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CMCSA - Q3 2019 Comcast Corp Earnings Call

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OVERVIEW:
Co. reported 3Q19 reported revenues of $26.8b and adjusted EPS of $0.79.
CORPORATE PARTICIPANTS

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David N. Watson  Comcast Corporation - Senior EVP & President, CEO, Comcast Cable
Jason S. Armstrong  Comcast Corporation - SVP, IR & Finance
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Michael J. Cavanagh  Comcast Corporation - Senior EVP & CFO
Stephen B. Burke  Comcast Corporation - Senior EVP & CEO, NBCUniversal

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Comcast’s Third Quarter 2019 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 and Finance, Mr. Jason Armstrong. Please go ahead, Mr. Armstrong.

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

Thank you, operator, and welcome, everyone. Joining me on this morning’s call are Brian Roberts, Mike Cavanagh, Steve Burke, Dave Watson and Jeremy Darroch. Brian and Mike will make formal remarks; and Steve, Dave and Jeremy will also be available for Q&A.

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

With that, let me turn the call over to Brian Roberts for his comments. Brian?
Thank you, Jason, and good morning, everyone. We delivered strong operational and financial results in the third quarter, with each of our businesses contributing to our company’s growth. Together, we surpassed 55 million customer relationships, grew pro forma EBITDA by 7%, delivered 16% growth in adjusted EPS, generated significant free cash flow and paid nearly $1 billion in dividends while further strengthening our balance sheet. Our results in the quarter and over many years are evidence that our strategy is working.

From my perspective, 4 things stood out as we wrapped up the quarter: our incredible strength in broadband; the enduring popularity of our premium content; our strong global footing just 1 year after the Sky acquisition; and how the combination of these things puts us in a unique position to compete, including in the streaming market.

Starting with broadband. It goes without saying the utility and demand for high-speed and reliable internet access are ever increasing. We see this in our customers’ behavior, monthly data usage more than doubled in the last 3 years, and our power users are connecting nearly 20 devices in their homes daily. That’s great. It enables us to further differentiate ourselves from the competition, hence more customers continue to choose Xfinity.

The Cable team has done a tremendous job redefining broadband by expanding the basis of competition beyond speed to also include coverage and control. With these 3 pillars, speed, coverage and control, our xFi experience is resonating with customers. And with Flex, we just added a fourth pillar, streaming, designed to meet the growing needs of customers who only consume video over-the-top. Flex enables these streamers to quickly and easily search, access and enjoy content across their favorite apps on the TV using our award-winning voice remote. It’s a wonderful product, and now we are providing it to our broadband-only customers for free.

And at Sky, we plan to follow a similar playbook by using xFi to differentiate the experience for our broadband subscribers in Europe, starting with next year’s launch in Italy.

So our strengths and ongoing innovations are translating into record-breaking results. Cable added 379,000 broadband customers, the most for a third quarter in 10 years. This drove our best total customer net additions on record for any quarter, contributing to a 3.4% year-over-year increase in customer relationships. And we’re also increasing the value of our relationships. EBITDA per customer relationship grew 3.2%. And what is even more impressive, our net cash flow per customer relationship grew 13%.

Moving beyond broadband, our content continues to resonate with consumers. NBCUniversal has the largest TV viewership share of any major media company in the U.S. and one of the leading film businesses in the world. In Europe, Sky is the #1 sports and entertainment brand. And these strengths continued in the third quarter. NBC plays #1 in primetime among adults 18 to 49 for the sixth consecutive 52-week season. Telemundo was #1 in Spanish-language weekday prime for the third consecutive season. Overall household viewership of Sky-branded channels increased 10% in the quarter, led by sports. And Sky’s highly acclaimed Chernobyl received 10 Emmys, which bodes well for our newly created Sky Studios. On top of all this, the teams at NBCUniversal and Sky are jointly producing and delivering content. For example, we’ve greenlit our first co-productions, shared over 1,000 hours of sports content and are creating a global news channel.

In fact, it’s hard to believe that we have owned Sky for only a year. Our company is strategically stronger today than we were a year ago. Sky brings 24 million customer relationships in Europe, including the 482,000 net additions in the last 12 months, plus additional premium content and exclusive sports all anchored by a leading European brand and an outstanding team. In what are tough macroeconomic conditions, Sky is doing a great job.

Finally, our recent announcements on Peacock and Flex are terrific examples of how our combined company is working together and well-positioned to compete. With our leading scale in distribution and premium content, along with our focus on innovation, we can continue to produce superior products like these for our customers and deliver strong financial results for our shareholders.

So all in all, we had a great quarter, led by broadband… and it also demonstrates what a fantastic set of businesses and leaders we have that positions us well for the future.
Mike, over to you.

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

Thanks, Brian, and good morning, everyone. I'll begin on Slide 4 with our third quarter consolidated results. As a reminder, we completed our acquisition of Sky in the fourth quarter of 2018. Our reported results include Sky from the acquisition date, while pro forma results include Sky as if the transaction had occurred on January 1, 2017.

Also, one housekeeping item on Peacock, our forthcoming streaming service. Similar to our approach with Xfinity Mobile, during its start-up phase, we will report Peacock's results in the Corporate and Other segment.

