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CMCSA - Q2 2019 Comcast Corp Earnings Call

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OVERVIEW:

Co. reported 2Q19 reported revenue of \$26.9b and adjusted EPS of \$0.78.



JULY 25, 2019 / 12:30PM, CMCSA - Q2 2019 Comcast Corp Earnings Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Comcast's Second Quarter 2019 Earnings Conference Call. (Operator Instructions) Please note that this conference call is being recorded.

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

Jason S. Armstrong - *Comcast Corporation - SVP, IR & Finance*

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

As always, let me now refer you to Slide #2, which contains our safe harbor disclaimer and remind you that this conference call may include forward-looking statements, subject to certain risks and uncertainties.

In addition, in this call, we will refer to certain non-GAAP financial measures. Please refer to our 8-K and trending schedules for the reconciliations of non-GAAP financial measures to GAAP.

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



JULY 25, 2019 / 12:30PM, CMCSA - Q2 2019 Comcast Corp Earnings Call

Brian L. Roberts - Comcast Corporation - Chairman & CEO

Thanks, Jason, and good morning, everyone. I'm really pleased with our strong second quarter results and the continued successful execution of our strategy. All of our businesses demonstrated significant growth, contributing to adjusted EBITDA of \$8.7 billion in the quarter, an increase of 7.6%. We also delivered \$0.78 of adjusted EPS in the quarter, an increase of 13% over the prior year. All in all, we generated \$4.2 billion of free cash flow in the second quarter, resulting in a year-to-date total of \$8.8 billion.

The key driver of this sustained growth continues to be our market position with 55 million valuable customers in many of the world's most attractive markets, generating \$111 in revenue per customer each month with high margin and strong retention.

Across Sky and Cable, we added 456,000 new relationships this quarter and 868,000 in the first half of the year. In all the geographies in which we compete, we lead with superior products, content and technology.

In the U.S., connectivity is the focal point of our customer relationships, enabled by our world-class network. Our connectivity businesses, again, generated nearly 10% growth in revenue and, collectively, are on track to deliver the 14th consecutive year of well over 1 million broadband net additions.

In Europe, Sky's premium brand and exclusive content is the principal differentiation in our relationship with customers, driving net additions of 304,000 in the quarter.

Importantly, across the company, we also have leading scale and premium content with a vast library of IP and new productions that are extremely popular across generations and geographies.

At NBC, we're on a path to finish #1 in the U.S. for the sixth straight year in the key demographic of adults 18 to 49.

And at Telemundo, we're #1 in Spanish language primetime.

In Film, we are executing our strategic slate approach and look forward to the return of the hugely successful Fast and Furious franchise with the spinoff of Hobbs & Shaw later this August.

And Sky continues to develop a strong lineup of original content, including their highly acclaimed Chernobyl, which debuted in the second quarter. On the back of this success, we launched Sky Studios to expand our production capabilities and more than double the investment in local original content.

The popularity and scale of this premium content and advertiser's need for trusted brand safe environments drove NBCUniversal's upfront to record levels this year. Advertising is a core strength. And once again, we led the market on both volume and price. The overall portfolio volume was close to \$7 billion, an increase of 10% over last year, and average price was similarly strong.

We helped shift the marketplace to embrace all video, unifying all screens, platforms and content, breaking down the historic barriers between linear and digital, which is particularly important as we prepare to launch our ad-supported streaming service next year. To that end, we had record digital video sales, an increase of 50% over the prior year.

So when you add the scale and strength of our customer relationships, premium content and advertising capabilities, we have a uniquely strong position to capture and profit from the growth opportunities in our markets. For example, in the streaming segment, we've already made significant moves to better serve viewers who want to consume content in and out of the home. Sky was ahead of the curve, launching NOW TV almost 7 years ago. That platform has proven to be incredibly durable and popular, evident in Sky's Q2 net additions.

At Cable, Flex offers a new approach for our broadband customers to enjoy the most popular streaming apps on our X1 platform, including the voice remote, without requiring a traditional linear content subscription.

JULY 25, 2019 / 12:30PM, CMCSA - Q2 2019 Comcast Corp Earnings Call

Finally, at NBCUniversal, we're making great progress on the direct-to-consumer streaming service that we announced earlier this year. We believe the strength of our assets and leadership across our businesses, combined with access to tens of millions of customers, will lower both our cost of entry and execution risk as we deliver a truly special offering.

All in all, our strong operating and financial momentum continues. If you take a step back, there's significant competition and change in the ecosystem right now. But that said, for years, we've felt that video over the internet is more friend than foe. We believe it plays to our strengths. We've got a great roadmap in each of our businesses and an even better outlook when you add it all together - the fastest broadband married to world-class platforms as well as highly rated, relevant content. And we are the leading company in both of those businesses at scale globally. It's our scale that allows us to evolve and continue to invest, all while maintaining momentum and driving substantial growth, and this has always been our approach. In fact, if you look over the last 10 years, just to pick one stat showing our consistency during significant other transitions in our business, we've grown adjusted EPS by double digits in 9 of those 10 years, and we're pretty close in the 10th year. Our second quarter and first half results continue this trend of robust growth, and our outlook is for more of the same.

Over to you, Mike.

