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PRESENTATION

Phil Cusick - *JPMorgan - Analyst*

Hi. Thanks for joining us. My name is Phil Cusick, I cover telecom and cable here at JPMorgan.

I'm joined by Matt Strauss, who is the EVP and General Manager of Video Services at Comcast Cable. Matt is essentially in charge of all of video at Comcast, which sounds like a lot of fun.

Matt Strauss - *Comcast Corporation - EVP, General Manager Comcast Cable Video Services*

It is.

Phil Cusick - *JPMorgan - Analyst*

Thanks for coming. So, I thought first we would talk about -- some companies are talking about risking a generation of video customers, because of the way prices are going up and alternative technology coming through.

Is TV going out of fashion? What are you seeing people do? And -- or are people just watching it a different way?

Matt Strauss - *Comcast Corporation - EVP, General Manager Comcast Cable Video Services*

Well, think it's obvious people are watching TV in a different way. I have four kids, so I see firsthand how my kids consume video.

I think a lot of the trends that we are seeing today, though, we saw glimmers of them over a decade ago. When we first launched our on-demand platform, you've got to almost take yourself back at a time where DVRs weren't really prominent; most people didn't know what they were; they thought they were just VCRs. There wasn't streaming video on the Internet.

We were streaming MPEG2 video over our network to set-top boxes, and we learned very, very early, just based on the customer reaction, that this was like lightning in a bottle. That giving customers what they want, when they want, was going to be the future of how people were going to want to consume video.

We made it part of our goal that -- at the time this technology was seen as a way to drive incremental revenue from pay-per-view. Brian Roberts and Steve Burke at the time really solve this as a way to add value to the video subscription. This was all about adding value first and foremost.

That was our mission, and that was our goal. And when you fast-forward to today, obviously on-demand viewing or timeshifted viewing isn't a novelty. Like, this has become integrated into how we watch TV.

About 70% of our subscribers use this technology every single month. When you look at our X1 platform, it's about 85%. So this has become a deeply embedded part of what our customers expect from us.

In 2008, Brian actually gave a speech at CES -- I think it was 2008 -- and he called it Project Infinity, with an I. That was really, from a Company standpoint, us coming to the conclusion that we wanted to make every piece of video ever made available on demand.

What we quickly realized, as we expanded our catalog from 10 to 20 to 60 to over 100,000 choices, that you can't navigate infinity, that you can't give somebody infinite choice without ultimate personalized control. That ultimately gave way to what became X1, was this marriage of giving customers a highly personalized experience that in some ways was meant to blur the lines between what's live, what's on-demand, what's on your DVR, and just getting the right choice to the right customer at the right time -- which we always believed was how the landscape was going to shape and that we believe we've had some role in helping to shape that.

I think what's happening is -- we look at X1 as the value, the core value of what we are able to offer our customers. It's we believe best-in-class product, obviously very proud of it; but in part because of some of the results that we're seeing from X1.

But I think that also what's happening is you do have certain segments that maybe don't see the full value of the bundle, or don't see the value of a traditional cable experience, at least the way that it was previously defined. I think what's happening is that you are having Millennials, cord-cutting, skinny bundles, all getting conflated by some into one thing. It's actually -- when you parse it back -- there's actually a few things that I think are happening.

When you look at a segment like Millennials, like what we have found, like 25 to 34-year-olds with no kids, it's actually one of the largest segments of our video bundle. And I think it's this perception that Millennials don't watch TV -- well, Millennials actually watch as much if not more TV than anybody.

I think that in some cases they are more comfortable consuming video on mobile devices; but all the data and research we've seen is that people will default to the best screen available to them. Put a 55-inch television in front of somebody, they are likely going to watch it, and a lot of the consumption is still happening on the TV.

What I think is happening is that you do have certain segments -- you don't typically hear someone say they want less choice. What you may hear is they want to pay less -- and that is very different.

That to me is driven more by economy, and that the economy is actually having some impact on customers who may want to have a skinnier bundle. It could be because they're maybe not a heavy video consumer; but in part it could just be because of the life stages of where they are.

