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CMCSA - Q3 2018 Comcast Corp Earnings Call

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OVERVIEW:

Co. reported 3Q18 revenues of \$22.1b and adjusted EPS of \$0.65.



OCTOBER 25, 2018 / 12:00PM, CMCSA - Q3 2018 Comcast Corp Earnings Call

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PRESENTATION**Operator**

Good morning, ladies and gentlemen, and welcome to Comcast's conference call to discuss third quarter 2018 earnings and the acquisition of Sky. (Operator Instructions) Please note that this conference call is being recorded.

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

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

Thank you, operator, and welcome, everyone. As always, let me now refer you to Slide #2, which contains our safe harbor disclaimer, and remind you that this conference call may include forward-looking statements subject to certain risks and uncertainties. In addition, in this call, we will refer to certain non-GAAP financial measures. Please refer to our 8-K and trending schedules for the reconciliations of non-GAAP financial measures to GAAP.

Turning to today's materials. We'll be doing things a bit differently with 2 segments to this call. First, as usual, Brian Roberts and Mike Cavanagh will make prepared remarks covering our third quarter earnings, after which they will be joined by Steve Burke and Dave Watson for a Q&A session related to our results. Then we will move to a discussion of our recent acquisition of Sky, with Jeremy Darroch, the CEO of Sky, joining Brian for a slide presentation followed by Q&A.

With that, let me turn the call to Brian Roberts to review our third quarter 2018 results. Brian?



OCTOBER 25, 2018 / 12:00PM, CMCSA - Q3 2018 Comcast Corp Earnings Call

Brian L. Roberts - Comcast Corporation - Chairman & CEO

Thank you, Jason, and good morning, everyone. This is a really exciting time for our company as we are so pleased to have completed the acquisition of Sky. And today, we look forward to talking more about that, which we'll do in a little bit. But let me first turn to our strong third quarter results and the many key achievements that I'd like to highlight.

Cable's EBITDA growth of 7.6% was the fastest in 6 years, and net cash flow increased by 15.6%, the third consecutive quarter of double-digit growth. This impressive financial performance reflects the pivot we've made to our connectivity businesses, which have higher margins and lower capital intensity.

In addition, we surpassed 30 million customer relationships as year-over-year growth accelerated to over 3%. Customer relationship net adds of 288,000 were driven by 363,000 net new broadband customers, the best third quarter in 10 years. Collectively, residential broadband and business services revenue increased by nearly 10%. These results demonstrate that customers love our products.

We're investing to harness the capacity and capabilities of our network and deliver innovative, differentiated experiences, which we believe gives us a long runway for further growth. We're competing really well in residential broadband by offering customers the fastest speeds, most reliable WiFi coverage in the home and industry-leading WiFi management and controls. We've branded our holistic broadband product as xFi and continue to add new features, and we're rolling out our xFi gateways and pods to further enhance the service. We also recently announced that our 1 gig Internet is now available to nearly all of the 58 million homes and businesses passed in our footprint. This is the fastest deployment of gigabit speeds to the most locations in the country by anybody. It's a similar story in business services, with demand for our connectivity across small, medium and enterprise customers driving double-digit growth.

Led by our X1 platform, video play is an important supporting role in our strategy of driving whole home economics and providing the best value and experience to customers, and we remain committed to competing for video subscribers we can serve profitably. By aggregating and integrating everything from linear TV to applications like Netflix, YouTube and soon, Amazon Prime Video, X1 delivers an unmatched user experience and the broadest range of content that underscores the value of our broadband service.

Our newest addition to the bundle, Xfinity Mobile, is also resonating with customers. In little over a year, we've crossed 1 million customer lines. Customers who subscribe to Xfinity Mobile have overall higher satisfaction, and our early results indicate that adding mobile improves broadband customer retention, one of our key objectives.

Another success that I'm proud of is the progress we've made in improving the customer experience. Over the last 12 months, customer satisfaction scores have increased, and we have taken out 16 million calls handled by our agents and reduced truck rolls by over 1 million year-over-year while adding nearly 1 million customer relationships. What's enabled us to do this is our transformation of the way customers interact with us. Over 75% of the interactions are now being completed through our digital touch points. Providing more digital tools remains the key focus as we go forward, and that will help take additional operating costs out of the business.

Now turning to NBCUniversal. Cable Networks and Broadcast TV EBITDA collectively increased by 6% in the third quarter, reflecting growth across retrans and affiliate revenues, content licensing and advertising. Some highlights from the recently completed 52-week season included NBC Broadcast finishing #1 in total viewers for the first time in 16 years, along with our win among adults 18 to 49 for the fifth consecutive year in prime, and Telemundo's second consecutive win among adults 18 to 49 in Spanish language prime. The new season is off to a great start as well. Both networks continue to lead the competition, and NBC holds 4 out of the top 10 shows in prime, the most among the broadcasters, as well as 2 of the top 3 new premieres this season with Manifest and New Amsterdam. Thanks to Bob Greenblatt for building this momentum, and we're excited with George Cheeks and Paul Telegdy, who are off to a great start.

At Cable Networks, MSNBC had an outstanding quarter once again with record ratings resulting in its largest lead ever over CNN in key dayparts. As these results demonstrate, we have the right TV content with more ways to monetize it than ever before.



OCTOBER 25, 2018 / 12:00PM, CMCSA - Q3 2018 Comcast Corp Earnings Call

At film, we had record profitability in last year's third quarter thanks to *Despicable Me 3*. While this year was lower without a comparable animated film, it was still a healthy quarter with successful theatrical results from *Jurassic World*, *Mamma Mia* and other films. We are looking forward to 2019 and beyond when we will see a ramp-up to multiple animated releases from Illumination and DreamWorks, as well as the return of some of our best franchises.

Finally, at Theme Parks. Our park in Japan experienced multiple unprecedented weather events and natural disasters that impacted results, as Mike will cover in more detail. Our thoughts are with those many in Japan who are affected by these devastating typhoons and earthquakes. We remain very confident and excited by the long-term trajectory of the Parks business as we continue to execute on our successful strategy of driving growth through new attractions and adding hotel rooms, as well as the opening of a new park in Beijing in the coming years.

This is a fantastic time in our company's history. We delivered a strong quarter with some of the best results in years, we've transitioned to more of a global company with our acquisition of Sky, and now we are getting started on the next phase of our strategy.

With that, let me turn it over to Mike for more details on our results.

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

Thanks, Brian, and good morning, everyone. I'll begin on Slide 4 with our third quarter consolidated results. Revenue increased 5% to \$22.1 billion. Adjusted EBITDA increased 2.5% to \$7.3 billion, reflecting strong growth of 7.6% at Cable, partially offset by a decline of 8.5% at NBCUniversal, which I'll provide more context around in a moment. The corporate and other segment results included an EBITDA loss of \$178 million for Xfinity Mobile.

Adjusted earnings per share increased 27.5% to \$0.65 for the quarter. On a year-to-date basis, adjusted earnings per share increased 22.4% to \$1.91, reflecting the benefits of tax reform, which lowered our effective tax rate by about 10 percentage points year-over-year to 24% as well as solid operational momentum. And finally, free cash flow was \$3.1 billion in the quarter, bringing the year-to-date total to \$10.5 billion.

