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CMCSA - Comcast Corp at MoffettNathanson Media & Communications Summit

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CORPORATE PARTICIPANTS

David N. Watson *Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications*

CONFERENCE CALL PARTICIPANTS

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

PRESENTATION

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

Thank you all for joining us for day 2 of our Media and Communications Summit, and thank you for -- to those of you who are joining us on the web this morning for the webcast.

This is a real treat. We've had Comcast as a guest every year at our summit since we started, but this is the first time that we've had the privilege of welcoming Dave Watson. And Dave is the new President and CEO of Comcast Cable, and I think this is the first one of these you've had the opportunity to do in your new role. So first of all, congratulations, and welcome and thank you for joining us.

David N. Watson - *Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications*

Thank you, Craig.

QUESTIONS AND ANSWERS

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

Dave, let me start with your new role, if we could. As the new CEO of Comcast Cable, talk about your strategic vision for the business. You've inherited a business that, I think it's fair to say

(technical difficulty)

on all cylinders at the moment. So I guess the obvious question is, what do you do differently? And what's your vision of what you can do to take this business to the next level?

David N. Watson - *Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications*

Well, the -- first off, great being with you. It's an exciting time to be doing what we're doing. But the -- for me, I spent a lot of time with Neil and -- very good team, so no great surprise. I'm going to stay focused on what's working. And the results, I think are -- yes, as you said, there is good momentum. There's a lot of good traction across the 3 main things that we're focused on. And working with Neil in my prior role of operations, that

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execution, but spent a lot of time on the plan itself. And to me, it's healthy, sustainable growth, staying very focused on that balance of share and the appropriate rate and making sure we're focusing on growth areas like high-speed Internet. Business services is a major growth area for us. We're going to stay very focused on that. Innovation is the second big area, good progress with X1. We're not going to stand still on X1. We're going to continue to innovate around that platform. The -- we are looking at broadband. We continue to add capacity, speed, capabilities. Just launched



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a brand-new brand, xFi, we talked about, that redefines WiFi and takes an experience that is really important in the customer's home and outside the customer's home and simplifies it, makes it a better experience. And then mobile. So we're going to continue to innovate. But there's one area to me, and I was very focused on this before, and this is not inconsistent in terms of strategy, it's just that we want to accelerate it, and that's the experience. I think Cable, we started a couple of years ago and a real focus around how we improve the experience. Part of it is directly connected to products. The more we get excellent out there, the better job we do with broadband. I think mobile will help. I think you seed great products in customers' homes, and that helps in terms of improving the experience. But cable is an opportunity in terms of how do we make things easier. And you look at areas like when customers move, when they onboard. It had -- previously, it's been just too hard, too many moving pieces. And how do we simplify it? How do we reduce transfers? How do we just get the repeats right? And so there's -- it's a bit of a cultural shift, quite frankly, in terms of switching that. And so we're going after our version of NPS, the Net Promoter System. And with us in the cable world, and in particular, Comcast, if you get something like that wrong, that's a problem. And so your teammates throughout the country will tell you that in all sorts of different ways, but I think we have good traction on that. So we're starting with NPS, but we need to accelerate these opportunities. And I think one of the great opportunities for us is digital and giving customers more control over the experience, again, whether they onboard, whether they move, and being able to solve problems independently. It's good for the customer. It's good for us. One small thing, for us, it's a big deal, but -- we took out literally 22 million phone calls year-over-year

(technical difficulty)

just by doing the right thing. So it's not an approach where -- we'll still have financial discipline. We'll still look at cost, very tough on that. We'll invest to win. But this is one of those rare moments, I think, in the Cable business where we can take out transactions that are unnecessary and just -- and do a much better job with the experience at the same time. So that's the one area that I want to accelerate, really want to build on, and so look for more of that.

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

Okay. There's a lot there that we can and will follow up on about all of the different pieces of HSD and business services and xFi, mobility and all that, so -- and, of course, digital. I want to stay with one higher-level vision question first, before we do that. And that's -- it's pretty clear that we're in some sort of a transition with OTT accelerating and, therefore, the video business facing some unit pressure for the industry as a whole, at least, less so with you, at least in the most recent quarter. Most of the -- or I would say a lot of the cable CEOs in the country have already pivoted to a view that broadband is the primary product, and it's a broadband-first vision of the business. Comcast, more than any other company, has preserved its vision of it's still an entertainment and video entertainment business, first and foremost, or at least equally so. How do you put your own stamp on that? And what's your own vision for how do you conceptualize this business? Is it a connectivity business? Is it a video entertainment business? And how do you think about that?

