

Company Name: Comcast
Company Ticker: CMCSA US
Date: 2017-10-26
Event Description: Q3 2017 Earnings Call

Market Cap: 172,603.70
Current PX: 36.62
YTD Change(\$): +2.095
YTD Change(%): +6.068

Bloomberg Estimates - EPS
Current Quarter: 0.495
Current Year: 2.044
Bloomberg Estimates - Sales
Current Quarter: 21992.783
Current Year: 84664.857

Q3 2017 Earnings Call

Company Participants

- Jason S. Armstrong
- Brian L. Roberts
- Michael J. Cavanagh
- David N. Watson

Other Participants

- Craig Eder Moffett
- Benjamin Daniel Swinburne
- Jessica Jean Reif Cohen
- Marci L. Ryvicker
- John C. Hodulik
- Philip A. Cusick
- Jason Boisvert Bazinet
- Jonathan Chaplin
- Vijay Jayant

MANAGEMENT DISCUSSION SECTION

Jason S. Armstrong

GAAP and Non-GAAP Financial Measures

In addition, in this call, we will refer to certain non-GAAP financial measures

Please refer to our 8-K for the reconciliation of non-GAAP financial measures to GAAP

Brian L. Roberts

Q3 Highlights

Revenue and EBITDA Growth

- I'm really proud of the company and our results this quarter, EBITDA increased by 5% and as you'll hear both parts of the company continue to perform really well and distinguish themselves with operational execution and focus
- Our third quarter results at Cable Communications once again underscored the impressive consistency in this business with 5% revenue and 5% EBITDA growth
- Excluding the estimated impacts from storms this quarter, we added 150,000 new customer relationships and would have had 6% EBITDA growth

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Data Connectivity Business

- We are on a path for continued balanced, profitable growth led by some of our highest margin segments as well as our ability to drive further operational improvements on the back of the investments we've made in the customer experience
- We see lots of opportunity in our data connectivity businesses
- Residential broadband and business services which combined generate over \$20B in revenue per year growing right at around 10% and are accretive to our margins

WiFi Offering

- And these areas are increasingly where we are directing our capital in the form of hyperbuilds to serve businesses pushing fiber further into our residential network and enhancing the speed, control and coverage aspects of our WiFi offering through our new wireless gateways xFi app and new xFi pod network extenders
- In broadband we expect a strong end of the year and are on track to add over 1mm net new customers for the 12th year in a row

Newest Connectivity Business

- Our newest connectivity business, XFINITY Mobile really highlights the value of our broadband service by bundling access to the best high-speed Internet data with a unique wireless offering
- We are pleased with the early results surpassing 250,000 customer lines in a short period of time since our launch in May, and we are poised to scale the product from here

Video New Entrants

- In video new entrants, changing consumer habits and aggressive video activity from incumbents continue to result in a competitive landscape
- We are well equipped to compete
- A cheat channel package, bundled with our best in class broadband and other services is still the optimal choice for the majority of our customers
- At the same time, we continue to explore innovative and economical ways to reach additional segments that we can serve profitably through products like our new Instant TV service
 - We believe this approach focusing on profitable whole-home economics is the right one and differentiates us from others and sets us up well for the future

Broadband and Video Business

- So as the market for video shifts, I would make two observations
- First, our broadband business is increasingly the epicenter of our relationship with customers and ultimately where we derive the majority of our profitability
- Second, we are committed to the video business, we saw this evolution coming and think we have invested in the pieces that will ultimately define long-term profitable success, including X1, the best platform on the market with amazing features that really resonate with customers like our Emmy winning Voice Remote, the broadest

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aggregation of great content with the best in live linear and on-demand augmented now by the inclusion of Netflix and YouTube and others onto our platform

- And if you haven't tried it lately you've got to because it gets better every month
- In indication we offer an attractive and profitable relationship through packaging video with broadband

Ongoing Efforts

- And finally, our ongoing effort to improve the customer experience accelerated this year and will continue to be an important driver in the future
- We are now seeing results from the investments we have made in data analytics and other technology to better anticipate and diagnose service issues and to give our customers more control with digital tools like the My Account App

Customer Calls

- In Q3, we reduced customer calls handled by our agents by 4mm
- We also increased the percentage of customer interactions completed digitally by double digits
- So better service is not just critical for our customers, but is helping our financial performance and we believe there is a long runway for further progress
- Mike will talk about this in more detail later

NBCUniversal

- Turning to NBCUniversal, the exciting momentum continued in Q3 with EBITDA increasing by nearly 20% when you exclude the Olympics last year
- In our TV businesses, our strategy is centered on must-see content which is more crucial now than ever and in an evolving media ecosystem great content is the foundation of everything from traditional TV bundles and new virtual MPVD services to second-run monetization opportunities that can provide a boost to current-season shows and extend the life of the best libraries
- We monetize our content in a variety of ways from advertising, distribution to legacy and new virtual MPVDs and through licensing it to multiple outlets
- In fact, in many instances we have more end users of our content than we've ever had, the result is that while there may be a shift in where contributions are coming from, we've sustained terrific momentum
- NBC finished the season ranked number one in primetime for the fourth consecutive year, winning by the widest margin of any network in six years
- The network is in the lead for the new fall season as well driven by new shows like Will & Grace, and continued success including This Is Us and The Voice

