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CMCSA.OQ - Q1 2023 Comcast Corp Earnings Call

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OVERVIEW:

CMCSA reported 1Q23 revenue of $29.7b and adjusted EPS of $0.92.

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Comcast's First Quarter Earnings Conference Call. (Operator Instructions) Please note that this conference call is being recorded. I will now turn the call over to Executive Vice President, Investor Relations, Ms. Marci Ryvicker. Please go ahead, Ms. Ryvicker.

Marci Ryvicker - *Comcast Corporation - EVP of IR*

Thank you, operator, and welcome to our first quarter 2023 earnings call. You'll first hear from Brian Roberts, Mike Cavanagh and Jason Armstrong. Then, Dave Watson will join us and be available for Q&A.

As a reminder, beginning this first quarter, we have changed our presentation of segment operating results around 2 primary businesses: Connectivity & Platforms and Content & Experiences. For additional details, please refer to our 8-K issued on March 13, which can be found on our Investor Relations website at www.cmcsa.com.

I will now refer you to Slide 2 of the presentation accompanying this call, which can also be found on our Investor Relations website and which contains our safe harbor disclaimer. This conference call may include forward-looking statements subject to certain risks and uncertainties.

In addition, during this call, we will refer to certain non-GAAP financial measures. Please see our 8-K and trending schedule issued earlier this morning for the reconciliations of these non-GAAP financial measures to GAAP.

With that, I'll turn the call over to Brian.

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

Thanks, Marci, and good morning, everyone. Before we get in the quarter, let me just acknowledge the news that you all saw earlier this week.

Obviously, a tough moment. But we are so fortunate to have a fabulous and tenured leadership team at NBCUniversal. You go down the list, you'll see many of them have been leading their divisions within the company for at least 10 years and are truly the best in the business.

We're also lucky to have Mike Cavanagh step in at the helm at NBCUniversal while also remaining President. Mike is a fantastic executive and operator - that many of you know well - and he'll work closely with each of the management team at NBCUniversal to continue our excellent momentum.

Mike, alongside with Jason Armstrong, will lead these earnings calls on a go-forward basis. Today, you'll hear from them about our strategic focus and drivers of growth -now and over the long-term. And Jason will go into much greater details on the first quarter results. Dave Watson and I are here for Q&A. You'll hear a lot more about the great momentum of our Connectivity & Platforms businesses later in the call. Dave, thanks for getting off to a great start this year.

So, before I hand it over to Mike, I just want to share my quick perspective on our recent performance. This really was a strong quarter and start to the year, especially within the context of what continues to be a choppy macro environment.

We grew adjusted EBITDA by 3% and adjusted EPS by 7%. In addition, we generated $3.8 billion of free cash flow and returned $3.2 billion of capital to shareholders all while continuing to invest, importantly, in a number of major initiatives, which is a real testament to our very healthy balance sheet.

Two things amongst many highlights in particular that stand out for me, and I'm really proud of. One is the animation business. By strengthening and combining our capabilities across DreamWorks and Illumination, led by Chris Meledandri, we've had tremendous success creating franchises that people know and love all over the world: Despicable Me, Shrek, Pets, Minions and more recently, Puss in Boots and now Super Mario Bros., which just broke a number of records, including the biggest worldwide opening of any animated film all time. These are the results of the strategic decision we made years ago to become a leader in animation and the conviction we've had to continue to invest in the business even during the depths of the pandemic, which are now clearly paying off.

The second is Connectivity & Platforms. The significant margin expansion that we achieved this quarter, coupled with the 4.5% ARPU growth in domestic residential broadband, demonstrates successful discipline and excellent management in a challenging competitive environment. We're focused on delivering a superior experience and profitably serving our customers, and it shows.

And with that, let me now hand the call over to Mike.

Michael J. Cavanagh - *Comcast Corporation - President*

Thanks, Brian. We had a great start to 2023 and have set ourselves up for another strong year. We have amazing talent at all levels of our company and DNA that fosters creativity and collaboration, resulting in operational excellence that is second to none. Couple that with our position as a scaled leader in very large and profitable markets with tens of millions of customers paying us over $100 per month, as well as hundreds of millions of TV and streaming viewers. And we have an extremely healthy balance sheet, enabling us to invest in all of our strategic opportunities and for great returns while also returning a healthy amount of capital to shareholders.

As pleased as we are with our results in the first quarter, any company's performance in a quarter is just a milestone of progress against a longer-term strategy and plan. And so, before we dive deeper into the details of the last few months, I'd like to spend a few minutes talking about the drivers of our growth over the longer-term and where we're focusing most of our time and resources.

I put these in 4 buckets: residential connectivity, business services connectivity, our theme parks and experiences and our premium content creation. I'll start with residential connectivity, which is comprised of domestic broadband, domestic wireless and international connectivity.

Broadband is a fantastic business. It's a great product for the consumer, and demand continues to rise. People are connecting more and more devices to our network, and they're consuming a tremendous amount of data.

Right now, the average monthly data usage for a broadband customer that doesn't take video from us is nearly 700 gigabytes. And there is a related increase in the importance of reliability and speed with roughly one-third of our customers at 1 gigabit or higher and nearly three quarters at or above 400 megabits.

For us, the consumers' already high and increasing level of expectation for their broadband experience is an important trend. And while the marketplace is competitive such that adding subs in the near term is likely to be a challenge, I fully expect we will eventually return to subscriber growth. We have the best hand out there to win against all the competing technologies, whether it's fiber or fixed wireless.

We view fiber as our long-term competitor. We have been successfully competing against fiber for about 20 years, yet still built a base of 32 million broadband customers over this time period. Our strategy is to have the most robust network, which we're making even better as we transition to DOCSIS 4.0 and surrounding our industry-leading broadband experience with multiple services that provide additional value.