That's where I think you will see us continue to migrate. Where historically you would cast a very wide net and you would sell a product which was meant to speak to a very large audience at a certain price -- and we still do that -- but I think as we continue to evolve our suite of services, you will see us become much, much more surgical around offering the right product for the right customer, whether it's a Millennial, whether it's a single-family home with kids, whether it's a senior.

If you take any one of those segments, each of those segments you would see have specific needs of what they may want from a video subscription. I think the elegance of what we have created with our suite of products is that it allows us to fine-tune them in a way that we could be much, much more targeted to ensure that we're getting that right product to the right customer.

Phil Cusick - *JPMorgan - Analyst*

Okay. So there is a lot there. Let's dig into it a little bit.

First, it's the first time I've heard that the 25 to 34s will actually be one of the best segments rather than the worst. I think that's the opposite of what I would have guessed.

So if you go back to that time when Brian made his speech in 2008, if you go back over the last six, seven years, are people watching more video because they have so much more choice, not necessarily linear, but in all these different fashions?

Matt Strauss - *Comcast Corporation - EVP, General Manager Comcast Cable Video Services*

Yes, I mean I think people are watching more video. We say -- I think this is true -- I think we are, like, in the Golden Age of TV. There is more high-quality TV shows available now than at any other time in the history of the industry.

I think last year alone there were over 200 original scripted primetime series. There's almost more TV than any human could ever watch.

So when you look at how much TV consumption the average TV household consumes, it's about four to five hours a day. Then that's where, when I spoke earlier about X1, when we look at where we think is the biggest opportunity, the customer who is consuming four to five hours of TV a day, a product like X1 is -- I think it's magical. Because it truly is an intuitive, elegant, personalized experience for that customer, and it gives them ultimate choice.

When you look at some of the timeshifted behavior that we're seeing -- and I think that this is where you've got certainly content -- you've got viewership that's migrating from live into timeshifting, our on-demand platform typically can generate between 15 to 20 hours of consumption a month. And then you've got mobile viewing as well, which we also do through TV Everywhere, where that has grown 200% year-over-year.

So in many ways, our philosophy for a while now has been: we don't really define a TV. Like, you will not see us define a TV in any of our agreements.

Because how do you define a TV? You can't define a TV by a screen size. Certainly that's not how my kids would define a TV.

We define a TV as any device that could render video securely. Now when you start with that premise of any device that could render video securely, you quickly get to a point where that could be a lot of different types of touch points on how you could manifest video to a customer.

So we look at blurring those lines. And if the customer wants to watch it on a television or on a mobile device or on a tablet or on a connected TV, we just want to make it as easy and seamless for customers to get access to that content; and we believe that that is what ultimately is continuing to add more and more value to the video subscription.

Phil Cusick - *JPMorgan - Analyst*

Have you seen the alternate device landscape cannibalizing? Maybe, I would think, a little bit. But probably more a complement to the on-the-wall video viewing.

Matt Strauss - *Comcast Corporation - EVP, General Manager Comcast Cable Video Services*

Depends on how you define cannibalize. Meaning, we want to add value, and we want to give customer choice. So if you look at -- TV Everywhere might be a good example of this.

We authenticate today 18 different platforms from iOS to Android to Apple TV to Roku. We authenticate 18 different platforms. And if you are an XFINITY customer, you have the choice to download the XFINITY TV approximately -- which has been downloaded 20 million times -- and you can consume an aggregated experience of live TV and on-demand and DVR content as well.

Or you could sign in and use HBO GO or watch ESPN. I think for some, people go back and forth. They may enjoy -- and some of these experiences that the programmers are creating I think are incredible. You could argue WatchESPN is the best version of the ESPN.

So giving customers choice to choose has always been our philosophy. And if that's what helps with retention and if that's what helps where customers can increase engagement, then we don't distinguish between the two. We let the customer decide however they want to enjoy their video, on whichever platform makes the most sense for them at that time.

Phil Cusick - *JPMorgan - Analyst*

Okay. Now you've talked about the X1. Where are we in the deployment process there? I think you accelerated it again this year.

And just talk about the benefits of X1 that the consumer gets. Just expand on that for us.

Matt Strauss - *Comcast Corporation - EVP, General Manager Comcast Cable Video Services*

Yes. We are -- we just completed I guess you could say a first year of a multiyear deployment of X1. When we first started with X1, the first phase was obviously just getting the network ready for X1.

