THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

CMCSA - Comcast Corp at MoffettNathanson Media & Communications Summit

EVENT DATE/TIME: MAY 14, 2018 / 3:00PM GMT

CORPORATE PARTICIPANTS

David N. Watson *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

CONFERENCE CALL PARTICIPANTS

Craig Eder Moffett *MoffettNathanson LLC - Founding Partner*

PRESENTATION

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

And just as a reminder, after this session -- most of you who are veterans of prior summits, but you'll recall, the lunch is served upstairs at the Australia Penthouse. And there are express elevators, but it's an elevator trip, and so just be patient about getting upstairs. And we'll have Ted Sarandos of Netflix for the lunch session upstairs in Australia.

All right. Welcome. Thank you -- to those of you in the room, thank you for joining us for our session with Comcast today at our Fifth Annual Media & Communications Summit, and for those of you joining us via webcast, thank you for joining us as well.

Welcome back to the conference, Dave. A year ago, when you sat in the same chair, I think it was in the same room, you are then newly named President of Comcast Cable. And I went back and looked at my notes from last year, and my first question started with the observation that you were inheriting a business where "everything was working well." Since then, cable, it's fair to say, has fallen pretty badly out of favor. The stocks across the sector have fallen, and I think there's a sense of uneasiness in the investment community that cable may not be the great business anymore that it was held up to be a year ago.

QUESTIONS AND ANSWERS

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

So I want that to be the -- what we talk about. I want to start with a more specific question. I want to point out for everyone, just to be clear, that Dave, obviously, can't talk specifically about Comcast bid for Sky or it's rumored interest in -- or -- in Fox. But because that's the elephant in the room, I'll ask it in a tangential way. There are people in the room and elsewhere who read Comcast's interest in Sky and potentially Fox as a referendum on the cable business and a view that -- their -- they didn't like the business prospects of cable as much anymore, and they wanted to diversify away. Can you put that to rest for us and just talk about what that discussion was like, and what the sense of your organization in how you reacted?

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

Absolutely. Well, let's start and think about what's changed. And I think what's changed in the last 6 months is that a scale media investment came up for sale. It was one that we didn't anticipate. I think a lot of others didn't anticipate it. And so we have a very good track record in M&A. I think we're always disciplined. We always explore opportunities, but by no means, the fact that we'll look at an opportunity mean that we've lost any confidence in our core business. And certainly, speaking of cable, cable is a terrific business. And there is -- we're posting strong operating results. There's a wide range of growth opportunities that are in front of us. So we're very confident in the future. And yes, one of the things, Craig, that I think is our real DNA at Comcast is running businesses. We focus on operations. That's our focus. Nothing has changed. So anybody that thinks our view has shifted because we're exploring opportunities, it's just not the case. We're extremely confident in our existing businesses and very much believe we have a bright future.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

And so let's talk about that bright future in the cable side of the business for a second. As cord cutting has accelerated and video growth rate has slowed not by much or video growth rate decline rate, I guess, had accelerated, but not by much. It's gone from, in your case, still only about 1%. Broadband growth has decelerated, but again, not dramatically. Video ARPU growth has slowed. So there's some slowing on the top line. On the other hand, margins have accelerated, and capital intensity has fallen. And so your bottom line metrics aren't really all that different than they were a year ago. Is that -- how do you see it? Are you kind of surprised at how violent the reactions have been to relatively small changes in the mix of how you get to the bottom line?

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

Well, I think we've tried to communicate than we certainly have anticipated sort of a structural shift in regards to video, but I think it comes down to cable is a growth business. That's our focus, how do you profitably grow the business. And even with the structural shift, you look at things, total customer relationship growth, look at revenue growth. And in particular, you look at EBITDA growth and net cash flow growth. So I think you look at all the fundamentals of how we look at the business. And you're back to the point that even with some structural change, these are very solid and very good business, and we're going to maintain our focus around how do we grow the business.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

In the characterization that a lot of people have, I talked about it with Tom in the last session, that this is a business that will be less unit growth driven and more price driven over time just necessarily by where you are in the cycle. Do you agree with that? Or do you think that's premature?

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

Well, I think it probably is. I think it is premature. I think that there will be -- and we'll maintain a balance between overall relationship growth. There's still a long runway. And you look at broadband, just a real long runway around growth there. Business services, long runway. And you have businesses that -- on the connectivity side that have shown just small business and the residential broadband, high single-digit growth. We're just getting into wireless. We're just entering the enterprise segment and businesses and really still have a lot of share opportunity in mid-market in business. So I think there's a ton of upside both in how you bring products to market in price and then a lot of share opportunity, too. So I think there's a balanced opportunity in the future for us.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

Well, I'm going to start on the broadband side of the business instead of video. Back when -- last September, after your company warned of increased competition in not just video but in broadband, you highlighted AT&T, in particular, and their promotional stand. Is that -- in retrospect, is that what's the most important part? If I think about kind of the deceleration in the broadband business that you've seen, is it driven by market share impacts and the impact of people like AT&T and promotional strategies? Or is it more a function of penetration of the industry overall and getting closer to maturity and saturation?

