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CMCSA - Q1 2017 Comcast Corp Earnings Call

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Co. reported 1Q17 adjusted EPS of $0.53.

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CORPORATE PARTICIPANTS

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

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

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

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

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

CONFERENCE CALL PARTICIPANTS

Anthony Joseph DiClemente *Instinet, LLC, Research Division - Media Analyst*

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

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

Frank Garrett Louthan *Raymond James & Associates, Inc., Research Division - Research Analyst*

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

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

Jonathan Chaplin *New Street Research LLP - Research Analyst*

Marci Ryvicker *Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst*

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

Vijay A. Jayant *Evercore ISI, Research Division - Senior MD, Head of Media and Entertainment and Cable and Satellite Research, and Fundamental Research Analyst*

PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Comcast's First Quarter 2017 Earnings Conference Call. (Operator Instructions) Please note that this conference call is being recorded.

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

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

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

As a reminder, and this will be the last day this is in place, but it is in place at this time, as part of the FCC's anticollusion rules for the broadcast incentive auction, we cannot discuss or answer any questions related to the auction or spectrum on today's call.

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

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

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

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

Thank you, Jason, and good morning, everyone. We are off to a fantastic start, our fastest in 5 years. In the first quarter, we increased revenue by 9% and EBITDA by over 10%. These outstanding results were highlighted by NBCUniversal, which increased EBITDA by 24%, driven by strong growth at each business. At Theme Parks, our multiyear momentum continues. A great example is the success of Harry Potter in Hollywood, where we saw a 60% increase in attendance this quarter. And we have some incredible new attractions in the second quarter. In Orlando, Jimmy Fallon's Race Through New York opened earlier this month, and we think Volcano Bay will transform the water park experience for visitors when it opens as a third gate in just a few weeks. It looks amazing.

And in Japan, we leveraged one of our most successful film franchises with the opening of Minions Park last week. Our confidence in the trajectory and leadership of the parks business under Tom Williams reinforced our decision to acquire the remaining 49% of Universal Studios Japan.

In film, as I've said repeatedly, we have an exceptional management team at Universal that is taking smart risks and using skillful marketing, and the results speak for themselves. The first quarter's terrific performance was driven by a wide range of theatrical releases, including Fifty Shades Darker, Split and Get Out as well as the carryover success of Sing. Our box office strength has continued in the second quarter with Boss Baby and the exciting premiere of Fate of the Furious, which just set the new box office record with the biggest-ever global opening.

Turning to our TV businesses. NBC has maintained a healthy lead and as the season ends, remains the top-ranked network in prime time for the fourth consecutive season. Congratulations to Bob Greenblatt and everyone at the network.

At Cable Networks, we had a strong quarter. I would highlight MSNBC, which continued its outstanding performance with record ratings and even topped CNN in total viewers during weekday prime and total day for the quarter.

With our unified portfolio of NBC Broadcast, Telemundo and Cable Networks, we feel great about our position as we head into the advertising upfront. We will be selling into an exciting 2017-2018 season that includes our airing of 3 of the biggest events on television with the Super Bowl, the Winter Olympics and the World Cup on Telemundo. So really, a fabulous quarter from NBCUniversal, further validation of what a transformative acquisition this was for us, perhaps the best in our history.

Moving on to Cable Communications. I want to start by thanking Neil Smit for all that he has done as CEO of Comcast Cable. I can't say enough about Neil and a number of you have reached out as well to say how fortunate we are to have had his leadership and character at Comcast over these 7-plus years. He handed over the company to his top leader, Dave Watson, who, as you can see already, is off to a very strong start.

We had an excellent quarter balancing robust EBITDA growth with terrific customer metrics. We added 297,000 customer relationships, a 10% increase compared to the first quarter of 2016, with 429,000 broadband subscriber additions and 42,000 video subscriber additions. We're also seeing good traction with XFINITY Home and now have nearly 1 million customers. And our best opportunities are ahead of us with a road map to continue adding value for our customers and differentiating all of our products.

Next month, we will be launching our new cloud-based smart home networking solution for customers with our Wi-Fi gateway. We're going to call it xFi. Just like X1 has transformed how our customers experience television, we think this will be a game-changer for Wi-Fi, enabling people to easily improve, personalize, manage and control their home network and the devices connected to it.

We also continue to add to the X1 platform. On the heels of our successful Netflix integration late last year, during the first quarter, we announced that we are also going to make YouTube content available on X1, all searchable using our beloved voice remote control. This will allow our customers to seamlessly browse and access billions of YouTube videos alongside our live and on-demand programming options.

And earlier this month, we unveiled our highly anticipated wireless service, XFINITY Mobile, with simple, straightforward plans and a digital-first experience. We believe including mobile in our bundles will help improve retention and ultimately benefit lifetime customer economics.

We are taking a disciplined approach to the wireless business, leveraging our existing customer relationships and infrastructure along with our access to Verizon's industry-leading wireless network. We expect to be NPV-positive per subscriber on a stand-alone basis once we reach a limited initial scale over time.