And now, we have the ability to offer the consumer a converged connectivity package that includes a great wireless product, based on a capital-light model with favorable economics combined with excellent Wi-Fi. A more recent competitor is fixed wireless, which we view as a substandard and temporary solution for a certain segment based on their needs at this moment in time. Our approach is to compete rationally.

We know how to segment the market. We have packages that cater to customers who want the very fastest speeds and premium features and others that are more targeted to those looking for value-oriented solutions.

We trialed a couple of offers targeted to this lower end during the quarter. We were pleased with the results, and we'll continue to remain nimble and respond competitively in each segment. In the meantime, as the residential connectivity market and macroeconomic environment continue to evolve, our focus will be on serving our existing base, growing broadband ARPU, increasing our penetration in wireless and making proactive investments to expand our footprint at the fastest pace in our history. You saw us do this all of last year and in the first quarter, and I expect this trend to continue.

Our second major growth opportunity- business services, which is approaching $10 billion in annual revenue, is growing at mid-single digits with newly reported margins just shy of 60% and delivering adjusted EBITDA growth in the high single-digit range. Here too, our advanced and adaptable network infrastructure is much better suited to serving commercial and government locations compared to the legacy wireline and wireless providers.

We move fast and are more capable of reliably and cost effectively meeting our customers' needs. We already have over 2.5 million domestic business customers, more than any other competitor and are targeting a $50 billion market opportunity within our footprint and a $70 to $100 billion total market opportunity that we can now go after by leveraging our technology and partners outside of our footprint.

Our third major growth opportunity is in creating experiences from our own intellectual property as well as special IP that we license from others and bring to life at our theme parks like Harry Potter or Nintendo's characters like Mario. Our parks are resonating with our customers, and this segment is clearly on a roll. Japan has come roaring back, and Beijing returned to profitability following last year when both were operating under COVID-related restrictions.

And on the domestic side, Orlando continues to do well; and Hollywood just opened Super Nintendo World with great success. This outstanding performance provides us with even more confidence that the investments we are making in new lands and attractions will also generate strong returns.

And I'm excited for what's to come: Donkey Kong, another Nintendo land to open in Japan in 2024, Epic Universe in Orlando in 2025, as well as the smaller park concepts that we recently announced: a horror-themed experience in Las Vegas and a new park in Texas that's specifically designed for younger guests and their families.

Our fourth growth area is content and especially on the streaming side. We have a decades-deep library of iconic films in television. And we spend over $20 billion each year to produce and provide programming that spans every genre: sports, news, entertainment, dramas and film, which has resulted in the broadest reach of any media company. Over 100 million people engage with our content every month.

In film, we were #2 in the worldwide box office last year with Jurassic, Minions and Halloween. And based on the current course, we are trending to do even better in 2023. We've started the year off with home runs and terrific momentum, carryover from Puss in Boots, the success from M3GAN and now Super Mario Bros., which in just 3 weekends has already crossed $875 million at the global box office.

We're really proud of our animation business. We've been in the movie business for 100 years, and it's exciting how we've been able to create and monetize our entire movie slate in animation and beyond and in so many ways, including the innovative changes we've made in movie windowing.

We made the strategic decision to put our Pay-One window on Peacock, which really kicked in at the end of last year. We now have one of the most robust movie offerings on streaming. The hits we have at the box office roll on to Peacock, and this is proving to be both a successful acquisition and retention tool.

Add to that the strength of content from our TV studio, which powers the content on NBC and helped make us #1 for many years from all the Dick Wolf procedurals and SNL coupled with highly popular content on Bravo, this all goes to Peacock the next day. Add to this our originals, where we were just getting started, shows like Poker Face, which launched and immediately landed near the top of Nielsen's U.S. streaming original list. And we have lots more coming.

On top of all of this, we have an incredible lineup of sports, Sunday Night Football, Premier League, and soon Big 10. We believe we have the right strategy for Peacock and one that's suited to our strengths: premium content with a dual revenue stream, both advertising and subscription fees. And we're encouraged by our results so far, growing paid subscribers and engagement levels to roughly 20 hours per subscriber per month, fueling strong growth in advertising revenues. We're investing, but the results we are seeing give us confidence that we are on the right path for Peacock to breakeven and grow from there.

Looking across our entire organization, I couldn't think of a more advantageous position to be in to monetize the increasing expectations demand as well as the changing habits of the global consumer. We're the best broadband company with the best content that can be accessed over the best distribution and aggregation platforms.

I'm excited about all of our areas of growth. Together, they represent the majority of our revenue and our businesses with high incremental margins. As a result, these growth areas should become the dominant driver of our financial results for years to come.

With that, I'll hand it over to Jason to talk about the quarter.

Jason S. Armstrong - *Comcast Corporation - CFO*

Thanks, Mike, and good morning everyone. In late February, we announced that, starting this quarter, we will be reporting our results in 2 reportable business units: Connectivity & Platforms and Content & Experiences. More closely align our like-minded businesses reflect how we run our company and highlight our opportunities for growth as a globally integrated content distribution company. We're also providing more disclosure around areas that have become increasingly important to our overall results, namely business services and Peacock.

Let's start with our consolidated first quarter results on Slide 4. Total company revenue of $29.7 billion declined 4% due to the tough comparison to last year's Winter Olympics and Super Bowl as well as the negative impact of foreign currency, while our total company adjusted EBITDA grew 3% thanks to continued strong operating leverage at our high-margin Connectivity & Platforms business.

