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CMCSA - Q2 2016 Comcast Corp Earnings Call

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OVERVIEW:

Co. reported 2Q16 YoverY consolidated revenue growth (including Film) of 2.8% and EPS of $0.83.

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to Comcast's second-quarter 2016 earnings conference call.

(Operator Instructions)

Please note that this conference call is being recorded. I would now turn the call over to Senior Vice President, Investor Relations, Mr. Jason Armstrong. Please go ahead, Mr. Armstrong.

Jason Armstrong - *Comcast Corporation - SVP, IR*

Thank you, operator, and welcome everyone. Joining me on this morning's call are Brian Roberts, Mike Cavanaugh, Steve Burke and Neil Smit. Brian and Mike will make formal remarks and Steve and Neil will also be available for Q&A.

As a reminder as part of the FCC's anti-collusion rules for the broadcast incentive auction we cannot discuss or answer any questions related to the auction or spectrum today.

As always let me now refer you to slide number 2 which contains our Safe Harbor disclaimer and reminds you that this conference call may include forward-looking statements subject to certain risks and uncertainties. In addition, in this call we will refer to certain non-Measures. Please refer to our 8-K for the reconciliation of non-financial measures to GAAP.

With that let me turn the call to Brian Roberts for his comments. Brian?

Brian Roberts - *Comcast Corporation - Chairman & CEO*

Thank you, Jason, and good morning everyone. We are really pleased with the second-quarter results as we continue our terrific momentum this year. We increased revenue and operating cash flow thanks to broad-based strength across our businesses.

As you will hear we have many positive trends in each part of the Company. At Cable we achieved some of the best customer metrics in nearly a decade while posting strong operating cash flow growth. Our results this quarter provide further evidence that customers are responding favorably to many of our new initiatives.

We added 115,000 customer relationships which is more than triple the number we added in the second quarter of 2015. In what is normally a negative seasonal quarter we lost only 4,000 Video customers, the best second-quarter result we have had in over 10 years. On a trailing 12 month basis we have now added about 90,000 Video customers, a remarkable improvement in the face of significant competitive and technological change and a testament to the investments we've made in our platform and breadth of content.

X1 is now about 40% penetrated and we have deployed a total of 8 million voice remotes. We are rolling out 800,000 new voice remotes each month and customers love it. It is generating over 200 million commands per month. Overall, the feedback on X1 continues to be terrific and the voice remote is driving customer satisfaction with the platform even higher.

Next at high-speed Internet, we added 220,000 customers, the best second-quarter result in eight years. Similar to Video, the improvement was driven by better customer retention. We started our rollout of DOCSIS 3.1 and expect this to continue to enhance the quality of our offering and ultimately our competitive advantage.

We've been investing in improving the customer experience at every touch point and we're very encouraged by our progress. Many of the key indicators around customer service are showing real improvement, first call resolution is at a multiyear high, our billing and onboarding contact rates are down significantly, our customer satisfaction scores are up and external indicators are pointing in the right direction as well. So all in all, another very strong quarter at Cable.

At NBCUniversal, as expected we had a challenging comparison in Film but we delivered very strong performance at Broadcast and solid growth in our Theme Parks and Cable Networks. I'm pleased to report that we've now completed our most successful upfront since owning the Company with a 12.5% CPM increase at NBC primetime. Overall, demand is strong across our entire portfolio.

We've got a differentiated story versus our peers. Part of our success and leadership comes from a unified approach: we go to market as one Company.

Also, our big night strategy is compelling. If you aggregate big nights on TV in 2016 defined as a 10 household rating and a 5 in the 18 to 49 demo we project that NBC will own 70% of those nights.

We are also continuing our leading position in news. NBC Nightly News won both total viewers and the demo for the fourth consecutive quarter. The Today Show remains number one in demo and Meet the Press has risen from number three to number one in the key demo in the past year alone.

We're on track to finish number one in Broadcast for the full year and Cable Networks continue to benefit from a great portfolio in entertainment, sports and news. For example, we saw particular strength at MSNBC during the quarter and are proud of the six recent Emmy nominations for USA's Mr. Robot, including for outstanding drama series.

At Theme Parks, the highlight during the quarter was our launch of The Wizarding World of Harry Potter in Hollywood, which has been a tremendous early success. Both attendance and per capita spending at the park saw significant lifts and guest satisfaction is at record levels.

In Film we announced our acquisition of DreamWorks in the second quarter. We look forward to welcoming the team and their wonderful creative talent to Universal and the broader Comcast family.

