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EDITED TRANSCRIPT

CMCSA - Comcast Corp at Credit Suisse Communications Conference (Virtual)

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PRESENTATION

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

So our next session at the 26th Annual Credit Suisse Communications Conference virtually this year is with Comcast. Very pleased to have with us Mike Cavanagh, Chief Financial Officer of Comcast. Mike, thanks so much for joining us today. Really appreciate your time.

Michael J. Cavanagh - *Comcast Corporation - Chief Financial Officer*

Glad to be here. Glad to be here. Wish it were live.

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

Wish we were live, but virtual works.

QUESTIONS AND ANSWERS

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

So look, first, I wanted to start with, the world is shifting from stay at home to back to work, and hopefully, back to shop and back to play. It's an interesting time to take stock. I'm just curious how you and the management team view those prospects for Comcast looking forward.

Michael J. Cavanagh - *Comcast Corporation - Chief Financial Officer*

Sure. Well, I think the good news is that we've got a very cohesive management team across the businesses that's come together nicely to manage the place from the initial days of crisis mode and truly pivoting to make sure we dealt with the most acute issues of the day to then nicely settling into how we manage while in this mode. But I think in the middle of that, and we talked about it on the earnings call, we started shifting our focus to how to position the businesses to win down the road because, clearly, our view of some of the businesses, certainly are more affected than others for the long term. So that's how we're really looking to make sure we come out of this strong and positioned to be winners on the other side.

In the near term, I think everything is pretty consistent, maybe a touch better across different parts of the business than where we were on the earnings call. But nothing too surprising one way or the other from when we last spoke to everybody. So feeling great about, obviously, the cable business. It is in this -- I think the legacy of COVID is going to reflect well on the fortunes of the business like our cable business, and we'll get into that in greater detail. And I think the media businesses and NBC, obviously, varying degrees of impacts, but certainly seeing the early impact on Parks, and we'll get into that more deeply where it's a live experience. And so our team has worked hard to get that going again in Florida, very early days. And I think in the media business, we've seen a lot of consumption of television but a continued shift to streaming. So that brings us back to Peacock and where we're taking some of those businesses. And frankly, with impact on cord cutting, where we're going with Flex in the Cable business. So I think there's a lot of pieces of our pre-existing strategies and the momentum we had going into all this that I think is making us feel pretty confident in the future.

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

Well, so let's run through those, the business lines. I want to start with, at least what I think is the heart of the company, your broadband and business services, the communications business. It's a proportionate share of the free cash flow generation of the company. So -- and look, Cable reported pretty strong 1Q results for high speed internet, total residential consumer adds -- customer net adds. To what do you attribute the strength? And how should investors think about 2Q given COVID disruptions, especially you have a mix of early to open and late-to-open markets? I'm sure people would be interested to hear if there's any differences.

Michael J. Cavanagh - *Comcast Corporation - Chief Financial Officer*

Sure. Well, lots to unpack here, obviously. But you're right to say, this is the heart of the company. I mean, 70% of our EBITDA coming from our Cable business. And obviously, as we've talked about for a while now, the connectivity side of the Cable business, as we have been thinking about the pivot to connectivity for several years now between connectivity for the residential side as well as for the business services side, I think, had our agenda and our investment in both capital investment in the network for speed, together with investment and innovation, which is everything beyond the basic utility that the product has, has really helped us, as you saw, best first quarter high-speed data adds in 12 years, it's something like 6 plus percent EBITDA growth in the quarter. We've got now 85% of our homes with greater than 100 megabits of speed. So we're leaning in.

And I think the point about innovation, I think it started, really, Dave Watson's agenda was really to take all the creative energy that was once upon a time, heavily focused on video and point it more at the broadband business. So we think we have the best product out there and the best innovation out there when you think about the things we talk about: speed, coverage and control. So speed, obviously, we mentioned now for -- with DOCSIS, we've got ourselves with gig speeds across the whole footprint and have had that available for the better part of 2 years now. So speed, without a doubt, and it's held up really well. I think that's one of the fortunate things is that we invested for capacity along with that speed, years ahead of where we saw consumer demand. So that benefited us well. You've heard lots of the stats. I won't bore you with them. But the demand on the network has been high, but I think the network has performed exceptionally well, despite shifting of when people are using it at max capacity.

