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EDITED TRANSCRIPT

CMCSA - Comcast Corp at MoffettNathanson Media & Communications Summit (Virtual)

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Craig Eder Moffett *MoffettNathanson LLC - Founding Partner*

PRESENTATION

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

Good afternoon, everybody, and thank you for joining us. I'm Craig Moffett, and welcome to the 7th Annual MoffettNathanson Media & Communications Summit. And I am delighted for -- I think it's our third time together. Is that right, Dave?

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

I think that's right.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

And welcome, Dave Watson from Comcast. So Dave, thank you for joining us.

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

It's great to be with you, Craig.

QUESTIONS AND ANSWERS

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

Dave, you and I were talking off-line just a month -- a moment ago, and it was an interesting conversation. So I want to see if we can reprise it. Sort of before we talk about the financial impacts of the COVID crisis on Comcast, talk about what you've -- your own personal experience and how you've -- the steps you have had to take just to keep your employees and your customers safe.

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

Well, from the company's standpoint, when it happens, we -- when you face something new and as complicated and fast-moving as this, we wanted to break it down into 3 areas: first, for our employees; second, our customers; and third, the operational changes that we're going to need to make.

From an employee standpoint, I do share a personal perspective in that I had a very mild case of this. I tested positive as my wife did and came out of it. I did not have any of the more severe issues, but it put an immediate perspective to me in terms of what was most important, and what was most important were our people and making sure that people are going to pivot and start working from home immediately, and that's what we did.

And so we moved about 95% of our call center people to a work-from-home status within a month, which was pretty incredible. Executives and everybody throughout the company. We figured out how to shift what we could, essential services, frontline people are doing just a spectacular



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job. We've changed safety protocols, started working quite a bit, making sure that protective gear we would get, making sure we are going to keep them as safe as we possibly could, move towards digital things, to making sure that we would give customers the ability to take care of transactions independent of things. So a lot of changes to focus on our people right away.

From a customer perspective, we signed up for the Keep America Connected pledge right away. And there are no discos, no late fees, suspended the data plans, making sure unlimited was free. We made the Internet Essentials, the great program that we've had for many years, we opened that up, free 60-day period. And in addition to that, we also upgraded the service to 25 megabits down, 3 up, which is great for a host of applications -- streaming, the learning tools that are so important for folks. And so glad to do that as well. So a lot of customer activity that we worked on.

And then most certainly, the organizational operational changes, network, number one, making sure that the network is going to stand up, which it has, a lot of focus around that. But tons of focus, as I mentioned earlier, around the digital tools. Our -- the app that we have, the xFi app, is up 60%. And we have a chat tool, Xfinity Assistant, that's up over 400%. It's an incredibly useful chat tool. And so a lot of focus around digital. And I think that's an example to me, Craig, of what is going to -- as we get through this, which we will, but digital is a great example of things that will come out on the other side and I think that will have long-standing changes of how people interact with each other. And we're pleased with that. But those are the focuses that I had.

My own thing I was able to stay on top of things throughout, we had daily calls with our teammates and throughout the country, a lot of focus. So proud of our teammates that were focused on this throughout the country, things that we had to do. But we were lucky, Ellen and I, extremely lucky for this, but it did add a personal perspective throughout.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

Well, I think we're all obviously delighted that you and Ellen are healthy. And go back to the self-installs for a second. What percentage of self-installs are you seeing now? And how much -- what do you think you can get that to?

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

Well, we're fortunate that we've been spending a lot of time around self-install capabilities over the years. So we were over 50% when -- before COVID, when it happened. And that includes all of the product lines. And we made a quick change in that. We wanted to make sure that we're keeping everybody as safe as we possibly could. So we have, really, have 2 options that we give our customers: one, direct ship; the second one is that we -- a home drop-off process, that we take the self-install kit, we bring it to a customer's premise, and then we have the technician stay there for a little bit to do audio and/or in some cases, video help for the customer that maybe needs a little bit more support.