So now, let's move on to today's results. On a reported basis, revenue increased 21% to $26.8 billion, and adjusted EBITDA increased 17% to $8.6 billion. On a pro forma basis, revenue was consistent with the prior year and adjusted EBITDA increased 7.4%, reflecting growth across all 3 businesses. As Brian mentioned, adjusted earnings per share grew 16% to $0.79. And free cash flow was $2.1 billion, bringing the year-to-date total to $10.9 billion, an increase of 3.7% compared to the first 9 months of last year.

Now let's turn to our segment results, starting with Cable Communications on Slide 5. Cable delivered excellent results driven by our connectivity-centric strategy and highlighted by strong performance in 3 key metrics we use to run the business: growth in total customer relationships, EBITDA per customer relationship and net cash flow per customer relationship.

Overall Cable revenue increased 4% to $14.6 billion in the third quarter, led by the increase in total customer relationships as well as higher ARPU. Total customer relationships increased 3.4% year-over-year to 31.2 million, including 309,000 customer net additions, the best on record. This growth was driven by 379,000 high-speed internet customer net additions, the highest third quarter net additions in 10 years. We've added 1.3 million broadband customers over the last 12 months. Overall, our connectivity businesses, residential broadband and business services, continue to drive the growth at Cable. Our revenue in these businesses, collectively, reached $6.7 billion in the quarter, up 9.3% year-over-year.

With broadband as the foundation of our customer relationships, we utilize additional products and services in a manner that profitably helps us attract and increase the lifetime value of the overall customer relationship. Video is still an important and profitable component of most of our relationships, but we continue to be disciplined and are not chasing unprofitable subs. Total video subscribers declined by 2.8% year-over-year to 21.4 million. Xfinity Mobile is another important contributor to our growth as we pair it with broadband to provide our customers with a great wireless experience that helps them save money. We added 204,000 net customer lines in the third quarter and reduced our quarterly adjusted EBITDA losses at Xfinity Mobile to $94 million, an improvement from a $178 million loss in last year's third quarter, reflecting our progress in scaling and further improving our operations. And as Brian mentioned, Flex is another great product we'll use to add more value to our broadband-centric customer relationships.

Moving now to Cable expenses and margin on Slide 6. Total Cable expenses increased 2.3% year-over-year, reflecting strong cost management even as we increased customer relationships by 3.4%. Programming expense was flat, reflecting the timing of contract renewals and a lower volume in video. Non-programming expenses increased by 3.6% year-over-year but were relatively flat on a per-customer basis. We delivered outstanding growth in customer relationships and also improved our NPS scores while reducing total agent-handled calls by 15% and lowering truck rolls by 10% year-over-year.

Together, the growth in our connectivity businesses, the improvement in our performance at Xfinity Mobile and our ongoing focus on cost management, resulted in Cable adjusted EBITDA growth of 6.7% and margin expansion of 100 basis points to 39.8%. We continue to expect EBITDA margin improvement for the full year 2019 to be slightly above 100 basis points compared to the 2018 margin of 38.7% based on our strong performance year-to-date and our outlook for continued year-over-year margin improvement in the fourth quarter.

Cable capital expenditures in the third quarter decreased 6.7% to $1.8 billion, leading to capital expenditure intensity of 12.4%, primarily reflecting lower spending in scalable infrastructure and line extensions, partly due to the timing of plant construction and other network investments. However, as we've said, consistent with the broader shift in our business toward connectivity, we will continue to invest in our network to stay...
firmly ahead of our customers’ high and increasing expectations and to further enhance our leading competitive position in broadband. We now expect Cable CapEx intensity for the full year 2019 to improve by at least 150 basis points compared to the 13.8% in 2018, driven partly by timing of network investment as well as decreased CPE spend as video subscribers decline and the rate of our deployment of X1 has moderated. This is an upgrade to our prior guidance of at least 100 basis points of improvement.

In summary, we’re very happy with the team’s strong performance. In the quarter, we delivered 3.4% growth in total customer relationships and 3.2% growth in adjusted EBITDA per customer relationship, which, coupled with the decrease in Cable capital intensity, drove a 13% increase in Cable net cash flow per customer relationship. We continue to see the benefits of consistently investing in our network, innovating to deliver the best-in-class products, services and experiences and increasing our operational efficiency. We believe our approach will continue to strengthen our leading competitive position and drive profitable growth.

With that, I’ll turn to NBCUniversal’s results on Slide 7. NBCUniversal EBITDA increased 1.6%, reflecting expected difficult studio comparisons in TV and film. Cable Networks revenue decreased 2.8% to $2.8 billion, and EBITDA was flat at $955 million primarily due to a 27% decline in content licensing and other revenue, reflecting a challenging timing-related comparison to last year. As we noted last quarter, our studio benefited from the considerable level of programming licensed to third parties in 2018. Offsetting some of this decline was a 1.6% increase in distribution revenue, reflecting the ongoing benefits of previous renewal agreements, partially offset by subscriber losses that have moderately accelerated driven by increased satellite losses and slowing virtual MVPD growth. Lastly, advertising revenue was consistent with last year’s result as the strong pricing environment was offset by audience ratings declines.

Broadcast revenue decreased 9.1% to $2.2 billion, and EBITDA increased 5.1% to $338 million due to challenging comparisons in advertising and content licensing, more than offset by healthy growth in retrans and lower programming and production costs. Advertising revenue declined 12% primarily reflecting a difficult comparison to last year’s results, which included Telemundo’s broadcast of the FIFA World Cup. For the remainder of the year, we have a positive outlook on the ad market with the start of the NFL season and the return of original entertainment programming, as well as the benefit from higher upfront pricing. Content licensing declined 17%, reflecting a challenging comparison to last year’s results due to the timing of delivery of content under our licensing agreements. Retrans revenue increased over 10% to nearly $500 million. Lastly, on the expense side, lower programming and production cost were primarily driven by costs associated with the FIFA World Cup in the prior year.

