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CMCSA.OQ - Q3 2023 Comcast Corp Earnings Call

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## OVERVIEW:

Company Summary

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

**Jason S. Armstrong** *Comcast Corporation - CFO*

**Marci Ryvicker** *Comcast Corporation - EVP of IR*

**Michael J. Cavanagh** *Comcast Corporation - President*

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## PRESENTATION

### Operator

Good morning, ladies and gentlemen, and welcome to Comcast's Third Quarter Earnings Conference Call. (Operator Instructions) Please note that this conference call is being recorded. I will now turn the call over to Executive Vice President, Investor Relations, Ms. Marci Ryvicker. Please go ahead, Ms. Ryvicker.

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**Marci Ryvicker** - *Comcast Corporation - EVP of IR*

Thank you, operator, and welcome, everyone. Joining me on today's call are Brian Roberts, Mike Cavanagh, Jason Armstrong and Dave Watson.

I will now refer you to Slide 2 of the presentation accompanying this call, which can also be found on our Investor Relations website, which contains our safe harbor disclaimer. This conference call may include forward-looking statements subject to certain risks and uncertainties.

In addition, during this call, we will refer to certain non-GAAP financial measures. Please see our 8-K and trending schedule issued earlier this morning for the reconciliations of these non-GAAP financial measures to GAAP.

With that, I'll turn the call over to Mike.

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**Michael J. Cavanagh** - *Comcast Corporation - President*

Good morning, everyone, and thanks for joining our third quarter earnings call. It was another strong quarter for us with adjusted EBITDA up 5% and adjusted EPS up 13%. We generated \$4 billion in free cash flow, which, combined with our expectation of Hulu proceeds in the near future, contributed to a pickup in our share repurchases to \$3.5 billion in the quarter.

Our steady performance has been a direct result of how we've always run our company, which is with a focus on industry-leading performance, both operationally and financially in each of our businesses combined with a long-term customer-centric approach to decision-making that ensures each business is positioned to win in the future. This has all been facilitated by philosophy of investment in our businesses that has remained consistent through different economic and credit cycles and particularly through the recent global pandemic.

Now I'd like to highlight 4 areas in the quarter that show how this strategy is playing out before handing it over to Jason to review this quarter's results in full. The first area I'd like to highlight is residential domestic connectivity, where we are very pleased with our performance and strategy as we navigate a highly competitive broadband marketplace.

The customer experience provided by our broadband network, which has ubiquitously available gig speeds today and is on a path to ubiquitous multi-gigabit symmetrical speeds combined with our wireless offerings through our MVNO with Verizon and our own network of over 20 million Wi-Fi hotspots, enables us to provide world-class connectivity, both in and out of the home, to all of our customers everywhere in the most cost-effective and capital-efficient manner versus our competition.

Our broadband network and product leadership continue to drive strong residential revenue growth, which was up nearly 4% this quarter, fueled by very strong ARPU growth of 3.9%. We're confident in our ability to drive continued ARPU growth because of our focus on constantly improving the product experience through investment and innovation, thus delivering more value to our customers.

Having a truly excellent Internet experience as reflected in speed, reliability, coverage, security and latency, is constantly increasing in importance to all households as a result of the consumer experiences it enables. One of the biggest catalysts for recent growth in data usage is the accelerating transition of sports viewership to streaming platforms.

The switch of a single Thursday night NFL game to streaming moves peak data usage on our broadband network from Sunday night to Thursday night. And that game comprises roughly 25% of all Internet traffic on Thursday nights. Every Internet service provider, fixed wireless in particular, will really be put to the test as this transition of sports to streaming continues, especially come January, when, for the first time ever, an NFL playoff game will be aired exclusively on a streaming platform, which will be our very own Peacock.

The second item I'll highlight is Peacock, which added 4 million paying subscribers during the quarter, saw greater than 60% revenue growth versus a year ago, and had the first year-over-year improvement in EBITDA since our launch in 2020. While we report stand-alone Peacock metrics, given the significance of this initiative, we manage it as part of the broader NBCU Media segment, which includes the broadcast and cable networks to best leverage the advantages we bring to the streaming landscape.

We continue to be pleased with our progress in the few short years since we've pivoted our streaming strategy as a result of the ownership changes at Hulu. Looking ahead, we are sticking to our plans and still expect 2023 to be the peak year of EBITDA losses for Peacock, though we are now expecting 2023 Peacock losses to come in around \$2.8 billion versus our original \$3 billion loss outlook, and for 2024 we expect to show meaningful EBITDA improvement over 2023.

The third area to highlight is our Parks business, which generated a record-high level of EBITDA, surpassing the previous record that we just set in the second quarter. The reaction to Nintendo and Hollywood in Japan continues to be fantastic, and we are very excited about bringing the experience to Florida soon. I was just in Orlando with the Parks leadership team last week, reviewing our plans for the new Halloween Horror experience in Las Vegas and kids' theme park in Frisco, Texas. I also spent a few hours on a site tour of the Epic Universe Park, which is deep in construction and is simply breathtaking. So, thanks to the momentum of our third quarter results and what we have in the pipeline, I could not be more excited about our parks business.