Turning to the details of the quarter, starting with Cable Communications results on Slide 5. Revenue increased 3.4% and EBITDA increased 7.6%, resulting in a 160 basis point year-over-year margin improvement to 40.7%. Adjusting for the negative impact of storms in the third quarter of 2017, Cable EBITDA increased 6.9%, reflecting the strong underlying trends in the business. Customer relationships increased 3.4% year-over-year to 30.1 million, including 288,000 net additions in the third quarter. On a per relationship basis, revenue was relatively consistent with the prior year, and EBITDA increased by 4.4%.

Cable's performance was again fueled by momentum in our high-margin connectivity businesses: residential high-speed internet and business services. High-speed internet revenue was the largest contributor to overall Cable growth, increasing 9.6% to \$4.3 billion. We have added over 1.2 million net new residential broadband customers in the last 12 months, including 334,000 net additions in the third quarter. Our offering is resonating with customers as our consistent innovation and investment in our network has enabled us to stay ahead of customer expectations for not just high speeds, but also wall-to-wall WiFi coverage and the ability to manage the increasing number of devices attached to their home networks. With 1 gig speeds available throughout our footprint, coupled with the best WiFi coverage and innovative xFi control features, we are well positioned to continue to win in broadband.

Connectivity is at the epicenter of our relationship with customers. And while part of our strategy is to effectively target customers whose current needs are met with broadband only, the majority of our customers are still best served with our bundles of multiple high-value, complementary products that provide the best experience and deepen our relationship. One of the best ways to utilize our broadband is to consume video, which is why we continue to innovate around X1 and bring together the best online content, along with linear TV.

With X1, we have the best platform to serve customers looking for the most content choices and a premium experience, and we are competing well in this segment. However, competitive pressures continue, including from virtual MVPDs, particularly in the lower value segments, contributing to our 95,000 net residential video customer losses in the third quarter. Video revenue declined 2.9%, reflecting these customer losses as well as



OCTOBER 25, 2018 / 12:00PM, CMCSA - Q3 2018 Comcast Corp Earnings Call

the comparison to a pay-per-view boxing event in last year's third quarter. Excluding the impact of this event, the third quarter video revenue decline would have been similar to the second quarter's decline of about 2%.

Another attractive proposition for our broadband customers is to bundle Xfinity Mobile. We ended the quarter with over 1 million customer lines with 228,000 net additions in the quarter. We are pleased with our progress in mobile. And while it's still relatively early, the results we see are supportive of our key objectives when we entered the wireless business, including deepening the relationship with and improving the retention of broadband customers, attracting new broadband customers and generating positive stand-alone economics once we reach scale.

Connectivity is also at the core of our relationship with business customers and drives our ability to continue to take share across small, midsize and enterprise customers. In the third quarter, business services revenue increased 10.6% to \$1.8 billion, reflecting a 6% year-over-year increase in business customer relationships to 2.3 million and a 4.4% increase in revenue per relationship. I'd also note, advertising was a driver of Cable revenue growth in the third quarter due to robust political ad spending. Cable Communications advertising revenue increased by 15.2% to \$684 million. Excluding political, Cable advertising revenues increased by 0.6%.

Now turning to Cable expense and margin on Slide 6. Total Cable expenses increased by 0.6% year-over-year, driven by a 1.4% increase in programming costs. As a reminder, last year's programming costs included additional expenses associated with the pay-per-view boxing event. Nonprogramming costs were flat compared to last year and down 2.9% on a per customer basis as we continue to focus on disciplined cost management and improving the customer experience. Notably, customer service expense decreased by 4.9% despite our growth in customer relationships, reflecting the benefits of improvements we've made to our products and the way we serve customers, including reduced call volumes and more customer interactions through digital platforms, as Brian highlighted.

Overall, this expense management, coupled with healthy revenue growth, has resulted in consistent EBITDA margin expansion over the course of the year. On a year-to-date basis, Cable EBITDA margins are up 100 basis points compared to last year. As a result, for the full year, we now expect to be toward the high end of our guidance of 50 to 100 basis points of margin expansion.

Cable capital expenditures in the quarter decreased by 5.7% to \$1.9 billion, primarily reflecting lower spending on customer premise equipment as X1 is now deployed to nearly 65% of our residential video customers. On a year-to-date basis, Cable capital expenditures decreased by 6.9% to \$5.4 billion as declines in customer premise equipment spending were partially offset by increased investment in line extensions and scalable infrastructure, consistent with the broader shift in our business towards connectivity. Cable CapEx intensity was 14.1% in the third quarter and 13.2% year-to-date. We expect capital expenditure intensity to increase sequentially in the fourth quarter following typical seasonal patterns. However, for the full year, we now expect the reduction in capital expenditure intensity to be towards the high end of our guidance of 50 to 100 basis points.

Wrapping up Cable. Strong EBITDA growth and margin expansion, together with declining capital expenditures, resulted in net cash flow growth of 15.6% in the quarter and 14.8% year-to-date, underscoring the attractiveness of our connectivity-driven growth model.

Now let's move on to NBCUniversal's results on Slide 7. NBCUniversal revenue increased 8.1% to \$8.6 billion and EBITDA decreased 8.5% to \$2.1 billion, reflecting healthy results in our TV businesses more than offset by a difficult comparison at Filmed Entertainment and the impact of severe weather and natural disasters that affected our Japan theme park.

Cable Networks revenue increased 10.8% to \$2.9 billion and EBITDA increased 6.9% to \$968 million, reflecting growth across affiliate fees, content licensing and advertising. Distribution revenue increased by 9.5%, driven by the ongoing benefits of previous renewal agreements as well as moderating subscriber losses due to consumer adoption of virtual MVPDs. Subscriber declines at our Cable Networks were again less than 1% in the third quarter, an improvement compared to recent trends of 1.5% to 2% declines. Content licensing and other revenue increased by 36.1%, driven by the delivery of content under our existing licensing agreements as well as new deals, which reflect a healthy demand for our content with more buyers than ever before. Advertising increased 4.2% due to continued strength at MSNBC as well as strong pricing overall, partially offset by ratings declines.



OCTOBER 25, 2018 / 12:00PM, CMCSA - Q3 2018 Comcast Corp Earnings Call

Broadcast Television revenue increased 15.4% to \$2.5 billion, reflecting increases in advertising, content licensing and retrans revenue. Advertising revenue increased 9.2%, primarily driven by higher rates and Telemundo's broadcast of the World Cup. Excluding the impact of the World Cup as well as the timing benefit of an extra Sunday Night Football game in the quarter compared to last year, advertising would've been roughly flat year-over-year. Content licensing grew by 24.7%, reflecting the delivery of content under our licensing agreements. Retrans revenue increased by 21% to \$434 million. And EBITDA increased 1.8% to \$321 million as these strong revenue results were partially offset by programming and production costs associated with the World Cup. Excluding the World Cup, EBITDA would have increased over 10%.

Film revenue increased 3.8% to \$1.8 billion and EBITDA declined 44.2% to \$214 million as the highly profitable hit, *Despicable Me 3*, as well as carryover benefits of our successful slate in the first half of 2017 created an expected tough comparison to last year's third quarter despite the theatrical success of *Jurassic World: Fallen Kingdom* and *Mamma Mia! Here We Go Again* in this year's third quarter. Wrapping up Filmed Entertainment, we are looking forward to 2019 and beyond as our animated slate ramps and some of our best franchises return.