Excluding the impacts of the Winter Olympics and Super Bowl and adjusting for constant currency, total company revenue increased 1.5%. We grew adjusted earnings per share by 7% to $0.92 and generated $3.8 billion of free cash flow while returning $3.2 billion of capital to shareholders in the first quarter.

This is in addition to significant investments to support and grow our businesses, including our transition to DOCSIS 4.0 and footprint expansion in broadband, the construction of Epic as well as consistent flow of new lands and attractions at our theme parks and content production at our studios, which feeds into Peacock, a robust third-party licensing opportunity and a really successful film business. When taken together, these investment areas generated over half of total company revenue in the first quarter, with growth of 10% year-over-year.

Now let's turn to our business results. Starting on Slide 5 with Connectivity & Platforms. As a reminder, our largest foreign exchange exposure is the British pound, which was down over 9% year-over-year. So, in order to highlight the underlying performance of the business, I'll speak to our results at Connectivity & Platforms on a constant currency basis.

Revenue was flat this quarter, but this is worth unpacking. Our core connectivity revenues, residential and business, grew over 7% to $10 billion, while video, advertising and other revenues declined 7% to $9.8 billion. Year-over-year, we generated 160 basis points of margin expansion for Connectivity & Platforms on a total basis. This is reflective of our strategy of investing in and driving growth in highmargin businesses while protecting profitability in businesses with secular headwinds through disciplined cost control.

To get into more detail, residential connectivity revenue grew by 8% with 5% growth in domestic broadband, 27% growth in wireless and 18% growth in international. In business services connectivity, revenue continued to grow at a healthy, mid-single-digit pace.

Our domestic residential broadband customer base this quarter remained stable over both the last year and in the quarter with churn remaining below pre-pandemic levels. While we had some success towards the end of the quarter with a couple of offers targeting the lower end of the market, the broadband environment remains highly competitive right now, particularly at the lower end. And as such, our view remains that 2023 will be a challenging period for us to add subs.

Our outlook for growth and our strategy has been consistent. We will compete aggressively but do so in a financially disciplined way. While we expect to return to growth in broadband subscribers over time, during this interim period, as well as over the longer term, we will focus on protecting and growing broadband ARPU.

And we're pleased with the 4.5% year-over-year increase in ARPU in the quarter. We expect continued strong revenue growth over the course of 2023 and expect ARPU will be the primary driver.

Growth in domestic wireless revenue was a function of higher service revenue, driven by continued strong momentum in customer lines, which are up 1.4 million or 32% year-over-year to 5.7 million in total, including the 355,000 lines we just added, which was a record high for a first quarter. There is clearly demand for a converged offering that delivers reliable and fast speeds both in and out of the home. We are extremely well positioned to take advantage of this trend and have a long runway for growth as less than 10% of our broadband accounts currently take our mobile offering.

A new disclosure category for us is international connectivity. Roughly two-thirds of international connectivity revenue is broadband, growing at mid-teens levels. The remaining one-third is wireless, of which a big portion comes from device sales and therefore, tends to fluctuate with the timing of device launches. The rest of wireless is service revenue, which is growing nicely due to additional customer lines and healthy ARPU growth.

The strong revenue growth in our connectivity businesses was offset by declines in video due to customer losses relative to last year, in other revenue, reflecting similar dynamics in wireline voice and in advertising, which was impacted by a tough macro environment in addition to lower political revenue in our domestic markets.

On the expense side, every expense line item declined in the first quarter with the exception of direct product costs, which are success-based and directly associated with the significant growth in our connectivity businesses. The strong execution by the team to deliver sustainable operating efficiencies, coupled with solid growth in our high-margin connectivity businesses, resulted in Connectivity & Platforms EBITDA growth of 4% to $8.1 billion. And as I mentioned a moment ago, an adjusted margin expanding 160 basis points year-over-year.

And that is despite some temporary margin headwinds in our international business associated with some pressure on revenue due to a challenging macro environment and higher programming costs for sports channels, which were up this year given the timing of events.

Margin for our domestic legacy Cable business improved 250 basis points, reaching a record high of 46.5%. We've added disclosure this quarter and going forward to break down profitability between residential and business services. Residential Connectivity & Platforms EBITDA grew 3% with margin improving 140 basis points to reach 37.8%, highlighting favorable revenue mix shifts.

Business services connectivity EBITDA grew 8%, with margin expanding 150 basis points to reach 58.3%. Over the years we've talked about business services as a driver of margin accretive growth, and we're excited to augment our disclosure in this area for the first time. Our results in the quarter and our new reporting structure clearly show that. This is a business that generated over $5 billion of EBITDA in 2022 with substantial growth ahead and should be a material contributor to our growth profile in Connectivity & Platforms and overall.

Wrapping up on Connectivity & Platforms, I'm proud of the team successfully navigating a transition in which we're managing businesses that have secular headwinds with an appropriately high level of cost discipline, while investing in others that clearly have strong revenue growth and margin characteristics.

Now let's turn to Content & Experiences on Slide 6. Content & Experiences revenue decreased nearly 10%, reflecting the difficult comparison to last year, which included $1.5 billion of revenue from the Winter Olympics and the Super Bowl reported in our Media segment. And EBITDA decreased 1% as a record first quarter at parks and strong studio growth driven by a successful film slate was offset by the planned increase in our Peacock investment as well as lower linear advertising sales.

Unpacking these results further, Media revenue decreased 21% on an as-reported basis and 2% when excluding the Olympics and Super Bowl primarily due to a 6% decline in domestic advertising, reflecting softness in the overall ad market, which appears to have stabilized, offset somewhat by strong growth in Peacock advertising revenue. When you exclude Olympics and Super Bowl, Peacock advertising increased an impressive 90%.

