market. It can provide customers with more enticing goods and services. As a communications company, it is a leader in technology and innovation, which draws in more clients and offers high-value services [4]. Financial expenses have decreased for the firm due to its ability to adopt a more efficient capital structure.

While it's important to note that higher asset turnover companies use higher financial leverage to increase their assets by borrowing money, higher asset turnover also indicates that a company is operating more efficiently and can convert assets into sales revenues more quickly, reducing unnecessary waste, improving overall efficiency, and better meeting customer expectations. Risk to finances might rise as a result.

DOI: 10.54254/2754-1169/77/20241613

3.4. Investment

Table 4: Investment ratios of CHTR and its competitors.

Company Code	ROE	ROA	market-to-book ratio	market capitalization/book value
CMCSA	6.63%	2.09%	2.04	165050
CHTR	40.28%	3.50%	4.87	61162
ATUS	43.83%	0.66%	2.00	1010000
T	8.20%	2.17%	1.05	111750

Table 4 shows that although the firm has the highest market-to-book ratio, ROA, and ROE of any company in the industry, its present market capitalization is very low. Strong financial results and a high market-to-book ratio might indicate that the market underestimates the company's potential. The company's strong profitability and returns are shown by its high ROA and ROE. Still, its low value may be the consequence of the market's failure to recognize its potential for future development properly. The market could be more likely to invest in larger capitalization and more liquid equities than the firm itself, which could explain the low market capitalization. The management of the firm could have made strategic choices that led to a comparatively low market capitalization because they were more concerned with creating long-term value than with the performance of the share price in the short term.

4. Strategic Valuation

Right now, Charter Communications is exhibiting odd yet interesting traits. The firm does well on a number of financial indicators despite its comparatively small market value. Due to its good debt servicing, great profitability, and rapid capital turnover, the firm has a stable financial future [5]. However, future expansion may need help due to the high amount of debt. particularly in light of prospective modifications to industry rules. Since the U.S. communications sector has undergone a period of rapid development, modifications to laws governing user privacy, net neutrality, and competition may significantly affect the company's business operations [6]. When assessing the anticipated future status of the U.S. communications sector, consideration must be given to its regulatory environment.

First, the company’s low market capitalization may reflect the market's undervaluation of Charter Communications' potential for future development. A company's high profitability suggests that it is operating efficiently, and its high capital turnover suggests that it is making excellent use of its assets and getting a strong return on investment. Investors are often interested in this combination and may consider it as a possible investment opportunity, particularly for those looking for long-term value addition. Second, a company's future soundness is based on its solid solvency. A corporation with high solvency can reduce financial risk by being able to pay off its debt. This encourages more investors to be optimistic about the company's prospects going forward and helps to improve investor confidence.

U.S. President Joe Biden signed the Strengthening America's Cybersecurity Act and the Critical Infrastructure Cyber Incident Reporting Act on March 15, 2022, intending to ensure that critical infrastructure entities, like banks, power grids, water supplies, and transportation, can recover quickly in the event of cyber disruptions [7]. The act also clarifies the process and basic requirements for critical infrastructure entities to report cyber incidents, requiring government departments to amend. Charter Communications could have to deal with stricter compliance regulations, affecting its profitability model and operational expenses [8]. Furthermore, close observation of Charter Communication's debt load is required. Despite having excellent solvency, the company's significant debt load may restrict its ability to make future investments and growth plans [9]. The firm will be more successful in preserving investor trust if it can control its debt structure well and reduce financial risks by using prudent financial practices.

All things considered, given its modest market capitalization and high profitability, Charter Communications should closely monitor how industry laws change and adjust its strategy as necessary. Enhancing investor trust in the firm's future growth may be achieved via openly communicating the regulatory compliance measures the company has implemented and actively participating in industry developments. In the meanwhile, the Company's long-term performance in the fiercely competitive communications sector will be based on its ability to manage its debt structure effectively and preserve its financial stability.

Nonetheless, there may be some worries given the company's huge debt load. Even with solid solvency, the corporation may face more financial strain due to its large amount of debt, particularly in a climate where interest rates are rising, or the economy could be more stable. Because of this, the business might have to carefully control its debt load to maintain its flexibility in the face of unforeseen events [10].

5. Conclusion

Charter Communications, Inc. has proven to have strong corporate internal management and cash flow skills by examining its annual statistics for the year 2022. It is anticipated that Charter Communications, Inc. will strengthen its market capitalization position in the future by boosting company innovation, raising market awareness, and optimizing its debt structure. The firm hopes to draw in additional investors and raise the share price by showcasing its continued outstanding profitability and the management team's capabilities. To ensure it keeps its top spot in the future, the business must pay careful attention to elements, including market demand fluctuations, industry competition, and technology breakthroughs.

Despite a lower-than-expected market capitalization, Charter Communications is now in a strong financial position overall, and its strengths in profitability, capital turnover, and debt repayment offer a strong basis for future development. The company has the potential to stand out in the very competitive communications sector and achieve even greater development if it successfully manages its financial issues and keeps advancing its business innovation.

References

[1] *Kreß, A., Eierle, B., & Tsalavoutas, I. (2019). Development costs capitalization and debt financing. Journal of Business Finance & Accounting, 46(5-6), 636-685.*

[2] *Haufler, A., & Runkel, M. (2012). Firms' financial choices and thin capitalization rules under corporate tax competition. European Economic Review, 56(6), 1087-1103.*

[3] *Irman, M., & Purwati, A. A. (2020). Analysis on the influence of current ratio, debt to equity ratio and total asset turnover toward return on assets on the otomotive and component company that has been registered in Indonesia Stock Exchange Within 2011-2017. International Journal of Economics Development Research (IJEDR), 1(1), 36-44.*

[4] *Ewenstein, B., Hancock, B., & Komm, A. (2016). Ahead of the curve: The future of performance management. The McKinsey Quarterly, 1-10.*

[5] *Uma, K. E., Eboh, F. E., & Obidike, P. C. (2013). Debt and debt service: Implications on Nigerian economic development. Asian journal of social sciences & humanities, 2(2), 275-284.*

[6] *Basu, S., & Fernald, J. (2007). Information and communications technology as a general-purpose technology: Evidence from US industry data. German Economic Review, 8(2), 146-173.*

[7] *Nadikattu, R. R. (2020). New Ways of Implementing Cyber Security to Help in Protecting America. Journal of Xidian University, 14(5), 6004-6015.*

DOI: 10.54254/2754-1169/77/20241613

[8] *Harrop, W., & Matteson, A. (2014). Cyber resilience: A review of critical national infrastructure and cyber security protection measures applied in the UK and USA. Journal of business continuity & emergency planning, 7(2), 149-162.*
[9] *Wildau, G., & Weinland, D. (2016). China debt load reaches record high as risk to economy mounts. Financial Times, 23.*
[10] *Lusardi, A., & Tufano, P. (2015). Debt literacy, financial experiences, and overindebtedness. Journal of Pension Economics & Finance, 14(4), 332-368.*