Finally, Theme Parks revenue decreased 1.4% to \$1.5 billion, and EBITDA decreased 6.5% to \$725 million. These results largely reflect the effects of devastating weather and natural disasters that negatively impacted attendance at our park in Osaka for almost 2/3 of the days in the quarter. Excluding these impacts in Japan, we estimate that overall Theme Parks EBITDA would have shown low single-digit growth in the quarter. Looking ahead, we are beginning to see signs of recovery in Osaka, and we remain confident in our strategy and the runway for growth we see in the Parks business.

Finishing up on Slide 8 with return of capital. We generated \$3.1 billion of free cash flow in the quarter. We returned \$2.1 billion to shareholders in the third quarter, including \$871 million of dividends and \$1.25 billion of share repurchases. As we announced at the beginning of the month, we expect to repurchase \$5 billion of stock in 2018. Following our acquisition of Sky, our pro forma net leverage stands at about 3.5x. As we said, as part of our bond offering related to financing the Sky transaction, we are committed to returning to leverage levels consistent with our current ratings in 18 to 24 months. As part of this commitment, we also announced that we intend to pause our repurchase program in 2019.

Overall, we are pleased with this quarter's results and the underlying momentum across our business. We believe Comcast is well positioned with significant opportunities ahead as we begin a new chapter with Sky.

With that, I'll give it back to Jason for Q&A related to our earnings results.

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

Okay. Thanks, Mike. As I mentioned upfront, we'll now take questions on our results before we turn to a presentation on Sky. Regina, please open up the call for Q&A.

QUESTIONS AND ANSWERS

Operator

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

Benjamin Daniel Swinburne - Morgan Stanley, Research Division - MD

Maybe for Brian. The X1 really led the way in terms of next-generation set tops when you guys started building that out years ago. When you look at the video business going forward, how are you thinking about the product road map? I know the company is focused on bringing more sort of third-party apps into the ecosystems and you've seen folks like Amazon and Apple sort of embrace kind of a channel strategy. How are you thinking about leading with video going forward from a product and consumer perspective? And sort of what does that mean for the kind of financials of the business? And then I just had one follow-up.

OCTOBER 25, 2018 / 12:00PM, CMCSA - Q3 2018 Comcast Corp Earnings Call

Brian L. Roberts - Comcast Corporation - Chairman & CEO

Okay. Well, I'm going to start. I'll let Dave talk a little bit about that. So I do think that X1 is the best in the world, and I think -- and that's because we've embraced things like Netflix, YouTube, voice control guide. We have a long road map of more things, top of the list is Amazon Prime shortly. And then beyond that, tremendous innovation. Things like -- when we're watching a football game, all those other things you may want to do while consuming it, looking at stats, being able to someday interact, look at your fantasy leagues. I don't think we're anywhere near the completion of what the technology is capable of. Second, we've used video in a way to support the broadband business, and that combination seems to be working quite well. But there's other applications throughout the whole home, where voice can play that role. And artificial intelligence is the other area that we're using across the whole customer experience, and the same platform is being used from everything, from figuring out those sports scores and data that you want to, recommendations of shows and entertainment. Two, customer experience, service quality and texting to customers, appointments and scheduling. So we're building a great capability as a technology company. I don't think we had any of that just a few short years ago. Dave?

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

Well, we've often thought that X1 is an operating platform, which not only the most preferred video applications would be there. And we also thought, as Brian said, there's going to be many other applications, music, gaming. And as IoT continues to make progress, you're going to control your home experience in many ways, including right through the television in X1. So our mission is to just make it simple and easy, and we're processing right now, the way we've connected Netflix, the way we're doing -- we will do Amazon and we're already doing with YouTube, we're processing about 2.1 billion voice commands a quarter. And it's just easy. So from our standpoint, we think there's a long runway ahead to continue to have X1 be the aggregator of aggregators. So we're optimistic with that.

Benjamin Daniel Swinburne - Morgan Stanley, Research Division - MD

Then maybe the same question, Dave, on broadband. I think you're more or less done with DOCSIS 3.1. What's next for the evolution of the broadband business to sort of continue to maintain or even extend your lead against competition when you think about the product and technology and network road map for that business over the next couple years?

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

Well, I think it starts with the fact that broadband -- DOCSIS is a great standard. It's a very efficient one in that we've been steadily investing in the network in terms of node splits, expansions. So our focus around broadband is bringing to life our xFi brand where -- it's the same thing we did with X1 for video, we're doing with xFi. And xFi stands for the best of speed, the best of coverage and control. Dana Strong and her team are doing a really nice job bringing xFi to life, and the proof points are there. As Brian mentioned, we have virtually -- our entire footprint is now deployed with 1 gig. We have the best-in-class gateways, pods that are delivering best-in-class in-home WiFi capability, and the amount of devices that are being activated and used in the home continues to escalate. So the control aspect of this, I think we're also standing out, and our xFi app is just terrific. And a lot of usage, a lot of engagement with that. So I think we're going to keep our lead. We're going to stay focused in terms of how we differentiate broadband not only in speed, but also these other aspects. So -- and I think this is where our focus is. This connectivity in residential and commercial, it starts with that, and I think this is -- it didn't happen overnight. We've been steadily focused on this and will continue to be so.

Operator

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



OCTOBER 25, 2018 / 12:00PM, CMCSA - Q3 2018 Comcast Corp Earnings Call

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

Mike, can you talk about Cable margins? I appreciate the increase in guidance for the year, but that still seems conservative given typical 4Q seasonality and the political advertising potential. Anything happening in 4Q that should take this out of the seasonal trend? And then going forward, you've talked in the past about a continued pause in programming renewals next year, revenue shifting to higher-margin broadband and business and it seems like cost can come down further. Any reason we shouldn't look for a similar margin growth next year?

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

No, Phil, not a lot to add to what we've said previously and what we said today. So we're happy to firm up guidance on margins and on capital intensity at the high end of the improvements we talked about at the beginning of the year for the very reasons that Dave just highlighted. So it is a shift to the higher-margin connectivity businesses are definitely helping to drive margin and drive net cash flow, as Brian said. Net cash flow in the Cable business up 16% year-over-year, quarter-to-quarter. So those trends will continue on the programming side. As we said, last 2 years prior to these ones were ones with big renewals. And so for a period of time, we will see relief on that side of things. And everything that Dave's team is doing in terms of controlling expenses on the nonprogramming side, keeping expenses overall flat on the OpEx side while we grow customer base and improve customer experience are all initiatives that continue to roll through. We won't give guidance beyond this year. But obviously, that type of work is ongoing and continued runway ahead.

Operator

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

Jonathan Chaplin - *New Street Research LLP - US Team Head*

Two quick questions, if I may. First, on share repurchases. You've suspended them for next year, but we don't have you getting back to 2.2x leverage until the end of 2020. I'm wondering if you could restart repurchases before you get all the way down to your recent leverage threshold or whether it's really pushed out to 2021. And then on wireless, it looks like the losses -- EBITDA losses have been steadily receding. Have we passed the peak in losses? And would you expect the losses to continue receding from here? And on subscriber growth, there's been a nice sort of gradual steady progression in growth. Should we expect this trend to continue? Or is there an opportunity to see a more meaningful acceleration in growth as you bundle the product together with broadband and really drive home the savings that consumers can get from -- by taking wireless from you?

