Q2 2019 Earnings Call

Company Participants

- Brian L. Roberts, Chairman & Chief Executive Officer
- David N. Watson, President & Chief Executive Officer, Comcast Cable
- Jeremy Darroch, Group Chief Executive, Sky
- Michael J. Cavanagh, Senior Executive Vice President & Chief Financial Officer
- Steve Burke, Chief Executive Officer, NBCUniversal & Senior Executive Vice President, Comcast Corporation

Other Participants

- Ben Swinburne, Analyst
- Brett Feldman, Managing Director
- Craig Moffett, Co-founder
- Douglas Mitchelson, Managing Director - Equity Research
- Jason Armstrong, Investor Relations
- Jessica Reif Ehrlich, Managing Director
- John Hodulik, Media and Telecom Analyst
- Marci Ryvicker, Analyst
- Phil Cusick, Managing Director and Senior Analyst
- Vijay Jayant, Senior Managing Director and Head

Presentation

Operator

Good morning, ladies and gentlemen, and welcome to Comcast's Second Quarter 2019 Earnings Conference Call. At this time, all participants are in a listen-only mode. Please note that this conference call is being recorded.

I will now turn the call over to Senior Vice President, Investor Relations and Finance, Mr. Jason Armstrong. Please go ahead, Mr. Armstrong.

Jason Armstrong {BIO 6732609 <GO>}

Thank you, operator and welcome everyone. Joining me on this morning's call are Brian Roberts, Mike Cavanagh, Steve Burke, Dave Watson and Jeremy Darroch. Brian and Mike will make formal remarks. And Steve, Dave and Jeremy will also be available for Q&A. As always let me now refer you to Slide Number 2, which contains our safe harbor disclaimer, and remind you that this conference call may include forward-looking statements subject to certain risks and uncertainties. In addition, in this call, we will refer to certain non-GAAP financial measures, please refer to our 8-K and trending schedules for the reconciliations of non-GAAP financial measures to GAAP.

With that, let me turn the call over to Brian Roberts for his comments. Brian.

Brian L. Roberts {BIO 1415772 <GO>}

Thanks, Jason, and good morning, everyone. I'm really pleased with our strong second quarter results and the continued successful execution of our strategy. All of our businesses demonstrated significant growth contributing to adjusted EBITDA of $8.7 billion in the quarter, an increase of 7.6%. We also delivered $0.78 of adjusted EPS in the quarter, an increase of 13% over the prior year. All in all, we generated $4.2 billion of free cash flow in the second quarter, resulting in a year-to-date total of $8.8 billion. The key driver of this sustained growth continues to be our market position with 55 million valuable customers in many of the world's most attractive markets generating $111 in revenue per customer each month with high margin and strong retention. Across Sky and Cable, we added 456,000 new relationships this quarter and 868,000 in the first half of the year. In all of the geographies in which we compete, we lead with superior products, content, and technology,

In the US, connectivity is the focal point of our customer relationships enabled by our world-class network. Our connectivity businesses again generated nearly 10% growth in revenue and collectively are on track to deliver the 14th consecutive year of well over 1 million broadband net additions. In Europe, Sky's premium brand and exclusive content is the principal differentiation in our relationship with customers, driving net additions of 304,000 in the quarter. Importantly, across the Company we also have leading scale in premium content with a vast library of IP and new productions that are extremely popular across generations and geographies. At NBC, we're on a path to finish Number 1 in the US for the sixth straight year in the key demographic of adults 18 to 49 and at Telemundo, we're Number 1 in Spanish language prime time.

In film, we are executing our strategic slate approach and look forward to the return of the hugely successful Fast and Furious franchise with the spin-off of Hobbs & Shaw later this August. And Sky continues to develop a strong lineup of original content, including their highly acclaimed Chernobyl, which debuted in the second quarter. On the back of this success, we launched Sky Studios to expand our production capabilities and more than double the investment in local original content. The popularity and scale of this premium content and advertisers' need for trusted brand safe environments drove NBC Universal's upfront to record levels this year.

Advertising is a core strength and once again we led the market on both volume and price. The overall portfolio volume was close to $7 billion, an increase of 10% over last year and average price was similarly strong. We helped shift the marketplace to embrace all video unifying all screens, platforms, and content; breaking down the historic barriers between linear and digital, which is particularly important as we prepare to launch our ad supported streaming service next year. To that end, we had record digital video sales, an increase of 50% over the prior year. So when you add the scale and strength of our customer relationships, premium content, and advertising capabilities; we have a uniquely strong position to capture and profit from the growth opportunities in our markets.

For example in the streaming segment, we've already made significant moves to better serve viewers who want to consume content in and out of the home. Sky was ahead of the curve launching NOW TV almost seven years ago. The platform has proven to be incredibly durable and popular evident in Sky's Q2 net additions. At Cable, Flex offers a new approach for our broadband customers to enjoy the most popular streaming apps on our X1 platform, including the voice remote without requiring a traditional linear content subscription. Finally at NBCUniversal, we're making great progress on the direct-to-consumer streaming service that we announced earlier this year. We believe the strength of our assets and leadership across our businesses combined with access to tens of millions of customers will lower both our cost of entry and execution risk as we deliver a truly special offering.