Speaking of animation, the Secret Life of Pets is a huge success and another great example of what happens when we put the entire weight of the Company behind an initiative. We featured pets on many different platforms across all of Comcast NBCUniversal including integration with our X1 experience. The movie opened to a record-breaking $104 million, the highest ever opening in the US for an original animated film, and importantly we created another franchise for Chris Meledandri and Illumination.

Finally, let me just say a word about the Olympics. It's an honor to be the Company that brings the Olympic Games to America. It is one of our greatest moments of pride and the entire organization is ready to deliver the most comprehensive and technologically advanced Olympics in history.

Starting next week in Rio, NBC's coverage will be unprecedented: everything live streamed, 306 events, 11 networks, close to 6,800 hours of content. And our Emmy winning team will bring to life the stories of these remarkable athletes in a way that nobody else can.

What excites me is the opportunity to marry the unique storytelling capabilities of NBC with Comcast's world-class technology. The best way to experience Rio will be on the X1 platform. For the first time we have built a destination that will combine live television, online streaming and on-demand content, athlete profiles and up-to-the-minute stats in one integrated NBC Olympics dashboard. And that's all searchable with our X1 voice remote.

We think that our viewers and customers are going to be amazed. Those 17 nights will showcase the strength of NBC, all of our Cable Networks and Comcast Cable working together and we couldn't be more excited.

So we've had a great first half of the year on so many fronts and we're very excited to build on this in the second half. Mike, over to you.

Mike Cavanagh - *Comcast Corporation - Senior EVP & CFO*

Thanks, Brian, and good morning everybody. I am starting on slide 4 for those following the presentation.

Our second-quarter results reflect broad-based strength across our businesses, partially offset by a challenging comparison in Film where our revenue declined by $915 million and operating cash flow declined by $366 million as a result of tough comparisons to our record-breaking performance in the second quarter of 2015.

Recall last year's second quarter was driven by the tremendous success of both Furious 7 and Jurassic World. So including Film you can see on slide 4 consolidated revenue increased 2.8% and operating cash flow grew 3% with the second quarter. Earnings per share was $0.83, a 1.2% decrease compared to a year ago, and free cash flow was $1.4 billion in the quarter, a decline of 5.4%. We will go into greater detail on these results on the slides to come.

Now let's start with Cable Communications on slide 5. Cable Communications delivered strong second-quarter results. Revenue increased 6% to $12.4 billion as we increased customer relationships and grew total revenue per customer relationship by 3% to $148 per month.

We added 115,000 customer relationships, an increase of 83,000 compared to last year's second quarter with broad-based improvement and strength across our entire footprint. Growth in two-product and three-product customers and a reduction in churn across all products drove the improvement. In fact, we have improved churn in Video and high-speed data for 29 consecutive months as customers increasingly recognize the value of our X1 platform and superior high-speed data product and we make meaningful strides in improving customer service.

High-speed Internet continues to be the largest contributor to our overall cable revenue growth. Revenue increased 8.6% to $3.4 billion in the quarter, reflecting strong customer growth, customers subscribing to higher levels of service and rate adjustments which were more modest compared to the prior year. Our customer momentum continued as we added a combined 220,000 residential and business customers in the quarter, up 22% over last year's net adds and added 1.4 million combined customers over the past 12 months.

We continue to gain market share and benefit from growth in the overall market as customers respond to our product differentiation. At the end of the quarter, 79% of our residential customers received speeds of 50 megabits per second or greater compared to 69% in the prior year.

Video revenue increased 2.8% to $5.6 billion in the quarter primarily due to rate adjustments as well as customers subscribing to additional services including premium channels, HD DVR and additional outlets. Our rate of growth was impacted by the challenging comparison to the hugely successful Pacquiao versus Mayweather fight on pay-per-view in last year's second quarter. Our rate adjustments are primarily from broadcast TV and RSN fees which as we will discuss in programming expenses are the most significant sources of our cost pressure.

In terms of volume, our total Video customer base has grown modestly year over year as we have consistently improved our Video customer metrics for several quarters. In a quarter that's typically seasonally weak, we lost a combined 4,000 net Video customers, an improvement of 64,000 versus the year-ago quarter and, as Brian noted, making this our best second-quarter results in over 10 years. The improvement continues to be driven primarily by improved churn.