Unlike some of the European markets, both for ourselves and our other cable companies in the U.S., we haven't had directives from governments to down res streaming services in order to not stress the networks, and we're doing all this work from home and having conferences like this. And so I think it says a lot about the speed and capacity of the networks.

But then when it comes to speed of WiFi and coverage of WiFi in homes, the investment in the routers we have, the WiFi equipment, the xFi pods, all of that has been significant and paid off, as well as control, sort of the software layer, what we call xFi, where you can manage the network, bring other devices onto the network and use it, you control for family purposes, who's on the network when. And all that, I think, makes it a product that is the best in the marketplace and able to take market share. And I think as a lot of people are reporting, I mean, I think there's a moment where folks that might otherwise have been on the fence about whether they needed broadband or not, versus -- high-speed data that is, have crossed over. And I doubt there's any going back.

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

So I think you touched on a lot of the factors that are differentiating your product. I still want to ask, because it's probably the most persistent question we get across all of cable, the longevity of broadband growth. What's your confidence level that broadband will continue to grow for Comcast? What informs that view?

Michael J. Cavanagh - *Comcast Corporation - Chief Financial Officer*

So what informs that view is a lot of what I just said. I mean, I think we've invested behind a product that I think is aligning well with the trends and consumer needs looking forward. So when you have the best product and the need is there and will continue to be there. And then you look at

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the fact that we have 49% of the homes in our footprint take our product. I think we expect that there is plenty of headroom for continued growth. Obviously, some of it is just an increase in penetration of people that haven't yet decided they need high-speed data versus other alternatives or nothing. There's home formation and there's taking market share. And I think there's room on all of those levers to take that market share that we have and continue to drive higher. So I think we're optimistic that we've got years of runway of ability to add.

And I think as Dave and team in Cable have pivoted the focus to where broadband is really the center of the plate product. We've seen, I think, a -- with that great focus, it's really about broadband and what else can we give you around broadband? So we'll get into mobile, Xfinity Mobile and Flex and other services that are around the center of the plate product, which is connectivity.

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

So let's start with the business side. A tale of 2 cities, right? On the small and medium business side, you -- are you seeing any green shoots from return to work? We'll just start there.

Michael J. Cavanagh - *Comcast Corporation - Chief Financial Officer*

Yes. Well, and like I said at the beginning, nothing really to call out differently than what we said on the earnings call 2 months back. I'd expect, given we were rolling with in this business, we are the challenger, we've got a great product again. And it's been a high single-digit to double-digit revenue grower over the last several years. We do, given the economic pressures on the business segment generally, expect to see that ease to low single-digit revenue growth in the first quarter -- I'm sorry, in the second quarter. So no surprise there.

But within that, it's just a mix of -- depends on who you are. If you're operating a site that has to remain closed because social distancing doesn't allow it to open, there's no green shoots there until meaningful opening starts to open up -- become possible across a big base. But there's a lot of other customers that are going heavy into digital ordering and transforming their businesses and working from home the way we all are. So it's a bifurcated story.

But I think the trends are tracking a little bit what we see in general coverage of, which small businesses are able to operate in any fashion and which ones aren't. And for those that are able to operate, it tends to be in a more digital fashion, and that's just showing signs of stability at a minimum.

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

And when you look longer term for business services?