David N. Watson - *Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications*

Well, we love broadband, obviously. But when you have -- the single best app for broadband is video. And so when you have a great video product, like we do with X1, the marriage of the 2 best-in-class products -- X1, we feel -- we're very confident is the best in the marketplace. Our Broadband is a terrific product. When you put those together in a package that makes sense for the customer, you got to believe in both. And we do, and it works. So we have 71% of our households have at least 2 products. It helps in terms of -- I think in every respect, in terms of ARPU, in terms of churn. So it's -- to me, it's both. You can't separate it. I think it helps the -- grow Broadband. And to extent you're just talking about broadband independently, then I think that's -- you can do that and others are trying. But when you put them together, the more the customers gets, the better the deal is, the better the experience. So our -- and in particular, broadband being defined as WiFi and that you have the experience. They're so interlinked. So our view is we love X1. We love the...

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

So when you get to WiFi, you mean primarily WiFi in the home or including out of the home?



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David N. Watson - Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications

In the home. Eventually, we're going to have 17 million hotspots outside the home. But I'm primarily focused in the home with broadband. We ask customers what do you think of broadband. 86% of the usage is on WiFi.

Craig Eder Moffett - MoffettNathanson LLC - Co-Founder, Partner and Senior Research Analyst

And so how do you -- so how does that affect the way you think about the Broadband product to think of it as a WiFi service in the home? Is it -- do you -- is that something you charge extra for? Essentially for the service function of maintaining your broadband or your WiFi network in your home. But how does it inform the way you market the service and sell the service?

David N. Watson - Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications

Our approach is pretty consistent, whether it's X1 or Broadband, that we want to make sure that customers know the key points of differentiation. And for us, we think it's speed, it's coverage and it's the full capabilities. And that's why we rolled out xFi. And for us, it's the version of what X1 did for video, we think xFi will do for WiFi in the home. And so I think it's fundamental to broadband, and WiFi is just part of the experience. And when you go back to the question of video, everybody -- I mean, you think about the amount of usage. It's a stunning amount of usage through WiFi. But it's also -- I think the number that our team was looking at, the amount of connected devices in just a couple of years will be 50 in that single home.

Craig Eder Moffett - MoffettNathanson LLC - Co-Founder, Partner and Senior Research Analyst

50 per home.

David N. Watson - Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications

50 per -- it's just -- and these will be, of course, devices that we all have and we all enjoy and being able to enjoy any app. We love our app, but there are tons of apps. But there'll be machine to machine. There'll be lots of things that'll be going on in the home, and that'll be fundamental. Broadband value is connected to WiFi. So we're very bullish on that.

Craig Eder Moffett - MoffettNathanson LLC - Co-Founder, Partner and Senior Research Analyst

So let's start on the video business for a second and traditional video. I mentioned a moment ago what I think everyone has been talking about throughout this conference, and that is the acceleration in OTT. And you -- there's been the sense of a watershed moment with Sling TV and DIRECTV Now and now you've got YouTube TV and Hulu coming out. What have we learned so far about that business? And does the rise in OTT that I think we're anticipating over the next couple of years, does it change the way you run your business? Does it change the way you market your plans?

David N. Watson - Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications

Well, let me start with -- I mean, the -- it is very clear this is a competitive environment, and you go through cycles. And sometimes when you have new entrants, like the OTT folks that are coming in, then you have existing competitors that react, and it's sort of you go through a cycle. We've been through it before. It was already -- there was a fair amount of competition before. But this is clearly one of those competitive moments when people come in. And one of the things that we have seen, number one, we take it all seriously, take nothing for granted. But you see that there's a lot of trialing of new things when they come out. It's not entirely people are -- it's not either/or. In many cases, they'll trial something, a lot of the new entrants are doing it free for 30 days, and so you see a spike. You see a spike of interest. In some cases, it's complementary to existing subscriptions. They try it for a while and then they see whether or not it works for them. So the question you ask is, does it change what we do?



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And while taking it seriously, the answer is we're going to stay the course because we really like our position of having the very best video product connected to broadband. And that with X1, it is this aggregator of aggregators where we can provide the best of live, the best of DVR, the best of on-demand and apps and being able to give customers an integrated experience, like Netflix. Later on in the year we'll roll out YouTube. And we're going to continue to...

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

You're integrating the YouTube TV product into X1?