We're now, through all of these things for broadband, approaching very close to 100%. So it's a remarkable shift that is obviously very efficient, very effective and supported by the fact that we spent years getting prepared around self-install. And for us, success is defined not just by the percentage of things that we do but by the effectiveness, and that when customers can do it, it works, it's quick, and we're getting really good responses from the customers that it's working.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

Well, so you and your peers across the industry reported a really remarkable, not just overall first quarter but particularly the back part of the first quarter, when the lockdown started to happen, it really seems like the broadband business kicked into overdrive. And the unit growth accelerated. The network performed well. I know it's only been a couple of weeks since you reported, but is that still the case? Charter, for example, said this morning that their volumes continued to be above last year's and still above normal.



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

Yes. As we said in our earnings, that April -- we had a good start in April. That has continued in May. So we like the current momentum. And I would tell you that one of the things, you just mentioned the network and just how critical this is that -- and it has been, we've been investing, making substantial investments over the years in terms of fiber, in terms of capacity improvements. So I think you start with that in terms of this momentum that we're seeing. And on top of it, we've redefined broadband around not just speeds and a great reliable network, but it's all the different pieces that we've been working on with xFi, whether it's coverage, great gateways, pods; whether it's the control capability, advanced security and now streaming that we add to it.

So this momentum has been around. We've been -- I think, the last several years, many years, we've been -- if you add up all the telcos, their net add performances, we've eclipsed all of them, if you add them all up each year for the last several years. So we like what we've been doing, and we certainly like our momentum right now.

Craig Eder Moffett - MoffettNathanson LLC - Founding Partner

Well, so one of the questions that I think everybody is going to be grappling with is as the country starts to reopen, what happens? I know we're very, very early days, but are you seeing anything different in markets like, say, your Georgia systems that are starting to reopen or in Texas, where you're seeing markets reopening versus the markets on the East Coast and the West Coast that are still relatively locked down?

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

It is early, Craig. But we are seeing, in particular, with the small business clients, we're seeing some activity begin to pick up only a little bit in terms of ad sales, but mostly, it's SMB in Florida, Georgia, different parts. Watching it closely, very fluid situation, but we have seen increased activity in those areas.

Craig Eder Moffett - MoffettNathanson LLC - Founding Partner

That's good to hear. So let's dig into the broadband business for a second. We've always talked about the need for speed driving the market share gains that cable has seen. It used to be that the telco mid-speed tiers, that is the 10 megabits per second, 25 megabits per second, were considered sort of good enough. That's presumably not the case anymore and you're starting to take most of your market share not from DSL anymore, which has gotten relatively depleted, but now from those kind of middle tiers. First, is that right? And in the conversations that you're having with customers, what is the speed threshold that is now considered kind of good enough to be competitive?

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

Well, I think the short answer is yes. I think we are seeing what you said in terms of really share gains across the board, quite frankly. We're doing well against the telephone companies, across multiple speed tiers. Certainly low-end broadband, that 10 to 50 range, we compete very nicely there.

But there's a larger pool that's available and certain -- some of it being showcased right now, like some segments, some nevers, there's still room at the top. There's some nevers, some DSL that's certainly out there, around close to 4 million DSL customers. There's some mobile-onlys that are out there. And I think, in this moment, we can take share across the board. And we have been doing that. We're doing that, I think, as we sit here right now, but it is kind of complete and across the board. This is our focus. This is how we've been investing around the product.

And I think when you talk about the threshold in terms of speed, the best way that we look at it is we got about 85% of our customers that are 100 megabits or higher. And so we are very focused on the tiers of service that makes sense for our customers. But that's the results that we're seeing and doing a good job above that, but that's our focus.



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And I think though, what I mentioned earlier, I think is really key. speed is important. No question, Craig. But I think that we have done, I think, a pretty good job of redefining what great broadband is and adding to speed things like coverage. Right now, as we're sitting here, it used to be 7 or 8 devices that were being supported within the household. If I had to bet, that's gone up quite a bit in terms of the amount of devices. So you need great coverage all over the place. I think you need to make sure that these devices are protected. We're now providing for free advanced security to broadband customers. And we've added streaming with Flex that comes with and included with the broadband subscription. So we're redefining things on top of great speed, but we like our position and like the results that we've had.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

Yes. And can you talk about xFi and the sort of the ways that you've differentiated your broadband product? And if you can share any snippets of any of the customer research or churn data that sort of has given you the insight that you're on the right track with all that sort of thing.