All in all, our strong operating and financial momentum continues. If you take a step back, there's significant competition and change in the ecosystem right now. But that said, for years we felt that video over the Internet is more friend than foe. We believe it plays to our strengths. We've got a great roadmap in each of our businesses and an even better outlook when you add it all together. The fastest broadband married to world class platforms as well as highly rated relevant content and we are the leading company in both of those businesses at scale globally. It's our scale that allows us to evolve and continue to invest all while maintaining momentum and driving substantial growth and this has always been our approach.

In fact if you look over the last 10 years, just to pick one stat showing our consistency during significant other transitions in our business, we've grown adjusted EPS by double digits in 9 of those 10 years and we are pretty close in the 10th year. Our second quarter and first half results continue this trend of robust growth and our outlook is for more of the same.

Over to you, Mike.

Michael J. Cavanagh {BIO 3375974 <GO>}

Thanks, Brian, and good morning, everyone. I'll begin on Slide 4 with our second quarter consolidated results. As a reminder, we completed our acquisition of Sky in the fourth quarter of 2018. Our reported results include Sky from the acquisition date while pro forma results include Sky as if the transaction had occurred on January 1st, 2017. Having said that, on a reported basis revenue increased 24% to $26.9 billion and adjusted EBITDA increased 18% to $8.7 billion. On a pro forma basis, revenue increased 0.8% and adjusted EBITDA increased 7.6%, reflecting growth across all three businesses. As Brian mentioned, adjusted earnings per share grew 13% to $0.78 and free cash flow was $4.2 billion, bringing the first half total to $8.8 billion.

Now let's turn to our segment results, starting with Cable Communications on Slide 5. Cable delivered another very strong consistent quarter of growth driven by healthy customer metrics in our connectivity businesses and continued success in controlling costs, while also making significant strides in the customer experience. We believe that the strength of our network, best-in-class products and customer experience improvements are winning combination that will continue to drive profitable growth. Overall, Cable revenue increased 3.9% to $14.5 billion in the second quarter. Revenue growth in the quarter was led by the steady increase in customer relationships for both residential and business services, as well as higher ARPU. Total customer relationships increased 3.4% year-over-year to $30.9 million driven by 209,000 high speed Internet customer net additions across residential and business services in the quarter and 1.3 million over the last 12 months.

Total video subscribers declined by 224,000 in the quarter as we continue to respond to changing consumer viewing preferences. We will remain disciplined in executing our connectivity-led strategy to drive customer relationship growth and total lifetime value of those relationships. Video will continue to play an important role in our strategy. But as we said before, we will not chase unprofitable video subs. The success of this approach is evident in our results with our monthly adjusted EBITDA per customer relationship growing 3.8% year-over-year, and our continued improvement and for retaining customers including best on record retention for broadband in the second quarter. Consistent with recent trends our connectivity business, residential broadband and business services, continue to drive the growth at Cable.

Our revenue in these businesses collectively reached $6.6 billion in the quarter, up 9.5% year-over-year. In addition to the solid customer additions that, I mentioned earlier, residential high-speed Internet ARPU grew 4% this quarter. Looking ahead, we expect to continue a healthy balance of both customer and rate growth. Our wireless business Xfinity Mobile is another important contributor to our growth at Cable. This still new business is already positively impacting retention while also attracting new customers and it's firmly on a path to positive stand-alone economics. We added 181,000 net customer lines in the second quarter, while we also reduced our quarterly adjusted EBITDA losses at Xfinity Mobile to $88 million, reflecting progress in scaling and fine-tuning our operations. While we expect this overall trend of improvement in Xfinity Mobile financial performance to continue . We anticipate customer related acquisition expenses will increase in the seasonally strong third and fourth quarters. Moving now to Cable expenses and margin on Slide six. Overall, total Cable expenses increased 1.6% as we continue to see the benefit of our disciplined approach to controlling costs, while also increasing the total number of customers that we serve. Non-programming expenses slightly increased by 1.4% but improved by 2% on a per customer basis. Our ongoing efforts to continuously improve the customer experience by reducing unnecessary transactions and digitizing, many of the remaining transactions continue to drive cost out of the business. The company had its best performance on record this quarter across many of our key customer metrics, for instance, customer contract rate and truck rolls hit record lows, as we continue to improve reliability and expand digital and proactive messaging to our base.

On the programming side, we continue to benefit from the relatively low rate of expense growth up only 1.8% this quarter, which reflects the timing of contract renewals. Putting it all together the strong growth in our connectivity businesses, the improvement in our performance of Xfinity Mobile and our ongoing focus on cost management enable us to deliver a healthy 7.4% increase in adjusted EBITDA at Cable. EBITDA margin expanded by 130 basis points to 40.5%. Based on our performance in the first half of the year and our outlook for continued improvement in the second half, we are increasing our prior guidance. We now expect the improvement in EBITDA margin at Cable for the full year to be slightly above 100 basis points compared to our 38.7% margin in 2018. This is an increase from our prior guidance of up to 100 basis points of improvement in 2019.

Finally Cable capital expenditures in the second quarter decreased 9.8% to $1.6 billion, which resulted in CapEx intensity of 11% for the quarter. This primarily reflects lower spending in scalable infrastructure and line extensions, and part due to the timing of planned, construction and other investments we're making in our network. That said, consistent with the broader shift in our business towards connectivity. We expect to continue to invest in our network, which will enhance our competitive position in broadband by enabling us to stay ahead of customers high and increasing expectations evidenced by the rapid growth in data consumption. We now expect Cable CapEx intensity for the full year to improve by at least a 100 basis points compared to 13.8% in 2018. This is an upgrade from our original guidance of 50 basis points improvement in 2019.