Filmed Entertainment revenue decreased 6.2% to $1.7 billion, and EBITDA declined 8.7% to $195 million. While the Fast & Furious spinoff, Hobbs & Shaw, delivered strong results in the quarter, it was a tough comparison to Jurassic World: Fallen Kingdom and a higher number of films in last year’s third quarter. Despite experiencing a crowded box office so far in the second half of this year, we currently expect healthy growth in full year Film EBITDA over 2018 results. Looking ahead to 2020, we believe we can achieve even better results as our strategic slate includes 3 major animated sequels and another installment in our Fast & Furious franchise.

Theme Parks revenue increased 6.8% to $1.6 billion, and EBITDA increased about 1% to $731 million. These results reflect higher attendance as well as an increase in operating costs. The higher attendance was due, in part, to severe weather and natural disasters that negatively impacted attendance in Japan in last year’s third quarter. While the parks business is subject to some ebbs and flows, we are pleased with our summer launches of Jurassic World in Hollywood and our Hagrid-themed Harry Potter coaster in Orlando. And we remain bullish on our growth opportunities with Super Nintendo World opening in Japan in 2020 and domestic launches thereafter, our new Beijing park opening in 2021 and our recently announced fourth gate in Orlando, Universal’s Epic Universe.

Moving on now to Sky results on Slide 8. As a reminder, I will be referring to our pro forma results as if the Sky transaction had occurred on January 1, 2017, and growth rates on a constant currency basis, consistent with what’s reflected in our earnings release.

Revenue at Sky increased 0.9% to $4.6 billion, reflecting growth in direct-to-consumer and content revenue, partially offset by lower advertising revenue amid continued macro weakness in European markets.

Direct-to-consumer revenue increased 1.9% to $3.8 billion, benefiting from customer growth, but partially offset by a decline in average revenue per customer. In the third quarter, customer relationships decreased by 99,000, following record streaming growth in the second quarter related
to Game of Thrones and the debut of the highly acclaimed Sky Original, Chernobyl, both of which were exclusive to Sky Atlantic. Year-to-date, Sky added 317,000 customer relationships, and we expect to return to customer growth in the fourth quarter.

Content revenue increased 15% to $315 million, reflecting increased monetization of our original programming slate and the wholesaling of sports programming.

Investment in sports continues to be a key differentiator. Audiences viewing tentpole sports programming are increasing, with household viewership on Sky Sports channels up 21% year-over-year, reflecting great starts to the Premier League, Serie A, Bundesliga as well as broadcasts of the Cricket World Cup and the Ashes.

Advertising revenue declined by 14% to $446 million, largely reflecting the impact from a change in legislation resulting in certain gambling advertising restrictions in the U.K. and Italy as well as advertising market weakness across all territories.

Pro forma EBITDA at Sky increased 46% to $899 million. Excluding certain nonrecurring items in both periods, growth would have been in the mid-teens on a constant currency basis. For the full year, at today's currency rates, we expect Sky's reported EBITDA will be close to $3.1 billion.

Wrapping up on Slide 9 with free cash flow and capital allocation. For the third quarter, we generated $2.1 billion in free cash flow and paid $955 million in dividends. Free cash flow in the third quarter was largely impacted by the timing of Sky's sports rights payments, which are heavily weighted to the start of the new soccer season. Year-to-date, we generated $10.9 billion in free cash flow.

In the third quarter, we monetized a substantial portion of the minimum floor value we negotiated for Hulu, which brought in $5.2 billion in proceeds. In addition, starting in 2024, to the extent the total equity value in Hulu is worth more than the total floor value of $27.5 billion, we will realize our share of that upside.

Since the Sky acquisition, we continue to make very good progress in our deleveraging efforts. Year-to-date, we have paid down roughly $11 billion of our consolidated net debt, ending the third quarter at 2.9x net leverage, down from 3.3x at the end of 2018. We expect to meet our commitments to the rating agencies by year-end 2020. As a reminder, the rating agencies make certain adjustments in their leverage calculations that can add up to a 0.25 turn to our leverage ratio.

In closing, our results today highlight the strength and consistency of our company's overall performance, and we couldn't be more pleased with our strategic and financial position. Looking ahead, we remain confident in our ability to continue executing on our long-term growth strategy and to deliver value to our shareholders.

So with that, I'll turn it back to Jason to lead our Q&A.

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

Thanks, Mike. Regina, let's open up for Q&A, please.

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QUESTIONS AND ANSWERS

Operator

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

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I want to just follow up on some of your comments on streaming, both from a Cable and an NBC perspective. For Brian or Dave, how are you guys thinking about Flex? What does that mean for the business over time in your view? And how do you think about investing in the X1 platform going forward? Obviously, the video business is going through a transition, but you've invested a lot of money into that platform. It's done well for you. I'm just curious how you're thinking about the product evolution there and how important it is to Comcast Cable.

And I'll just ask to Steve on Peacock and sort of the NBC strategy, how are you thinking about content exclusivity and sort of the volume of original programming that you want to see over time? And when you look at some of the numbers out there for talent and showrunners from the Apples and Netflixes of the world, what is your reaction? Do you view this as healthy or irrational? Or how do you see yourself navigating this spending landscape?