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

We certainly have tested, we've done a fair amount of research around what do customers want and very fast, reliable broadband speeds with WiFi. I don't think customers really distinguish it anymore. They want it to work within their household. They want it to work everywhere. And so providing that coverage was really important. That's why we invested so much in gateway devices connected with pods, that we can provide ubiquitous coverage inside the household. So that's a starting point.

And then control with xFi. Control is how do you manage your household in terms of devices and making sure that all family members are connected the right way. Maybe there's a homework break that's required, all those things that you can do through xFi seamlessly. So control is a really important part of how we're differentiating.

And then along with advanced security that I mentioned is streaming. We felt that we had a really good opportunity to leverage our investments in X1 to be able to roll out Flex. And so now that's just another example of continuing to add value in the broadband subscription. Flex is now available there and having good results.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

Now that's interesting. I still think of Flex as a video product rather than as a broadband product. And -- but I think you can probably make the case for either one. Can you share just any quantitative data about Flex and how many customers you have and how that's been tracking?

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

Yes. I can. Let me start with the -- at least how we think about it. But Flex is really X1 without live TV, and so it is part of the broadband experience without live TV. It gives the broadband-only segment, where we target this towards, a platform that leverages the best of X1 in terms of the voice remote capability. It ties together all the metadata so -- within the apps, so you can go to Hulu, most certainly Peacock. And you can go to Netflix, all these things. And I think it demonstrates, if you add up the 2 biggies, Flex plus Peacock, Comcast is uniquely positioned for the streaming moment that's happening right now.

So we -- the rollout, we're still early on in terms of Flex. But I'll tell you that in terms of our deployments, where we're at right now, we have deployed 1 million Flex devices within our footprint. And so that now -- to be clear, those are 1 million devices, and what the main thing that we're focused on are monthly active users. And so it takes -- always that will lag deployed devices. We're pleased with the acceptance upfront, but monthly active users will go through activations, will go through setup, will go through discovery and then start using it on a monthly basis. So we'll give you more over time on that. That will be the main thing that we focus on, but we're real pleased.

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And 1 million devices require somebody to say, "Yes, I want that." And then we'll include it. And so really, very good starting in it -- the strategy behind it, the reason why we're excited, is that we're going to have this focused on broadband. It's a broadband subscription component, so we expect churn improvements. We expect net additions. This is going to increase consideration. So when we do our research, it's WiFi, advanced security, control elements come up. When we talk about Flex, that people don't know quite what it is, but when we describe it, it moves to the top of the list. They really, really like this. So we're real pleased with the early-stage results on Flex.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

And for the people on the call or listening to the webcast who may not know Flex, it is most commonly described by clients, I think, as sort of a Roku-like solution. Can you just talk about the monetization strategy? And is it a Roku-like monetization strategy for Flex, including an advertising platform and...

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

The main strategy I mentioned earlier is around broadband. So it's broadband churn improvement. It's consideration in the first place, so driving more connects and more share upfront. But I think there is a longer-term opportunity in how we monetize things between advanced advertising capability, participation in app revenue as we sell. When we sell, we get a piece of the opportunity.

So people can port their own apps over. That's fine. We will not participate then. But when we sell it, and we find that we're a really good distributor for apps and we find that this is that kind of a platform similar to others and many other great devices that are out there, I think this is one of them. And I think it's built, because of the X1 investment, it's built for this moment in terms of streaming multiple apps. It just simplifies the experience.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

I wanted to go back to this moment again with a slightly less aspirational topic, and that's just -- you've taken the FCC's pledge for -- to not disconnect customers. You mentioned it at the outset. Can you just update us on, first, just make sure people understand what it is you've pledged. So -- because as I understand it, sometimes, it doesn't necessarily mean that everybody stays at the same level of broadband speeds, for example, or video package if they take the pledge. So what happens? And then what kinds of numbers are you seeing so far? What have you learned?