David N. Watson - *Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications*

The one with -- their traditional YouTube.

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

The traditional YouTube, okay.

David N. Watson - *Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications*

Correct. So we'll continue to innovate around that and give customers the full solution. And we'll still talk about full video. We'll still talk about the best-in-class capabilities that we have. But in addition, our strategy has been before when they came in, to be able to target segments and package our products in such a way that we want to be competitive to multiple segments. So whether it's kids on campus with XFINITY on campus, whether it's the targeted use of some skinnier packages, we'll do that. Doesn't mean we don't, first and foremost, talk about full video and connect full packages. We believe very much that our full video is a great solution.

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

Can you still grow -- I mean, you've been actually growing your video business in -- over the last year. Can you still grow the basic -- the video business, as we measure it today, the linear video business?

David N. Watson - *Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications*

I believe you can, and our results in the first quarter are a pretty good example, good results of 42,000 net additions. It is competitive. Back to the first point, so you go through a period where there'll be a lot of trialing. And so we'll see and you go out through a year. But I'm pretty confident that our approach is a good one. And that while people will kick the tires on certain services, that we'll be a very good answer for people to come back once they've trialed things, their free 30 days are over. Then some will take it, some will want to come back because we have a good answer. So we will be competitive, and this is -- we found it to be effective

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targeted basis with some smaller video packages, and we've had success. When they take the smaller video packages, they move up to full, about 30% of the time, over the course of the relationship. So this is an ongoing previous strategy. You look at the percent of those packages, pretty small than our entire video base. So we'll still talk about full video. But I think even with a frothier competitive environment, we like our position, we like our products.



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

So let's -- one of the most consistently misunderstood issues, and I'm not sure why because I think you guys have been pretty clear on it, is your own vision for an OTT service out of region. And maybe it's that people consistently mix up your in-region strategies and your out-of-region strategies. Can you talk about those 2 things for a second and talk about your vision for what you do with your own digital distribution of video packages, both for people in regions that are subscribers in region and then for the vision of does it make sense to go out of region?

David N. Watson - *Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications*

Well, let me -- I mean, that's an important question. We do hear that. Number one, we love the opportunities in the footprint. We think in -- if you look at across-the-board business services, big opportunity upside we can talk about. But the residential space in terms of broadband penetration, in terms of our opportunities to still grow within footprint, that's number one. Number two, every time we look at the business model outside of footprint, it just doesn't make sense.

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

And why is that? Talk more about the economics of those business models.

David N. Watson - *Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications*

We look at it in terms of with full rights. We have some rights, but not complete. If you want to go out and get all the rights, the content rights connected to it, it's very little to no margin at this point. So we're not questioning others and their approach towards it. It is -- their approach will be what it'll be, and we'll compete when they come into our footprint aggressively with X1 or Broadband. But when we look at taking that similar approach in that same model, we haven't found one that works. So economically, so -- but having said that, we think the investment in X1, the capability, really, is a great IT network. To the extent that, that changes, I think we'll be in a good position to the extent that there's a model that does work. Haven't found one yet. But we love X1, and X1 would be a great technology solution for outside the footprint as well as inside. But we just haven't found something that works.

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

Now inside the footprint, you've got digital offerings that you could conceptualize in some ways as sort of set-top box-free versions of your service. Can you talk about how those things are evolving and how you see that?

David N. Watson - *Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications*

Yes. We refer to this solution, this digital solution as Instant TV, formerly called Stream, now Instant TV. And it is an IP-managed network solution for the segment that is not perhaps interested in the full -- getting it to the main TV. They just want it to a device. So they stream directly to an iPad, to any device that you want inside the home.

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

But now that you're supporting -- you also support Roku and Samsung Smart TVs for that app, right?

David N. Watson - *Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications*

Yes.

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

Okay. So you can do it to your primary TV.

David N. Watson - *Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications*

You can, yes, absolutely. What we found, a lot of people that are interested, there are ways of getting it to the TV. But a lot of the interest that we have are millennials that are just interested in devices. To extent they want, we can provide a box solution. If they want that, very easily done. But if they just want it to stream directly to a device -- again, it's a managed network solution so -- but it's...

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

So still the same quality of service.

David N. Watson - *Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications*

Correct.

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

Is there a vision where -- I guess, let me ask it a different way. Do you like a future that doesn't have set-top boxes more or less than a future that does have set-top boxes? Because there's been a lot of speculation that customers would actually prefer to have the same service perhaps but without the experience of the set-top box. And it's something you theoretically could deliver, right?