Our digital-first approach to XFINITY Mobile reflects a broader shift in how we view the future of the customer experience. We're making it a priority to give our customers the ability to interact with us through a variety of options in the digital world, including online, on devices and even through X1. We know this is what our customers want, and we are working hard to provide the tools so they can do it with ease. As we continue our effort to improve the experience, we've seen how quickly customers respond to these initiatives.

You may recall, about 2 years ago, we committed to making customer service our best product. We put meaningful investment towards this goal, and it's really working. In the first quarter, we reduced customer calls handled by our agents by over 4 million, a double-digit improvement year-over-year. First call resolution is at a multiyear high, a sign that we are making progress in terms of getting it right the first time when our customers call with an issue.

So I'm incredibly proud of these results across the entire company this quarter. And with our unique innovation platforms at Comcast Cable and the industry-leading growth at NBCUniversal, we are off to a great start.

Mike, over to you.

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

Good morning, everybody. I'm on Slide 4 for those following the presentation online. As Brian just said, we had a great first quarter. Cable delivered terrific results, balancing strong financial growth with healthy customer metrics. And at NBCUniversal, we had phenomenal growth this quarter with good contributions from all the business segments.

So on a consolidated basis, revenue increased 8.9%. Adjusted EBITDA grew 10.4%. And by the way, adjusted EBITDA is a new label for the metric we previously called operating cash flow. Earnings per share was $0.53, a 26.2% increase on an adjusted basis. And we generated $3.1 billion in free cash flow during the quarter.

So now let's start with Cable Communications on Slide 5. Cable Communications delivered strong first quarter results. Revenue increased 5.8% to $12.9 billion. We added 297,000 customer relationships, and we grew total revenue per customer relationship by 2.6%. Beginning this quarter, we are providing additional disclosure for residential and business customers given the success of business services, which now annualizes at about $6 billion in revenue.

Now for the numbers, starting with our residential business. We added 263,000 net new relationships, an increase of 11% over last year, and ended the quarter with nearly 27 million relationships. Contributing to these results were the positive benefits of customer retention, with our video and high-speed Internet churn remaining at the lowest levels in over 10 years. Customers continue to respond to our innovative X1 platform, our best-in-class, high-speed data product and the meaningful strides we have made in improving the customer experience. Our ability to bundle our products is also a key driver of customer retention, and we continue to do so successfully, with 71% of our residential customers now subscribing to at least 2 products.

In terms of the individual residential revenue categories, high-speed Internet continues to be the largest contributor to overall cable revenue growth. Revenue increased 10.1% to $3.6 billion in the quarter, driven by an increase on our residential customer base and rate adjustments. Building on the strong performance in 2016, we added 429,000 total high-speed data customers in the quarter, with 397,000 of them being residential. We've invested to provide a best-in-class broadband product as we have consistently increased the speeds we offer our customers, and we continue to invest to improve the Wi-Fi experience in and out of the home. We ended the quarter with 54% of our residential customers taking speeds of 100 megabits per second or higher. Looking ahead, we believe we have a long runway for growth in adding broadband customers and a great road map to provide additional value to our existing customers.

Video revenue increased 4.3% to $5.8 billion in the quarter, primarily due to rate adjustments as well as customers subscribing to additional services and an increase in our residential customer base. Of our 42,000 total video customer net adds in the quarter, 32,000 were residential. X1 continues to move the needle on the customer experience, ARPU and retention, driving higher customer lifetime value. We ended the quarter with 52% of our residential video customers having X1 compared to 35% a year ago, and we continue to expect our X1 penetration will be in the low 60% range by year-end.

Voice revenue declined by 3.6% to $863 million in the first quarter, reflecting a modest decline in ARPU as well as the loss of 27,000 net residential customers. We continue to believe that our Voice product is a good value for our customers and an important part of our triple and quad-play bundles.

Business services delivered another solid quarter of double-digit growth as revenue increased 13.6% to $1.5 billion during the quarter. We added 34,000 business customer relationships and grew revenue per business customer relationship by 5%. The small business segment accounted for about 70% of our revenue and 60% of our growth, driven primarily by the net increase in customers. And our midsize and enterprise segments continue to grow at higher rates given the strength of our product set and the earlier stage of our efforts in these areas.

Cable advertising revenue decreased 6.3% to $512 million in the quarter, reflecting lower political revenue compared to last year. Excluding the political contribution, our cable advertising revenue decreased 2.3%, reflecting a challenging advertising environment this quarter, particularly in discretionary categories.

Turning to Slide 6. First quarter Cable Communications EBITDA increased 6.3% to $5.2 billion, resulting in a margin of 40.3%, up 20 basis points compared to the first quarter of 2016. This is a terrific financial performance as we manage through a period of higher programming costs by offsetting this impact with strong revenue growth and real discipline on nonprogramming operating expenses.

Programming expenses grew 11.7% during the quarter, reflecting the timing of contract renewals. Because of these renewals, our programming expense growth should trend higher for the remainder of the year, consistent with our guidance at year-end.