So let me just -- it's Brian. Let me just quickly kick it to Dave, and then we'll go to Steve, to follow the order of your questions. But I'm very pleased with the innovation team and how we made a pivot a few years ago, and I think the right call, which was to really focus on broadband in addition to video and, in some ways, making that the lead part of where we're going. And one of the results was the xFi whole brand that now stands for much more than speed. And with Flex in particular, we're just now going to market with the free box to broadband-only customers across the entire platform, whether you have our gateway or not. So there's real innovation ahead on that platform. And I think that, that can reveal itself over the time as we go forward, but the point being that the team, the recruiting, the retaining of the people to do the technology for this company, I think, is second to none, and I'm really pleased with it.

Thanks, Brian. Yes, Ben, so Flex, I think, is a great example of leveraging the innovation engine that we've had on X1 for some time. So we'll continue to make sure that relevant content is available and delivered through X1 and Flex. But it's -- we just have such scale with X1. It's a really efficient way to leverage this platform, with Flex. And our view with Flex in providing more value to broadband and with streaming, it's just a great option for those customers that want an integrated experience. I think we see often bolt-on, one-off options of different apps that are available. What we are delivering to our customers is just a great streaming experience with Flex, and it's completely integrated. The content is available through the voice remote, just like X1. So we're pleased with the innovation focus that's been able to put us in this position with Flex. So off we go, as Brian said, very soon.

So regarding Peacock, we announced about a month ago the name and listed a fair number of shows that we're going to have on the service. I think the most important thing to think about as you're thinking about Peacock and its role inside NBCU and broader Comcast is we're not doing the same strategy that Netflix and people chasing Netflix have adopted. We're primarily working with the existing ecosystem and doing a lot of AVOD activity. And what that's going to do, we think, is make the -- is cut the investment pretty substantially because I think we're going to get to cruising altitude much more quickly than a subscription service. We're also playing to our strengths. We happen to be part of a company that has 55 million video customers and is the biggest provider of television advertising in the United States. So we'll have a mix of originals, exclusive acquisitions like The Office and a lot of non-exclusive product as well. Importantly, we're going keep selling to other companies. We -- if you take
movies, for example, we plan to keep selling into the premium window. We’re not taking all of our movies off of premium platforms like HBO or Sky or other platforms around the world.

So I think our approach is different. I think it fits the strengths and characteristics of our company well. And with -- it’s a very, very interesting time as everybody tries to figure out what their strategy is, and we’re very optimistic. We’re planning on launching in April. We’re going to use the Olympics as sort of an afterburner after our launch, and then we’ll be adding content pretty significantly throughout 2020. And I’m very pleased with the technical progress our team is making. It’s a wonderful product. The product is beautiful and very different and I think something that we’re all going to be very proud of when we launch in April.

Operator

Your next question comes from the line of Jessica Reif Ehrlich with Bank of America Merrill Lynch.

Jessica Jean Reif Ehrlich - BofA Merrill Lynch, Research Division - MD in Equity Research

So a couple of questions. Just continuing on Peacock, can you talk about the ramp-up in spend? And is that the reason why there was such a big swing in working capital in this quarter? And then within Peacock, can you talk about the marketing plans within and outside the ecosystem and how confident you are in the advertising per sub that you guys have talked about?

And then different subject with Telemundo. Given the growth in ratings, excluding the World Cup, have you closed the revenue gap versus your ratings?

And then the last question, on Cable, a number of your 10-year contracts are expiring in the next year. I don’t know if you could talk about expectations for step-up in costs, but maybe how you’re thinking about the next rounds of negotiations. What are the key considerations, especially as programmers roll out their own streaming options?

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

Jessica, it’s Mike. I’ll just jump in ahead of Steve on the working capital. Working capital this quarter, primarily the change is Sky, both the inclusion of Sky versus prior year together with second half of the year, particularly third quarter, is when football rights payments across Bundesliga, Serie A and Premier League kick in. So that’s what’s going on in working capital. Pleased with working capital and free cash flow, obviously, for the year-to-date, but lumpiness in working capital.

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

So in terms of the Peacock spending, marketing plan, et cetera, I think we’re going to remain pretty quiet until a month or 2 before launch in terms of the details for competitive reasons. Telemundo has been a huge success for our company. As Brian mentioned in his introduction, we’ve beaten Univision, which was at one point unthinkable. They were so far ahead. We’ve beaten Univision in primetime every year for the last 3 years, and we’re making real progress during the daytime.

We have not closed the revenue gap in terms of retransmission consent, which leads into your next question about the cable channels. We have a lot of deals expiring in the next 12 to 24 months and channels like Telemundo that have made big strides. MSNBC is another one. MSNBC is solidly beating CNN almost every night and by a fair margin. And CNN has a much higher affiliate fee than we do. I think you can expect to see us make some real progress there. But we’re not going to be precise about numbers until the negotiations are completed.
Jessica Jean Reif Ehrlich - BofA Merrill Lynch, Research Division - MD in Equity Research

And the question for -- from the cable operator perspective.

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

Jessica, Dave. So yes, so we won't comment on future time periods, but it's clear that we've had a couple years where it's been a cycle, where we've had lower cost increases in programming. Certainly recognize that in future times that could change and have more headwinds. But a couple of things. One, the whole landscape is evolving and changing. For those that go directly to the consumer, that is game-changing. We all know that.