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

Well, what we did, we immediately signed up for the pledge, which was to not disconnect broadband customers, voice customers. And that's what we did, moved very quickly to do that. And what comes with that, no late fees, keeping people on. And how we did it was, I think, pretty important. From our perspective, we felt that if customers are having a hard time managing their bills in this moment, that we wanted to give them an option to go down to a lower-tier, still broadband, 25/3 capability. We moved them down, lowered the price so they would not accumulate a larger bill when we come out of it on the other side. So we gave them that choice. If they wanted to go down, they could. And so that is the main thing.

Along with that though, I mentioned, we did the 60-day free Internet Essentials offer, improved the ongoing speed. That's not a promotional change, the 25/3, to improve the level of service there. We suspended the data plans, making unlimited free during this period. And we've just announced, along with a handful of others, that we're going to go through the school cycle, and we'll go out through June 30 with all of this activity.

So one other important part of -- that we've always done and that we will do on a go-forward basis, for sure, are things like Promise to Pay, real flexible payment options that will be available as we move past this moment. And that, I think, is going to be very important. So we'll be flexible. We're going to work with customers to get through it. Whether they're commercial, whether they're residential, we're going to be prepared to help people get through this.



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Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

How do you forecast what bad debt might look like given programs like that, just that we're in such entirely uncharted waters? And you've got unemployment levels, you've got federal stimulus against it. When you work with your finance team and just try to get a sensible forecast, how do you think about it?

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

Well, you're right. This is unprecedented, to say the least. We did have the recession before that we saw some, a glimpse perhaps of something like this, but this is so different in so many ways. But we built a ton of models. We looked at the early-stage activity, and we looked at the trending of what was happening. And then what we've seen is a plateauing of things, whether it's residential and/or commercial, that gives us confidence of our models.

So we have multiple scenarios. What we did in the first quarter that you saw, we increased the bad debt by 40% year-over-year. So we did make a change there. That was a look to the future as to what might happen. We looked at multiple scenarios. We think this is a pretty reasonable approach that we took in Q1, but it's very fluid. And we're going to have to -- you're right. We're going to have to stay on top of it throughout. But we looked at what it would take to help customers get through it and what are the different programs that we have available. And I think we are going to come out on the other side and maintain a strong relationship with the consumer and help everybody get through it.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

So I want to turn to video now. And it's been -- these are funny times in video. We -- I think I saw recently that linear TV viewing hours are up something like 4 hours a day or that's -- but -- and yet cord-cutting is the fastest we've ever seen. When you think about all the cross-currents that are happening in the video space, what are you forecasting for Comcast and sort of what's your base case expectation for cord-cutting and the video -- the linear video model?

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

Well, there are a couple of things that we talked about in Q1 that impacted our results there. But we had already seen a trend, and that's based on our strategy, quite frankly, that we're going to not necessarily be as focused on skinny video packaging, we're going to go after great customers that take X1. X1 is a fabulous product in and of itself that will take care of most of our customers. And we're real pleased that X1 continues to be the product that people go to that collect -- aggregates all the apps, live, linear or DVR, VOD or all of that. So we're still very focused on X1.

But we recognize that the new segment, more broadband-only-centric group, we're not going to be as focused on skinny video packaging there. So that was our strategy going into it. Then we had a rate increase based on timing of some of the programming contracts, took a little bit higher of a rate increase in Q1. We -- that impacted Q1, for sure. So what we're seeing now is a little bit lighter on video attach, but overall, still actually pretty steady churn rates in terms of even video. Broadband, record-level churn rates.

And the strategy shift, that I mentioned Flex earlier, what we're doing is going after that broadband-only segment. And another important metric that, at least real-time, for the last couple of months that we have is that our Flex additions, these monthly active users, these are people that are using Flex pretty regularly during the month, they are netting out our video losses that we have over the last couple of months. So it's almost net 0 impact. And over time, as we continue to build Flex as a platform, and will monetize itself through broadband and all the reasons that I talked about before, but between advertising, between the app participation, it will become more material. And so I think it's a more efficient way of interacting with this broadband-only segment. But -- so that's our strategy. We like these results.