This is driven in part by timing of network investment, as well as, the trend in decreasing CPE investment as the total number of video subscribers continues to decline and as the rate of our deployment of X1 has moderated. And while we don't provide specific multi-year guidance and we could potentially adjust our plans if attractive new opportunities emerge, we expect the underlying video CPE trends that are contributing to the improvement in our full year CapEx intensity to continue beyond this year.

In total, we're encouraged by the Cable teams consistently strong performance and a great quarter in first half of the year. The formula is working. We are seeing healthy growth in total customer relationships and adjusted EBITDA with margin expansion, driven by our strong connectivity results and focus on cost control. Coupled with a decrease in Cable CapEx intensity as the mix of our business continues to shift. Together this drove a 22% increase in net cash flow at Cable in the first half of the year.

Now let's move to NBCUniversal results on Slide 7. NBCUniversal, EBITDA increased 8.1% with contributions across all of our businesses clearly demonstrating the power of our premier content portfolio in IP.

Cable Networks revenue increased 2.5% to $2.9 billion and EBITDA increased to 2.2% to $1.2 billion. Distribution revenue increased 3.4% driven by the ongoing benefits of previous renewal agreements, partially offset by subscriber losses in the 1.5% to 2% range. Advertising revenue was consistent with the prior year as lower ratings were offset by higher pricing. Finally content licensing and other increased 5.1% in the quarter. We would note our content licensing comparisons become considerably more challenging in the second half of the year due to the heavy level of programming licensed to third parties last year.

Broadcast revenue increased 0.5% to $2.4 billion and EBITDA increased 28% to $534 million. Excluding the comparison to Telemundo's broadcast of the FIFA World Cup last year, revenue was up mid-single digits and EBITDA was up double digits, driven by growth in retrans and strong advertising. Retrans revenue increased 15% to $500 million. Excluding the World Cup, advertising increased mid-single digits as lower ratings were more than offset by higher price, reflecting a very strong scatter market with double-digit price premiums as well as, some benefit from an additional NHL Stanley Cup game and Copa America soccer in the quarter.

Filmed Entertainment revenue decreased 15% to $1.5 billion while EBITDA increased 33% to $183 million. Revenue reflects a tough comparison to Jurassic World Fallen Kingdom in the second quarter last year, partially offset by the release of The Secret Life of Pets 2 this quarter.

Theatrical revenue declined 53% reflecting this tough comparison. Content licensing revenue increased 9.8% driven by the timing of when content was made available under licensing agreements. Theme Parks revenue increased 7.5% to $1.5 billion and EBITDA increased nearly 4% to $590 million.

These solid results were driven by higher attendance aided by the timing of spring break vacations and higher guest spending. We're excited about the future of our Parks business as we have a great runway in coming years, with Nintendo World opening in Japan in 2020. Universal Beijing opening in 2021, and other significant opportunities to come soon.

Moving on to Sky results on Slide 8 now. As a reminder, I will be referring to our pro forma results as if the Sky transaction had occurred on January 1, 2017, and growth rates on a constant currency basis. Consistent with what's reflected in our earnings release. Sky was a strong contributor to our consolidated results with solid revenue growth significant customer additions and double-digit EBITDA growth in the quarter. Sky added 304,000 customer relationships and in the quarter with $24 million relationships. Customer growth mostly came from streaming subscribers, primarily driven by Game of Thrones and also from the debut of the Sky Original breakout hit Chernobyl, both were exclusive on Sky Atlantic

Importantly, customers are choosing to watch more Sky content, the amount of time Sky's customers spent viewing Sky channels increased by more than 20% year-over-year, driven by our investment in sports and entertainment programming. As Brian mentioned, on the back of this excellent performance we've now launched Sky studios with the intent of doubling investment on local original content. This investment reflects our strategy to shift our mix towards more original content production.

In a difficult macro environment in Europe. Sky revenue increased 2.4% in the quarter to $4.8 billion. Direct-to-consumer revenue grew 1.7% benefiting from customer growth, but partially offset by the decline in average revenue per customer. The change in ARPU includes our previously announced rate increase in the U.K., as well as the record addition of streaming subscribers which contributed incremental revenue to the business, but at a relatively lower amount of revenue per customer. Our investment in programming is driving top line growth. Sky's content revenue increased 28% to $376 million reflecting the wholesaling of sports programming including exclusive sports rights recently acquired in Italy and Germany as well as the monetization of our slate of original programming.

Finally amid the challenging macro environment in Europe including declines in our ad market, advertising revenue at Sky decreased 5.6% to $563 million. EBITDA at Sky increased by 20% in the quarter driven by the combination of revenue growth and operating efficiencies, plus a favorable comparison to prior year, which had contract termination costs and costs related to a settlement, which together more than offset the expected step up in sports rights programming costs. Finally, wrapping up on Slide 9 with free cash flow and capital allocation, we made $954 million in dividend payments in the quarter for a total of $1.8 billion for the first half of the year. We also continue to make good progress in deleveraging. Pro forma net leverage at the end of the second quarter was 3.1 times. Also, we are exploring ways to monetize the embedded floor value in our recently announced Hulu agreements with the Walt Disney Company. Should such a transaction come to pass, we would anticipate using the cash proceeds realized to accelerate our deleveraging efforts by paying down Comcast debt. We remain focused and on track to meet our deleveraging of commitments. In closing, we are very pleased with our results in the quarter and throughout the first half of the year. We continue to execute at a high level consistently generating significant free cash flow, which we believe drive growth in intrinsic value and in turn over time strong total shareholder returns.