Michael J. Cavanagh - Comcast Corporation - Senior EVP & CFO

Thanks, Brian, and good morning, everyone. I'll begin on Slide 4 with our second quarter consolidated results. As a reminder, we completed our acquisition of Sky in the fourth quarter of 2018. Our reported results include Sky from the acquisition date, while pro forma results include Sky as if the transaction had occurred on January 1, 2017.

Having said that, on a reported basis, revenue increased 24% to \$26.9 billion and adjusted EBITDA increased 18% to \$8.7 billion. On a pro forma basis, revenue increased 0.8% and adjusted EBITDA increased 7.6%, reflecting growth across all 3 businesses.

As Brian mentioned, adjusted earnings per share grew 13% to \$0.78 and free cash flow was \$4.2 billion, bringing the first half total to \$8.8 billion.

Now let's turn to our segment results, starting with Cable Communications on Slide 5. Cable delivered another very strong, consistent quarter of growth, driven by healthy customer metrics on our connectivity businesses and continued success in controlling costs, while also making significant strides in the customer experience. We believe that the strength of our network, best-in-class products and customer experience improvements are a winning combination that will continue to drive profitable growth.

Overall Cable revenue increased 3.9% to \$14.5 billion in the second quarter. Revenue growth in the quarter was led by the steady increase in customer relationships for both residential and business services as well as higher ARPU.

Total customer relationships increased 3.4% year-over-year to 30.9 million, driven by 209,000 high-speed internet customer net additions across residential and business services in the quarter and 1.3 million over the last 12 months.

Total video subscribers declined by 224,000 in the quarter as we continue to respond to change in consumer viewing preferences. We will remain disciplined in executing our connectivity-led strategy to drive customer relationship growth and total lifetime value of those relationships. Video will continue to play an important role in our strategy. But as we said before, we will not chase unprofitable video subs. The success of this approach is evident in our results, with our monthly adjusted EBITDA per customer relationship growing 3.8% year-over-year and our continued improvement in retaining customers, including best on record retention for broadband in the second quarter.

Consistent with recent trends, our connectivity business, residential broadband and business services continue to drive the growth at Cable. Our revenue in these businesses, collectively, reached \$6.6 billion in the quarter, up 9.5% year-over-year.

In addition to the solid customer additions that I mentioned earlier, residential high-speed internet ARPU grew 4% this quarter. Looking ahead, we expect to continue a healthy balance of both customer and rate growth.



JULY 25, 2019 / 12:30PM, CMCSA - Q2 2019 Comcast Corp Earnings Call

Our wireless business, Xfinity Mobile, is another important contributor to our growth at Cable. This still new business is already positively impacting retention, while also attracting new customers. And it's firmly on a path to positive standalone economics. We added 181,000 net customer lines in the second quarter, while we also reduced our quarterly adjusted EBITDA losses at Xfinity Mobile to \$88 million, reflecting progress in scaling and fine-tuning our operations. While we expect this overall trend of improvement in Xfinity Mobile's financial performance to continue, we anticipate customer-related acquisition expenses will increase in the seasonally strong third and fourth quarters.

Moving now to cable expenses and margin on Slide 6. Overall, total cable expenses increased 1.6% as we continue to see the benefit of our disciplined approach to controlling costs, while also increasing the total number of customers that we serve. Non-programming expenses slightly increased by 1.4%, but improved by 2% on a per-customer basis. Our ongoing efforts to continually improve the customer experience -- by reducing unnecessary transactions and digitizing many of the remaining transactions -- continue to drive cost out of the business.

The company had its best performance on record this quarter across many of our key customer metrics. For instance, customer contact rate and truck rolls hit record lows as we continue to improve reliability and expand digital and proactive messaging to our base.

On the programming side, we continue to benefit on the relatively low rate of expense growth, up only 1.8% this quarter, which reflects the timing of contract renewals.

Putting it altogether, the strong growth in our connectivity businesses, the improvement in our performance at Xfinity Mobile and our ongoing focus on cost management enabled us to deliver a healthy 7.4% increase in adjusted EBITDA at Cable. EBITDA margin expanded by 130 basis points to 40.5%.

Based on our performance in the first half of the year, and our outlook for continued improvement in the second half, we are increasing our prior guidance. We now expect the improvement in EBITDA margin at Cable for the full year to be slightly above 100 basis points compared to our 38.7% margin in 2018. This is an increase from our prior guidance of up to 100 basis points of improvement in 2019.

Finally, cable capital expenditures in the second quarter decreased 9.8% to \$1.6 billion, which resulted in CapEx intensity of 11% for the quarter. This primarily reflects lower spending and scalable infrastructure and line extensions in part due to the timing of plant construction and other investments we're making in our network.

That said, consistent with the broader shift in our business toward connectivity, we expect to continue to invest in our network, which will enhance our competitive position in broadband by enabling us to stay ahead of customers' high and increasing expectations, evidenced by the rapid growth in data consumption. We now expect cable CapEx intensity for the full year to improve by at least 100 basis points compared to 13.8% in 2018. This is an upgrade from our original guidance of a 50 basis points improvement in 2019. This is driven, in part, by timing of network investment as well as the trend in decreasing CPE investment as the total number of video subscribers continues to decline and as the rate of our deployment of X1 has moderated. And while we don't provide specific multiyear guidance, and we could potentially adjust our plans if attractive new opportunities emerge, we expect the underlying video CPE trends that are contributing to the improvement in our full year CapEx intensity to continue beyond this year.