The final area to highlight is our Studios business, which is having a great year with 3 of the top 5 box office hits for the year so far in Super Mario Bros., Fast 10 and now, Oppenheimer, which grossed more than \$900 million in worldwide box office in the third quarter and became the highest grossing biopic of all time. This is a continuation of our solid track record where since 2020, we've had at least 2 of the top 5 movies in worldwide box office. We believe that success in this business is not formulaic it's a craft rooted in creativity and originality.

We've long focused on assembling a team of the most innovative filmmakers: Chris Nolan, Chris Meledandri, Steven Spielberg, Jason Blum and Jordan Peele, to name a few, which positions us very well for the future in the Studios business. More broadly, it is our consistent investment approach through past business cycles and the pandemic that is the reason for much of the success we're experiencing today.

We remained steadfast in supporting our businesses, even those that were hit hard during that time period. For example, in Studios, we never stopped believing that people want to experience great films in theaters, and that conviction enabled us to attract new partners like Chris Nolan, who made a masterpiece in Oppenheimer.

Similarly, while our Parks business was closed or at limited capacity, we continue to invest heavily in our existing parks, including the VelociCoaster in Orlando, Secret Life of Pets in Hollywood, and the Nintendo lands I have mentioned earlier in Los Angeles and Osaka, and we will be bringing Epic Universe to life in 2025. Our strong investment-grade balance sheet enabled these investments and puts us in a strong and enviable position today. Now the business world must deal with the pressures of much higher interest rates, which I believe will asymmetrically advantage us, given our low leverage and the long duration of our debt.

Since the end of 2018, we have refinanced over \$40 billion or nearly 40% of our debt obligations, reduced net debt from \$108 billion to \$88 billion today, lowered net leverage by a full turn from 3.3x to 2.3x, increased the average life of our debt by more than 4 years to 17 years, while reducing the weighted average cost of our debt to 3.6% from 3.8%. Today, 97% of our debt is at fixed rates compared to just 82% at the end of 2018. We accomplished this while at the same time returning \$45 billion to shareholders, including \$24 billion via share repurchases and \$21 billion in dividends.

To sum up, we're in a great place, especially given how the competitive dynamics in our industry might evolve in this 'higher-for-longer' interest rate environment. I expect that our focus on building businesses that are market leaders for the long term through strong execution, investment and innovation will keep us in one of the strongest positions to perform for our customers, employees and shareholders.

Jason, over to you.

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**Jason S. Armstrong** - Comcast Corporation - CFO

Thanks, Mike, and good morning, everyone. I'll take you through our strong third quarter, and we'll begin with our consolidated financials on Slide 4.

Revenue increased 1% to \$30.1 billion, while adjusted EBITDA grew 5% to \$10 billion. Our results were driven by 6 key growth areas we have highlighted this year: our connectivity businesses, including residential broadband, wireless and business services connectivity, our theme parks, streaming and premium content in our studios. Together, these growth areas generated more than half of our total company revenue in the quarter and grew at a high single-digit rate over the past 12 months.

The growth in these areas, which on the whole are margin accretive, coupled with disciplined cost management, drove our EBITDA growth and contributed to our adjusted earnings per share increasing 13% to \$1.08. Last, we generated \$4 billion of free cash flow while returning \$4.7 billion of capital to shareholders in the quarter.

Now let's turn to our individual business results, starting on Slide 5 with Connectivity & Platforms. As a reminder, our largest foreign exchange exposure is the British pound, which was up nearly 8% year-over-year. So, in order to highlight the underlying performance of the business, I will refer to year-over-year growth on a constant currency basis.

Revenue for total Connectivity & Platforms was flat at \$20.3 billion. Our core connectivity businesses, domestic broadband, domestic wireless, international connectivity and business services connectivity, increased 7% to \$11 billion in revenue while video, advertising and other revenue declined 6% to \$10 billion of revenue. We're focused on investing in and driving growth in high-margin businesses, while protecting profitability in businesses with secular headwinds through disciplined cost management. And it's working, underscored by the 100 basis points of margin

expansion for Connectivity & Platforms in the third quarter, while margins for our domestic legacy cable business improved 160 basis points to 46.6%.

Getting more into the details, residential connectivity revenue was up 7.5%, reflecting 4% growth in domestic broadband, 16% growth in domestic wireless and 25% growth in international connectivity. Business services connectivity revenue was up 5%. Domestic broadband revenue growth continued to be driven by very strong ARPU, which grew 3.9%. Our commitment to network leadership and delivering it ubiquitously across our footprint enables customers to do more on our network. They're using more data and connecting more devices at faster speeds, which provides them with increasing value and underpins our ability to drive ARPU higher this year and beyond.

At the same time, our residential broadband base remained stable, both on a year-over-year and sequential basis with voluntary churn at record low levels for the third quarter. While back-to-school was a tailwind as expected, the broadband market remains highly competitive, particularly at the lower end. During the quarter, we recalibrated by pulling back on some of our promotional offers targeting this segment to remain consistent with our strategy of competing aggressively but in a financially disciplined way. This means striking what we believe to be the appropriate balance between broadband subscriber growth and ARPU growth.

