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CMCSA - Q3 2016 Comcast Corp Earnings Call

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Co. reported 3Q16 EPS of $0.92.

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Comcast's third-quarter 2016 earnings conference call. At this time all participants are in a listen-only mode. Please note that this conference call is being recorded.

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

Jason Armstrong - *Comcast Corporation - SVP of IR*

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

As a reminder as part of the FCC's anti-collusion rules for the broadcast incentive auction, we cannot discuss or answer any questions related to the auction or spectrum today.

As always let me now refer you to slide number two which contains our Safe Harbor disclaimer and reminds 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 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 Roberts - *Comcast Corporation - Chairman, President and CEO*

Thank you, Jason, and good morning everyone. I'm pleased to report terrific operational and financial results during the third quarter. Consolidated revenue and operating cash flow were up 14% and 11% respectively driven by broad-based strength across the Company and for a company of our size, this is a tremendous result. From our perspective three things stood out in the quarter: our results in video which were the best for a third-quarter in the last 10 years; in broadband which were the best in seven years; and our successful broadcast and distribution of the Rio Olympics.

Let's start with Rio which again validated that the Olympics are the most valuable and most consumed property in media. NBC won all 17 nights of prime time and the NBC Sports Network was the number one sports cable network in prime time over the 14 days that it presented live coverage of the games. In fact, in the 18 to 49 demo, NBC's primetime ratings more than quadrupled the other broadcast networks combined and were nearly five times greater with millennials. Moreover, that lead widened versus prior Olympics.

The audience for the Rio Olympics was enormous, encompassing almost 200,000,000 Americans on television alone not to mention those who also engaged on our other platforms. Rio was also very strong from a financial perspective, significantly exceeding our prior results and we believe it will continue to be a big success going forward.

One of the key reasons for our outstanding performance with the games is that our teams from across Comcast NBC Universal worked so well together. We partnered closely, innovated quickly and as a result delivered the most comprehensive and technologically advanced Olympics coverage in history.

In our TV businesses, the Olympics drove our exceptional performance during the quarter and were a great way to wrap up our 2015/2016 television season. NBC finished the season as the number one broadcast network for the third year in a row and was also the number one broadcast network for the sixth summer in a row and the fall season is off to a good start with This Is Us as the highest-rated new series and Saturday Night Live kicking off its 42nd season with its highest-rated premieres in three years.

Telemundo is another bright spot in broadcast. It was the number one rated Spanish language TV network in Monday to Friday prime time for the quarter. We have fundamentally repositioned this network through investments in original content, infrastructure and talent and it is working.

Our Cable Networks delivered solid cash flow growth. We had a lot of successes in entertainment, sports and news in the quarter. MSNBC's ratings were up 95% and we also announced an exclusive deal in which all eight of the Harry Potter films will begin airing on USA and SciFi beginning in 2018. Plus we have rights to air the films across our other television properties too. We believe we are taking the right steps and remain on a trajectory to continue to grow this business.

At film, we completed the acquisition of DreamWorks and we are happy to welcome the team to the Comcast NBCUniversal family. In animation, The Secret Life of Pets from Illumination was a huge hit during the quarter. It had the highest ever opening in the US for an original animated movie and importantly gives us another valuable franchise. Looking ahead we are thrilled about our new original animated film Sing which opens in the US in December. I believe this is one of the best movies that Chris Meledandri and the team at Illumination has ever made.

At Theme Parks, we also delivered fantastic results. We continue to be extremely pleased with the opening of Harry Potter in Hollywood.

Now over at Cable, the team continued to expertly balance improvement in the financial and customer results. We generated strong growth in revenue and operating cash flow while also achieving some of our best customer metrics in nearly a decade. We ended the quarter with 28.3 million customer relationships adding 216,000 during the quarter.

In Video, we added 32,000 customers in the quarter. We now have added 170,000 video customers in the last 12 months. We also delivered great results in high-speed Internet adding 330,000 customers during the quarter. Across all of our product categories, better customer retention was a key driver of our performance.

So how are we doing this? Well, we have shifted the culture of our Company to put the customer truly first and that is driving the focus of our product and technology innovation and also our customer service. A perfect example is Netflix which we have now integrated into X1. Our agreement with Netflix highlights the flexibility that we have in our platform and what a fantastic showcase X1 is for different types of content all in an elegantly designed and integrated experience. We did the same integration with live sports with the Olympics.

Similarly in high-speed Internet, we are increasing speeds and continue to deliver the fastest in-home Wi-Fi. Earlier this year, we launched a new residential Internet service that delivers gigabit speeds to customers using DOCSIS 3.1 technology.

We are also leveraging our position in the home to offer new services and this was true of voice when we introduced it and more recently, our home security product. As we announced last month, we are planning to bring a wireless service to our customers in mid-2017 as part of an attractively priced multi-product bundle. Stay tuned and we will have more to tell you about this at a later date.

Finally, we continue to make significant strides with customer service. Our efforts are focused on three areas. First, serving our customers faster. Second, improving and simplifying the experience particularly in on-boarding, billing and repair. Third, fixing issues the first time and when we fall short, making it right.

So all in all I am really proud of the performance in the quarter and we are encouraged by the momentum that we have in our businesses. Our teams are executing well and also working well together and we are excited and optimistic about our future. Mike, over to you.

Mike Cavanagh - *Comcast Corporation - Senior EVP and CFO*

Thanks, Brian, and good morning everybody. I am starting on slide four for those following the presentation online. Our third-quarter results reflect consistent execution and broad-based strength across our businesses. Consolidated revenue increased 14.2% and operating cash flow grew 10.5% for the third quarter reflecting solid growth in our cable business and strong growth at NBCUniversal partly driven by the success of the Rio Olympics.