Our X1 platform is proving to be a real competitive differentiator and we continue to make good progress, rolling it out to 855,000 net new and existing customers this quarter with nearly 40 percent of our total Video customers now having X1. In addition to great technology, we couple this with the breadth of content available on demand and with a compelling TV Everywhere offering.

Our customers are responding to these choices. On X1 85% of our subscribers are using XFINITY on demand monthly, viewing 29 hours a month on average. And 42% of our subscribers are using our TV Everywhere platforms monthly, up 17% from last year, viewing 10 hours a month on average. We think this adds great utility to our Video service.

Rounding out our residential products, Voice revenue declined by 1.1% to $893 million in the second quarter as customer combined net additions of 64,000 were offset by a modest incline in ARPU, reflecting our usual revenue allocations within our multiproduct packages.

Let's now turn to business services which continues to deliver excellent results. Revenue increased 17% to $1.4 billion with the small business segment accounting for about 75% of our revenue and 60% of our growth. Revenue for the midsize business segment continues to grow at an attractive rate and its contribution as a percentage of total business revenue is increasing. Overall business services has strong positive momentum and continues to represent a large and attractive growth opportunity for the Company.

Cable advertising revenue increased 3.5% to $597 million, reflecting higher political revenue as we continue to benefit from advertising for the upcoming elections. Excluding the political contribution, our cable advertising revenue increased 1.1%, reflecting slower growth across core categories and the timing of media spending. Despite the slowdown in core local advertising we expect advertising revenue growth to ramp in the second half of this year, again driven by political revenue from the upcoming elections.

Turning to slide 6, second-quarter Cable Communications operating cash flow increased to 5.7% to $5 billion, resulting in a margin of 40.6%, relatively consistent with the second quarter of 2015. Programming expenses grew 7.4%. However, excluding the impact of the pay-per-view fees associated with the fight in last year's second quarter program expense growth would have been 9.4%.

This growth reflects programming contract renewals, higher retransmission consent fees and sports programming costs. We continue to expect approximately 10% growth in programming costs for 2016 as growth ramps in the second half of the year driven by upcoming contract renewals.

Non-programming expenses increased 5.5%, reflecting or planned investment to improve the customer experience and to continue the rollout of X1. We have added technicians and service personnel, strengthened our dispatch teams in operations and invested in training tools and technology. As a result, technical and product support and customer service costs each increased 6%.

On a year-to-date basis, operating cash flow increased 5.3% to $9.9 billion, resulting in a margin of 40.3%, down 40 basis points compared to the same period in 2015. As a reminder, earlier this year we provided full-year guidance for our 2016 cable operating margin to be flat to down 50 basis points compared to the 40.6% in 2015. And that guidance is unchanged.

Now let's move on to NBCUniversal's results. On slide 7 you can see NBCUniversal delivered strong results in our TV and Theme Park businesses offset by the challenging Film comparison.

Revenue declined 1.8% and operating cash flow remained stable at $1.7 billion. Adjusting to include the acquisition of Universal Studios Japan in last year's results, pro forma revenue decreased 5.1% and operating cash flow decreased 6.4%.

Cable Networks revenue increased 4.7% and operating cash flow increased 8.3% to $944 million, reflecting higher distribution and content licensing and other revenue as well as lower advertising, marketing and promotion expenses, partially offset by an increase in programming and production costs. Distribution revenue increased 6.9% driven by contractual rate increases and contract renewals, partially offset by a slight decline in subscribers at our Cable Networks. Advertising revenue was flat compared to the second quarter of 2015, reflecting strong pricing offset by audience ratings declines at our Cable Networks.

Broadcast Television had another strong quarter with revenue growth of 17.3% and operating cash flow growth of 70.5% to $394 million. This increase reflects higher content licensing, retransmission and advertising revenue, partially offset by higher programming and production spending.

Content licensing increased 59.9%, primarily due to the availability of content in our current SVOD deals. Distribution and other revenue growth of 35% was driven by a 63% increase in retransmission revenue. Last, advertising revenue increased a healthy 2.9%, reflecting a strong scatter market partially offset by a challenging comparison in sports advertising due to less favorable NHL playoff match-ups and the absence of a Triple Crown contender.

Film revenue declined 40.4% and operating cash flow declined 86.7% to $56 million, reflecting the difficult comparison to last year's Film performance. Most notably, theatrical revenue declined 78.8% compared to last year's second quarter which included the strong performances of Furious 7 and Jurassic World.