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

Jonathan, it's Mike. I'll take the first one. So on share repurchases, we -- our intention is to get ourselves back within 18 to 24 months, as I said, to the neighborhood of leverage consistent with the ratings that we maintain and the commitments we've made there. We'll take it one year at a time. So suspension of the buyback for next year is already, say, at this stage. But I will say again, we intend to make that our priority. We're going to focus on the organic plans in each of our existing businesses, continue to drive the execution in all the businesses, and we'll see what happens in the world year-by-year from here.

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

Let me -- this is Dave. I'll go into mobile. So after starting this category, launching the category last spring, I think we're off to a really good start. We're ending Q3 with over 1 million customer lines and I think solid momentum. It's early, very early, but we're encouraged that when looking at mobile, one of the top reasons why we did it is to improve, in particular, broadband retention. So just early pulse check on that is showing that there's real hope there. So we like that. The other 2 reasons stand. Very consistent on this point, that we're going to achieve positive stand-alone wireless economics at scale and that we're also going to look to attract even more broadband customers and more opportunities to expand the relationship through mobile. So overall, this is -- the trending is what we expected. It's still early, but encouraged.

OCTOBER 25, 2018 / 12:00PM, CMCSA - Q3 2018 Comcast Corp Earnings Call

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 a quick question on the broadband market. You've seen some good comps on the net add side. What would you say is the primary driver for that improvement that we've seen after seeing sort of some deceleration for a while? And along with that, have you seen any changes in the competitive environment today?

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

Well, you go through competitive cycles and -- most certainly in broadband, and we saw there's just a little bit more promotional activity. But you have to look I think at the absolute performance in terms of how we look at it. The best -- as Brian said, our net add performance is at 363,000 broadband net additions, best in 10 years. And you look to the drivers, very solid churn. It's an attractive product. And we continue to differentiate, as I mentioned earlier. Our focus is to have the best product in the marketplace, that we will have the best speeds, delivered now 1 gig availability. You have 70% of our customers that have 100 megabits and above. Where people are going, the expectations around broadband are going up in terms of all the different opportunities, whether it's streaming, applications. So there's a real appetite for better broadband. And the bar is being raised, not just in speed but in terms of in-home coverage. So we want to stand out in providing the best in-home experience, and we think we're delivering on that with xFi and so all 3: speed, coverage and control. And then you look at the results in terms of churn improvement. But also, the broadband ARPU going up at 4.5 -- a little over 4%, we're real pleased with that, too. I think it shows the overall value of Broadband. So I think I like the runway. One of the main things to me, too, that speaks to the runway is our penetration, about 46.5%, the overall market place at 80%. There's room for growth, and we have markets -- some of our local area -- operating areas that are well above that average. We should do better and so we're expecting to do so.

Operator

Our next question comes from the line of Marci Ryvicker with Wolfe Research.

Marci Ryvicker - *Wolfe Research - Managing Director*

I want to focus a little bit on NBC, NBCUniversal. And I guess, as it relates to both the Broadcast and Cable Networks, I guess, Steve, there's some concern that the virtual MVPDs are actually slowing, although opening comments would suggest otherwise. So can you talk about the Pay TV sub trends on the media side? And then secondly, on advertising. We know political is coming in really strong, but there have been some questions on underlying trends, especially in the auto category with trade wars with China. I don't know if NBC is just a different animal and trends have been stronger so we shouldn't extrapolate. So any color on the outside would be helpful, too.

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

So the television business, despite all the well-known factors that make it look like a less good business in the next 10 years than it has been in the last 10 years, our television business is very strong. We've had 7 quarters in a row of 7% or better OCF growth on the cable side. Broadcast is doing just fine. The advertising market is very strong. Scatter is strong. We had the best upfront we've ever had just a few months ago, and scatter is up very substantially. Political is way up. We're having a very, very strong political. I'm talking on the NBCUniversal side, not for Spotlight, although I think some of the same trends are there. Very, very strong political season. Looks more like an election -- like a Presidential year than a midterm year. In terms of sub trends, every single month, if you look at the trailing 12 months, and you add up traditional MVPDs and virtual MVPDs, every



OCTOBER 25, 2018 / 12:00PM, CMCSA - Q3 2018 Comcast Corp Earnings Call

single month for literally the last year, those trends have gotten better. In the most recent month, those trends did not keep getting better. They stayed about the same. So I think maybe the growth of the virtual MVPDs is starting to plateau or at least, for the last month. But those trends have been getting better, and it really comes from traditional MVPD sub losses is about the same and then virtual MVPDs, as they launched and got more aggressive, growing, and that appears to be flattening. But our television business continues to be very, very strong. And I think as the world pivots here toward more streaming, we want to make sure that we respect and nurture and continue to invest and continue to outperform on the television side, wherever the world goes in terms of new technologies.

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

Why don't we take one more question for this segment of the call?

Operator

That question will come from the line of Craig Moffett with MoffettNathanson.

Craig Eder Moffett - MoffettNathanson LLC - Founding Partner

First, Brian, congratulations on the Sky acquisition. For Cable, I want to return to the question about margins and capital intensity, if I could. The trends, as you've discussed and as some of the questions have suggested, are running meaningfully ahead of historical trends. With costs growing at near -- nonprogramming costs growing at reasonably close to 0, have you changed your view of how high margins can get in this business? And similarly, on capital intensity, I think you used to always say 15% was kind of the long-term guide -- goalpost, if you were -- if you will. Is that lower now? Is your sense that capital intensity in this business could be meaningfully below the mid-teens?

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

So Craig, I'll start and Dave can finish. I mean, like I said earlier, I think the trends, the efforts and the mix of business dynamics, efforts on the cost side and just customer experience side, are improving margins, have improved them I think. We won't predict where they go from here, but just the idea that there's still efforts that will continue consistent with what we've seen. And the same positive dynamics of the mix shift to connectivity, given the efficiency, as Dave described, of our hybrid plant. So the long run looks to be very good. I won't go there in terms of capital intensity over the long term because I don't -- well, obviously, we never really had long-term guidance like that. But I think we're pleased with the financial model and the prospects for the financial model in the cable system looking for years ahead.

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

I think just to add, I think everything starts, Craig, with -- from our standpoint of driving healthy, profitable revenue. And the high-margin connectivity businesses, that's why this is so important, broadband, but also business services. Bill Stemper and his team are doing a terrific job driving all 3 segments, SMB, mid-market and now enterprise. There's just room for growth there. So very focused on that. The second thing that we -- Mike has touched on that helps margins and we're incredibly focused and very consistent on improving the customer experience. I think this goes hand-in-hand. Taking transactions out of the Cable business is good for the customer, it's good for the business. And you look at some of the results in the quarter, taking out over 5.5 million telephone calls, taking out material amount of truck rolls and just -- we're just focused on onboarding, repeats. We're proactively looking at customer issues and solving them in the first place before they even call us. So this is where our focus is. I think it's really good. It takes out the unnecessary cost in the business. We're going to continue to be very focused on it and I see a good runway for improvement there.



