Q4 2017 Earnings Call

Company Participants

- Brian L. Roberts, Chairman & Chief Executive Officer
- David N. Watson, President & Chief Executive Officer-Comcast Cable & Senior Executive Vice President
- Jason S. Armstrong, Senior Vice President, Investor Relations & Finance
- Michael J. Cavanagh, Chief Financial Officer & Senior Executive Vice President
- Stephen B. Burke, Chief Executive Officer-NBCUniversal & Senior Executive Vice President

Other Participants

- Benjamin Daniel Swinburne, Analyst
- Brett Feldman, Analyst
- Jason Boisvert Bazinet, Analyst
- Jessica Jean Reif Cohen, Analyst
- John C. Hodulik, Analyst
- Marci L. Ryvicker, Analyst
- Philip A. Cusick, Analyst
- Vijay Jayant, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen, and welcome to Comcast's Fourth Quarter and Full Year 2017 Earnings Conference Call. At this time, all participants are in a listen-only mode. Please note that this conference call is being recorded.

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

Jason S. Armstrong {BIO 6732609 <GO>}

Thank you, operator, and welcome, everyone. Joining me on this morning's call are Brian Roberts, Mike Cavanagh, Steve Burke and Dave Watson. Brian and Mike will make formal remarks and Steve and Dave will also be available for Q&A.

As always, let me now refer you to slide number two, which contains our Safe Harbor disclaimer and remind you 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 for the reconciliation of non-GAAP financial measures to GAAP.

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

Brian L. Roberts {BIO 1415772 <GO>}

Thank you, Jason, and good morning everyone. Across Comcast NBCUniversal, our company is executing at a high level and I'm proud to report fantastic results for both the fourth quarter and full year 2017. Starting with the fourth quarter, Cable Communications, we continued to have strength in our connectivity businesses where we added 350,000 net new broadband customers and increased Business Services revenue by 12.2% as well as continued improvements as a result of our investments in the customer experience.

At NBCUniversal, we had a terrific quarter, driven by robust affiliate fee and retrans growth, a successful holiday season at our Theme Parks capping off a great 2017 and record profitability at Film. Perhaps even better, this exceptional performance in 2017 positions us well as we enter 2018. The recent passage of tax reform provides real and immediate benefits for our company that will further enhance our financial position and will in turn enable us to do more of the things that help us better serve our customers, our employees and the communities where we operate as well as drive value for our shareholders.

This means continuing to develop the most innovative products and services, investing where we see high returns and opportunities to drive growth, including in our broadband, network, TV, film and theme park offerings and continuing to deliver a healthy return of capital to shareholders. Based on this solid foundation and our confidence in our outlook, today we are announcing a 21% increase in our dividend, which is our 10th consecutive annual increase. We also expect to repurchase at least $5 billion in stock in 2018.

With that, let me talk about a few of our achievements this past year. Our company has an excellent track record of delivering strong, consistent results and this continued in 2017 with EBITDA growth of 6%. At Cable Communications, we look to balance subscriber growth with financial performance and we achieved this in 2017. We increased EBITDA by 5% and added 770,000 net new customer relationships.

During 2017, we continued to direct more of our strategic focus toward our connectivity businesses which collectively generated over $20 billion in revenues and grew 10%. This includes broadband, where we added 1.2 million net new customers. We continue to differentiate in broadband with the deployment of DOCSIS 3.1, enabling gigabit speeds in our footprint and our new xFi platform, which gives customers more control of their in-home Wi-Fi experience. Business services exited the year at a $6.5 billion revenue run rate.

And what's particularly exciting is the room for growth ahead as we have the opportunity to take more share in each of our customer segments. In 2017, we made an exciting new addition to our bundle with Xfinity Mobile and the service is off to a terrific start. After launching the business from ground up in May, we ended the year with more than 380,000 customer lines and real momentum. Customers have really responded to our unique "By the Gig" offering, the simple and intuitive ordering process and digital-first customer experience.

With Xfinity Mobile now fully rolled out in our retail stores and new features like our recent introduction of Bring Your Own Device, we are enthusiastic about what's coming in 2018. 2017 also brought a new normal to competition in video, including more aggressive offers from traditional and emerging competitors. While we remain disciplined and are not in the business of chasing volume at any cost, we more than held our own in this environment. With our culture of innovation, we are well equipped to compete in this evolving marketplace.

Our X1 platform enables us to be the aggregator of aggregators of the content our customers love and we are continuously improving X1 to deliver an even better experience. This past year, we added many new features and functionalities. To name a few, we integrated YouTube into the platform, added new music experiences through Pandora and iHeartRadio and leverage the power of our amazing voice remote to give customers a unique way to vote on NBC's hit show, The Voice. We now have nearly 20 million voice remotes deployed.

Perhaps most significantly at Cable, our ongoing efforts to improve the experience drove tangible benefits for our customers and to our financials this year. We were making measurable progress in many key areas and notably in 2017, we reduced calls handled by our agents by 10% and the percentage of customers interacting with us only digitally grew by double digits year over year.

It's been an outstanding year for Cable Communications, which speaks to the strong leadership from Dave Watson for many years and particularly since he took the CEO position last spring. At NBCUniversal, achieving double-digit EBITDA growth for the fifth consecutive year was one of the many highlights of 2017.

In Filmed Entertainment, we crossed $5 billion in worldwide box office for the second time in Universal's 105-year history, driven by a wide range of theatrical releases, including key franchises like Fifty Shades and Fast & Furious, continued success in animation with Despicable Me 3 and hits like Get Out, Split and Darkest Hour.

2017 was our Film business's most profitable year ever. In our Television businesses, in an evolving media landscape, having great content is critical and our portfolio of must-see sports, news and entertainment stands out in this regard. In many instances, we have more end users of our content than ever before. Our increased affiliate fees and retrans resulting from successful distribution renewals, as well as our strong content licensing growth in 2017, are evidence of the value of our portfolio.