Cable Networks

- At Cable Networks, we had the number one new cable series of the season with The Sinner on USA and rounding up the must-have lineup we will have three of the biggest events in television airing across our networks in 2018, just like we did in Rio, we will put the full support of Comcast NBCUniversal behind the PyeongChang Winter Olympics in February and we couldn't be more excited

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- We're thrilled to have the Super Bowl on NBC and the World Cup on Telemundo in 2018

Theme Parks

- At the Theme Parks, we had another excellent quarter with EBITDA increasing nearly 10%
- This performance included strong results from Universal Studios Japan where the recently opened Minion Park attraction drove continued growth, a perfect example of leveraging our IP across businesses
- Japan is having a record year highlighting what a terrific deal it has been for us since our initial investment in the park two years ago

EBITDA Growth

- Filmed Entertainment again delivered strong EBITDA growth driven by the third installment of Despicable Me, which helped Chris Meledandri's franchise become the highest grossing animated franchise of all time worldwide
- As well as ongoing contributions from our robust slate in H1
- Universal is on track to challenge and perhaps exceed 2015 as the most profitable year in its 100-plus year history, highlighting our successful strategy and great management team
- Overall, I'm really pleased with the results this quarter
 - We have the right formula in place for continued growth through product leadership and financial discipline

Michael J. Cavanagh

Q3 Highlights

Revenue

- I'll begin by reviewing our consolidated results on slide 4
- So, despite the impact of the hurricanes results in Q3 were strong
- Revenue of \$21B declined 1.6% as reported and increased 5.8% excluding the Rio Olympics in last year's third quarter
- YTD, revenue increased 8.2% excluding the Rio Olympics

Adjusted EBITDA, FCF and EPS

- Adjusted EBITDA of \$7.2B grew 5% vs. last year's third quarter and on a YTD basis, EBITDA grew 8.4%
- FCF was \$2.3B in the quarter and \$7.6B on a YTD basis
- And finally, adjusted EPS increased 13% to \$0.52 per share

Cable Communications

- So now let's go deeper into the businesses starting with Cable Communications on slide 5

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- Cable Communications revenue increased 5.1% to \$13.2B, and EBITDA increased 5.2% to \$5.2B, resulting in a margin of 39.7%, flat to last year's third quarter
- Customer relationships increased by 115,000 to more than 29mm, a 2.8% increase vs. a year ago, and total revenue per customer relationship grew by 2.1%

Revenue Growth

- The healthy revenue growth and consistent strong EBITDA growth of this quarter and the YTD highlight the importance and strength of our growing high-margin business services and high-speed Internet businesses, and the ongoing benefit of our investment in customer experience
- Further, the Cable Communications business is focused on profitable growth by striking the right balance between improvements in our financial results, and our customer metrics were clearly reflected in the quarter's results

Customer Metrics

- I'll spend a moment on how hurricanes Harvey and Irma impacted the cable business
- First, our customer metrics were impacted as a result of the loss or severe damage to many homes we serve in these markets as well as a slowdown in new business activity during the storms
- Excluding hurricane impacts, we estimate that we would have added approximately 150,000 customer relationships relative to the 115,000 reported, and we would have lost approximately 105,000 video customers relative to the 125,000 reported and added approximately 240,000 high-speed Internet customers vs. the 214,000 reported
- Our third quarter results capture the storm impacts on our customer metrics, and we do not expect any further impact

EBITDA

- Second, the hurricanes reduced EBITDA by approximately \$35mm, and adjusting for that, our EBITDA growth rate would have been a strong 6% increase vs. the year ago quarter

Houston and Florida

- The impact primarily reflects customer credits and waived fees as well as additional labor associated with plant repairs and higher call volumes
- Our teams in Houston and Florida have done an incredible job fixing hurricane damage, and they continue to work diligently to ensure our network and operations are running smoothly
 - There's still a lot of work to be done, and we anticipate seeing a similar financial impact during Q4, after which we expect our operations to be fully back to normal

Residential Business Results

- So that's it on storms
- Now, let's go into our residential business results in Cable

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- High-speed Internet continues to be the largest contributor to overall Cable growth
- Revenue increased 8.9% to \$3.7B in the quarter, driven by an increase in our residential customer base and rate adjustments

HSD Customer Growth

- We added 182,000 residential high-speed Internet customers in the quarter and added 1.1mm over the past 12 months, with our current broadband penetration of homes and businesses passed at 45%
- We believe we have a long runway for continued HSD customer growth for several reasons
 - First, the broadband market is expanding as more Americans adopt high-speed data
 - Second, our homes passed have been growing at a healthy rate
 - And third, we are driving market share gains on the back of ongoing investment and innovation in our best-in-class broadband product