David N. Watson - *Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications*

Well, I think the -- in an all-IP world, a couple of things happen where the boxes continue to improve. So it's not so much to me a question of a box or not, it's a question of just how easy it is. And the first phase of that, will they be wireless? And so the -- versus having every single set-top box connected through a wire. And so we're working very hard. We have boxes that we're rolling out right now that are wireless set-top boxes that are connecting to the gateway. And so I think that's just a better experience for lots of reasons. So we'll continue to improve on that. We think that it goes back to the full video solution. And we think in certain cases, boxes are just fine, and they're -- we continue to improve. But with an all-IP down-the-road evolution, we're going to see that we're going to be able to -- there'll be certain solutions that'll be gateway-oriented and then delivered directly to a device. And it could be smart TV, could be any device. And there'll be options that will -- down the road, that won't have a set-top box.

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

A great introduction to X1 because -- my experience in talking to investors about X1 is that even after all this time, there's still a lot of confusion about what X1 actually is. Some would say it's a set-top box, some would say it's a user interface, some would say it's a video delivery platform. And the reality is, it's all of those. How do you conceptualize what X1 actually is? And what elements of it are the most important for why it's been such a successful driver of your business?



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David N. Watson - Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications

We think of X1 as an operating system, and it connects the -- all the different variations of video in such a seamless and integrated way and with the capability of voice, being able to take the remote. And what customers tell us over and over again, what they want is an asset. They want the show. And so sometimes they go to the channel -- but if you want The Crown, you say The Crown and then there it is. You don't have to search. So it's the best of the search and recommendations capability in an IP-based system that it really connects all devices, and it does video. It eventually will connect the home experience, so home devices that -- whether they be cameras and other things that'll go to the full screen. But in terms of video, it's a -- you look at the -- just the voice remote alone, we have 14 million deployed -- and hopefully, we have some folks here and others throughout that once you experience it, you know. It's just great. It really -- it just -- it works well, and it is that operating system that connects you to what you love. And so over and over -- and it's an impact in a number of different ways. One, when we do research around perception and the brand, there's a delta immediately.

Craig Eder Moffett - MoffettNathanson LLC - Co-Founder, Partner and Senior Research Analyst

Among X1 versus not X1.

David N. Watson - Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications

Yes. So just in terms of how they feel about us as a provider, there's a lift that we get from that, the amount of usage that we see, the engagement, the product engagement. If it's simpler to use and easier to get to what you like, then we see more on-demand, we see more even pay-per-view, we see DVR consumption increase. It's just a better overall experience, so.

Craig Eder Moffett - MoffettNathanson LLC - Co-Founder, Partner and Senior Research Analyst

And you see churn reduction, obviously.

David N. Watson - Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications

We continue to see churn reduction.

Craig Eder Moffett - MoffettNathanson LLC - Co-Founder, Partner and Senior Research Analyst

Can you quantify that for us? You're now at over 50% of your base having X1. We don't get to see the churn numbers anymore like we use to long, long ago. But have we seen -- can you quantify the churn reduction that you've gotten out of that?

David N. Watson - Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications

We're 52% on our way to low 60s in terms of X1. What you'll see, as you go deeper into the base, that while there's still churn benefits, there are still churn benefits, that it just makes sense that the delta that we had earlier on will begin to tighten up a bit. But there is still a churn benefit that we have, and it's both voluntary and involuntary. It's across the board. So we're excited about X1 today. We're excited where X1's going in the future, and we -- it is this -- as we talked about, this aggregator of aggregators. Because if you -- we make it easy. And Netflix is a great example. Already, 30% of our X1 subs have ported over either their existing Netflix account or just have signed up right through X1. And so the more we do of that, the more useful it is, the easier it is. And so I think we'll still see churn. Not quantifying the benefits, but there's still a benefit.



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

Yes. That's -- so let me just make sure I understand the numbers. So 30% of your subs, you said, have ported over their X1 accounts to view it through the X1 experience -- their Netflix accounts through the X1 experience.

David N. Watson - *Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications*

Yes.

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

Very interesting. Let's switch over to the Broadband business for a second. I guess the obvious question is -- or at least the way I've always conceptualized the business is I think about it in terms of competitive cohorts, where you compete against legacy DSL, where you compete against fully upgraded fiber-to-the-home, where you compete against IPD SLAN and so on. As you look out at your footprint, where are your gains coming from today? What has made it possible to sustain the kind of growth that you've had in Broadband even as the growth rate in the industry has now started to decelerate a bit?