In addition, NBC continues to lead in ratings, winning the 52-week season for the fourth consecutive year, and is currently ahead of the competition by a wide margin in this new season.

Telemundo also remains number one, following its first (08:05) 2016-2017 season. At Cable Networks, U.S.A. was number one for an unprecedented 12th consecutive year. I'd like to congratulate MSNBC, which had an impressive year with record ratings in total viewers and in demo across every daypart and had the fastest growth among any cable network, with 36% prime growth in demo.

Finally, our Universal Theme Parks continued to have great success in 2017, with 9% EBITDA growth, driven by Harry Potter in Hollywood and new attractions like Volcano Bay in Orlando and Minion Park in Japan. I want to underscore how pleased we are with our Japan investment from just two years ago.

As our 2017 performance across NBCUniversal demonstrates, our wonderful team have put us in a position to succeed in these rapidly evolving media businesses in this changing landscape. Not every company can say that. With the pace of change in the industry accelerating, many of our peers are reevaluating their strategies, as we've seen recently. So along the way, there may be opportunities for us to create more value for our shareholders like we did with NBCUniversal.

In this respect, it shouldn't be a surprise that we study every situation that comes along. We believe our shareholders expect this from us. But the bar is set high and we have been and will remain disciplined.

Now let me talk about some of the things we are looking forward to across our businesses in 2018 and beyond. We're excited to have the Super Bowl in NBC and the Winter Olympics just days away. There's no better example of how our entire company works together than the Olympics.

We're so proud to be the company that brings the Games to millions of Americans, combining the incredible and heartwarming storytelling from NBCUniversal with the world-class technology of Comcast Cable.

This year, Comcast NBCUniversal will deliver the most live, the most mobile, the most technologically-advanced Winter Olympics ever. NBC will provide a record 2,400 hours of coverage, more than the last two Winter Games combined.

And the best place to experience this coverage will be through our Olympics dashboard on X1, with new and enhanced content and features that will enable users to customize and control their experience across platforms.

In our TV businesses, with the Super Bowl and Winter Olympics as well as the World Cup on Telemundo later this year, we should further build on our ratings leadership from 2017.

More broadly, our strategy will continue to center on having must-see content that drives multiple monetization streams from advertising, to content licensing, to distribution on both traditional and emerging TV platforms. At Theme Parks, I was just in Orlando a couple of weeks ago and came away feeling even more bullish on our outlook for the parks.

In 2018, we will benefit from a full year of Volcano Bay and Minion Park as well as new attractions that leverage our intellectual property like Fast & Furious in Orlando and Kung Fu Panda in Hollywood. We also continue to make progress toward opening our new Beijing Theme Park in the next few years and have exciting growth plans for Japan.

Finally, in Film, while we will not beat our 2017 performance, we expect 2018 to be a solid year, with some of our best franchises returning, including Jurassic World and 50 Shades. We are also excited for 2019 and beyond, when a more robust animation slate is planned.

Over at Cable Communications, we expect another strong year in 2018. While video continues to evolve, as I mentioned, we remain committed to innovating video and delivering the premier experience for customers through X1. And I'm really excited about our long runway ahead in high-speed data.

In 2018, we will continue to differentiate our product by providing gigabit speeds at scale, offering one of the most powerful gateways for the home, and augmenting WiFi coverage and control with xFi and the rollout of our fabulous little pods.

With connectivity increasingly at the epicenter of our relationship with customers, we have the opportunity to provide whole-home solutions that integrate and help manage all of the devices our customers rely on. In business services, we're still in the early stages of bringing our superior products to the large addressable markets in midsized and enterprise customers.

And lastly in 2018, we will look to build on and accelerate our early success with Xfinity Mobile. So, our plan is to continue to invest in product innovation, while we strive to make interacting with us simpler and more consistent, and increasingly, all digital. This will improve the experience for our customers and also help us continue to take cost out of the business in 2018, as Mike will discuss in more detail.

As we kick off 2018, I feel great about Comcast. We have significant momentum and we are building on our consistent investment, growth and strength and look forward to an even more exciting future.

Mike, over to you.

Michael J. Cavanagh {BIO 3375974 <GO>}

Thanks, Brian, and good morning, everybody. I'll begin by reviewing our consolidated results on slides 4 and 5. Revenue increased 4.2% to $21.9 billion for the fourth quarter, and increased 5.1% to $84.5 billion for the full year.

Fourth quarter adjusted EBITDA of $6.8 billion was relatively flat compared to last year. And for the full year, EBITDA of $28.1 billion increased 6.2%. Results for the quarter reflect healthy EBITDA growth of 4.2% and 6.4% for Cable and NBCUniversal respectively. The Corporate and Other results include $171 million related to a special employee bonus following the passage of tax reform and negative $176 million of EBITDA from the launch of our wireless business.

Adjusted earnings per share increased 8.9% to $0.49 for the quarter and 18.4% to $2.06 for the year. These results exclude $12.7 billion of net income tax benefits primarily associated with the change in our deferred income tax liability as a result of the 2017 tax reform legislation. Details of our EPS adjustments are provided in Table 4 in our press release. And finally, free cash flow was $2 billion in the quarter and $9.6 billion for the full year.

Now let's turn to Cable Communications on slide 6. Before going into the details of the quarter, I'd like to provide a couple of highlights for the year in the Cable Communications business. Our full-year Cable revenue increased 4.9%, and EBITDA increased 5.3%, while we grew customer relationships by 770,000 to more than 29 million.

These results were driven by our connectivity businesses, including high-speed data and business services, which totaled more than $20 billion in revenue, which grew over 10% in 2017. We are focused on striking the right balance between strong financial results and growth in our customer metrics and we believe our results clearly reflect this effort.

Now let's dive into the details of our quarterly results. Revenue increased 3.4% to $13.3 billion, and EBITDA increased 4.2% to $5.4 billion in the fourth quarter.