Earnings per share was $0.92, a 15% increase compared to a year ago and free cash flow was $1.4 billion in the quarter, a decline of 48.5%. This decline was driven by higher working capital primarily related to the Rio Olympics. We will go into greater detail on these results on the slides to come.

Now let's start with Cable Communications on slide five. Cable Communications delivered strong third-quarter results. Revenues increased 6.9% to $12.6 billion as we increased customer relationships and grew total revenue per customer relationship by 3.6% to $148 per month. We added 216,000 customer relationships driven by two product customer additions and a reduction in churn across all products. In fact, we have improved churn in video and high-speed data for 32 consecutive months as customers increasingly recognize the value of our X1 platform and superior high-speed data product and we make meaningful strides in improving customer service.

High-speed Internet continues to be the largest contributor to overall cable revenue growth. Revenue increased 8.8% to $3.4 billion in the quarter reflecting an increase in our customer base, rate adjustments which were more modest compared to the prior year, and customers subscribing to higher levels of service. Our customer momentum continued as we added a combined 330,000 residential and business customers in the quarter up 3% over last year's net adds and we added 1.4 million combined customers over the past 12 months.

We continue to benefit from growth in the overall market and gain market share as customers respond to our product differentiation. We have increased Internet speeds 17 times in the last 15 years. About 80% of our residential customers take speeds of 50 megabits per second or higher and we have over 15 million Wi-Fi hotspots for our customers to access which combined greatly increases our customer value proposition and competitive differentiation.

Video revenue increased 4.5% to $5.6 billion in the quarter primarily due to rate adjustments as well as customers subscribing to additional services and growth in our customer base. Our rate adjustments are primarily from broadcast TV and RSN fees as we have noted in previous quarters are the most significant sources of our programming cost pressure.

In terms of volume, we have consistently improved our video customer metrics for several quarters. In the third quarter, we continued the momentum and added a combined 32,000 net video customers, an improvement of 80,000 versus the year-ago quarter and as Brian noted, making this our best third-quarter result in 10 years.

Driving these impressive customer metrics is improved customer retention as our X1 platform proves to be a real competitive differentiator. X1 combines innovative technology with the breadth of content that is easily searchable and customers are clearly responding. As we expand our X1 customer base, the positive customer benefits continue. X1 customers have higher customer satisfaction and better retention rates.

In addition, X1 customers compared to non-X1 customers have three times higher activations of DVRs, more outlets in the home and spend twice as much on pay-per-view. As a result the overall ARPU of an X1 customer is higher. We have been adding about 5 percentage points of X1 penetration each quarter this year and we kept that pace this quarter. We added 948,000 net new and existing customers with nearly 45% of our residential video customers now having X1.

Voice revenue declined by 2.4% to $878 million in the third quarter as combined customer net additions of 2000 were offset by a modest decline in ARPU. Our back to school initiatives were heavily focused on Double-Play this quarter driving a greater increase in two product video high-speed data customer relationships versus the Triple-Play that includes voice.

Let's now turn to Business Services which continues to deliver excellent results. Revenue increased 15.5% to $1.4 billion with the small business segment accounting for over 70% of our revenue and 60% of our growth driven primarily by the net increase in customers. Revenue for the midsize business segment has a higher growth rate fueled primarily by additional Ethernet sites as we continue to invest in expanding that business.

Cable advertising revenue increased 7.7% to $634 million reflecting higher political revenue related to the upcoming elections. Excluding the political contribution, our cable advertising revenue decreased 2%.

Turning to slide six, third-quarter cable communications operating cash flow increased 5.5% to $5 billion resulting in a margin of 39.7% compared to 40.2% in the third quarter of 2015 driven by higher expenses primarily related to increases in programming costs and the investments we are making to improve the customer experience.

Programming expenses grew 11.4% reflecting the timing of programming contract renewals. The underlying growth continues to be driven by higher retransmission consent fees and sports programming costs. For the full-year, we expect programming expense growth to be slightly above 10%.

Non-programming expenses increased 5.6% reflecting higher expenses to continue the rollout of X1, planned investment to improve the customer experience driven primarily by increased technicians and service personnel and an increase in advertising, marketing and promotion costs.

Year to date, our cable operating margin is down 40 basis points and that is roughly where we would expect to end the year.

Now let's move on to NBCUniversal's results. On slide seven, you can see NBCUniversal's revenues increased 28.3% and operating cash flow increased 31.5%. Adjusting to include the acquisition of Universal Studios Japan in last year's results, pro forma revenue increased 22.5% and operating cash flow increased 19.2%. These exceptional results were driven in part by the success of the Rio Olympics which added $1.6 billion in revenue of which $1.2 billion is related to advertising revenue and is included in the Cable Networks and Broadcast segments.

In addition to the Olympics, NBCUniversal results reflect a strong performance at Parks and Broadcast as well as the theatrical success of The Secret Life of Pets.

Cable Networks revenue increased 22% to $2.9 billion including $432 million of revenue associated with the Rio Olympics. Excluding the Olympics, revenue increased 4.1% reflecting higher distribution and content licensing and other revenue and relatively flat advertising revenue. This was primarily driven by distribution revenue which increased about 6% driven by contractual rate increases and contract renewals partially offset by a slight decline in subscribers at our Cable Networks.

Advertising revenue was relatively stable reflecting strong pricing offset by audience rating declines that our Cable Networks. Operating cash flow increased 7% to $893 million reflecting a profitable Olympics and increased sports programming costs as well as our continued investment in original programming.