DOCSIS 3.1

- Customers are getting more value from their subscriptions with us and are using our product more and benefiting from increasing speed of our network
- Specifically, median monthly data usage increased by 41% y-over-y and 55% of our residential customers now take speeds of 100 megabits per second or higher compared to 36% a year ago
- Our plan is to continue to invest to enhance our competitive differentiation by improving speed, coverage and capabilities
- For speed, today, we're rolling out DOCSIS 3.1, which efficiently enables us to offer gigabit speeds
 - We expect to have this available to the majority of our homes by year-end

New xFi Pod Network

- And in terms of broadband coverage and capabilities, we've begun deploying our xFi advanced wireless gateways, the most powerful home gateway available on the market, capable of delivering gigabit WiFi speeds, empowering the most advanced connected homes
- In addition, with our new xFi pod network extenders as well as the control features of our xFi app, we are further strengthening our WiFi experience and with it, our leading position in the broadband market

Video

- Switching to video, revenue increased 4.2% to \$5.8B in the quarter, primarily due to rate adjustments as well as customers subscribing to additional services, revenue associated with a Pay-Per-View boxing event, which added about 100BPS of revenue growth, partially offset by the net loss of video subscribers discussed earlier
- As we have noted for many quarters now, there has been a continuous introduction of new entrants in the over-the-top video space
- We've, obviously, known about and been expecting the impact of these competitors, understanding that customers will experiment with new services, especially in the early days when marketing and promotional activities by the new entrants are particularly intense

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New OTT Players

- The competitive effect of the OTT competition appears broad-based across our footprint and has moderately accelerated as some additional new OTT players have recently launched
- We continue to believe that our best-in-class video product, particularly when bundled with our broadband product represents a great value to our customers
- Separately, but not unrelated to OTT competition, is the behavior of traditional competitors, with some responding more aggressively than others
- In Q3, we experienced noticeable differences in our net customer metrics across the footprints of different competitors

Market Share

- We are carefully monitoring the effects of traditional competition, and we'll adjust our own approach to the marketplace to address any sustained pressure through the lens of balancing profitable growth with market share as described earlier
- We believe our quality across every aspect of the video bundle gives us a competitive advantage
 - We have the most innovative video platform on the market with X1, which is now in 57% of our residential video customers' homes compared to about 45% a year ago

Strategy

- We continue to innovate and improve X1, continuously adding more content, integrating apps like Netflix and YouTube, making it easy to search all this content with our Voice Remote and offering a compelling TV Everywhere experience with our XFINITY Stream app
- Finally, on the residential side, I want to emphasize our strategy of delivering great value through a bundled approach
 - That begins with our broadband product, coupled most commonly with video but we haven't stopped there

Leveraging

- We are investing in other services that bring value to our customers by leveraging our place in the home and the importance of our connectivity services
- We have a continuous effort to innovate and develop services that add value to our customers and deepen our relationship with them
- We have good experience with this, having introduced Voice into 20% of our base in a relatively short period of time, and we see the next opportunity to expand our bundled customer offerings with XFINITY Home and XFINITY Mobile

Wireless Service

- We now have over one million XFINITY Home customers, almost double where we were two years ago with 90% subscribing a three or four product bundles

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- More recently, we launched our wireless service, XFINITY Mobile, which is available exclusively to customers who bundle it with our high-speed Internet product
- As Brian pointed out, we are off to a great start, exceeding 250,000 customer lines in only a few months since our launch
- Introducing these new products adds value to our customers as part of a multi-product bundle, deepens our relationship, thus improving retention and ultimately, benefiting lifetime customer economics for us

Business Services

- Moving on to business services, which continues to be a top driver of our overall Cable results
- We delivered another strong quarter of double-digit growth with revenue increasing 12.6% to \$1.6B during the quarter, primarily driven by customer growth
 - We added 31,000 business customer relationships and grew revenue per business customer relationship by 5%

Core Connectivity Business

- The significant majority of business services revenue is centered on connectivity, and we have even more runway to increase share in our data product as we move to gigabit speeds throughout our footprint with the deployment of DOCSIS 3.1 and as we continue to push fiber deeper in our network
- We continue to augment growth through business applications and services right on top of our core connectivity business
- These include our voice, video surveillance and advanced WiFi products, and additionally, as we grow into the mid-sized business and enterprise segments, our recently launched SD-WAN product and our managed enterprise solutions business will help unlock new opportunities to serve branch offices of larger multi-site businesses

Programming Expenses

- Turning to slide six
- Programming expenses increased 12.4% during the quarter, including the additional costs associated with the Pay-Per-View boxing event
- YTD programming expenses increased 12%, reflecting the timing of several contracts that renewed at the end of last year
- Non-programming expenses increased 0.6% this quarter and increased 1.1% for the YTD.
 - This reflects the benefits of investments made in customer experience initiatives as well as disciplined cost management overall
- Notably, customer service expense is essentially flat this quarter and down about 1% YTD even as customer relationships grew by nearly 3%

Investments

- One example is the reduction in customer calls over the last year with general calls to agents down by 16mm or nearly 10% and calls from new customers during their first 90 days down by double-digit percentage

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- The investments in the customer experience are clearly working, and we believe we have the foundation in place to drive further improvement from here