Starting with our residential business, high-speed Internet continues to be the largest contributor to overall Cable growth, with revenue increasing 8.4% to $3.8 billion in the quarter. These results were driven by a net increase in our customer base, adding 318,000 net new residential high-speed Internet customers, as well as rate adjustments.

Our customers continue to get more value with their subscriptions as they use our product more and benefit from our increasing speeds. Our customers' median monthly data usage was at 131 gigabits per month for the second half of 2017, an increase of 48% year-over-year. And at year end, 75% of our residential customers received speeds of 100 megabits per second or higher compared to about 50% a year ago, reflecting our efforts to lift baseline speeds across our entire customer base.

We are focused on driving market share gains by continuing to enhance our competitive differentiation with improvements to speed, coverage and control. We head into 2018 offering nearly 80% of our footprint gigabit speeds enabled by DOCSIS 3.1 and our new Advanced Wireless Gateway.

In addition, we are rolling out xFi pod network extenders to increase WiFi coverage in the home and our xFi app, which offers an unrivaled level of control. With our current broadband penetration of homes and businesses passed at 45%, we believe we have plenty of runway for continued high-speed data customer growth.

Switching to video, revenue increased 1.5% to $5.7 billion in the quarter, primarily due to rate adjustments as well as customers subscribing to additional services, partially offset by the net loss of video customers. We had 38,000 residential video customer net losses in the quarter, reflecting ongoing competition in the video marketplace.

Our newest product for our Cable customers is Xfinity Mobile, which I'll comment on now even though the results are reported in Corporate during the launch period of the business.

We're off to a great start, ending the year with over 380,000 customer lines, having added 187,000 lines in the quarter. We believe Xfinity Mobile is a big opportunity to continue to drive the bundling strategy of the Cable business.

Financially, we had a $480 million EBITDA loss for 2017. And in 2018, wireless EBITDA losses could be a couple hundred million dollars higher, reflecting our expectation of a successful ramp in subscriber acquisitions.

Moving on to business services, which continues to be a top driver of overall Cable results, we delivered another strong quarter of double-digit growth, with revenue increasing 12.2% to $1.6 billion during the quarter, primarily driven by customer growth.

We added 33,000 business customer relationships in the quarter and 135,000 relationships for the year and grew revenue per business customer relationship by 5%. All business services segments, small, medium-sized and now enterprise, are focused on connectivity and have substantial room for future growth.

Turning to slide 7, Cable expenses and margin, our fourth-quarter EBITDA margin was 40.7%, up 30 basis points compared to the fourth quarter of 2016. Our full-year EBITDA margin of 40.3% was up 10 basis points compared to the prior year.

For 2018, we believe our margins could be as much as 50 basis points higher than the 2017 full-year results, reflecting growth in our high-margin connectivity businesses and our focus on cost controls.

Programming expenses increased 10% during the quarter and 11.5% for the full year, reflecting the timing of several contract renewals. In 2018, we expect programming cost growth to meaningfully moderate from the higher-than-normal years we experienced in 2016 and 2017.

Non-programming expenses declined 1.5% this quarter and were relatively flat for the full year. This reflects the benefits of the investments we made in customer experience initiatives as well as disciplined cost management overall.

Notably, customer service expense declined 2% this quarter and 1.1% for the year even as customer relationships grew by 2.7%. In 2018, we expect to see continued benefits from our customer experience initiatives and focus on disciplined cost management.

Now let's move on to NBCUniversal's results. On slide 8, NBCUniversal's revenues increased 3.9% and EBITDA increased 6.4% to $1.9 billion in the quarter. Cable Networks delivered another quarter of strong growth, with revenue increasing 7.5% and EBITDA up 9.1% to $1 billion.

Distribution revenue increased 6.7% this quarter to $1.5 billion, reflecting the continued benefit of previous renewals of distribution agreements, partially offset by a decline in subscribers at our Cable Networks. Content licensing and other revenue of $282 million increased 34.5% due to the timing of content provided under licensing agreements.

Last, advertising revenue of $878 million increased 2.3%, reflecting strong pricing that was partially offset by ratings declines and the impact of channel closures. Broadcast Television revenue increased 4.1% and EBITDA declined 26.3% to $194 million. These results reflect strong retransmission and content licensing revenue, offset by lower advertising revenue and higher programming and production spending.

Retransmission consent fees increased nearly 70% to about $360 million. Content licensing revenue of $632 million increased 19%. Offsetting this growth was a 6.5% decline in advertising revenue, reflecting strong pricing that was more than offset by ratings declines, including the NFL and the absence of political advertising revenue at our local stations. In addition, we experienced higher programming and production costs this quarter, driven by increased sports costs, including an extra Thursday Night Football game.

In 2018, we expect to start the year strong with the Super Bowl and Olympics. Additionally, we expect 2018 retransmission revenue to increase by approximately $200 million to $1.6 billion. Film revenue declined 5.2%, but EBITDA increased 89.7% to $230 million, driven by the carryover benefits of several successful films released earlier this year.

As Brian noted, Film delivered its most profitable year in its history, with EBITDA growing 83% to $1.3 billion. While these results set a high bar, we are excited to have the return of some of our biggest franchises, with Jurassic World 2 and the third installment of 50 Shades in 2018.

Finally, Theme Parks revenue increased 8.7% and EBITDA increased 3.2% to $661 million. These results reflect relatively stable attendance and healthy growth in per capita spending despite unfavorable weather in Japan and having lapped the opening of Harry Potter in Hollywood. We are benefiting from new attractions like Minion Park in Japan and Volcano Bay in Orlando, as well as the continued success of Harry Potter at each of the parks.

Partially offsetting these results were the negative impact of a weaker Japanese yen and increased spending on a brand marketing campaign across our portfolio. In 2018, we expect to benefit from a full year of Volcano Bay in Orlando and Minion Park in Japan, as well as new attractions opening, like the Fast Ride in Orlando and Kung Fu Panda in Hollywood.