Broadcast Television had another strong quarter with revenue growth of 56.6% to $3.1 billion including $1.2 billion of revenue associated with the Rio Olympics. Excluding the Olympics, revenue declined 3.6% reflecting lower content licensing revenue partially offset by higher retransmission and advertising revenue.

Content licensing revenue declined 32% due to a difficult comparison to last year's results which included new Law and Order syndication deals.

Excluding the Olympics, distribution and other revenue growth of 21% was driven by a 52% increase in retransmission revenue. Last, advertising revenue increased a healthy 4% reflecting a strong scatter market. Broadcast operating cash flow increased by $228 million to $378 million reflecting a profitable Olympics and growth in high-margin retransmission consent fees as well as lower programming costs compared to last year.

Film revenue declined 7.9% to $1.8 billion and operating cash flow declined 6.1% to $353 million. These results include DreamWorks from its acquisition date of August 22, including $50 million related to severance. Excluding this charge, operating cash flow increased as the successful performance of The Secret Life of Pets and higher content licensing more than offset the difficult comparison to last year's record third quarter which included Minions and Jurassic World.

Theme Parks revenue increased 60.6% to $1.4 billion and operating cash flow increased 62.4% to $706 million in the third quarter of 2016. On a pro forma basis for Universal Japan, revenue increased 16.1% and operating cash flow increased 17.1%. These results reflect higher attendance and higher per capita spending driven by the successful opening of The Wizarding World of Harry Potter attraction in Hollywood as well as the positive impact of a stronger Japanese yen which accounted for about one-third of the growth.

We are pleased with the performance of Harry Potter in Hollywood as it is trending in line with previous Potter launches at our rather parks. Partially offsetting these results were higher costs associated with new attractions like King Kong that opened in Orlando this past summer.

Let's move to slide eight to review our consolidated and segment capital expenditures. Consolidated capital expenditures increased 11.1% to $2.4 billion in the third quarter. At Cable Communications, capital expenditures increased 10.4% to $2 billion for the quarter and on a year-to-date basis have increased 10.5% to $5.5 billion representing capital intensity of 14.8% compared to 14.2% for the first nine months of 2015.

While the largest component of our capital spending continues to be customer premise equipment including X1 and wireless gateways, the largest source of year-over-year growth in spending is our investment in scalable infrastructure to increase network capacity. We believe this investment in scalable infrastructure enhances our competitive position in broadband by staying ahead of rapid growth and bandwidth consumption by our customers.

In addition, we have extended our network to more customer addresses primarily business addresses through line extensions. We continue to expect that for the full year of 2016 our cable capital intensity will remain flat to 2015 at approximately 15%.

At NBCUniversal, capital expenditures increased 16.3% to $336 million in the third quarter and increased 19.5% to $991 million on a year-to-date basis driven by the inclusion of Universal Studios Japan. We continue to expect NBCUniversal's CapEx to increase approximately 10% this year.

Now finishing up on slide nine, on a year-to-date basis we generated $5.6 billion in free cash flow, a decrease of 23.8% over the comparable period of 2015 primarily driven by lower third-quarter results. Consolidated free cash flow in the third quarter declined 48.5% to $1.4 billion reflecting the

10.5% growth in operating cash flow which was offset by an increase in capital expenditures as we just reviewed and higher working capital primarily due to the 2016 Rio Olympics. This is a timing issue and we will see a positive swing in Olympic working capital in the fourth quarter.

In terms of capital returns, dividend payments during the quarter were $663 million, up 6.5% and share repurchases were $1.4 billion consistent with our plan to repurchase $5 billion of our common stock during the full year. We ended the quarter at 2.2 times net leverage primarily reflecting the closing of the DreamWorks acquisition and payment of a deposit in the third quarter.

So 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. And now I will turn it back to Jason to lead the Q&A.

Jason Armstrong - *Comcast Corporation - SVP of IR*

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Jessica Reif Cohen, Bank of America Merrill Lynch.

Jessica Reif Cohen - *BofA Merrill Lynch - Analyst*

Thank you. I have one multipart question. In light of the recent industry M&A and I guess a subjective point, many will view AT&T's transaction as similar to you buying NBCU and subjectively, it just seems like you bought a distressed asset at distressed prices and have a video background. But that aside, the question is a couple of questions.

One, do you see yourselves as complete? Are there any holes? Part two, where are you in making progress towards addressable or targeted advertising? What will it take to get real traction in that area? Finally, with consumers moving increasingly to mobile video whether on demand or across multiple distribution platforms, how do both sides of Comcast, Cable and NBCU prepare models that are profitable for Comcast but also satisfy consumer needs?

Brian Roberts - *Comcast Corporation - Chairman, President and CEO*

Thanks, Jessica. Let me start and then kick it over to Neil and Steve to talk just a little bit about the second parts. We are not going to discuss the other transaction, the proposed transaction with AT&T and Time Warner other than that we don't typically comment on other deals and so just for everybody, we are not going to have any comments today.

We have a fabulous Company and what we are pleased to report today I think demonstrates that. The assets are great, they are working well together, adding customers, adding new products and real market leadership in almost every area whether right from the Olympics right through to X1's integration of Netflix.

So couldn't be happier with this quarter and the momentum of this year. As we dig into things like advertising and what is happening in the market and changes that could happen, let me kick it over to Neil to start and maybe Steve could comment as well.

Neil Smit - *Comcast Corporation - EVP and President and CEO of Comcast Cable*

The advanced advertising area we have a full rollout of VOD, and dynamic ad insertion, which is becoming more and more effective. They're testing linear addressable in a number of markets and we've got that working. We are able to leverage our data we collect, obviously with consumer privacy in mind, we collect from about 20 some odd million set-top boxes.