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

Well, I think it's more a function of moments in time competitively. When you see some things happen, we've -- I've been doing this for a while, and you see competitive cycles that emerge. The fact of the matter is broadband business is a growth business. The overall market is growing, and we're taking share. So you look at our performance, the first quarter, just about 380,000 new customer -- net customer additions. That's on top of 1.2 million in 2017. And you think about momentum, you think about your trajectory, and going into the second quarter, we're confident. And you look at where we are relative to last year, we're slightly ahead of last year as we sit here right now. So we're -- this is early, but we're still -- we like that momentum and trajectory around it. So I think it's more...

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

And that presumably has to be driven by market share. You said the overall market is still a growth market, but it isn't as fast a growth market, right?

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

I think there's still a lot of opportunity.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

No doubt. But the growth rate of broadband in the United States has slowed from about 4 to just under 3. That may not sound like a big reduction, but that's 25% reduction in industry net adds, if you will.

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

I think -- and our focus is to deliver a better broadband product. And as you go up against DSL...

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

And share again.

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

Yes. You focus on putting -- but a product that has great value. Better broadband delivers better value. And that's our focus, and so we are -- but we're very pleased with the momentum of our broadband product.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

Well, is the -- there has been a lot of the swirl, I guess, around whether products in that mid-range of broadband, what AT&T has described as IP-DSLAM up through its U-verse product. So not all the way to full fiber-to-the-home as a competitor but 25 to 50 megabits per second or so. That's where the price sensitivity is in the market. That customers will opt for those products if the price is right instead of a 200 megabit per second product from Comcast. Is that right? Is that what you're seeing? Or is there less price sensitivity there than people fear?

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

I think customer -- we're seeing customers value a really good broadband product. That 75% of our customers are -- have 100 megabits or higher, and so -- but I think you have to break it down. And if you -- a year ago when we sat here, about 5 million DSL homes; they're now around 4 million. 4 million is still a lot, still a big opportunity. But part of what happened, to your point, was that there's this new level of mid-DSL, as you said, or low-end broadband. And I think we're competitively positioned very well to go up against that. I think where the market is going, clearly, with more applications that are generating more usage, more data usage, I think there's going to be a higher demand for a better broadband product. So one of the points that we've made is not all broadband products are created equal. And that, from our standpoint, you start, for our standpoint, 100, I think is a pretty attractive product, but we scale very nicely. We have several tiers above that, all the way up to 1 GB. I think that, that competes very well against these low-end offers. So to me, they can position it any way they want, but it's still, I think, where the market is going, it's still going to be something that we can compete very nicely with.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

Is there a risk -- the -- it used to be that you would sort of measure your increases in speed, along with -- and that naturally led to step-ups in ARPU as customers opted for a higher and higher speed. There's a fear among some investors that, well, if you're going to jump all the way to 500 megabits per second or even 1 gigabit per second, you sort of jump to the end game, and that it becomes harder to walk your prices up along -- or your ARPUs up along with those fees. Is that fair? Or is it -- are you most -- are customers not opting for the very top of the speed tiers yet anyway?

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

Well, we have, I think, a good track record, very disciplined in terms of how we package and how we offer different tiers of service. We think customers, over time, will want more. And so that's why we do have several options that go even above 100, so -- but we're fairly disciplined in terms of how we price it. And the important thing, I think, for -- from our standpoint, there's growth opportunities. There's an opportunity around speed. But we think with broadband, speed alone is just part of the equation. We've rolled out in our markets the brand for broadband is xFi. xFi, to us, is what we did with X1 in video. In that xFi, I think, their first ad was more centered on the app that lets you turn the WiFi on and off. But we expanded that considerably. It stands for great speed, fantastic coverage and best control. So with speeds, we will have this disciplined tiering in terms of different speeds, but again, large -- majority, 75% of our customers have 100 megabits. We'll have more. We've completely or essentially deployed 1 GB now to the marketplace. We have gateway devices that can deliver fast WiFi in the home with good coverage. And then with good coverage, then we found that some homes, even though we have a great gateway or could be -- could have a benefit of mesh WiFi devices, so we have these xFi pods that we've introduced that can supplement a home. So great coverage is essential when you're running around the home doing applications.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

And I presume your market research has shown that, that really matters to people, and that you can make this more than just about speed.

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

The research does show great WiFi is really important and then great WiFi is good speed, good coverage. And then the third piece of it is control, the ability to manage it. And I think this will actually begin to pick up steam, the control aspect, as IoT begins to really gain momentum. You're controlling more devices. So I think all 3 of these things are very important and point towards an opportunity to grab share but also to have a good healthy balance of price and share.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

So at the risk of just going back to old-fashioned speeds, what is the road map? You're -- obviously, you work closely with cable labs, and DOCSIS 3.1 is just the beginning. What are you looking at in terms of the road map for the speeds that you can get out of your HSD plan?