OCTOBER 25, 2018 / 12:00PM, CMCSA - Q3 2018 Comcast Corp Earnings Call

Brian L. Roberts - Comcast Corporation - Chairman & CEO

I think it's a perfect transition point. Thank you, Craig, for that question because it underscores the strength and the momentum of the core company and the core businesses. And Cable, broadband, the pivot, best results in a decade. NBCUniversal, we've had a double-digit compounded rate of growth since we bought the company and it sets us up for what's next. Jason?

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

Okay. Thanks, Brian. So we'll wrap up the third quarter earnings portion of our call there and transition now to a discussion of our recent acquisition of Sky. (Operator Instructions)

With that, let me turn things over once again to Brian.

PRESENTATION

Brian L. Roberts - Comcast Corporation - Chairman & CEO

I'm delighted to have Jeremy Darroch here with us today, Sky's longtime successful CEO. We think Sky is an incredible and unique stand-alone business that fits perfectly with Comcast, and the best way for you to hopefully reach the same conclusion is to hear directly from Jeremy about Sky's market position, brand leadership and strong growth potential and then I'll talk a bit about how excited we are about the combined company and its prospects. Jeremy, welcome.

Jeremy Darroch - Sky plc - Group CEO

Okay. Thank you, Brian, and good morning, everybody. Today, I'm going to cover 2 things. First, I'll explain a little bit about Sky's business and then I'll talk about our existing plans to grow the business over the medium term and why I'm confident we'll succeed.

So let's get going on Slide 4. The first thing to say is, of course, Europe is somewhat different from the U.S. Markets in Europe are generally less penetrated and therefore, have much greater headroom for growth, the ability to acquire content exclusively is typically much greater. We're much less reliant on the big bundle and of course, the competitive landscape is somewhat different in Europe to the U.S. With that backdrop, Sky today is Europe's leader in entertainment and communications. We uniquely combined a scale direct-to-consumer business with a scale content business. And that means we're not just an aggregator of content.

We have direct operational businesses in 7 territories, including 4 of the 5 largest and most valuable TV markets in Western Europe. Now you can also see on this slide the territories where our brand has a presence through services like Sky News, which of course, starts to seed the ground for future development. We have 27 million households as customers. This includes 23 million direct relationships and 4 million customers who access Sky channels through other platforms, such as cable in the U.K., with both routes to market offering similar economics.

As a result, we've got a high share of more than 60%, on average in our core territories, that gives us real brand strength. Turning to Slide 5. We're Europe's leader in content by some margin. We have the #1 channels in all of the genres that matter most to customers. So Sky One, Sky Atlantic, Sky Cinema and Sky Sports are the must-have set of channels in each of our markets, generating over half of all pay viewing. So when customers think about the key pay channels for drama for example, they think about Sky Atlantic, which combines exclusive rights to the output of HBO and Showtime with our own high-quality and distinctive local content.

In our markets, having the best local content is important to success. So Gomorrah in Italy, and Das Boot in Germany are just 2 recent examples where we're taking local stories and bringing them to customers with great success. Today, 4 out of the 5 top shows viewed on Sky One and Sky Atlantic will be Sky Originals. Similarly, in Sky Cinema, customers are used to having a single destination for the best movies. It's the only place to see the latest and freshest titles months before any other channels or SVOD. So we have deals with all the major studios and in Italy and Germany,



OCTOBER 25, 2018 / 12:00PM, CMCSA - Q3 2018 Comcast Corp Earnings Call

as combined with local movies, which are very important to customers. For example, in Italy, 9 of the 10 most watched films on Sky Cinema were local.

Sky Sports is the leading broadcaster in each of our markets by a long way. We have over 90% of our rates already secured through 2021, including the majority of all soccer that matters and other key sports, such as cricket and Formula One in the U.K.; Handball in Germany; and Motorsport in Italy.

Now our channels play a vital role in the success of our DTC business, which as you can see on Slide 6, is built around 4 pillars. Firstly, we provide the very best and broadest range of content for every household and everyone in that household. Second, we deliver the best innovation across a broad range of products and services and we're widely seen in Europe as a leader in this space. Third, we deliver world-class customer service and we make the Sky experience better than anywhere else. And then finally, we underpin all of these through consumer data and insight. So right across the value chain, whether it be in content creation, product development or customer care, we optimize our decisions to best serve customers and we've built highly integrated operations to achieve this.

Turning now to Slide 7. We have a very strong brand. It's the strongest brand in our space and it's considered #1 for entertainment. It's particularly well known across Europe and regularly reaches now some 120 million people, delivering good awareness, should we want to roll out our new services to new territories. Over recent years, we've developed and launched a second brand called NOW TV. Now this allows us to broaden our reach to all customer segments and it provides us with additional ways to grow. So we are the only significant virtual MVPD in our markets in a way that's highly complementary to our Sky service.

Now this brand strength gives us the legitimacy to offer customers more, and we know that they want to take more from us. So over time, we've driven penetration of new TV products, such as high-definition, multiscreen and now Sky Q, and we're expanding into home communications and mobile from a standing start. By extending our brands into more categories, we have a broader field of opportunity, we provide more volume to customers and we get more in return.

We have a strong and experienced management team that have been together now for a long time and understand what it takes to win in dynamic and diverse European markets. We've executed a clear and consistent strategy over an extended period of time and this has delivered growth in all conditions, including different competitor situations, technological change and a variety of economic backdrops.

So as you can see on Slide 8, over the last 10 years, we've more than doubled our customer base. We've grown revenues by 11% compound. We've carefully managed cost to enable us to increase EBITDA by 9% and cash flows by 7% per year. At the same time, we've continued to invest in future growth in the short term for a much bigger, longer term gain. So that's a bit about who we are. I now wanted to focus on our plans for future growth.

As you can see on Slide 10, we've got a strong set of plans, and having put in place a number of building blocks over the last few years, we're now focused on executing these. I'll take a few moments to talk about the priority areas that will deliver future growth. So if you can turn to Slide 11. Our first priority is to grow in all segments of Pay TV. Today, we have a range of products and services that meet customers' needs at a variety of price points. From pay-as-you-go NOW TV to the Sky Q for the ultimate experience, we believe that we've got a service and a product for you. DTT in Italy is the latest example of how we've opened up that segment as another major route to market and it provides access to an installed base of some 2 million homes not previously available to us. And we've recently launched our first Sky service without the need for a satellite dish. And this is potentially a major development for us, it opens up headroom in the existing markets for some customer segments. And just to shape that for you, we've estimated that as many as 6 million households today can't have or don't want a dish. In addition, it provides another way to take Sky into new territories to broaden our growth opportunity further over time.

Now underpinning that growth in Pay TV is our investment in content. Today, we spend around \$9 billion each year on screen. As I've outlined on Slide 12, we've got 3 priorities for investment. First, continuing to maintain our position as #1 in both sports and movies. Second, building our investment in Sky originals. So for example, this year, we'll show 25% more hours of drama and around 50% will be returning series. In Germany and Austria, where local quality content is a particularly underserved market, we'll invest around 4x more this year, being the likes of Das Boot and Acht Tage to customer screens. Third, we'll continue to build partnerships, including adding the most relevant app providers in order to provide more choice and value to customers by aggregating all of the important content in one place in a way that's easy to use for customers.