In addition, home entertainment revenue declined 25.1% due to the strong performance of several releases last year including Fifty Shades of Gray. Partially offsetting this lower revenue was higher content licensing revenue due to several of last year's theatrical releases like Minions and Jurassic World now in the pay-TV window.

Theme Parks revenue increased 47% to $1.1 billion and operating cash flow increased 40.5% to $469 million in the second-quarter 2016. On a pro forma basis, revenue increased 10.6% and operating cash flow increased 5.3%. These results were driven by higher per capita spending at the parks and the successful opening of The Wizarding World of Harry Potter attraction in Hollywood. Partially offsetting these results was the timing of Spring Break which was more concentrated in the first quarter this year and preopening costs ahead of the new King Kong attraction this summer in Orlando.

Let's move on to slide 8 to review our consolidated and segment capital expenditures. Consolidated capital expenditures increased 15.2% to $2.3 billion in the second quarter. At Cable Communications capital expenditures increased 12% to $1.9 billion for the quarter and on a year-to-date basis have increased 10.6% to $3.5 billion, representing capital intensity of 14% compared to 13.5% for the first half of 2015.

The higher spending reflects increased investment and line extensions and a higher level of investment in scalable infrastructure to increase network capacity. Our investment in our network helps enhance our competitive position in broadband while staying ahead of rapid growth and bandwidth consumption by our customers. We believe we have and will continue to monetize these investments effectively through subscriber growth and rate adjustments.

In addition, our higher capital expenditures reflect spending on customer premise equipment related to the deployment of our wireless gateways and the X1 platform. We continue to expect that for the full year of 2016 our cable capital intensity will remain flat to 2015 at approximately 15%.

At NBCUniversal, capital expenditures increased 32.4% to $360 million in the second quarter and increased 21.3% to $655 million on a year-to-date basis driven by the inclusion of a full quarter of Universal Studios Japan. We continue to expect NBCUniversal's CapEx to increase approximately 10% this year.

I will now finish up on slide 9. As I mentioned earlier, consolidated free cash flow declined 5.4% to $1.4 billion in the second quarter, reflecting growth in consolidated operating cash flow offset by higher capital expenditures.

For the first half of the year, we generated $4.2 billion in free cash flow, a decrease of 9.8% over the first half of 2015. This decline reflects growth in consolidated operating cash flow offset by increased working capital as well as higher capital expenditures and cash paid for capitalized software and other intangible assets.

In addition to investing in the business, we are also successfully executing our plan for returning capital to shareholders. Dividend payments during the quarter were $670 million, up 6.6%, and share repurchases were $1.1 billion, consistent with our plan to repurchase $5 billion of our common stock during the full year. In addition, we ended the quarter right at 2.0 times net leverage in line with our stated target.

That concludes our summary of the quarter. I hope that everyone now has a good sense for how pleased we are with our results as well as our momentum going into the second half of the year. Now I will turn it back to Jason to lead the Q&A.

Jason Armstrong - *Comcast Corporation - SVP, IR*

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Craig Moffett, MoffettNathanson.

Craig Moffett - *MoffettNathanson LLC - Analyst*

Hi, good morning. A question regarding your cable business for a second, and something that we've seen coming up in your set-top box configurations.

Can you talk about the XB6 wireless gateway configuration for video distribution? And what that might do not just to the CapEx cost of X1 deployment but also the OpEx cost of self-provisioning and how that might -- when we might see that being operationalized?

Neil Smit - *Comcast Corporation - Senior EVP & President and CEO, Comcast Cable Communications*

Hi, Craig, it's Neil. The XB6 will be out, it's in the lab now, it will be out towards the end of the year or early next year.

It is as you mentioned a WiFi-based delivery of the video signal, which should cut down on both OpEx and CapEx cost. And we haven't put out how much yet. It's still in the early days. But I think it will be a great addition to the overall hardware configuration and should over time bring down CapEx costs, CPE costs.

Craig Moffett - *MoffettNathanson LLC - Analyst*

And is there anything you can update us on with respect to the reaction you're seeing from customers about the current X1 set-top boxes with respect to take rates of VOD, churn rates and what have you?

Neil Smit - *Comcast Corporation - Senior EVP & President and CEO, Comcast Cable Communications*

Well, churn rates are down significantly with the X1. DVR take rate is about three times native. The pay-per-view is about two times native.

We are getting more additional outlets per box, so the ARPU is up significantly and churn is down. So it's been a great product for us and we keep innovating with it and adding new features and functionality.

Craig Moffett - *MoffettNathanson LLC - Analyst*

Thanks, Neil.