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

Well, the good news is, and I think Tom at Charter mentioned this earlier, that we -- cable, we're fortunate. We've anticipated demand. We've been trying to stay ahead of the curve in terms of where things are going. And DOCSIS 3.1 is an elegant long-term solution. But in addition to what we've also done over the years, you split nodes, you bond channels, there's a lot of opportunities to have this Fiber-Coax network to be -- stay ahead of that curve. And so today, we have up to 1 GB. I think the symmetrical DOCSIS is probably 2020 that you can get to that will be multi-gig capability. But I think DOCSIS 3.1 is a very solid standard of which we can go up to the speeds that I need -- I think we need to compete with and maintain our focus around capital intensity. And so we did anticipate the shift towards broadband towards business services. And if you look at our capital, one of the things, I think, goes hand in hand with this question is our focus is our -- and we talked about this, capital intensity relative to last year has improved 50 basis points. We expect this to continue as less video CPE is in the marketplace, and we're just more focused on broadband.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

Well, let's -- since we're more focused on broadband now, I'm going to change the subject away from broadband and go to video for a second. I guess -- so obviously, OTT and cord cutting are the big stories that people are focused on, and that's going to continue to pressure subscribers. I guess, the thing that would be most helpful for your investors is if you can just take us through the economics of what it's like to lose a subscriber. How -- in essence, how important is it that you have high video numbers? Or are video subscribers less important than a lot of people crack them up to be?

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

Let me start, to make it very clear, we still think video is a very important category. We're still going to compete. We have a great product in X1. I think one of the things we've learned through this OTT period is that a great product like X1 with good value between excellent DVR service, every one of our X1 customers has Stream connected to it, so you can do TV everywhere elegantly. Applications can come together, like Netflix and YouTube and others. So by -- we're going to compete with video. But to the extent that you lose a video customer, we've also taken the time to look at the marginal economics, to your point, of what happens when you lose that video relationship. And there are a couple of things that jump out in the way we're managing the business. One is that we -- that customers always get the best deal through packaging. To the extent that video that they either downgrade, they don't have video, that multi-product discount, regardless of video, goes away. So broadband pricing will go up. Second thing is there's less programming cost. And the third thing is that it's -- there's generally more noise attached to servicing the video customer, more CPE, more activity. And it's just the more efficient relationship to manage in regards to broadband, so your cost to serve is improved. So you take all of those things, this is a very manageable transition in terms of net cash flow. And you look at...

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

Do you want to go out on a limb and put a number on what a customer -- what a video customer -- what you really lose when a video customer unbundles the video?

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

Well, I won't go way out there, but I will say this that we segment the marketplace. And a good part -- we've been doing this for a while, but we look at the -- all the video relationships, and some are fantastic and a lot of them are, most. We feel great about, full video, package -- skinnier packaging with broadband. There's a lot of opportunities still. But we've seen some low-end customers that have dropped video, maintained broadband, and those low-end customers, you actually -- it's accretive when that happens. And so the trick now is to make sure you're very focused and you're doing a really good job segmenting the marketplace, so you understand that in the first place. So I think it's a manageable transition, very focused on this. Again, we think the connectivity business has a long runway, and so that's why we shifted our focus.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

You talked about CPE driving cost, driving everything from customer service costs and repair and maintenance costs. That would suggest that some of the products that you've got in your arsenal, like Instant TV, which, right now, is a sort of niche product and college-oriented, but that -- you would eventually say the right answer might be X1 is a set-top box platform, which is just one piece of what X1 is. It becomes less important, and I want to sort of -- I want to drive set-top boxes out of the customers home residence, trying to keep set-top boxes. Is that anywhere on the road map to say that eventually, you want to wean yourself from hardware and customers' homes just because it drives so much costs?

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

I think over -- I think we've said this over much longer road map. You'll see an opportunity with IP to have lower CPE cost than video's. You have put more of the video capability either on the cloud or into the gateway device itself. But in the meantime, I think there's a lot of optionality in terms of how we manage the video business, and that -- it starts, though, in the near term and then midterm. I think our set-top box for X1 is actually a great device and serves a good customer very well. So it is the aggregator of aggregators. You can tie all these applications together. I think it's a smart investment throughout for now.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

And it's also your WiFi platform.

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

Also, it connects to WiFi as well, and so we -- and it's where you aggregate today all the applications. So far, we're pleased with that. But you also look at Roku. And Roku today, our Xfinity app, is delivered through Roku. If somebody wants to have a Roku box, you can get a similar experience, not maybe completely, but a similar experience with X1. And you mentioned Instant TV, which is more of a segmented approach towards millennials that may not want a set-top box at all; some cases, they do. But we have a lot of optionality around how we manage the video relationship and in particular, the video CPE.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

So you took lower rate increases this year than you have in the past. Was that because of OTT skinny bundles and the pressure that, that's putting on ARPU, in general? And what does that mean for the longer-term trajectory of linear video pricing?