Nonprogramming expenses increased 1.4% for the quarter, helping preserve margins, given the increase in programming expenses. As we noted during our year-end call, this growth rate is trending lower than previous quarters as we benefit from our customer experience initiatives and overall disciplined cost management. Notably, customer service expenses declined 1.1% this quarter, even as we grew our customer relationships by 3.2%. Consistent with our objectives, we expect the rate of growth for nonprogramming expenses to continue to trend lower this year compared to 2016.

Now let's move on to NBCUniversal's results. On Slide 7, you can see NBCUniversal's revenue increased 14.7%, and EBITDA increased 24.4% in the quarter. These strong results were driven by successful box office, strong growth in retrans and affiliate fees as well as the continued healthy performance at Theme Parks.

Cable Networks delivered strong growth this quarter, with revenue increasing 7.6% and EBITDA increasing 16.8% to $1.1 billion. This EBITDA growth is higher than recent trends of low to mid-single-digit growth, and it was the result of 2 factors: First, distribution revenue increased 8.6% due to the successful renewals of a number of our distribution agreements and should continue to contribute to healthy EBITDA growth for the remainder of the year; second, content licensing revenue increased 54%, reflecting a new licensing agreement and is timing-related. Partially offsetting this growth was a 2.9% decline in advertising revenue.

Broadcast Television delivered another solid quarter, with revenue growth of 5.9% and EBITDA growth of 13.4% to $322 million. This growth was primarily driven by higher retransmission consent fees, which increased over 70% to $350 million, and reflect the same contract renewals I just mentioned in Cable Networks. We remain on track to reach $1.4 billion in retransmission revenue this year, a 65% increase over 2016 results. In addition, advertising revenue was stable compared to the first quarter of 2016, reflecting higher rates offset by audience rating declines and lower volume. Partially offsetting this quarter's EBITDA growth were higher programming and production costs.

Film revenue increased 43.2%, and EBITDA increased 120.6% to $368 million. These results primarily reflect higher theatrical revenue, which increased by $415 million to $651 million, due to the strong performances of Fifty Shades Darker, Get Out and Split as well as the continued success of Sing in the quarter. In addition, film's EBITDA growth reflects a positive contribution from DreamWorks, partially offset by higher programming and production costs.

Theme Parks revenue increased 9%, and EBITDA increased 6.1% to $397 million in the first quarter. These results reflect higher attendance and higher per capita spending despite an unfavorable comparison from the timing of spring break vacations. The Easter holiday occurred in the first quarter last year but occurred during the second quarter this year, creating a challenging comparison this quarter. If we adjust for this timing, EBITDA would have grown double digits this quarter. We just opened the Jimmy Fallon attraction, and we will be opening our third gate, the Volcano Bay water theme park later this quarter. We expect these new attractions to drive growth at the parks this year.

Let's move to Slide 8 to review our consolidated and segment capital expenditures. Consolidated capital expenditures increased 10.2% to $2.1 billion in the first quarter.

At Cable Communications, capital expenditures increased 13% to $1.8 billion for the quarter, resulting in capital intensity of 13.8%. For the full year, we continue to expect capital intensity to remain flat to 2016 at approximately 15% of total Cable Communications revenue. For the quarter, the increase reflects a higher level of investment in customer premise equipment related to the deployment of the X1 platform and wireless gateways. However, the increase is timing-related, and we continue to expect full year CPE spending to decline. In addition to our CPE investment this quarter, CapEx growth reflects a higher level of investment in scalable infrastructure to increase network capacity as well as increased investment in line extensions.

At NBCUniversal, first quarter capital expenditures decreased 3.3% to $285 million, reflecting an increased investment in Theme Parks, offset by lower spending at headquarters. For the full year, we continue to expect NBCUniversal's capital investment plan to increase approximately 10%.

And now finishing up on Slide 9. As I mentioned earlier, we generated $3.1 billion in free cash flow in the quarter. In terms of returning capital to shareholders, this quarter included dividend payments totaling $657 million, up 7.5%, and share repurchases of $750 million. We do continue to expect to repurchase $5 billion of our common shares this year.

In terms of leverage, we ended the quarter at 2.2x net leverage. This reflects investing activity this quarter, which primarily included a $500 million investment in Snap as part of its initial public offering and the acquisition of Icontrol Networks. I would note that subsequent to the end of the quarter, we purchased the remaining 49% stake in Universal Studios Japan for $2.3 billion.

Regarding the recently announced results of the FCC's broadcast incentive auction, as Jason said, it is still the quiet period, so we cannot discuss or answer any questions related to the auction or spectrum strategy today. However, based on facts disclosed by the FCC, I can confirm that, first, in the reverse auction, NBC sold spectrum in New York, Philadelphia and Chicago for expected total proceeds of $481.6 million. In the forward auction, Comcast invested $1.7 billion to acquire spectrum in the markets identified in the FCC's public notice. The average price Comcast paid per megahertz pop was $1.17. Hence, our net spectrum outlay is $1.27 billion. These results confirm the comments we made prior to the auction. We stated we would evaluate the opportunity and purchase spectrum only if we thought the price was right and if we thought the spectrum would have strategic value.