Now let's move on to slide 9 to review our consolidated and segment capital expenditures. Consolidated CapEx increased 5.4% to $2.7 billion in the fourth quarter and 4.5% to $9.6 billion for the year.

At Cable Communications, capital expenditures increased 2.8% to $2.2 billion for the quarter and increased 4.7% to $8 billion for the full year, resulting in capital intensity of 15.1%, in line with the plan we outlined at the beginning of 2017.

As expected, investments in customer premise equipment, including X1 and wireless gateways remain the largest component of our capital expenditures, but declined for the full year. We increased the investment in scalable infrastructure to increase network capacity and increased investment in line extensions to reach more business and residential customer addresses.

For 2018, spending on customer premise equipment is expected to continue to decline. With X1 now deployed to nearly 60% of our residential video base, the pace of our rollout has started to slow.

On the other hand, our spending on our network will continue to increase. As a result, we expect Cable capital expenditures overall to increase in 2018, although we believe our capital intensity could be favorable relative to 2017 by as much as 50 basis points. At NBCUniversal, fourth quarter capital expenditures increased 13.6% to $525 million. And on a full-year basis, CapEx increased 3.4% to $1.5 billion, reflecting investments in Theme Parks and infrastructure.

For 2018, we expect to once again increase capital spending at NBCUniversal, with the majority of the investment directed toward Theme Parks. Our formula to consistently invest in new attractions at our parks has driven very strong returns and we expect that trend will continue.

And now, finishing up on slide 10, let's cover return of capital. Let me start by spending a minute on tax reform and its impact. In terms of our GAAP tax rate, without tax reform, it would have been in the 35% to 37% range in 2018. With tax reform, we expect our GAAP tax rate to be in the 24% to 26% range.

For cash taxes, we expect an even larger impact as our cash tax rate will also benefit from the full and immediate expensing of our eligible capital spending for five years. So that's the impact of tax reform on our go-forward GAAP and cash taxes.

In terms of what we are doing with the benefit of tax reform, our first action was the announcement of a special bonus to eligible employees in December. Second, we've identified additional areas of capital investment back into the businesses that now makes economic sense post-tax reform, as I just discussed. And finally, we will augment our already strong capital return plan, as I'll cover now.

As I mentioned earlier, we generated $9.6 billion in free cash flow during 2017. We returned $7.9 billion of that to shareholders, comprised of $2.9 billion in dividends and $5 billion in share repurchases. And we ended the year at 2.2 times net leverage, flat compared to the prior year. For 2018, we'll continue to execute our balanced capital allocation approach that we've discussed many times. We are increasing our dividend 21% to $0.76 per share. This strong increase reflects confidence in the underlying health and momentum in our business, coupled with benefits from tax reform.

In addition, we expect to repurchase at least $5 billion of our stock in 2018. Any buyback we do above that minimum will be in the context of our balance sheet, which we want to be very strong, given its strategic value.

Expressing that in numbers, we've had a net leverage ratio of around 2.2 times for a while now, higher than the 1.5 to 2 times range that was in place as I arrived several years ago. Since then, we bought the Japan Park and DreamWorks while keeping our dividend growing and our buyback steady.

Now, given the higher conversion rate of EBITDA to free cash flow resulting from tax reform, I don't expect we would need to see our leverage ratio decline below around 2.2 times in order to be very confident in the strength of our balance sheet; hence the guidance of a minimum of $5 billion in buybacks in 2018.

Now, before we go to the Q&A, I'd like to take care of one housekeeping item. By the end of February, we plan to issue restated trending schedules to reflect the adoption of the new revenue recognition accounting standard, which was effective January 1, 2018.

The impact for Comcast will primarily be in our Cable business, with adjustments across some line items that will result in both higher revenue and higher expenses. But overall and importantly for Comcast, there will be no material impact to EPS or free cash flow. So, that's all for that item.

So I'll end by echoing Brian's comments about our strong 2017 performance and optimism in our positioning and execution as we head into 2018.

Now, Jason, over to you for Q&A.

Jason S. Armstrong {BIO 6732609 <GO>}

Great. Thank you, Mike. Gina, let's open up the call for Q&A, please.

Q&A

Operator

Thank you. We will now begin the question-and-answer session. Our first question comes from the line of Ben Swinburne with Morgan Stanley. Please go ahead.

Q - Benjamin Daniel Swinburne {BIO 5489854 <GO>}

Thanks. Good morning. Brian, you talked a lot about connectivity in your prepared remarks. And I think the market's very focused, certainly, on your runway in broadband. But when you look at your three-year or longer-term products roadmap for connectivity and broadband, what are the things that you're most excited about to keep that business growing?

And specifically I'm wondering – consumers used to pay just for access to the Internet. But obviously the number of devices is growing; coverage is more important. You've added mobile. What are the things that you think keep that business taking share in what is admittedly a maturing business? And then I just had a quick follow-up for Mike.

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

Well, let me start, and then I'd like to kick it over to Dave Watson. First of all, just absolute penetration is about 48%. And let me correct that. Sorry – 40% growth opportunity. And – but the absolute penetration, where are we in broadband, start with that, as an industry, and where are we with our competitors, and how good is our product. I feel really good about the roadmap for that.

Number two, we launched a mobile product for our broadband customers. We're really excited about that. We talked about the speed and Pods and connectivity and coverage. Then you've got smart home. You look at CES, everything at CES is all about what's going to happen to the home of the future the next 3 years, 5 years, 10 years. It's hard to know exactly when any of those items will explode.

You look at our bit per home consumption rate, and that is up again, even more this year. So that's why we like the business so much. And ultimately you boil it all down to that. We'd love all those bits to be our bits, but that doesn't matter. We want to give customers an incredible experience. We want to be the best and that requires investment in innovation. And that's really, I think, the pivot that the company has been making over several years. And this year's results and the fourth-quarter results, I think, demonstrate real strengths in this business. Dave?