Marcien Jenckes is leading the charge on getting the most leverage out of some of our recent acquisitions and our existing addressable advertising capabilities, in FreeWheel, Visible World, Strata and Sticky Ads. So we think we are making great progress and it is a growth business for us. Steve?

Steve Burke - *Comcast Corporation - EVP and CEO of NBCUniversal*

So at NBCUniversal, we have a handful of advanced advertising products that are currently in the market and we have about 100 advertisers that have bought these products. The most prominent one right now is called NBCU+ powered by Comcast and it is a way of overlaying Comcast's capabilities with the base national buy.

Advanced advertising has been around -- people have been talking about it for a long time. It is not easy. It is hard to develop these products but it is clear what advertisers want, they want to combine the data intensity of Internet advertising with the clear value and ability to change people's perception that you get with a television ad. So it is a pretty important part of Neil and my agenda and I think we are at the head of the pack in terms of delivering on it but there is still work to do.

Neil Smit - *Comcast Corporation - EVP and President and CEO of Comcast Cable*

I will just add, Steve, on the mobile video space, about 50% of our subs are currently using TV Everywhere. That is up from about 30% last year and they view about an average of 10 hours monthly. So we are continuing to expand the offerings. We've got about 130 live streaming channels and more than 40,000 VOD selections. So we are really getting good traction in that area as well.

Operator

Craig Moffett, MoffettNathanson.

Craig Moffett - *MoffettNathanson LLC - Analyst*

Good morning. So I want to ask about your wireless strategy if you will. You have said that you have notified Verizon about triggering the MVNO agreement. Can you make money as an MVNO operator or do you have to transition a large amount of the traffic to your Wi-Fi network and eventually your own facilities? If the latter is the case, operationally can you do that under the contract and how do you think about how you manage the relationship with Verizon about trying to transition from a pure MVNO to something like an MNO posture in wireless over time?

Brian Roberts - *Comcast Corporation - Chairman, President and CEO*

Let me start, it is Brian. And again, have Neil maybe add a lot more detail. But at the big picture level what I said before is we are going to launch this next year so part of it is we don't have any new news today, stay tuned. As we get closer to trialing the product we will be learning in the marketplace and it will be a process.

We fundamentally believe we can make money for the shareholders through a wireless offering with the unique relationship that we have with the Verizon MVNO. We can't go into detail about that relationship for obvious reasons but we have the ability to do things that we think put us in a position to make that statement come true and create real value for our shareholders along the way. Neil?

Neil Smit - *Comcast Corporation - EVP and President and CEO of Comcast Cable*

We are going to do this because we believe we can add value to the customer relationships. We have seen other companies, Rogers, Telenet, Virgin have all reduced churn and they have increased customer lifetime value. In a way, we are already in the wireless business. We deploy millions of wireless gateways and the Wi-Fi service in the household is the fastest on the market. I think by leveraging the 28 million customer relationships, the 15 million hotspots and the MVNO, we can offer a really excellent service.

We are going to have to include handset procurement as part of it but we built that in the model and we think we can -- Verizon has a been a great partner so far in the wholesale relationship and we think that will continue and we have a great product with a lot of value over time.

Operator

Ben Swinburne, Morgan Stanley.

Ben Swinburne - *Morgan Stanley - Analyst*

Thank you. Good morning. I would love Neil and Steve's thoughts as you think about the video business in the US, both yours on the Cable side and the subscriber trends driving the NBC Cable Networks. It seems like we may see a lot of new entrants next year obviously Direct TV now with new product and price point; Hulu, Google seems to be signing contracts.

I guess, Steve, does that create the opportunity for subscriber trends to improve for the NBC Cable Network portfolio? You mentioned in the quarter they were down again. I was wondering as you look at all this new competition coming, could that turn that positive in your view?

And for Neil, the results in your video business sort of speak for themselves and X1 is clearly working but is there anything you are doing and your team are doing that you may bring to market or are thinking about operationally to help continue to compete successfully with more and more of these virtual offers as you head into 2017? Thank you.

Steve Burke - *Comcast Corporation - EVP and CEO of NBCUniversal*

Let me start. Think there's about 20 million homes in America that are not part of the cable satellite telco MVPD environment. And the real promise of some of these new over the top entrants is that they would deliver incremental subscribers which obviously would be good for the content side of the Company. I think we all have a healthy degree of skepticism that these new over the top entrants are going to create millions of subscribers anytime soon. I think if you look at the Cable ecosystem, I've now been with Comcast for 18 years and for 18 years Comcast earnings have been up every single quarter. And yes, as new entrants come in, they take fractional share away from the existing suppliers. But the fact of the matter is most people find tremendous value and enjoyment in their cable or satellite subscription and are not looking to change.

And there's all sorts of issues that over the top providers are going to have to deal with including cost and service and everything else. So I think there could be a modest positive for NBCUniversal. I don't expect it to be material in the next year or two but I think over time if some of those 20 million nonsubscribers become subscribers, it would be positive.

Neil Smit - *Comcast Corporation - EVP and President and CEO of Comcast Cable*

From the Comcast Cable perspective, we think X1 is a great platform and with this Netflix integration into overall experience we can integrate products and we can do things like we did with the Olympics in a very seamless way. I think that we understand how to target and how to segment. We've got products like XFINITY on campus. It is a target specific segment, X1 Double-Play stream so we understand how to do that and I think we have demonstrated we can do it over an ongoing basis.

