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OVERVIEW:

Company Summary

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PRESENTATION

Sebastiano Carmine Petti - *JPMorgan Chase & Co, Research Division - Analyst*

Good morning, everyone. I'm Sebastiano Petti, and I cover the communications space here at JPMorgan. I'd like to welcome Dave Watson, President and CEO of Comcast Cable. Dave, thanks for joining us.

David N. Watson - *Comcast Corporation - President & CEO of Comcast Cable*

It's great to be with you.

QUESTIONS AND ANSWERS

Sebastiano Carmine Petti - *JPMorgan Chase & Co, Research Division - Analyst*

So Dave, there's a unique operating environment in cable these days, particularly with broadband, which will -- while we'll surely dig into that, I was hoping you can maybe set the stage for us and touch on your top priorities for the team here over the next 12 to 24 months and where are you spending most of your time?

David N. Watson - *Comcast Corporation - President & CEO of Comcast Cable*

Well, the #1 focus without a doubt is growing broadband revenue. That's tops on the list. If you take a step back for a second, I've gone through a host of competitive cycles before. This is probably the most competitive broadband environment that I've seen. But yet, we grew broadband revenue 4%, and so there's a good balance of -- between the volume and rate that we've been focused on.

And maybe one of the most important things that we acknowledge and are a champion of, quite frankly, is broadband consumption, applications. When you look at the last quarter, double-digit broadband increases. The results of where our customers are taking packaging and tiers, 70% of our customers, 500 megabits and above; 1/3 of our customers, 1 gig; and just a lot of consumption for the HSD-only crowd, 700 gigabytes.

And the other main focuses that we have, we have mobile that is a great companion to broadband. Very well positioned for convergence in a ubiquitous way. A lot of activity, I'm sure we'll get into in a second. But we're excited if it's still about mobile, a long way to go. Business services is a great growth engine for us, from $0 20 years ago to $10 billion run rate business and a lot of focus around maintaining small business leadership but growing mid- and enterprise-level businesses.

At Sky, they have a great connectivity business. There's $4 billion of revenue in the connectivity business, and that is an opportunity as well. So the main thing that we believe is the key to the balancing act is the network, investing in the network, and segmentation. And those are the two key things that we've been pretty consistent on, very focused. And I think the proof is in how we allocate capital and the results that I mentioned earlier. So it all goes back to broadband revenue in a very competitive, intense moment, but we've achieved the ability to keep up that revenue growth. But a lot of other factors go into it, but we're pleased with our position.

Sebastiano Carmine Petti - *JPMorgan Chase & Co, Research Division - Analyst*

A lot of stuff to come back to there, for sure, but definitely wanted to touch on the network. And you recently announced that you've doubled mid-splits year-over-year and now reached 40% of the footprint. So can you help us -- can you remind us of Comcast's network road map? And what are your capabilities today and help us think about timing of DOCSIS 4.0 deployment, multi-gig, et cetera?

David N. Watson - *Comcast Corporation - President & CEO of Comcast Cable*

Well, there are a couple of phases to DOCSIS 4.0. One, you mentioned mid-splits. We are at 40% right now. By the end of the year, we'll be at 50% with the mid-splits. And once we do mid-splits, it opens up the ability to come in with DOCSIS 4.0. DOCSIS 4.0 ushers in multi-gig symmetrical. So we have 3 markets that are active with 4.0 introducing multi-gig symmetrical. We're doing all of this at scale. So it's -- that's the first 2 waves are that.

A third piece of the network architecture is really important, and it's how we're building it in a virtualized way. So we're able to pull off the capital spending and still provide at scale, I think, the best broadband network in the marketplace, but we're virtualizing the network. So the brains are moving from the hardware to the cloud, it improves telemetry, it improves reliability. The time for us to do any kind of changes to the network is dramatically accelerated. And this is before we really introduced a lot of AI, which we will, into network performance. So there's a lot there.

And then last but not least is we're growing passings. So we're able to -- we did last, going before '23, we were around 700,000, 800,000 passings. Last year, we did 1.1 million. I think we'll do that again this year, maybe a little bit more. So we're adding more passings on top of this significant upgrade effort that puts us in a position, at scale, to be able to do multi-gig symmetrical, which is key.