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

Well, we recognize the competitive climate that we're in. I think it was the right thing to do to be more moderate in terms of rate increases. I think the video marketplace will remain very competitive. I don't see a shift from our approach anytime soon in terms of -- or the way we look at rates in video. But the key is we look at the whole home as the opportunity, and that's how we look at both in terms of price, in terms of expanding relationships. The focus is to continue to drive the overall relationships. And the -- I think, importantly, how we look at the business, because this has been the fundamental shift, and the difference is from years ago, just the -- looking at video, what we said, and what I've said, and we will compete for video. But that's not really how we're managing the business. What we look at, day in, day out, is how do we drive long-term profits, how do we drive net cash flow. And again, while we compete for video, the big 3, from our standpoint, the things that we obsess over, that we stay on: our total customer relationship growth; we look at EBITDA per customer relationship; and then free cash flow generation per customer relationship. Those -- that's how we're managing the business. So I think that, that's an important shift that has been going on, but those are the things that I wake up every day and stay very focused on.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

And it's interesting. Tom Rutledge, has, for years and just in the last session, talked about the -- all those same metrics per home passed. Is that a metric that you use inside of Comcast where you also look at the EBITDA per home passed, for example?

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

We mostly focus on the EBITDA per customer relationship. So once we have it, the opportunity to expand it, we think there's revenue opportunity, these are higher margin, the connectivity business, higher-margin businesses in the first place, but we're looking to generate more EBITDA per customer relationship.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

So I want to come back to those margin questions in a minute, but I want to stay with video for one last question, which is, the numbers that really popped out to me this quarter weren't about number of subscribers in video. It's programming cost growth. Your programming cost growth dropped to 3% year-over-year in the quarter. And across the board, we saw double-digit increases drop down to below 5% in one quarter. It was really an extraordinary change. What's going on there? Is that really a sea change in negotiating leverage? Or is it simply a mix shift of people are -- the like-for-like prices are still rising per channel at 10%, say, but people are just taking fewer channels and so it's showing up as lower programming costs overall?

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

Well, as you know, we've had a couple of years where it was double digit. And so to some extent, there's timing in regards to some of the -- and what we're experiencing are the normal contract time frames of things coming up. So I don't expect anything to change for the balance of the year. We don't go further out than that, but I think this is the kind of the range that we're going to be staring at. So -- but the good news is, in terms of costs, programming is a piece of it. We'll stay extremely focused on managing programming costs, but nonprogramming costs, right up there, driving capital down, these -- those are -- that's why our margin has improved. Yes, some -- to some extent, programming, but because of nonprogramming -- programming expense, we've seen about a 50 point -- 50 basis point improvement in terms of margin. So I think these are the things that I think are opportunities. But to some extent, it's timing in regards to programming.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

Has there been any real sea change in what it's like to walk into a room in a negotiation with a big programmer? From a year or 2 years ago now that the OTT business has really taken off for them?

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

I think the only thing, really, I can say is that the obvious competitive landscape has changed. And we can, like everybody else, point that out, in terms of where customers can go. But the good news is we have a very good relationship, and that we get, I think, very good deals. And we can continue to do that. We can expand TV Everywhere capability. But there's -- the competitive climate, I think, is one that will continue to raise and make sure everybody understands where we go into negotiating.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

So let's talk about business services for a second still an enormous growth driver for you. Can you talk about your -- the growth outlook for business services? Are you starting to see a different competitive response from the Verizons and Centurys and AT&Ts of the world as the share that you're taking and the bite that you're taking just gets bigger and bigger and bigger?

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

I think, some years ago, we saw that the telephone companies incumbents shifted pretty rapidly more towards price and -- on a go-forward basis. We're a little stuck in that the T1 business that they have is very material to them. They priced it in a certain way, so they're trying to manage that.

And so -- but we saw a while ago that they opted a little bit more on a go-forward basis towards deeper discounting. So we've -- we're accustomed to that. And the way we look at it, there are 3 specific segments in managing business services: you have the small business, you have mid-market and you have enterprise. A ton of runway for growth really in all 3. And so a little bit more price competitive with small business. We're still taking share. We still like the runway there. The mid-market, you have opportunities to grab a lot of share as we go up against the T1 service, and this is where they are a little bit stuck and -- because they have these -- the price points that are tough and...

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

It's kind of amazing, in retrospect, that a 1.5 megabit per second symmetrical connection can sell for hundreds of dollars a month, right? I mean, it's...