Cable Communications

- Lastly, on our Cable Communications, third quarter EBITDA margin of 39.7% was flat compared to Q3 2016
- Our YTD EBITDA margin of 40.2% is up 10BPS compared to the same period in 2016 even with the higher rate of programming expense growth and the impact of the two hurricanes
- And finally, we continue to expect the full year 2017 EBITDA margin to be flat compared to the 2016 margin of 40.2% despite the impact of the hurricanes

NBCUniversal's Results

- Now let's move on to NBCUniversal's results
- On slide seven, NBCUniversal's revenues decreased 12.7%, and EBITDA increased 6% in the quarter
- Excluding the Olympics, revenue increased 6% and EBITDA was up nearly 20%
- Cable Networks revenue declined 11.5% and increased 3.7% excluding the Olympics, driven by higher distribution and content licensing and other revenue

Distribution Revenue

- Distribution revenue continued to drive our results, increasing 4% this quarter to \$1.5B
- But for the timing effects of certain sports-related fees and the impact of channel closures, distribution revenue growth would have been consistent with the high-single digit growth we reported in H1, which was due to the major renewals at the beginning of the year

Advertising Revenue

- Content licensing and other revenue of \$283mm increased 24%, reflecting the episodic nature of when deals are completed and content delivered under licensing agreements
- Advertising revenue of \$787mm declined 2.6%, reflecting higher rates that were more than offset by ratings declines
- And finally, in Cable Net, EBITDA increased 1.5% to \$905mm, reflecting the comparison with the Olympics last year

Broadcast Television

- Broadcast Television revenue declined 30.9% but increased 12.3% excluding the Olympics
- Retransmission consent fees increased more than 70% to nearly \$360mm
- Content licensing revenue of \$440mm increased over 20%
- In addition, excluding the Olympics, advertising revenue of \$1.2B was relatively flat, the result of strong pricing offsetting ratings declines, consistent with recent trends
- And finally, EBITDA decreased 15% to \$321mm, again, reflecting the comparison with the Olympics last year

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EBITDA

- Filmed revenue was relatively flat, but EBITDA increased 11.9% to \$394mm, reflecting the successful performance of Despicable Me 3, the carryover benefits of a very successful film slate in H1 2017 as well as higher content licensing driven by DreamWorks Kids TV.
- As Brian noted, film is on track to have one of its most profitable years in its history

Theme Parks

- Finally, Theme Parks revenue increased 7.7% and EBITDA increased 9.8% to \$775mm
- These strong results were driven by the launch of Minion Park in Japan and Volcano Bay in Orlando as well as the continued success from Harry Potter in Hollywood, which opened more than a year ago
 - These results include the impact of Hurricane Irma and the negative impact of a weaker Japanese yen

CapEx

- Now let's move to slide eight to review our consolidated and segment CapExs
- Consolidated CapEx increased 1.2% to \$2.4B in Q3
- At Cable Communications, CapExs increased 0.8% to \$2.1B in the quarter, resulting in capital intensity of 15.6%
- For the full year, we continue to expect capital intensity to remain flat to 2016 at approximately 15% of total Cable Communications revenue
- For the quarter, the increase in spending reflects a higher level of investment in scalable infrastructure to increase network capacity and increased investments in line extensions, mostly offset by decreased spending on customer premise equipment

NBCUniversal

- At NBCUniversal, third quarter CapExs increased 5.4% to \$354mm, reflecting the timing of real estate and infrastructure spending as well as continued investment of Theme Parks
- For the full year, we continue to expect NBCUniversal's CapExs to increase approximate 10% vs. 2016

FCF

- And now finishing up on slide nine
- As mentioned earlier, we generated \$2.3B in FCF in the quarter and \$7.6B on a YTD basis
- Our return of capital in Q3 totaled \$2.4B and \$6B for the YTD
- Dividend payments were \$743mm in Q3, up 12.1% y-over-y and \$2.1B YTD, up 10.5% y-over-y

Share Repurchasing

- Share repurchases were \$1.7B in Q3, approximately 60% higher than the quarterly pace of H1

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- For the YTD, share repurchases totaled \$3.8B
- We continue to plan to return approximately \$7.9B to shareholders for the full year in 2017, including \$5B in share repurchases and \$2.9B in dividends

Conclusion

And finally, we continue to be pleased with the health of our balance sheet ending the quarter at 2.2 times net leverage. So that concludes our summary of the quarter.

We're clearly very pleased with our continued strong performance as well as our momentum heading into Q4.

QUESTION AND ANSWER SECTION

<Q - Craig Eder Moffett>: I want to sort of dig into a little bit sort of the transition that's going on from video-led to broadband-led financially. So when you lose a double-play or a triple-play customer and they become a single-play customer, can you sort of walk through all the different things that happen as that transition happens? How that customer's pricing changes and then what costs, besides just programming costs, shift? And so sort of what is that economic transition look like for your business? And how should we think about it going forward?