Michael J. Cavanagh - *Comcast Corporation - Chief Financial Officer*

I do think we continue to have -- invest behind an excellent product set. So obviously, it's connectivity itself, but even for the smaller business segment, it's a range of services, helping manage networks and provide security around those networks, the new product that we -- we're getting a lot of uptick on, adding stickiness. And so I think we have -- we're against the telco incumbents. I think we have a better and more suited product. So with only about, I'd say, 40% share or so in our footprint of an up to $15 billion market, we've got plenty of runway in the small business segment. And as you know, in sort of the medium to enterprise side, we've -- that's less impacted, I'd say, than small business by the COVID-related -- so a little more status quo in those businesses. And there, we're just bringing a -- for networks of fast food chains, banks, what have you, branch networks of larger companies. Everything from, again, security to network management to connectivity to SD-WAN services that our plant is well suited for. So I think that's another avenue of growth for us.

So while I think that the business segment generally is obviously going to correlate to what's going on in the overall economy, I think, once we get through and get the economy going again, I think our -- we continue to feel very good about the prospects for Business Services, and perhaps

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even more so -- all businesses, I'm sure yours are is -- are thinking through, what's the world going to look like on the other side of COVID? Just in terms of how we all operate, work from home, the amount -- so I think the digital and connectivity needs of most businesses are likely to be trending in a direction that is a favorable backdrop, market backdrop for our Business Services segment.

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

So let's shift over to video then. So video losses accelerated meaningfully in 1Q. I think investors would like to understand if 1Q represents a new normal for video sub losses. And I'm sure they'd love to hear how 2Q is progressing given the COVID backdrop.

Michael J. Cavanagh - *Comcast Corporation - Chief Financial Officer*

Yes. I think, again, the commentary that we made at the first -- in the first quarter with results there. We think a good portion of the impact was -- remember, we had a price increase in the first quarter before COVID hit. And so that will continue to roll through, I think, in the second quarter. So basically, our expectation is that the amount of spread year-over-year will be about the same in the second quarter versus a year ago as it was in the first quarter. So no different than what we saw in the earnings call.

And I continue to point out that, that is -- together with the backdrop that, we're not looking to -- our strategy in video is that video is important because video is a great use of high-speed data, right? So coming back to a connectivity-centric approach to things, it's not about making the markup on the bundle that you buy from the program then pass along. While that might one day have been a meaningful part of the profit contribution of the Cable business. Today, we look at video as important because it's a customer need and because we're the broadband provider and because we have the legacy of investing in X1, maintaining a position of helping in an ever more streaming world, helping customers navigate the video that they choose to buy while offering a bundle that we continue to think for the right customers, is a great value. But we're not going to force it upon you if you don't choose to see it that way. Instead, Flex takes the kit basically that is the brains and power behind X1, converts that into a platform that, when combined with a voice remote, we think is a very powerful, a platform attached to the broadband product.

So we're not wedded to being necessarily the seller of a bundle to you in video, but we would very much, if you appreciate either one of our alternatives, a bundle with X1 or a platform approach for video navigation aggregation through Flex, we'd love to be your -- meaning involved in video. But we're not going to subsidize -- we're not going to spend broadband profitability. The point of both of our video, whatever approach to video we're taking, the point is to add to the customer experience, help reduce churn overall on the broadband product, which is a great value, and basically cement a deeper relationship. So that over time -- I think you've written about some of this. I mean over time, having that position of being in a relationship through X1 or through Flex does give the opportunity to bring -- we integrate lots of other -- several years ago, it was much more dogmatic. But I think part of the shift to connectivity had been to look to integrate Netflix and Hulu and Amazon Prime and others, we're sort of open, because that's the better customer experience. And we think we have the technology that allows for that to happen.

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

Yes. And I think certainly, the build-out of Flex is super interesting. And I was curious whether it was a service or a platform. And so I'm glad you sort of talked about it as a platform. It makes me wonder, sort of what the full vision for Flex is and how you define success for the platform? And I think you touched on a little bit, but we also think about how much do you invest in Flex? And where do you take that platform over time? Sort of what's the vision? What would be successful in your view?