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

We show up every day with a better product priced competitively with better capabilities. And one of the things, too, that we're talking about more and more these days, not only is the speed comparison. We're offering 1 GB in business services, too. Options, we have great speeds that are available, but we're giving more control to the consumer in the mid-market, in particular with things like as SD-WAN. We're offering the business customer more options, whether it's WiFi, video surveillance. So not only is there an opportunity for share, but there's also an opportunity for revenue expansion and working with our customers. And then you get to enterprise. And enterprise is just really early, and we're seeing a lot of opportunity in terms of share growth there and just going after connectivity to franchises.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

And so what is the product set you're selling in enterprise? Is it Ethernet? Is it managed services? Is it suite of -- you talked about multi-location services. You're referring to McDonald's with hundreds and hundreds of locations or something like that. But where are the sweet spots that you're winning in today?

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

No. It's exactly it. I think we're having great success, again, early, but going after companies that have multi-franchise locations. So banks, retail, restaurants. And so being able to tie all that together and are -- a better deal in terms of faster speeds, being able to tie all this together and better control, where they have full visibility digitally, where they could tie together these franchises, and they know, when we talk to a CIO and show them the capability, they know exactly what's going on in multi-location's capability with an app. It really is compelling. So we're having early success with connectivity side of things. And then over time, I expect managed services to pick up as well.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

It's funny how little attention that segment of the business gets from your investment community because it -- the commercial market is as large as the entire consumer business that you're already in.

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

We grew 11.9% in the first quarter of business services combining everything and just getting going in a couple of segments, and this is a $40 billion opportunity for us. So people ask about this shift is this total shift towards the connectivity business for those reasons, it's such an opportunity.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

We didn't talk much about, going back to the residential market, home automation. You talked about control of WiFi networks. But my sense is that the rest of the industry has cooled a little bit to the home automation and home security market, less so you. You're sort of still staying the course at about the same pace you were. But can you talk about that? Is it -- where does that fit on your priority list? I mean, my fear has always been that home security and home automation is always going to be item #11 on the top 10 list.

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

Well, we're pleased with our home security business, well over 1 million customers at this point. The real thing, though, I think it's a natural extension of great WiFi. And so once you have the building blocks in place where you have terrific broadband connectivity, you have terrific WiFi, I think you have to look at where the market's going. And in terms of where the market's going in terms of broadband is, we like to talk about the top 10% of our customers. That's an indicator, more often than not, where things are going in broadband every year. You keep staring at that. And then people, they're -- how they adopt devices, different kinds of devices, and their applications move -- they move more in that direction. Our top 10% have about 20 connected devices in their home. They are using a ton of data. And you look at it in comparison to a mobile phone, they use about 100x more data than a mobile phone. So I think those applications -- and we're going to see some of those folks begin to have connect -- other connected devices. And as long as you have great WiFi you already have in place, you can catch that curve when it makes sense. We're not going to spend a ton in that area. We're going to be more focused on broadband and WiFi, but we'll be in position. And I think what we're seeing from that top 10%, it will be a value if you have a device and you have a service that can go end to end and, by the way, can connect it not only through a mobile device, but you do it right through a television. And it's the beauty of X1, being able to do -- I can do -- look at cameras outside the home right through X1, and then you'll be able to connect to speakers and all sorts of different things in your home. So we'll be in position, I think, when and if that really begins to pick up.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

Is it a stand-alone revenue opportunity in your mind? Or is it mostly a trend reduction relationship program?

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

Right now, it's -- I think it's a part of the value proposition of great broadband. But over time, there's an opportunity. We think there could be an opportunity in terms of revenue.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

And I want to go back -- I forgot to ask you one thing about business services because you were talking about those multi-location enterprises, the restaurants, the retail and that sort of thing. How seamless has it gotten for a customer to deal with Comcast when you need to work also with Charter and Cox to serve locations that are outside of your footprint? Has that process gotten meaningfully better over time?

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

We're very pleased with the level of cooperation that exists, Charter, Cox, others. But we're also -- we look at carrier services everywhere. So we'll buy -- in the small case where there's not coverage, we actually will go purchase capability to deliver whatever the customer wants. But -- and really, the lion's share of what we're doing with these multi-location places are satisfied with the cable relationships. So for...

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

And cable relationship, meaning more than just your own footprint, but also partnering with the other cable operators?

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

Yes. And we have a national accounts group that's focused on -- they work hand in hand with Tom's group and the Cox team. And so it's important. Wherever those accounts are generated, it's an opportunity to seamlessly deliver that connectivity.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

All right. Let's now talk about everyone's favorite topic. It's your wireless business and your entry into wireless. So I guess, you came in a little ahead of consensus estimates for the first quarter, but it seems -- but it's been a pretty measured pace so far. What do we -- what should we expect going forward? Are -- is this kind of wading into the water? Or is there a time when you sort of turn on the afterburners and say, "We actually want to throw everything we can behind us."? Where are we in that -- on that continuum from cautious to hyper aggressive?