We have retention has improved for 32 consecutive months and we see that trend as very positive. We will continue to innovate on X1 and we think that we will continue to innovate on market segmentation and targeting and we've got what I would feel is the best video product on the market. I think there is going to be more flavors and more competition but we will compete aggressively.

Ben Swinburne - *Morgan Stanley - Analyst*

Thank you, both.

Operator

Vijay Jayant, Evercore ISI.

Vijay Jayant - *Evercore ISI - Analyst*

Thank you so much. I just want to follow up on the prior question for Neil. Given the prospect of a set-top box apps-based ruling, you have a hybrid QAM/IP product, X1, X2. So if that becomes the way of the world, can you talk about the product transition you sort of see there?

But also you mentioned, I think Mike mentioned about scalable infrastructure investments continuing and as we go into an all IP world, can you just broadly talk about what is the optimal level of network requirement do you think and where are we towards that to have really TV being consumed in all IP? Thank you?

Neil Smit - *Comcast Corporation - EVP and President and CEO of Comcast Cable*

Well, as you mentioned, we will be going to an IP-based video solution over the next let's just call it couple of years. We have the product in the lab, it is working well. We will continue to roll out new devices. We have the XB6 which is the fastest gateway out there. It is 5 times faster than our current version. We have Xi5 and Xi6 coming out which will deliver video over Wi-Fi at excellent quality. And so we are going to continue to transition the product to IP.

Concerning the network, we have continued to invest over the years in our network capacity and we will continue to do that. Business services has brought fiber deeper into the network. We are going fiber direct to new developments and to some MDUs. So we will continue to invest in the network but it is nothing new to our business. We have increased capacity, doubled capacity every 18 to 24 months and that has been happening for the last 8 to 10 years. So we feel pretty good about our position.

Brian Roberts - *Comcast Corporation - Chairman, President and CEO*

I just wanted to add one other thought. The consumer may not completely care whether it is all IP or not. What the consumer wants is really great quality and ease of on-boarding experience and the liability. That goes back to the emphasis Neil and the team are putting on customer service and customer experience.

So just take as a for instance, the Xi5 box which is the first box we have ever had that is a Wi-Fi box. So you take this box, you plug it in and you attach it if you want to your television with an HDMI. That is it. It doesn't have to have any cable in that room and the on-boarding of that box is so different than any other box we have ever had and within two minutes I think we are 2:20 and we are trying to get to 2 minutes, you are watching with a few simple key strokes. It already figures out, the Wi-Fi Network, it is so intelligent and is such a different experience than any other box we have had. And we only have just begun to launch this box.

That is the kind of products as we go to an all IP world that we envision, that it is just really simple, really seamless, and better than any product on the market for that on-boarding.

Neil Smit - *Comcast Corporation - EVP and President and CEO of Comcast Cable*

And it takes a lot less time to install in the household.

Brian Roberts - *Comcast Corporation - Chairman, President and CEO*

And you can do it yourself.

Vijay Jayant - *Evercore ISI - Analyst*

Great, thank you so much.

Operator

John Hodulik, UBS.

John Hodulik - *UBS - Analyst*

Thanks, guys. Programming cost growth has continued to accelerate through the year. Can you give us a sense for whether that will be the case again in 2017?

Then on Cable margins in general, it looks like we are seeing somewhat lower margins due to customers care costs and the X1 rollout. Do you see these and the impact on margins more as temporary or something that is getting built into the base? And given the shift to HSD, can you see your way to sort of margin stability or even margin improvement down the road? Thanks.

Neil Smit - *Comcast Corporation - EVP and President and CEO of Comcast Cable*

Programming expenses grew at about 11.4% in the third quarter and we expect the full-year to come around slightly above 10%. It is due to contract renewals and some lumpiness. We have some contract renewals that are up this year. So we expect next year to be slightly elevated. But following that, from what we can see in the trending, they will be down at a lower level and over the years, the three-, five-, 10-year trends have been in the 7% to 8% range. So we do see an opportunity as we get through 2017.

Mike Cavanagh - *Comcast Corporation - Senior EVP and CFO*

The overall margin, obviously Neil's team, it is Mike, just chiming in. The focus on growth in the higher-margin businesses or business service and high-speed data together with the very heavy focus on non-program expenses has been and will continue to be the source protecting that margin. Like Neil said, we will come back and talk about future margin for 2017 when we do the next earnings call. But the drivers of margin over time are those factors.

John Hodulik - *UBS - Analyst*

Okay, thanks.

Operator

Phil Cusick, JPMorgan.

Phil Cusick - *JPMorgan - Analyst*

Thanks. A question and a follow-up for Neil if I can. First, I would like to ask about the business services side which is certainly additive to growth but the continued deceleration while capital intensity is increasing is interesting. Should we be looking at this as a $200 million a year of incremental growth and the percent falling or is it hard to hold that dollars of growth and is anything happening in pricing or competition?

Then just following up on your churn comments, is video strength still mostly a churn driven improvement or are gross adds up year-over-year as well maybe due to your segmenting efforts? Thanks.

Neil Smit - *Comcast Corporation - EVP and President and CEO of Comcast Cable*

Concerning business services, I mean in 2015 we added about $780 million in revenue growth and we think that 2016 will come in at about the same level. So it is kind of the law of big numbers where we are growing at the same amount, at the same level but we are just on a bigger base. It is a $5 billion run rate business now. Small is still about 70% of the business and 60% of the growth but we are seeing healthy growth from midsize businesses right now and we are getting a number of enterprise deals in. We've got a large financial institution with about 2000 locations, a large healthcare provider with about 1000 locations and a retail provider with about 2000 locations. So we are starting to see the enterprise side of the business grow.