David N. Watson - *Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications*

Let me start with that question. The one that is key is the product itself. The reason why we are sustaining, I think, the growth that we have, we just provide a great product. And so we've increased speeds over time, 17 times in 16 years. We continue to -- we do it on an ongoing basis. Every year to 18 months, there's a speed improvement. We don't define, as I mentioned also, the broadband experience as a wired experience, we talked about that before. Very much in the home, WiFi is critical to customers. We hear it all the time. I just took a customer call a couple of days ago through NPS. I do it as well.

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

I was going to say all of your people take customer calls. Is that right?

David N. Watson - *Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications*

Myself as well. I got a little bit of an earful from a great customer in Houston and -- but you know what? The thing I got was just how critical WiFi is, and WiFi is just essential. It's not -- you can't separate it. And so the amount of consumption, the 86% of usage in the home is WiFi. So for us, we want to make the product great. That's why we're so crazy about making sure that WiFi is fantastic inside the home. When you look to the growth opportunities, how we compete -- so if you have a great product, we think we've continued to focus on great devices, great coverage inside the homes, speeds. Then you look at things like DSL. There's still -- believe it or not, there's just about almost 5 million DSL opportunities within our footprint alone. And so -- in addition, as the telephone companies have built out and their build has slowed to stopping, then there's a maturation that's occurred where we go -- we compete. After their 1-, 2-year offers are over, we have a fair shot at getting them back. So if you have the right product, the right position in the marketplace and you connect it, to me, it goes back to the earlier point, you have best-in-class products, both in video with X1, with great broadband, then people are going to consider us. So they may have left us a long time ago, the telephone companies, we find that we can compete very aggressively and win some of those customers back. So the combination of DSL, there's still -- I think the overall broadband Internet subscription penetration is like 75%, a little bit of room there too, just to grow the overall market. I always come back to broadband, to our penetration, which is 44%. And to me, that's too low and that we have an opportunity to get better. So you combine it with the best product, you look at the DSL opportunity. We're going to compete aggressively toe to toe with the telcos and everybody else that's interested in broadband, but I like our product position. I think there's upside.



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

Do you have a north star that says, ultimately, I think it ought to be x instead of 44%?

David N. Watson - *Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications*

It's just -- it should be well north of 44%.

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

Higher than 44%.

David N. Watson - *Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications*

Yes. Big daggers from many of these folks up here.

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

Talk about the way you think about the 2 levers of price and volume for Broadband. There's some that would say you have a lot of pricing power in Broadband just because of how good the product is and how the utility -- the customers keeps rising. On the other hand, you clearly have a vision of raising that 44%. How do you think about the 2 levers?

David N. Watson - *Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications*

We -- it's what we do. Every day, we think about rate and volume. So -- and it begins with appropriate positioning of your product. If you believe, which we do, we provide good value to the customer, that it's a good product, there's high levels of engagement, they use it and it's an important service in the household and you do a good job, you're going to price it in an appropriate way, and there's value with it. So we're not going to chase every low-end offer, but we will compete. We're going to compete, and we're going to compete by segment and making sure that we are -- it's not just one-size-fits-all at this point.

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

And by segment, what are the segments? How do you -- what's the segmentation scheme that you have in your mind?

David N. Watson - *Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications*

We look at overall households, we look at millennials, we look at families with kids, family without kids, we look at multiple segments and we try to position products. We always lead with full broadband, the flagship Broadband product, full video. We -- and we think that's the best overall value. And in particular to your question, Broadband is terrific, and we don't want to diminish it in terms of value. So -- but what you -- the key, and a lot of people look at just the overall pricing, we pay attention to in-state pricing. We also pay particular attention to promotional pricing, and we look at ARPU on the way in. We look at opportunities to increase the relationship once they've started with us, and then we most certainly look at retention. So every aspect is an opportunity. But we want to protect broadband because broadband is a great value within the household. But it starts with if you don't have a relationship in the first place, then it's just not as -- so we're very focused on market share but at fair pricing, at fair rates.



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

Have you seen any encroachment at all from wireless unlimited plans?