Sebastiano Carmine Petti - *JPMorgan Chase & Co, Research Division - Analyst*

Can you make the case that it makes sense to accelerate the network upgrade in terms of just given the heightened competitive environment?

David N. Watson - *Comcast Corporation - President & CEO of Comcast Cable*

I think we're in a really good position. Our strategy is to do this at significant scale. We like where we are. We're not holding back one bit. A question that's come up has been, are we holding back to manage to capital intensity? We're not. Strategy defines capital intensity. Our strategy is to compete fiercely.

The main long-term competitor for us and the reason why I think we're in a really good position, we consider a bunch of different factors, and competition is certainly one, but the main longer-term competitor is fiber. And so we're in a position with where we're building, where we're doing upgrades and where we're ushering in multi-gig symmetrical is, for resi and commercial, I think we're in a really good position.

We've gone up against fiber for a very long period of time. And I think we have a good road map to how to compete. But investing in the network the right way, we're able to do it because we've architected it the way I've talked about. But we're not holding back one bit. The strategy will define capital intensity. So we can get to the 10%-ish range and accomplish everything that we need to.

Sebastiano Carmine Petti - *JPMorgan Chase & Co, Research Division - Analyst*

I like that line. Strategy defines capital intensity. So obviously, you touched on fiber, but help us think about, taking a step back, what is the formula for getting Comcast Cable back to broadband subscriber growth?

David N. Watson - *Comcast Corporation - President & CEO of Comcast Cable*

Well, the how starts with what I mentioned a little bit earlier, and that's the -- how we segment the marketplace. Our beginning point, the reason why that we have 1/3 of our customers, 1 gig; 70%, 500 megabits and above, our starting point are the best customers, the ones that want the best experience. And so that is the beginning point of segmentation. However, we're competitive in every segment, and we want to provide unique packaging.

So the beginning point, I think, for the right balancing approach, that includes an aggressive approach towards share, is that segmentation approach. I think the key for today and for tomorrow is investing in the network for the long haul. And so what we just talked about is so essential for us in that we can -- we certainly anticipate, over time, the competitive cycles will shift and change. And again, we've had -- this whole cycle has been defined by lower churn. When churn has been pretty good, it's been on the connect side.

So be in position with segmentation, investing in the network, anticipating there's going to be more applications, more streaming, more consumption than ever, and we'll be in position. At the same time, we're going to continue to innovate and innovate around broadband. So you have mobile, which can be a great companion. It is a great companion. It's impacting churn in a good way, the more we put mobile in with broadband. And so that's a key one.

But we're also introducing innovation all the time around just a brand new, the lower end of the market, a suite of products of the NOW brand. Just introduced a new thing, I'm pretty sure we'll talk about, StreamSaver, which is a companion to broadband. The reason we did it was broadband. So there are a lot of things that we're doing to manage this balancing act, but we're focused on the relationship side, too.

And I think we're in a unique moment. It's very competitive. A cycle shift, we'll see, but I like this, the balance that we have and our ability to grow the right way to look at it. Yes, we're focused on client relationships, customer relationships, but it's that total growth of revenue that we're focused on when you add everything up. And the investment in the network, I think, speaks for itself and -- but we'll continue to compete fiercely in every segment but do it in a way that's not chasing customers as we do it.

Sebastiano Carmine Petti - *JPMorgan Chase & Co, Research Division - Analyst*

Okay. You did allude to it, but last week, Brian previewed your upcoming StreamSaver product, which is a DTC bundle that includes Peacock, Netflix, and Apple TV. Is there anything you can tell us, the price perhaps, the strategy behind it and how you see it benefiting Comcast's broadband business over time?

David N. Watson - *Comcast Corporation - President & CEO of Comcast Cable*

Sure. So it's an exciting announcement. We're pleased to roll out this innovation. We've had this wonderful platform, this operating system that we've been able to scale between Sky, between the U.S. You have a singular platform that goes way back to X1 that gives us opportunities to consider innovation like StreamSaver.

So there are two ways that customers can get StreamSaver. And again, it's an exciting announcement in that there are 3 premium streaming services that are combined in a compelling package. And of course, there's Peacock. There's the Netflix service, the ad tier component and Apple TV. First way you get it, if you're an existing customer, could be broadband, Xfinity TV, mobile, any form of packages of existing customers. You can get it for $15. And so that's a bolt-on on top of any package that we have. So it's great savings, 30-plus percent savings for customers.