Operator

Ben Swinburne, Morgan Stanley.

Ben Swinburne - *Morgan Stanley - Analyst*

Thank you, good morning. I have a question for Brian and one for Steve.

Brian, the industry has a long history of collaboration. That's been a big part of the success if you think about CableLabs, etc. And I'm wondering in the context of all the big changes in ownership outside of Comcast and when you look at how much more software driven the business is becoming, you look at how much more streaming is happening around the country and think in terms of OTT, do you see either an opportunity or a need for greater collaboration throughout the cable industry going forward and something that you think might actually impact your business or make what you offer the consumer even more powerful?

And then I will just ask my follow-up to Steve. Steve, you had a huge content licensing quarter this quarter and I'm just wondering in that context can you talk about your philosophy on SVOD licensing, particularly as we head towards this Hulu bundle which while we don't know what it looks like there's a lot of talk about cutting back on licensing to folks like Netflix and putting more product inside the bundle? Just wondering if you could opine on how you're thinking about that at NBC.

Steve Burke - *Comcast Corporation - Senior EVP & CEO, NBCUniversal*

So the content licensing numbers bounce around and this quarter was slightly higher than some of the other quarters but I don't think there is -- I know there is no change in strategy. We run the business being very careful about windows and being very careful about the way, various ways that we make money. And we've essentially licensed to everybody that you would expect us to license to.

As it relates to the new OTT entrants I think the key there is going to be making sure that we're in every bundle and I think we're going to be. We have more channels and more eyeballs than anyone else and we're pretty much essential to those bundles. And then as they go out making sure that they are incremental, that they are not cannibalistic, wholly cannibalistic.

I believe the vast majority of OTT subscribers will be incremental, will be going after people who currently are not part of the ecosystem and therefore will be additive to NBCUniversal and all of Comcast NBCUniversal, as well.

Brian Roberts - *Comcast Corporation - Chairman & CEO*

Look, you know I'm not sure I know your question there, Ben. But I think listening to it the first thing we did is we wanted to have sufficient scale for Comcast to be able to invest in the kind of things we're going to do for the Olympics and X1 where we have enough scale to justify that and do really well as a standalone Company.

We've always liked to collaborate, you're right about that. As we look at things like business services and advanced advertising, one of the reasons we were happy to see some of the other consolidation that took place earlier in the year and has been happening is to enable that collaboration.

And I think it also extends to programmers and operators trying to find ways to use this new technology to give more value to the consumer. And whether that's starting with high def, working all the way to on-demand and DVRs to now additional content and random access and on multiscreens and all devices and whatever is coming next.

It's a very exciting time. I think our Company has a real momentum of being new products, innovation, improving service. And I think that's why you're seeing the results we're reporting this morning.

Ben Swinburne - *Morgan Stanley - Analyst*

Thank you both.

Operator

Richard Greenfield, BTIG.

Richard Greenfield - *BTIG - Analyst*

Hi, a couple of questions. One, just wondering how are you thinking about balancing Video subs relative to ARPU? Obviously your Video sub growth has been really impressive relative to the rest of the industry.

ARPU is slowing a little bit and just wondering what's going on there in terms of the balancing act. Then two, just wanted to follow-up on the last question tied to Hulu. At INTX, I think Brian your team talked how technologically there's nothing stopping X1 from working nationwide.

And given all the stats that Neil just cited for X1 with Hulu, Dish, DIRECTV, YouTube and others going nationwide, what's stopping Comcast from basically launching X1 on a nationwide basis and really competing with everyone that's out there?

Neil Smit - *Comcast Corporation - Senior EVP & President and CEO, Comcast Cable Communications*

Hi, Rich, it's Neil. I think the first question concerning how do we balance subs and ARPU can be explained by the fight, the Mayweather/Pacquiao fight last year. The difference in revenue was about 150 basis points in the fight. So if we were to include the fight this year we'd be 150 basis points up if you want to look at it that way, and actually higher ARPU than last year's second quarter -- higher revenue, excuse me.

So that explains that. I think we continuously balance the volume and the rate but we also had more subs come into the starter package which is a fully bundled package this quarter than we had in the past. So we're getting the fully bundled product out there.

Brian Roberts - *Comcast Corporation - Chairman & CEO*

I'll take the second one. First of all I think, Neil, you guys are doing a great job in that answer and the balance is one of the things we're most proud of.