Michael J. Cavanagh - *Comcast Corporation - Chief Financial Officer*

Well, I think you know there's a lot of entrepreneurial DNA in this company. So I wouldn't say we necessarily have the full plan laid out so much as by taking the first step, there's lots of optionality to take future steps. So in the early days, obviously, it's about giving the power -- the lifetime profitability of a broadband customer is so high, we want to continue to optimize that and deepen the relationship. And so I think through either X1 and its good execution, either X1 or Flex as simply a video proposition, whether you're making some money. I mean it'd be great to have

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incremental marginal profitability per sub coming from attaching either one of those things to the base broadband relationship. And I think you can get there, obviously, by the power of advertising off of a streaming service like Flex. You can get there by -- we reach 30 million homes in the United States, right, with our broadband. So if you are looking to scale up a streaming service, you may well be interested in sharing some of the economics of that service with us in order to get reach or prominence or increased engagement. Lots of things we've seen with some of the partners that we have integrated into our app aggregation experience so far, and we look to do and see more with Peacock. So as we see that and it develops, we continue to be in and invest more.

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

So sort of finishing up on the Cable side, something near and dear to our heart, margins and capital intensity. Any thoughts or updates as it relates to the FCC pledge expiring at the end of the month? And how that might impact subscriber counts or bad debt and other factors? And we'll sort of head into the rest of the sort of the OpEx and CapEx outlook?

Michael J. Cavanagh - *Comcast Corporation - Chief Financial Officer*

Sure. I think everything in terms of margins is as we kind of left it on the earnings call. I think for us, the way we've handled the pledge, we feel good about it, the right thing to do. And I think as the pledge rolls off, Dave and team are going to be quite flexible with customers and offer them a variety of different paths. But in terms of bad debt expense, like I said at the earnings call, we expect it to remain elevated in this economic environment for the year -- for the period we're in. But nonetheless, everything suggests we'll meet our margin expectations of expansion for the year that we set out pre-COVID. So I think that's the impact of -- on margins of bad debt, and the pledge and so forth are all manageable inside that envelope.

And then in terms of things like sub counts and the like, everybody's doing it a little bit differently. But as you know, if you're on one of our 60-day programs, we're not -- free programs. We're not counting you in our sub count as we added you. And if you're in -- for folks that are not -- nonpay as a result and yet not disconnected as a result of the pledge, we've been haircutting or reserving against the sub counts last quarter and do the same. So I don't see a, any kind of big disruption in sub count trends necessarily as we get to the other side. Hope that answers.

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

Any sort of -- it does, thank you. Any comments you're willing to make in the long-term outlook for margins and capital intensity? I know it's sort of difficult in the midst of all this disruption. You just noted that margins will still sort of come in on target for this year. So maybe we can look at it. Wireless aside, do you see sustainable margin growth and capital efficiency improvements out of the cable business as you look forward?

Michael J. Cavanagh - *Comcast Corporation - Chief Financial Officer*

Well, we -- I'll make a couple of comments. As we said before, while we don't give multiyear guidance, I think on this topic, we've made the point previously pre-COVID that the trends at work on the pivot to connectivity and the willingness to not chase unprofitable video, together with the pure dynamics of the incremental margins in the broadband business and business services, the areas where our growth -- revenue growth is coming from. Together with a very stable and consistent focus on OpEx efficiency by the Cable team gives it -- was, in general, giving us confidence in the long-term ability to keep driving at least high incremental margins and overall margins in a good direction. And there's been no sign of any sort of significant disruption in the capital intensity story either.

So that's pre COVID. And then when you look at what's gone on in -- with COVID, and the need to move away from many of the practices by necessity of professional installations -- now at 1/3 the cost, we're doing self-installs, and in some subset of those are pure self-installs, even cheaper than technician assisted self-installs. And the use of our digital tools, I think we're up 4x the amount of interactions that we're having on our AI -- Xfinity Assistant and other tools are up 60%, 70%. And what's interesting is customer satisfaction is significantly higher for people that are experiencing us through those channels. So I think as with many businesses, I think, not just ours, I've been reading and talking to folks in other industries, I think

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what COVID's going to do and has done is sort of accelerated consumer behavior shifts. And now more people are experiencing things that many of us thought would take years of us training customers how good these tools are. Now the necessity of the situation is actually exposing a lot of these channels and tools that are more digitally supported and thus, lower cost. So I think the net result and the point of it is, whatever optimism we had about long-term trends, I remain as confident post-COVID, if not more confident, in those trends in the Cable business.