Overall, it continues to drive the customer relationships that we want. We did 371,000 net customer relationships in Q1. That was a record for any Q1 that we've had. So I think you combine all of these things, strong focus on broadband, giving customer real choice in terms of their video platforms, I think we're in a pretty good position going forward.



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Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

Now you were talking about Flex. Flex is a -- what is essentially AVOD/SVOD platform, and it's time-shifted. Are you part of the crowd that assumes that -- the rate of cord-cutting, it is in part a function of sports not being on the air? And then if we get sports back, that we may see very different trends? I mean how do you think about what happens when sports returns to the program you got?

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

Well, I certainly think that there are already preexisting trends that were happening because of just the amount of content that was available. And so -- and based on our own strategy that I mentioned before, it was, most certainly, sports and original content, the situation that we're in, a moment in time that must be having some impact. But sports original content will come back. We'll see the timing of when that happens, and we'll be there.

So -- but our strategy will be consistent. We're going to go after the right customers for X1. We'll give customers choice throughout. And for those that just want a broadband relationship, we're going to give them a great option in Flex to be able to aggregate all of these apps, make it simple and easy to connect with broadband. So that -- our game plan will not change.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

And on the subject of sports for a second, this question that everybody has been asking for the last few weeks, what happens to the sports rights fees that are -- customers are still paying you because you're still paying RSNs and ESPN. They're still paying leagues, all of which is sort of dependent on the idea that the seasons are postponed rather than canceled. When do we get some resolution on that set of questions? And how do you think it resolves?

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

Well, starting with the point here is that when leagues do decide to give refunds of any kind, and then it's through the programmers and then to their distributor partners, us. When we get those, we're going to share those with the customer right away. Where -- as soon as we get them, we'll move towards sharing those with the customer.

The issue that comes down to the sports ecosystem is not aligned. And you mentioned between the sports leagues, we have to pay close attention, which we are, watching very closely what's happening in Europe. And hopefully, that moves towards the U.S. There's an opportunity to do it in a safe, good way. I think people are ready. People are ready to view it on television. And when that moment happens, maybe there are some leagues that have already started, they can complete it in some form or fashion. But the contracts between the leagues, the programmers, the distributors don't line up. And there are different rights that exist between the agreements between each of the parties. And in some cases, the form of refund could be in kind. We're having to see. We're going to see very -- watch very closely, along with the customers, as to what's going to happen here. But yes, we'll move very quickly once it becomes clear.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

And more generally, with affiliate fees, is given all these changes in the ecosystem, you're in the early stages of the whole cycle of affiliate fee renewals. As a programming partner walks into your offices to -- or now into your Zoom conference room to negotiate a new contract, how have those conversations changed? And what are you looking for that's different than what you used to be looking for? Is it now you're more focused on tier flexibility? Is it now you're more focused than ever on the price per customer? How does your mindset change in the way you negotiate and they negotiate?



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

Well, we're going to continue to be as disciplined as we've ever been in terms of cost, in terms of value to our customers. We're going to go through everything. We always have, we always will. And so it does start -- whatever the decisions that we make around renewals, these agreements, they will start with, we feel it's the right thing for us, the right thing for the consumer, it's the best value. And so that's going to be our approach. But there's no question, Craig, that models have changed. And it's changed in a couple of ways. One, the programmers themselves have looked to diversify, make their product available in different ways. And so that's one.

Second way that models have shifted, we've become, I think, a pretty good aggregator of lots of content on a platform. And so we give customers a lot of choice. And it's an attractive platform that people want to be on. So we're thrilled to announce that soon, we're going to be rolling out CBS All Access, starting with Flex and then X1. And so we're going to have a complete discussion around cost, around the overall rights and then what do customers want in terms of their content and how they get it.

So we will be very disciplined in our approach, but when the deals -- the deals that we cut will make financial sense to us and our customers.

Craig Eder Moffett - MoffettNathanson LLC - Founding Partner

Well, it is an interesting point that you make. So to the extent that you are now making available to your customers Netflix and all of these different services through X1, does that make it so that when a new or when a linear programming partner comes into the room, that your view is that they are sort of less important than maybe they used to be because the lens that you're viewing, the video ecosystem, through is so much wider than it used to be?