It's not just subscribers, it's the revenue and cash flow growth for cable, very healthy this quarter and all year. And the trend is we're doing both really well. So thanks for asking that because the fight did distort that this quarter a bit.

Look, we just fundamentally believe for now that our in-market, in-footprint strategy is where we add the most value to consumers. Right now we're 40% X1 penetrated. We're hoping to increase that in a short period next year or two as it continues to scale.

Our broadband is great results, business services, it all works well with having a network. OTT economics are unproven to us. And out of footprint, it's not clear that that's the right strategy for us.

So we're about a business model where we're able to grow the customer base, have customers that have multiple products, really high value and ever reducing churn and innovative new products that bolt on. It's not clear how you do that where you don't have a network. But we're innovating all the time and we're happy with the strategy we have.

Operator

Marci Ryvicker, Wells Fargo.

Marci Ryvicker - *Wells Fargo Securities, LLC - Analyst*

Thanks. First question for Cable, it looks like expense growth moderated in the quarter if we look at just advertising and customer service. Is this seasonality or are you through the bulk of investment spend?

And in the second question is for Steve. The 63% increase in the retrans number, is this coming more from retrans or from reverse comp or are they evenly split at this point?

Neil Smit - *Comcast Corporation - Senior EVP & President and CEO, Comcast Cable Communications*

Hi Marci. On the programming costs question came in at 7.4% but again it was the fight last year that if included would have risen our rate to a 9.4% increase. So it was a significant difference between the cost this year and last.

Marci Ryvicker - *Wells Fargo Securities, LLC - Analyst*

Yes, I was talking more about the non-programming expense.

Neil Smit - *Comcast Corporation - Senior EVP & President and CEO, Comcast Cable Communications*

The non-programming expense. I wouldn't read anything significantly into that. It was non-programming expense.

We're still focusing on customer service. We're still driving out X1. So I think that the trends are going to be fairly consistent there.

Steve Burke - *Comcast Corporation - Senior EVP & CEO, NBCUniversal*

So in terms of retransmission consent, we've grown retrans very, very substantially in the last five years but we still lag the other three big broadcasters based on what we know. We make slightly more from our affiliates as a share of their retrans than we make from our O&Os.

But the real point I think on retrans is we still have some major contracts where retrans is going to take significant step-ups. And we're still hundreds of million dollars less than some of the other comparable peers. And we think we deserve the same amount for retransmission consent.

We have the Olympics, we have the NFL. We're the number one network in the demo. And so I think over time that will be a number that continues to grow nicely.

Marci Ryvicker - *Wells Fargo Securities, LLC - Analyst*

Got it. Thank you.

Operator

Vijay Jayant, Evercore.

Vijay Jayant - *Evercore ISI - Analyst*

Thanks. Two questions, both for Neil.

First there is like a 1 terabyte cap now on your monthly usage for broadband. I just want to understand how we think about usage-based pricing given that hurdle in consumption?

And then we saw an announcement on you introducing a prepaid offering. I just want to understand the market opportunity. And that's something we normally see in the developing world, why was there a need to actually do a prepaid offering for Video? Thank you.

Neil Smit - *Comcast Corporation - Senior EVP & President and CEO, Comcast Cable Communications*

Well, we have 1 terabyte, we moved it from 300 gigabyte to 1 terabyte in the 14% of our markets where we have usage-based pricing. We think we're going to continue to adjust and look at it as the market evolves and as usage evolves. We have different pricing models, some based on speed, some based on usage and we're going to be flexible and let the market tell us which way is best for consumers and how we add the most value.

We continue to add speeds. We've upped speeds 17 times in 15 years. We've built out the fastest WiFi.

So we're going to continue to invest in the network to stay ahead of things. Concerning prepaid there is a segment of the consumer base that we felt there was a better model at serving them. They are generally lower income, may or may not have a credit card and generally wouldn't meet our credit ratings, our credit standards that we had applied for customers, acquiring customers.

So we felt this was a good model. We tested it and it worked well. So we will be rolling it out on a broader basis.

Operator

Phil Cusick, JPMorgan.

Phil Cusick - *JPMorgan - Analyst*

Hey guys, a couple of things. Staying away from spectrum but can you talk about the wireless strategy of the Company and when we might see you do some MVNO trials?

Second, following up on Steve's with the nearly 13% CPM increase, how do you think about your monetization gap versus the industry? And how long to get to parity on advertising rates? Thanks.