And as we continue to manage this balance, we expect ARPU growth to remain strong and our primary driver of broadband revenue growth, with somewhat higher subscriber losses expected in the fourth quarter compared to the 18,000 loss we just reported in the third quarter. We expect subscriber trends to improve over time as we remain focused on network and product leadership and also as we see the benefits of greater footprint expansion. We've grown our homes and businesses passed by 1.5% year-over-year to 62 million. And we're on pace to meet or exceed our goal of 1 million new homes and businesses passed for 2023. This is a material step up from 2022, and we should accelerate this again in 2024.

Domestic wireless revenue increased due to higher service revenue driven by strong momentum in customer lines, which were up 1.3 million or 27% year-over-year to over 6 million in total. This includes 294,000 lines we just added in the quarter. We continue to test some new converged offers, which, along with the new iPhone launch, should translate into accelerated line additions in the fourth quarter. With still only about 10% penetration of our domestic residential broadband customer accounts, we have a big opportunity and long runway ahead for growth in wireless.

International connectivity revenue increased 25% to another record high, driven by steady mid-teens growth in broadband with the remainder driven by wireless, reflecting healthy growth in services and a particularly strong quarter of device sales. The 5% growth in business services connectivity revenue reflects stronger growth in enterprise and mid-market. The strong revenue growth in our connectivity businesses was offset by declines in video, advertising and other revenue. Video revenue decline was driven by continued customer losses. The lower other revenue reflects similar dynamics in wireline voice, and advertising was impacted by lower political revenue in our domestic markets, which in the fourth quarter will face an even more challenging comparison to last year.

Connectivity & Platform's total EBITDA increased 3% to \$8.2 billion with adjusted margin up 100 basis points, again, driven by the mix shift to our high-margin connectivity businesses, coupled with expense management. Continuing the trends seen in the first half of the year, every line item of expense improved year-over-year except for direct product costs. These are success-based and tied to the growth in our connectivity businesses.

In terms of the breakout in our Connectivity & Platforms EBITDA results, residential EBITDA grew 2.4% with margin improving 110 basis points to reach 38.4% driven by our favorable mix shift. While business EBITDA increased 3.6%, EBITDA margin declined 60 basis points to 57.5%, reflecting investments we're making in sales capacity to drive growth in the mid-market and enterprise segments.

Now let's turn to Content & Experiences on Slide 6. Content & Experiences revenue increased 1% to \$10.6 billion, and EBITDA increased 10% to \$2 billion driven by record results at Parks as well as an improvement in year-over-year Peacock EBITDA losses. Looking at the results of each segment, I'll start with Media, which combines our TV networks and Peacock, given we manage this as one portfolio. Revenue was slightly higher as strong growth in Peacock offset the challenging performance at our linear networks. Unpacking that further, domestic advertising declined 8%, reflecting softness in the linear market, partially offset by growth at Peacock, which increased nearly 40%. Domestic distribution increased 4% driven by Peacock subscription revenue growth of nearly 90% as we continue to grow our paid subscriber base.

We ended the quarter with 28 million Peacock paid subscribers compared to 16 million a year ago with 4 million net additions in the quarter. This result was driven by continued success in converting free Comcast bundled subscribers to a paid relationship as well as organic growth driven by programming, including the start of the NFL season and having the Big Ten for the first time, as well as Super Mario Bros. landing exclusively on Peacock in our Pay-One window.

Media expenses were slightly lower, reflecting effective cost management in our linear networks and the timing of Premier League costs, partially offset by higher Peacock expenses. This resulted in a 6.5% increase in Media EBITDA with consistent EBITDA at our TV networks and improved year-over-year Peacock losses for the first time.

As Mike noted, we believe Peacock's financial performance will continue to improve and now expect full year 2023 losses will come in at around \$2.8 billion, better than our previous outlook of \$3 billion. However, keep in mind that in the fourth quarter, we expect our overall Media EBITDA results to be impacted by higher sports costs, reflecting a full quarter of the contractual rate increase in our NFL programming, the addition of Big Ten to our sports programming lineup and higher Premier League costs compared to last year when games were paused for 4 weeks to accommodate the timing of the World Cup.

Turning to Studios. Oppenheimer had a strong theatrical performance, delivering over \$900 million at the box office. This success, coupled with the positive benefits from carryover titles from our strong film slate this year, resulted in EBITDA of \$429 million. While this is a tough comparison to last year's third quarter, which was driven by the strong performance of both Minions: The Rise of Gru and Jurassic World: Dominion, it still ranks as one of the highest EBITDA quarters in the history of Studios.

At Theme Parks, revenue increased 17%, and EBITDA increased 20% to \$983 million, our highest level of EBITDA on record. Our international parks continue to experience nice rebounds post COVID. Leading this growth was Osaka, which benefited from strong demand from Super Nintendo World, and our park in Beijing achieved another EBITDA record, driven by increases in attendance and per capita spending.

In Hollywood, the positive consumer reaction to Super Nintendo World, which we opened earlier this year, drove strong attendance and per cap growth, helping Hollywood to deliver its best quarterly EBITDA in its history. In Orlando, our results were also strong with attendance relatively in line with 2019 pre-pandemic levels and revenue substantially ahead.