Domestic distribution revenue decreased 8% but was up 4% excluding the Olympics driven by Peacock with distribution revenue up 83%. In total, Peacock revenue increased by 45% to $685 million, led by strong growth in paid subscribers, which were up over 60% year-over-year, ending the quarter with nearly 22 million paid subs, which marked another terrific milestone on our path to scaling the service.

We're encouraged with the trends we're seeing at Peacock. While we've proven that special content and major events like the World Cup at the end of last year can be significant acquisition drivers, perhaps equally, or even more important, is sustaining engagement following this type of acquisition content and delivering on retention.

We saw that in the first quarter. And we look forward to reporting further momentum in the enhanced disclosures we're now providing for Peacock, including the revenue breakdown between advertising and distribution and costs separated by programming and production versus marketing, promotion and other.

Another new category that we added to our Media disclosure is international networks. This is mainly distribution revenue for Sky Sports, and the low single-digit revenue increase in the quarter was driven by higher distribution revenue, partially offset by the negative impact of foreign currency translation. Other revenue decreased 21% due to lower content licensing.

Media EBITDA decreased 26%, including a $704 million EBITDA loss at Peacock. We view Media as one business. And while we have made cost reductions at our linear networks, we reallocated some of these resources to Peacock with the goal of maximizing profitability over the short and long term across streaming and linear. We continue to expect Peacock losses for the year to be around $3 billion, which we believe will be peak losses for Peacock and then begin to steadily improve.

At Studios, this was a great quarter for our film slate with strong theatrical revenue growth driven by the successful carryover from Puss in Boots: The Last Wish, which launched at the end of the fourth quarter, as well as new releases such as M3GAN and Cocaine Bear.

While revenue growth was partially offset by lower content licensing at our television studios, the momentum in our film business drove a 13% increase in Studio EBITDA, which also included marketing and promotion expense associated with the April 5 release of Super Mario Bros., which is fueling a strong start to our second quarter.

At Theme Parks, revenue grew 25% and EBITDA 46% to $658 million, thanks to a continued rebound following the lift of COVID restrictions and a testament to the significant investments we've made at our parks. While demand and financial results were strong across the board, our international parks drove most of the growth this quarter.

With Japan no longer impacted by COVID restrictions, our park in Osaka continued to rebound. And we are seeing significant demand for Super Nintendo World, which we opened in early 2021, but given the COVID-related restrictions that were in place, many people couldn't visit the park.

Our park in Beijing was also impacted by COVID-related restrictions last year and is now growing at a very healthy rate. Beijing showed strong year-over-year improvement and was profitable in the quarter despite normal winter seasonal headwinds.

On the domestic side, Hollywood enjoyed record first quarter results due to the very successful opening of Super Nintendo World, while Orlando continues to trend above pre-pandemic levels.

I'll now wrap up with free cash flow and capital allocation on Slide 7. As I mentioned previously, we generated $3.8 billion in free cash flow this quarter and achieved this while absorbing a high level of working capital and making meaningful investments in our network and theme parks. These investments drove a 37% increase in total capital spending, primarily driven by higher CapEx.

At Connectivity & Platforms, CapEx increased 30% with CapEx intensity coming in at 9.7% primarily driven by investments to further strengthen and extend our network. In 2022, CapEx intensity at Connectivity & Platforms was 10%. And we expect to achieve a similar level in 2023, which is inclusive of the prior guidance we provided for our domestic Cable business at year-end as we continue to transition our U.S. network to DOCSIS 4.0 as well as accelerate our growth in homes passed.

Content & Experiences CapEx increased by $343 million driven by parks with Epic accounting for the majority of this quarter's increase in spend. As we noted on our year-end call, we expect park's CapEx in 2023 to increase by around $1.2 billion, remain elevated in 2024 and then decrease in 2025, the year we open Epic.

Wrapping up, since this is my first quarter as CFO, let me reiterate our capital allocation framework. First is to invest for growth in our businesses. We've talked through many examples today: Epic, our broadband network, streaming and aggregation to name a few.

Second is to protect our balance sheet position with targeted leverage of around 2.4x. This is an optimal level, we believe, to maintain broad and deep capital markets access through a cycle, balanced prudently with the opportunity for enhanced levered equity returns.

Third is to return cash to shareholders. I'm proud that we bought back $12 billion of stock in the last 12 months, including $2 billion this quarter, shrinking our share count by 7% in that time frame in addition to a healthy and growing dividend, which we just increased by over 7% in January.

With that, I'll turn the call back to Marci for Q&A. Marci?

Marci Ryvicker - *Comcast Corporation - EVP of IR*

Thanks, Jason. Operator, let's open up the call for questions, please.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Ben Swinburne from Morgan Stanley.

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

Two questions, one on NBC and one on wireless. I don't know if this is probably for Mike. Mike, when you look at NBCUniversal, you got probably businesses that are doing better than ever when you look at parks and your studio. And obviously, there's a lot of disruption in the Media business.

I'm just wondering, given the management change and sort of your broader role, is this an opportunity to revisit that business strategically, operationally from a cost structure point of view, just with fresh eyes? I realize you've been obviously President and watching that business for some time. But I just wanted to hear your thoughts just given all that's going on at NBC.

And then maybe for Dave, the wireless business is continuing to scale. You talked about demand for converged offers being clear and strong. What are your ambitions here as you look through the rest of '23 to continue to accelerate the growth in that business? How do you guys drive that penetration of your broadband base meaningfully higher?

Michael J. Cavanagh - *Comcast Corporation - President*

Ben, it's Mike. So I'll jump in. Thanks for the question. So appreciate the comment. I have been here -- it's hard to believe it's going to be in 2 weeks, I'll have been here, 2 or 3 weeks, 8 years as partner to Brian and the rest of the leadership team. So it is correct that I've been close to all these things, not just recently as President for the last half year or so but really since I joined.