<A - David N. Watson>: Hey, Craig, this is Dave. So let me take that. And look, there has certainly been a fair amount of work out there on this very issue. I read your perspectives, specifically on it, and I agree with your point of view that as there is an economic shift when that happens in terms of if a customer selects broadband-only, there are higher margins in that, there's a higher rate for standalone service and a lower cost to deliver that product. So margins improve.

But having said that, I think we're very different in that our definition of packaging is to profitably put together great products that drive engagement and usage. So we'll continue to stay very focused on X1 and broadband.

But to the extent somebody does take broadband-only, the way we look at it and the way it breaks out, we take a very disciplined approach towards a premium product, which we're constantly raising the speeds for them. And we will charge more for on a standalone basis, so there are some bundling benefits to the extent that they don't take it then we charge more for on a standalone basis.

Secondly, I also agree that there is upside economically and being able to go to that customer that may be enjoying video, over-the-top, whatever they're doing, and being able to upgrade them to higher tiers. So we also have good opportunity in terms of the cost of service, so there are improved economics in terms of the operating expenses. So this will drive ARPU, this improves margin.

But again, let me also say that there's a broader opportunity. We're very different in the broad portfolio of products that we have being able to package whether it's mobile, whether it's home security, different tiers of service. Our general approach is to profitably package a wide variety of opportunities. And by the way, we will continue to focus on video. And we think there's a good opportunity to do that with broadband. But the economics, I think, are very encouraging to the extent that they do select broadband-only.

<A - Brian L. Roberts>: I just want to add one other observation, which is, as this shift is occurring, the utility of broadband to the consumer is going up every year. So the bits per home in the last nine months or so appear to be about 40% more usage. So people are relying on the speed, the WiFi coverage, the video, whether it's our video or some other video, consumption has never been higher. NBC gets paid for a lot of that video consumption in different ways, in different models, which we can talk about. And then you don't have different CapEx requirements. So you add it all up.

We've anticipated this shift that's coming. I think we've taken our innovation machine and pointed it as well now to broadband and broadband-only homes, and I think you'll see more of that coming in the future. We just launched

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YouTube, for instance, on X1. You're able to enjoy more video than ever. If you take our video, I think you're able to enjoy more video than ever if you don't take our video, but our broadband is the center, and that's why we're 25mm broadband, 22mm video. We saw the shift coming, we're pretty focused.

<Q - Benjamin Daniel Swinburne>: I have a question for Brian and then for either Dave or Mike, whoever wants to take it. Brian, on the mobile side, you guys now are in the market, you talked about how many customers you have and the iPhone 10 or X, whatever it's called, is a week away. Plus there's a lot happening in fixed, I know you guys have been sort of exploring 5G and other opportunities. Can you just maybe step back and tell us how you're thinking about wireless strategically longer term now that a sort of company-wide deployment of wireless is sort of right here?

And then, just picking up on the last conversation about the broadband business and the shifting model. Dave or Mike, when you think about that shift, I think everyone understands, it's probably accretive to margins. Can you just talk about capital needs for the data business? You talked a lot about hyperbuilds and more fiber and line extensions. What are the CapEx needs as you guys try to really push your advantage in data vs. the kind of spending we've seen at Cable over the last couple of years?

<A - Brian L. Roberts>: Well, I like our wireless strategy a lot. Wireless revenue is going backwards for a couple of companies that reported, and cash flow is the same. So that's a business where we have 0% market share. And so as we begin, and 250,000 subs is a great achievement, but its 250,000 subs, so we're very small. We're using wireless to help our very valuable broadband business.

You can only get wireless if you take our broadband. And it's an extension of our broadband to what I was just commenting on earlier. And yet we've been able to say when we hit a certain scale, hopefully, the next year or so, we will then be able to be in a position where every sub is profitable on its own merits, and that's the nature of the wholesale relationships that we've made.

And third, we have a very compelling offer to the consumer. You literally take money off your bill in almost every instance, you have tremendous flexibility and it's super simple and it's all digital. And you can get the newest devices as you alluded to. So I think it's a way for us to reinforce the strategy of the company that we were just talking about, which is to make that broadband relationship as increasingly useful and valuable and something as important as your mobile device.

<Q - Benjamin Daniel Swinburne>: Thank you.

<A - Michael J. Cavanagh>: And then Ben, it's Mike. Thanks for the question. I'll start and Dave can finish. So on capital we'll, obviously, be back next call and talk about future outlook for CapEx in the Cable business.

As we said, we'll be flat this year to last year at around 15% capital intensity. I think the important thing about the broadband business is yes, in-home equipment will be cheaper in a broadband model than a video model, and we've got the decline in X1 as we've been talking about. But on the other side, we are making sure that we invest increased speeds and make sure we innovate and add value in our broadband product given everything Brian just described about how important that is to the future of the company.

<A - David N. Watson>: It is very consistent with our current CapEx plan, investing in the network. We've been doing that. We anticipated it. So as we make this pivot, it's very consistent with our current capital program.

<Q - Jessica Jean Reif Cohen>: I have a Cable and NBCU question. On the Cable side, obviously, a lot of the focus of this call is on broadband and you've discussed your strategy with speed coverage and capabilities. But do you think that's enough or how do you differentiate to consumers the product enough to drive pricing, particularly in light of so much competitive promotional activity? And then, I guess, the NBC question – do you want to answer that – and then I'll go to NBC?