David N. Watson - *Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications*

We -- really, it's early. It is early with wireless. But the short answer is not really. And you look at consumption, the key thing here that I think the average wireless is like 3 gigabits (sic) [gigabytes], and our Broadband usage within the home is like 88. And it's just -- and we're not stopping. Again, we want to encourage folks to use video through WiFi throughout the household, and it's just terrific. And more applications, more competition just encourages us to do better. We're not going to stand still. If you look at the comparison, where that was back to 2015, our 88 was like 57. So tremendous growth within a relatively short period of time and we're not stopping. So I think wireless unlimited, the cell phone gang, I think it's good and we're interested in that too. But we don't see that as a real issue, substantial issue to broadband at this point.

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

And can you talk about what xFi does for your Broadband product and just how that changes the competitiveness of the product?

David N. Watson - *Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications*

Well, we felt that WiFi is just -- in general, both in the home and most certainly outside the home, is just too hard. It's a -- it's not the easiest thing. Now we've done a pretty good job inside the home. And so we've been very focused for years in developing best-in-class wireless gateways. So that is -- just like X1, just didn't wake up one day and said, "Let's just go do that." This is something that our -- Tony Werner, our technology team has been very focused on and building the capability. So xFi, to us, really is the 3 pillars of best in speed, great coverage inside the home and then unique control over the WiFi experience. And so this is an area that if you take a -- something as simple as Bose speakers, that you have -- that have WiFi capability, everything, everyone I think gets this, all these appliances and every electronic device, including TVs, will be more and more wireless, and how simple can we make the experience connecting devices and/or controlling the experience inside the household. And if you want to -- if you have an issue within a room being able to -- instead of shifting where the gateway device is in the home, we've invested in a company called Plume, you've heard about, and Plume gives us the ability to develop mesh WiFi capability, which, literally, as straightforward as a pod device, plug-and-play, directly connects to our network and then the room lights up. And so it's a -- to us, it's the best of really the 3. It's just simplifying WiFi and giving customers more control over their devices. And over time, this is going to become increasingly important to customers. And again, it really is, I think, this -- it'll be the equivalent to the X1 impact to video. It'll take some time to seed it. So far, the responses have been encouraging. And the devices, too, one other point, to -- we have a couple of great devices. We're just rolling out right now a new one called the XB6 that has the ability to go past 1 gig in terms of speed WiFi capability to -- up to 1 gig and even beyond it, but most certainly up to 1 gig.

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

And that's also a television gateway for your set-top boxes, correct?

David N. Watson - *Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications*

It could be. So it is a -- it's a terrific device. We will position that in higher-end packages, so -- just as we did in the early days of X1. It'll be fairly priced, but it will be in higher-end packages. So we think that xFi is a great way to reframe WiFi inside the home, and we're going to go to work on improving outside the home as well as we connect XFINITY Mobile with that.



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

Let's move to business services for a second, which has been your biggest growth engine, I guess. You've had a sort of hyper-build strategy, as you've described it, where as fiber costs have come down, you've been more aggressive in building ahead of customer demand. Can you just talk about that and how that is affecting the growth trajectory of that business?

David N. Watson - *Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications*

Well, hyper-build is simply -- the prior approach was to -- success-based entirely. If you get a customer within a development or a complex, then you start the build process. So this is a surgical, opportunistic way that -- making a bet on an area and just going ahead and building it in advance. So we're very disciplined in the approach towards doing this. We do our homework where there's an opportunity to make this build makes sense. We started a couple of years ago and watched very carefully the returns, but Bill Stemper and his team have done a great job in getting the returns. And it takes a while though. There's a lag. But we've seen it that -- and we believe that we wouldn't have gotten penetration otherwise, that -- versus just a slower, more methodical "only if we get a customer" approach. So we're -- it's -- again, we look at every DMA, we look at opportunities where there's growth, where there's business passings. The other thing, too, that we connect the dots when we do this is not just business. We look at MDUs. We look at everything in terms of overall passings. And sometimes these areas that we're building out are integrated between residential and business, so we're getting upside on that too. But we carefully watch the returns. And as long as we're getting those returns, we think it's a smart thing to do. But again, they'll be -- from the investment, it takes, some cases, many months to get the return back. But as long as those returns happen, we think it's a smart strategy.

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

You're going to take somewhere between \$0.75 billion and \$1 billion out of -- just in new growth out of the business services market this year. Does it get harder to sustain that kind of growth? And how long is the runway for business services at this 15% or even 15%-plus growth rate that you've been able to maintain?