And as important as it is, I think, a compelling price point and aggregation of streaming services that are premier, that we have. But it's the experience being able to combine these streaming services in a really elegant way that makes it super useful to find what you want, when you want through voice and all that.

The second way that you can get it is combining NOW TV. NOW TV is a product that we've had that has 40 fast channels, Peacock, and now we're adding Netflix and Apple, and that will be available for $30. So you have 2 main vehicles to get it, a simple, easy, bolt-on $15 on any -- on top of any package and then you have $30 if you want -- and you get lots of premier entertainment. You get lots of live sports. It's a really attractive set of options for customers to consider.

We've got early traction with NOW TV. I've been really encouraged with that, so adding on this for $30, we're pleased to be able to have these 2 things. So it's -- we're able to do it because we have this platform. And as important as price points are, I think it just adds, and the reason we did it in the first place was broadband. It's for the broadband customers. They're looking for simple, easy alternatives, and this is a great streaming set of packages to bring to the marketplace. So pretty excited about it.

I think it's a home run for consumers. I believe that StreamSaver, more to come and it opens up, I think, a series of opportunities. But these partners that we have, most certainly own teammates at Peacock, but we're thrilled to have Netflix and Apple to be part of this.

Sebastiano Carmine Petti - *JPMorgan Chase & Co, Research Division - Analyst*

So yes, could this be a preview of additional bundles to come, perhaps?

David N. Watson - *Comcast Corporation - President & CEO of Comcast Cable*

I think it opens up possibilities. We like this package, like this approach. And so -- but certainly, it does open up possibilities down the road.

Sebastiano Carmine Petti - *JPMorgan Chase & Co, Research Division - Analyst*

Great. And you touched on the NOW brand. Can you maybe walk us through the strategy behind the launch of the NOW brand? Should we be thinking about it as filling a competitive gap? Is this maybe something more proactive versus reactive move?

David N. Watson - *Comcast Corporation - President & CEO of Comcast Cable*

We've always had a focus, as I've mentioned a lot, around segmentation and that it's -- our starting point is to go after the premier levels, the customers that want the best experiences. But having said that, we're going to compete for every segment. And in the more value-oriented, more price-sensitive segments, we've had prepaid Internet for a while. It just hasn't been as competitive as we would have liked.

So we've changed it up a bit under one brand, one simple architecture. We've introduced on top of NOW TV, which we've had for a while, we now have the brand, NOW, NOW Internet, and also NOW Mobile. This is the first time we've done prepaid mobile. We've not done that as of yet. Required some systems work to complete that, which we've done. But it is probably one of the best examples of segmentation in that we wanted one approach with that is for the prepaid segment, that's simple, no credit checks, no fees, no contracts.

It doesn't have all the bells and whistles. It doesn't have necessarily all that the premier levels of broadband or whatever it is, 1 gig down through higher levels of service. But it's an attractive proposition. And I think for us, the other end is we compete maybe on the higher end with fiber. We're certainly very competitive with fixed wireless. This is a good answer. This is better broadband for customers that want a better experience on -- for streaming, straightforward applications. I think this is a better answer to fixed wireless in my humble opinion.

So we are excited about this portfolio. It comes at a time, too, I know we may touch on this as well, where there's rapid changes going on in the marketplace around ACP, and it's a great alternative. So now we have another option to provide customers that are looking for really solid broadband for a variety of purposes. But it comes with a gateway, it comes with all the other attributes that I mentioned. So I think it's -- for that segment, we'll be super loud and aggressive on the high end, but this is for that segments that I mentioned before. I think it's a pretty good alternative.

Sebastiano Carmine Petti - *JPMorgan Chase & Co, Research Division - Analyst*

Great. And you touched on ACP. And recipients have likely begun to see their bills step up due to the partial funding this month. Can you tell us what Comcast is seeing? And do you expect the bulk of the ACP disconnects to come in the second quarter? Or is this more likely to come in 3Q?

David N. Watson - *Comcast Corporation - President & CEO of Comcast Cable*

Well, it's way early in that and being able to decipher between the two. Let me step back for a second. And it's -- we've had great relationships with a lot of customers in Internet Essentials going back a decade-plus. We've introduced during the pandemic another option, Internet Essentials Plus, regular Internet Essentials, so $9.95, $30 products. So a couple of great alternatives.