I'll now wrap up with free cash flow and capital allocation on Slide 7. As I mentioned previously, we generated \$4 billion in free cash flow this quarter and achieved this while absorbing meaningful investments concentrated in our domestic broadband network, footprint expansion, streaming and theme parks.

Total capital spending increased 16% driven by higher CapEx, which remains within the envelope of the guidance we gave at the beginning of this year, including Connectivity & Platforms CapEx intensity to remain at around 10% and Parks CapEx to increase by around \$1.2 billion for the full year compared to 2022. At Connectivity & Platforms, CapEx in the quarter decreased slightly to \$2.1 billion with CapEx intensity coming in at 10.3%. The year-over-year decline was due to lower spending in customer premise equipment and support capital, which more than offset the investments we are making to accelerate our growth in homes passed, as well as to transition our U.S. network to DOCSIS 4.0.

Content & Experiences CapEx increased by \$270 million, driven by parks, with Epic accounting for the majority of this quarter's increase in spend. Working capital was fairly neutral in the quarter and improved by nearly \$1 billion year-over-year with more than half of this improvement reflecting the pause in production during the work stoppages associated with the writers' and actors' strikes. We expect this benefit in working capital to reverse as we ramp up to our normal levels of production in the quarters.

Turning to return of capital and our balance sheet. We repurchased \$3.5 billion worth of our shares in the quarter, a step-up in our quarterly run rate relative to the first half of the year. In addition, dividend payments totaled \$1.2 billion in the quarter for a total return of capital in the third quarter of \$4.7 billion. We ended the quarter with net leverage of 2.3x, in line with our target leverage.

With that, let me turn it over to Marci for Q&A.

**Marci Ryvicker** - Comcast Corporation - EVP of IR

Thanks, Jason. Operator, let's open the call for Q&A, please.

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question comes from Ben Swinburne from Morgan Stanley.

**Benjamin Daniel Swinburne** - Morgan Stanley, Research Division - MD

Two questions for the team on the cable business or connectivity business. Jason, as you mentioned, expenses continue to be a nice tailwind for growth. I think investors are focused on your ability to sustain that. You've been delivering kind of low to mid-single-digit EBITDA growth in connectivity.

Can you keep this up with expenses as a driver over the next couple of years? Or do you need revenue to accelerate? Maybe just talk about the opportunity you see ahead for the company.

And then I'm just wondering, you teased it a little bit with the iPhone commentary, but what's the thought process around getting more aggressive in wireless? Do you want to avoid pressuring financials at all? Because it would seem like wireless and the potential for wireless to bring broadband growth up to higher levels has got to be something you guys are thinking about. So I'd love to just hear your considerations on that front.

**Jason S. Armstrong** - Comcast Corporation - CFO

It's Jason. Let me start with the margin and expense question on the connectivity side. I think you're right, we've been sort of consistently expanding margins. A large part of that is we had yet another quarter, as we mentioned in the upfront remarks, where every expense line item went backwards or declined year-over-year, which is a positive outside of direct network costs. And just as a reminder, those are costs that directly feed into our key growth businesses like broadband and wireless.

So as we look forward, I think the construct is and you sort of laid this out appropriately, we've got several revenue growth drivers within our connectivity business, namely residential broadband, wireless and business services. And those are the higher-margin businesses within all Connectivity & Platforms. So the mix shift that we're seeing and undergoing where those are the businesses that are growing against businesses that are not growing has been a favorable mix shift for us, and we expect it to continue to be a favorable mix shift. So I'd look for continued opportunities in both expense and margin.

**Michael J. Cavanagh** - Comcast Corporation - President

And I would just add -- it's Mike, Ben, that on the other -- as Jason has pointed out, the 6 growth driver businesses, the cable -- components of that are all high incremental margin, next dollar revenue, very high incremental margin. But there's also the businesses that are -- as we've talked about, are not in the 6 growth drivers that are being managed pretty aggressively, frankly, for continued ways to find efficiencies to offset the pressures on the top line. So, we've got multiple things going on that, I think, are the tailwinds for continued ability to drive margins.

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

This is Dave. So -- and as both Jason and Mike said, it does start when you talk about margins with the top line. And so there's real focus around healthy ARPU, total revenue growth, and connectivity. So, all those things really, I think, are sustainable. And you go through a competitive phase like we are, but you've still got to keep your eye on the ball. And we believe that over time, in addition to driving good, healthy, making financially disciplined calls along the way, we will return to subscriber growth over time. And so I think you add all that up.

It's -- that's the beginning part. Then your question on mobile, it's such an important part of our strategy. It has been -- we built up the business, had consistent performance and believe strongly we had a long runway ahead. And one of the things that we're doing just to showcase kind of the focus for us is we are rolling out a buy one, get one offer. It scaled up at the very end of Q3. It's really kicking off in earnest in Q4. It's a straightforward, good, solid offer that will be accretive and will drive broadband benefits in doing so.

We're starting with the base. And that's -- but it's just an example that in both residential and in small business, we'll continue to be very, I think, very aggressive in mobile over time. So a lot more to come on mobile, but we're encouraged and really like the runway ahead.