Neil Smit - *Comcast Corporation - Senior EVP & President and CEO, Comcast Cable Communications*

Concerning the wireless strategy and spectrum I can't really talk about spectrum but we think the wireless represents a significant opportunity for the business. With 28 million customer relationships, our MVNO rights which we've invoked and our 15 million WiFi hotspots we think there's a real business opportunity there. We've been in test and learn mode.

We recently announced Greg Butz who was running all our sales channels to take over the marketing -- he comes to take over the wireless business. He comes from that business, came to Comcast from the wireless business and has a great deal of experience in selling to our base and acquiring new customers. So we're continuing to move forward with our strategy and more to come in the future.

Steve Burke - *Comcast Corporation - Senior EVP & CEO, NBCUniversal*

So over the last five years we've talked a lot about what we call the monetization gap which is the gap between the CPMs that other people get and the CPMs that we receive. We also have had a monetization gap on the affiliate side which is the gap between the retrans or the affiliate fees that we receive and similarly situated channels.

At the time we did the deal the monetization gap was about 20% on ad sales. We've closed the majority of that gap and the biggest progress we've made in any single upfront was the progress we just made. A few years ago we put all of our channels together.

We had previously sold cable separately from broadcast and sports separately from prime time and news. We put everything together, so now if you want to buy back from any part of the Company we have a discussion about every part of the Company. And that because we're the largest provider of television advertising in the country people come to us first, so for the last couple upfronts we've really led the discussions and led the negotiations in price setting of the entire market.

Brian mentioned it in his overview but we got 12.5% increases on NBC entertainment but we also got 13% on USA, we got 12% on E!, we got 10% on Bravo and overall cable was up double digits and broadcast was up double digits. So we had a wonderful upfront. I think in some instances we might be a few percentage points ahead of similarly situated networks this year.

But we think we deserve that and we still have a gap that we're trying to close. It's hard to make progress that's much more material than a few percentage points but I think we certainly made it this year.

And we're also taking advantage of the fact that it's a strong advertising market both in scatter and upfront pricing. And I think big advertisers realize that digital is an important part of the mix, but if you have a major product launch you really, really have to look at big events on broadcast and cable television that can provide the kind of reach and depth that you get.

Think of what someone gets when they advertise in the Olympics. We have three times the combined ratings on any given night during the Olympics of ABC, CBS and Fox. So that kind of appeal if you're marketing an automobile or a beer or a car it's just a tremendous value proposition and we're happy to have it and we made real progress this year.

Phil Cusick - *JPMorgan - Analyst*

Thanks, Steve.

Operator

Jessica Reif Cohen, Bank of America Merrill Lynch.

Jessica Reif Cohen - *Bank of America Merrill Lynch - Analyst*

Thanks. I will focus on NBC in my two questions but I just want to say I have never seen a second quarter with Video subs flattish even when the industry was a fraction of penetration. So hats off to Neil.

But I have two NBC questions. One is on the Olympics. And Steve, you just touched on the big nights that you will have, but given your differentiated and unique approach to the Olympics, how will you monetize beyond the advertising sales you've already garnered?

And the second completely different question but also NBCU is can you talk a little bit about your China strategy? Have you actually signed the documents for a Beijing Park and what the timing is, how are you thinking about Film?

The quota is likely to be and the split is likely to be lifted next year. So can you just talk about overall approach to China? Thanks.

Steve Burke - *Comcast Corporation - Senior EVP & CEO, NBCUniversal*

Okay, so let me start with the Olympics. So for the first time since we've been here we hit our advertising budget for the Olympics three weeks before the start of the Olympics. Normally we would hit the budget right about the time the Olympics started or shortly thereafter.

Our budget was about a 20% increase from London. So we're very, very happy with how we're doing in terms of Olympic sales.

We make money a lot of different ways in the Olympics. We have national advertising which is what I was just referring to. We also have a lot of advertising in our own stations.

We get paid an affiliate fee by cable and satellite and telco operators and then we have a very big digital business. All of those businesses look terrific.

And the way the Olympics work you have a sufficient makegood to cover any ratings shortfall which we hope and think there won't be. But even if there was a significant shortfall we would just make good during the Olympics. So we're looking I think at a very profitable Olympics.

We made $120 million or thereabouts in London and we are going to make a lot more than that in Rio. So we're looking forward to that.

China, Brian and I were in China two weeks ago. And we are very, very bullish on our business there as are most people doing business in China.

NBCUniversal made essentially nothing in China four years ago. I'm talking movies, television, consumer products and theme parks.