So in thinking about the strategies of NBC, I would think the way you should think about it is the way we operate across the businesses, including NBC, is that the strategies were developed by the entire leadership team. Brian mentioned how great a team we have across a diverse collection of business, parks, studios, TV, streaming services, news, sports. So you can imagine that strategy put together by those teams of leaders, obviously, in conjunction with the ultimate leader and then with Brian and myself.

So we've been deeply involved for a long, long time in what those strategies are all about and in tracking how we're doing. So while it's unfortunate to have an unexpected change in leadership, I would tell you, it is not -- there is no reason for anyone to think that we're going to be revisiting strategy as a result of that. It's all by itself.

We'll obviously react as the environment around us changes. But as you pointed out, the business is performing really well right now. So job #1 for me is to just settle things down and make sure the business is and the business leaders at NBCU remain focused on the job at hand. And I feel actually into the first several days of this, but that's well underway. And I frankly don't think the business is going to miss a beat. With that, I'll hand it over to Dave.

David N. Watson - *Comcast Corporation - President & CEO of Comcast Cable*

Thank you Mike. Ben, So on wireless, wireless continues to be a key part of our overall strategy. Stepping back for a second, we really like the start to the year in our trajectory. This quarter, we set another first quarter record in net line additions of 355,000. And so this puts us at the 5.7 million line. So a good start to the year.

And we're still less than 10% penetrated to broadband, so it gives us a long runway ahead and to your point of looking out to '23. But our strategy is to focus very much on our core service offerings of By-the- Gig, which we still have and use, and unlimited tiers. And it gives us a strong -- real strong value proposition to all segments that we serve.

So it's important to note that we leverage mobile in all aspects of how we go to market, in acquisition, base management and retention. So mobile does very well in all 3. But as connects are a little bit softer through the cycle, base management has been very strong as we go to existing customers and provide a great upgrade opportunity for them.

So our pricing focus is our core services, but we do go in and out in terms of promotions, with gift cards, some device subsidies that we've historically done, really no different there. But we also had a $50 combined broadband, mobile offering that all helped. There was a little bit of a lift there and a great value message to the existing base.

So long term, less than 10% penetration, a lot of upside for us in wireless in a large revenue pool that we have, I think, a unique position given our broadband network is ubiquitous, our go-to-market mobile opportunity is ubiquitous within our footprint. And so you look at it, there's upside in residential and commercial. There's a domestic and international upside with mobile. There's an opportunity for us to consider long-term cost side with offloading traffic.

And then we have our existing capital-light MVNO, which we think is great and helps us compete footprint-wide. And then on top of all of that, we have Wi-Fi. That is just a terrific offload mechanism in and of itself.

So as our competitors face trade-offs and whether it's geographic or capacity, we can go to market with one approach across our entire footprint, and wireless is a big part of that strategy. So we'll go in and out with offers, but we feel good about our momentum.

Marci Ryvicker - *Comcast Corporation - EVP of IR*

Thanks, Ben. Operator, next question please.

Operator

We'll take our next question from Craig Moffett with MoffettNathanson.

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

Two questions if I could. First, you reported really exceptional margins in what would have been your old domestic Cable business. I'm wondering if you could just talk about the contribution to that improvement from wireless, the extent to which wireless is either offsetting the customer acquisition cost or just the gross margin rate and how that's impacting margins overall?

And then on the NBCU side, the NBA playoffs have had exceptionally good ratings, and there's been a lot of talk about your potential interest in the NBA. I wonder if you could just discuss that a bit, and maybe just talk about what role sports might play as you go forward with Peacock and your NBC business?

Jason S. Armstrong - *Comcast Corporation - CFO*

Thanks, Craig. It's Jason. Let me start with the margin question. I'll turn it over to Dave after that for some follow-up and then over to Mike on the NBA question.

So on margins overall, pleased with the quarter. Obviously, we grew connectivity margins broadly by 160 basis points year-over-year. We've said in the domestic Cable business, margins up 250 basis points to a record 46.5% strong margin performance.

I think when we look at the drivers of that, number one, mix shift, high-margin businesses, i.e., the connectivity businesses, broadband, business services, wireless sort of in that category, a $10 billion book of business growing at 7%, and it's margin accretive. In addition to that, really strong expense management by Dave and the team. If you look at every expense category outside of direct product costs, which are the costs that go into feed the connectivity business growth, every single category down year-over-year.

So I think really strong performance on margins in general. As we look at wireless, in particular, I'd put it in the broad bucket of the connectivity category. It obviously supports and augments broadband, which is one of our, if not the highest margin products. And so wireless is a contributor to that.

David N. Watson - *Comcast Corporation - President & CEO of Comcast Cable*

Craig, Dave here. So it does start -- if you look at the domestic margins, the 250 basis points and the 46.5%, there's a host of things. It all starts, as Jason said, with margin-accretive connectivity businesses, both residential and commercial.

I think that we continue to benefit. There are -- transactional activity is lowered. A lot of this is just constantly being focused on the customer experience and taking out unnecessary transactions. That continues.

But we're also very disciplined and stay focused on fixed costs. So that we look at every part of the business in terms of opportunities to do a good job, be competitive, be aggressive, but also take out unnecessary costs.

And then, there's also -- one of the things I think the great things that Cable does and we've been focused at Comcast is we leverage our existing network, our great network and our operational capabilities to do new lines of business. Business services is a great example of that, but wireless is another one, of which our existing sales channels, our existing capabilities in an MVNO-light way, it just -- it's a big part of the connectivity story.