So with that, I'll turn it back to Jason to lead our Q&A.

Jason Armstrong {BIO 6732609 <GO>}

Okay. Thanks, Mike. Operator, let's open up the call for questions , please.

Questions And Answers

Operator

Thank you. We will now begin the question-and-answer session. (Operator Instructions) Your first question comes from the line of Ben Swinburne with Morgan Stanley.

Q - Ben Swinburne {BIO 5489854 <GO>}

Hey, good morning, everybody. I have two questions. One around the outlook for broadband growth and the second around the NBC streaming strategy, maybe for Brian or Dave, whoever wants to take it. When you think about continuing to drive broadband net adds at the level we've seen over the last couple of years, can you just talk about the sort of product and service pipeline that you're focused on? Do you think you can deliver continued market share gains in a market that is obviously maturing, particularly if you think about 5G arriving at least someday down the road?

And then on NBC, maybe for Steve or -- and/or Jeremy, I'm just curious. We saw the move of The Office from Netflix to NBC, we've seen shows like Chernobyl do really well. How do you think about the cost of building this streaming business in terms of content, spend or licensing lost relative to the opportunity down the road? Are you convinced that the sort of the upside is worth whatever dilution you expect to come? And I know you're still formulating your plans, but it seems like every media company is doubling their programming spend. So, there's a lot of incremental investment going on. I'd love to hear your updated thoughts there. Thank you.

A - David N. Watson {BIO 20106508 <GO>}

Hey, Ben. This is Dave. So in broadband, everything starts with the steady consistent investment in the network. So, I think we are delivering and will continue to deliver the most efficient and effective way of supporting the high bandwidth applications, whether it's gaming to Internet TV, our network is built for those applications. So, we'll continue to do that in a ubiquitous way throughout our footprint and it really comes down to the three big areas that we will stay focused on. One is speeds, we're going to continue to match capacity and we have a strong track record 17 times, 17 years. We now have a 100% of our network where we have 1 gig available. So, we're going to continue to stay very focused on that.

WiFi in the home is just critical for all the different devices. So, our gateway I think is the best gateway in the marketplace. We have pods that we have brought into the marketplace and we make it easy through the app, being able to optimize it. It's so easy to install the pods and then over time they are automatically and proactively optimized to make sure that the coverage is continuously improved. And last, but not least, is control and this is how do we help devices get attached to the network, how do we manage applications, and increasingly over time, how do we help customers with security. So, all those things kind of add up to xFi. xFi is the brand, which all of these things kind of come together and you look at the performance, as Brian said, this is the 14th year we're looking at. For 2019, we'll add over 1 million net broadband customers and we're balancing share gains with strong revenue. So as we do this. I think we're delivering good value, the ARPU is growing, broadband revenue is growing and it's margin accretive so it's helping the EBITDA growth. So overall, I think we have a solid pipeline for broadband innovation as we start with this category.

A - Brian L. Roberts {BIO 1415772 <GO>}

The only other thing I would add, I think that's a very complete thorough description of the strategy and great execution by Dave and his team, is this latest product that we keep referring to Flex because we want to deepen the relationship with that broadband customer and we'll have more to show and talk about in the months ahead. But in a nutshell, we see this pivot to consuming video -- leads right into your second question, consuming video in other ways and we want to make sure that that relationship has made simple and easy and has value-add by subscribing to our broadband. And I think the team is off to -- got some really great ideas there. But Steve, you want to answer the second question? Then Jeremy can weigh in.

A - Steve Burke {BIO 1983798 <GO>}

So, we're hard at work on our streaming plans. We're planning on announcing more details as we get closer to the launch. Our goal is to launch the service next April. We have over 500 people working on the service at present. We're using the NOW TV platform that has worked so well in Europe as really the platform foundation. We believe we have a very innovative way of coming into the market that is very different than anything else in the market and we believe has very attractive financial aspects versus other ways to get into streaming. The Office was important to us because according to Nielsen, The Office is the Number 1 show on Netflix. It's about 5% of all of Netflix's volume. It's obviously a show that was on NBC and is tied to the DNA of NBC and we see The Office as being one of the tentpole programs on our platform. So, we'll have more to talk about. I think for competitive reasons, we believe we've got some ideas that are innovative and don't really want to share those until we get right close to launch. But we're very pleased to have The Office and very optimistic about our streaming plans at this point.

A - Brian L. Roberts {BIO 1415772 <GO>}

Jeremy, maybe talk about Sky Studios and a little bit the strategy there if you wouldn't mind to the question they made about Chernobyl.