Concerning video, we are seeing growth on the connect side. [We are seeing sequential quarterly growth on the connect side, but a year-over-year decline in connects] (corrected by company after the call). We are seeing healthy growth on the connect side primarily due to X1 but the surprisingly healthy number is on the churn side and that continues to index lower than the previous year. So we are seeing relatively a larger impact on the growth on the churn reduction side. But we are still seeing healthy connect growth.

The fourth quarter last year was a very strong quarter for both HSD and video so the comps might be a little bit difficult but we feel very good about the business.

Phil Cusick - *JPMorgan - Analyst*

Just a follow-up on business, as you move up toward enterprise, are you seeing higher capital cost projects and is that driving the higher capital intensity in that segment?

Neil Smit - *Comcast Corporation - EVP and President and CEO of Comcast Cable*

Not really. It's early to tell but think of them like a central office with a lot of branch offices which would be like small businesses. We know how to do the small business market very effectively. And so I don't think you will see a higher degree of capital intensity. We are doing hyper builds now where we go in -- we used to go into an industrial park and we had to sign up the customers before we pulled the fiber in whereas now we know in these industrial parks we are going to get the customers. It is just a question of time before we get them on that and so we are building in assuming we are going to get that customer base. It is a little bit more aggressive stance.

Phil Cusick - *JPMorgan - Analyst*

Thanks, Neil.

Operator

Marci Ryvicker, Wells Fargo.

Marci Ryvicker - *Wells Fargo Securities - Analyst*

Thanks. I have two questions. The first, Steve, can you talk about the progress you are making with the affiliates as it relates to their inclusion or not in what we are calling the not so skinny skinny bundles?

And then the second question is for Neil. How does political advertising at regional cable compare to prior years? We have heard that cable is gaining share at the expense of broadcast. So just curious if you are seeing that? Thanks.

Steve Burke - *Comcast Corporation - EVP and CEO of NBCUniversal*

So on the first question in terms of having the affiliates participate, I assume you mean in over the top bundles. If you look at the success of broadcasters like NBC, the affiliate relationship is really important so our feeling is that regardless of the technical means of getting the NBC signal to people, we should be having the same kind of sharing relationship that we have with our affiliates in the future and we are working on that. It is complicated and lots of different things to work out. But the spirit of our approach is to try to make sure that all means of getting the signal out include the affiliates and we are working on that and believe that that is going to be the model that we use going forward.

Neil Smit - *Comcast Corporation - EVP and President and CEO of Comcast Cable*

Marci, concerning political advertising, we have seen growth obviously in this election year. It kind of depends on the state that we are in. We are very strong in Florida, in Pennsylvania, states like that. The core is a little bit soft on the local side but we are overall seeing 7.7% growth in local advertising.

Operator

Brett Feldman, Goldman Sachs.

Brett Feldman - *Goldman Sachs - Analyst*

Thanks. One of the recent storylines has been that some major sporting events like the Olympics in the NFL have seen ratings that are lower and there's a lot of speculation as to why. But one of the things that frequently is cited is that more consumption of these events is happening online. You are a big partner with both of the examples I cited and you were very involved obviously in both the linear and the online distribution of the Olympics. And so it would seem that you have a unique vantage point.

So I guess my question is what do you think is going on here? Do you think that viewership of these events has actually declined or do you think it is correct to assume that more of it has gone to a streaming format so it is not being captured? And if that is the case, how do you make sure as you move ahead that you were able to monetize your role in those events properly?

Steve Burke - *Comcast Corporation - EVP and CEO of NBCUniversal*

So obviously the Olympics and the NFL, they are two different stories. In the case of the Olympics, London was the biggest Olympics that we ever had in terms of primetime ratings. Rio was lower than London but Rio was really on par with the previous three summer Olympics. And if you look at all the various ways of consuming, we had an extraordinary Olympics financially, ratings, advertiser happiness, etc.

The streaming portion of the viewership was actually very low relative to television for the Olympics call it 1% or 2. I think the same numbers apply to the NFL 1% or 2%, 1% of people stream NFL games. By the way, the NFL we had an extraordinary season last year which everybody is comparing to, we are actually down versus last year but down much less versus two years ago.

I think it is very difficult to tell precisely what is happening on any sporting property particularly in the case of the NFL because it has only been half a dozen weeks. I do think there are a lot of different things that people are using -- consuming on the Internet and spending their time on. I also think there are seasons that are stronger than other seasons and we may be in a season just speaking for Sunday Night Football, where the matchups aren't as good as they could have been.

But if you step back, the Olympics and the NFL are the two highest rated programs of the year in all of television, they dominate the nights that they are on, they dominate, as Brian mentioned during the Olympics we were 4 times the next highest rated show. Sunday Night Football is by far the highest rated show on television. And we have very, very good partnerships with the International Olympic Committee and the NFL that go out many, many years and those are very profitable relationships.

So we are watching it and obviously you would rather have ratings up than down but having ratings decline modestly and still be very, very strong properties doesn't cause us too much concern.

Brett Feldman - *Goldman Sachs - Analyst*

Great. Thanks for that color.

Operator

Jason Bazinet, Citi.

Jason Bazinet - *Citi Investment Research - Analyst*

Just a question for Mr. Smit. You guys put up pretty good video net adds that you talked about. But I noticed that the penetration rates have continued to fall in video primarily just because home and business passings are growing and you talked about passing more businesses. So my question is this, is the penetration falling because the video attach rate is low among businesses? And how much headroom is there for business passings to continue to grow? Are you in the second inning or is it the fifth inning? Just any sort of color.