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

All right. That's helpful. And so especially over wireless, we always struggle to try to ask you a wireless question in a new and innovative way to sort of entice some interesting comments. And you're always very thoughtful. But look, investors are very focused on long-term market strategies for cable companies, I think, for obvious reasons. Are you achieving your goal as a sort of virtual wireless operator? Under what circumstances should investors expect that being a full wireless network operator would be a superior long-term position for the company?

Michael J. Cavanagh - *Comcast Corporation - Chief Financial Officer*

Well, asked that way, it's easy to sort of say that we are not thinking that having our own network is the path we need to go down to achieve our goals. So we have -- we are quite pleased with the progress we're making in a MVNO model with Verizon, best -- remember, we've got the best network combined with the phones that people want to use. Combined with the longevity of that -- of those -- of that service, that MVNO. So we're pleased with it. Verizon's been a good partner with us. I think at a point that -- I think anybody, once you get some scale between us and others in the cable business, why would you want that scale to go anywhere else? So while there may be a desire never to have us gone down this road, I think everybody sees what we're trying to do, which is we love the broadband business we're in for all the reasons I just described. And I think we love that more than many other businesses that are out there. And so our point is not that we love wireless for the sake of wireless. We would like to use wireless in the same way I described video, which is if it can be a product that washes its own face, NPV positive over time, and on top of that, makes customers happy and lowers churn, I think those are the goals we have, and we are tracking well against that. I mean it's been a couple of years now. I think we do -- we, together with others, we represent a nice share of net new adds in -- across the country. And certainly, when you look at it, particularly to our footprint, I think we're getting the product in that we focus on sort of the top right box quadrant of clients that are sort of the most -- the highest lifetime value and want to protect them the most. And so I think it's a thoughtful and steady approach. And obviously, there'll be future optionality. The better we do, the more options you have. True in business everywhere, right? But I think the idea that we're not going to be able to achieve our goals without owning a network, I'll again say, we don't see the need for owning a network to be part of our plans to achieve our goals.

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

Okay. Great. Thank you. Why don't we talk about NBC and Sky a little bit. So I'm not sure if I should ask these 1 by 1 or throw them all together, but I'm going to throw them all together for fun. Just an update on key trends for advertising, affiliate revenue, parks. Any outlook for film that you can share?

Michael J. Cavanagh - *Comcast Corporation - Chief Financial Officer*

Sure. Well, parks, I think you know that we are back open in Orlando as of a week or so ago. Japan, I think we're reopened for annual pass holders. Hollywood park in July will open. So obviously, all these are going to be opening to limited capacity to meet social distancing requirements and self-imposed higher standards to make it a safe experience. And so the parks team spent a ton of time doing that. It's early days, so we're pleased that we're getting a chance to gradually ramp up attendance. We put out the number, around $500 million of loss in the quarter is what we would be experiencing if all parks everywhere were close for the full second quarter. The fact that we're getting opened a little bit earlier means not much relative to that second quarter number. Maybe it's -- it should be around that or a touch inside, I would say, won't be worse, I mean, even though some wonder whether we'll have opening expenses that cause a problem. And I wouldn't expect that. I think the guidance that we gave is good for this quarter.

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And so the real question is, how much of an offset is whatever demand -- whatever attendance we do experience to fully break even? We got to get to say, 20%, 30% of typical attendance at a point a year and then the $500 becomes 0, and we're not there yet. It's early days. So more to come when we report second quarter earnings on parks.

On the TV businesses, I think the advertising, no big changes there. I mean, I think down significantly in the second quarter overall. Obviously, what we're seeing intra quarter is that things were macro, I guess. National, less impacted than local, and cable advertising somewhere in between the 2 was what's part of that substantial down. And I think as we're seeing each of the months from April through June transpire, we're trending better, but still worse than you had otherwise been the case pre-COVID. So some green shoots, but still plenty of reasons to be cautious because we don't really have visibility into where the economy is really going.