In total, we're encouraged by the cable team's consistently strong performance and the great quarter and first half of the year. The formula is working. We're seeing healthy growth in total customer relationships and adjusted EBITDA with margin expansion driven by our strong connectivity results and focus on cost control, coupled with the decrease in cable CapEx intensity as the mix of our business continues to shift. Together, this drove a 22% increase in net cash flow at Cable in the first half of the year.

Now let's move to NBCUniversal's results on Slide 7. NBCUniversal EBITDA increased 8.1%, with contributions across all of our businesses, clearly demonstrating the power of our premier content portfolio and IP.

Cable Networks revenue increased 2.5% to \$2.9 billion and EBITDA increased to 2.2% to \$1.2 billion. Distribution revenue increased 3.4% driven by the ongoing benefits of previous renewal agreements, partially offset by subscriber losses in the 1.5% to 2% range. Advertising revenue was consistent with the prior year as lower ratings were offset by higher pricing. Finally, content licensing and other increased 5.1% in the quarter. We



JULY 25, 2019 / 12:30PM, CMCSA - Q2 2019 Comcast Corp Earnings Call

would note our content licensing comparisons become considerably more challenging in second half of the year due to the heavy level of programming licensed to third parties last year.

Broadcast revenue increased 0.5% to \$2.4 billion and EBITDA increased 28% to \$534 million. Excluding the comparison to Telemundo's broadcast of the FIFA World Cup last year, revenue was up mid-single-digits and EBITDA was up double digits, driven by growth in retrans and strong advertising. Retrans revenue increased 15% to \$500 million. Excluding the World Cup, advertising increased mid-single-digits as lower ratings were more than offset by higher price, reflecting a very strong scatter market with double-digit price premiums, as well as some benefit from an additional NHL Stanley Cup game and Copa America soccer in the quarter.

Filmed Entertainment revenue decreased 15% to \$1.5 billion, while EBITDA increased 33% to \$183 million. Revenue reflects a tough comparison to Jurassic World: Fallen Kingdom in the second quarter last year partially offset by the release of The Secret Life of Pets 2 this quarter. Theatrical revenue declined 53%, reflecting this tough comparison. Content licensing revenue increased 9.8% driven by the timing of when content was made available under licensing agreements.

Theme Parks revenue increased 7.5% to \$1.5 billion and EBITDA increased nearly 4% to \$590 million. These solid results were driven by higher attendance, aided by the timing of spring break vacations and higher guest spending. We're excited about the future of our Parks business as we have a great runway in coming years with Nintendo World opening in Japan in 2020, Universal Beijing opening in 2021 and other significant opportunities to come soon.

Moving on to Sky results on Slide 8 now. As a reminder, I will be referring to our pro forma results as if the Sky transaction had occurred on January 1, 2017, and growth rates on a constant currency basis, consistent with what's reflected in our earnings release.

Sky was a strong contributor to our consolidated results with solid revenue growth, significant customer additions and double-digit EBITDA growth in the quarter. Sky added 304,000 customer relationships, ending the quarter with 24 million relationships. Customer growth mostly came from streaming subscribers, primarily driven by Game of Thrones and also from the debut of the Sky original breakout hit, Chernobyl. Both were exclusive on Sky Atlantic.

Importantly, customers are choosing to watch more Sky content. The amount of time Sky customers spent viewing Sky channels increased by more than 20% year-over-year driven by our investment in sports and entertainment programming. As Brian mentioned, on the back of this excellent performance, we've now launched Sky Studios with the intent of doubling investment on local original content. This investment reflects our strategy to shift our mix towards more original content production.

In a difficult macro environment in Europe, Sky revenue increased 2.4% in the quarter to \$4.8 billion. Direct-to-consumer revenue grew 1.7%, benefiting from customer growth, but partially offset by the decline in average revenue per customer. The change in ARPU includes our previously announced rate increase in the U.K. as well as the record addition of streaming subscribers, which contributed incremental revenue to the business, but at a relatively lower amount of revenue per customer.

Our investment in programming is driving top line growth. Sky's content revenue increased 28% to \$376 million, reflecting the wholesaling of sports programming, including exclusive sports rights recently acquired in Italy and Germany, as well as the monetization of our slate of original programming.

Finally, amid the challenging macro environment in Europe, including declines in our ad market, advertising revenue at Sky decreased 5.6% to \$563 million.

EBITDA at Sky increased by 20% in the quarter driven by the combination of revenue growth and operating efficiencies, plus a favorable comparison to prior year, which had contract termination cost and cost related to a settlement, which, together, more than offset the expected step-up in sports rights programming costs.

JULY 25, 2019 / 12:30PM, CMCSA - Q2 2019 Comcast Corp Earnings Call

Finally, wrapping up on Slide 9 with free cash flow and capital allocation. We made \$954 million in dividend payments in the quarter for a total of \$1.8 billion for the first half of the year. We also continue to make good progress in deleveraging. Pro forma net leverage at the end of the second quarter was 3.1x.