A - David N. Watson {BIO 3725402 <GO>}

Well, as Brian said, I think there's – the growth opportunities both in market share and rate. If you'd look at the overall numbers of broadband, the overall broadband penetration being around 80%, there's room just there. So home growth is solid, and 2017 saw homes passed growing by 1.4%. The DSL base is still substantial. So overall, as you start, there's room for growth.

But what we're focused on is what's working, and what's working is this focus that Brian mentioned around innovation. And we have a great scaled infrastructure; got 3.1 that's now, at the end of the year, at 80%. We'll complete that by the end of 2018; puts us in position to have very large scaled 1 gig rolled out. So as consumption and usage continues to climb, we're going to be ahead of the curve in terms of capacity, so.

And then the big three for us are speeds. We continue to increase speeds. We've done that consistently, the 16 times out of the last 17 years. And then the new thing is coverage, the combination of great devices. We have best-in-class gateway devices that in and of themselves provide great coverage. You marry that with the new Pods, the WiFi extenders. And so coverage I think is a great answer that will help us drive the business. And then last is being able to control all these things.

So, you connect that with modest rate increases, you're focusing on a disciplined approach towards multi-product discounts, making sure that to the extent that – if they just want broadband, then fine, we'd be disciplined in that approach. And so, and also as consumption grows, we're going to be very focused on providing the best tier of broadband service to the customers. So there's opportunities in rate and growth.

Q - Benjamin Daniel Swinburne {BIO 5489854 <GO>}

That's helpful. And just, Mike, on your last point on leverage, I think I heard you say 2.2 is sort of where you think the company should be. I think at $5 billion, you would delever pretty decently in 2018. So are you suggesting then that sort of the upside of that number comes from managing towards a 2.2 based on what other capital allocation opportunities come your way this year? Is that sort of how we should interpret that comment?

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

Sure. You should think about the comments in the context of our capital allocation framework, which doesn't change. It's been this team's priority to balance three things. One, invest in the business to keep it growing and optimize the earnings power over the long term; two, is keep a very strong balance sheet; and three is to do healthy returns of capital to the shareholders. So I think with the framework we just described, saying a minimum of $5 billion and anchoring that to around 2.2 times leverage, everybody has their own forecast of what's going to happen, but that's how you would find there to be upside in the buyback during the course of this year, obviously depending on us executing the balanced strategy I just described.

Q - Benjamin Daniel Swinburne {BIO 5489854 <GO>}

That's helpful. Thank you both.

A - Jason S. Armstrong {BIO 6732609 <GO>}

Great. Thanks, Ben. Next question, please.

Operator

Your next question comes from the line of Phil Cusick with JPMorgan. Please go ahead.

Q - Philip A. Cusick {BIO 5507514 <GO>}

Thanks. Two quick ones, if I can. Brian, can you talk about what the bar might look like for U.S. and international M&A? And given a lot of deals in front of the DOJ today, do you want to see some better direction before getting involved?

And then in wireless, you mentioned the potential for acceleration in 2018. Are you now confident that the business is attractive and that you have the right model and that now is really the time to let it start to spin up? Thank you.

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

Let me kick over to Dave to start on the wireless question first.

A - David N. Watson {BIO 3725402 <GO>}

In mobile, while it's early, Phil, that we're really pleased with the early-stage results. We launched in May. As Mike said early, we achieved 380,000 lines. So there's solid momentum as we approach. So we like our game plan. We like the fact that it's connected to our existing business lines and it's a really simple product approach that can scale.

And so, strong digital focus experience. What we're finding is that the by-the-gig approach is very attractive. Most of the customers are taking that. We still sell unlimited, but it's – we are in I think a very unique position as we scale this to do both.

So it's early still. And just branding's kicking in and we're expanding distribution to our existing retail locations and we're going to begin to package it with our other lines of business including broadband. So it gives us just real packaging optionality. So I think we are well positioned going into 2018 as we scale mobile.

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

Let me just reiterate what I sort of said earlier. We always are looking for ways to create more value for shareholders from opportunities, as Mike just described where we find capital to invest in the business, or new businesses like Dave just talked about in wireless or what we're doing with the Olympics.

At the same time, you look at inorganic opportunities that come along, and you have a bar. I think I'd say that there's nothing we feel we have to acquire, and I think that's an important point to emphasize. So I think we set it high. I don't know how to articulate that except to look to our track record. And we've created value for shareholders I think in almost every instance, and that's certainly the goal when we do so. So, our most recent example would be the Japan theme park. And stay tuned, we'll see if we can execute. But so far, we feel terrific about that. And obviously NBCUniversal, as I mentioned before, is the biggest example. So, we don't talk about specific situations, and I hope that helps clarify.

Q - Philip A. Cusick {BIO 5507514 <GO>}

Thanks, Brian.

A - Jason S. Armstrong {BIO 6732609 <GO>}

Thank you, Phil. Next question, please.

Operator

Your next question comes from the line of John Hodulik with UBS. Please go ahead.

Q - John C. Hodulik {BIO 1540944 <GO>}

Great. Thanks. Maybe one for Mike and one for Dave. First Mike, some good data on the effect of tax reform. Can you give us a better sense of the dollar savings that you expect from – if you're looking from 2017 to 2018, just to get a better sense of how much growth we're going to see off that $9.6 billion in free cash flow?

And then for Dave, on the video business, definitely some solid numbers from a subscriber standpoint. Can you give us a sense of what you're seeing in terms of pressure from the live streaming providers? Has that changed as we went from quarter to quarter? And then maybe an outlook on what you expect from a programming cost growth number for next year. Thanks.

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

Hey John, it's Mike. So I'll tell you how to think about the impact, but everybody's, again, got their own forecasts. So rather than fixing numbers for you, what I said is about an 11 point decline in the GAAP tax rate, which will also improve cash taxes by the same magnitude. So use your own estimate of what our pre-tax income is next year and you'll get that. But then obviously on top of that, we get to immediately expense the eligible amount of the $10 billion of capital or so we're putting in, and so you can take a swag at that. It's meaningful obviously, but those are the two key pieces that drive it.