And I think sports are starting to get close to coming back. We're seeing some of that in European markets, be back soon in the U.S., but I think that all ties together with the outlook for advertising. What really happens, what advertisers want to see, when is the right time for people, things like upfronts. None yet, but there'll probably be some conversations about making some commitments. But I would expect that we -- everybody needs a little more visibility to do that well. So more to come.

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

And then on the...

Michael J. Cavanagh - *Comcast Corporation - Chief Financial Officer*

Film side, sorry, in NBC, I think things are looking a little better than I would have thought. PVODs, while it's only a part of the long-term strategy, so we can come to that, but I think the releases we've had in PVOD has actually been constructive and helpful relative to what otherwise would have been the case for us. And King of Staten Island, another -- pleased with last weekend's results with another one that's in the PVOD release window. So film, long term, we'll see how dating of latter half of the year of films turns out. We got to see, again, when states and markets open back up and when theaters can open and what that means for theatrical releases, which we'd love to see come back, but the longer those get pushed out, obviously, it's a knock on effect into 2021. So at some point, it's a multiyear cycle that gets back on track. But PVOD's been helpful in the near term.

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

Any discussions, productive discussions with exhibitors that are going on regarding evolving the film distribution model that you think could ultimately work for both film and film studios and theater companies?

Michael J. Cavanagh - *Comcast Corporation - Chief Financial Officer*

I'd like to think there's a way to figure all that out. I think right now, it's just -- the focus is how to get theaters back opened. We want that. They want that. And then once -- until then, I think it's a film by film issue, what to do with films that are ready to go but -- and then ones that aren't yet produced, trying to figure out when you can get them back in theaters. You've seen others wrestling with that in recent days. So I think that's going to be an ongoing dynamic, really just driven by the virus. Nothing more than that. But then once there's more clarity around that, and obviously, the sooner the better for the for the exhibitor system, we'll be eager to get our films back in theaters.

And then, as we've said on sort of a case-by-case basis, given the experience that consumers are having in their homes again, it's likely that for certain types of films, there can be a constructive way amongst all participants in the ecosystem to figure out how to make that work in a way that works for consumers and works economically for all the players in the ecosystem.

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

So why don't we just make sure we hit on affiliate revenue, you've mentioned a couple of times on recent quarterly conference calls that you have an upcoming renewal cycle kicking off at the end of the year for NBCU. Sort of difficult to talk about that stuff in advance, but I'm just curious what the strategy might be this cycle and what NBC is looking for. And any -- surely, investors are a little bit concerned about the pace of cord-cutting and any comments on affiliate revenue, relative to 2Q or relative to COVID impacts, we'd certainly be happy to take as well.

Michael J. Cavanagh - *Comcast Corporation - Chief Financial Officer*

I think as it relates to the near term for renewals, I think, nothing surprising from me that you wouldn't already have a feel for, which is that the pressures on cord cutting are real. And probably COVID will, over the full extent of the crisis, put pressure on people's wallets and therefore, at the margin, not help -- harmful to those trends as opposed to helpful. So -- but that's no big news there. So I think nothing surprising versus our prior commentary. And then I think when we get to our next renewal cycle, we'll approach the way we've approached the past several of them, since the team's been involved in NBC, which is to -- we've got a great portfolio when you stretch across NBC primetime, late night, sports news, cable properties, including MSNBC, CNBC that are doing fabulously well. So -- in all this. And so I think we'll approach the marketplace as we always have, looking to monetize that portfolio. And I think the only new element is going to be Peacock, looking to get Peacock integrated into these discussions. But that we see as being a win-win. So I think it will be (inaudible) to those conversations that happens towards the end of the year.