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**Operator**

Next question is coming from Craig Moffett from MoffettNathanson.

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**Craig Eder Moffett** - MoffettNathanson LLC - Co-Founder, Founding Partner & Senior Research Analyst

Want to go to a different place, actually, Xumo and maybe, Brian, if you could talk a little bit about this from a high level kind of strategic point of view. There's been a lot of talk about the prospect for streaming services being rebundled into something that maybe is, in some ways, closer to what we used to have in the video world. I wonder if you could just talk about that a little bit and talk about how Xumo might fit into that and whether you think Xumo has the potential to actually become a meaningful part of your Connectivity & Platforms business.

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**Brian L. Roberts** - Comcast Corporation - Chairman & CEO

Thank you. Great question. We're really excited about Xumo and the progress that we've made, that we're making together now with Charter. And it's an amazing platform that started with X1, but now will be in televisions, it will be in devices, and it will be all over the nation and, frankly, all over the world. The heart and soul of it is our entertainment operating system, which is global. That includes Sky, all of Canada, Cox and a number of other distributors that we've now gradually build up to all be helping to finance and help the innovation road map.

So, what is that innovation road map? It's really like you're suggesting, what do customers really want? They want a great platform, a great pipe. They want world-class content that they customize. And they want someone to make it really simple for them and do the heavy lifting as you bounce in between services. And that is what we really built our company on, all these years in this industry on. So, it is somewhat ironic that we've unbundled to rebundle, to unbundle, to rebundle. And everybody has a different version of that, and we're at a moment in time. But a lot of it is having one great platform that now the entire industry has.

And thankfully, all of you on this phone who do not live in a Comcast market, which is many, are now soon going to be able to get these products, talk to your voice remote and see how fantastic the experience is, whether you buy the cable bundle or not. And that's a big point that is most of our sales now are broadband only.

We want to make sure we are the best aggregator for streaming, and a logical next step will be us or others beginning to try to make it even easier for consumers to purchase and to switch packages. So, it's an important part of the road map. And this was a big week in the Charter announcement. And I'm sure in their call that they'll talk about their commitment to the JV as well.



**Operator**

Next question is coming from Phil Cusick from JPMorgan.

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**Philip A. Cusick** - *JPMorgan Chase & Co, Research Division - MD and Senior Analyst*

A couple for Dave. Dave, I think you said that you expect to get back to broadband growth over time. And as you expand the number of houses that you're building, as Jason mentioned, I expect that, that's probably part of it. But can you talk about the contribution of that low-end effort that you started, you mentioned on the first quarter call. And the level of reversal that you're doing here as well as recent competition from fiber and fixed wireless? And then second, if you can just talk about where wireless is right now, how the CBRS trials are going in Philadelphia. And any thoughts on timing to expand that?

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

You got it, Phil. So as we've said, and it's -- everybody has seen, it's a pretty competitive environment. And so when you -- we have some continuation of some of the macro issues that we talked about. But we've also, as you brought up, we've also continued to see the expansion of both fiber and fixed wireless footprint. So we've gone through several competitive cycles where there's -- it's really noted by a lot of new footprint that's been added. And so we did start in the beginning of the year, made some adjustments in terms of offers that were really focused more on the lower end of the market. But part of our game plan is we're going to continue to invest in a better network, better products, going to compete aggressively, but we're going to maintain financial discipline, and that means making certain decisions when it comes to balancing rate and volume.

So, after the first half, we did make the decision to pull back on some of our more aggressive offers, which resulted in lower connect activity. So that is the changes that we've had. I think our voluntary churn rate is very healthy. Key part of that, that's continued. And the real issue that we see at this point is as we managed things, is just lower connect volume. So -- but net-net, we're growing revenue as we talked about earlier, Jason did and I did. And we're going to focus on multiple drivers of revenue growth.

And we'll make -- in our playbook, we make changes throughout. So that -- and then to wireless, your point, we are continuing to test in terms of the CBRS roll-offs, where we picked up the pace on that, staying close to what Charter is doing. We've seen good progress in the ability to offload traffic and encouraged by the opportunity, in terms of just such a small geographic part of your footprint contribute so much volume of wireless traffic. So we are in position, if we so choose to do it. But we like our -- where we're at with that. No new news in terms of scaling up on that point, but we're in a good position.

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**Operator**

Our next question is from Jessica Reif Ehrlich from Bank of America Securities.

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**Jessica Jean Reif Ehrlich Cohen** - *BofA Securities, Research Division - MD in Equity Research*

I have 2 topics. One is sports, and one's advertising. On sports, I mean, it's such a key differentiator in content. Can you just talk about your longer-term sports strategy and how you believe sports will be distributed in the future? I mean, you talked about more going direct to consumer. What role will linear play as we look ahead 3 to 5 years?

And how would you respond to the leagues, whether NBA or NFL, etcetera, investing in ESPN? And then on advertising, there seems to be weakness across the board, Cable and Media, which is in line, I'm sure, with the rest of the industry. But there seems to be strength in the industry in digital, whether it's Google, Meta. How --you as a company/industry addressing that? How do you get dollars back?