Also we are exploring ways to monetize the embedded floor value in our recently announced Hulu agreements with The Walt Disney Company. Should such a transaction come to pass, we would anticipate using the cash proceeds realized to accelerate our deleveraging efforts by paying down Comcast debt. We remain focused and on track to meet our deleveraging commitments.

In closing, we are very pleased with our results in the quarter and throughout the first half of the year. We continue to execute at a high level, consistently generating significant free cash flow, which, we believe, drives growth and intrinsic value and, in turn, over time, strong total shareholder returns.

So with that, I'll turn it back to Jason to lead our Q&A.

Jason S. Armstrong - Comcast Corporation - SVP, IR & Finance

Okay. Thanks, Mike. Operator, let's open up the call for questions, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Ben Swinburne with Morgan Stanley.

Benjamin Daniel Swinburne - Morgan Stanley, Research Division - MD

I have 2 questions. One, around the outlook for broadband growth and the second around the NBC streaming strategy. Maybe for Brian or Dave or who wants to take it. When you think about continuing to drive broadband net adds at the level we've seen over the last couple of years, can you just talk about the sort of product and service pipeline that you're focused on? Do you think you can deliver continued market share gains in a market that is, obviously, maturing, particularly if you think about 5G arriving at least someday down the road? And then on NBC, maybe for Steve or -- and/or Jeremy. I'm just curious, we saw the move of The Office from Netflix to NBC. We've seen shows like Chernobyl do really well. How do you think about the cost of building this streaming business in terms of content spend or licensing loss relative to the opportunity down the road? Are you convinced that this sort of the upside is worth whatever dilution you expect to come? And I know you're still formulating your plans, but it seems like every media company is doubling their programming spend, so there's a lot of incremental investment going on. I'd love to hear your updated thoughts there.

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

Ben, this is Dave. So in broadband, everything starts with a steady, consistent investment in the network. So I think we are delivering -- we'll continue to deliver the most efficient and effective way of supporting the high-bandwidth applications, whether it's gaming to internet TV. Our network is built for those applications. So we'll continue to do that in a ubiquitous way throughout our footprint. And it really comes down to 3 big areas that we will stay focused on. One is speeds. We're going to continue to match capacity. And we have a strong track record, 17 times, 17 years. We now have 100% of our network where we have 1 gig available. So we're going to continuously very focused on that. WiFi in the home is just critical for all the different devices. So our gateway, I think, is the best gateway in the marketplace. We have pods that we have brought into marketplace. And we make it easy through the app being able to optimize it. It's so easy to install the pods. And then, over time, they're automatically and proactively optimized to make sure that the coverage is continuously improved. And last but not least is control, and this is how do we help devices



JULY 25, 2019 / 12:30PM, CMCSA - Q2 2019 Comcast Corp Earnings Call

get attached to the network, how do we manage applications and, increasingly, over time, how do we help customers with security. So all of those things kind of add up to xFi. xFi is the brand in which all of these things kind of come together.

And you look at the performance, as Brian said, this is the 14th year we're looking at, for 2019, we'll add over 1 million net broadband customers. And we're balancing share gains with strong revenue. So as we do this, I think we're delivering good value. The ARPU is growing. Broadband revenue is growing, and it's margin accretive, so it's helping the EBITDA growth. So overall, I think we have a solid pipeline for broadband innovation. This is -- we start with this category.

Brian L. Roberts - Comcast Corporation - Chairman & CEO

The only other thing I would add - I think that's a very complete, thorough description of the strategy and great execution by Dave and his team - is this latest product that we keep referring to, Flex. Because we want to deepen the relationship with that broadband customer, and we'll have more to show and talk about in the months ahead, but in a nutshell, we see this pivot to consuming video, leads right into your second question, consuming video in other ways. And we want to make sure that, that relationship is made simple and easy and has value-add by subscribing to our broadband. And I think the team is off to a -- got some really great ideas there. But Steve, you want to answer the second questions, then Jeremy can weigh in?

Stephen B. Burke - Comcast Corporation - Senior EVP & CEO, NBCUniversal

So we're hard at work on our streaming plans. We're planning on announcing more details as we get closer to the launch. Our goal is to launch the service next April. We have over 500 people working on the service at present. We're using the NOW TV platform that has worked so well in Europe as really the platform foundation. We believe we have a very innovative way of coming into the market that is very different than anything else in the market and, we believe, has very attractive financial aspects versus other ways to get into streaming.

The Office was important to us because, according to Nielsen, The Office is the #1 show on Netflix. It's about 5% of all of Netflix's volume, which is, obviously, a show that was on NBC and is tied to the DNA of NBC. And we see The Office as being one of the tentpole programs on our platform. So we'll have more to talk about. I think for competitive reasons, we believe we've got some ideas that are innovative and don't really want to share those until we get right close to launch, but we're very pleased to have The Office and very optimistic about our streaming plans at this point.

Brian L. Roberts - Comcast Corporation - Chairman & CEO

Jeremy, maybe talk about Sky Studios and, a little bit, the strategy there, if you wouldn't mind to the question he made about Chernobyl.

Jeremy Darroch - Sky Limited - Group Chief Executive, Sky

Sure, Brian. So a couple of things, Ben. It's just on your first point, remember, in Europe, particularly we're buying content for the market as a whole. So we can use our content very efficiently, either over the DTT service, over a streaming service. So it's one of the reasons, whilst revenue from our streaming brand, NOW TV, tends to be lower, our cost basis is much, much lower as well. So it's -- we were thinking of it efficiently on an incremental basis. And the more we can do that with technology, as Steve described, of course, the more that effect can apply across the company.