David N. Watson - *Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications*

Business -- I think the \$0.75 billion is sustainable. And the reason why that -- is that you look at the overall segments, if you combine small business, medium-sized business, in our footprint alone, it's up to \$25 billion in opportunity just in our footprint, \$20 billion to \$25 billion. You look at each one. So small business, more competitive. We are, right now, 40% of the revenue opportunity in terms of penetration, not satisfied with that. So we're continuing to chip away and going after that. There's upside, we feel, to SMB. You look at our percent of revenue opportunity in the mid-market, we're like at 10%, ways to go there. And so clearly, not satisfied with that, and we're going to continue to grow that. And then you get to enterprise and working with other cable partners and developing relationships, we're less than 5% in terms of enterprise. So I think there's a unique opportunity for us to work together to provide enterprise solutions. We're talking to very large accounts. We've had good success with early customers on that, but -- so I think when you combine the overall percent of revenue opportunity within our footprint, it gives us optimism.

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

So let's talk about wireless. That's everybody's favorite topic for you these days. First -- so you bought 10 megahertz of spectrum in region. You've got an out-of-home WiFi network, mostly based on your dual SSID, but also with a growing number of out-of-home hotspots. As I think about integrating that with the Verizon MVNO, is that an end state? Or is that a sort of "let's use this as a starting point" and it evolves to something else?

David N. Watson - *Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications*

We believe activating the MVNO and doing a good job with the MVNO is an end state, and we think it's a very effective strategy. It's obviously an efficient approach towards competing. I think it gives us our competitive -- it answers the competitive ask in terms of how we package a mobile



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service that gives more value to existing customers, and we can do it in a way that doesn't require us to build or buy. We think it's a very effective end state. So we're early stages, actually just launched officially 2 days ago. So it's a quiet launch, but we did launch then -- on Tuesday and off we go. But we're -- we think this is the right approach. In terms of the 10 megahertz that we got, it was opportunistic and something that gives us optionality down the road. But we really like our MVNO approach and -- but again, from our perspective, we look at our general approach towards wireless and our mobile solution very differently than the larger wireless operators. It's going to be giving customers a good deal, good value to their existing packages, churn reduction will be first and foremost, profitability on a per-customer basis and then opening up consideration for other products like broadband video once we start talking about mobile. I think we've done a nice job on our retail stores, that we have a fair amount. We do lot of detailed looks at how easy it is to get to our retail stores. But mobile is just going to be, I think, a whole another chapter and opening up consideration on other products as well.

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

Can you put some parameters on -- even high-level expectations for what kind of penetration gains you're looking for in that business and what you're expecting to spend this year or next year in terms of sort of the net impact of wireless on the business?

David N. Watson - *Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications*

Well, in terms of mobile expectations, we're not giving a number in terms of penetration. What we are focused on, though, is making sure that we are getting the returns in terms of customers, in terms of churn, that we are going to -- the -- on a per -- the best approach about MVNO economics are that on a relatively limited scale, you're profitable on a per-customer basis. And then it opens up the ability to go and talk about the next-generation triple play, the next-generation quad play. So what is going to be, I think, looked at differently? It's not going to be -- we won't be talking a ton about overall penetration. At some point, we'll share progress along the way. But for us, it's going to be operational soundness, getting out, competing, making sure we're doing a good job in the early stages and making sure we're giving customers good value. So so far, the -- real, real early. But in terms of interest level, just right out of the gates, it's encouraging.

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

And let me jump ahead a little bit to one of the places where I thought we would wrap up, and that is, as I think about the long-term trajectory of margins, is there a short-term drag on margins that comes from launching the wireless business? And then longer term, how do you think about the margin trajectory of the Cable business?

David N. Watson - *Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications*

Well, the big one in terms of margin, I -- it's not a -- the way we're doing it, MVNO, not a material issue in terms of operating margin. So I think you go through and you spend a little bit more...

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

Even with launch cost and marketing?

David N. Watson - *Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications*

There's a little bit that you spend, but our approach is to leverage our capabilities. And our capabilities, what we found when we launch new products, if you do a good job with your existing distribution, and we have a lot of it, we have fine digital capabilities, we like our retail stores, we'll grow some, our call centers are capable, what we've learned is selling and doing a good job at the right moment. So we're going to leverage our capability to be smart around that and be patient in terms of what does it take to do a good job. So we're not going to overspend just to achieve



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a number. We're going to leverage our capabilities and we'll build it over time. In terms of overall margins, we're not giving guidance beyond what we've already said. But having said that, one of the first things, Craig, you mentioned was the -- in terms of my focus. Our focus is around the experience. And when I look at Cable margins, one of the things that will be a benefit to us, over time, will be taking out unnecessary cost as it relates to providing service on an ongoing basis. It's just -- for a customer relationship, the amount of transfers, the amount of telephone calls we take is just unnecessarily high. We can do a better job and we should. This is ours to solve, and we're -- we like the traction that we have. But you look at that, the number I gave you before, around the 22 million phone calls, I think this is early innings in terms of our approach that will impact margin over time. There'll be programming costs along the way and other things that we'll look at, but we're going to be extremely focused on the digital capabilities and what does that mean to the customer relationship. And so I -- this is going to be something that I think we'll be after for years to come.