That concludes our summary of the quarter. I hope that everyone now has a good sense for how pleased we are with our results as well as our momentum for the rest of the year.

Now I'll turn it back to Jason to lead the Q&A.

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

Great. Thanks, Mike. Regina, let's open up the call for Q&A, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Jessica Reif Cohen with Bank of America Merrill Lynch.

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

I have a multi-parter. First of all, Dave, congratulations on your new role. Could you outline your priorities for the year as you take over this position? For Steve, obviously, these are probably going to be the best results in media. Can you talk about the drivers as you see them for the next -- this year and beyond? And then finally, if I could just throw one last one in on the auction results. It showed incredible discipline on your part. And with the spectrum and the footprint, the cost was way lower than I think anybody expected in the market. Can you discuss your plans for a ramp-up, including potential owner economics? It just seems like -- I know you said you can't discuss specific spectrum results, but it does seem like you have a lot of optionality.

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

Well, Jessica, Dave here. So thanks. And I've been working with Neil on our strategy for a while now, so no great surprise that I'm going to stay focused on what's working. I'm pretty comfortable to help develop and with a really good cable team. We've executed on 3 main areas: profitable growth, innovative products and services and constantly improving customer experience. So we're going to keep focused on adding value to our customer subscriptions, and we're going to keep delivering more innovation and backing it up with this experience improvement. So really good momentum around the innovation area, X1, broadband, Wi-Fi. Brian talked about xFi and now mobile. So this will be a centerpiece for us. And we will stay and I will stay focused on growth areas like business services. Maybe of all the opportunities in front of us, the one that stands out, maybe at the top of the list to me is taking the customer experience to the next level. There's real energy around this in the company; digital, giving our customers more capability to take transactions on; proactive network approaches; first-contact resolution. And we're going to take key moments, like when customers move or when they onboard and we're going to continue to make progress. There's real traction around that. This is good for customers. And this is, I think, the right way to drive healthy and sustainable efficiencies. So our strength has been to maintain a good balance of healthy growth, driving share and revenue and backing it up with solid financial performance. So on a personal note, as Brian mentioned, I'll miss working with Neil. He's been a great partner, great boss. However, I'm excited about this next chapter. And with a very good cable team, we're going to go after the opportunities in front of us.

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

Steve?

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

So we had a very good quarter in film in the first quarter. But if you take film out of the equation, the rest of NBCUniversal grew over 13% during the quarter. And by the way, I think we're going to have a very good quarter, the second quarter, in film as well. But really, it's every part of the company hitting on all cylinders. If you look at affiliate fees, we did a bunch of big deals at the end of the year. And you'll see in the numbers this quarter, affiliate fees were up, I think, 9%. And that's now built into our base, so that's -- that should continue to go throughout the rest of the year. In terms of ad sales, we're going to the upfront with the strongest hand we've ever had by a lot. NBC's -- NBC prime time's relative advantage. In other words, we're in first place by more than we have ever been, I think, going all the way back to the early 2000s. And Telemundo has been neck and neck with Univision in prime time, which was unthinkable 5 years ago. MSNBC is beating CNN in prime most nights. And then, as you go into next year, we have the Super Bowl, the Winter Olympics and the World Cup on Telemundo. So we couldn't be going into the upfront with a stronger hand. I think the advertising market is quite strong. We've already started discussions with big advertising buying groups, and I think we have a lot of momentum and a lot more to go. When we looked -- first looked at NBCUniversal when we bought it, we were making a little less than $3.5 billion. I think this year, we're going to be somewhere in the 8s; $8.3 billion, $8.4 billion, $8.5 billion. So we've added about $5 billion worth of cash flow in the last 6 years. I think we can continue to find places to grow. I don't know what inning we're in, but we're certainly not in the ending innings of above-market growth. We still have a lot of opportunity areas, consumer products, Telemundo, a lot of different parts of this business that are yet to build out. And we're excited to continue to do that in quarters ahead.

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

And then finally, Jessica, it's Mike. On spectrum, we can't speak to the spectrum other than to confirm what we did, which I did earlier. But I'll just say, we approached it the way we said we would before the auction started, and we're pleased with the outcome. We'll leave it at that for today.

Operator

Your next question comes 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 and Pay TV Analyst*

Maybe for Brian. You've been an observer of the wireless industry for decades now. And with the end of the anticollusion rules, can you give us a sense of sort of how you view the wireless industry today from a competitiveness or from a strategic standpoint? And talk maybe about whether or not the secular changes we're seeing maybe in terms of usage and technology are -- is it -- are making it -- how important or critical is it becoming to your offering on the cable side?