Then we started to deploy X1 to our high-end triple-play customers, our highest-valued customers. We are now at a point where we have expanded X1 to all triple-play; and now we are expanding it to double-play customers.

If you look at our Q1 connects, about 50% of them came from X1. We are a little over 25% of our triple-play subs now have X1.

So we are energized by X1 and the capabilities of the platform. I think that you will continue to see us accelerate.

We are averaging about 20,000, 25,000 X1 boxes a day. There's other things that we are looking at to get X1 out even faster, like self-install, self-install kits, which is something that we are also putting into play.

So when you look at X1 from a customer standpoint, we really look at this as transformative. It's not what you would expect from a typical cable company, and that's what excites us. Because when you move things into the cloud like we have with X1, a lot of people look at X1 and they will see the guide. And the guide is phenomenal.

And it's intentionally -- it took years to develop. How do you create a guide -- if you almost take a step back -- that can manage live TV, DVR, on-demand, search, apps? Like, how do you integrate that in a way that is easy and intuitive for a household demographic?

I think we've accomplished that with X1. The team that has built it, we won an Emmy for X1, and we are very proud of what we've accomplished from it.

But there's other things that we have seen from X1. Looking at the guide, it's a little bit like admiring the tires of a fancy car without seeing also what's under the hood.

We don't call it the X1 guide. We call it the X1 operating system, because it's a platform. And the platform for us is going to allow us to bring new products to service, to market; it's going to allow us to continue to personalize the services that we make available to our customers.

And when we see some of the results from how the customers use X1, it's encouraging. It's encouraging that we are tapping into something that is really resonating with customers in a way that I think that they didn't expect.

For us, we like to surprise and delight. It's not something that you typically think of from a cable company, but that is the mantra of -- the lens that we are looking at with X1.

I think what we have realized and what we are putting into motion is that when you think of a product, the product doesn't start and end when the customer first uses it. The product is when you start learning about the product; the product is when you order the product; the product is, how is the product delivered and installed? What is the first 30, 60, 90 days with the product?

What happens when you call? And if you have an issue, do you even need to call? Could we provide you the tools where, if you want to remedy anything yourself or if you have a question, that you can take more control.

I think that end-to-end process is what we are re-factoring when we think of what it means to go to market with something like X1. Which is why the person who was one of the heads of the product team, Charlie Herrin, we've actually now made him the head of Customer Experience. Because what we've realized is you can have customer experience live outside of the product; customer experience is the product.

So it's really how all these things are coming together that give us a lot of confidence that we are putting forward a suite of services and a platform that will allow us to continue to innovate and delight our customers.

Phil Cusick - *JPMorgan - Analyst*

I would think as personalization gets better, as discovery gets better, that VOD is going up by a lot. What is the mix between paid and unpaid VOD? And how do you drive that more toward paid?

Matt Strauss - *Comcast Corporation - EVP, General Manager Comcast Cable Video Services*

Well, I don't know if the goal is to drive it more towards paid. I think that certainly we are seeing an increase in pay, and I'll speak about that. Let me speak about both.

I think first, when you look at on-demand, it's interesting. Obviously, it's not a new technology. I just explained to you it's been over 10 years in the making.

But there has been a shift, and I think we noticed the shift I would say about three years ago, where we had peaked at on-demand and it wasn't really growing. And then we started to see it grow, like inflationary growth, and we didn't know why. We didn't do anything different.

What we started to uncover was that as more and more content was finding its way on to on-demand, there were also things that we started to see shift like movies, music videos, kids' content -- still very popular; but TV became the number-one category on-demand. TV specifically, cable and broadcast on-demand, like current season catch-up TV.

What we started to do is -- we knew the challenges with on-demand. Like, one of the challenges was it was a little bit like the Forrest Gump box of chocolates: like, you didn't know what you were going to get. You might go there, and you might have a show; you might go there it may not have a show.

And we had to solve for that, and we did. So now when you go to on-demand it's the top 100 Nielsen-rated TV shows. They are all there.

In some ways, we think of it like they are just preloaded and saved for you. You don't have to think about it. They are just there.

We even -- we then looked at: how do we organize our guide differently? This is where X1 really came into play.