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

I think it starts with the fact we want to be a great partner to the content providers, that this is a fantastic platform on which they should participate. And we should give the customers simplicity, ease of access, a great experience because I think that's what the customer wants. And so it starts with that perspective. We think we are good for content distribution. We have a great platform. The experience matters. It really does. So that's the starting point.

I mean what was going on between apps, that happened before we started aggregating on X1 and these things were made available. But that's the reality. These apps are available. We just think it's a better experience when it's all aggregated the way that we're doing it. Many other platforms that are out there, but we think we're a very good one of which the programmers should want to participate in, that I think that makes sense for not only legacy applications but linear channels, on demand, but also the app future as well.

Craig Eder Moffett - MoffettNathanson LLC - Founding Partner

So the last piece of the video business I want to talk about is probably the most challenged in the near term, and that is local advertising. And you mentioned you're starting to see at least some signs of life in Florida and Texas and some of the reopened markets. But at least until we make a bridge to political in the later part of the year, what does the landscape look like right now in what you're seeing in local cable advertising?

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

Well, local advertising -- local cable advertising, there's an immediate impact. And we saw it right away, not as towards the end of Q1, but most certainly, we'll see an impact in Q2. We think Q2 should be a moment that is the tougher period. We'll see. Don't know how the rest of the country goes. But a little bit of life that we did see in these markets, there's certainly some hope that our local clients will spring back. I think people are going to want to get the word out when they are.

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It's interesting. With -- just like SMB, there's the SMB clients, there's such a resilience, and so they're so creative around -- there are some that have a hard time with their -- most certainly. There are some that were able to pivot and turn their business into takeout-oriented, into a virtual online studio for spending. There could be all sorts of different ways of changing the business. I think advertising will play a role in that as people get back on their feet.

The biggest issue though for the second half of the year will be political. And we'll have to see how that progresses. But as we go into Q3, we think that at least the national elections will be very interesting and I think will fuel a better second half of the year for local advertising.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

And it's important to remind investors, the big driver of political for local cable tends not to be the presidential election as much as it is gubernatorial and House and Senate. And there are a lot of contested races in your footprint.

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

There are. And a lot of it just got pushed. So I think there's going to be a bit of a scramble that will happen, I believe, my opinion, around third quarter. And we'll be ready. We have a great political team in our Effectv group in local advertising. We'll be ready to help all those local campaigns really go for it.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

So let's -- you mentioned the SMB and what you're seeing in terms of restaurants trying to become takeout and the natural innovation that happens as a form of necessity. What are you seeing in the SMB segment right now? And historically, that's a segment where recessions sort of show up with a lag in numbers, in quarterly numbers. Are you still projecting that you can grow your way through that -- through the downturn for the business services? Or is there a risk that it actually turns fully negative?

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

Well, what we saw was an immediate impact for small business. A vast majority of this is a small business crisis that happened. So we saw an immediate impact of folks saying, "I got to suspend business operations. I need help." We're there for them. We created a suspend program. We're going to help them get back on their feet at the right time. The right thing to do was to help them. That's flat-out mission number one.

So really not a Q1 event, as you said. There's a lagging thing. We will see it in Q2. However, I fully expect that there's growth. I think we're still going to grow business and the overall business category in probably the lower single digits, but there will be growth.

And one of the important things, I think, for folks to remember, SMB is a nice chunk of our business, an important part of our business, but we have 2 other important categories. We do midsize companies, and we've gotten -- and the cable industry, Comcast included, we've gotten into the enterprise segment as well. So we've diversified in terms of our portfolio just by categories: SMB, mid-market and enterprise.

So -- and this has been -- and the other part too, Craig, is that we've been at business services for over a decade now. Within the SMB category itself, it's not bars and restaurants alone, there's a wide variety of businesses, the clients that we have that cut across the economy. And so we will -- we have some diversification just in that alone.