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

Well, we've been talking about wireless for 20 years, and we sold our wireless company, which Dave ran, and that was how Dave came into Comcast Cable. And I don't think we have any regrets with that decision. And the question of where wireless is and where it's going, I think we've done a really good job of making sure the company now has that offering in our bundle. It is for our bundled customers. It is in our footprint. And it is going to be a fabulous value for those customers with the brand-new product that you would buy, a new cell phone, tablet. It will have premiere coverage from both Verizon Wireless' network and our best Wi-Fi network. And it's going to intelligently allow you to be on Wi-Fi without having to log in. And anytime there's XFINITY Wi-Fi, it will automatically give you all your capabilities. And coupled with that is as we were talking about, a great digital experience, where there's really just 2 options: all you do is look at -- you push the app, and you see how many gigabits you consume, and you pay $12 a gigabit. And if you -- at any time you want to just click a button, push one button, and you're now in unlimited. And based on what package customer you are, it's either $45 or $65 for that unlimited option. And you can switch back if you're going out of the country, if you're not going to use your phone, push the button to go by the gate. You get 5 devices, and there's no line charge for any of those devices if you're one of our broadband customers. That's pretty great. And I think in our minds, that gives us what we need. And so we are always looking at where future technologies are going and things of that nature. But right now, I think we look at our results today, compare them to anything that we've seen and take Jessica's comment a moment ago. I couldn't be more pleased with this -- the portfolio of our company and the trajectory we're on. And leave it at that and say we're really pleased with the team's effort.

Operator

Your next question comes from the line of Phil Cusick with JP Morgan.

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

Two quick ones, if I can. Cable margins were up year-over-year, and the low nonprogramming expenses were particularly heartening. Is this a good run rate for those nonprogramming expenses? Or could the rate improve further from hereon, on Mike's cost initiatives? And second, quickly on home security. I guess 1 million or so is the magic number. Can you add some more detail on this in terms of residential versus business mix and some level of revenue per user? And is this still in the other revenue line of cable? Or is it mixed into business services as well?

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

So it's Mike. Just on cable margins, whereas we gave guidance for the year that we'd be flat to down 50 basis points for the year, with programming costs continuing to be high this year and that we did expect to drive improvement in the rates on nonprogramming expenses, so had a very good first quarter. But as far as going down the road on changing any guidance, we're not doing that. That said, I'll hand it over to Dave to give some qualitative stuff of what he's doing because it -- all that will really continue.

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

Well, we expect the rate of growth for nonprogramming expenses to trend lower in 2017 compared to 2016. And this is a -- as we continue to focus on the benefit from the customer experience initiatives that Brian outlined, I talked about. And we will continue to have really focused cost management. So there's big opportunities. While we're not changing anything in regards to the margin and where things are going, what we're focusing on is continuing to take transactions out by just doing a better job of handling repeats and all the digital capabilities. And we're seeing it really take hold. So I think there's upside in regards to these operational efficiencies. Not only this will be online, this will be through apps. And actually, right through X1 itself, you'll be able to resolve issues. So the voice remote will connect you to content. The voice remote will also be a service option. So we're excited about this. This is going to be a big focus in regards to efficiencies. But no changes, obviously, as Mike said, to margin guidance. Home security, the second part, excited about home security. This is another good opportunity we talked about and another option for us in terms of packaging. It's adjusting our footprint alone. It's a $9 billion opportunity. And so we added 66,000 for the quarter and just about 1 million customers at this point. So the benefits for home security continue to be in packaging. We have over 90% of our customers -- home security customers are subscribing to 3- or 4-product bundles, and half of these customers are brand-new to us. So it opens up -- as I expect mobile to, has been proven with the XFINITY home, it helps consideration. So we're bringing new people in to think about overall our packaging. So we're pleased with it. We're not giving any financials as to specifics of home security, but it's a healthy contributor to our efforts.

Operator

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

Marci Ryvicker - *Wells Fargo Securities, LLC, Research Division - MD and Senior Analyst*

A couple questions for Steve. Can you just talk about advertising at the stations versus the networks? We just got back from at NAB, and I think the ad environment is a lot more tempered both from a short-term and a long-term basis. So just curious on your thoughts there. And also, any thoughts on the potential impact of a writer strike? I know you had positive comments on the upfront, but just thinking about that. And then secondly, I guess, for Dave, the press keeps reporting that Comcast has an alleged desire to go outside your footprint. Can you talk about why this strategy might or might not make sense?

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

So let me start with the writer strike. I think in the majority of cases, things get resolved. And I'm optimistic and hopeful that the writer strike will get resolved. Strikes aren't good for anybody. Strikes aren't good for the people on both sides of the table tend to lose, and I'm hopeful that we're going to get it done. And we're coming down to the deadline. In terms of local advertising, I think the national and local markets are quite different and quite -- and exhibit different characteristics. I do think there's more weakness in local. I think national is quite strong, but I think local has pockets of weakness. We're in a unique position because we have gained so much share at the NBC stations, and the Telemundo stations are growing so quickly in terms of ratings that we're not as affected. We've grown EBITDA very substantially in the owned stations over the last few years. So we're feeling good about the local station market. Our retransmission consent numbers are growing very, very dramatically. And our ad sales are just fine. But I do think it's a fair comment that the local advertising market is weaker than the national one.

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

I think the second part in regards to out-of-footprint opportunities, Marci, is that there are kind of 2 things: One, we think we have a lot of opportunity just in our footprint. It's big upside. We continue to believe in what we're doing. So that's the first thing. The second thing, just haven't found the business model that works outside. We'll keep evaluating, keep looking at it. But our success within our footprint is packaging, bundling. So we'll continue to drive that internally within our footprint.

