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CMCSA - Q4 2014 Comcast Corp Earnings Call

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OVERVIEW:

CMCSA reported 2014 consolidated revenue of $68.8b and EPS of $3.20.

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PRESENTATION

Operator

Good morning, ladies and gentlemen and welcome to Comcast's fourth-quarter and full-year 2014 earnings conference call. (Operator Instructions). Please note that this conference call is being recorded. I will now turn the call over to Senior Vice President, Investor Relations, Mr. Jason Armstrong. Please go ahead Mr. Armstrong.

Jason Armstrong - *Comcast Corporation - SVP of IR*

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

As always, let me now refer you to slide number 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 for the reconciliation of non-GAAP financial measures to GAAP. With that, let me turn the call to Brian Roberts for his comments. Brian.

Brian Roberts - *Comcast Corporation - Chairman & CEO*

Thanks, Jason and thank you, everyone, for joining us today. It is an honor to lead this wonderful Company and 2014 was no exception. As you will see, we made very strong progress. Last year was a great year strategically, operationally and financially. As our history has shown, we take prudent risk and invest for profitable growth. Overall, we grew revenue 6.4% in 2014 and operating cash flow by 6.9%. We generated over $8 billion in free cash flow and increased cash returned to shareholders by 64%. All in all a terrific year.

As we reviewed these results and outlook with our Board, we made the decision to raise our dividend by 11% marking the seventh consecutive annual increase. We've also increased our stock repurchase authorization to $10 billion and we plan to repurchase $4.25 billion of stock in 2015. In addition, following the close of the Time Warner Cable merger and related divestiture transactions, we intend to add in excess of $5 billion in incremental buybacks to this share repurchase total.

It's an incredible time in media and technology and for Comcast in particular. There is no shortage of change occurring in the competitive landscape, the breakneck pace of innovation and shifts in the regulatory climate we must navigate. That's why I keep coming back to how proud I am of the team's focus and execution in 2014. So let's talk about some of their achievements. In cable, we had another strong year of profitable growth. We increased revenue 5.5% and operating cash flow 5.3%. We added 358,000 customer relationships, a 67% improvement compared to the prior year and product innovation continues at a very rapid pace. We believe we have the absolute best products on the market thanks to our X1 platform, our content lineup, cloud DVR, fastest in-home Wi-Fi, voice control remotes and the list goes on.

2014 was a year in which we started to take these great new products to scale. The reaction to X1 from customers has been fantastic resulting in lower churn, more outlets connected and an increase in overall viewership led primarily by higher On Demand and DVR consumption. And it is bearing fruit in our operating results as video subscriber trends were the best in seven years.

In broadband, we added over 1 million subscribers for the ninth year in a row and now have a Wi-Fi network that includes over 8 million hotspots. In addition, Business Services remains a critical and profitable growth driver for us with revenue increasing 22% in 2014 off of a large base and ending the year at over $4 billion revenue run rate.

At NBCUniversal, the magnitude of the improvement has exceeded all of our expectations and the acquisition has already proven to be one of the best in our Company's history. Operating cash flow is up about 80% since we first announced the deal and 2014 was another year of strong progress as we grew revenue by 7.5% and operating cash flow by over 18%.

In Broadcasting, we generated over $730 million in operating cash flow, which more than doubled year-over-year. The network maintained its number one ranking in primetime and saw terrific success in The Voice, Blacklist and Sunday Night Football, as well as the highly successful launch of the new Tonight Show starring Jimmy Fallon and of course, the Sochi Olympics, which spanned our broadcast and cable networks and was highly integrated into our cable technology platforms, really demonstrating the unique capabilities of our combined company. And we are thrilled to have extended our rights deal with the International Olympic Committee in a deal that will make NBCUniversal the home to the Olympics through the year 2032.

Speaking of cable networks, they remain our largest source of operating cash flow at NBCUniversal and demonstrated another year of growth thanks to a diversified portfolio across sports, news and entertainment. USA and Bravo are both top 10 networks with USA ending the year at number one in total viewers for the ninth year in a row and we successfully launched CNBC Prime. There is no doubt that times are changing for cable networks, but we believe our portfolio of channels is well-positioned.

In Film, Universal Pictures produced the most profitable result in its over 100-year history on the success of Neighbors, Ride Along, Lucy and Unbroken, amongst others. The team including Jeff Shell and Ron Meyer and Donna Langley have done a terrific job. And last but certainly not least, we had a terrific year with our theme parks. We grew revenue 17% and accelerated our growth every quarter during the year pacing at nearly 30% in the fourth quarter thanks to the enormous success of our new Harry Potter attractions in Orlando and the tremendous demand for Halloween Horror Nights in both Orlando and Hollywood.

Now turning to 2015 and beyond, obviously, there has been a lot of discussion around broadband and the regulatory environment. So let me just say that our past comments on the unnecessary risks associated with applying 1930s style regulations to something as dynamic as the Internet remain the same. We are absolutely for a free and open Internet. We even agree on what President Obama and Chairman Wheeler say should be in the rules -- transparency, nondiscrimination, no blocking, no throttling and no paid prioritization -- and we've been consistent in communicating our agreement with those principles.

The disagreement boils down to what legal authority the FCC should use to put in place these rules. We think the Title II regulation is antiquated and has real downsides. So our attention, just like everyone else, is on the actual text of the order, the upcoming vote, the strength of forbearance and ultimately the Commission's focus on preservation of incentives for the private sector to continue to invest aggressively in broadband.