A - Jeremy Darroch {BIO 4666664 <GO>}

Sure, Brian. So couple of things, Ben. Just on the first point. Remember in Europe, typically we're buying content for the market as a whole. So, we can use that content very efficiently even over the DTT service over a streaming service. So, it's one of the reasons. Whilst revenue from our streaming brand NOW TV tends to be lower, our cost base is much, much lower as well. So it's -- we're thinking of it efficiently on an incremental basis and the more we can do that with technology, as Steve described, of course the more that effect can apply across the Company. In terms of Sky Studios, really our focus is on own originated content and European content and I think this is going to be extremely powerful for us because I think there's a big opportunity to develop European stories at a scale that we've never really seen before. It's no surprise to me that both Game of Thrones actually, but also Chernobyl, did particularly well here.

Game of Thrones essentially was shot in Europe, had a lot of European actors. And of course Chernobyl, a difficult subject, is one of the great European stories of the last few decades. So, I think there's a real spot for us to drive into now. Sky Studios will be the vehicle that we'll use to do that and that will complement all of the acquired programming that we are getting from around the world. But will be very, very different as well because it will be essentially European. So, it fits really very well with us and of course we'll displace some of the acquired program -- programming with more of our own originated content as part of our investment thesis.

Q - Ben Swinburne {BIO 5489854 <GO>}

Thanks, everybody.

A - David N. Watson {BIO 20106508 <GO>}

Thank you, Ben. Next question, please.

Operator

Your next question comes from the line of Craig Moffett with MoffettNathanson.

Q - Craig Moffett {BIO 5987555 <GO>}

Yes, hi. Two questions if I could, first -- I know you are hesitant to give long-term guidance, but margins have climbed as high as almost 50% for some of the kind of video light competitors, if you will, in the cable industry. I wonder if you can just -- are there any real differences between those companies and your own other than simply video mix. And then second, Brian, just strategically as you think about NBC and the video strategy at Comcast being sort of to let video customers go if they want to go and the pressure that puts on NBC. Can you just talk about how you think those two strategies can comfortably coexist.

A - David N. Watson {BIO 20106508 <GO>}

Hey, Craig. This is Dave. So let me start with margin, and you're right, we don't give long-term margin guidance, but let me start with our focus, and I think that gets at the fundamentals that will continue to impact margin. The main areas, I think we been very consistent on this. With that we focus on total relationship growth EBITDA per customer relationship and net cash flow per customer relationship. These are nothing is going to change, and in regards to the consistent strategies and that all starts and impacts margin by focusing on the connectivity businesses, both residential and business services, which are both of those are margin accretive. So that's the first part, the second part and as Mike mentioned earlier a ton of focus around improving the customer experience and just taking out the unnecessary noise in the business the unnecessary transactions, a lot of focus around that digital experience and the customer experience.

So these are fundamentals that I think are impacted this quarter but will continue beyond. So, I think there's a lot of runway ahead in terms of improvement as we stay focused on the connectivity businesses. I do think you have in the balance of the year -- the second half of the year, you'll have cycles like our sales activity, mobile sales that picks up. We expect certain new product introductions could impact margin a little bit and or just the tough comp politically with political advertising. So there'll be a couple of things that could go from quarter-to-quarter, but overall the fundamentals. I think are rock solid in terms of our approach towards margin and so don't give really anything beyond this year, but feel very good about the fundamentals.

A - Brian L. Roberts {BIO 1415772 <GO>}

On the other thing, look we, this is why we think Comcast NBCUniversal is such a dynamic company we, there will be changes in one segment and other. We've been pretty consistent. Steve has been pretty vocal that cable nets will see some pressure on subscriber losses. We're benefiting from that in, in -- in then selling a lot of content to streaming services. We're building our own streaming service. Our broadband business benefits from that tremendously and, but that's why we have a Parks business and we have seen great results at the broadcast division this quarter and the cable nets grew so, and that's we're having more global footprint will allow us to create one production and sell it all over the world, if that's what we choose to do so. I think it is pretty much what we've anticipated, we've positioned the company and shifted our strategies accordingly.

And on the margin between one division or another there may be slightly different emphasis, but part of the unique and Steve was just talking about of some of our ideas. So streaming is to really support the ecosystem as we see it and take advantage of this change that we're all living through and make it a positive on the other side and that we've seen, as I said in my opening time and time again, and we've managed with really great leaders to have products that have yielded many years of growth for this company and we see that for the future.

Thanks, Craig. Next question please.

Operator

Your next question comes from the line of Jessica Reif Ehrlich with Bank of America Merrill Lynch.

Q - Jessica Reif Ehrlich {BIO 17655233 <GO>}

Thank you, I have questions for Steve. And also, Jeremy. Steve, can you talk a little bit about, some really strong upfront advertising market, especially in the face of lower ratings like an onslaught are coming on sort of non-advertising supported streaming services. When do you begin to sell your own AVOD direct-to-consumer service and then my kind of through in when you talk about NBCU that there is more opportunities in Theme Parks and maybe give us some color on that and for Jeremy, do you expect to maybe follow up on Ben's question. But do you expect a pullback of programs like we've seen in the US, or we're seeing going to see in the US from Disney and Warner and others, and if yes, how much money do you think that will free up for your focus on doubling originals, and I guess like just as part of that is there a secondary market for programming or will you -- is there a plan to keep it all on your own platform.