I think the key thing we talked a little bit before, X1 is strategically important to us. It just gives us flexibility and either -- the customer has choice, a ton of choice on different platforms to find content. And we want to be a great platform for all the content that makes sense for our customers. So we're going to be disciplined as we approach all these matters, and we're going to use data to understand the real value. And to the extent that it is available on other platforms, we'll consider all those things.

Operator

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

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

Maybe a couple of questions, more for Steve on D2C. First of all, will the Peacock product be bundled with Flex? And maybe more broadly, have you been surprised at how promotional the landscape has been on the D2C side thus far? And as you look out into 2020, do you think that all these launches and the uptake and, frankly, how aggressively these things have all been priced will have an incremental impact on the traditional ecosystem in terms of both viewership and subscribers?

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

Well, most definitely, Flex is a huge opportunity for Peacock, and Peacock will be front and center on Flex. And Dave may want to speak to that more. But I think it's not only an opportunity for Peacock, but it's a great opportunity for Flex to be able to give a lot of great NBC programming, shows like The Office, to people at no additional charge to a broadband sub or a cable sub.

I think in terms of the overall ecosystem and the promotional intensity, I don't -- it's not too surprising to me. I think you've got the 3 biggest media companies, Disney, Time Warner and NBCUniversal, all launching streaming platforms. And this is a moment in time and a lot of people are being very, very aggressive about it. And I would anticipate that to happen until, at some point, there'll be an inevitable slowing down and shakeout, and the market will get a little bit more rational. But I think it's a moment in time, and consumers are making their choices of apps and viewing habits, and you want to be aggressive to get in there and make sure that your service is one of the consumers' handful of favorite services.

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

John, this is Dave. Just one other comment in the importance of Peacock to Flex and Cable, I think it's enormously important, and a showcase on why it really matters how we work well together to make the experience even better. So we are very much going to be active and promotional, but we're very extremely focused on the experience, and it happens when the 2 teams are working so well together.
John Christopher Hodulik - UBS Investment Bank, Research Division - MD, Sector Head of the United States Communications Group and Telco & Pay TV Analyst

Does it concern you guys that bundling these products together could accelerate the trends that we're seeing in terms of the traditional TV ecosystem?

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

I think the trajectory is pretty clear and it’s -- the marketplace is evolving anyway. And so Flex is, I think, going to be a targeted focus for us towards the high-speed internet-only segment. We’ll continue to do that, but we’re going to make sure that all of our broadband customers know that it'll be included. And we think this is the right step and the right thing for that segment.

Operator

Our next question comes from the line of Doug Mitchelson with Crédit Suisse.

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

Just on the broadband side, Dave, anything unusual driving the quarter? We’re always asked and I imagine you’re always asked about the longevity of subscriber growth in broadband. And so any update on DSL subs in the footprint and how you’re competing against fiber and upside you see in broadband penetrations would be helpful.

And then, Brian, and I guess -- and for you again, Dave, on the wireless side, obviously, a continued hot topic. Any thoughts about your MVNO and the leverage that you might be building as you grow that subscriber base, you grow the amount of revenue that you’re paying out to Verizon. And also, we’re asked a lot about strand mounts, and if you’ve tested that, have any thoughts on the effectiveness of strand mounts and whether or not that would help a wireless network partner, that would be appreciated.

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

Thanks, Doug. So let me start with broadband. Very pleased with the quarter, had solid performance in broadband all year. So it’s another quarter -- consistent quarter of solid performance. And so clearly, well over another year of 1 million-plus net customer growth. And the drivers, I think, are very consistent. I think the marketplace is growing. We have penetration upside, and that's going to continue.

Our focus, as Brian said, has shifted gears. Our innovation engine has been absolutely focused on broadband. And so the key for us is to differentiate the product. And it’s a combination of speed, coverage, control and now streaming with Flex, and this is all xFi. So we’re -- I think we have a very different product in the marketplace.

And a key thing that we have is consistent focus. While others, they may change from time to time, we've been squarely focused across the entire enterprise on having a great broadband experience, and that's how we compete. So our innovation engine is all over the aspects that I talked about.

And so nothing has changed competitively. Nothing has changed in segments, whether it's Internet Essentials or anything else. There's been pretty normal activity in that regard. But what we've seen is broad-based strength across the entire geographic area and across all segments, so it's just robust growth. And I think an important point to bring up is, is not only share growth, but it’s also strong financial results that we’re delivering. Residential broadband ARPU is up 4.2%, and residential overall broadband revenue is up 9.3%. So just robust growth in both categories, so I like our position going forward.
In wireless, I would say that we're -- our first experience is always to deliver also here the best experience that we can. And -- but we're absolutely looking at options and leveraging our infrastructure with wireless options. We're always studying and we are actively testing the options of being able to offload in any number of different ways. So we look at the trade-offs between price and volume and then the amount of data on our MVNO network and then when you offload data to our own network. So we will continue to test. We'll continue to look at this very closely. We think it's -- we'll be opportunistic when things come up. More to come later, but we'll actively consider that.

Operator

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

Marci Lynn Ryvicker - Wolfe Research, LLC - MD of Equity Research

Two questions. First, we've seen video subs decline at an accelerated pace for a while now. Can you just comment on who you’re losing? And do you have any visibility into when video levels out, and you're at a point where you maintain those core customers who really appreciate the bundle?

And then secondly, on Sky, what's driving expected customer growth in the fourth quarter? So we're still new to this asset. Can you remind us why Sky was down in the first couple of quarters of the year? Any seasonality we should think about? Anything in particular?