Let's not lose sight of the fact that Comcast NBCUniversal is a wonderfully dynamic and diversified company uniquely positioned at the intersection of media and technology and we are off to a good start in 2015. In cable, we are aligned around a few critical top priorities. The first is to transform the customer experience. In short, we want customer service to be our best product. We have not always lived up to that. But if we can reinvent and improve customer service, we can make it easier for our customers to experience what we are confident is the best platform and the best content on the fastest network. We will continue to push the pace of innovation in cable and we will also remain focused on preparation for the integration of Time Warner Cable. We are excited about the merger and our ability to add value to customers and shareholders through the acquisition. Our integration planning is on schedule as we continue to work towards regulatory approval.

At NBCUniversal, we feel great about our media portfolio. In Broadcast, we were off to a strong start most recently airing the Super Bowl to the highest ratings in history and SNL's amazing 40th celebration. We are excited about several new launches including AD and Odyssey on NBC and Dig and The Royals on our cable networks, as well as the return of NASCAR.

Our 2015 film slate is off to a terrific start with 50 Shades of Grey and the rest of the year is packed with exciting releases, including Fast 7, Minions, Jurassic World, Pitch Perfect 2 and Ted 2 just to name some.

In Parks, the new attraction pipeline is robust, especially in Hollywood with Fast & Furious and Harry Potter. We are continuing our work on a very large theme park in China. So altogether, this is an exciting time at Comcast and we are looking forward to another great year. Michael.

Michael Angelakis - *Comcast Corporation - Vice Chairman & CFO*

Thank you, Brian and good morning, everyone. As you can see from our results, 2014 was a year of outstanding financial and strategic performance for the Company and we are very pleased with our fourth-quarter and full-year results, which demonstrate consistent execution, a focus on profitable growth and the fundamental strength of our businesses. Let's review our performance for 2014 in more detail and begin with our consolidated financial results on slide 4.

For the full year, consolidated revenue increased 6.4% to $68.8 billion and operating cash flow increased 6.9% to $22.9 billion reflecting healthy organic growth in both our cable and NBCUniversal businesses. For comparison purposes, when you exclude the $1.1 billion of revenue and $105 million of operating cash flow generated by the Sochi Olympics in the first quarter, the $237 million of year-to-date transaction-related expenses and the pension termination costs in 2013, our consolidated revenue increased a healthy 4.7% and our consolidated operating cash flow grew 7.2%.

For the full year, our earnings per share increased 25% to $3.20 per share. However, excluding adjustments, our earnings per share increased 18.6% to $2.93 per share. Free cash flow for 2014 modestly decreased 3.8% to $8.2 billion and free cash flow per share decreased 2.2% to $3.12 per share as our growth in consolidated operating cash flow was offset by increased capital investment in cash taxes, as well as increased working capital related to additional spending for our film and TV production.

Now let's review the results of our individual businesses starting with Cable Communications on slide 5. Cable Communications delivered another year of strong financial results and customer metrics. Revenue increased 6.1% in the fourth quarter and grew 5.5% for the full year to $44.1 billion reflecting solid growth in our residential business driven by strong high-speed data results, continued strength in Business Services and higher advertising revenue fueled by political spending.

Total revenue per customer relationship and our total number of customer relationships are two important metrics that we use to evaluate our business and we are pleased with the positive trend in our results. Our objective is to focus on profitable growth by striking the right balance between financial growth and customer growth and 2014 was no exception. Total revenue per customer relationship reached $140 per month in the fourth quarter, a nearly 5% increase that reflects a higher contribution from Business Services, customers upgrading to higher levels of service, customers subscribing to additional products and rate adjustments.

During the year, we increased customer relationships by 358,000, a 67% improvement over the additions in 2013 and bringing our total number of customer relationships to more than 27 million. We also continue to focus on bundling our products to provide the most value to our customers. At year-end, 69% of our customers subscribe to two or more products and 37% subscribe to three products compared to 35% at year-end last year. We have an intensified focus on customer retention, growing our customer relationships and driving our value-added bundling strategy and our results reflect these approaches.

With the assistance of our best-in-class XI platform and industry-leading TV Everywhere and On Demand services, we continued our positive momentum with our video product. During the fourth quarter, we added 6000 video customers, the third time we have gained video customers in the last 5 quarters. For the full year, we reduced video losses by 27% to 194,000, the best result in seven years and during a period where the competitive environment has greatly expanded and intensified.

In high-speed Internet, we added 375,000 new customers in the fourth quarter and 1.3 million for the full year, the ninth year in a row that we have added more than 1 million high-speed Internet customers. Our investments in our network, in CPE are proving successful as our customers are recognizing the value we offer with speed enhancements, the fastest in-home Wi-Fi and our growing Wi-Fi footprint. Voice also remains a valuable component of the bundle and we continue to grow our voice customer base adding 123,000 new customers in the fourth quarter and 470,000 for the full year. The slowdown in voice net additions reflected the X1 availability that was specifically focused on triple-play customers in 2013 making for a somewhat difficult comparison.

In reviewing our product categories in more detail, video revenue increased 1.2% for the full year reflecting modest rate adjustments and an increasing number of customers subscribing to advanced services. High-speed Internet revenue increased 9.5% for the year reflecting continued growth in our customer base, rate adjustments and an increasing number of customers taking higher-speed services. At year-end 58% of our residential high-speed Internet customers receive speeds of at least 50 megabits, a meaningful increase compared to 2013.