<A - Brian L. Roberts>: Go ahead, go ahead, Jessica.

<Q - Jessica Jean Reif Cohen>: Okay. And then NBC, there's so many parts to it that it's hard for you guys to talk on the call or in the press release about some of the drivers, but one of the little gems seems to be Telemundo, which has

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had phenomenal ratings success. Can you give us some color on kind of where you've been and where you think you can go or how quickly you can take share? And then if there's any comment at all on China given the recent elections and the political environment, is there any change to your strategy in that country whether Theme Parks or Film?

<A - David N. Watson>: Let me start, Jessica, with the broadband point. So I think our operating strategy with broadband as we make – continue to make this pivot and really focused innovation around a superior broadband experience kind of goes down into three buckets. One, we constantly focus on improving speed. We've been working for many years now on developing best-in-class gateway devices, so we improve coverage when we do that. And then with xFi, really, the first one out to develop an in-home superior control.

So we're scaling 1 gig, but the widest footprint available out there in terms of 1 gig within our footprint. And so I really think when you combine speed with best-in-class WiFi, it really does point towards just a better answer for customers. And I think – as Mike said, I think there's a lot of runway left to grow the customer base, there's a runway on rate given our competitive differentiation around all those key areas. So I think there's still good opportunity.

<A - Brian L. Roberts>: So on Telemundo, when we talk about broadcast, we always talk about NBC being number one for four years and This is Us and Sunday Night Football, but a real gem inside our company in terms of broadcast is Telemundo. And for those of you who don't follow it closely, for decades Univision beat Telemundo in primetime night after night after night by 1mm, 2mm people in the demo. And in the last broadcast year for the first time ever in primetime, Telemundo beat Univision. And if you look more recently since this new season started, we're winning almost every night, sometimes by 20%, 25% margin.

So Telemundo is a big opportunity. Monetization tends to lag ratings performance. We saw this with NBC when it first started to return. So don't expect the same kind of jumps in terms of monetization immediately at Telemundo, but if we keep beating Univision, we should, at some point, catch up to Univision in terms of monetization and that would be a big swing from where Telemundo was just a few years ago.

In terms of China, China we think is a very, very big opportunity for our company. We made virtually no money in China 5 years ago. This year, we'll make a couple hundred million dollars of OCF in China, primarily film and some SVOD and consumer products. We're spending a lot of time and attention getting a park in Beijing open where the visitation numbers, the tourist numbers in Beijing are just phenomenal. And we will be the only major US theme park in that area of China. And when that park opens, I think as a company, it's not unrealistic to assume we're going to make well over \$1B in OCF. So from zero five years ago to over \$1B in just a few more years once we get Beijing open.

<Q - Marci L. Ryvicker>: Mike, can you just clarify the comment you made on Q4? You mentioned competition is accelerating. I know you don't give guidance for that. Are you implying that sub-losses are accelerating from Q3, either absolute or y-over-y? And then the second question that we've gotten is as you've gone from gaining video subs to losing video subs, what kind of subs are you losing? Is it broad-based across your platform? Is it lower tier? Are they X1? Any color would be great. Thanks.

<A - Michael J. Cavanagh>: Well, I'll just say, no implication of acceleration there, but Dave can comment further. But really it continues to be competitive in the video space. But we've got quite a good set of tools in the video product with X1 and the like that while we continue to see the competitors out there, we're in a position to compete for the best customers out there.

<A - David N. Watson>: Let me offer, Marci, a perspective on video. Given the – I think, again, we're very different in regards to not only broadband but video, as I mentioned before. If you look at the whole market in terms of the entire video market if it contracts people will pin it where it will be, but we're quite different. Yes, there'll be some pressure as more OTT competition comes in in different stages as they launch. But primarily because of X1 and our focus around innovation, I just think we're very different in our ability to compete. We have the best video product combined with the best broadband. And so you look at – we gained X1, we are up to now 57% penetration. And when you look at the performance of X1, it consistently delivers better churn results across, really, literally every tenure-based customers. So we see usage benefits, everything that we see around X1 continues to be positive.

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So while there is overall pressure, competitive pressure, I don't think the video market has settled overall. We like our position. And when you look at also, another validation around X1 as others select X1 including – we've talked about it before, whether it's Cox, whether it's many Canadian companies, the fact that they are taking in, and we've heard very good results from them as well, it's very consistent. So we're pleased with X1's overall performance, and I think it makes us a very different video competitor.

<Q - John C. Hodulik>: Maybe you could talk about competition in broadband, obviously, you've seen a bit of a slowdown in terms of net adds. Is there a way to tease out sort of what the competitive backdrop is? Are you seeing – is it a function of more competition in terms of pricing on the DSL side, the expanded fiber-to-the-home footprint? Or maybe an attachment issue as it relates to video? I mean, you guys have added about 1.3mm subs the last few years, and you talked about adding a million. Are we looking at a different run rate and a different competitive backdrop? Thanks.