**Brian L. Roberts** - Comcast Corporation - Chairman & CEO

Okay. Well, this is Brian. Let me start and kick it over to Mike because I think your industry question on sports is really profound and important. I think our company has had a long, deep, rich history in sports, both parts of the company. The best way to consume an NFL game or the Olympics is to have our entertainment operating system, I just talked about in Craig's question and the -- you'll see that in the Olympics. They'll be nothing like it -- the same goes for, I think, NBC Sports, which is #1 show in television and Sunday Night Football.

We've got a great team and a culture of big events, whether it goes from the Kentucky Derby, which the ratings are much higher when it's been on NBC than any previous platform and then on and on. And with Peacock now, we have the most live sports of any of the streaming services. And I believe that that's a surprise to many people when they learn that, and I believe that to be the case. And that's a commitment we made when we had things like English Premier League or Tour de France or golf or events that went on for longer periods of time than were typically on a network or you wanted more camera angles or more feeds and more games. And that sets us up for being relevant in the transition that we're all talking about.

How do we go from analog to digital in a way that helps the leagues? And so yes, I can't speculate on what might happen to ESPN. But what I could speculate is as we meet with the leagues, which we do frequently, we think we present a somewhat unique ability to help get the maximum engagement now with broadcast and cable and particularly, our broadcast platform as well as having a robust streaming service in a super quarter here regarding the kind of momentum that we've garnered. A lot of that is driven by sports on Peacock.

And that sets you up to answer your advertising question, which I'll let Mike go into a bit. But at the highest level, we're creating the digital capability on Peacock in the most relevant content. That looks like a very winning combination for us as a strategy.

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**Michael J. Cavanagh** - Comcast Corporation - President

I'll just add on that. It's Mike. I'll just add that the importance and the significance of us being committed to sports in the streaming context of Peacock is, for us, combined with the ability to bring the big reach that our broadcaster, NBC, brings to the party, which I think is an important element of while sports over the long term, I think, are going to be experienced significantly through streaming, I think for a long time, the economics of the sports rights that you see is going to be substantially supported by broadcast reach that I think for a long time is going to continue to be a significant part of the picture.

In terms of advertising, I'd say, Jessica, that overall, it's not a big difference in story than last quarter. I'd say the ad market has remained soft, hasn't necessarily gotten worse despite a little bit of sequential decline, but it hasn't gotten better at the same time. And that's -- we still continue to think it's due to the general uncertainty about economic conditions that are out there. The kind of weakness that we're talking about or the softness is particularly on the linear side, while Peacock has remained very strong.

Picking at this quarter a little bit. The deceleration from 5% to 8% contributing factor there, which is little idiosyncratic is while the retail and tech sectors were down a little bit, whereas auto and pharma and consumer products were up. The one that was down that's a little unique in idiosyncratic is entertainment, where you had streamer spending a little less, together with advertisers, given the strikes looking at what the lineups were in the recent past and putting some money in other places. So, some of that will revert, we believe, once strikes are over.

And as we look to the fourth (inaudible) last year's World Cup as well as political, that underlying ad sales will be an improvement in this fourth quarter versus last year's fourth quarter. And as far as digital, I mean, I think that's why there's definitely the opportunity that some tech competitors are capturing to get premium video monetized in digital platforms. And I think that speaks to why we consider Peacock to be an important initiative for us. And we're pleased again with the progress we're making in Peacock, which is now north of 28 million subs and strong overall, 60% revenue growth year-over-year.

**Brian L. Roberts** - Comcast Corporation - Chairman & CEO

One last point that I just wanted to add that one of the great things about sports that we're very excited about is streaming sports and what that means for our broadband network strategy that Dave was just talking about. And Dave and the team, I think, have found a great balance in how we're running the operation.

But a big part of that is a commitment and a belief that we see all sports finding a way over the next many years, or maybe not so many years, to be more and more streamed. And that's going to require more bandwidth, and that's going to require and create an opportunity for us to have the superior product in the market. So that's our strategy. And so sports really, back to your first question, Jessica, is at the heart and soul of a lot of what we do.

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**Operator**

Our next question is coming from Brett Feldman from Goldman Sachs.

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**Brett Joseph Feldman** - Goldman Sachs Group, Inc., Research Division - MD

I got 2 questions about your business connectivity segment. The first is you made some comments about investments you're making to better address the enterprise customer demographic. I think the assumption has been historically, it's not been a focus for you because serving that demo generally requires you to serve customers with locations outside your footprint. So I was curious to hear a little more about your strategy for scaling up there. And I'm wondering whether that might involve making incremental investments in your connectivity platform outside of your region, either organically or potentially making some acquisitions.

And then second, I was hoping you can give us an update on the extent to which the business segment is contributing to your success in wireless. Is it kind of pacing what you're seeing in the residential space? Or do you think you have more opportunity there?

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

Brett, Dave. So let me start. The overall business services had a very good quarter. Revenue accelerated a little, reflecting stronger growth in enterprise and mid-market. So, we've been very focused on growing all categories. So, your point on the sales investment, let me provide some context. We have been, for some time, working with partners and most certainly with the acquisition of Masergy. We've been expanding our capability to go into other areas. And now we have global opportunity to be able to handle customers.