With regard to voice, revenue increased 0.4% for the full year as growth in the customer base was largely offset by a modest decline in ARPU. Business Services was again a large contributor to cable revenue growth with revenue increasing 21.9% for the full year to $4 billion. The majority of that revenue is generated by small businesses with less than 20 employees, but the contribution from mid-size businesses is rapidly increasing and accounted for nearly 40% of Business Services revenue growth for the year. Business Services continues to have positive momentum and represents a large and attractive opportunity for the Company.

As I mentioned previously, cable advertising also performed well as fourth-quarter revenue increased 18.9% and full-year revenue increased 11.5%, including political revenue of $110 million in the fourth quarter and $224 million for the full year. Excluding the impact from political, core cable advertising revenue increased 4.4% during the quarter and 3.5% for the full year.

Please refer to slide 6. Full-year 2014 Cable Communications operating cash flow increased 5.3% to $18.1 billion resulting in a stable margin of 41% as we continue to effectively manage higher programming costs and absorbed additional expenses to support an accelerated deployment of X1, cloud DVR and wireless gateways to our customers, as well as a continued investment in new business areas. Programming expenses increased 7.8%, slightly below our original estimates, but nonetheless reflecting meaningful increases in retransmission consent fees, higher sports programming costs and stepups for certain long-term agreements.

As we look to 2015, we expect program expense to grow at a similar level to 2014's growth driven by continued increases in retransmission consent fees and higher sports programming costs. In addition, we continue to be very proactive in expanding our rights for our On Demand and TV Everywhere platforms. We believe we are leading the industry by offering the most robust On Demand and TV Everywhere services providing us with a meaningful competitive advantage. We once again believe that we have appropriately planned for these programming expense increases in 2015 and are confident we can effectively offset these costs. As a result, we expect to maintain relatively stable margins during 2015.

To wrap up the Cable segment, our growth and overall performance in 2014 clearly demonstrates that we are executing well and competing effectively with our innovative products and services that provide a great value to our customers. We are focused on improving the customer experience, having a best-in-class innovative product and continuing to deliver strong financial and customer results.

Now let's move onto NBCUniversal's results, which are highlighted on slide 7. NBCUniversal delivered impressive results in 2014 as full-year revenue increased 7.5% and operating cash flow increased 18.1%. Excluding any impact from the Sochi Olympics, NBCUniversal revenue increased 2.9% and operating cash flow grew 15.3%, which was driven by strong results at Broadcast Television, Filmed Entertainment and Theme Parks, as well as solid results at Cable Networks.

Now let's review the individual segments at NBCUniversal. For the full-year 2014, Cable Networks generated revenue of $9.6 billion, an increase of 3.9%. Excluding the Olympics, revenue increased 1.1% driven by a 4.6% increase in distribution revenue. If adjusted for the closure of the Style Network, distribution revenue would have increased 6% for the year. This revenue increase was partially offset by a 3.5% decline in advertising revenue as increases in price and volume were impacted by ratings declines. However, when adjusted for the closure of Style and the movement of Fandango from Cable Networks to our Film group, the Cable Networks advertising revenue would have essentially been flat. Cable Networks' operating cash flow increased 2.5% to $3.6 billion in 2014 and excluding the Olympics, operating cash flow increased 2.2% as the increase in distribution revenue and cost controls was offset by advertising pressure and our continued investment in original and sports programming costs.

With regards to our Broadcast Television segment, full-year 2014 revenue increased 20% to $8.5 billion and operating cash flow increased from $345 million in 2013 to $734 million in 2014 driven by growth in advertising revenue, retransmission consent fees and content licensing revenue. Excluding the impact of the Olympics, revenue increased 8.1% and operating cash flow increased $272 million, or 78.6%. Advertising revenue increased 4.6% for the full year and 3.1% for the fourth quarter. These results reflect the success of our primetime lineup and the higher CPMs we secured during the upfronts, as well as our impressive performance in late night.

Moving to Film & Entertainment, 2014 revenue decreased 8.2% to $5 billion reflecting a decline in theatrical and home entertainment revenue due to difficult comparisons with the strong performance of Despicable Me 2 in the second half of 2013. Despite the difficult revenue comparisons to last year, full-year 2014 operating cash flow increased 47.3% to $711 million driven by the very successful 2014 film slate with the majority of the films delivering strong cash-on-cash returns and a successful carryover performance of the 2013 slate.

Switching to our Theme Park segment, 2014 was a terrific year. Full-year revenue increased 17.3% to $2.6 billion and operating cash flow grew 16.4% to $1.2 billion. Even more impressive, fourth-quarter revenue increased 29.9% and operating cash flow grew 37.6% driven by the continued success of Orlando's Harry Potter, Hollywood's Despicable Me and the success of Halloween Horror Nights at both parks. Let's move to slide 8 to review our consolidated and segment capital expenditures.

We strongly believe that operational excellence and strategic differentiation drive profitable growth and shareholder value. So we have an operating strategy that is execution-focused and a financial strategy that is focused on risk-adjusted investment returns. Our strategies support these goals by investing in our businesses where there are attractive opportunities, maintaining a strong balance sheet and providing consistent and sustainable return of capital to shareholders. Our top priority remains generating strong and sustainable returns by investing in our businesses. In both Cable and NBCUniversal, we are investing to strengthening our competitive positions and to support attractive organic growth opportunities.