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

Marci, Dave. So we start with video and remind everyone, our primary focus at Cable is in driving growth in the overall number of customer relationships and then driving the lifetime value of those relationships. So we segment the video base of customers, and we’re focusing on growing profitable video relationships. And there are some segments where customers are in lower-end packages, the skinny bundled video, that -- and often, they’re in promotional packages. And we work hard retaining customers. But if we can't profitably serve this segment, then we're going to move them to a broadband-only relationship. And so not chasing the lower end of the video segment is behind the difference, I think, in the video results.

To also remind folks, though, that we added a record 309,000 total customer relationships in Q3, ending the quarter at 31 million customer relationships, up 3.4% year-over-year. And EBITDA per customer relationship is up 3.2%, and net cash flow is up per customer relationship 13.2%.

So we’ve been able to make this transition. This has been consistent. We're going to -- video is important to us, that it is profitable in key segments. And for those key segments, we package it with broadband. We'll continue to stay very disciplined and focused around that.

Brian L. Roberts - Comcast Corporation - Chairman & CEO

On Sky, Jeremy, you're on.

Jeremy Darroch - Sky Limited - Group Chief Executive, Sky

Yes. So yes, in terms of Q4, I'll talk on video, first of all. Christmas is a big -- always remains a bigger quarter for us in video in Europe. Bear in mind, of course, we've got lower penetration typically over here at our markets. So the idea of upgrading your TV for Christmas to Pay TV to Sky remains a strong idea for us here. It's not as acute as it used to be in the past when our business was very skewed, but it remains important. So the business really quite quickly now shifts to Christmas.

As part of that, we'll be driving Sky Q in particular very hard over the next quarter. Sky Q, which is I think Europe's best-quality, app-based TV experience by a long way, is about 40% of our business today, and we think we can get it a lot higher. So that's going to be central to our plans.
Alongside that, our programming mix really shifts. So at the back end of the summer, we’re very focused on sports, the start of the football season is important here. We’ve had a strong schedule this fall, this summer.

So our focus on screen really moves to entertainment and Sky Studios and our own originated content. We’ve got a succession of Sky Originals that will be coming to market in the next few weeks, and we’ll really get behind that. And then cinema, where we have still really quite a strong leadership in terms of our cinema proposition.

Away from TV, it’s pretty much steady as she goes, both in broadband and mobile. I’m very pleased with the progress, in particular, we’re making on mobile, where we’ve seen now as a service leader against all of the mobile operators. So I think our growth from the comms business should be pretty strong, I hope, over the next 13 weeks. And again, mobile, continuing with handsets is quite a good Christmas product, so we'll get behind that.

Brian L. Roberts - Comcast Corporation - Chairman & CEO

Great. I would just add that, from my perspective, for the first 9 months of the year, I think Sky added in the last 12 months running close to 400,000 subs, I think, Jason or Jeremy? So I think it’s tough economic headwinds over there. We read about it everyday, and uncertainty is never your friend in business climates, and there’s an awful lot of uncertainty. But we’re really pleased, I certainly am, with Sky 1 year later, what it’s done for the whole company, giving us all the plans that Steve and Dave have been talking about. It’s completely integrated. And Jeremy and his team, I think, are executing great. Jason?

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

Thanks, Marci. Next question, please?

Operator

Your next question will come from the line of Brett Feldman with Goldman Sachs.

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

You continue to see, I think, slightly more than 100 basis points of margin expansion in Cable Communications this year. I believe you've done 100 basis points or more every quarter so far this year. So I'm wondering, are there going to be any headwinds in the fourth quarter that prevented you from improving that outlook?

And maybe just to be more specific, it does look like the technical and product support cost did grow a bit more quickly in the third quarter. I was hoping you could give us some insight into that. I think maybe your MVNO costs are in there.

And then just the last accounting question on this. As Flex penetration grows, will we see that in OpEx or CapEx?

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

So Brett, it's Mike. I'll start. So we do -- we expect to be better than 100 basis points improvement in margin, as we've said. And in the fourth quarter, particularly, we expect to see healthy year-over-year margin improvement in Cable. But just remember that it's a political comp in that quarter as well. But net of all that, healthy fourth quarter margin growth coming in Cable, and that will flow through to the full year.
David N. Watson - Comcast Corporation - Senior EVP & President, CEO, Comcast Cable

Brett, Dave. So specific to Q3, always remember Q3 is technically a little busier with back-to-school activity, and so I think that's always good, welcoming the kids back. So -- but Mike talked about Q4. Important are the fundamentals going forward of the non-programming expense and -- that are positively impacting margin. One, continued focus on the connectivity business is going to stay, business services, residential broadband, just improves margin in doing that. We're making significant improvements in serving customers through digital means. So we're going to continue to press on that. We think it's a great opportunity. We're in early innings on that. And then overall cost control remain very focused on that as well. So I expect those fundamentals to carry forward. And to the point Mike made, given fourth quarter has the political tougher comparison, but we still expect healthy growth going forward.

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

And then on Flex, Flex, think of that as CapEx. But as we've said before, we don't give multiyear guidance. But on capital intensity, the improvement that we've seen of greater than 150 basis points projected for this year, we've always said the trends behind that are we expect to see them continue. And I don't think the initiative around Flex would -- is going to change that.

Operator

Your next question comes from the line of Jennifer Fritzschke with Wells Fargo.