So I think we do well when we can leverage our strength, and our strength there will continue to be our network and our go-to-market approaches that we've done, I think, a pretty good job over the years. But everything we do, inbound sales, digital, we leverage wireless.

Michael J. Cavanagh - *Comcast Corporation - President*

And Craig, it's Mike. On NBA, obviously a tremendous product, and the playoffs are great. I think the negotiation is there. That's a ways out. But obviously, NBC Sports does a great job partnering with the leagues we partner with, broadcast, streaming and otherwise. So time will tell.

But as we look at things, we always look at a overall financial envelope. What's the right portfolio of overall sports rights we want to have and do that in a way that, as we've said and Jason said earlier, we manage linear, broadcast and Peacock as one business. So that's the way we would look at any of the rights that are out there in the future.

Operator

Our next question comes from Doug Mitchelson with -- from Crédit Suisse.

Douglas David Mitchelson - *Crédit Suisse AG, Research Division - MD*

Two questions for Dave actually. First, on broadband. I'm just curious, both from a competition standpoint and a health of the consumer viewpoint, how voluntary and involuntary churn are trending and how the base reacted to the price increase this cycle versus prior cycles?

And then secondly, I know it's relatively recent, but I'm just curious on the plan upgrades with 10G launched in February and progress in 40 markets that was highlighted in the slide show. If there's any kind of practical experience in the marketplace as to how the network is reacting and how the consumer is reacting post upgrades?

David N. Watson - *Comcast Corporation - President & CEO of Comcast Cable*

Well, thanks, Doug. So starting with competition and churn, so overall, the environment is -- there's still, as I mentioned, overall transactional activity in general is down. There's 2 parts of that. One is as you brought up, there's -- it continues to be pretty intense competitively. That's been the case for a while.

But also, there's just less activity period with less moves. And so the thing that it really stands out continues to be the case that our churn is near record lows in terms of compared to pre-pandemic periods. So we're not seeing, in terms of churn, any material spikes when it comes to competition.

We are seeing an impact in terms of connects. And so some of that is a transactional activity, some of it is competitive pressure, but it's more felt on the connect side of things and a little bit more on video as we have less video attachment on that side.

But broadband, you look at our broadband base, we have a very stable base, 32 million residential broadband customers. Churn, very healthy and certainly lower than pre-pandemic period times.

We watch the competitive landscape every day. And so while certain -- theres fixed wireless, the fiber group, but we continue to fare well in terms of kind of all tiers and in terms of churn. So it's not -- we haven't seen a spike in voluntary or the nonpay in regards to the economy.

So -- but in terms of the network and the investments that we've made, real pleased with our progress. We have about 20% of our footprint we've upgraded around the multi-gig capabilities that we have on track to continue that to over 30% come year-end and setting ourselves up very nicely for DOCSIS 4. At the end of the year, we'll be testing it. And I think next year will be a pretty big year for that.

But every step of the way, we're delivering increased value. And it's where the customer is going in terms of the increased focus, every application of streaming, of gaming. And you look at where the customer is today, the 700 gigabits -- gigabytes in terms of HSD-only consumption, events like Thursday Night Football that just caused a spike and then yesterday that Man City against Arsenal, Peacock, having a great Premier League match so that -- see a little bit of a bump in terms of broadband usage.

So there's going to be more of that. The customer is going to do more with broadband, not less. And so I think that serves us well long term competitively, and we'll continue to be a champion of every single broadband great application as they come along.

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

This is Brian. I just want to add one thought. The last point Dave made, I think you did a fabulous job explaining it. I just want to underscore how much I personally believe that, that's what makes us in a great position.

If you think about less linear and more streaming, is that trend going to continue? Absolutely. It seems very, very likely. And who is best positioned to provide more and more capacity, and this path to 10G, we have a north star that we -- the team has created.

We know what we want to bring to customers over the next several years. And as more and more needs come about, we're going to be the network there to deliver. So we're the provider of all that connectivity is a really special place to be.

Operator

Our next question comes from Jessica Reif Ehrlich with BofA Securities.

Jessica Jean Reif Ehrlich Cohen - *BofA Securities, Research Division - MD in Equity Research*

I have a bigger NBCU question and smaller cable. But Mike, you're the President of Comcast and the Head of NBCU, so 2 giant jobs. Is this a permanent solution?

And in the meantime, obviously, the media landscape has changed drastically since you guys bought NBCU over a decade ago. So can you address the cyclical and secular challenges as well as opportunities, including, but I'm certainly not limiting it to a pending WGA strike, Disney's battle in Florida with Governor DeSantis and how that might affect Universal theme parks, the scale needed to compete in direct-to-consumer and the range of Hulu outcomes that would significantly affect your business, whether it's scaling up or cash coming in the door?

And then the smaller cable question, sorry, is the video loss is accelerating. Do you have a point of view -- does this trend continue? Or is there a level of stability that you expect?

Michael J. Cavanagh - *Comcast Corporation - President*

Okay, Jessica, it's Mike. So I'll dive in. I think the short answer to the question is that I think what -- the way me stepping in to oversee NBC is quite sustainable. And why I say that is as President, I was already overseeing all of this and close to the people that run the NBC businesses and the Cable businesses and the corporate areas.

And I think what's really important to understand is that we've got high-quality operators and leaders in all of the seats around the company: Philadelphia, L.A., New York, Orlando and so forth. So while I'll have to work a little harder and frankly, I'm energized to do so because I look forward actually to spending time getting closer to the NBCU businesses and spending more time deeper in them and with the leaders there. And frankly, since I'm going to be here for a long time, I actually think that's good for me and good for the company over the long term.