As we had planned, 2014 capital expenditures were $7.4 billion compared to $6.6 billion in 2013 reflecting increased investments at Cable and slightly higher spending at NBCUniversal. At Cable Communications, full-year capital expenditures increased $751 million to $6.2 billion equal to 13.9% of Cable revenue and in line with the plan we outlined at the beginning of the year. This increase primarily reflects higher spending on CPE, including the deployments of X1, cloud DVR and wireless gateways, continued investment in network infrastructure to ensure our leadership in video and high-speed Internet, as well as continued investment to expand Business Services and launch new services such as XFINITY Home.

We are very pleased with the success of the X1 rollout. We've completed year one of a three-year plan to roll it out to a majority of our customers and at year-end, X1 accounted for nearly half of our video connects. Even as our X1 customer base expands, now representing a quarter of our triple-play base, the customer benefits we have previously highlighted continue. More customers are subscribing to DVRs in more additional outlets. There's increased video On Demand usage and we continue to see reduced voluntary churn levels among these X1 customers. Based on these positive customer results and strong returns, we will continue to aggressively deploy X1 in 2015.

In addition to X1, we plan to continue the deployment of cloud DVR to our entire base, deploy additional wireless gateways to enable our customers to receive the fastest in-home Wi-Fi and continue to invest to expand Business Services. As a result, our 2015 Cable capital investment plan represents a growth-oriented strategy that will generate attractive returns, it will modestly increase it to approximately 14.5% of Cable revenue.

At NBCUniversal, capital expenditures increased $61 million, or 5.3% to $1.2 billion during 2014 primarily reflecting increased investments in Theme Parks. In 2015, NBC Universal's capital investment plan remained relatively stable at 2014's level with over half directed to our Theme Park segment as we continue to invest in attractions, including Harry Potter and the Fast & Furious attractions in Hollywood and a King Kong attraction in Orlando. Investments in our theme parks are clearly generating strong returns as we drive increased attendance and per capita spending. We are transforming our parks into must-see destinations and are very enthusiastic about their potential. Please refer to slide 9.

As we have said in the past, we remain committed to delivering a consistent and sustainable return of capital to shareholders through a combination of dividends and buybacks. In 2014, we returned a majority of our free cash flow, over $6.5 billion, to shareholders, including $2.3 billion in dividends and $4.25 billion in share repurchases. Earlier today, we announced our 2015 financial strategy, including an 11% increase in our dividend to $1 per share on an annualized basis, an increase in our stock repurchase program authorization to $10 billion and a plan to repurchase $4.25 billion of our shares consistent with our 2014 share repurchase plan. Our 2015 share repurchase plan includes the remaining $1.25 billion of the $2.5 billion buyback we committed to repurchasing before the close of the Time Warner Cable transaction.

Our expectation today is that when the series of transactions with Time Warner Cable and Charter close, we will generate additional liquidity. As we have previously stated, we are committed to a leverage-neutral transaction, meaning that any excess capacity that results from the cash proceeds and debt reduction will be returned to shareholders and will be in addition to the 2015 repurchase plan announced today. Our current expectation is that the additional return of capital will be in excess of $5 billion and that this is in addition to the value of the great LAN connections and Charter equity distributed in the spinoff. We will provide more specific details following the completion of the Time Warner cable merger and the divestiture transactions.

In the meantime, we are very focused on regulatory approvals and remain optimistic that the deal will close in early 2015. We continue to make great progress with the integration planning of the Time Warner Cable merger and related divestiture transactions, remain excited about the opportunities and the value they will create for our customers and our shareholders.

In summary, 2014 was a successful year for the Company. In an environment with plenty of room for distraction, our teams across the Company remain focused on execution and it shows in the results. As we begin 2015, we are optimistic and feel confident about our ability to execute our financial strength and our positive operating momentum. Now let me turn the call over to Jason for Q&A.

Jason Armstrong - *Comcast Corporation - SVP of IR*

Thank you, Michael. Regina, let's open up the call for Q&A, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Jessica Reif Cohen, BofA Merrill Lynch.

Jessica Reif Cohen - *Bank of America Merrill Lynch - Analyst*

I have two questions. The first is an NBCUniversal question. You've had such a stunning turnaround, as Brian mentioned. I was just wondering if Brian or Steve could talk about what some of the biggest levers are over the next three years and have you changed your views at all on cable network upside?

Steve Burke - *Comcast Corporation - EVP, also CEO of NBCUniversal*

NBCUniversal is a very diversified company. We are in really 15 different businesses and obviously some of the businesses will be running from a financial point of view and some of the businesses will be not running as much. Right now what is really running are the theme parks, broadcast, the movie business is on a roll and looks like that role can continue with a very, very strong slate in 2015. We still think there's a lot of upside. Our OCF is up something like 75% since we did the deal four years ago and we still believe that we have significant upside and that upside resides in a lot of our businesses. But, right now, I think one of the big drivers is theme parks and film is a driver as well.

In terms of the cable network business, I think what we are finding, and it is true of the entire industry, is that the ratings pressure is greater than it was a year or two ago, which means it is going to be a tougher business to grow. We still think it is a growable business, a very healthy business. You've got a lot of different revenue streams. You've got affiliate fees, you've got SVOD, you have international, you have other digital businesses in addition to the advertising, but whereas that was a double-digit growth business, I think it is probably more a single digit growth business in the future. Still a good business, but the growth prospects, as we mentioned in the last call, are unlikely to be as good in the next five years as they have been in the last five. But as a whole, we feel very comfortable that NBCUniversal is a segment of Comcast that has tremendous growth potential in the future.