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

Well, I'll remind everyone, our focus around mobile is a little different and remains different than the -- some of the preexisting large wireless groups. Our focus around mobile is to enhance the broadband experience, to deliver more value to the current relationship. And so that's the kind of step 1. In addition, that we're very focused on delivering solid economics. We've said and absolutely are still there that we're going to be profitable on a per customer basis at limited scale. So that continues. And we're also hopeful and seeing real early-stage opportunities, maybe a little bit where you're going, where if you bring it into retail and you talk about mobile and demand-generation activity, can you draw other people in? And we're seeing that there's a little bit of opportunity of having mobile being, in some cases, and I mean, not all that time, probably lead more often than not with broadband and broadband video, but mobile is an opportunity to attract new customers. So those are the reasons why we are interested. And we're not interested in driving tons of volume just because. We're interested in driving the right kind of volume because it's going to add volume to -- add value to the broadband relationship. So we're pleased with just about 200,000 net additions. I think that stacks up nicely in all the carriers, and our approach is to be steady and -- accomplishing all the things that I mentioned.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

One simple way to measure it for people externally might be, what portion of your, say, your advertising budget, as an example, is going into marketing your wireless service versus your other services?

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

It's still...

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

Is there a time when you say, "Let's really kind of amp up the volume."? And by volume, I don't mean just volume of subscribers but literally, the volume of just talking about this business to the customers.

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

One of the great things about cable, and in particular, if you're communicating to your base in the first place, say, and that's -- the primary focus is letting our broadband customers know there's a great new product available to you. You can save money. It's a good product. And -- but you have this cross-channel of advertising inventory where you don't have to spend a ton to figure those things out. So we have the ability to test and look at leveraging our existing inventory. And we're looking at testing, amping it up a bit to see if that works. So -- but I don't think we have to spend a material amount of advertising dollars...

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

Yes -- no, I'm more just thinking -- but that's a good example of sort of what's the highest and best use for your unsold (inaudible)? Is it more -- higher and better broadband speeds? Or is it, "I want to get you to sign up wireless."? And does that flip, at some point, that you say, "I really want to try to use all my horsepower for wireless."?

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

Yes. I think that we will have a steady amount that we'll use for mobile. I still think talking about great broadband, xFi and why X1 is really -- it's just a differentiated service. And I think we're -- especially as we are expanding what xFi should mean to the customer, that it's great speeds, great coverage, great control and making sure people understand that, we'll spend more time talking about that than anything.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

Have you been surprised by wireless business, how successful the pay-per-gig product has been relative to the unlimited plan?

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

I -- we anticipated that -- we didn't anticipate we'd be the only one that would have that. I mean, when the whole market shifted, everyone went to unlimited pretty quickly. And we thought it could hold up nicely, and it has. So I thought there'd be a couple of others that are still doing it, but that's just not the case. So it's a good opportunity for somebody that's a light usage or a light usage member within the house. The great thing is we give the customer the choice by member of the household, that if you have somebody that's a super heavy user, unlimited is great for that person; and somebody is pretty light, you can buy the gig. So it's a great balance, and it's pretty elegant how you can use the app and be able to just make these changes pretty quickly on the fly.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

And so the argument that some people have made that well, if you're sort of bottom fishing, if you will, by getting a lot of those pay-per-gig customers because they're never going to be the very high-end customer. And there's a mismatch, therefore, between those customers and the X1 customers that tend to be pretty high-end customers. Is that right? Or is it -- is the family plan mix and matching sort of makes that point irrelevant?

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

I think it's more -- it's early, but it's all, I think, that latter point, the dynamics of the family are -- and there's some households that would, right out of the gates, pick by the gig. Many that are mixing and matching based on what they need. And so from our standpoint, it's -- again, I think it's a great growth opportunity for us, but in particular, in helping us drive down churn and just focusing on delivering more value to broadband. That's the primary thing. So whether it's by the gig or unlimited based on what they have, the measurement of success for us is how are we doing building value for that broadband customer.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

And I guess, I'll ask the same question I always ask when you're in this chair. Is being an MVNO, being a reseller of wireless, a viable end state for a company like Comcast? Or do you have to morph eventually into being a facilities-based player?

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

I think our MVNO approach, with our objectives that I've outlined, is absolutely a viable end state. I think if you have a different set of objectives, if you -- depending on what you want to accomplish, you should evaluate things. But I think we -- it's a capital-light approach. It's very targeted and focused on building value to our customers within our footprint. And so I think it absolutely is a viable end state.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

So what do you do with the 600 megahertz spectrum that you bought?

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

I think we look at that, there are applications within the house. We look at ways, opportunities. We're going to test a number of different things for the 600. But we like our position and don't see really a need to be exploring anything else other than just optimizing what we're doing.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

Now let's wrap up with a discussion about the longer-term vision for the cable business. And I want to start with the topic that you raised earlier, and that's nonprogramming costs. If I think about the -- what's going on in the business where video relative to broadband is shrinking. That naturally puts some error under my margins anyway because the mix shift is going to be a positive mix shift for margins. And I'm -- it probably also drives down volumes of transactions per dollar, if not transactions per customer. Where can margins get to in this business? And how do I think about the contribution that I can get from nonprogramming costs beyond just mix?

