

**Michael Anderson**  
Chief Investment Officer

## STRATEGY SPOTLIGHT: LIBERTY BROADBAND

October 2021

### INTELLIGENT INVESTING

Hi-Line Capital Management, our intrinsic value-based investing is best viewed over the long-term. It incorporates the need for an in-depth analysis, long-term thinking, risk reduction, proper temperament, and independent thought and conclusions. We believe our investments have an employable competitive edge, and our insight papers, *Intrinsic Value Analysis*, provide a summary of some of the various elements crucial to our analysis and investment thesis.

### ABOUT HI-LINE CAPITAL MANAGEMENT

Hi-Line Capital Management, LLC ("HLCM"), based in Watertown, SD, provides investment management and advisory services for institutional and individual clients. The firm was founded in July 2009, became a registered investment advisor (RIA) with the U.S. Securities and Exchange Commission ("SEC") in March 2010.

### **BUSINESS OVERVIEW**

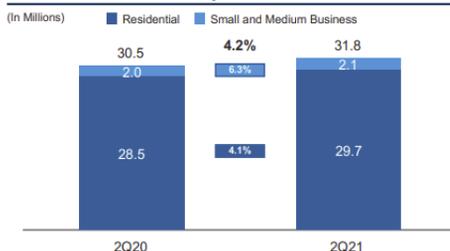
Liberty Broadband is primarily comprised of the 52 million shares of Charter Communications it owns, which represent 26% ownership. Charter is a leading broadband connectivity and cable operator serving more than 31 million customers in 41 states via the Spectrum brand. Charter was assembled by the merging of three smaller cable companies in 2016 with pursuit of achieving adequate scale with one modern network financed with low-cost long-term debt which collectively will generate significant free cashflow. The merger involved acquiring assets from Advance/Newhouse (A/N) and resulted in Liberty Broadband agreeing to maximum equity ownership interest of Charter not to exceed 26% of shares outstanding.

In addition, Liberty Broadband has two owned subsidiaries; GCI Industries and Skyhook Holdings. GCI Industries provides broadband, cable and wireless services in Alaska. Skyhook provides technology for locating wireless phones and mobile devices. The review will focus on the Charter Communications asset which represents more than 90% of total value.

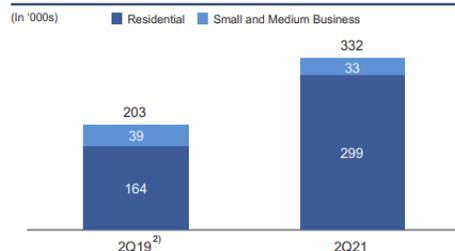
### **COMPETITIVE ADVANTAGES**

Charter has several competitive advantages including its network that passes 53 million households and small business. The network is nearly all digital which offers more high-definition capabilities, faster internet and lower cost of maintaining service. The economics for wired media distribution is exhibited by high fixed costs but very low variable cost. In addition, a low customer churn rate, high returns on revenue (and broadband much higher than cable revenue), significant cashflow and meaningful tax advantages results in favorable economics accruing to the owner. And Charter has performed well. Since 2016, Charter increased broadband subscribers by 30% vs 15% for the industry while only experiencing a 7% reduction in cable subscribers while the industry experienced 17%. Recent results have also been impressive. The following outlines recent growth in customer relationships and net additions from the Q2 2021 earnings presentation. Both exceed the industry pace.

#### Customer Relationships<sup>1)</sup>



#### Customer Net Additions<sup>1)</sup>



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**PRICE VS INTRINSIC VALUE**

The owners of Liberty Broadband current possess a double discount to estimated intrinsic value.

The economics and free cashflow available to Charter have significantly increased in the last 5 years. The increase in subscribers have increased cashflow from operations while the investment in its digital network have resulted in lower capital expenditures requirements. Collectively, this has increase free cashflow available for owner distribution from \$4-5 billion and doubling to \$9-10 billion over the course of 5 years. And owner's earning will continue growing at a satisfactory rate easily exceeding \$10 billion in 2022 and beyond. Based on the market price of \$150 billion for Charter, the estimated intrinsic value is at least 30% greater that its current market price which provides a meaning discount to intrinsic value.

The Liberty Broadband security provides an additional 15% discount based on the market price of Liberty Broadband relative to the underlying market price of its Charter Communications ownership. Furthermore, due to the Liberty Broadband limitation of ownership percentage at 26%, Liberty Broadband must sell shares on a pro-rata bases back to Charter when Charter executes share buybacks. Since 2016, the number of Charter shares outstanding decreased by 25% from 269 million to 199 million. Liberty Broadband had retained 54 million shares during this period resulting its ownership percentage increasing from 20% to 26%. But after shares outstanding fell below 208 million, Liberty Broadband was required to sell shares back nearly 2 million shares to Charter.

Going forward, each quarter, Charter will likely buyback approximately 4.0 million shares requiring total capital of approximately \$3.0 billion, which represents 5% share reduction annually. Liberty will be receiving 26% or approximately \$750 million in proceeds due to selling its shares pro-rata. Then, Liberty Broadband is using the proceeds to buyback its own shares that are priced at a 15% discount to the market price of Charter. Based on Liberty Broadband's market capitalization of \$32 billion, it is buying back nearly 8% of its shares annually even though Charter is only buying back 5% of its shares. Over time, this buyback mechanism will likely reduce the second discount. In addition to the 8% share buyback return, the underlying asset of Charter continues to experience growth in owner's earnings exceeding 5% on a per share basis.

**IN CONCLUSION**

Liberty Broadband was initially acquired in 2018 and the position was increased during Q3 2021 as the buybacks creates more value and the business is priced with a "double discount". Long-term per share return expectations are low double digits.

**As always, we would be happy to discuss our thesis on this information with you in more detail. Please feel free to contact us.**