Jessica Reif Cohen - *Bank of America Merrill Lynch - Analyst*

Great. And my second question was just on the buyback. Can you maybe give us a little more color on why -- we understand that you're going to come back with an incremental buyback post the deal, but why no underlying increase in 2015? Our estimate is that you will be levered at roughly 1.6 times with the new buyback adjusting for CapEx, the increased CapEx. So how should we think about your views on leverage and why hold back?

Michael Angelakis - *Comcast Corporation - Vice Chairman & CFO*

I think our target leverage has not changed for a long time, Jessica. We've said we would like our target leverage to be between 1.5 and 2.0 times and it would take us quite a few years to get to that range. When you look at 2014, we actually increase the buyback by $1.25 billion to deal with the Time Warner Cable side. As we look at 2015, we are at $4.25 billion. That does include the $1.25 billion, but what we are really looking forward to is getting Time Warner Cable closed and the other divestiture transactions and we think the buyback for the full-year 2015 could come in at close to $10 billion.

In addition, if we do get Time Warner Cable closed, our leverage will pop up because we've said this will be a leverage-neutral transaction, which will probably put us in the 2.2, 2.1 range, which is slightly above what our target has been. So we are really looking at this somewhat as a two-stage process for us and that's really what the focus of our buyback has been. In addition, from a dividend perspective, we looked at it both in terms of our Company today and if we are able to get the merger complete, obviously we will be issuing some shares and those will have dividends as well. So we feel very good about our return of capital. We think it is pretty aggressive for 2015.

Jessica Reif Cohen - *Bank of America Merrill Lynch - Analyst*

Thank you.

Operator

Phil Cusick, JPMorgan.

Phil Cusick - *JPMorgan Chase - Analyst*

So given the announcement from Cablevision on Freewheel and recent chatter about Google's plans, I wonder if you can give us updated thoughts on how you think about just Wi-Fi both on the existing business where you are ramping that out, where does that go and then the potential for mobility later over the next couple of years? Thanks.

Neil Smit - *Comcast Corporation - EVP, also President & CEO of Comcast Cable*

We think Wi-Fi is a great asset. We have 8.3 million hotspots now, including the in-home and outdoors. We think we are working on how we monetize that asset and bring it to market. As you know, we have MVNO relationships with Sprint and Verizon and the use of Wi-Fi continues to go up. About 70% of in-home and office goes over Wi-Fi and I think given the recent spectrum auctions, it shows that wireless seeks wired and just from a cost perspective, so we do believe in the asset and we will be working on ways to bring it to market over the coming months.

Phil Cusick - *JPMorgan Chase - Analyst*

Can you give us any idea what that might look like versus what is out there today?

Neil Smit - *Comcast Corporation - EVP, also President & CEO of Comcast Cable*

No, I think we are still assessing possibilities and we will announce when we've got the product well-refined and developed.

Phil Cusick - *JPMorgan Chase - Analyst*

Thanks.

Operator

Craig Moffett, MoffettNathanson.

Craig Moffett - *MoffettNathanson - Analyst*

Two questions if I could. First, just in terms of timing on the transaction, can you just elaborate on whether you have entered the negotiation phase on conditions with either the DOJ or the FCC or that's just sort of an ongoing dialogue that happens all the time? And then second, if you could just talk about the capital intensity for a minute, Michael. Have you changed your view at all about the long-term capital intensity on the cable side of the business? Charter is moving to a much more set-top box-light model. It sounds like with your capital intensity still rising a little bit that that presumably is not part of your plan. So I just wondered if you could elaborate a little bit on that issue.

Michael Angelakis - *Comcast Corporation - Vice Chairman & CFO*

Why don't I take the CapEx side? The reality is -- I know we call it capital intensity, but not all CapEx is actually bad CapEx. If you go back to 2012 and look at our capital investment plan compared to 2014, about 75% of that increase has gone into what we call growth capital and that growth capital has just terrific return on invested capital for us. We look at it on a risk-adjusted basis. We look at it on CLV. We look at it on just pure cash on cash and we are investing pretty heavily in some offensive areas like expanding Business Services, great returns, deploying X1, great returns, putting additional Wi-Fi in wireless gateways, as Phil mentioned, which have great returns on their own and I think seed us for different businesses that are attractive going forward.

So we really look at where is the capital going. Is the capital going to areas that are defensive or are they going to areas that are offensive and have terrific cash-on-cash returns. That being said, there are some trends in our favor -- we don't give guidance long term -- where you could see equipment costs coming down, you could see how the household architecture becomes less expensive, but what we are really focused on right now is Business Services and X1 and a variety of areas that we think have just great cash on cash and great growth areas for us going forward. So to go from 13.9% to 14.5% with the vast majority being success-oriented and growth-oriented, we are pretty excited about making those investments, which also had some similar aspects to NBC on the theme parks. We were delighted to make the investments in theme parks and the results speak for themselves.