OCTOBER 25, 2018 / 12:00PM, CMCSA - Q3 2018 Comcast Corp Earnings Call

Now alongside that, we're increasingly able to make choices across our portfolio to optimize and save cost. So you should expect us to reduce our investment in things like second-tier sports rights, where they're not delivering value, and to reduce the volume of more niche movies and linear entertainment channels because of the quality of the on-demand service that we've built. Now in addition, you will also have seen the savings we achieved with the new Premier League contract, and we could now choose to let that flow through to the bottom line or invest some of it where we see further opportunity.

Turning to slide 13. One of the reasons that I'm confident that we can keep delivering future growth is that we operate in attractive markets with significant headroom. Today, we have access to potentially 118 million addressable households to sell our products and services into. However, with penetration at just 34%, there's some 78 million households yet to take Pay TV across our existing territories alone. And we don't need to capture much of that headroom to grow significantly. So just by way of example, if Sky captured 10% of that headroom, we grow by a further 8 million households and I think that's something that's more than achievable given the strength of our brand and our market-leading proposition.

Now growing customer base creates more headroom for cross sell and here too, we've got a focused set of plans, which we've outlined on Slide 14. Now central to this are our plans in Italy, where we'll replicate what we did in the U.K., with of course, great success. So following our deal with Open Fiber, we'll launch triple play next year, offering true fiber to the premise over their next generation network. And not only will this allow us to increase the number of products per customer, it will also unlock further Pay TV headroom. We also plan to grow the penetration of fiber within our U.K. broadband base, which has more than doubled in 2 years. There's good customer demand for higher speeds and with significantly lower pricing from our new agreement with BT Openreach, we can accelerate take-up whilst achieving good margins. And then finally, we're going to scale Sky Mobile to be the U.K.'s leading MVNO. We launched 18 months ago and we've had a good start. We've added 650,000 customers to date and we're taking strong share of new handset sales.

Now we also believe we can scale our adjacent businesses, leveraging the investments we're making in content and technology. So let me just give you a few examples, which I've laid out on Slide 15 to bring that to life. Sky Store, our transactional business, is already the #1 digital retailer in the U.K. with a 30% to 40% share and we recently launched the service in our other markets to replicate this success. Our advertising business already generates more than \$1 billion a year. We'll scale it further by increasing our inventory and pricing whilst extending our leadership position in advanced advertising, which now contributes around 14% of all ad revenues.

Now a key part of this story is Sky Ad Smart, that's our targeted advertising platform, which has grown significantly since its launch. We've recently broadened its reach to new markets, services and platforms, all of which should propel its growth further. And then finally, we'll monetize our increased investment in original content to grow our international licensing revenues.

Turning to operating efficiency on Slide 16, which has been a big area of focus for the last 10 years. We've developed it as a core capability within the organization and our progress has been significant, reducing costs from 45% to 33% of revenue today. Casting forward, we have a comprehensive set of initiatives across each of our markets, built upon the 4 key pillars you can see on this slide. And with over \$7 billion of non-programming costs to target, there's still a lot to aim for to continue our progress.

So if you bring all that together, Slide 17 illustrates how our plan delivers continued growth over the medium term. It also gives us many choices, about how we can grow and it provides for our continued investment on screen and in new innovation. Importantly, it's built on the same strategy that we've consistently executed over a number of years. We've already done a lot of the groundwork, putting in place the foundations to secure it and I'm confident we'll continue to deliver strong returns.

So in summary, on Slide 18. As Europe's leading entertainment and communications business, we are in a strong position to succeed. We have the skills in place and a broad field of opportunity to exploit, and we have a clear and strong set of plans to deliver growth. We're excited about being part of a broader, more global organization. Our initial interactions with Comcast have been really good and I must just compliment the senior team here on the approach they've taken with us and the business they've built. I intend to stick around and I'm looking forward to leading Sky into the future. We're all energized by the next phase of growth and the additional opportunities that being part of Comcast will bring on top of delivering our existing plans.

So with that, I'll now hand you back to Brian.



OCTOBER 25, 2018 / 12:00PM, CMCSA - Q3 2018 Comcast Corp Earnings Call

Brian L. Roberts - Comcast Corporation - Chairman & CEO

Jeremy, really well done. Thank you. So as you've just heard, Sky is a great business with terrific organic growth ahead and they operate with leadership positions in attractive markets as well as having the premier brand. Jeremy, along with Rupert and James Murdoch and so many others, have built a sensational company and that's why this process was so competitive. Together, we make each other even better. The combined company is a broadly diversified, global leader across video, broadband, content and distribution, with 53 million high-value direct customer relationships in 3 of the world's 5 largest GDP economies. And now the largest Pay TV operator and fixed broadband provider in developed economies with #1 positions in U.S. cable, #1 U.S. broadband, and #1 U.K. Pay TV.

Sky triples our footprint of homes we can directly sell our TV products into, now nearly 200 million and nearly doubles our broadband footprint. When you combine the NBC Broadcast and cable channel portfolio, and now includes Sky-branded entertainment, sports, movies, news channels, we become the leader in viewership share across all 4 primary Pay TV geographies. And all of this is built around subscription based and recurring revenue businesses, which has allowed us to grow EBITDA for 23 straight years, and Sky adds to this highly desirable formula. Core to this formula is a great culture and strong leadership. In fact, as we've spent more and more time with Sky's management in the past month, I've been struck by the similarity of mission: Connect more people to the moments that matter with products and content that they love.

With a global footprint, Xfinity, Sky, NBC and Universal, now position Comcast to play an increasingly influential role in shaping media and technology for decades to come. That's why we're so excited. Jason, over to you for questions.

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

Okay. Thanks, Brian. Regina, let's open up this portion of the call for Q&A, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Jason Bazinet with Citi.

Jason B Bazinet - Citigroup Inc, Research Division - MD and U.S. Cable and Satellite Analyst

Just had a question for Mr. Roberts. One of the most common questions we get from investors is how you sort of got comfortable with paying the price you paid for Sky and still create economic value? And I was just wondering if you could, in simple terms, maybe try and disaggregate how much of it was your perception that Sky was just mispriced in the market as an undisturbed equity value before this process started, in terms of whatever Sky's stand-alone business strategy was? And how much of it is a function of, sort of the new collection of assets and capabilities that you have as a pro forma entity?

Brian L. Roberts - Comcast Corporation - Chairman & CEO

Okay. Thanks, Jason. First of all, today, we moved forward and we are excited about the road ahead. But to that question, you never know exactly how securities are priced and what the motivating factors are. But I do think it was mispriced, whether that's because for 5 years, it's been in a variety of M&A flux, because there's -- was a large shareholder, because there was regulatory uncertainty, whatever it may be. There's also been a change in the actual market, as Jeremy just laid out, in terms of the sports rights and competitiveness and sort of new business opportunities that are just about to emerge in Italy, launching broadband and other things that we just heard. And then I look at the fact, as I said earlier, Disney bid 10% less and that's exactly the amount we bid less than they did on Fox. These are super desirable assets when put together with a company like Comcast, and the fit makes it stronger. So first, as a stand-alone, I think it supports the values. Together, I think it increases the value. Time will tell.

OCTOBER 25, 2018 / 12:00PM, CMCSA - Q3 2018 Comcast Corp Earnings Call

And it's -- I go back to the people who have a tremendous knowledge of the company and the roadmaps we all want to develop, and who are stockholders themselves with probably a larger percentage of their net worth than anybody else, who are the senior employees. And the senior employees are extremely energized and motivated that this transforms the company and gives us opportunity to build shareholder value and we're hard at work to do that.