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

Any learnings from Peacock so far? I mean, I know it's fairly early days. And just want to make sure I understand the advertising model, initially for Peacock? I know you've talked about a limited number of advertisers and sponsors. Can you just walk through the advertising strategy and what you've learned so far?

Michael J. Cavanagh - *Comcast Corporation - Chief Financial Officer*

Sure. Obviously, the long-term strategy on -- well, first off, we've got the launch in less than a month now nationally. We've been releasing in waves across Comcast markets. So it's super early, but we're ahead of our internal expectations by a bit. So I think there's enthusiasm that we got something exciting, and it'll have to keep iterating and innovating. But so far, so good, and we're excited to get the national launch done.

And then as you roll through the next 12 months and think about, while it might -- on the one hand, it's a shame that there's no Olympics this summer. Well, the other side of that is by the time we're kind of ramping and bring back some of the titles, like The Office in the beginning of next year, and then we'll be in a cycle where we're going to have a Super Bowl and 2 Olympics in 18 months. So I think that will be a nice -- that will also be a nice window of time to be ramping.

So on the advertising side, because it's an addressable product, obviously, in a different format, lighter ad load. I think what we're finding is that the opportunity for us and advertisers working together is to lighten that ad load but really drive engagement and value off of addressability. So I think it speaks to innovation in the type of ads and the interactivity of those ads. And so I think the spirit of it is, is for the now 10 sort of advertising sponsors that they're -- they're with us for 18 months to sort of -- on a sponsorship basis, be the advertisers. And I think we think that's the right setup to generate the type of creativity such that when we come out of that period of the early days, the first sort of phase of Peacock, we'll have all proven to ourselves and each other and to the market broadly what we think will be high -- very high CPM values of advertising on this particular AVOD service. And so where -- I would look at the early phases with the kind of anchor partners as very much an R&D and innovation phase of advertising.

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

Okay. That makes sense. Sky has already faced a challenging macro environment with Brexit. And I know you talked -- I think both on the advertising side, now with sports advertising. So how's the business climate today compared to the U.S. business climate?

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Michael J. Cavanagh - *Comcast Corporation - Chief Financial Officer*

I think the -- sort of the macro climate in Europe is as challenged, if not more challenging, depending on the market across Italy, U.K. and Germany. Each a little bit different, but challenged. So -- and that rolls through advertising, as you mentioned. I think sports, the good news is sports is starting to come back. Bundesliga was back a few weeks back, and Premier League comes back in the U.K. this weekend. And I think other markets, other sports, soon to follow. So a little bit ahead, and that's obviously a key element of the financial impact that COVID had on Sky, which is that with no games, when you're selling a discrete package for sports, pausing those subscriptions was obviously a big revenue and profit impact to forego that revenue. But now as sports are coming back, our point was it's easier to control getting that revenue stream back online. And as sports come back online, that's the case.

I think the only other thing I'd say is in the case of Sky is that we had this commentary of EBITDA down 60%, combining second and third quarter versus those quarters a year ago, given the pause together with the amortization of sports costs when games are played. And as we said, it's hard to split the quarters. Now that another month passed and we have a better picture of when leagues are starting to come back and will come back, I'd say we're still in that down 60% between the 2 quarters, but it's going to be a lot more amortization, therefore, into the third quarter versus the second.

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

Okay. And so let's switch over to capital structure. Since we have the Chief Financial Officer here. The -- curious, your thoughts on what investors should be thinking about full year free cash flow. I think we came into the year, you had some cautionary comments around free cash flow related with -- related to sports rights like the Olympics. That's, of course, moved. We've got some unclear delays with some other key sports. How do we think about free cash flow for the year at this point?

Michael J. Cavanagh - *Comcast Corporation - Chief Financial Officer*

Well, obviously, all the impacts on the businesses we just described are not helpful. But when you roll it through in aggregate, some of the other elements aside from EBITDA rolling through cash is -- working capital ends up being a little bit of a push between cable consuming a little bit more between some just peculiarities of the year together with the impact of COVID, offset by, on the other side, less working capital and consumed in the media businesses, given the delays of production and the and delays in production and pushback of Olympics.