Brian Roberts - *Comcast Corporation - Chairman & CEO*

Let me just finish on that with one other thought that I think the hardware costs in the household are coming down over time. We are seeing terrific capability and increases. We are putting very capable devices and what is happening is then fantastic response from consumers. In fact, when I go to New York and LA, people say how fast can I get X1; I wish I had it. And that takes me to your second question, your first question, which was the regulatory process and all we can say is it is pretty much as we have said all along, which is the shot clock at the FCC is due to expire at the end of March. Lots of information-gathering has been taking place and we continue to believe this is an approvable transaction and this week they will be dealing on the open Internet order, as everyone knows, and hopefully they will be able to turn attention to our transaction right thereafter.

Craig Moffett - *MoffettNathanson - Analyst*

Thank you, Brian.

Operator

Ben Swinburne, Morgan Stanley.

Ben Swinburne - *Morgan Stanley - Analyst*

Brian, going back to your comments on Title II, I am curious, some of your telecom competitors have talked about the implications of this regulatory approach to the appetite to invest, how they think about the returns of the business. Maybe for you and Michael, do you see any major implications based on what we know today? I realize we will know more, in theory, in a few days, but based on what we know today, do you think -- does this change how you think about the broadband business return profile or your willingness to spend capital on that business?

Brian Roberts - *Comcast Corporation - Chairman & CEO*

Look, I think, and Michael can comment as well, my view is, until we see the order, it is premature to speculate. Obviously, my comments I just made about our view that we don't believe Title II was the right answer, but if that is indeed what happens, we will have to appropriately adjust and reflect on what the words are, what the specific details are. We are heartened that there is at least the desire to forbear from things that would be a disincentive to invest, but until we see the fine print, I think we have to reserve judgment.

Michael Angelakis - *Comcast Corporation - Vice Chairman & CFO*

The only thing I would add, Ben, is obviously the uncertainty that Title II may provide I think does provide us with the opportunity for a higher degree of scrutiny on capital and broadband. We really, as Brian said, need to look at the details, but there will be some internal scrutiny here in terms of what our investment plans look like with broadband.

Ben Swinburne - *Morgan Stanley - Analyst*

If I could ask just one follow-up. You mentioned customer service I think first as one of your key areas of focus for 2015. Maybe Neil, if you want to comment, what have you seen so far recently on your initiatives there and is that paying off in lower churn? What should we be looking for in the business results in 2015 to say that your investments are paying off?

Neil Smit - *Comcast Corporation - EVP, also President & CEO of Comcast Cable*

Well, Ben, we are very much focused on the on-boarding process, where churn is 2 to 3 times higher the first 90 days, and we want to get that experience right for the customer. We are making things more convenient for the customer. We recently announced the UPS deal and I think boxes have been returned now to 90% of their 4400 stores, so consumers are using that convenience.

And we are improving the tools that our employees are using. We rolled out Tech Finder. We've got a customer effort index where we can look at how many times customers called or had service calls, so we've got a lot of efforts going.

The good news was in Q3 that our video results were driven primarily by reduced retention and -- Q4, excuse me. So we are seeing retention improving and we're going to keep driving the customer experience as our top initiative and it will be our best product.

Ben Swinburne - *Morgan Stanley - Analyst*

Thank you.

Operator

Vijay Jayant, Evercore ISI.

Vijay Jayant - *Evercore ISI - Analyst*

Just continuing on the Title II front, obviously it appears that it is probably going to get challenged legally, so I think some investors are concerned that, as part of concessions on the merger, that you may give up your legal right to challenge that. Is that any risk at all in your thinking? Thank you.

Brian Roberts - *Comcast Corporation - Chairman & CEO*

I would defer till we see the order, but I think we do not want to be different than any other company in the industry. And one of the things that we've said from the beginning is that the right place to have a review of broadband, even if we don't agree with the outcome of that review in all cases, would be to affect all industries and all providers so that we are on a level playing field as we go forward. In our view, our business is not in the same geography as Time Warner Cable. We are in different markets and the right way to look at the business, I think, is to look at the whole industry and look at all providers.

Vijay Jayant - *Evercore ISI - Analyst*

If I could add one more, please, which is with the new definition allegedly on broadband speeds of 25 by 3, and allegedly the concentration that Comcast pro forma for Time Warner Cable will have, can you talk about does that matter, especially in an environment where the regulators telling you how you are managing that, both at the interconnect and at the customer level. Does concentration matter, in your mind?

Brian Roberts - *Comcast Corporation - Chairman & CEO*

My understanding of 25 is an aspirational goal. It is something that we have been fortunate to be investing all these years to bring fantastic broadband. I think our results today and for the last several years have shown that that investment pays off, and we are hoping that when it is all said and done there is going to continue to be incentives to want to make new investments.

I think our motive has never been for some aggregation benefit actually in the broadband business, but rather to continue to give consumers more and better uses. So when you go to the Consumer Electronics Show, what you see are Internet of Things, Internet of Devices; you hear all the consumer electronics companies say I am going to make smart devices that attached to intelligence in the cloud.

If we can continue to have more bits be demanded by consumers, that is a great thing for those of us who are in the business of trying to innovate and build more capacity. And I think that is the aspiration and I think that's what our company has done well, and we are going to continue to invest in that way if we are able to.

Vijay Jayant - *Evercore ISI - Analyst*

Great. Thank you so much.

Operator

Brett Feldman, Goldman Sachs.

Brett Feldman - *Goldman Sachs - Analyst*

I'm going to try to follow-up to what Phil was asking about earlier. I know you are not prepared to roll out what the big wireless strategy is, although it sounds like we will get more color on it later this year.