Jennifer Fritzschke - Wells Fargo Securities, LLC, Research Division - MD & Senior Analyst

Two, if I may. One, back to wireless. There's a number of spectrum auctions coming up, CBRS next summer, C-Band's being talked about, even millimeter waves. Can you talk a little bit about spectrum ownership? If you look at these 3 options, is it something you could see participating in, in a more formal way if only to offload some more traffic from your MVNO to your hotspots or your own network?

And then secondly, if we look at the components of your CapEx, line extension and scalable infrastructure were down year-over-year. I know in the past, you had mentioned timing issues there. Should we expect that to continue to be on a steady decline? Or is it -- or should we not?

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

So wireless, in terms of spectrum, we'll always be opportunistic. We'll evaluate every option. Nothing more really to cover on that, but we always look at different options. And to my earlier point, we're actively looking at models that may work in terms of leveraging our infrastructure. And to the extent that -- I think we're in a great position in regards to cable infrastructure, and we're going to lead the way in terms of understanding that and testing different options. But we'll be -- we'll evaluate as things come up.

In terms of CapEx, I think we continue to make very good progress in improving our CapEx intensity and, as mentioned, on track for at least another 150 basis points reduction this year. And it's a consistent approach that we're going to -- we'll continue to invest where we need to in the connectivity business, but we're going to realize the reductions as video CPE continues to not be a big driver for us. So I think expect going forward those fundamentals to continue.

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

It's Mike. I'd just add that those particular scalable infrastructure and the line extensions, that's more timing, third quarter versus -- I'd look at it over a 12-month period rather than quarterly on that one.
Operator

Our next question comes from the line of Philip Cusick with JPMorgan.

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

One, and then if I can, I guess, 2 follow-ups. So one, Mike, to just follow up on what you just said. It sounds like there's some push-out on the network CapEx side, can you expand on that a little bit.

And then a follow-up for Jeremy on Sky. Can you break down the drivers of local revenue decelerating? Looks like the DTC revenue is fairly consistent in local, but ad revenue was down a lot. I know there's some issues around sports, and content sales were down as well. What in there was a onetime hit versus being more permanent?

And then just one other question. Growth in parks has been volatile around storms and maybe competitive issues, and you aren't opening gates like you had been once. How should we think about the underlying growth at the parks business?

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

So Phil, it's Mike. Not too much to add to what I've said thus far on Cable CapEx. I mean, I do think, hard to look at one quarter to the next to the next. The network, we're happy to invest in the network as usage of the network keeps going up, and want to continue to stay ahead of customer expectations. So expect that's very healthy CapEx going into the network. But it just is a little lumpy. I wouldn't say things are pushed out so much that it follows its own timing based on what folks in the field are doing.

And so stepping back up, we are getting more efficient on capital intensity 2 years in a row now. This year, heading towards the 150 basis points of intensity improvement year-over-year. And as I said, we don't get into multiyear guidance, but I think the expectation of the ability to scale the network, scale the business and what's going on in CPE gives us confidence that those trends ought to continue. And again, that's despite the opportunity that we have with Flex.

Jeremy Darroch - Sky Limited - Group Chief Executive, Sky

Yes. Jeremy here. In terms of revenue trends, on ad revenue, I'd say broadly -- look, I'd say about 1/3 of it is market, TV market. Advertising markets in Europe, as you know, are pretty much all under pressure with mid-single digit, perhaps a little bit more, declines year-on-year. That's quite different from what you're seeing, I think, in the U.S. at the moment. And probably the balance of it is really down to gaming legislation change here, which is specific to the U.K. and Italy, hasn't arrived in Germany. And we're probably disproportionately affected by that, of course, because we've got such a strong sports business and the sports leader in Europe. That will work its way through over the course of this year.

In terms of content sales, year-on-year, they're up. So the progress we're making in content sales, as we start to commission more of our own content, is good. It is down quarter-on-quarter, but there's nothing structural in that. It's just a bit lumpy. Obviously, as we scale, hopefully some of that lumpiness will disappear. But at the moment, we see a little bit of that.

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

So in terms of the theme park business, 6 years ago, we made about $1 billion in the theme park business, and now we're at about $2.5 billion. So theme parks have been, historically, one of the fastest-growing parts of our portfolio. And we have a lot to look forward to. We're opening Nintendo in Japan, in Osaka, in our theme park in Osaka, which is very close to the headquarters of Nintendo in Kyoto. And then if you go out into 2021, roughly 18 months from now, we open in Beijing. And Brian and I were there last week with Tom Williams, who runs our theme parks. It's going to be a spectacular park, and we're really looking forward to that. And we recently announced we're doing a fourth gate in Orlando in 2023. So we
think the theme park business is a great business for us, and we're going to be making the investments to try to grow cash flow aggressively in the future.

Operator

Our next question comes from the line of Craig Moffett with MoffettNathanson.

Craig Eder Moffett - MoffettNathanson LLC - Founding Partner

Two questions for Dave, if I could. One, just to follow up on the questions that have been asked about wireless. Being able to offload traffic from the -- your own -- or from the MVNO agreement with Verizon onto your own small cells, as I understand, it will require eSIM programming. I'm sure you've tested that at this point given the eSIM inclusion in the new iPhones, for example. Can you just talk about how comfortable you are with your ability to manage traffic and direct it between your own small cells and the Verizon network just based on eSIM programming?