The key here is to be able to take care of customers' needs wherever they are. So, this particular investment is just adding some folks. It's not infrastructure that we're building out there. We will leverage the partnerships that we have, but certainly, we'll deliver products that meets the customers' needs out, but it's sales force and adding some people that can drive mid-market and enterprise where the customers' locations are.

But we'll continue to partner. We've got great partnerships with Charter, Cox, many others, and we'll continue to do that. It's not really an infrastructure moment. And in terms of wireless, it's a very important part of business services. And it's -- clearly, this phase is centered on SMB, and we're getting going on that. We picked up the pace on that. It's not a major driver yet in overall mobile activity at this point, but we expect that pace to pick up. That is an important one for us.

And let me -- just one last point if I could, Brett, while you're talking about business services. I'd be remiss if I didn't thank Bill Stemper as he transitions to Chairman Emeritus. Bill has been a spectacular teammate and driver of this business over a long stretch really -- and one of the great things that Bill did is build a world-class team. I think they've set the bar in terms of performance. We continue to do that. And part of that team is a wonderful executive, Ed Zimmerman, who has now taken over the -- running business services for us. So, congratulations to both.

**Operator**

Our next question is coming from John Hodulik from UBS.

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**John Christopher Hodulik** - *UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst*

Two, if I could. First of all, and maybe for Dave. Can I just get your thoughts on the Charter approach to the Disney renewal? Do you see Comcast heading in that direction? Or do you see benefits for the industry and for linear TV, if the industry does move in that direction? And then following up on some of your comments on the broadband side. You guys are rolling out DOCSIS 4.0. You're starting to sign up customers. I guess, one, could you just update us on the timing of that rollout?

And two, do you see it more as an ARPU opportunity or a sub opportunity, subscriber growth opportunity? I guess lastly on that, you said there's more competition at the low end of the broadband market. Is there any way you could quantify either Comcast exposure to the low end or how big the low end of the market in broadband is?

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

Thank you, John. I think Mike and Brian talked about Charter Disney. So that -- to me, I think that is the -- they provided a point of view. From my perspective, I think every situation is unique. I think we are in a very unique position because of the platform that we have and the fact that we are in the streaming business as a company. But we have great relationships with content providers, and we have a way of figuring things out.

But it will be case by case as they come up, and we'll see. But a big part of it, one of the things we talked about is value, value of the content and how that model evolves, we'll figure it out. But I think we are in a good position to be a bridge builder as we go -- consider each one of these options in the marketplace. In terms of the network and DOCSIS, let me give you a sense, John, where we're at. So we're about 30% and that -- in terms of mid splits and really focused on this seamless integration that connects HFC to fiber, and we'll be at 40% next year.

So -- and then we started -- you've seen the announcement and we talked about the deployment of DOCSIS (inaudible). And so we're going to continue to drive the mid split upgrade areas, the DOCSIS 4.0 follows that mid split trajectory. And that is the -- our focus -- continued focus is just providing leadership of where the market is going.

The reason why, to answer your question in terms of where do we see the benefits, it's that point that the market is going to continue whether it's the sports discussion we talked about earlier as more and more things start to perhaps go to streaming. There will be more simultaneous contention at peak moments, and we're in a great position with the network. So having that -- the ability to have faster speeds, ubiquitous network coverage at scale, the most efficient network and effectively delivering, we got customers that are 1 gig today. 70% of our customers are 400 megabits or higher, and we see where things are going.

So, I think the answer is both. I think over time, it's customer relationships as it's going to become increasingly harder for some of the competition to keep up in terms of they have to make network trade-offs and fixed wireless, in particular. And so that to me, it's both rate and volume. And the last point is just on the lower end. There was a lot of activity in the lower end. We did respond in the first quarter but made adjustments for the second half. So that I think I talked about that.

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**Brian L. Roberts** - *Comcast Corporation - Chairman & CEO*

And I would just say on the Charter and Disney, what I think it was in sort of the first question I answered, we think there's a -- not to echo what Dave said, not one size fits all, very glad, happy for both companies that they figured something out, good for consumers. Each situation is slightly different. What I think is important for us is finding a way to help our customers have a great network, aggregate that content and have access to that great content. And I think we're really well positioned to do that, and we're looking forward to executing upon that.

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**Operator**

Next question is coming from Jonathan Chaplin from New Street.

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**Jonathan Chaplin** - *New Street Research LLP - US Team Head of Communications Services*

Maybe for Dave, just a small question following on from Phil's. The -- in terms of the CBRS trials, is the benefit that you're seeing there that you're sort of more enthusiastic about primarily on the cost side from being able to offload traffic? Or is there a product benefit as well?

And then with the sale of the 600 megahertz spectrum, does that sort of suggest that you're not really interested in owning any spectrum besides 600 megahertz? Or was this sort of something -- sorry, besides CBRS, was there something specific about 600 megahertz in the portfolio that you had, that made it nonstrategic? And then if you can give us just a quick update on where your sort of average usage is on broadband, that would be helpful as well.