But maybe just bigger picture, as you work on the strategy behind the scenes and assess what the opportunity is, are you ultimately looking at mobility as something that might end up being an attractive feature? Meaning it would be cool if you could mobilize products you already offer. Or are you looking at this more holistically to think that this could be a business and that investors should be thinking more about Comcast getting into a new business, potentially, through mobility?

Neil Smit - *Comcast Corporation - EVP, also President & CEO of Comcast Cable*

I think it could be either one, or both. We think it's, as I said, a great asset. Clearly, the world is becoming more mobile. We have our apps, our video apps out in the mobile space and they are getting a lot of usage. Our My Account app for customer service had 41% of our customer relationships visit it in December, so we view the mobile world expanding as well as we are assessing the business opportunity.

Clearly Wi-Fi is a great asset. It's got a lot of carrying capacity and that -- as Brian just said, the more bits that are traveling over a network, the more viable that Wi-Fi network connected to a wired network becomes. So it could be both of what you stated.

Michael Angelakis - *Comcast Corporation - Vice Chairman & CFO*

The only thing I would add, Brett, is when you think about all the investment we have made in Wi-Fi over the years and everything on our cloud DVR and our TV Everywhere platform, the real goal has been that our customers can access their video anytime anywhere whether in the home or outside the home and we think Wi-Fi is a great delivery mechanism to expand that product. If Wi-Fi can also develop into a different type of service then that is an added benefit to the Wi-Fi investment.

Brett Feldman - *Goldman Sachs - Analyst*

Great, just to clarify, is it safe to assume that your CapEx guidance for the year incorporates whatever extent you are investing in the wireless business this year?

Michael Angelakis - *Comcast Corporation - Vice Chairman & CFO*

That is correct. Our CapEx guidance includes our Wi-Fi deployment.

Brett Feldman - *Goldman Sachs - Analyst*

Thank you.

Operator

Jason Bazinet, Citi.

Jason Bazinet - *Citi Investment Research - Analyst*

Just have a question for Mr. Burke. There is a view on the buy side that because of the measurement issues for cable networks that there may be sort of a catch-up trade in terms of ratings and ad growth. And I just wonder if you could comment on that in the context of your single digit revenue growth rate commentary.

Steve Burke - *Comcast Corporation - EVP, also CEO of NBCUniversal*

Well, I think there clearly is room for improvement in terms of measurement as more and more people watch in more different areas online and often those areas are unrated. There is also a catch-up in terms of monetization. Give you an example, we think about 70% of the views of Jimmy Fallon and the Tonight Show occur online and the majority of those views are unmonetized, completely unmonetized. So here you have one of the hottest shows on television where 70% of the views are in an area that we don't get credit for. That is not going to last forever. So clearly, there is going to be an improvement. That having been said, cable ratings are under pressure because there are so many new shows, so many people are watching SVOD, so many people have DVRs. There are a whole variety of reasons why cable ratings are under pressure, but I do think at the same time there's reason for cautious optimism that both measurement and monetization is going to get better.

Jason Bazinet - *Citi Investment Research - Analyst*

Okay, thank you.

Operator

Marci Ryvicker, Wells Fargo.

Marci Ryvicker - *Wells Fargo Securities - Analyst*

Thanks, I have two. The first, it feels like Time Warner Cable is a lot stronger today than when you announced the transaction initially. Is that what you are seeing as you go through your integration process? And then the second question is really for Stephen or Brian. You mentioned a theme park in China. At what point do you start building that out and does that impact the financials?

Michael Angelakis - *Comcast Corporation - Vice Chairman & CFO*

I will take the Time Warner Cable one. I think that the team over there have a plan. Obviously, we diligenced that plan a while ago and it appears to us like they are trying to execute that plan. So obviously we don't have as much insight as we would like. We hope they are successful in executing on their plan.

Steve Burke - *Comcast Corporation - EVP, also CEO of NBCUniversal*

So in terms of Beijing, we are talking many years out. We're talking after 2020 a park that opens and we haven't even completed the final design process and much of our arrangements with Beijing, so I think we are a ways away before capital becomes anything that you would call material.

Marci Ryvicker - *Wells Fargo Securities - Analyst*

Got it. Thank you.

Operator

Kannan Venkateshwar, Barclays.

Kannan Venkateshwar - *Barclays Capital - Analyst*

Just a couple from my side. The first is on the Wi-Fi side. You guys are in a unique position given that you have broadcast spectrum, especially with the incentive auction coming on next year. So when you look at your Wi-Fi deployment plans and the wireless plans that you have, how much does the spectrum that you own fit into that plan in addition to the MVNO agreement that you have with Verizon and Sprint?

And then, secondly, on the dynamic ad insertion front, there has been a lot of conversations about how that will become more important over the course of the year, but is it fair to say that a big part of the back end is actually owned by the cable distributors when it comes to inserting these ads dynamically and how do the economics work for dynamic ad insertion in that case? Thanks.

Michael Angelakis - *Comcast Corporation - Vice Chairman & CFO*

Why don't I take the first one? I know we've had a couple questions related to Wi-Fi or wireless and really I don't think this is the point that we would want to be too open with what our wireless plans are going forward. We are investing in Wi-Fi. We think Wi-Fi has many benefits to our customers and we will be pursuing that. Whether it can be mobile or how we think about the broadcast spectrum, I think that is still very much a work in process in our organization. I think we have a lot of work internally to do to appropriately evaluate that. So I don't want to spend too much time on it because, from our standpoint, we are working through all those issues and technologies internally.