Operator

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

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

First, let me add my congratulations to your new role, Dave. That's terrific news. So I guess since we've started beating the thinly disguised M&A questions to death, I'm going to turn to something else. There's so much expectation about 5G wireless as a competitor in your footprint. I wonder if you could just talk about what your own internal strategic analysis of 5G as a competitor has told you about that. And then, Dave, if I could ask a somewhat technical question about your new wireless service. Can you talk about when you expect to have -- or if you expect to have hot handoffs between the Wi-Fi network and the wireless network? And is that permissible under the Verizon agreement?

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

Well, first off, thank you, Craig. And I appreciate that. Let me start with 5G and get to the Wi-Fi question. First, the main thing with 5G, reminding everybody, I think folks know, it is early. I've been through it before back in the day in wireless. They're promising. Really promising aspects of new technologies, but it takes time to scale. So while there may be early-stage applications of something like 5G, we compete today with microwave applications, the MDUs in dense urban areas. So again, while there's promise, we're going to stay close to it. We're testing both fixed mobile -- fixed and mobile aspects of it. And I think the main question for 5G, at least for us, with this higher frequency range, can it be used to broadly, reliably and economically deliver fixed wireless broadband? So while we're -- we're going to stay right next to it. And I think we're in the same testing curve as everybody else. I don't believe, at this stage, at all that it's a significant threat in regards to the wireless fixed broadband side. But in the meantime, on that front, we're not standing still. We're going after DOCSIS 3.1. We're rolling it out to -- we'll have 65% of that deployed by the end of the year. We're working on great devices, the best wireless gateway that we have that will deliver 1 gig capability. So this will continue to improve our competitive position as this evolves, and we'll stay close to it. As to the question on the wireless side and the technical side, no new news in terms of the time frame. I would say we are working on the Wi-Fi capability. As Brian mentioned, we got a good first step in terms of the auto connection, just taking some of the pain points out of the interaction between 4G and Wi-Fi, simplifying that process. The next step that we're on is -- that's one of them, but no time frame to deliver that seamless handoff.

Operator

Your next question comes from the line of Ben Swinburne with Morgan Stanley.

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

A question on cable and the Wi-Fi front and then one for Steve on NBC. For Dave or Brian, either one of you. I'm curious, how do you think we should be thinking about xFi and what that might mean for your business? I guess what I'm trying to get a sense of is, what does it mean to make Wi-Fi great for the consumer? How important is this to your mobility efforts? And how do you think about selling this? Is this something you're going to be pushing into the base? I believe you've been sort of upgrading gateways and routers for years now and so probably have relatively new equipment in the field. But how are you thinking about the cost and benefits of this? And then for Steve, when you guys did the NBC deal, the Cable Networks were the high-growth asset. Everything else was sort of we'll see what happens. And today, the world sort of turned around. People are most excited about the noncable network businesses and concerned about Cable Networks. You've pared some of your networks back. There's a lot happening with the bundle out there, but you put up some pretty nice affiliate revenue growth this quarter, which sounds like it'll continue. Can you give us a little bit of a state of the state for that business as you think about the growth opportunity ahead of the Cable Networks segment, which is an area, certainly, people are more nervous about?

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

Okay, Ben. Got a lot in there, so we'll see if we can cover all that. We'll take a shot. Let me just kick off on the xFi, which is we're going to talk about a little bit down the road. So let me leave a little bit as we put it out there. But as a strategy matter, a couple relevant things. First of all, as I don't have to remind you, we have more broadband customers than we do video. And the rate of that growth is pretty exciting in broadband. So as we've built and I think completely remade Comcast in the last decade into an innovation in technology thinking and new products company, our teams looked at the broadband space and said, "Well, right now, it's really just speed is the main differentiator." But our usage of broadband in the home, whether it's your home printer, your tablets, smart devices, home security, is just exploding with the amount of things that if you project out 2, 5, 10 years, you're going to see more and more use of broadband in the home. That's the bet we're making. I think it's a fairly safe bet. So how do we bring the same innovation mentality that we did to video the last decade with the incredible X1 and then the voice remote and the content and the rights management all working seamlessly for the consumer? And that's the trajectory that I think the team is on. We're going to deliver to our broadband customers levels of options of services, levels of speed and services, but also a mindset of innovation -- constant innovation. And some of the things -- and Dave, you can go into specifics so we can hold that. But I think it's demonstrating to us that we have a leadership, and we're going to use that leadership opportunity to innovate.

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

Well, let me offer just a couple things. We are excited about xFi. It will be rolled out later, so more to come. But our goal is to do to broadband what we did with video and X1, to create a much better experience with Wi-Fi. Our strategy has been to focus in the home with providing great Wi-Fi because a great high-speed Internet is not just a connected experience. It's Wi-Fi spread throughout the house. So xFi is simply 3 things: it's great speed; it's great coverage; and then this next-generation cloud capability control that lets you define the user experience throughout the household. So again, more to come on that. But it's a -- I think it's a premium position for us and evidence that we're going to keep growing the broadband category not just on speed, but coverage is awfully important. So we'll control over time. So more to come.