In terms of Sky Studios, really, our focus is on own originated content and European content. And I think this is going to be extremely powerful for us because, I think, there's a big opportunity to develop European stories at a scale that we've never really seen before. It's no surprise to me that both Game of Thrones actually, but also Chernobyl did particularly well here. Game of Thrones essentially was shot in Europe. It had a lot of European actors. And of course, Chernobyl, a difficult subject, is one of the great sort of European stories over the last few decades.

So I think there's a real spot for us to drive into now. Sky Studios will be the vehicle that we'll use to do that. And that will complement all of the acquired programming that we are getting from around the world, but will be very, very different as well because it will be essentially European.



JULY 25, 2019 / 12:30PM, CMCSA - Q2 2019 Comcast Corp Earnings Call

So it fits really very well with us. And of course, we'll displace some of the acquired program -- programming with more of our own originated content as part of our investment thesis.

Operator

The next question comes from the line of Craig Moffett with MoffettNathanson.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

Two questions, if I could. First, can -- I know you are hesitant to give long-term guidance, but margins have climbed as high as almost 50% for some of the kind of video-light competitors, if you will, in the cable industry. I'm wondering if you could just -- are there any real differences between those companies and your own other than simply video mix? And then second, Brian, just strategically, as you think about NBC and the video strategy at Comcast being sort of to let video customers go if they want to go and the pressure that, that puts on NBC, can you just talk about how you think those 2 strategies can comfortably coexist?

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

Craig, this is Dave. So let me start with margin. And you're right, we don't give long-term margin guidance. But let me start with our focus, and I think that gets to the fundamentals that will continue to impact margin. The main areas, I think we've been very consistent on this, that we focus on total relationship growth, EBITDA per customer relationship and net cash flow per customer relationship. These are -- nothing is going to change in regards to the consistent strategy. So -- and that all starts and it impacts margin by focusing on the connectivity businesses, both residential and business services, which are both of those are margin accretive. So that's the first part.

Second part, and as Mike mentioned earlier, a ton of focus around improving the customer experience and just taking out the unnecessary noise in the business, the unnecessary transactions, a lot of focus around the digital experience and the customer experience, so these are fundamentals that I think are impacting this quarter, but will continue beyond.

So I mean, there's a lot of runway had in terms of improvement and as we stay focused on the connectivity businesses. I do think you have in the balance of the year -- the second half of the year, you'll have cycles, like sales activity, mobile sales, that picks up. And we expect certain new product introductions could impact margin a little bit and/or just the tough comp politically with political advertising. So there'll be a couple of things that could go from quarter-to-quarter. But overall, the fundamentals, I think, are rock solid in terms of our approach towards margin. And so don't give really anything beyond this year, but feel very good about the fundamentals.

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

On the other thing, look, we -- this is why we think Comcast/NBCUniversal is such a dynamic company. We -- there will be changes in one segment or another. We've been pretty consistent. Steve's been pretty vocal that cable nets will see some pressure on subscriber losses. We're benefiting from that in then selling a lot of content to streaming services. We're building our own streaming service. Our Broadband business benefits from that tremendously. And -- but that's why -- we have a Parks business, and we have seen great results at Broadcast division this quarter. And the Cable nets grew. So -- and that's where having more global footprint will allow us to create one production and sell it all over the world, if that's what we choose to do. So I think it's pretty much what we've anticipated. We've positioned the company and shifted our strategies accordingly. And on the margin between one division or another, there may be slightly different emphasis. But part of the uniqueness that Steve was just talking about of some of our ideas with streaming is to really support the ecosystem as we see it and take advantage of this change that we're all living through and make it a positive on the other side. And that we've seen, as I said in my opening, time and time again. And we've managed with really great leaders to have products that have yielded many years of growth for this company and we see that for the future.



JULY 25, 2019 / 12:30PM, CMCSA - Q2 2019 Comcast Corp Earnings Call

Operator

Your next question comes from the line of Jessica Reif Ehrlich with Bank of America Merrill Lynch.

Jessica Jean Reif Ehrlich - *BofA Merrill Lynch, Research Division - MD in Equity Research*

I have questions for Steve and also Jeremy. Steve, can you talk a little bit about this really strong upfront advertising market, especially in the face of lower ratings, but like an onslaught -- a coming onslaught of non-advertising supported streaming services? When do you begin to sell your own AVOD direct-to-consumer service? And then Mike kind of threw in when you've talked about NBCU that there is more opportunities in Theme Parks. So maybe give us some color on that. And for Jeremy, do you expect -- just to maybe follow up on Ben's question, but do you expect a pullback of programmings -- programs like we've seen in the U.S. or we're seeing -- going to see in the U.S. from Disney and Warner and others? And if yes, how much money do you think that will free up for your focus on doubling originals? And I guess, like, just as part of that, is there a secondary market for programming? Or will you -- is the plan to keep it all on your own platform?