Neil Smit - *Comcast Corporation - EVP, also President & CEO of Comcast Cable*

And concerning DAI capabilities, the back end that inserts the ads dynamically was actually built by a cable consortium called Canoe. The rates they charge are fairly immaterial because the primary objective was to get it to be used across all the networks. So we currently have the majority of the networks involved in it and it has gone very well and it has kind of found inventory where we can insert ads pre, post, mid-roll and we will continue to focus on improving DAI and getting more programming through it.

Kannan Venkateshwar - *Barclays Capital - Analyst*

Thank you.

Operator

Mike McCormack, Jefferies.

Mike McCormack - *Jefferies & Co. - Analyst*

You've talked about margin stability in the cable side as we go into 2015. I am assuming the programming expense offset would be some sort of rate adjustment. Just trying to get a sense for your thoughts on price elasticity, where you might be able to take some price. And then also maybe a comment about AT&T U-verse. It seems that they have been pulling back. Have you seen a change in the competitive landscape? Thanks.

Neil Smit - *Comcast Corporation - EVP, also President & CEO of Comcast Cable*

I will take those in reverse. I think the competitive landscape remains generally the same. There is quite a bit of promotional activity going on, but we feel we are very competitive and I think our results show it. And we are competitive in terms of product we are offering as well as the offer itself and we are very focused on the retention end.

Concerning the price increases, I think there will be modest price increases in line with previous years. I think in terms of maintaining margin, a bigger factor is the mix of products where we get higher mix of Business Services, HSD and those are higher margin products, so we feel we can offset the programming increases by improved mix and modest rate adjustments.

Mike McCormack - *Jefferies & Co. - Analyst*

I guess, Neil, just thinking about subs in 2015 between DirecTV talking about going negative and maybe U-verse pulling back even though you say it's competitive, what is your view on sub counts as you look out on 2015 for video?

Neil Smit - *Comcast Corporation - EVP, also President & CEO of Comcast Cable*

I think we don't put out numbers on what we project for subs, but we will continue to try and balance the sub volume mixture with the rate increases. And I think that is the delicate balance we are always trying to maintain, which is rate and volume. We think we are doing a pretty good job of it. Video losses decreased 27% this year and we are going to keep focusing on balancing the rate and volume.

Mike McCormack - *Jefferies & Co. - Analyst*

Okay, thanks, guys.

Operator

James Ratcliffe, Buckingham Research.

James Ratcliffe - *Buckingham Research Group - Analyst*

Two if I could. First, can you just update us on thoughts on over-the-top video products and particularly out of your footprint? Even with TWC, you are only going to cover about half the country and if there's interest in potentially exploring the other offerings I think to the other half. And secondly, on Business Services, can you talk about how much of growth is footprint expansion at this point versus increased penetration of the footprint you already have and the customers you already have? Thanks.

Brian Roberts - *Comcast Corporation - Chairman & CEO*

Neil, do you want to take -- or Mike -- Business Services for a second?

Neil Smit - *Comcast Corporation - EVP, also President & CEO of Comcast Cable*

Business Services, we don't put out what the mix is of network expansion versus just growth on the network, but about -- we are penetrated about 25% in SMB and 5% in midmarket. Midmarket is growing at an increasing rate relative to SMB and we continue to expand the network, as Michael said, because it's a great investment and then we try and put as many businesses on the network as we can to get it denser. So overall, we will continue investing in Business Services expansion and continue driving our mid-market into SMB.

Michael Angelakis - *Comcast Corporation - Vice Chairman & CFO*

But as you can imagine, it is a combination of both, James. Just probably 18 months ago, we had literally zero penetration in the mid-sized sector, so we invested in that area. Now we are still pretty small at 5%, but growing nicely. So it is really a combination of both.

Brian Roberts - *Comcast Corporation - Chairman & CEO*

On the OTT out of footprint, I think what we've said previously, we don't have any new news today, which is our focus is in footprint investing in networks, having direct relationship with customers, having tens of thousands of people in the field who come to your home and service you and then add devices in your house and grow that relationship over the years. And if you step back in the year 2014 and you think we grew cash flow close to 7% as a full company, 18% at NBCUniversal, outstanding year, over 5.5% at the Cable division while, as Neil just said, increasing customer relationships by 358,000, which is a big increase over 2013 and then when you roll it up financially being able to have a 11% dividend increase, $10 billion authorization by back from the Board, setting us up to continue the momentum that I think this Company has and investing in capital areas where we are excited by the opportunity led principally by Business Services and the X1 rollout, then some of the theme park activity. So all in all, really pleased we stayed focused, good solid strong year and a great beginning to 2015 and thank you all. Jason.

Jason Armstrong - *Comcast Corporation - SVP of IR*

Thanks, Brian. With that, we will wrap up today's call. I want to thank everybody for joining us and Regina back to you.

Operator

There will be a replay available of today's call starting at 12:30 PM Eastern time. It will run through Tuesday, March 3 at midnight Eastern time. The dial-in number is 855-859-2056 and the conference ID number is 61829285. A recording of the conference call will also be available on the Company's website beginning at 12:30 PM today. This concludes today's teleconference. Thank you for participating. You may all disconnect.