A - David N. Watson {BIO 20106508 <GO>}

So, we had a record upfront for the last seven years, we've been selling all of our channels together in the upfront and pretty much for the last seven years, we've been leading the upfront. We're the first company that does business and we sell more television advertising than anyone else in the country. This year was particularly robust our volume was up 10%. I think our average pricing was up close to 10%, maybe 9%. NBC in prime time was up about 13.5% and we saw a variety of things that drove that maybe the most interesting is that now the biggest category of advertising in our upfront is from companies that are digital native companies the Fan companies, Palatine, businesses streaming business -- businesses that basically exist on the Internet and ironically, those are the businesses that are putting some pressure on our ratings, but interestingly those businesses find television advertising, very, very effective and because they're so data oriented they can measure the impact of television advertising. So well over a $1 billion this year came from digital native companies that literally didn't advertise four or five years ago, and that's -- that's happens when an advertising market is in good shape. You need a good economy, and then you need some new advertisers. We were fortunate enough to have both. Our digital ad sales -- our ad sales on our digital platforms, digital products have also surpassed a $1 billion, so you've got a kind of an all-screen approach to the market as opposed to just selling linear television. So the advertising market is very, very healthy and that's part of the reason why we're still very optimistic about the future of broadcast and cable channels.

Q - Jessica Reif Ehrlich {BIO 17655233 <GO>}

Jeremy.

A - Brian L. Roberts {BIO 1415772 <GO>}

Sorry. Just, in terms of your question, I think we're going to be. We remain a really fantastic partner for the companies you mentioned or anybody else who wants to who wants to develop a D2C or a business in Europe. And typically, it seems to me when most people want -- the first question you're going to have to ask themselves is where all the pay TV customers on -- on the whole that with Sky. So, I would hope that with our historic relationship the relationship we have that will continue to be able to work with, with many, many people to help them and us to be successful. However, we've, as you'd expect that we deliver a lot. So we developed lots of options in our business. So our investment in Sky studios isn't really predicated on anybody else. We'll double the amount of original programming we have, we have the capacity to take that further quickly if we so want to we're seeing great results from that. So just this quarter viewing the Sky on regional programs was more than double what it was a year ago, and it is -- there is a secondary market we are monetizing it while we're either selling it in markets to other retailers.

So for example, we've got relationships with all the telcos, the cable businesses in Europe to sell our content to their customers, and our revenues were up something like 30% in terms of content sales quarter-on-quarter, year-on-year . So I think we've got a lot of, a lot of good options available to us and we'll just have to see how commercial negotiations pan out.

Just looping back to Parks, which was part of your question, Jessica. We continue to remain very bullish on the Parks business and obviously we're investing in Beijing. We're investing in our domestic parks. We think there is a lot of opportunity down in Orlando. We've built a lot of hotel rooms we will be talking more about investment in the state of Florida and it's now about a third of NBCUniversal's total operating cash flow and we continue to love the business and think it fits very well with our animated movie business and other things that we're doing.

Q - Jessica Reif Ehrlich {BIO 17655233 <GO>}

Thank you.

A - David N. Watson {BIO 20106508 <GO>}

Thanks, Jessica. next question please.

Operator

Your next question is from the line of Brett Feldman with Goldman Sachs.

Q - Brett Feldman {BIO 3825792 <GO>}

Thanks for taking the question. As your cable business becomes increasingly connectivity driven, it certainly, seems like the margin profile is going to keep improving and, as Mike alluded to the CapEx profile is also likely to continue improving as well. And so what that implies is that -- that business's natural ability to delever is probably going to be greater in the future than it has been in the past and that could maybe get you back to your pre-Sky leverage profile a bit quicker. But, I think that really on a recurring basis and implies that business might just be creating more excess capital over the long-term than we've seen. So it's really a question about capital allocation as you get back to that pre-Sky leverage profile. How do you think about where your capital allocation priorities go particularly how do you balance the opportunity to return to a share repurchase program versus reinvesting some of the growth opportunities, you were talking about over the course of this call. Thanks.

A - Michael J. Cavanagh {BIO 3375974 <GO>}

Thanks, Brett, it's Mike. So I totally agree with the kind of outlook for what the profile of the broadband and connectivity businesses imply for the long term. Great. Cash flow generation profile of that business and so we love owning it and we'll keep investing in it, in the way that Dave described. In terms of priorities on deliver -- delevering is priority number one right now and so we've said to the rating agencies, we get back in line with our rating within 24 months of doing the Sky deal. And so we've made obviously good progress thus far on that, and I would say we're nicely on track to accomplish that.

On the other side of getting back to where we need to, we'll talk about what to do from there, but I would say the fundamental principles of making sure we invest steadily in our existing businesses and maintain a very strong balance sheet while returning ample cash to shareholders through our dividend, which this year will be north of $3 billion -- $3.3 billion or so, 10 years in a row of increasing the dividend. That principle together with likely healthy buybacks as we did prior to Sky in the future is the likely future but we first have to get ourselves back to where we said we would.

Q - Brett Feldman {BIO 3825792 <GO>}

Okay. Thank you.

A - David N. Watson {BIO 20106508 <GO>}

Thank you, Brett. Next question please.

Operator

Your next question is from the line of John Hodulik with UBS.

Q - John Hodulik {BIO 1540944 <GO>}

Okay, great. Maybe for Brian, could you give us an update on your -- your view on the M&A landscape. It seems like whenever there is a telecom or media asset up for sale on a global basis that Comcast name is at the top of the list. And then as a follow-up to that you know, a lot of changes obviously going on in the potentially changes going on in the US wireless industry given the increased focus on connectivity in the Cable business do you see the need to eventually own assets in the wireless market here in the US. Thanks.