Stephen B. Burke - *Comcast Corporation - Senior EVP & CEO, NBCUniversal*

So we had a record upfront. For the last 7 years, we've been selling all of our channels together at the upfront. And pretty much, for the last 7 years, we've been leading the upfront. We're the first company that does business, and we sell more television advertising than anyone else in the country. This year was particularly robust. Our volume was up 10%. I think our average pricing was up close to 10%, maybe 9%. NBC in primetime was up about 13.5%. And we saw a variety of things that drove that. Maybe the most interesting is that now the biggest category of advertising are upfront is from companies that are digital-native companies, the FAANG companies, Peloton -- businesses -- streaming businesses, businesses that basically exist on the Internet. And ironically, those are the businesses that are putting some pressure on our ratings. But interestingly, those businesses find television advertising very, very effective. And because they're so data-oriented, they can measure the impact of television advertising. So well over \$1 billion this year came from digital-native companies that literally didn't advertise 4 or 5 years ago. And that's what happens when an advertising market is in good shape. You need a good economy and then you need some new advertisers. We were fortunate enough to have both. Our digital ad sales -- our ad sales on our digital platforms, digital products, have also surpassed \$1 billion. So you've got kind of an all-screen approach to the market as opposed to just selling linear television. So the advertising market is very, very healthy and that's part of the reason why we're still very optimistic about the future of broadcast and cable channels.

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

Jeremy?

Jeremy Darroch - *Sky Limited - Group Chief Executive, Sky*

In terms of -- sorry. Yes. Just in terms of your question, I think we're going to be -- we remain a really fantastic partner for the companies you mentioned or anybody else who wants to develop a D2C or a business in Europe. I mean, typically, it seems to be when most people land, the first question they're going to have to ask themselves is where all the Pay TV customers. And on the whole, they are with Sky. So I would hope that with our historic relationship, the relationship we have, that we'll continue to be able to work with many, many people to help them and us be successful.

However, we've -- as you would expect, we deliver lots of -- we develop lots of options on our business. So our investment in Sky Studios isn't really predicated on anybody else. We'll double the amount of original programming we have. We have the capacity to take that further quickly if we so want to. We're seeing great results from that. So just this quarter, viewing of Sky's own original programs was more than double what it was a year ago. And it is -- there is a secondary market. We are monetizing it well. We're either selling it in market to other retailers. So for example, we've got relationships with all the telcos, the cable businesses in Europe to sell our content to their customers. And our revenues are up something like 30% in terms of content sales year-on-year. So I think we've got a lot of good options available to us, and we'll just have to see how commercial negotiations pan out.



JULY 25, 2019 / 12:30PM, CMCSA - Q2 2019 Comcast Corp Earnings Call

Stephen B. Burke - Comcast Corporation - Senior EVP & CEO, NBCUniversal

Just looping back to Parks, which was part of your question, Jessica. We continue to remain very bullish on the Parks business. And obviously, we're investing in Beijing. We're investing in our domestic parks. We think there's a lot of opportunity down in Orlando. We built a lot of hotel rooms. We'll be talking more about investment in the state of Florida. And it's now about 1/3 of NBCUniversal's total operating cash flow. And we continue to love the business and think it fits very well with our animated movie business and other things that we're doing.

Operator

Your next question is from the line of Brett Feldman with Goldman Sachs.

Brett Joseph Feldman - Goldman Sachs Group Inc., Research Division - Equity Analyst

As your Cable business becomes increasingly connectivity driven, it certainly seems like the margin profile is going to keep improving. And as Mike alluded to, the CapEx profile is also likely to continue improving as well. And so what that implies is that, that business' natural ability to delever is probably going to be greater in the future than it has been in the past, and that could maybe get you back to your pre-Sky leverage profile a bit quicker. But I think that, really, on a recurring basis, it implies that business might just be creating more excess capital over the long term than we've seen. So it's really a question about capital allocation. As you get back to that pre-Sky leverage profile, how do you think about where your capital allocation priorities go? Particularly, how do you balance the opportunity to return to a share repurchase program versus reinvesting in some of the growth opportunities you were talking about over the course of this call?

Michael J. Cavanagh - Comcast Corporation - Senior EVP & CFO

Thanks, Brett. It's Mike. So I totally agree with the kind of the outlook for -- what the profile of the Broadband and connectivity businesses imply for the long term. Great cash flow generation profile of that business. And so we love owning it, and we'll keep investing in it in the way that Dave described.

In terms of priorities, on -- delevering is priority #1 right now. And so we've said to the rating agencies, we'd get back in line with our rating within 24 months of doing the Sky deal. And so we've made, obviously, good progress thus far on that. And I would say we're nicely on track to accomplish that.

On the other side of getting back to where we need to, we'll talk about what to do from there. But I would say, the fundamental principles of making sure we invest steadily in our existing businesses and maintain a very strong balance sheet, while returning ample cash to shareholders through our dividend, which this year will be north of \$3 billion, \$3.3 billion or so, 10 years in a row of increasing the dividend, that principle, together with likely healthy buybacks, as we did prior to Sky, in the future -- is the likely future, but we first have to get ourselves back to where we said we would.

Operator

Your next question is from the line of John Hodulik with UBS.