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

Well, I've given -- talked about the expectations for this year, can't go much beyond that. But I would say that you look at the nonprogramming expense opportunity, and as focused as we are around the connectivity side of the business that already generates better margins, better revenue, growth opportunities in the first place. So you stay very focused on driving revenue in that category, the connectivity side, then couple that with every day, we have been extremely focused on improving the experience. And the reason why we're so focused on that, it does, I think, help long term with retention. But the main reason is it's just a better way to run the business. It's a better operating model where you're taking the noise out of the business and transactions. Right now, about 3/4 of our customer base are digitally interacting with us on service-related issues. About half of our customers, digital is the only means of which they interact with us. So to the extent that we can continue to make progress on our digital apps, my account and just do a much better job, I don't think people wake up and say, "I want to call the power company or the cable company." I that think people go, "I want an easier way. I don't want any issues. And if I have a problem, I want it simply addressed. And I want the tools in my hand." So we're very focused on improving the experience. And I think that will be very beneficial long term to driving costs out in transactions, truck rolls, calls. So I think there's an opportunity to continue to drive non-programming...

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

And the trajectory of those costs right now is meaningfully below the revenue growth rate, right? The trajectory of those cost is growing in the 3% to 4% range or the 2% to 3% range right now?

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

Yes.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

Is there any prospect that those nonprogramming costs can actually flatten out even more than that and start to go negative? They were briefly negative for a while last year, if I recall.

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

Yes. I can't give you the prognosis beyond, but I would just tell you, we are very focused on driving those costs down.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

And what about the -- the other side of that coin is capital intensity. As I think about the capital needs of this business, there's a good argument to say as video decelerates or declines that the need for new incremental set-top boxes slows. I can meet more of my demand for inventory. And that's such a big driver of my capital budget that it's really hard for me to see a scenario where capital intensity doesn't come down pretty dramatically in this business. Is that fair? Is that -- like how do -- I know Comcast has always said capital intensity is pretty sticky in the mid-teens. But is there a scenario where set-top boxes start to -- you're coming off of the peak of X1, anyway. So where does capital intensity go?

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

I think what we're seeing is connected to the structural shift of our focus and where the market is that we're going to do 2 things, and I think we're doing them right now. One is shifting our focus and then capital approach towards the connectivity side of the business, making sure that, back to business services a little bit, that we're proactive and getting more business passings...

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

So driving it -- driving fiber out to a campus even ahead of the first sale?

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

Absolutely. And so being really smart and disciplined in the use of that capital, making sure you're ahead of broadband consumption always and anticipating the needs. And as you're doing that, there's going to be a shift towards less video CPE. Those you brought up. So I think the -- you have those 2 things that go in concert together. And then as we've talked about that capital intensity, I think it's a very manageable transaction -- transition and one that we're driving.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

So I guess, let's wrap it up with a sort of prognosis for 5 years of the cable business. If we're sitting here in 5 years from now, how do you think people are going to think about Comcast? And what is your business going to look like? What's going to be different about the business 5 years from now versus today?

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

Well, I think you go out, and then clearly, our position that we are going to be a leader in the connectivity side of the business, certainly, within that 5-year time frame. We will have continued that trajectory. We will have very solid momentum 5 years out, and there's still a long runway for growth. Residential broadband, you look at where we're at, 45% penetration. Our top regions, we do segment by regions, are well above, our top ones. There's no reason why we can't do a better job. So both business services, broadband opportunities. So 5 years out, our connectivity businesses will be the centerpiece of our business. I think the second thing is, as broadband really takes that place, that there is a big opportunity to be the aggregator of aggregators. We think about that as X1, but broadening that a bit towards a broadband relationship. How can we help customers connect a series of applications through a broadband relationship, getting some of the benefits of X1 to a broadband customer, simplifying their experiences. So I think expanding the aggregation and having us leverage our excellent capability will be important. Last, most important. I think, in 5 years out, we're going to be very determined, we're very focused on how much are we expanding total customer relationships, driving EBITDA per customer relationship and generating a lot of free cash flow per customer relationship. And within that time -- that 5-year time frame, I think we're going to accomplish a lot.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

Well, it's a great way to end it. Dave, thank you very much for being with us.

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

Thank you.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

And we look forward to having you back next year.

David N. Watson - *Comcast Corporation - Senior EVP & President, CEO, Comcast Cable*

Thanks.