Q - John C. Hodulik {BIO 1540944 <GO>}

Out of the CapEx, you expect the vast majority to be expensable?

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

Yes.

Q - John C. Hodulik {BIO 1540944 <GO>}

All right. Thanks.

A - David N. Watson {BIO 3725402 <GO>}

So John, on the video side, it is definitely a very competitive video environment and we really don't expect the level of competition to diminish. However, we're going to continue to aggressively compete for profitable video relationships. And so our approach is working and we've made some very moderate adjustments to how we compete that I think have helped us in Q4. But we're going to continue to segment the marketplace and we've introduced new services, like Instant TV, which is our streaming cable network-delivered product without a set-top box. We're going to use that on a targeted basis. Our focus is going to continue to be bundling – full bundles, leveraging best-in-class X1, and broadband, that packaging is working. And so we feel good about Q4. But it is competitive and so we're going to stay at it.

But the thing that I think is important to note that we have seen this adjustment coming in terms of this marketplace, the intensity of the over-the-top new entrants. And based on that, while we're going to compete aggressively across the board for good video customers, we have transitioned more and more towards broadband. And so broadband is a centerpiece for us. We're going to have good balance on profitable growth, leveraging broadband. But so we expect to compete aggressively in video and leverage some of the new things we're doing. But we just don't see the environment shifting too much from what we saw at the end of last year.

A - Stephen B. Burke {BIO 1983798 <GO>}

On programming costs?

Q - John C. Hodulik {BIO 1540944 <GO>}

Got it. Thanks, guys.

A - Stephen B. Burke {BIO 1983798 <GO>}

The last point on programming costs, I think as Mike said, it was a – to expect a moderate decrease, and so I think of some of the timing of the relationships. Our focus around this is margin and we stay extremely focused on overall margin. Programming is one piece of it. But as you know, we stay very focused on the experience, taking transactions out. And you look at things like – to the extent that we're adding, which we are, customer relationships, and the fact that we're taking out just lots and lots of transactions out, that's as important as anything. But programming costs, we do expect to moderately decrease.

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

And obviously it's Mike, just chiming in there. That translates into the – as much as 50 basis points improvement in margins for Cable for 2018.

Q - John C. Hodulik {BIO 1540944 <GO>}

Great. Thanks, guys.

A - Jason S. Armstrong {BIO 6732609 <GO>}

Next question, please.

Operator

Your next question comes from the line of Jessica Reif Cohen with Bank of America Merrill Lynch. Please go ahead.

Q - Jessica Jean Reif Cohen {BIO 20736441 <GO>}

Oh, thanks. I almost don't know where to start, but I guess first sort of a combined Cable/NBCU question. At CES a few weeks ago, Comcast Cable and NBCU seemed to be front and center of the industry for addressable advertising, both in terms of the platform and the services you're offering. And Marcien Jenckes and Linda Yaccarino were right there, and seemed to be in and industry-leading position. So can you talk a little bit about where you think the industry and the company is within that, in terms of regaining dollars lost from traditional media to the newer platforms? And can you just give us any color on what you're doing or what you're expecting?

And then for NBCU specifically, can you talk a little bit, Steve or anyone (00:44:28), about the integration of DreamWorks Animation and does that help you in your efforts in consumer products?

And if I can just throw on one for Brian as a follow-up to the M&A topic, there seems to be some really clear opportunities in both media and distribution amid an obvious restructuring or coming restructuring of the industry.

But there are also so many different forces playing out right now with the same (00:44:53) companies are investing so heavily in premium video in ways we've never seen. Yet you have this unpredictability in Washington and what can get approved and not approved. So can you just give us color on how you're thinking of getting, are you getting pushed in one direction or another in terms of media, content or distribution?

A - Stephen B. Burke {BIO 1983798 <GO>}

So I'll answer two of your four or five questions and then pass to Dave or Brian. But – and let me start with DreamWorks. We bought DreamWorks 18 months or so ago and have completely retooled the flow of releases. We actually have a slow year this year. And then next year in 2019, we'll have a couple releases and then should have two releases every year thereafter. And if you combine that with a couple releases from Illumination, we should have four animated films and a good full-throttle year. We're very happy with the progress we've made at DreamWorks. And you can imagine a year when we have four great animated films what that will do to our Film OCF.

At the same time, we very much believe that we need to have the ecosystem of new IP, strong consumer products and then appearance in our theme parks, and we've got that cranked up now. We've made a lot of investments and seen a lot of growth in consumer products in the last couple years. Those results are embedded in the record year that our film group had. And you're going to see that continue in the future; the ultimate payoff being when you've created enough IP to really leverage that consumer products capability. That capability is worldwide. We're opening offices overseas, taking back agent relationships with employee relationships; I think, consumer products is a big upside for NBCUniversal.

In terms of advertising, it's impossible not to see the strengths, particularly of Facebook and Google, really the dominance of Facebook and Google, in terms of digital advertising. And a lot of the growth in the ecosystem is going toward digital. And we're not participating in that growth to the degree that we should be given the span of our assets. The good news is television advertising is roughly flat, if you combine the negative effect of ratings decline and the positive effect of CPMs. Depends on the company, depends on broadcasting/cable, depends on the quarter, but television advertising is holding its own.

Our dream and it should be the dream of anybody who's got assets like ours, is to take our television advertising and make it more targetable, more addressable, and have more of the characteristics that digital has; and then, over time, have more of our advertising be affected by the technology that digital provides. We've made a lot of progress on that. We've made a lot of investments in Vox and BuzzFeed and Snap. We've made a lot of progress in terms of how we monetize online and how we monetize on the VOD platform, particularly with Comcast Cable, but there's a lot more to do. And I think what you heard at CES is the number of plans that we have.