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

Thank you, Jonathan. So, in terms of CBRS, it's what I said before that we're in position. It's an option for us. We're in a good position. We like our -- where we're at with our current deal, the MVNO capital-light approach, everything that we talked about is consistent.

But we've always been very interested, and the benefit of CBRS is on the cost side. And that if you have, again, 3% of your geographic footprint that's delivering 60% of the traffic, that's a good option and if we can figure out how to do that. So we're -- that's what's really driving it.

And -- but we've always been very focused on how to build a better overall wireless experience. We have, I think, great Wi-Fi capability in addition to CBRS, if that is something that we want to do. But the key for CBRS is that we just want to be in position and doing it without a massive amount of CapEx to be able to deliver that smaller geographic area. And in regards to 600, it's just -- it was an opportunity to get value for areas of the country outside of our areas. And it just made sense to -- it was a good transaction for us and not something that we're going to build outside of our footprint.

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**Operator**

Our final question today is coming from Steven Cahall from Wells Fargo.

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**Steven Lee Cahall** - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

So just first on the residential broadband ARPU. Wondering if you could unpack a little bit of the sequential change. I know the big components are double-play going to single play from cord cutting as well as just tiering and pricing. So with a little bit of slowdown sequentially, should we attribute a lot of that to the slowdown in video losses that you saw or anything else going on in there?

And then, Brian, you talked a lot about how effectively you've deleveraged the balance sheet, taking it down by a full turn over the last couple of years. Also, that a lot of your competitors, especially on the Media side, are going to be more challenged. So, I know you'll be disciplined in anything you do, but as you look ahead and think about competing against some companies that aren't challenged like Netflix and Apple and Amazon, how do you think about some of the availability of some of those distressed content creators that might be out there at some future point?

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

Let me start, Steven. This is Dave. The biggest driver in terms of ARPU was that the first half of the year, our focus, we did make adjustments in that first part of the year being a little bit more aggressive in the lower end. This resulted in a mix shift among new customers that were coming on, and this caused the deceleration in ARPU growth from the -- where we were before 4.5% to 3.9%. But 3.9% still very strong ARPU growth, and consistent with our planning and what we were talking about.

So that was really the biggest driver. Some certainly benefit over time, a little bit better performance in the video business with NOW TV, which has begun to pick up the pace. So pleased with that, but it was mostly that refinement of the lower-end offers. And you're not going to see that, by the way, that level of deceleration from Q3 to Q4 as we made those adjustments. So that -- it's mostly the tier-mix change that I talked about.

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**Jason S. Armstrong** - Comcast Corporation - CFO

Steven, I would add on to that. Just if you look at the historical context here, we've typically grown broadband ARPU 3% to 4% in any given year. We've been operating at the very high end of that for the first 3 quarters of this year. Things that contribute to that over the long term, you mentioned sort of the tactical components of that, but really, really, we want to see broadband usage growth. We want to see customers hanging more devices off their network. We want to see them taking higher speeds, and that's exactly what they're doing. So that's -- those are sort of the foundational pillars to driving ARPU growth over time, and that's exactly what we're seeing.

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**Brian L. Roberts** - Comcast Corporation - Chairman & CEO

This is Brian. I actually will let Mike answer because he did such a great job in his old job as CFO in helping put our balance sheet in this enviable position that he described in his opening or comments about how long the debt is and some of the interest rates. We have a great business, this quarter is another demonstration of it. The start to the year is fantastic. But Mike, why don't you -- so therefore, the bar is very high to do anything other than the plan we've got. And we like the company. But Mike, why don't you go into your thoughts on that content question specifically?

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**Michael J. Cavanagh** - Comcast Corporation - President

Sure. Thanks, Brian. So, I think if you zoom out, it's much of what I said earlier, Steven, which is the -- I think the strength of our financial position broadly. You think about across all the businesses we're in, I think of us as having leading positions for the customer, but also strong margins benchmarked against any peer you can look at. That, together with a strong balance sheet, I think the company couldn't be in better shape financially. And I think on the execution side, Dave and his team and the NBC team that works with me are -- they know what they're doing. And I think we're not giving anybody any quarter in terms of operating the businesses we have.

Our priorities, though, in how to use that financial strength is very strategic. So, I think we think about the businesses we're in, and investing in them appropriately for return and growth and drive growth in those businesses over the long term. Hence, the way Jason talks about the half the company that's got strong revenue growth. We're trying to find ways to put resources into our own businesses. So that's the priority.

As Brian said, the bar is really high for us to consider anything inorganic. But it's our job to look at these things. But if you think about the what you call the potentially distressed media assets, I'm not sure which ones you're referring to, but many of them are pretty small and wouldn't change the arc of what our company is all about. So, I think our focus is on the total picture, what Comcast looks like and we're proud of the company we have.

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**Marci Ryvicker** - Comcast Corporation - EVP of IR

Thanks, Steve. That concludes our call. I want to thank everyone for joining us.

**Operator**

Thank you. That does conclude today's question-and-answer session and today's conference call. A replay of the call will be available starting at 11:30 a.m. Eastern Time for today on Comcast Investor Relations website. Thank you for participating. You may now all disconnect.

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