And then on working capital, about flat, the same as I said on the first quarter call, about flattish to a year ago. So it's really just the kind of impact more or less of what's going on in EBITDA, I think, flowing through to free cash flow. And too early, I mean, it's still the year, and certainly, the next year or 2 ahead are a little bit in flux. But as we've said consistently, I think where -- we got a set of businesses, where I'm confident in the long-term ability to generate free cash flow growth. It's not always straight line, sometimes a little bit lumpy. This was intended to be a year that we were going to be investing for future growth between Peacock, Flex, some of the Sky opportunities. We're still on that agenda. So I feel good about the future once we get through COVID.

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

Yes. It's hard to imagine somebody with more crisis balance sheet management experience than you certainly leading a cable company or a media company. What's your thought on debt leverage now having sort of gone through this crisis? Is it a different outlook than you might have thought coming into the year when you think about where you want to get the balance sheet here at Comcast? And at what point is there enough sort of flexibility to go after incremental M&A and to go after stock buybacks?

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Michael J. Cavanagh - *Comcast Corporation - Chief Financial Officer*

Well, I'll take that. I mean we remain -- I don't think this has changed our outlook on the 3 pillars of capital allocation that we see as being the guiding light for us, which is, first is we got to make sure we're feeding our businesses the right amount of capital for their own internal opportunities and growth, whether that's new attractions in the Parks business, Flex, Peacock and the like. Why own the businesses if you're not going to give them the capital they need to -- obviously, with proper hurdles for getting returns. So that's the first pillar. A little bit of tuck-in M&A embedded in that. Sometimes it's better to buy a little thing versus building it yourself. So I think that is sort of the organic investment in our businesses.

Second is a healthy return of capital to shareholders between dividends, which, as you know, we're healthy and growing over the many years running. And together with buybacks, I mean, we've had a history of being a nice returner of capital through -- on a combined basis of the first, the free cash flow generated by the company. Last couple of years, we're in sort of balance sheet restoration mode a bit.

And then the final piece is to have a strong balance sheet. We like our -- we like the rating we're at. We think it's a strategic advantage. And I think crises like this kind of affirm that view, that having the strength of capital such that we're sleeping well at night and continue to steer the ship with the view to what's right for the long-term for the shareholders, writ large, is the right place. So it continues to be our -- top priority now is to just continue to delever and meet the commitments we made to the rating agencies. It'll take a little bit longer. So as I said, we'll -- don't expect to see buybacks this year or next while we do that. But on the other side of that, hopefully, we're back to the kind of balance that you saw previously.

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

So Mike, I think we're ...

Michael J. Cavanagh - *Comcast Corporation - Chief Financial Officer*

And to the question just in terms of M&A. I mean, I think we've set up a company that's got -- we like -- we've got plenty to focus on in the businesses we're in, and that's where our focus lies. And that really goes for each of the businesses that we operate. So we're not deficient. We're not looking for -- to fill some piece, missing piece in the puzzle. Management team always has to react to opportunities and be thoughtful about whether that changes, but we've -- I think, consistently and repeatedly of late in making that point and I'll make it again.

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

So Mike, I think we're running up against the clock. I just want to throw it back to you for any closing comments, and then we'll wrap up.

Michael J. Cavanagh - *Comcast Corporation - Chief Financial Officer*

Well, thank you, Doug, and I appreciate everybody dialing in. I think it's steady as she goes at Comcast. We've got a team stewarding the place and working for you all, that is optimistic about the future we have and, I think, very focused. And I'd like to think, ably managing our way through challenging times and doing our best amidst all that to be a very good corporate citizen. We didn't get into that piece. But I think the way we're operating is with a view towards that as well, which I think is important. So thanks, everybody.

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

Mike, thanks so much for your time today. Really appreciate it.

Michael J. Cavanagh - *Comcast Corporation - Chief Financial Officer*

Thank you. Bye-bye.

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

Thank you. Bye now.

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