But what we found was that even in a fragmented world, where people may associate a favorite show, they still also know when it's airing, believe it or not. Like you typically know, like, when your favorite show is on and what channel it's on. So we started organizing our guide by day of the week.

So almost imagine you go to on-demand, and it would say Friday night shows, Thursday night shows, Wednesday night shows. It was almost like a time machine. So it became very, very easy for somebody to find the shows that they wanted, but also to have confidence that the shows that they were looking for were going to be there.

When we started to put some of those pieces in place, TV consumption grew -- has grown over 100% in the past three years on our platform. It accounts for -- 50% of all of the timeshifted video consumption is coming from TV catch-up.

I think that what has happened is in some ways it's a little bit like the hunters become the hunted. And I mean that in a nice way.

I mean that in a way -- because 10 years ago the programmers were very resistant to on-demand, because there was a lot of uncertainty. How am I going to monetize this? Is this going to cannibalize my linear ratings? Is Nielsen going to measure it?

I think a lot of those pieces have been solved, where we now have dynamic ad insertion fully deployed across our entire footprint. We have actually addressable dynamic ad insertion fully deployed across our footprint. We have Nielsen and Rentrak that measure the platform.

So when you have all these pieces in place, if you were to look at on-demand for us as a network -- if it were a cable network and we actually put it as Channel 1, it would be the highest-rated cable network in our footprint, just based on the sheer amount of people who consume the content there.

I think that what's happening is that -- and this again is counterintuitive -- is that as we continue to roll out DVR and cloud DVR, we are actually seeing the heaviest VOD consumers or the DVR consumers. It goes back to what I said earlier about this notion of Golden Age of TV.

There is so much TV content that it's impossible for you to know what to record, right? People just don't know.

They will record the shows they know. But A, you have to have a DVR.

But what's happening is more people are going to on-demand to catch up. Or they heard about this show, Empire; and they go to on-demand, and they know it's there. Then that is continuing to increase the consumption on the platform.

Now, what's most interesting about it is that that's actually manifesting higher ratings in our footprint for those shows, which again I think was counterintuitive to a lot of the networks. But we've actually seen 20% to 40% lift in C3 monetization in a Comcast household versus a non-Comcast household; and we attribute that to on-demand. So in some cases we are seeking as much on-demand consumption for a show as DVR consumption.

So at least within our footprint, this has become a very sticky product. I think it's taken us a while to get to this point, but our customers understand the value. We think we've created one of the best libraries on the planet and that this is continuing to -- it's now much more of a collaboration with the networks where at the upfronts I actually hear the networks talking about on-demand.

When I watch shows on-air, I will see them say: catch up on-demand. They used to never do that, and it's because of some of these trends of what we are seeing, and how it is also contributing (technical difficulty) monetization.

To swing the pendulum the other way, to talk about pay, we very much think of offering the best library of pay content as well, whether that's HBO, where we have the full HBO GO catalog available on-demand, but also movies, or pay-per-view events, like the pay-per-view event that just took place a couple of weeks ago. When you look at the fact that we now have a library of thousands and thousands of titles across every window -- movies that are still in theaters to movies that are available electronic sellthrough to movies that are deeper catalog -- that is also an area that we are seeing growth on X1, that X1 is actually contributing to higher consumption of transactional ARPU.

We attribute that both to the guide but also to the fact that it's personalized and that we could make it easier for customers to see the catalog. Just by having a more immersive experience, we're actually seeing lift in both free and pay attributable primarily to the guide.

Phil Cusick - *JPMorgan - Analyst*

So, people want to watch TV. But we've seen a lot of over-the-top launches in the last year trying to address a variety of pain points. Some of those are economic, like Sling; some are trying to be a little bit more flexible. Maybe you've addressed some of those already.

But have you seen an increase in cord-cutting? And if not, do you think about that over the next couple years and: okay, these are the points we have to hit to make sure that that doesn't increase?

Matt Strauss - *Comcast Corporation - EVP, General Manager Comcast Cable Video Services*

I think when you look at some of the new products that are coming in, new services that are coming into the market, we expect there is going to be increased competition. Increased competition is not uncharted territory for us.

As a cable industry we obviously compete with satellite. We compete with telcos. We compete with overbuilder.