Operator

Your next question comes from the line of Kannan Venkateshwar with Barclays.

Kannan Venkateshwar - *Barclays Bank PLC, Research Division - Director & Senior Research Analyst*

So a couple from me, if possible. On the Sky side, Brian, do you think the asset is fully scaled as it is today? And is there anything that you can use, potentially from the U.S. business, to drive synergy upside? For example, maybe using your scale across a sub base of 50 million plus to negotiate programming deals, for instance? And secondly, on the capital intensity front, both Comcast and Sky spend a lot of money on software. And obviously, there are similar products across both footprints. So could you help us understand what kind of upside we can see from that front.

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

Well, let me kick that off. Those are all important aspects of work that's underway. Let me start with the question about Sky and opportunities for better scale. Absolutely. I mean, that's a big motivator of what will reveal itself -- for years and years to come, and some of it will be right away on some expenses. But the real opportunity is with north of 50 million homes, triple the footprint, innovation, purchasing, relationships, new products, where the world may head. That's what makes it so exciting and we've always believed scale mattered. That's been true. I think that's why our results at Comcast Cable were so stellar. That's why NBCUniversal has been able to grow as much as it has and I think Sky is a leader in its market. So that -- when you're doing something in a new market, you like to be the best. It's hard to build that when you're starting behind and now we're fortunate to have the best products and the best leadership in the best markets. Jeremy?

Jeremy Darroch - *Sky plc - Group CEO*

Yes, just a couple of things to start. I mean, first of all, it seems to me, if you think of the combined entity now, 50 million household relationships, monetizing it in the way that we're doing that and with the level of relationship and penetration that we've got together, I can't think of another business that has that element of scale to it today and obviously, we'll be thinking about what does that mean and then how can we take advantage of that together. I think Sky in the U.K. and Ireland clearly has got an outstanding market position. And from our own business has provided a footprint that we're now trying to roll out elsewhere. We're making really good progress in Italy. Germany is a less mature market but it's got massive potential if we can get it right over the next few years. There's certainly a huge amount of growth to go for, in our mind, in Europe, and my strong belief is that as part of a broader group, we're just going to be better able to figure that out and take advantage of that opportunity from the position that we start with today. I think in terms of your second point around the maybe the software and capital intensity, look, we're at the outset now and starting to think about the opportunities together. There are obvious things I can immediately see that we'll exploit. And we're not going to front-run those, we're obviously going to develop our plans and then execute them. But some of the capabilities, for example, what Dave has just been talking about today in the core cable business, what he's doing with products like xFi, for example, immediately I can see opportunity for us to take some of those learnings and accelerate the position either we've got in broadband in the U.K. today or as we get into the broadband market in Italy. So there'll be more of that to come. I'm very confident.

Operator

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



OCTOBER 25, 2018 / 12:00PM, CMCSA - Q3 2018 Comcast Corp Earnings Call

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

Great. Can we talk about the combined company's DTC plans? I guess, first on the SVOD side, you got Disney and now AT&T talking about launching SVOD products. Given the combined capabilities of the company, what can we expect from Comcast in that regard? And then maybe on the linear virtual side. Obviously, you've got Sky Now and that's doing well. I mean, and maybe for Jeremy, as you talked about the growth in these new markets, is that going to be led by SKY NOW? And maybe talk a little bit about the economics of that product versus what we're seeing on the virtual side here in the U.S.?

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

Well, with all the announcements of new streaming services, we'd be remiss if we didn't look at it very carefully. Where we come out, is that streaming obviously, is going to be a part of our business but is not a substitute for what is currently a very good business in television. By the way, our shows are very popular on streaming services. The Office is often the #1 show on Netflix within a month. We're a big percentage of Hulu. Our kids products that are made by DreamWorks Animation are very popular on Netflix. So we have a lot of shows that are currently very popular on streaming services. And we're looking at different ways that we could accelerate our business in terms of streaming. But we're doing everything with the notion that we have an existing business that's terrific, that we want to protect and nurture and continue to build. And I think time will tell. I think there's been a little bit of a rush to, oh, the traditional television business is over and we've got to get into streaming. Streaming, we think is very challenging economically and we don't want to rush into anything that -- in any way, could sort of take what has been a tremendous television business and make it worse.

Jeremy Darroch - *Sky plc - Group CEO*

I'd say in terms of Sky more generally, I'll come onto the second question on NOW as part of this. I mean, if you look, first of all, we've stepped into and we'll continue to step into new consumer trends and technologies. So we started, for example, distributing over-the-top in the U.K. with a product called Sky Player, as far back as 2005, I think? Today, in all our markets, we seek to distribute overall technologies, so whether it's over the cable networks, through our own satellite and hybrid systems, through OTT, through mobile networks, all the mobile operators, for example, would carry a service like NOW TV. And the reason is, is that we want to service most customers over all our markets. And then do that in a complementary way. And that's been an effective way that we've continued to deliver sustained growth over time. Now as part of that, we've been testing new ways, potential to get into other markets. We've launched in Spain over the last 12 months, we've just actually, one of the things we just completed the last quarter at Sky is put in place a new strategic OTT streaming platform, which would allow us to light up any other country very, very quickly. We'll decide, as and when is the right time to do that and what's the right brand to use. But I think all of the building blocks from a European point of view are coming in place and clearly, to Steve's point, one of the things we're going to be doing is getting our heads together and thinking more generally now what might that mean.

Operator

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

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

If I can ask two. Brian, if you put this deal in the context of say, NBC and even going back all the way to AT&T Broadband, you guys invested in the asset, sort of out of the gate and grew the revenue base faster than it was growing before. If we look at Sky, it's been sort of a mid single-digit grower in the last couple of years. Do you expect, if we think about sort of the 3- to 5-year view on Sky, a similar sort of invest into the business and then grow the top line faster? Or is this business just in a different place operationally than those deals and I'll just ask Jeremy, one of the things that I think people are focused on and you highlight it in your prepared remarks, is how much Sky has created value around licensing third-party content. You mentioned HBO. A lot of those companies are thinking strategically about going direct-to-consumer, including, I would imagine, in



OCTOBER 25, 2018 / 12:00PM, CMCSA - Q3 2018 Comcast Corp Earnings Call

Europe. How do you think about the risks around that, even if maybe financially, it makes sense to stay with Sky, could strategically they make a move away from you and then how do you manage the product and business in that event?