And then a second question. It's been a while since we've really talked about the commercial services business, but business services is now getting close to 14% of your Cable revenues. I wonder if you could just update us on your penetration levels in the various segments of business services and where the growth is coming from at this point? Is it -- are you really starting to take share in the enterprise market now? Or is it still primarily small, medium business?

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

Craig, so first on wireless, we're absolutely testing the eSIM, dual-SIM capability on both, whether it's iOS and/or Android. We think that is an opportunity, and we'll continue to look at that. And that does go with any offload strategy, so we're very active in thinking through that. And whatever -- in terms of the business model and the business planning around it, any potential shift will be a positive net economic outcome for us as we look at, but it's early still. But I do think that there's promising opportunities when you combine dual SIM with the cable infrastructure.

Second thing, in terms of business services, yes, it's a really important part of our growth and what has been, will continue to be. We're generating almost $8 billion in annualized margin-accretive revenue. And the addressable market now is about $50 billion when you include new product opportunities, everything from WiFi, security cameras, cell backup, SDWAN. So you add up all those things, we're -- for those products, it's still early innings on that. So we're going to continue to be very focused on this opportunity.

In all 3 segments, you asked about penetration, we still have opportunity in all 3. SMB is a little bit more mature, but there's growth opportunities there. In mid-market and certainly enterprise, we're in the high single digits at this point, working well, getting key clients on. So there's good upside. I think we have a competitive advantage across the board in every segment. We have a better product, superior product. We have better service in terms of how we locally deliver it and pull it all together. We have great pricing. And I think I like our position versus incumbents in this regard.

Jeremy Darroch - Sky Limited - Group Chief Executive, Sky

And we've talked about -- because we're going to -- we're also going to launch a broadband business offering here in the U.K., and that will be our first significant entry into that segment. We're doing it direct from the market-based team and we brought one of the team across to lead that business here. So we'll broaden out from the residential market in the U.K. into the business services market, and obviously try and replicate some of the success that we've seen stateside. And that will be a big new segment for us, actually, to attack here in the U.K. And obviously, over time, when we get established in Italy, we'll be seeking to do that in Italy as well.
Brian L. Roberts - Comcast Corporation - Chairman & CEO

Yes. I just want to say, that's a great point, Jeremy. We -- between Matt Strauss going to Flex, from Flex to Peacock, technical leads and finance and, of course, now business services in the U.K. and there's a senior marketing team coming to Cable from Sky. The integration, as I said, is one of the real highlights and makes the company unique in the conversation we've been having here.

And then just on the wireless point, I just want to add in. There were a number of questions there. I think all of this is, the trend is going in a way that is very supportive of our capital-light approach to wireless. We're getting scale. We're learning all the realities of a new business extremely well. And the technology, the innovation in the handsets, possibly spectrum, all the conversations we're having, all of those are net positives to where we're going. And we've seen this with Sky in one respect is when you get to a certain point of scale, a number of people want to compete to have relationships with you. And so all that put together, I'm really pleased with the team. And we've taken the leader of that mobile area and given some more responsibility, too. So just a lot of good momentum across the board.

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

Yes. Capital-light approach that Brian mentioned, what we're doing today is working. We're encouraging results and driving improving broadband retention. We're attracting new customers through different sales channels and achieving and working towards the path for positive stand-alone economics. So we're -- I'm real pleased with our current position, and we'll be opportunistic going forward.

Operator

Our final question will come from the line of Michael Rollins with Citi.

Michael Rollins - Citigroup Inc, Research Division - MD and U.S. Telecoms Analyst

Just approaching Xfinity Mobile from a different direction. What's working from a selling and bundling perspective as you look at the success of adding customers on a platform now for more than 2 years? How important is the retail experience? And is this something that gets expanded to new direct and indirect locations over time? And finally, how do you view the value of bundling OTT media content with the wireless service to create an additional hook, whether it's to acquire or retain customers?

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

Well, we're -- there's several things that are going on that are helping, starting with the fact that we have a great value proposition. And we offer by the gig. We offer a lot of choice in terms of unlimited to select plans that have some pieces of data that are included. So we have a lot of choice that we're delivering, and I think that's helping us achieve success in multiple segments. I think we're in a good position in regards to BYOD. So that helps. And then we're in a good position when great new products come out from Apple or on the Android side. So we kind of have like a full slate covered.

In terms of channels, retail, I think the good news is we're able to sort of upgrade our existing retail without having to spend a lot more in terms of new locations. We do add a few locations here and there along the way. But mostly, we've been focused on upgrading retail capability. And mobile is absolutely a key part of that. So -- and it's helping us, I think, attract new business when we do that.

So we've been competing, whether it's broadband, whether it's mobile, we look at OTT things. I think our value proposition is terrific as is. And we are extremely competitive with our base core offering. And there's a lot of choice out there in segments. We've been competing against those that have offered different kinds of OTT offers, and we've done quite well. And we respond competitively all the time to different kinds of offers. So I think we're in a good position.
Jason S. Armstrong - Comcast Corporation - SVP, IR & Finance

Okay. Thank you, Mike. And with that, we’ll wrap up the call. We want to thank everybody for joining us today. Regina, back to you.

Operator

There will be a replay available of today’s call starting at 12:00 p.m. Eastern time. It will run through Thursday, October 31 at midnight, Eastern time. The dial-in number is (855) 859-2056, and the conference ID number is 8088543. A recording of the conference call will also be available on the company’s website beginning at 12:30 p.m. Eastern Time today.

This concludes today’s teleconference. Thank you for participating. You may all disconnect.