Editor

Caution Concerning Forward-Looking Statements

This document contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. In some cases, you can identify these so-called "forward-looking statements" by words such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," or "continue," or the negative of these and other comparable words. We wish to take advantage of the "safe harbor" provided for by this Act, and we caution you that actual events or results may differ materially from the expectations we express in our forward-looking statements as a result of various risks and uncertainties, many of which are beyond our control. Factors that could cause our actual results to differ materially from these forward-looking statements include: (1) changes in the competitive environment, (2) changes in business and economic conditions, (3) changes in our programming costs, (4) changes in laws and regulations, (5) changes in technology, (6) adverse decisions in litigation matters, (7) risks associated with strategic initiatives, including the launch of our wireless phone service, and acquisitions, (8) changes in assumptions underlying our critical accounting judgments and estimates, (9) risks associated with our pre-conditional all-cash offer for Sky plc, including completing it on anticipated terms and timing and our ability to integrate Sky with our businesses successfully and to achieve anticipated synergies or benefits, and (10) other risks described from time to time in reports and other documents we file with the Securities and Exchange Commission. We undertake no obligation to update any forward-looking statements. The amount and timing of share repurchases and dividends is subject to business, economic and other relevant factors.

IMPORTANT NOTICE RELATING TO INFORMATION ("INFORMATION") IN THIS DOCUMENT ON COMCAST CORPORATION'S ("COMCAST") OFFER FOR SKY PLC ("SKY") (THE "OFFER")

Further information

Not for release, publication or distribution, directly or indirectly, in whole or in part in, into or from any jurisdiction where to do so would constitute a violation of the relevant laws or regulations of that jurisdiction (a "Restricted Jurisdiction"). Persons accessing the Information must not, directly or indirectly, mail, transmit or otherwise forward, distribute or send the Information in, into or from any Restricted Jurisdiction.

The Information is for information purposes only and is not intended to and does not constitute an offer to buy or the solicitation of an offer to subscribe for or sell or an invitation to purchase or subscribe for any securities or the solicitation of any vote in any jurisdiction. The Information shall not form the basis of or be relied upon in connection with, or act as an inducement to enter into, any investment activity. This document does not purport to contain all of the Information that may be required to evaluate any investment in Comcast or Sky or any of their securities. Any investment decision should be made solely on the basis of any formal offer-related documentation released in relation to the Offer. Any person considering an investment in Comcast or Sky is advised to obtain independent advice as to the legal, tax, accounting, financial, credit and other related advice prior to making an investment.

Certain industry, market and competitive position data contained in the Information may have come from official or third party sources. Although third party industry publications, studies and surveys generally state that the data contained therein have been obtained from sources believed to be reliable, there is no guarantee of its accuracy or completeness and Comcast has not independently verified such data. In addition, certain of the industry, market and competitive position data contained in the Information comes from Comcast's own internal research and estimates based on the knowledge and experience of Comcast's management in the markets in which the Comcast operates. While Comcast believes that such research and estimates are reasonable and reliable, they, and their underlying methodology and assumptions, have not been verified by any independent source for accuracy or completeness and are subject to change without notice. Accordingly, undue reliance should not be placed on any of the industry, market or competitive position data contained in this document.

Important information for Sky U.S. shareholders and Sky ADR holders

Sky is a public limited company incorporated in England. The Offer will be made to Sky shareholders in the United States in compliance with the applicable U.S. tender offer rules under the U.S. Securities Exchange Act of 1934, as amended (the "U. S. Exchange Act"), including Regulation 14E thereunder, and otherwise in accordance with the requirements of English law. Accordingly, the Offer will be subject to disclosure and other procedural requirements, including with respect to withdrawal rights, the offer timetable, settlement procedures and timing of payments that are different from those applicable under U.S. domestic tender offer law and practice. Sky's financial information, including any included in the Offer documentation, will not have been prepared in accordance with U.S. GAAP, or derived therefrom, and may therefore differ from, and not be comparable with, financial information of U.S. companies.

Comcast and its affiliates or brokers (acting as agents for Comcast or its affiliates, as applicable) may from time to time, and other than pursuant to the Offer, directly or indirectly, purchase, or arrange to purchase outside the United States, shares in Sky or any securities that are convertible into, exchangeable for or exercisable for such shares before or during the period in which the Offer remains open for acceptance, to the extent permitted by, and in compliance with, exemptive relief granted by the U.S. Securities and Exchange Commission from Rule 14e-5 under the U.S. Exchange Act and in compliance with the UK City Code on Takeovers and Mergers. These purchases may occur either in the open market at prevailing prices or in private transactions at negotiated prices. Information about any such purchases or arrangements to purchase that is made public in accordance with English law and practice will be available to all investors (including in the United States) via the Regulatory News Service on www.londonstockexchange.com.

The Offer, if consummated, may have consequences under U.S. federal income tax and applicable U.S. state and local, as well as non-U. S., tax laws for Sky shareholders and Sky ADR holders. Each Sky shareholder (including the U.S. shareholders, and Sky ADR holders) is urged to consult his or her independent professional adviser regarding the tax consequences of the Offer.