We've rolled out – Linda probably has four or five different products that she's currently in the market selling that have aspects of interactivity and overlaying Comcast data and markets. And there is a lot more to go as far as that goes. But the good news is television advertising, I think, is holding its own. And as we head off to the Super Bowl and the Olympics, it's not lost on us that if you're a big advertiser and you want to launch big brands and really make a material change in the way consumers think about you, you have to be in the big events on TV. And we have something like two-thirds of all the big nights on Broadcast Television in the next 12 months. So we think we're well-positioned for the ecosystem where it is. But we're hard at work creating the ecosystem that should be there, that gives television all the positives that digital has.

A - David N. Watson {BIO 3725402 <GO>}

Hey, Jessica, Dave. So as Steve said, one of the things on the Cable side that we're focused on is being able to pull together the platform that could pull together all the content. And our first wave that Marcien is helping us stay very focused on is VOD. So the VOD addressability is off and running; having success with that. But really the transition continues to stay focused on VOD, linear, online, all coming together. I think Cable and distribution, we have a unique opportunity to pull all these things together. So Marcien has done a nice job pulling together the platform elements that put us in position to make these things happen.

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

Just to the other question, I think probably we covered it a little bit in theory in my prior conversation and then I think it's an interesting time in the business. The opportunities are being created. Some of those opportunities are negative, and some are positive. I think our jobs are to study it and understand where to grow. And I think Dave, acknowledging that we saw changes in video coming as a, for instance, and put our innovation efforts around broadband is just but an example of that. I think the emphasis on theme parks, which we didn't anticipate when we bought NBCUniversal, but we saw opportunities there, as a for instance.

So, let's leave it at that for now. It's the kind of thing we'll talk about over time. Some of your predictions of restructuring of the industry, let's see if it all plays out that way. And there will be more information in the quarters ahead.

Q - Jessica Jean Reif Cohen {BIO 20736441 <GO>}

Right. Okay, thank you.

A - Jason S. Armstrong {BIO 6732609 <GO>}

Thanks, Jessica. Next question, please.

Operator

Your next question comes from the line of Marci Ryvicker with Wells Fargo. Please go ahead.

Q - Marci L. Ryvicker {BIO 6183203 <GO>}

Thanks. I have two questions for Mike and then one for Steve. So first, Mike, it sounds like Xfinity Mobile is staying in Corporate. I guess at what point do you put this in Cable Communications? Do you wait until this is profitable? And then secondly, it sounds like the programming costs are driving the majority of the 50 basis point improvement in Cable margins. So are we interpreting that correctly?

And then for Steve, you have a very unique portfolio coming into the year in terms of advertising with the Super Bowl and the Olympics. But do you have any sense what advertisers are going to do with their excess cash from tax reform on their own balance sheets? Are you hearing that any more advertising dollars might come into the system and go towards TV?

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

Thanks, Marci. So it's Mike. So, on the Xfinity Mobile question, expect it to stay in Corporate for all of 2018, probably, if I had to guess, all of 2019. The idea here is to obviously share the information we do share. You'll see everything that matters, but not to have the – as we're ramping that business, it's obviously – would otherwise distort the core business in Cable. So we'll talk about it and share it with you. But I think putting it where we put it is intended to be transparent and clear so you can judge the businesses from a bunch of different angles. So a couple of years would be my answer on that.

And then on margin improvement, it's the – I want to make sure you got the number right. It's as much as 50 basis points, 5-0. I might have heard you say 1-5. It's really the sum of two things. It is obviously the easing of programming costs increases, which we had two big years, looking back to the years before this. Dave and team there have done a great job managing all parts of the cost base away from programming. And that's continued, so

I would give credit over a multi-year period to say that it's the focus on being efficient in all categories that's contributing to this year's margin changes, not just programming.

A - Stephen B. Burke {BIO 1983798 <GO>}

So in terms of the advertising, we're 10 days away from the Super Bowl. And as we head into the Super Bowl, we are averaging about $5 million a unit, which is up, call it, 15% or 20% we think from last year and we're essentially sold out. So if you're looking for sort of an immediate sign as to how hot the market is, as far as the Super Bowl goes, it's pretty hot.

I think the television advertising ecosystem has been strong for a while now, probably two or three years of strength. It feels like it might be getting a little stronger now. I don't think there's necessarily a direct correlation from the tax cuts and having more cash and throwing that into advertising.

I think it might be more related to just overall business sentiment. But to the degree that business sentiment is slightly stronger now than it was six months ago or stronger now than it was six months ago, I think you can kind of feel that coming into the advertising market. And as we look forward into the upfront, which is only a few months away, by all accounts, it's going to be a strong upfront.

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

The only other thing I would add, another theory would be that it's because the Eagles are in the Super Bowl that it's all strong, but I'm not sure.

Q - Marci L. Ryvicker {BIO 6183203 <GO>}

Great. Thank you.

A - Jason S. Armstrong {BIO 6732609 <GO>}

Thank you, Marci. Next question, please.

Operator

Your next question comes from the line of Vijay Jayant with Evercore. Please go ahead.

Q - Vijay Jayant {BIO 1526830 <GO>}

Thanks. I just wanted on, for Steve, the virtual MVPD growth over the last year and the impact on the underlying subscriber trends and the affiliate numbers and retransmission numbers looks pretty good at NBC's broadcast and cable. So any color on how the underlying subscriber trends are there.

And then just a broad question on net neutrality and the reversal of Title II. Is there anything different that's going to be done now given that's probably not an overhang anymore on the broadband side of the business? Thank you.

A - Stephen B. Burke {BIO 1983798 <GO>}

So I think when you're thinking about virtual MVPDs or MVPD changes in general, from an NBCUniversal perspective, we're really talking about tenths of a percentage point. We're not talking about major, major changes. And the virtual MVPDs are accelerating. As more of them get into the business and their business grows, some of them are accelerating. But it's a relatively minor effect across the board for NBCUniversal. And if you look at the last two or three quarters, you'll see changes in the tenths of a percentage point, but not percentage changes overall.