Just mentioned, we talked about NOW, the prepaid Internet. So we think we're well positioned in a fast-moving environment. There will be, I think, elevated churn. There's no question. Between -- how much is between second quarter, third quarter, it's too early to have that distinction yet. Obviously, we'll watch it daily. But there will be an elevation of churn, I think, as this goes through. We've gone through the first, a little bit of a wave of the partial payment, but that's not indicative of what will happen later, depending on what happens and assuming that there's not any kind of change that this goes away.

But I think, again, going back to our position, we've been careful how we've approached eligibility. We've had long-standing products in the marketplace. And it's really key, and I think the FCC said this that -- and we're in, I think, a reflection of this, most, a vast majority of the customers that were enrolled in ACP were existing customers. So we're -- this is a form of promotional rolls. We've been doing promotional rolls for a very long time.

So there's a whole protocol of how you do that and how you manage it. We know this is a very important moment for customers, and we're going to be very sensitive and careful how we do it. But we've become very accustomed to promotional rolls. So this is going to be that, a lot of them, but we're prepared and operationally ready. And we have the product portfolio to back it up.

Sebastiano Carmine Petti - *JPMorgan Chase & Co, Research Division - Analyst*

And so as we think about ACP, if it's a promo roll, it's maybe not necessarily a subscriber headwind. Maybe it could be because of certain income challenges, challenged consumers or cohorts can't necessarily pay, but maybe it's a little bit of a ARPU or revenue kind of impact but more kind of onetime in nature that we should be thinking about.

David N. Watson - *Comcast Corporation - President & CEO of Comcast Cable*

Well there's a little bit of churn elevation that is going to -- I think, and that will go through the second and third quarter, and there will be some churn elevation, there's no question. I think because of everything that I talked about, though, it's a really important point that you raise. We feel very comfortable in terms of our ARPU guidance that we've had in our historical range being in that 3% to 4%. Even with this, we don't see that changing.

I think we have -- again, because customers have been with us for a while, most of them prior, that had a good experience with Internet and broadband, then we are hopeful to be able to work with them. But we feel pretty confident that, that historical range we're still going to be able to achieve for the year.

Sebastiano Carmine Petti - *JPMorgan Chase & Co, Research Division - Analyst*

Great. And so shifting to mobile, net adds have been in this 300,000 range for several quarters now. How are you evaluating the merits of the mobile business or the mobile strategy as you think about it as an acquisition tool versus perhaps a retention tool?

David N. Watson - *Comcast Corporation - President & CEO of Comcast Cable*

Mobile checks every box that's key for us, whether it's consideration in acquisition, it's base management, which equals upgrades and then retention. So it's really a core part of our strategy to partner mobile with broadband. It is the -- from day 1, that was our game plan. That's how we go to market with broadband and surround broadband with value with mobile. So that is our game plan.

So we like the performance with where we are with lines, tons of runway ahead for us still in the marketplace. So we're excited about it, critical part of our strategy. So we've evolved it. We've constantly been evolving it. Even recently, we have a "second line free" initiative to the base. We have new service offerings that are helping us compete a little bit better on the multi -- the family packs and most certainly, prepaid mobile. That is the new one to -- that this is brand new.

So we're going to continue to add to the playbook as we compete with mobile, but we like our position. We have surgical approaches towards promotions. We're not day in, day out in the handset giveaway business, but we do go come in with promotions. We're competitive that way. And it's the core service offerings that we have that I think are the real value. So just as you said, we've been very consistent around 300,000-or-so lines per quarter. And the activities that I've just mentioned between buy 1, get 1 second line free, the prepaid and the new family pack pricing, it's early but it's encouraging.

Sebastiano Carmine Petti - *JPMorgan Chase & Co, Research Division - Analyst*

Okay. And as you think about sort of, I think, what, 11% penetration of the base today, I mean, has the long-term potential of this model or this opportunity that you have changed at all over the last several years? I mean it's been what, 6, 7, 8 years since you last -- 6, 7 years?

David N. Watson - *Comcast Corporation - President & CEO of Comcast Cable*

Yes.