So I would put no timetable at all on -- no time pressure to do anything other than make sure the businesses hum, which they're -- that's what they're doing right now, and that's what I see continuing. And maybe someday, we'll think there's a better way to approach it, but I'll never be moving far away from the businesses no matter what. And I'm going to own the outcome anyway it turns out. So I think -- think of me as being there for a while.

In terms of the cyclical versus secular and the laundry list there of all the things we're dealing with, I'd say all that's embedded in the plans that we have. When you think about our Content & Experiences businesses, you think about our Parks business, which is just doing tremendously well, and we've got tremendous growth investments behind that. And it is nothing to do with the challenges for eyeballs and the movement of traditional television to different forms of consumer consumption.

So think of parks as -- put it aside, it is an incredibly valuable and growing business. And then I think in the traditional TV businesses, we're -- that's why we're -- exactly why we're doing Peacock. And remember, we're at 22 million subs now. We were 20 when we ended last year. We were 15 when we ended the third quarter of last year. So I think we're really pleased as we're 1 quarter into 2023 to have held level of engagement in the product, hours watched and so forth and kept churn very low as we look aheadto some really good content coming later in the balance of the year.

So on track, and then some. We'll have our role to pay and Comcast customers coming over to and more the second half of the year. So I think we feel really good about the strategy of how we're managing on the Media business side.

And then really on Studios, you look at -- Brian covered it, but you look at the power of our Studios, both film and television. And they're incredibly strong, and leadership is excellent. And the -- Brian mentioned animation, but we've got Fast 10 coming out in a couple of weeks.

We've had great hits on the television side and more to come. So I think that's also, I think, a strategy around Studios that is -- and we've stayed, as we've said, agnostic, I guess, to whether it's the word to use, whether things need to necessarily end on our platforms, Peacock or linear or someone else's.

So I think there's durable value in that side of things sort of no matter how some of these trends work out. And I'll leave it at that and talk more some other day about some of the details. I'm not going to talk about Hulu. And on strikes, we certainly hope that we find an equitable outcome that avoids a strike, and that's what our team is planning for. Over to you, Dave.

David N. Watson - *Comcast Corporation - President & CEO of Comcast Cable*

You got it. Jessica, Dave here. So on video, we continue to segment the marketplace. We have a lot of options. But the main point that has really developed is the video attachment being down. And so there -- and our rate approach is to not subsidize unprofitable video relationships.

And I've shifted some time ago anticipating how things evolve that are focusing on the overall relationship and the connectivity opportunity. So the main -- one of the key points, though, that to make sure that folks understand, we did see, certainly an uptick in customers dropping video.

But we've also seen these customers that are retaining broadband. And so our full disconnect churn, video and broadband, remains at record low levels and is down nearly 25% since the pre-pandemic period.

So we're able to have managed through the cycle. And still, there's some video packaging that we're going to be very focused on and based on the segment. And we'll fight hard, whether it's acquisition, base management, or retention. So it's important to us, but we have figured out a way to manage it financially.

And if you look at broadband, the net result is broadband is faring well and holding the line in terms of the base. And so as things continue to go and evolve more towards streaming, I think we're in a great position there.

And we also have invested in our platforms. So we have the platforms of Flex, we have X1, and the new Charter JV with Xumo that we feel great about long term. So yes, the video losses did a bit of an uptick, but we did offset it with some of these platform relationships that I think long term are going to be very important.

Operator

Our next question comes from Brett Feldman from Goldman Sachs.

Brett Joseph Feldman - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

Sort of a 2-part question about connectivity CapEx. You seem pretty comfortable that you can continue this pace of footprint expansion within that CapEx profile you previously talked about. You also seem pretty happy with the traction you're having as you broaden the footprint.

So I'm curious how you think about the merits of maybe building even faster, whether that's organically or if you would simply be waiting to see whether it makes sense to participate in some of these government subsidy programs.

And then I think in the past, you provided some statistics about this enormously high share of your customers' true mobile traffic that happens in a very small portion of your geographic footprint. And that data point alone would imply that there's a very high ROI associated with deploying your own mobile infrastructure and bringing that on net. And you obviously have all the resources you need to do that, including spectrum.

I'm curious why that hasn't happened yet? Or what would be the circumstances under which that could become a really attractive use of incremental capital investment in the connectivity business?

Jason S. Armstrong - *Comcast Corporation - CFO*

Brett, it's Jason. I'll start out with the CapEx question and then tag team with Dave on mobile offloading. So on CapEx, we guided for the year to 10% CapEx intensity. That's flat year-over-year last year for Connectivity & Platforms. We rounded out the year at 10%, so flat year-over-year.

If you think about the big categories that sort of contribute to CapEx intensity in that business, it's customer premise equipment, scalable infrastructure and line extensions. Customer premise equipment is actually an area we're getting some relief from. Scalable infrastructure, that's where our DOCSIS -- so that's basically existing infrastructure where we're augmenting capabilities. That's where DOCSIS 4.0 and our mid-splits sit. That's an area where, obviously, we're doing a lot more in the next couple of years.

And then line extensions, I think you got it right. That's where we're extending our footprint to go serve new geographies, whether it's residential or business services. Within that, we've guided for the year 850,000 new builds last year, goes up to 1 million this year. So that's a 20% increase in what we're doing there, all accommodated for -- with similar CapEx intensity year-over-year.

So I think we're really operating the business at a different level, given everything that's going on surrounding the network. I think to your question on doing even more as we look at some of the programs that are coming our way, if you look at prior programs and sort of our distinct advantages in the market, I would step back and say, as you look at product technology, management and cost of capital, those are things that should define an advantage for us in economics of new builds or overbuilds.