<A - Michael J. Cavanagh>: Well, I think, certainly, it's a unique competitive environment in that I mentioned there certainly are a handful of over-the-top folks that have entered the market in a relatively short period of time.

I think when you have something like that, and you have legacy competitors that respond in different ways to a competitive environment. And on top of that, one telephone company added a little bit more broadband footprint on the low end. So when you have all those things together, yeah, there's going to be a little bit of shift competitively.

As always, we've gone through competitive cycles. We make adjustments based on the competitive climate. And again, our focus is smart packaging and very focused leveraging our best products. And while there's some pressure on it, you look to the overall balance, you look to the overall cash flow performance that we have and even in a slightly tougher competitive environment, I like our results.

<A - Brian L. Roberts>: So let me just add to that because the last point is obviously how we're managing the company for that balance, and we always can adjust that as we see things. But you also want to look a little longer term and say, what is your – what's your strategic long-term advantage.

I think that's been embedded in some of the questions on broadband, particularly. And we're out with 1 gig is a big focus. We said a minimum of a million this year. We're off to a nice start in Q4 in broadband.

And the question is how good is the runway. And what I look at is 25 meg is the new DSL or something like that, is that just nice but not enough for what you want to do as you do shift your video behaviors and your Internet usage, and all the innovation coming from Silicon Valley and elsewhere is driving that 40% bit rate increase per home per year. And that's why we've increased speeds 12 years in a row.

So we see a runway. We like our competitive advantage. People build new footprint that we've see these ups and downs come. You have to have a longer-term view and try to be steady and consistent, and that's what I think the way Dave is managing the company.

<Q - John C. Hodulik>: Thanks. If I could ask one quick follow-up on XFINITY Instant, you talked the launch of Mobile, but how has the launch gone for Instant TV? And is there a chance that over time that can help support and even drive broadband given the attachment there?

<A - David N. Watson>: Well, we launched it fully throughout the footprint end of September. As we mentioned before, I think Instant is a unique opportunity, really, going after a segment. And we take very segmented approach as to breaking down the marketplace. Without a set-top box, customer doesn't want it, it can deliver better margins. We're going to use it surgically.

It's a good retention opportunity as well, being able to talk to customers that wanted to talk about their choice and their options. But it's not something – our go-to-market full approach is best of video X1, best of broadband, but we will use this surgically, and it's way early but pleased with just out of the gates response to it.

<Q - Philip A. Cusick>: . A question on margins in Cable. Can you talk, one, are we still headed to programming numbers headed more to the mid to high-single digits next year? And second, non-programming OpEx has been

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decelerating. And on a per customer relationship basis it's actually declining at an accelerating pace. Can this decline continue next year? And how do you think about that? Thanks.

<A - Brian L. Roberts>: Well, so we feel very good about what we've done this year in margins. So we'll be at flat to last year at 40.2%, which is for the year, and that's going to be inclusive of the storms and better than flat [ph] to 50% (46:35) when we started the year. And so, on your second point non-programming, I think Dave and team have been very focused on just driving better customer experience which is helping take cost out, a lot of reduction in calls and interactions, both for new customers, a lot more digital interactions, which are lowering cost as well.

So I'd say on a non-programming expense side, it's just continuous focus on improvements, no one-offs and anything we've done in these past couple of periods of high programming cost increase. So I think Dave and team continue to be focused on that. We'll come back and talk about margins for next year when we get to the next call. But then on programming, we did say that next year, we start to see, and we do continue to expect to see significant relief the programming cost growth.

<A - Michael J. Cavanagh>: So beyond that, the key focus that we have is around just expense discipline and really focusing on the customer experience. The best way, I think, to drive transactions out is continued focus on investing in the customer experience, and the benefits are just not a one-time event. So you look at, especially, as we are driving customer relationships, we're improving customer relationships, yet our non-programming OpEx continues to improve. So it's just a better answer for the customer and a better answer financially.

<Q - Jason Boisvert Bazinet>: Just had a question for Mr. Roberts. In your press release, you talked about the broad range of growth opportunities. Now, it's just writing down sort of obvious ones from mobile to security, to the opportunity Mr. Burke talked about in China. If you could just rank order for us, maybe over a five-year period, what are the ones that you're most excited about in terms of driving EBITDA?

<A - Brian L. Roberts>: Well, I would start probably by saying if you've lumped, and I tried to do that a little bit earlier, and you call it broadband connectivity, both residential and business, that's now \$20B a year business. That is a big portion of our company. That's growing at double-digit revenue growth, and it's very accretive to our margin.

So over the next five years, do I think broadband has opportunities to go to Internet of Things to smart home, to smart grid, to more consumption, whether it's video or 4K or virtual reality, augmented reality, pick your excitement and your probability and say will it be a good place for us to spend money to build capabilities that other companies don't have, fiber, backhaul, et cetera. So clearly, that would be on the list.