Sebastiano Carmine Petti - *JPMorgan Chase & Co, Research Division - Analyst*

Lose track, sorry. But I mean, has the potential changed at all as you're thinking about it in terms of like what the penetration rate or -- of the broadband base can be over time?

David N. Watson - *Comcast Corporation - President & CEO of Comcast Cable*

It has tracked very much to what we had hoped for in that it is profitable, it's a great companion to broadband, as I mentioned, and there's a lot of upside. We are the challenger in the marketplace. And with the amount of lines, and you look at the -- again, the way we look at it, we have 32 million, which we do broadband relationships and the ability -- everyone should be having 2-plus, approaching 3, lines per -- you think about where we are. There's a lot of opportunity that we have still.

But again, we don't chase it. We think it's -- we have good service offerings but it's a profitable business in and of itself, but it's a -- and it has helped broadband churn definitively. So we're real pleased with that. I mean we always will combine it with broadband. And I think it's one of the best Double Play packages in the marketplace that Cable has and most certainly with Comcast.

Sebastiano Carmine Petti - *JPMorgan Chase & Co, Research Division - Analyst*

Yes. We don't talk about Triple Plays anymore. I remember that was a big thing 15 years ago when I started my career in cable, that people talked about.

David N. Watson - *Comcast Corporation - President & CEO of Comcast Cable*

There's still a fair amount of Triple Play.

Sebastiano Carmine Petti - *JPMorgan Chase & Co, Research Division - Analyst*

Yes, those inert voice subs that...

David N. Watson - *Comcast Corporation - President & CEO of Comcast Cable*

It's a different form.

Sebastiano Carmine Petti - *JPMorgan Chase & Co, Research Division - Analyst*

Yes. And so any update on maybe the offload strategy? I think you're live with CBRS in a couple of market -- a handful of markets. How are you thinking about that?

David N. Watson - *Comcast Corporation - President & CEO of Comcast Cable*

Yes. We're active in 3 markets at this point. In hometown Philly, it's working great, test it all the time. And I think it's a unique opportunity for us. And we really like our capital-light, existing approach that we have towards mobile. And we're competitive and we can roll out the Double Plays, the next-generation Triple Play, that we have.

But it's a great option to have. So we're testing it, but we're actually going beyond testing now. It's actually real market deployments in these 3 markets, and we're pleased with it. So we'll continue to evaluate that. It's a good opportunity for us. And again, it's a specific offload and the most heaviest part of the traffic areas. So we don't have to deploy it widely. We can have it surgically deployed where we need it.

So we're technically at the point where we could begin to do more if we want to. So it's not a huge capital thing. So we're continuing to look at that. I think a pretty steady approach towards it, but nice opportunity in the long run.

Sebastiano Carmine Petti - *JPMorgan Chase & Co, Research Division - Analyst*

Great. So shifting gears to business services. This business has reached considerable scale. It's now at $5 billion of annualized EBITDA run rate and expect it to be a material contributor over the long term. I was hoping we can drill into the different segments a little bit. Comcast took a lot of share in SMB for a long time. Maybe this wasn't much of a focus for some of your larger competitors, but this segment now is a focus for some of those telco competitors. Maybe can you update us on the state of competition?

David N. Watson - *Comcast Corporation - President & CEO of Comcast Cable*

Yes. It is competitive and it has been most certainly in the SMB side. But if you step back for a second on business services, as I mentioned before, 20 years ago, zippo to the $10 billion run rate in revenue, the $5 billion that you mentioned of EBITDA. Great margins in this business and a very consistent, aggressive approach that we've taken towards share, but the same approach that we have in residential, we've deployed in business.

So I think you have to think about growth in the business world in a similar fashion in that we're looking at revenue growth. So we're going to fight -- like we've already established a leadership position in SMB, which I think is impressive for cable and Comcast to pull off. But at the same time, we compete fiercely for small business. And with fixed wireless coming in and taking some, fiber being very active, we're adding new products all the time and mobile being one of them. But we do the WiFi, the dual SID, being able to do WiFi backup, WiFi capabilities that we have.

We do cameras. We do all sorts for a small business that just add revenue on a client basis. So we're expanding revenue with SMB. The upside, and we're going to be the challenger for some time, is in the upper end, and that's mid-market to enterprise. And we have a lot, a lot of upside. But the same thing goes there. We have 2.6 million overall relationships combining SMB, mid-market on up. So there are relationship opportunities, but there's an awful lot of revenue opportunities. We've transitioned in relatively short order from backup connectivity to primary connectivity.