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

Okay. Great. Maybe for Brian, could you give us an update on your view on the M&A landscape? It seems like whenever there's a telecom or media asset up for sale on a global basis that the Comcast name is at the top of the list. And then as a follow-up to that, there's a lot of changes, obviously,



JULY 25, 2019 / 12:30PM, CMCSA - Q2 2019 Comcast Corp Earnings Call

going on in the -- potentially changes going on in the U.S. wireless industry. Given the increased focus on connectivity in the Cable business, do you see the need to eventually own assets in the wireless market here in the U.S.?

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

Thanks. We're pretty focused on what we have right in front of us and very excited by it. What drove our appetite for Sky was -- began with Sky being in play and being put in the market and then pushes you to make a decision. So there's not anything at this point that I see that the company doesn't have, that we're not pleased with on a big-scale basis.

And second, what Mike just referred to about our priority to return the balance sheet to its historic levels as quickly as possible is our #1, #2 and #3 focus. And so we're trying to execute well, which, I think, this quarter, the first half of the year did.

I think, to your wireless question, we're really pleased with the wireless, Xfinity Mobile, the first several years we've been in business. The team -- around 1.5 million customers, I believe. And really, we're offering a great suite of products with value to our best broadband customers. It's got a strategic focus for how we're operating the company. And now it's beginning to have real volume and scale and getting us closer to that point where, economically, it's not a drag and it's a contributor. So I don't know why we would change direction. And things could always change, but we're pretty satisfied that we have a great product and it fits with the suite of products we offer to customers.

Operator

Your next question is from the line of Philip Cusick with JPMorgan.

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

I guess, 2 followups. Dave, following up on your comments earlier on broadband, I'm curious what you see out in broadband competition. And as Mike pointed out through the quarter, Broadband had a tough year-over-year comp in 2Q, but was similar to better than the few years prior to that. Any reason to think that second half broadband momentum wouldn't be consistent with those last few years? And then second, on wireless, if I can just follow up on a comment, I think, Mike, you made about getting on that path to standalone economics. How do you think about the scale needed there and also the benefit you've seen so far in cable churn from those customers?

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

So it's Dave. So on broadband momentum and -- it's -- we don't give longer-term specific guidance. But most certainly, our approach is to continue to focus on the connectivity side of things, both residential and commercial. So we're -- I think we're doing both. We're adding -- we're gaining share. We are -- we have a good balance in terms of financial performance revenue. And it really does start with broadband. So our approach very much starts with standalone broadband, packaging broadband with X1, with other products, and we'll continue to do that. Our -- we have record churn in broadband. We continue to do, I think, a good job delivering good value. So everything I said earlier around the product pipeline is going to continue to help us in the back half of the year. So, like our momentum. This is -- Q3 is always around back to school and other opportunities in broadband. But I -- we're looking at, as we said, another year, we're going to have over 1 million broadband net adds and this is really solid momentum that we have there.

Michael J. Cavanagh - *Comcast Corporation - Senior EVP & CFO*

Yes, it's Mike. I'll just add in on broadband, exactly right. We see another very strong year. Second half will -- in fact, the first half, second quarter had a tough comp to last year's best ever. But when you put the first half together, it's basically in line with the last couple of years we've had or thereabouts. And so I feel very good about the remainder of year outlook in broadband adds.



JULY 25, 2019 / 12:30PM, CMCSA - Q2 2019 Comcast Corp Earnings Call

On the wireless question, we're quite pleased with beginning to see churn reduction benefit caused by -- in the mobile space, overlapping with what Dave just described in broadband. So quite pleased with what's going on there. In fact, in terms of the [1.6 million] (corrected by company after the call) lines now, about 180 adds in this recent quarter, but you look at it on a quarterly basis, in our footprint, we're taking a very meaningful portion of the opportunity in terms of net adds available to the entire wireless market. So we like the scale we're at.

In terms of economics, the loss of \$88-or-so million in this quarter has substantially improved from last year. We need to get into the mid- to high single-digits penetration of our broadband base to achieve the neutrality on the economics. But we're on track to do that. It'll take a little bit of time. But most importantly, we just like the momentum we have in the business as it exists for the reasons Brian and Dave both pointed out.

Operator

Your next question comes from the line of Doug Mitchelson with Crédit Suisse.

Douglas David Mitchelson - *Crédit Suisse AG, Research Division - MD*

Two questions. First, for Steve, understanding you do not want to provide too many details on the OTT service, I do want to explore the concept of originals versus library programming with you as a driver for the service. The Office, obviously, stands out. But Netflix believes that these new originals that drives new subscriber activations, while library content is more of the glue that keeps customer satisfied and the value of a service. Do you embrace that view that exclusive originals are a key driver for OTT services, like the one you're launching?

Stephen B. Burke - *Comcast Corporation - Senior EVP & CEO, NBCUniversal*

Well, first of all, our service is very different than Netflix. I do think when Netflix started, it was all acquired programming. And I believe, today, acquired programming is something like 80% of Netflix's volume. The vast majority of our volume, I expect to be acquired. We are spending some money on originals. And we've announced that we're doing another year of A.P. Bio. And we have another -- we have a number of originals that are actually tied to libraries that we currently own. But I would expect the vast majority of the consumption in the beginning would be acquired.