So I think that we will continue to see more and more competition come into our footprint. We have a lot of confidence in the products and services that we have in the market today.

Obviously, you hear me talking a lot about X1. And I think that it gives us confidence that not only can we meet the demands of our customers, but also that we can be dynamic and flexible, that if the market shifts in a certain direction, or if customers demand a certain type of product, that we are in as good -- if not the best -- position to help meet that demand.

So when I come into the office and everyone who works in the video business that comes into the office, the lens that we look at this space is not how many fewer subs are we going to have; it's how are we going to grow? We come in to grow subs.

That is our goal. That is the goal that Neil Smit has put on us, and that's what we believe.

Again I think that, just to show you the dynamics of this, when you look at a product, when you look at the fact that certain customers may want more of a skinnied-down bundle, what we introduced was what we called Internet Plus. Internet Plus was a product that effectively was 25 megabits of speed; broadcast; networks; HBO; and what we call Streampix, which is kind of an a-la-carte SVOD of movies -- for $40.

So when you look at the ability for us on how we can bundle our products together in our footprint, also bundle them any way that I think could meet the demands of either new entrants or the demands of what certain segments may want within our footprint. We were able to move very, very quickly in how we introduced Internet Plus.

What's interesting about Internet Plus is that when we look at, after a year of subs who have taken Internet Plus -- which is arguably someone who is more high-speed data first, video second -- we've seen about a third of them have upgraded to a higher tier of service. Which speaks to what I said earlier around: is this lifestages, or is there some other dynamic?

Look, I think there is still a lot that we have to learn, but we have tremendous confidence that we've got the right products and the right tools and the right platforms in place to meet the customers' demands to allow us to grow. I mean, that's what we get up every day to do in Philadelphia and across the country.

Phil Cusick - *JPMorgan - Analyst*

Right. You've mentioned electronic sell through a couple of times. Tell us more about that.

Matt Strauss - *Comcast Corporation - EVP, General Manager Comcast Cable Video Services*

Well, electronic sellthrough, just for those who may not know, is digital ownership. That was an area that we typically didn't make available on our platform. We have been offering rental tape titles for years, but not electronic sellthrough.

This was a perfect example where we were challenged: Well, why would you want to do this? Like, do people really want to buy movies? And others are already doing it; and you could say that there were already incumbents in that space.

We realized that we needed to extend the life of a movie, that we needed to be able to play earlier and earlier in the lifecycle of a movie, and that digital ownership was going to allow us to do that. We also believe that the Achilles' heel of digital EST was that you weren't able to easily access it on the TV.

Again, this was one of the fallacies -- was that: Oh, this was a product that people just want to watch on mobile devices. It's not true. They want to watch it on the TV, and they want to have really access to the TV.

So that was our going-in hypothesis of why we thought that we were going to be able to offer something really compelling to our customers. Within the first year we scaled this to a $100 million business; and about 99% of the transactions come through the remote control, exactly what we had expected.

Now, for a customer who wants to access their library on other devices, like a computer or a mobile device, like a tablet, you can. You can take it with you; you can download it; you can do all the things that you would want to do.

But what really drove the conversion for us was making it really, really easy to order it on the guide. That same technology we have implemented where, if you want to upgrade to HBO, you don't have to call anymore; you can just push a button on our guide. If you actually want to upgrade to a new higher tier of service, you can just push a button on your guide.

So a lot of -- this has, like, really taught us on how do we better integrate different types of products to make it really seamless and easy for the customers. What it has also afforded us is the ability to offer our customers earlier windows.

Many of the studios have been offering electronic sellthrough two to four weeks earlier than physical. So for us this has in some ways been also a competitive differentiator, to be able to tell our customers: if you want to give access to a certain movie early, we have the ability to do it. We've seen millions of our customers transact with EST.

There is another element to this which is also -- I think that this is still the early stages -- is that as customers build their libraries of content, which they are, does this have any retention benefit? We think that there will be -- we think that there could be some retention benefit to EST.

So in some ways it's this notion of: how do we continue to offer more and more choice? It goes back to this Project Infinity, where we want to offer all these choices. Electronic sellthrough is allowing us to offer additional choices in a new window, and it's become a new revenue stream for us. But it's also looking at this through the lens of: how do we also look at this and how this adds value and retention?