Now the main connectivity source, but you look at the $50 billion marketplace of business services, we're less than 20% of that. And I think there's even more opportunities as you add in new, more sophisticated applications, advanced applications, things like SD-WAN, things like UCaaS, CCaaS, security is essential. And the one thing to, hopefully people recognize, usage patterns vary by the businesses, small business, the medium size. There's one universal thing that we've seen, that it has to work. Reliability to the business customer is everything. It has to work.

And we have the most reliable approach towards small business, medium, high-end customers, and I think a great road map for mid-market. And now we can go everywhere. We're competing in 100 countries with the acquisition of Masergy, so we can deliver branch locations wherever they are and being able to grow relationships that way. But now we're talking to customers about whatever their advanced applications needs are. We start with that. Let's talk about connectivity. And then adding on these advanced applications, which are changing every day. This is before AI also has really kicked in, in a meaningful way. So these applications are going to do nothing but change and shift. And it's great to be a challenger in these moments.

Sebastiano Carmine Petti - *JPMorgan Chase & Co, Research Division - Analyst*

Is that the greatest or the most attractive near-term opportunities, some of these advanced applications that you kind of speak of? Or...

David N. Watson - *Comcast Corporation - President & CEO of Comcast Cable*

I think it's growing relationships period in the upper end, mid-market. And so it's connectivity with these advanced applications, it's a great opportunity for us.

Sebastiano Carmine Petti - *JPMorgan Chase & Co, Research Division - Analyst*

So margins and cost optimization opportunities, a big focus for Comcast. You guys have definitely done a great job expanding margins in the Connectivity & Platforms segment. You announced a restructuring in 4Q. Had strong growth in the first quarter as well, reflecting a decline in overall expenses. How are you thinking about the sustainability of margin expansion over the next several years as we balance the puts and takes of maybe gross adds improving or some sort of churn impact from increased competition, mix shift? You also have potential improvements from ML and AI. So how does that all fit into how the team thinks about the calculus for margin expansion from here?

David N. Watson - *Comcast Corporation - President & CEO of Comcast Cable*

Yes. If you look at '23, kind of overall back to your point, another really solid year. The 4% EBITDA, 140 basis points, the margin expansion currency reflected in that. So we really like the constant focus. So we've been on the two main tracks, and the overriding impact is the starting point of what we talked about earlier. It's the high-margin connectivity businesses that help fuel this part of the margin growth that we've been experiencing and why we feel pretty good about longer term.

Won't give specific guidance on that. But longer term, we like this road map. So the starting point is broadband, it's mobile, it's the business services, this focus on -- and international connectivity as well. It's the margins that we have that start with what we sell. Behind that are the two main drivers of the expense side. And you have the variable expenses that are the transactional activity, and between all the calls that we've taken out that have just been the noise out of the system, the team has done a really nice job.

And again, when you -- as we're architecting and building out the network, a core focus of ours has been reliability. So some of these capital investments have really made a great difference, just taken literally the noise out of the network and just on an ongoing basis. So we're ending up with the most reliable broadband video network that I think is out there.

So it's taking out truck rolls, it's taking out calls. And there's a little bit of AI that's been part of it. We've been focused on certain applications but there's more to come. There's more that we're very focused on, leveraging appropriate data that we can do even a better job on this variable side of the business that will take out. Just our chat alone, those that have our chat, we like our chat. It can be better. It should be better and it will be better. So we're focused on that.

The second part of what we're doing is on the fixed cost, and we've been very disciplined around taking out fixed costs where we can and making adjustments to it. But not -- being able to accomplish everything we need to compete aggressively for all the client relationships, roll out innovation where we need to, to roll out new products, we're not holding back at all. But we're very disciplined and buttoned down when it comes to the fixed side as well.

Sebastiano Carmine Petti - *JPMorgan Chase & Co, Research Division - Analyst*

Well, right on time. I think that's a great place to leave it. Dave, thanks for joining us. And thanks, everybody.

David N. Watson - *Comcast Corporation - President & CEO of Comcast Cable*

Thank you very much. Thanks.