I think in content, one of the things – Dave used the word differentiate. I think what Steve and the team have done at NBCUniversal, we have the fastest-growing media company by my observation by a lot, and we're a leader in a lot of categories. So there's – whether it was Telemundo or China or the theme parks in other places like Osaka, making us more of a global company, using our content to grow and to take advantage of new platforms and to study the changing landscape, are we going to be advantaged by that? I think so and in animation.

What sometimes happens is you get so focused on the areas that decline that you forget to talk about the areas that grow. And so I very much think it's important to balance that. You can't ignore areas as they mature, but there's a culture in our company, it's very financially disciplined, and we look for profitable growth, and we keep using that phrase.

And I think everybody in the company understands what that means. And the last point I would make is we have completely transformed ourselves in terms of innovation. And it's just unfortunate that most of you live in New York and some live in L.A. who make the content and they don't get to play with X1. But when you see the Olympics on X1 coming out in a couple of months, you will see a set of capabilities to help content reach consumers in a way that is unprecedented anywhere in the world on any platform.

And if you want the best products, and you want increasingly the best service, you're going to come to our company and with the best content. And so I think we have a very unique, very special company.

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<Q - Jonathan Chaplin>: I think what would be really helpful just in terms of the questions we're getting from investors is to understand in the areas where you're seeing competition, how much of that is coming from AT&T going from 1mm fiber homes to 6mm fiber homes in the course of a very short space of time?

We know they're taking share in those – in that portion of their footprint, in general, it would be great to know to what extent that's impacting trends in your business. Because that trend over the sort of the next three to four years, I think, was really was anticipated by the Street. Although it might not have been in Q3 numbers, it was a trend that we all knew that AT&T was going to 12.5mm or 14mm homes. And so how much of the impact is that vs. really aggressive pricing for low-end products, would be really helpful.

And then sorry to pile on, but to the extent that – in that portion of your footprint, if we could get some color on how much X1 impacts the competitive dynamics and what you might be able to do to increase X1 penetration in that footprint to stave off losses, that would be really helpful.

<A - David N. Watson>: Okay. So let me start with broadband and AT&T. So there's no question they've added some more footprint in regards to some more, what I would call more low-end broadband. And so when you do that, you see some impact. Our game plan, we anticipated this, we, obviously, see some of this coming. And our view is to deliver the best product. And we will constantly increase speed, that's why we've been so focused on WiFi, we believe your broadband experience is defined on how great WiFi is, and that's why we've put as much effort into the best gateway device and including innovation like mesh WiFi capability in the home with Plume devices that really I think help us stand out.

We always – we evaluate competition, we look at competition and whether it's slightly ebbs and flows a little bit more HSD only, we make adjustments, modest adjustments all the time. We're never going to chase low-end. Our general approach, we provide superior products, we differentiate around that, we'll continue to do so. So on X1, I mentioned before that it really is I think does make a difference. We're very different in regards to video competition. And I think the results reflect that. And if you look at the overall video market performance, for us to come in at perhaps 0.5 point, that's very different. And I think to some extent it's driven by X1. And so we look at the benefits of X1, how we compete in terms of acquiring customers, how we retain customers, there are churn benefits and there's revenue opportunities we continue to see. So our view is that X1 continues to give us a good answer in how we compete and we will remain disciplined going after better, more profitable video customers.

<Q - Vijay Jayant>: I'm going to – I think it's for Dave. I think one of the key things that we're trying to figure out, obviously, we know that broadband margins on a contribution basis is higher, but there's a lot of shared cost below across multiple products, but when you start to look at truck rolls and what the main reasons for that are and the calls coming in, what the main reasons for that are. So we had to sort of disaggregate the product that's been bundled unfortunately that's what we're trying to do. Any help on what those share cost mix is between the various products would be helpful? Any color on that? And then just very simply on Comcast has the best broadband offering in terms of speeds and capabilities, but if we price that product lower, would subscribers be higher, in the sense is there a real elasticity for subscriber growth if you price your product lower? Thank you.

<A - David N. Watson>: Well, thank you. So we really don't breakout cost, but we do compete if we go after either low-end broadband offers and again, a good example of that is Instant TV, where you accompany a product that does not have a video set-top box being able to deliver it, or if it's HSD-only, it's easier to deliver through the self install kits that drive down cost, easier for customers to activate it on their own. So there are opportunities to drive down operating costs, but we don't break that out across the different product lines.

So in terms of elasticity, we compete across a wide variety of broadband business. And our view is always that lead to a strength that we are different. We lead with the best product, put them together with great video. And we think, over time, we're going to have in terms of broadband performance, you've got to look at the entire year in terms of what we're doing, again, consecutive years we're going to deliver over 1mm broadband net customers and we just consistently do that over and over again. And as Brian said earlier, strong finish to the year is expected. And we think our ability to compete with what we have the best product is the answer.

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<A - **Brian L. Roberts**>: Let me just say that without breaking out the cost that a majority of Cable's cash flow is broadband, not video, and that is because of programming costs and all the things that we've been talking about. We have now more subs.

And let me just end by, again, going to one number that I'm proud of that, that for the first nine months, we're up 8.5% cash flows. I think we've got a balance between units, innovation, financial performance and great content and leadership in our two businesses. And we thank you for your support.

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