A - Brian L. Roberts {BIO 1415772 <GO>}

Thanks. We're pretty focused on what we have right in front of us and very excited by it what drove our appetite for Sky was began with Sky being in play and being put in the market and then forces you to make a decision. So there is not anything at this point that I see that the company doesn't have that we're not pleased with on a big scale basis.

And second what Mike just referred to about our priority to return the balance sheet to its historic levels as quickly as possible is our number 1, 2 and 3 focus. And so we're trying to execute well, which I think this quarter, the first half of the year did. I think to your wireless question we're really pleased with the wireless Xfinity Mobile. The first several years, we've been in business team around a 1.5 million customers. I believe and you know, really but we're offering a great suite of products with value to our best broadband customers, it's got a strategic focus for how we're operating the company and now it's beginning to have real volume and scale and getting us closer to that point where economically it's not a drag and it's a contributor. So, I don't know why we would change direction and things could always change, but we're pretty satisfied that we have a great product and it fits with the suite of products we offer customers.

Q - John Hodulik {BIO 1540944 <GO>}

Okay. Thanks.

A - David N. Watson {BIO 20106508 <GO>}

Okay. Thanks, John. Next question please.

Operator

Your next question is from the line of Philip Cusick with JPMorgan.

Q - Phil Cusick {BIO 5507514 <GO>}

Hey, guys. I guess two follow-ups. Dave, following up on your comments earlier on broadband. I'm curious what you see out in broadband competition. And as Mike pointed out through the quarter. Broadband had a tough year-over-year comp in 2Q, but was similar to better than the few years prior to that, any reason to think that second half broadband momentum wouldn't be consistent with those last few years.

And then second, in wireless, if I can just follow-up on a comment, I think, Mike, you made about getting on that path to stand-alone economics. How do you think about the scale needed there and also the benefit you've seen so far in cable churn from those customers. Thank you.

A - David N. Watson {BIO 20106508 <GO>}

So, this is Dave. So, on broadband momentum and it's we don't give longer term specific guidance, but and most certainly, our approach is to continue to focus on the connectivity side of things, both residential and commercial. So we're -- I think we're doing both, we're adding -- we're gaining share. We are, we have a good balance in terms of financial performance revenue and it really does start with broadband. So our approach, very much starts with the standalone broadband, packaging broadband with X1 with other products and we'll continue to do that. We have record churn in broadband, we continue to do, I think a good job delivering good value. So everything I said earlier, around the product pipeline is going to continue to help us in the back half of the year.

So like our momentum this is Q3 is always around back-to-school and other opportunities in broadband, but I -- we're looking at, as we said another year, we're going to have over a $1 million broadband net adds and there's just really solid momentum that we have there.

A - Michael J. Cavanagh {BIO 3375974 <GO>}

Yeah, it's Mike. I'll just add in on broadband exactly right we see another very strong year second half will. In fact, the first half, second quarter had a tough comp to last year's best ever. But when you put the first half together, it's basically in line with the last couple of years we've had or thereabouts and so feel very good about the remainder of your outlook in broadband adds.

On the wireless question we're quite pleased with the beginning to see churn reduction benefit caused by -- in the mobile space overlapping with what Dave just described in broadband. So, quite pleased with what's going on there. In fact, in terms of the 1.8 million lines now about 180 adds in this recent quarter, but you look on a quarterly basis. In our footprint, we're taking a very meaningful portion of the opportunity in terms of net adds available to the entire wireless market. So we like the scale we're at. In terms of economics the loss of $88 million or so million bucks in this quarter is substantially improved from last year. We need to get into the mid-to-high single-digits penetration of our broadband base to achieve the neutrality on the economics.

We're on track to do that. It will take a little bit of time, but most importantly, we just like the momentum we have in the business as it exists for the reasons Brian and Dave both pointed out.

Q - Phil Cusick {BIO 5507514 <GO>}

Thanks guys.

A - David N. Watson {BIO 20106508 <GO>}

Okay, thanks Philip. Next question please.

Operator

Your next question comes from the line of Doug Mitchelson with Credit Suisse.

Q - Douglas Mitchelson {BIO 1897051 <GO>}

Hi, thanks so much. Two questions, first for Steve understanding, you do not want to provide too many details on the OTT service. I do want to explore the concept of originals versus library programming with you as a driver for the service. The office obviously stands out but Netflix believes that these new originals that drives new subscriber activation's will library content is more of the glue that keeps customer satisfied in the value of the service. Do you embrace that view that exclusive originals are a key driver for OTT services like the one you're launching?

A - Michael J. Cavanagh {BIO 3375974 <GO>}

Well, first of all, our service is very different than Netflix. I do think when Netflix started it was all acquired programming. And I believe today acquired programming is something like 80% of Netflix's volume. The vast majority of our volume, I expect to be acquired, we are spending some money on originals, and we've announced that we're doing another year of A.P. Bio and we have another. We have a number of originals that are actually tied to libraries that we currently own. But I would expect the vast majority of the -- of the consumption in the beginning, would be acquired.

Q - Douglas Mitchelson {BIO 1897051 <GO>}

Okay, I appreciate that. And Dave, when you look at AT&T's difficult program negotiations where they're attempting to bend the cost curve as they say and lower the pace of programming cost growth. Does it change your expectations at Comcast Cable for cost growth and if you might not want to share it would be helpful. When you look forward the next few years to know whether your programming renewals are lumpy or spread out more evenly on an annual basis. Thanks.