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

I think we've said that we support a free and open Internet and we have been committed to enforceable open Internet protections. We just thought Title II was unnecessary to guarantee consumers that open Internet.

So, we believe Congress will hopefully now act to put some enduring set of enforceable open Internet protections that can no longer get revisited and reversed with different administrations. So, I do think it gave us the confidence to make the statement that over the next five years we're going to have significant investment in our economy to the tune of at least $50 billion. So, we're moving forward, investing and innovating, and I think we look forward to someday putting this conversation behind us for everybody's sake.

Q - Vijay Jayant {BIO 1526830 <GO>}

Thanks so much.

A - Jason S. Armstrong {BIO 6732609 <GO>}

Thank you, Vijay. Next question, please.

Operator

Your next question comes from the line of Jason Bazinet with Citi. Please go ahead.

Q - Jason Boisvert Bazinet {BIO 4013756 <GO>}

I just had a question for Mr. Burke. I guess if you guys do do M&A, I hope everyone remembers how almost universally negative they were on the NBCU acquisition when you did it. Because when I look at my numbers, back in 2010, it was about 20% of your EBITDA, and NBCU has made up almost 50% of the EBITDA dollar change for the last seven years. I think we all understand you've done a great job on a number of fronts: parks, studio, Telemundo, retrans. My question is what levers do you see left? In other words, are there still big levers that you see over the next two or three years? Or do you think NBCU's growth will begin to more closely resemble sort of the industry's growth? Thank you.

A - Stephen B. Burke {BIO 1983798 <GO>}

Well, I think we still have a lot of opportunity. And it's very, very hard to predict. When we bought the company seven years ago, I think the operating cash flow was about $3.5 billion. And I think in this past year, it was about $8.2 billion. And we never dreamt seven or eight years ago that we would get that kind of growth. We saw opportunity, but we weren't articulate about the degree of that opportunity.

And it's equally difficult as you look into the future, but I think we have a lot of opportunity still. If you look at MSNBC beating CNN almost every night and beating Fox many nights, Fox News, and the fact that MSNBC makes a fraction of what CNN and Fox News make, if you look at Telemundo beating Univision last year in primetime, and Univision making a lot more money than Telemundo. If you look at our theme parks, which are fantastic, and every time we open new attractions, we're seeing very, very substantial jumps in attendance and we have room for thousands more hotel rooms. If you look really across the board, I think we still have a lot of opportunity.

The fact of the matter is NBC primetime has gone from fourth to first, and you can't be any better than first. And Universal Pictures has had two out of the three biggest years in its history in the last three years. So trees don't grow to the sky, but we still have a lot of opportunities. I think we have a great management team. We're allocating capital in a very rational way. We have a great culture. Everybody works together with symphony, so I'm optimistic we can continue to grow and we still have lots and lots of opportunities.

Q - Jason Boisvert Bazinet {BIO 4013756 <GO>}

Thank you.

A - Jason S. Armstrong {BIO 6732609 <GO>}

Thank you, Jason. Regina, we'll make this the last question, please.

Operator

Our final question will come from the line of Brett Feldman with Goldman Sachs. Please go ahead.

Q - Brett Feldman {BIO 3825792 <GO>}

Thanks for taking the question. And just to follow up a little bit more on Xfinity Mobile. Mike mentioned that the EBITDA losses here I think were a little greater than you had initially thought and there's going to be some incremental drag in 2018. It sounds like from his comments that the key variable there is just higher customer growth and therefore higher customer acquisition costs. And I just want to confirm that that's the right way of understanding that.

And then you got to over 380,000 subs with pretty narrow and targeted distribution. I was hoping maybe you could just expand upon what your plans are for this year, particularly on the distribution standpoint, in order to make sure you're able to keep that momentum going. Thanks.

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

Hey, Brett, it's Mike. So I'll start and hand it over to Dave. So on this year's drag, I'd say it's in line with what we had expected; maybe a touch higher, but not meaningfully so. And yes, what happens next year will very much be a function of the hoped-for ramping up of subscriber acquisitions, which obviously until we get to a level of sort of stability at a higher level than this, you'll be having increasing drag. But that's a good thing as we're growing a business that we think is going to be very valuable to the overall economics of the customer relationship.

A - David N. Watson {BIO 3725402 <GO>}

So from a distribution standpoint, one of the things we talked about early on was our focus around digital and having a great digital experience and through the sales process, through onboarding. And so that's working. We're real pleased with digital as a channel. I mentioned retail, our existing retail locations; don't feel like we need to go a lot bigger. We have a long-term good plan. But we're introducing mobile into existing retail and we're having success there. It's early, but I think 2018 is a year of scaled operations around the retail experience. And then last, but not least is the – introducing it, which we've done into our traditional inbound call centers, which always do a good job with products. So I think you piece all these things together, there's upside and opportunity as we expand distribution in mobile.

Q - Brett Feldman {BIO 3825792 <GO>}

Thanks. One quick question. I know you're targeting your existing base with this product. Are you finding that when you bring new customer relationships on, you're able to attach mobile out of the box?

A - David N. Watson {BIO 3725402 <GO>}

As you just maybe heard, we just announced Bring Your Own Device, a nice new addition, so too early to give too much color on that. But it's a real opportunity both for existing customers and new customers, being able to come in, bring their device and talk about transitioning over. So we're focused on a balanced approach to existing customers, but also more and more be reaching out to new customers. And we'll talk about then the other lines of business in addition to not just mobile.

Q - Brett Feldman {BIO 3825792 <GO>}

Great. Thanks for taking the questions.

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

Yeah. Thank you all.

A - Jason S. Armstrong {BIO 6732609 <GO>}

Okay. Thank everyone for joining us this morning. We'll end the call there. Regina, back to you.

Operator

This concludes today's teleconference. Thank you for participating. You may all disconnect.