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

Just to be clear, it doesn't require everybody to go get a new device. It's not a -- there may be some opportunities for customers to want to upgrade to different things, but it's -- as we launched XFINITY, more than X1, it was when we reached a certain level, you got a certain service, you were no longer in the past, you were in the future. I think that's the mindset as we're thinking about it.

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

That's a great point. We'll have approximately 10 million customers can immediately benefit from this, so in terms of the devices. So there'll be new devices, existing devices. So we're in pretty good shape to go after a large chunk of our customers.

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

On Cable Networks, which grew, I think, 17% in terms of revenue this quarter, I think that's going to be a high watermark. I don't think we're going to replicate that many quarters in the future. I think this is still a good business. It's a very profitable business, and it's a business we should be able to grow. I don't think we're going to grow it more than, call it, low to mid-single-digit growth rate. But you've basically got a bunch of different ways that you make money. You've got affiliate fees, which, in this quarter, went up 9%. That won't always be the case. But affiliate fees should go up. You've got ad sales, which is a function of ratings and CPM. And to a degree, they cancel each other out, but I think it's quite possible that we will have quarters where ad sales go backwards. But if affiliate fees go up and ad sales go backwards, you can still have revenue growth. And then the other way you obviously make revenue is by content distribution deals with people like Netflix and Hulu and Amazon. And we had a good deal in this quarter, which increased that. And then you can also make money on digital and other new technologies. Over-the-top, I think, is going to be moderately beneficial to these businesses. We're not counting on over-the-top being a huge impact, but I think it'll be moderately beneficial. And it's going to be a grind to your business than it was, but it's a lot of cash. And I think our job is to continue to grow the legacy businesses and the businesses that are very profitable but have a lower growth rate while, at the same time, investing in things like Theme Parks, consumer products, Telemundo, digital, et cetera, that have higher growth rates and hopefully, blend it to something that is attractive to investors.

Operator

Your next question comes from the line of Frank Louthan with Raymond James.

Frank Garrett Louthan - *Raymond James & Associates, Inc., Research Division - Research Analyst*

Great. I just want to talk about business services quickly. What sort of investments can we expect you to make in terms of sales and engineering as you see that grow? And then if you can comment also on network investment with regards to the Chairman's commentary about the open Internet order. If that kind of goes as described, what sort of -- can you quantify any sort of investment opportunity you might see that, that would open up?

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

Let me take business services, Frank. So one of the things that -- right from the beginning to look at, we're still -- there's a lot of opportunity and upside around growth. And you look at the 3 basic categories that we have: SMB, we're at 40% penetration; midmarket, 10% penetration; enterprise, less than 5%. So I think extensions -- plan extensions and -- success base, but opportunistically looking at a couple of proactive ones where they make sense and get a good return. We'll continue to evaluate those, and we think those are good, sound areas to keep investing. We like our rate of growth. Bill Stemper and his team are doing a fabulous job. So it's an area that we continue to have sustainable, good revenue growth, but we'll invest to keep that going.

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

I think on your regulatory question, we're encouraged that the FCC made the announcement yesterday and is beginning a process to revisit whether Title II is really the right regime. We've said for a long time that we think it's -- it puts a damper on ability to invest and react to change. And we steward a lot of capital every year. And so having the right kind of consumer protections and net neutrality, which we've said we support and want, but not in a regulatory regime designed for a different era that doesn't apply to the business. And so the beginning of that conversation is heartening, and I think it will allow for, hopefully, an end result that balances the need for consumers and our commitment legally enforceable for those consumers to know that they can surf an open and free Internet, but not do so in a way that has real dark clouds for our investment community.

Operator

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

Vijay A. Jayant - *Evercore ISI, Research Division - Senior MD, Head of Media and Entertainment and Cable and Satellite Research, and Fundamental Research Analyst*

Two questions. First one, David, the virtual MVPD market seems to be scaling. Can you just talk about what impacts Comcast is broadly seeing? We've seen some your competitors. Not sure about the type of trends. And obviously, you talked about an IP-only product. Possibly, [and maybe the press] had talked about it. Can you talk about what market segment is that really going to target? And then for Mike. Obviously, there's been talk about tax reform. Maybe a little early on a view there, but if that does happen, how do you sort of look at capital allocation from return of capital and investment more broadly?