Brian L. Roberts - Comcast Corporation - Chairman & CEO

Well, let me start. I think that we're really excited and pleased with the management team at Sky and the people that we've met and the results that they've had. While there is wonderful people at AT&T and NBCUniversal, in both cases, we made some early changes on day 1. We are delighted that Jeremy and many of the team -- the senior team, we hope and believe are all going to stay with the new company. So in that regard, there's a difference. But I think, the trajectory of these businesses that excited us to want to own Sky is because there's growth and Jeremy laid, I think, a very compelling case out as to why Sky probably was misunderstood and maybe mispriced, back to that earlier question. But they're also -- and you picked the right 2 deals. We've probably done over 100 deals over the career and the history of the company. But you picked the 2 that are really -- were transformative. Why is that? Well, in the case of AT&T Broadband, it gave us scale in the U.S., made us the #1 cable company in terms of markets, and markets you can never get back. It was now or never in those great markets. It was really John Malone's life work and Amos Hostetter's life's work, and NBCUniversal is a story, brands and -- Lew Wasserman's life work and the NBC and the iconic cable channels that they bought and created. And the theme parks and Telemundo, and what we now enjoy as NBCUniversal. And in the case of Sky, really, Rupert Murdoch figured out a long time ago that television was going to transform itself and how could you be the #1 brand and he used a different technology than we used and those technologies are becoming less and less relevant as we look forward in an IP digital world. But he understood that customers wanted choice, they wanted the best provider and that, that was happening globally. And that allowed him to create all the content. That's the big difference. It's not, as Jeremy said, it's not an aggregator, it's really a creator and that is a huge difference on the go forward economics and the growth rates, depending on how we execute. So I think it's stay tuned, but we feel as monumental a moment, at least I do, that this will open up the scale and the innovation. And I hope, in fullness of time, the revenues and the cash flow and ultimately, shareholder value that we've successfully done in moments like this and the first thing we had to do was go into the bond markets and incredibly successful offering, oversubscribed, and now we have the job handed to the operating team to go execute. Jeremy?

Jeremy Darroch - Sky plc - Group CEO

Yes, Ben, I do not -- I think first of all, to your point, I think one of the reasons we've been so successful working with third parties is, I would hope, we're a partner who gets it right strategically for all those, but also we get the economics right as well and we understand that any long term partnership needs to operate at both those levels. Now I don't see any reason why we can't continue to do that for our major partners. I think there are a number of things that underpin our position, which means that we're in a good place. Talked a little bit before about our broad distribution model and how we're seeking to monetize each of our markets across all customer segments and of course, that allows us to create the biggest pool of revenue, which ultimately we can decide to push back to our partners and reward people for staying with Sky. We've developed now an incredible range of content. I mean, in my tenure at Sky, that's probably been the single biggest thing that has changed. So the breadth now of content that we have on Sky and via our on-demand service has never been greater. And the good news from our point of view, is that gives us a lot of optionality around what we do. So we certainly have got a focus of -- on sort of our key partners that we want to maintain, there will be others where we can make choices and we're happy to do that. And as part of that, of course, we've developed our own originated content to a much greater scale, whether that's in drama series or comedy or increasing, actually, in local movies. So it gives us the opportunity to create more of that ourselves and create more European stories that can complement what we do. And thirdly, I think we've got outstanding reach. If you're a partner, there's no better business to get the customers, to showcase your content and to elevate it and increasingly we offer other services to partners as well, things like advertising sales, for example. We'll sell advertising on behalf of many of our partners and that's just a very efficient way for them to tap into Sky and the broader services that we offer. And then the final 2 things I point you to, is just our brand and organization. I think we've got the #1 brand. We can -- we've got a proven track record, I think, of taking other brands and helping them grow. And then we've got a lot of boots on the ground. We've got further -- over 30,000 people directly, probably 0.25 million people indirectly who could make sure that we're the best business to sell and then keep the product sold. And we know in this sector that being good at selling is only part of it. And managing churn and loyalty and keeping product sold is where you make your money. We think we're pretty good at that. So we'll see what happens in the future but I feel that we've got a really incredible set of assets to enable us to navigate this world and look, the record has to stand for something. I think if you look at our growth over the last 10, 15 years, through a variety of technology changes, economic conditions, competitive environments, our businesses continued to grow strongly, and I don't see any reason if we can't -- if we keep doing those things, that will not continue in the future.



OCTOBER 25, 2018 / 12:00PM, CMCSA - Q3 2018 Comcast Corp Earnings Call

Operator

Our final question will come from the line of Vijay Jayant with Evercore.

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

Two, if I may. Obviously, Comcast is very strong in the broadband business. Sky is the reseller. Is there any thoughts longer term to become a facilities-based provider for broadband in 3 really large markets in Europe? And then now that you've had a chance to sort of hopefully do more work in looking at internal opportunities at Sky, the \$500 million of synergies you've identified, does that change or any sense of how fast that could come to us?

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

Vijay, it's Mike. I'll start then Jeremy can add on. In terms of synergies, we're confident, very confident in the \$500 million of synergies that we talked about. We'll take our -- we've been at it for a month and all the teams getting together on a variety of opportunities there across-the-board, both at Sky and at Comcast and NBC are very confident in what we penciled down and talked about publicly and so that will come over the coming couple of years. But no changes to our guidance on that score. And then in terms of future investment beyond the organic plans. At Sky, I think we're going to run the organic play, as Jeremy described. Obviously, market structures are different in the U.S. from Europe and that leads to great opportunities to capitalize on other folks' investment in their -- broadband plans. But Jeremy, I don't know if you want to add to that at all?

Jeremy Darroch - *Sky plc - Group CEO*

Sure. I look, I think, Vijay, at this stage you're going to have to forgive us a little bit. I don't it's probably too helpful to front-run ideas or giving a running commentary on those. We'll come back I think when we've got something more substantive to say. And what I would say though is we're connected already. We've had plenty of time to think about this at Sky so we're well-organized. We've got a clear set of plans now as to how we get into this stuff and start to tease out and explore the bigger ideas and then how we might pursue those. And as Mike said, as they develop and come to fruition, we'll come back and talk to you a bit more about why we think they're great ideas and how we're going to go after them. On broadband, so just specifically, look, again, I think it falls in the bucket of what are the things that we're going to be looking at. We've got, as you say, we've got -- we have our own in the U.K., just to be clear, we have our own broadband network, it's built around the canal system, actually, in the U.K. It connects to about 2,500 BT exchanges, we have a very good regulatory environment, which gives us access on cost based economics so we get it -- we get the benefit of a lot of the aging and write-down of that infrastructure and then we use BT, largely BT's last mile to the home. In Italy, we're doing a slightly different deal with Enel, who are the state backed fiber-to-the-premises -- for fiber-to-the-premises provider and I guess - and they're building out to something like 271, off the top of my head, urban and regional areas in Italy, and so we'll, in a sense, from a capability point of view, leapfrog what we've done in the U.K., but largely execute the triple play commercial execution that we followed in the U.K. So we're very excited about that, I think that could be a big idea in Italy. And then look, from our point of view, the chance to tap into the capability of this organization in cable broadband communications is a big opportunity for us. So we'll think through those things over the coming months.

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

So let me just wrap up by saying thank you to everybody for giving us a little extra time, and I think it was time well spent to get a deeper understanding of Sky, why it's a great business, why it fits us so uniquely and why we are as excited as we are. I think the results for the quarter speak for themselves and we'll talk to you in 90 days.



OCTOBER 25, 2018 / 12:00PM, CMCSA - Q3 2018 Comcast Corp Earnings Call

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

Thank you, Brian. Regina, back to you. Thanks, everyone.

Operator

There will be a replay available of today's call starting at 12:00 p.m. Eastern time. It will run through Thursday, November 1, at midnight Eastern time. The dial-in number is (855) 859-2056 and the conference ID number is 8169597. 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 participating. You may all disconnect.

Editor

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OCTOBER 25, 2018 / 12:00PM, CMCSA - Q3 2018 Comcast Corp Earnings Call

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