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

I want to go back to one last question about wireless. The agreement that you signed with Charter, I think most of us, at this point now, fully understand the technology-sharing piece of it and the strategic objective. What was the genesis of the reciprocal prohibitions on M&A in that transaction?

David N. Watson - *Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications*

Well, I think it does tie to -- I mean, we're exploring this operational way of doing things together. And I think the -- first and foremost, when we -- when you look at doing something so substantial, that opportunity, which I'm optimistic about, I think it's a smart thing to do, we can work it out with Charter where we can operationally do it the right way, there's a roadmap that makes sense. You take something like what I talked about a lot before on WiFi, if we can approach the ecosystem in a similar fashion, it's just better. So -- but if you're making that kind of investment in an operational commitment, it just made sense that for a limited period of time, for a year, to work together to make sure if there's any other things that are explored, let's do it together. So nothing really more than that. We're still extremely interested in the MVNO. That's -- for us, that's why. That's the main focus that we have and how do we explore doing that together. But in the meantime, any other things that come up, that there's alignment around making sure we're not spinning around as we're trying to approach this, that there's good focus that we're going to get that done first.

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

And I have another long-term question, similar to the one on margins, about capital intensity. As -- particularly given that you're taking what looks at this point to be a pretty asset-light strategy in wireless, how low can capital intensity of this business go as you start to -- as you start to finish the X1 rollout and that -- those costs inevitably come down?

David N. Watson - *Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications*

I think Mike Cavanagh gave expectations out earlier around this capital intensity, where we're at 15.2%. And so I'm -- you look at the 2 macro drivers, CPE and infrastructure. And so you have that -- as X1, we get deeper in terms of penetration and devices, that there'll be -- over time, things will begin to lighten up. In particular, as you go all IP and the cost of the devices come down, we'll stay very, very focused on CPE costs that will come down. At the same time, we want to make sure we keep up with capacity. We like DOCSIS 3.1, the rollout. We're going to get at 65% of DOCSIS 3.1. It helps us go deeper in the network, helps us do it at scaled broadband speeds. So we'll continue to do surgical investments around, as I mentioned before, hyper-build, but just making sure we do a real good job at broadband capacity. And so there'll be a little bit more investment there, but you look at it, both of those things come together, I think, with the way to make sure we stay at that capital intensity or bring it down a little bit.



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

And then let's wrap up by giving everyone here a sort of longer-term vision, if you would. So you're new in the position, but when you allow yourself to look out a little further out in, say, 5 years from now, what does your business look like in 5 years? And how is it different than the business you've got today?

David N. Watson - *Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications*

I think number one, we think that with X1, we will have fulfilled the promise of being the aggregator of aggregators. There are more apps that will be seamlessly integrated and that we can bring whatever customers want. They'll be delivered through X1, and then X1 becomes this broader operating platform, connecting multiple devices. So that's one. Broadband, the WiFi, we will have simplified and connected mobile in a seamless way. So people no longer fear stepping outside the house or the office and trying to figure out. It just becomes seamless and super easy. I think that we're -- within this time frame, in business services, that we're looked at as the leader, not just the new person on the block, that we will be looked at as a -- the best-in-class products, everything from SDLAN to business capabilities of WiFi, the higher-end Metro E, that we can -- we're looked at not just as the folks that have given businesses a better deal, but we're looked at as truly as a leader. And last, but not least, that -- from an experience standpoint, that people -- that we hear it a lot. They use our products, they like our products, they're not so crazy about us. And so in terms -- and that's humbling but -- and we know we've got work to do and -- but we're taking that on. And we're confident within this time frame that we're going to turn that and that we're going to continue to innovate around the products and really stay focused on this experience, where the customers will think of us very differently within that time frame.

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

Dave, I can't thank you enough for spending the time. And again, congratulations on your role.

David N. Watson - *Comcast Corporation - Senior EVP and CEO of Comcast Cable Communications*

Thank you. I appreciate it.

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

We all wish you great success.

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