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

Well, let me start on the competitive landscape. So there's no question that video, high-speed, both are competitive, but it has been competitive. I'd start with -- maybe the most important thing I'd say is we added 42,000 video customers in the quarter. And so there's a lot to that in terms of what we're doing. It's not -- the good news, there's not one thing that puts us in that position. I'd start with a fantastic X1 platform, how we go to market through segmentation and packaging that makes sense for customers. And I would say, we're in the early innings of operational improvements and how we deliver good bundles, good packaging that helps us compete. So one of the main things that we look at is constant churn improvement and making sure that we're -- as we have success, which I think we're holding our own on attracting new customers, but we also want to hold on to folks longer. So I think that this -- our product position is strong and how we compete against folks when -- but we've been going up against discounted video offerings for some time. And so we look at the new entrants as a broad category, and we won't necessarily chase everything. We stick with our guns. Our guns are developing and providing great products and good, healthy packaging. And taking broadband video, whether it's now home security, phones and/or mobile, I think that will help us compete. So to the extent that we go and leverage any other form of lower-priced tiers, we do that in an extremely targeted and segmented way. And we think that, that is a -- that helps us compete. So I like our position and like our momentum. We had, again, good quarter. We feel good about the video momentum even with the increased competitive climate.

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

And, Vijay, on capital returns. So the company's got a great track record of being very thoughtful about how we balance our needs to invest in the business and return capital to shareholders. So we maintain a strong capital structure, as you know, and we think that's strategically important. We like the idea of consistently increasing the return of capital to shareholders, but making sure that we keep the ability to allocate strategic capital to take advantage of opportunities when they arise. So it's way too early on tax reform to say anything other than we seemingly are positioned well to be a beneficiary of the various ways in which it might shake out. And once we have some final details, we'll take all that into consideration through the lens that we've always talked about balancing capital priorities.

Operator

Your next question will come from line of Jonathan Chaplin with New Street Research.

Jonathan Chaplin - *New Street Research LLP - Research Analyst*

So the trends in other costs in the cable segment are really encouraging. And I'm wondering, as we look ahead to next year, with programming costs reverting to more normal trends of growth, if you can maintain the slower growth in other costs, it seems like we could see real meaningful margin expansion for the first time in a few years after sort of years of investment in the business. It looks like you could do at least sort of 100 to

150 basis points of margin expansion in the cable segment. And I'm not expecting you guys to give guidance at this point for next year, but I'm just wondering if we're thinking about the trends in the business in the right way.

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

Well, Jon, it's Mike. Thanks for the question. I mean, Dave covered earlier all of the things that are ongoing in the business in terms of attacking nonprogramming expenses, and we've commented previously on where programming goes. So the answer, as I said earlier, is we're not going to go beyond the guidance we already gave of margins for this year, but we'll keep working on optimizing the business for the long term. And we'll be back to you early next year with our thoughts.

Operator

Our final question comes from the line of Anthony DiClemente with Nomura Instinet.

Anthony Joseph DiClemente - *Instinet, LLC, Research Division - Media Analyst*

My question is for Steve really on the theme of the value of sports rights. So since the last earnings call, we saw Amazon pay $50 million for the Thursday Night Football NFL rights, putting that behind a pay wall. NBC Sports obviously shares the linear deal with CBS. How do you, Steve, think about that agreement now as it comes up for renewal? And just on sports more broadly, how do you think about valuing the linear side of sports rights in an environment where those rights could become more bifurcated? You have linear on the one side, and then you have the Internet players bidding up the value of the streaming rights on the other side. Love to hear your updated thoughts there.

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

Well, I think it's early on. I mean, if you look at the ratings for Sunday Night Football or Thursday Night Football when Twitter had the deal or the Olympics when we do our streaming, streaming is typically very low single-digit percentage of the total. And then in many of these deals, and this is the case with the Twitter deal and the Amazon deal, the same ads that are on linear are also in the digital feeds. So from an aggregating an audience point of view, it really has been a very minimal impact, and the impact is combined. I think more broadly, we feel very good about our sports deals. We have an Olympics deal that goes out until 2032, and we have a long-term NFL deal. And these are deals that really make their money on advertising. The bulk of the money that we make on the Olympics is because we're advertising on prime time. They're not affiliate fee-related. They're not related to the number of subs that are in the MVPD universe. These are deals that basically wash their face very nicely based on advertising, and they're long term. And so we like the sports business a lot. We think a company like ours should be in the sports business. The Olympics are part of the DNA of NBCUniversal, and it's a good business, in our opinion, going forward for many, many years. Families will gather to watch major sporting events, and they're going to want to watch it predominantly, not always, not 100%, but predominantly on a big screen. And we're happy to be the company that brings those big events to them.

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

Let me just -- if I might wrap up by just saying that great start to the quarter. And I think that you can tell by the Q&A that there's a lot of projects and momentum that is unique. I also think, Dave, hopefully, everybody else can see why we're so excited to have Dave leading the cable division. That he's got a grasp for the issues, he's going to take the work that Neil started and he started with him and accelerate us and focus even better as we go forward and pick priorities as we now go into new businesses. And his expertise is particularly perfect at this moment. So really, really pleased with the start, and we look forward to reporting to you next quarter.

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

So we'll end the call there. Thank you, everyone, for joining us. Regina, back to you.

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 time. It will run through Thursday, May 4, at midnight Eastern time. The dial-in number is (855) 859-2056, and the conference ID number is 84390200. A recording of the conference call will also be available on the company's website beginning at 12:30 p.m. Eastern time today. This concludes today's teleconference. Thank you for joining. You may all disconnect.