Neil Smit - *Comcast Corporation - EVP and President and CEO of Comcast Cable*

I think it is important as you did, Jason, to separate residential from business because there is a lower business attach rate in video in general. They are more interested in the data product and we sell more data product to them. There is an opportunity I think in video going forward as well as there is in our XFINITY home product to sell to businesses as well as there will be with our wireless product. So I see great opportunity in the business segment. We continue to grow customers at a good rate. We have about 30% to 40% penetration in the small business segment, 10% in the midsize. And we're just starting in enterprise. So I think there is great room for growth there and I think our product offerings will continue to be attractive.

Brian Roberts - *Comcast Corporation - Chairman, President and CEO*

I just want to add, just want to underscore if you wanted my one point of what is one highlight for this quarter, it is the video growth rate and I don't know that we are looking at it that way. What we are looking at is the product, the service, the momentum and it is 170,000 subs in the last 12 months that we have added. And as Neil referenced, the fourth quarter, there are ups and downs in quarters but I am looking at it on an annual basis and I think we are ahead of even where we set our own plans at the beginning of the year where we think we will end the year. And that is a result not that there is new homes that we are getting to in driving it but rather a better product that we are driving with.

Jason Bazinet - *Citi Investment Research - Analyst*

Can I ask just one follow-up? If your home and business passings are growing about 3% on an annualized basis, is it fair to assume that the home passings is just in line with population growth, like half that level? Is that reasonable?

Mike Cavanagh - *Comcast Corporation - Senior EVP and CFO*

I think that is reasonable.

Jason Bazinet - *Citi Investment Research - Analyst*

Okay, all right. Thank you.

Operator

Anthony DiClemente, Nomura.

Anthony DiClemente - *Nomura Securities - Analyst*

Good morning and thank you so much for taking my questions. One on NBCU; advertising in the quarter was flattish ex Olympics. I just wanted to get maybe a little bit more color there in terms of the ratings versus CPMs. And then wanted to also just a follow-up on pricing at high speed Internet so the ARPU growth seems quite strong. Can you parse out rate adjustments versus expanded services for high-speed data and just talk a little bit about the sustainability of ARPU growth for your high-speed Internet business? Thanks a lot.

Steve Burke - *Comcast Corporation - EVP and CEO of NBCUniversal*

So let me just start by saying the advertising market remains very strong. Scatter is as strong as it has been really in a long time and that is a continuation. Really we have had quarter after quarter of very strong scatter and we had a super strong upfront in May.

For the quarter, our advertising for broadcast, ex Olympics, was up 4%; our advertising for cable, ex Olympics, was about flat. And the up 4% is a sign of CPMs being high enough on the broadcast side to exceed ratings decline and in cable they were about flat. Cable in the last quarter -- there are certain quarters where we have more new launches and more things going on. And of course, the Olympics really took a lot of the advertising from the ongoing programs during the quarter.

Neil Smit - *Comcast Corporation - EVP and President and CEO of Comcast Cable*

And concerning pricing, our HSD pricing is related on both rate -- is based upon both rate and, in some cases, the devices as we increase the speeds to the household. Our rate was a bigger factor this year than it was last year, which was more device-based.

We continue to see ARPU upside. We are putting in the fastest Wi-Fi available. The faster speeds; we have increased speeds 17 times in the last 15 years.

And we are continuing to improve the product in terms of smart internet where it is easy to integrate new devices into the home, whether it is a Nest thermostat or Lutron lights, it will make it easy for the customers, as Brian said earlier to use our service. We have to continue to increase the Wi-Fi capacity. There are about 11 devices hanging off our network now and we will continue to do that but we see ARPU upside overall in the HSD side.

Anthony DiClemente - *Nomura Securities - Analyst*

Thanks a lot.

Operator

Bryan Kraft, Deutsche Bank.

Bryan Kraft - *Deutsche Bank - Analyst*

Hi, good morning. I wanted to ask Steve and Neil each a question if I may. Steve, I was wondering if you could give us the state of the Union for lack of a better term from your perspective on the industry's progress toward better audience measurement. How much consumption do you think is still falling through the cracks and has that gap between measured and unmeasured viewing become larger or smaller over the past year?

Then for Neil, Neil, I was wondering if you could maybe give us some color on where you are in the home security and home automation market, maybe talk about if you can where you are on number of subscribers, penetration, revenue, something that can give us a sense as to how the progress in that business is going?

Steve Burke - *Comcast Corporation - EVP and CEO of NBCUniversal*

Well, I don't think the industry is anywhere near where it needs to be in terms of monetization and we were talking about the Olympics as a perfect example. Something like 100 million Americans consumed at least part of the Olympics online. It was a huge, huge phenomenon on Snapchat and Facebook and other places and the inability for us to articulately walk into an advertiser and talk about all that consumption in an aggregated way is a real problem. And it is a problem that is obviously going to get solve but progress is not as great as it should be.

I think what everybody wants is pretty obvious. They want to know what is the total audience delivery of a television show wherever it gets consumed and they want it to be done by a third party in a way that it is objective and quantifiable and that is what we are all working to. I think the world is moving towards C7 from C3. I think the world is moving toward measuring alternative vehicles and I think most advertisers understand when they buy a hit property, they are going to get a lot of consumption elsewhere. And they sort of factor that into the effectiveness intellectually. But you would certainly love for it to be done in a quantifiable way by an unbiased third party and we are not making enough progress on that.