So for example, last year -- maybe it was a year and a half ago, when The LEGO Movie came out, which was a big movie in my house, we offered it for $10 to every one of our customers. It was half of what you would have bought it physically, and you got it early.

So it just -- when you have these capabilities, it also allows you to think of content a little bit differently in a manner of how do we use this more surgically to continue to add value, and do it in a way that we think will help benefit the value of the video subscription.

Phil Cusick - *JPMorgan - Analyst*

And if I leave Comcast, do I lose access to the things that I bought?

Matt Strauss - *Comcast Corporation - EVP, General Manager Comcast Cable Video Services*

No, you don't lose it. We actually allow you to essentially take your library with you. You can continue to access it on the Web, and you will be able to continue accessing it on mobile. What you will lose is the ability to access it on the television.

Phil Cusick - *JPMorgan - Analyst*

Okay. Let's finish up with the future of X1 and video. What do you see over the next two or three years?

Matt Strauss - *Comcast Corporation - EVP, General Manager Comcast Cable Video Services*

Well, there are certain things that we are putting into place now like, for example, cloud DVR. We have been deploying our cloud infrastructure where we now offer the ability for customers to get access to their recordings in the cloud.

Now, what's interesting about this is about 50% of TV households in this country have a DVR. People are very attached to their DVR; they love their DVR.

Which is interesting, because a DVR isn't everything. It's just what you want it to be. When we looked at the DVR, we said: this could be so much better.

And how could it be better? Well, why do I only have the ability to access my DVR recordings on the TV? And why is there a finite amount of storage?

So this set out our ambitions of creating cloud DVR, which we now have available in about 70% of our footprint. And this allows now customers for the first time to access their DVR recordings on mobile devices. Whether it's a computer or a tablet or a phone, you can stream it to those devices; or on my plane right here from Philadelphia, I downloaded my DVR recordings and took them with me on the plane.

We think this is a transformative product. This is a new way for our customers to take what was already a very highly engaged service and make it better.

The other piece that has come with the cloud is -- when I mentioned earlier that we've always believed that essentially any piece of glass is a TV, that when you are in your home we have been expanding in-home streaming, which truly allows you when you're in your home to make any device in your home into a television.

So it is not some of the channels and some of the on-demand content. It's everything. It's every channel; every on-demand offering; every DVR recording.

When you are in your home you can access it, and transforming those devices into a television. Again, this is another manifestation of the cloud.

When you extrapolate this into, well, where does this go, like three, four, five years from now, from my point of view it's really interesting. There's a lot of observations around how we consume media all around us.

Like, my phone. Like for me, the phone is like right next to my night table when I go to bed. It's the last thing I look at before I go to sleep; it's the first thing I look at when I wake up. The frequency of how often I use that phone is probably 100 times a day, if not more.

When you look at a computer and how people use a computer and tablets, as broadband continues to proliferate -- like, remember dial-up? You would turn on the computer, you would dial-up and -- you don't do that anymore. It's just on. When I want to go to my computer, push a button and it starts working, and that is my expectation.

When you look at the TV it's almost like it's s stuck in time. Like, I turn it on when I want to use it, and I turn it off when I don't want to use it. It's a fairly crude device.

When I look at X1 and the platform, I -- the goal for me is you never turn off your TV. You should never have to turn off your TV. I am probably the only household in my neighborhood where I could tell my kids you can watch as much TV as you want.

Now, what's interesting about that, though, is if you peel that back and say: well, what would you need to do -- what kind of products and services would you need to introduce, where somebody wouldn't want to turn off their TV? You quickly realize that it has to be even more than video.

That video is a very important piece of it, but it will be: how do other products and services that we deliver to our customers interact in a way that actually makes the experience better?

For me, our goal is that we want that device in the home to become a hub which connects other areas of your life together and you never have to turn it off. I think that the transformation and the innovation that excites us, that we can bring some of those things to life for our customers in the future.

Phil Cusick - *JPMorgan - Analyst*

That's great, and that's our time. Thanks, Matt.

Matt Strauss - *Comcast Corporation - EVP, General Manager Comcast Cable Video Services*

Thank you so much.

Phil Cusick - *JPMorgan - Analyst*

Nice to see you.