So the combination of those 2 things, we think Q2 will be the tougher point for SMB and looking forward for the back half of the year for things to get back a little bit more on track. But we're going to grow business services even in Q2.



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Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

Okay. That's encouraging to hear. Let's talk about wireless for a second. At one point, you've been talking about getting to breakeven in the wireless business in 2021. How has the trajectory of the P&L of that business changed because of the COVID crisis?

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

Well, the trajectory, it's still solid. COVID, though, does a couple of things. One, the most material one is that we show -- it showcases just how important WiFi is. There's a little bit of a trade-off between LTE traffic on smartphones and WiFi if you are in the home. What we're seeing, at least to our customers' data, about a 20% decline in LTE consumption and a 40% increase in terms of WiFi. So WiFi is the rock of which -- when wireless operators talk about an uptick and smartphone traffic, I think that's absolutely correct because WiFi is generating a lot more traffic. And it's always been the case. There's a little more WiFi usage on smartphones. And so we're seeing that amplified, that accelerate through this moment.

As to the trajectory, we'll see it's very fluid. Still like it, but if the LTE traffic stays suppressed to the extent it is, it could be elongated just a little bit. But we'll have to see. But in general, we're still looking at either '21 or just a little bit after that.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

And to be clear, lower LTE traffic is actually good news. It lowers your cost of goods sold. Fair enough?

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

It is on that side, absolutely. It depends on the customer. We have 2 great choices. We do unlimited. We also have pay-as-you-go. So we do both. And so there's -- but in general, yes, we'll get -- have that trade-off on the cost side.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

Now AT&T last year made overtures to the cable industry saying that they would be willing to entertain competing for the relationship that you currently have with Verizon. Can you update us at all on the status of the MVNO arrangement with Verizon?

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

Yes. First off, it's going well. We like our results. We like the relationship with Verizon. Having said that, we will always listen to others. And over time, there's been -- all of them have reached out one way or the other and want to talk, including AT&T. And so we would listen. So there -- we know that there are a couple of opportunities to improve things just a little bit with the -- our ability to continue long-term and to add to an already good MVNO, a couple of nice additions that are still out there. But we like the relationship with Verizon, been a good partner, but we will always listen to opportunities in the future.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

And so -- and how do I think about the -- this idea of a hybrid MVNO-MNO network? You talked about how much traffic you -- already goes over WiFi. And -- but it would seem like there's a trajectory, you own some low-frequency spectrum, for example. It seems like there's this trajectory for all the cable operators to create more hybrid networks. Is that part of your sort of long-term vision of connectivity for the customer to say that connectivity sort of expands to wherever they are?

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

Well, the MVNO that we have today, in perpetuity, a really strong MVNO, helps us accomplish our main objectives in terms of churn, in terms of net new additions, providing fuel for retail, selling other products and then profitability at scale. So we like our current MVNO. But we model out all the time, Craig, what's possible in terms of leveraging what we have and offloading. And we'll model it out. And if it's cost-effective, there's a good opportunity for us, we would consider it. But it starts with the foundation of having a very good MVNO, which we have.

Craig Eder Moffett - MoffettNathanson LLC - Founding Partner

Do you think there's a day someday when the wireless business for you is a bigger business than the video business for you?

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

Hard to say at this point. Hard to say. There are strategic implications for both, but we really like the fact of how we're growing wireless the way we're growing wireless. I think wireless gives us a long-term great economic road map and certainly is helping broadband, which is one of the main reasons why we did it in the first place.

Craig Eder Moffett - MoffettNathanson LLC - Founding Partner

So now I want to zoom out a little bit and sort of think about the business as a whole for a second. We've written a lot about how as video declines, margins will expand. So that doesn't just happen on its own. It actually takes real work. Can you talk about that real work that you and your organization are doing to change the way the company does business in order to raise the margins of the business as video declines?

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

Absolutely. So nonprogramming expense management is just vital, has been and will continue to be. We've been all over that for many years. And we saw it pop in Q1 with the increase that we saw, but -- and we'll have some COVID-related expenses, whether it's the pledge, some other expenses that we'll see. But we're going to counter that starting in Q2 because of the ongoing focus that we've had.