Neil Smit - *Comcast Corporation - EVP and President and CEO of Comcast Cable*

And Brian, concerning XFINITY Home, we think there is a big opportunity there. We're capturing share and growing it quickly. About a year and a half ago we announced we had passed 500,000 customers and it has grown significantly from there. What is interesting, I find the most interesting is about 55% of the XFINITY Home customers are new to Comcast. We are attracting new customers and new customer relationships and about 60% of those customers have Quad-Play.

So it is a very sticky product, it continues to develop and we are very optimistic on the upside potential.

Bryan Kraft - *Deutsche Bank - Analyst*

Great, thank you.

Operator

Kannan Venkateshwar, Barclays.

Kannan Venkateshwar - *Barclays Capital - Analyst*

Thank you. Brian, just a couple of questions. First is, it looks like the industry is moving more toward the Comcast model more vertically integrated and so on with obviously the Time Warner deal but as in buying content and so on. So from that perspective, you guys have a unique vantage point given you had NBC for awhile. If you could talk a little bit about what the advantages of that model are and whether owning NBC as well as Cable on the other side of it provides a better business model from a consumer perspective as well as for the Company as a whole?

Secondly, from the perspective of the X1 platform, obviously it is an industry-leading platform and the way the content is presented there is in a disaggregated format. From that perspective in terms of the vision you have of how video can be packaged maybe five years from now, that is the bundle in any form, skinny or non-skinny. Make any sense in the next five years or 10 years given how the industry is evolving and consumption patterns are evolving? Thank you.

Brian Roberts - *Comcast Corporation - Chairman, President and CEO*

Let me take a crack at the second one first which if I understand the question when you say a disaggregated format, I'm not actually sure that I see it that way. What X1 does from my perspective, our perspective I think, is really help you with search, navigation, discovery and enjoyment of the content you end up deciding to procure. So if you just pick a movie star, you now talk to the remote, you say it and then it gives you recommendations and it tells you every episode now whether that episode resides on Netflix or resides on a broadcast or resides on a cable network or if you DVR-ed it. And then it is more like this and it gives you lots of choices.

So in the case to your point, we will be upselling Netflix as an example and just as we upsell HBO and Showtime and others. So some content allows you to be show by show our network by network but it is the breadth of all the choices in the bundle that I think is what has powered this industry. And clearly as Neil said, we need to evolve and continue to progress and we will and we need to compete with whatever the future brings. But the investment that we have made and the innovation and the people we have recruited I think sort of ties to your first question.

Very broadly put, Comcast NBCUniversal is a very special Company and we've move hundreds of people back and forth between different parts of the Company in the corporate office. The Olympics I think are just a shining example of where all those live streams that Steve was just talking about were available on X1 and on the NBC Sports app and you could get there through your voice remote or through your XFINITY mobile app. We call that Symphony and we have seen it whether it is talent wanting to work with the Company, people wanting to join the Company or innovation that the Company is doing.

And could we do more and will we do more and innovate? Yes, but we have seen a lot of people want to use the X1 platform, there are other operators around the world in Canada and with Cox and we have had others requesting to use the platform. So we are -- it seems to be resonating in almost every part of ecosystem the strategy that we are on and again, you get to a quarter like this and you see it really all working well together.

Steve Burke - *Comcast Corporation - EVP and CEO of NBCUniversal*

Let me talk a little bit about NBCUniversal under Comcast ownership, it has been about 5.5 years, we have more than doubled operating cash flow. We are the fastest-growing media Company in the country. When we came, NBC was number four, for seven years in a row, NBC is starting the fourth season in a row as number one. We have had two record years at Universal Studios. Our Theme Park business has tripled or quadrupled. We have really had a wonderful experience as part of Comcast and part of that is the culture that Brian and everyone at Comcast has created. Part of it is the willingness to invest, part of it is Symphony which we call our special sauce.

But looking back at the last 5.5 years, the Comcast element has lent to a great, great stimulus to NBCUniversal and I think the results speak for themselves.

Kannan Venkateshwar - *Barclays Capital - Analyst*

Thank you.

Operator

Mike McCormack, Jefferies.

Mike McCormack - *Jefferies LLC - Analyst*

Thanks for squeezing me in. With respect to the high speed adds, obviously quite strong, just thinking where that share is coming from? I presume mostly DSL as opposed to fiber by the telcos.

And I guess thinking forward, a lot of fiber to the home investment going on. Is there any risk as the telco aggression I guess in the fiber field continues to roll out that we should see a more tempered outlook on high-speed data? Then maybe just another quick one on 5G, whether you see that as a threat or an opportunity? Thanks.

Neil Smit - *Comcast Corporation - EVP and President and CEO of Comcast Cable*

Well, HSD, there is still 70% to 75% of the country has HSD so we think there is market growth opportunity. We have about 6 million DSL customers still in our footprint so we see that as a market share opportunity. And we have about 43% penetration so we see plenty of room for growth.

Concerning 5G, I think it is in the early days and it will be an exciting evolution of the wireless standards. There are limitations to it such as propagation and the antennas it will need to meet power and backhaul and we think that with these thousands of endpoints in the cities you need space, power and a field force to enable the high bandwidth mobile connections. So we think we have a great set of assets that can bring significant value to the equation.

Mike McCormack - *Jefferies LLC - Analyst*

Great. Thanks, guys.

Brian Roberts - *Comcast Corporation - Chairman, President and CEO*

Thank you, Mike, and thank you everybody for joining us this morning. Regina, back to you.

Operator

There will be a replay available of today's call starting at 11:30 AM Eastern time. It will run through Wednesday, November 2, at Midnight Eastern time. The dial-in number is 855-859-2056 and the conference ID number is 81102798. A recording of the conference call will also be available on the Company's website beginning at 12:30 PM today.

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