Douglas David Mitchelson - *Crédit Suisse AG, Research Division - MD*

Okay, I appreciate that. And Dave, when you look at AT&T's difficult programming negotiations where they're attempting to bend the cost curve, as they say, and lower the pace of programming cost growth, does that change your expectations that Comcast Cable for cost growth? And you might not want to share it, but it would be helpful when you look for the few years to know whether you're programming renewals are lumpy or spread out more evenly on an annual basis.

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

Well, Doug, we haven't -- we don't give longer-term guidance, as you know, in programming. We have certainly said that we are -- that last year, this year, in a cycle where there's less activity -- deal activity. So leading to lower programming increases. So -- but having said that, I do think we are very different in a couple of different ways. One, that we have X1. X1, I think, gives us strategic flexibility as we approach this new environment and that we combine the best of live, on-demand DVR applications. And so as we approach relationships -- important relationships with us, we're just giving consumers unprecedented options for them to simply get to what they want. So we are -- we will approach it. We'll very aggressively look at data, every single deal, we will look at engagement. But we will offer up X1, and X1 will continue to be a really important platform for us in the future.



JULY 25, 2019 / 12:30PM, CMCSA - Q2 2019 Comcast Corp Earnings Call

Operator

Your next question comes from the line of Vijay Jayant with Evercore ISI.

Vijay A. Jayant - *Evercore ISI Institutional Equities, Research Division - Senior MD and Head of Media, Entertainment, Cable, Satellite & Telecommunication*

This is only for Jeremy. Obviously, in the U.K. and Germany, you're a reseller of the incumbent phone company's broadband network. There's probably some opportunities to get partnerships with companies that have faster speeds and/or be partners with new build-out opportunities for broadband given Comcast DNA on connectivity. Can you just talk about, is there a real opportunity to drive subscribers broadly given the potential of faster broadband speeds in your footprint?

Jeremy Darroch - *Sky Limited - Group Chief Executive, Sky*

Yes. Look, I think from a customer point of view, that's only -- and actually, our business is already trading up to faster speeds. About half of our customers in the U.K., for example, now are already taking Sky Fibre. So I think, on the back of that trend, there's nothing sort of dramatic happening in Europe but a consistent trend we can grow. We get good access to higher-speed broadband in the markets in which we compete.

Our launch in Italy, which will be probably the start of next year, later this year, sort of next year is actually a good example of our partnering with Open Fiber being a particularly helpful contract with them that gives us flexibility to just start with fiber to the premises from the get-go. So I think our position today is a good one. You can see that, of course, in the success that we've delivered in the U.K., where we've become a very strong #2 in the residential market. We'll build a similar position in Italy. It will be a big new business for us to build. And then we'll be open to, can we work more closely with network providers in all those markets. And if we can, we will, but I don't think it's going to constrain us. And I don't think it's a prerequisite for us to continuing to grow.

Operator

Your last question comes from the line of Marci Ryvicker with Wolfe Research.

Marci Lynn Ryvicker - *Wolfe Research, LLC - MD of Equity Research*

I think we all understand the connectivity message, but I think we're still trying to get a little bit of clarity on the video strategy. So 2 questions related to this. Number one, are you still investing in the video product? And I think from all of the comments on the call so far, the answer would be yes, but just want you to confirm that. And then sort of following up to Doug's question, if you're, in a sense, deemphasizing video, have you become indifferent to affiliate fee increases as you renew this carriage contracts because if you pass the increases on the customer, and if they leave, they leave or you're still going to fight the fight to keep programming cost down?

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

Marci, Dave. So I think you have to break that down in 2 ways. One, there's a marketing focus and there's a product focus. From a marketing perspective, our focus is -- we talked about connectivity, but we're also -- video is an important packaging element to the segments that are profitable, that want the best video platform there is in X1. So we'll continue to emphasize our approach towards segmentation and leveraging X1 with broadband, so you get the best-in-class combination of the two. So we're not going to chase low end. You look at the last quarter, a lot of that are -- actually, our video churn was relatively stable to last year's second quarter. It's just less emphasis on going after lower end. But overall, X1, we will continue to market into those segments.



JULY 25, 2019 / 12:30PM, CMCSA - Q2 2019 Comcast Corp Earnings Call

From a product perspective, we will invest and are investing in X1. We're adding applications. We've talked about Hulu will be up next. There are others that we're talking, we're excited about next year at NBC. There's a lot more in terms of what customers want. And as Brian mentioned, we are excited about and more to come on Flex. Flex is another -- is an extension of X1 that gives an opportunity to go after the streamer segment with a solution that kind of integrates, in an elegant way, the applications, the data. So you can use your voice, you can get to the content that you want for those apps. So more to come on that. But we will continue to invest where it makes sense in video.

Brian L. Roberts - Comcast Corporation - Chairman & CEO

Okay. Well, I just would add that I think it was a good first half of the year. And I think we had a pretty robust discussion this morning, so I don't have anything to add. It was a good answer, David. Thank you.

Jason S. Armstrong - Comcast Corporation - SVP, IR & Finance

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

Operator

We have no further questions at this time. There will be a replay available of today's call starting at 12:00 p.m. Eastern standard time. It will run through Thursday, August 1 at midnight Eastern standard time. The dial-in number is (855) 859-2056, and the conference ID number is 1195998. A recording of the conference call will also be available on the company's website beginning at 12:30:00 p.m. Eastern standard time today.

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

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