It was a little bit muted in the prior cycle if you look at sort of the economic cycle we were in and low cost of capital, which created, we think, a pretty frothy capital markets environment, which led a lot of companies to stare at economics that may have been better temporarily than they might be over the longer term as well as newer government programs that were sort of, in our view, unseasoned in terms of the process.

So it kept us out of -- lot of the prior programs. As we look at this going forward with capital markets activity, cost of capital going up a little bit, I think everything sort of plays to our strengths. So the 850,000 going to 1 million this year, we'd welcome it probably going higher over time.

Michael J. Cavanagh - *Comcast Corporation - President*

It's Mike. I would just add in that we're not looking to manage within the around 11% as a constraint, but rather to Jason's point, I think we can handle going to the million, which is great. And we see good economics in that, but would welcome it if the day came along that we thought spending more would -- on incremental passings would be good return. So...

David N. Watson - *Comcast Corporation - President & CEO of Comcast Cable*

And this is Dave. So Brett, we like the trajectory. Jason and Mike mentioned the million. It's early, but off to a good start. I feel good about that. And really, the 3 buckets, the existing footprint within existing cable footprint and as things pick up in terms of housing and new construction, then we'll be right there, the hyper builds for commercial and then these edge outs, which is where some of the subsidies are there.

So we're -- we feel good about it, very focused. And we'll take a disciplined approach, and it's been great, the support that we have in terms of every opportunity, we'll go for it. And -- but we'll expect historical returns.

On the mobile offload, we think this is a really interesting and good opportunity potentially based on how things are. We've said, I think, 60%, the traffic around 3% of our footprint. And that is -- we're staring at that constantly.

So we're testing. We have a -- we go arm in arm with Charter looking at some of these results in terms of how things are going. We do have a fantastic capital-light MVNO that serves us very well. I think great for the partner, good for us long term.

But we'll continue to stare at the marginal cost improvements of offloading these dense traffic areas. So we're staying on it, and we'll -- more to come on that, but we'll be testing that throughout the year.

Operator

We'll go next to Phil Cusick with JPMorgan.

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

Two if I can. Maybe first following up on broadband. Jason, you mentioned success from a low-end broadband product at the end of the quarter. How do you see the return on that? And is it something you plan to sustain? How should we think about the impact in the second quarter versus typical seasonality?

And then second, you mentioned that Orlando is trending above pre-COVID. Can you talk about recent trends in the domestic parks? Any indication of attendance shifts or costs?

David N. Watson - *Comcast Corporation - President & CEO of Comcast Cable*

Phil, Dave. Let me start with kind of the offer approach and then the impact as we go into Q2, just providing overall perspective. But when you take a step back, we are still in the environment that I've mentioned, still the base, overall broadband base very stable in terms of the churn, less the connect pressure that we've seen.

So -- but the overall, it's tied to a better churn than where we were pre-pandemic. So -- but we take a very disciplined approach. We segment the market, and we go in and out with offers. So we did have an offer that was available in the marketplace where, for broadband only, at $25 and then a $50 combined mobile.

And so we saw an uptick. It was positive. And so it's something that we constantly are doing coming in and out in terms of service offerings. We also remain very focused, what we talked about earlier around the high-end and never losing sight that there's a mix of tiers that are really important to the base.

And so we're just focused on 1 gig, and we do -- with part of the segmentation approach is going to the marketplace and one-third of our customers do take that 70 -- almost 75% of our customers take 400 megabits and above. So there's a blend that ends up happening, and that's why you saw a pretty good ARPU growth in terms of broadband.

But we'll go in and out with offers in terms of things. We'll be nimble, respond competitively to every single segment. I think there's more action with fixed wireless on the low end and that -- the offer served us well.

As you go into seasonality and you look at the second quarter, we are seeing typical seasonality, especially in regions like Florida. So you're going to see a step down in net adds from Q1 to Q2. And -- but I don't think you can extrapolate exact performance from historical levels. But directionally, net adds will be lower in Q2, so just to be clear.

Jason S. Armstrong - *Comcast Corporation - CFO*

Just to round out the question on broadband, Phil, because it's a good one. In this type of competitive environment, I think one of the key questions for us and the team is can we segment the base appropriately to sort of tactically respond at the low end but without disrupting the broader base. And one of the things I'm most proud of this quarter from the team is 4.5% ARPU growth, which I think really points to that.

Michael J. Cavanagh - *Comcast Corporation - President*

And it's nice, Phil, to finish on parks because the business overall is really rocking, as you can tell. It would be -- I'd be remiss in not calling out, first, the quarter that the international side had. USJ had all-time highs for attendance, per caps revenue and EBITDA. And that's since it opened -- for a first quarter. That's since it opened in 2001.

And likewise, in China, we generated significant profitability in a tougher season and the highest ever quarterly attendance despite it being wintertime. So that's the international side.

And on the domestic side, things continue to perform really well. Hollywood, we have Super Nintendo World open, so driving really strong attendance and per caps that are way ahead of last year and pre-pandemic levels on the back of excellent guest feedback.

And in Orlando, really solid results in the quarter. We had, as you know, unprecedented visitation last year way ahead of 2019 pre-COVID. So as expected, growth rates have slowed down, but performance continues to be solid. And go-forward booking again still looks solid, similar pattern to Q1 of last year. So, so far, things continue to look good as we look ahead in the domestic side.

Marci Ryvicker - *Comcast Corporation - EVP of IR*

Thanks, Phil. That concludes our earnings call, and thank you all for joining us.

Michael J. Cavanagh - *Comcast Corporation - President*

Thanks, everybody. Thank you.

Operator

That concludes the question-and-answer session and today's conference call. A replay of the call will be available starting at 11:30 a.m. Eastern Time today on Comcast Investor Relations website. Thank you for participating. You may all disconnect.