A - David N. Watson {BIO 20106508 <GO>}

Well, Doug, we haven't -- we don't give longer-term guidance, as you know in programming. We have to certainly say that we are -- this -- that last year this year in a cycle where there is less activity -- deal activity. So, leading to lower programming increases. So, but having said that, I do think we are very different in a couple of different ways. One is that we have X1, X1, I think gives a strategic flexibility as we approach this new environment, in that we combine the best of live On Demand DVR applications and so as we approach relationships important relationships with us.

We're just giving consumers unprecedented options for them to simply get to what they want. So we are -- we will approach it. We very aggressively look at data every single deal that we will look at engagement. But we will offer up X1 and X1 will continue to be really important platform for us in the future.

Q - Douglas Mitchelson {BIO 1897051 <GO>}

All right, thank you.

A - David N. Watson {BIO 20106508 <GO>}

Thank you, Doug. Next question please.

Operator

Your next question comes from the line of Vijay Jayant with Evercore ISI.

Q - Vijay Jayant {BIO 1526830 <GO>}

Thanks. It's probably for Jeremy obviously in the U.K., and in Germany, you are a reseller of the incumbent phone companies broadband network. There's probably some opportunities to get partnerships with companies that have fastest speeds and be partners with new build out opportunities for broadband given Comcast DNA on connectivity. Can you just talk about, is there a real opportunity to drive subscribers broadly, given the potential of faster broadband speeds in your footprint.

A - Jeremy Darroch {BIO 4666664 <GO>}

Yeah, well, I think from a customer point of view that's only -- and actually our business is already trading up to fastest speeds, about half of our customers in the U.K., for example now are already taking Sky fiber. So, I think on the back of the trend. There is nothing so dramatic happening in Europe a consistent trend we can grow and we get good access to high-speed broadband in the markets in which we compete. Our launch in Italy, which will be probably the start of next year, later this year, so next year, it's actually a good example of our partnering with Open Fiber is going to be particularly helpful contract with them. That gives us flexibility to just start with fiber to the premises from the get-go. So, I think our position today is a good one. You can see that of course in the success that we've delivered in the U.K., where we become a very strong number two in the residential market we'll build a similar position in Italy. It will be big new business for us to build and then we will be open to, can we work more closely with network providers in all those markets and if we can, we will, but I don't think it's going to constrain us. And I don't think it's a prerequisite for us to continuing to grow.

Q - Vijay Jayant {BIO 1526830 <GO>}

All right. Thanks, so much.

A - David N. Watson {BIO 20106508 <GO>}

Okay. Thank you, Vijay. Operator, we'll take one last question.

Operator

Your last question comes from the line of Marci Ryvicker with Wolfe Research.

Q - Marci Ryvicker {BIO 6183203 <GO>}

Thanks. I think we all understand the connectivity message. But I think we're still trying to get a little bit of clarity on the video strategy. So two questions related to this. Number one, are you still investing in the video product. And I think from all of the comments on the call so far the answer would be yes, but just want you to confirm that. And then sort of following up to Doug's question if you're in a sense, deemphasizing video, have you become indifferent to affiliate fee increases as you renew these carriage contracts because I'll just pass the increases on to customers, and if they leave -- they leave or are you still going to fight the fight to keep programming costs down. Thanks.

A - David N. Watson {BIO 20106508 <GO>}

Hey, Marci, Dave. So, I think you had to break that down in two ways. One, there is a marketing focus and there is a product focus. From a marketing perspective our focus is. We've talked about connectivity, but we also video is an important packaging element to the segments that are profitable that want the best video platform there is in X1. So we will continue to emphasize our approach towards segmentation in leveraging X1 with broadband. So you got the best in class combination of the two. So we're not going to chase low end, if you look at the last quarter. But a lot of that are actually are video churn was relatively stable to last year's second quarter. It's just less emphasis on going after lower end, but overall X1. We will continue to market into those segments. From a product perspective, we will invest and our investing in X1 we're adding applications. We've talked about who will be up next. There are others that we're talking, we're excited about next year with NBC, there is a lot more in terms of what customers want and as Brian mentioned, we are excited about and more to come on Flex, Flex is another is an extension of X1 that gives an opportunity to go after the streamer segment with a solution that kind of integrates in a elegant way the applications, the data, so you can use your voice. You can get to the content that you want for those apps. So more to come on that but we will continue to invest, where it makes sense on video.

A - Michael J. Cavanagh {BIO 3375974 <GO>}

Okay. Well, I just would add that, I think it was a good first half of the year and I think we had a pretty robust discussion this morning, so I don't have anything to add it was a good answer. Dave? Thank you.

A - David N. Watson {BIO 20106508 <GO>}

Will end the call there. Thank you everyone for joining us this morning.

Operator

We have no further questions at this time there will be a replay available of today's call starting at 12:00 p.m Eastern standard time. It will run through Thursday, August 1st at midnight Eastern standard time. The dial-in number is (855) 859-2056 and the conference ID number is 1195998 a recording of the conference call will also be available on the company's website, beginning at 12:30 p.m Eastern standard time today. This does conclude today's teleconference. Thank you for participating. You may all disconnect.