It really starts with broadband, the fact the strategy of being so focused around that just improves margin, improves transactions. You can do things like SIK. You can do things like drop-and-go that we talked about, the home drop-off service. You connect that with the digital capability that we've been at for many years, too. This is -- didn't happen overnight. We really started investing some time ago around digital capability. So whether it's the My Account app or the xFi app that I mentioned, whether it's the SIK capability, all of these things, and then Xfinity Chat, this AI-powered chat tool, all combined are -- we've gone up quite a bit in terms of customers that are 100% of the time are doing nothing but digital transactions with us, a very efficient way of running the business. And customers really like it. So that, to me, will survive and will continue, will grow, will be part of what we will do after the crisis is over.

So we're going to counter the expense increases in Q2, but we're also going to really prioritize what matters the most, which is our network, network management, the product, the broadband product capability, that road map. We'll still invest in video. But we're going to prioritize around the broadband superiority. And there's fixed cost control, all of these things that go into it. And so that, to me -- again, we don't give out specific long-term guidance, but we did say we're going to commit to, which we are, as we said in earnings, 50 basis points year-over-year improvement in EBITDA margin. So we're still very confident of that. And I think we have a long road map ahead in terms of doing the right things for customers, but managing the business in as an efficient manner as we can.



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Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

And the other side of that coin is falling capital intensity, which has -- as your video business has gotten to be a smaller percentage of your business and broadband has grown, capital intensity has come down. Let's get the IR department mad at us for a second. How much can it come down? And where do you think capital intensity can get to in this business?

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

Well, hopefully, I won't upset them too much because I'm going to say exactly what we said in Q1, which is, well, we're going to see a 50 basis point improvement. Again, feel confident of that because the ongoing -- just as you said, the -- what's happening in the ecosystem is going to continue. There will be less video CPE. We're going to continue to substantially invest in broadband in this environment now more than ever. We're going to keep at that. And so there will still be -- we'll prioritize broadband, but the net impact will be improvement in capital intensity.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

And I've got to believe that the -- because the business services segment is generally much more capital-intensive than the residential market that, at this stage, you're probably doing less new fiber into campuses and that sort of thing, just given the macro backdrop. So is that fair that there -- that's a sort of unintended but temporary tailwind to capital intensity as well?

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

That's actually at the top of our list of things, along with broadband, investing in our broadband network. It's what can we do to make sure we're going to every business, whether it's urban or suburban opportunities. So I think there's still a pretty rich opportunity ahead of us, but it's all going to be within the pool of which we've talked about. We're just prioritizing things differently.

But Bill Stemper and his team, the Comcast Business group, they're not bashful about asking for the resources to go after it. And we have the local sales group that takes full advantage in making sure we're going to get there for our customers. So we're -- we would make sure that that's always going to be at the top of the list.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

So Dave, what's the one thing we haven't talked about that you would want to make sure you leave Comcast investors with about this business?

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

I think the one thing goes back to reinforcing broadband, that even during this period, we're managing and so proud of our team for managing this moment. But it's the buildup to it that put us in position to be able to handle this moment. The network has stood up very well. Our engineers have worked around the clock. They want people to know, done 24/7 proactive management of our network, and that it just doesn't happen. We manage this over years to make sure that we manage it for peak consumption, peak moments. And as we get through this, which we will, we're going to have a great network.

And also, we're not sitting still. We're going to continue to invest. We're going to continue to make the product better over time. So I think it's a great platform for the future. We're going to continue to aggregate content, be part of the broadband experience. So I'm optimistic about our momentum. I'm optimistic about the future and broadband's role in it.

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Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

Well, Dave, that's -- it's a great way to wrap the session. I want to thank you tremendously for being here with us today. And again, I'm delighted to know that you and Ellen are healthy and recovered. And we wish you and all the employees at Comcast our best to stay safe and stay healthy. So thank you, and we look forward to seeing you again next year, hopefully, in person at the summit in the next year.

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

Will do. Thank you, Craig. Thank you. You take care.

Craig Eder Moffett - *MoffettNathanson LLC - Founding Partner*

Bye-bye.

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

Bye.

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