Last year we made call it $170 million in China from movies and television. That number is going to grow substantially in the future. We have existing deals and new deals and we are getting better and better at bringing our products to China.

Then in 2020 we're projecting to open a theme park in Beijing which we're very bullish about. We have not signed all the documents but we've had countless meetings. By the way, our first meeting about Beijing happened something like 12 years ago, so those have been going on a long, long time.

But we're essentially we are in schematic drawings. We've had countless discussions on we have all the attractions laid out. We're really in production mode.

I think when you look forward to 2020 combination of movies and television and theme parks, China is going to be a very, very substantial profit generator for our Company.

Operator

John Hodulik, UBS.

John Hodulik - *UBS - Analyst*

Great, thank you. Couple of questions for Neil. First on the X1, you've gone from 30% to 40% penetration in the first half year, it looks like you will be north of 50% by the end of the year.

Can you give us an idea of where you think that number tops out? And looking at that, can we assume that 2016 here is the sort of big year in terms of CapEx and OpEx to support it for the X1 rollout? That's number one.

Then the second is on the business market. Nice growth, 17% growth, obviously most of it coming from the small- and medium-size business. Do you believe you need more assets to go after the large business market?

Is that an opportunity for you, especially out-of-region assets? Or is a partnership with Charter and other cable companies the more likely way you approach that segment of the market? Thanks.

Neil Smit - *Comcast Corporation - Senior EVP & President and CEO, Comcast Cable Communications*

Hi, John. With X1 we will be at about 50% penetration by the end of the year. We [added 855,000 net new and existing customers] (corrected by company after the call) this quarter.

So we are growing at a good rate. We will continue to press more penetration. I'm not exactly sure where it tops out but you can say that generally speaking in the 80%, 85% range there is a part of the base you probably don't get to because you don't want to disrupt satisfied legacy customers who are in single play video.

Concerning the business services, you're right, the majority of the growth is still coming from small- and medium-size. We stood up the enterprise business September of 2015. We're growing customers and we are doing deals with other MSOs.

So Wawa is a good example, we just signed a deal with them for 700 locations for both XFINITY public WiFi in the stores and then employee WiFi also within the stores. And we did it out-of-footprint and in-footprint. So we did deals with other operators and it's worked out very well.

So a lot of the chains we're opening up to like banks have main headquarters and then multiple locations. That's kind of the profile we're going after in the enterprise space and it's moving ahead quite nicely.

John Hodulik - *UBS - Analyst*

Got you. But on the X1 can we assume that spending there is topping out this year and maybe it's flat to down next year to support that?

Neil Smit - *Comcast Corporation - Senior EVP & President and CEO, Comcast Cable Communications*

We haven't made any projections as to how many boxes we'll be getting out over the next year. We're still working the 2017 plan.

But I think that the other thing we're doing is getting X1 out on other devices and incorporating other players like Netflix into X1. So as we go out and you can get the X1 experience on a Roku or a Samsung TV that will also extend its reach.

John Hodulik - *UBS - Analyst*

Great, thanks, Neil.

Operator

Jason Bazinet, Citi.

Jason Bazinet - *Citi - Analyst*

I just have a question for Mr. Burke. Several years ago when you first got control of NBCUniversal I think you guys said if you had your druthers you'd have fewer brands to support within the Cable Network division.

I just wondered is that still true? Do you still believe that's true given the way you're selling ads? And if it is true, is there something subtle going on underneath the way you're allocating your programming dollars where you're arraying them against a fewer subset of all the brands that you have?

Steve Burke - *Comcast Corporation - Senior EVP & CEO, NBCUniversal*

I do think that we and most of the big media companies are concentrating on their big brands. We have some cable channels that don't have full distribution. We've had a certain amount of consolidation and moving around.

We had a network called G4 and a network called Style that neither one currently exist. I think you will see more of that. I think you will see more of that with us and others. As the discussions with MVPDs get more and more contentious I think you want to make sure that your big networks are fully supported and you are more willing to reallocate.

Normally when you do those reallocations they are not all that negative for the content owner because you can take some of the programming and fees and ad sales and move them, consolidate them on some of your bigger networks. The good news for us, really, and you're seeing this with OTT, is if you have NBC you really need to be in a bundle. If you have USA it really needs to be in a bundle.

If you have Syfy or Bravo or E! those are big, substantial networks that are in the bundle. And when you really look at our Cable Networks we make most of our money in those big channels. And we've trimmed and I think you will see us and others continue to trim some of the more marginal channels.

There's just too many channels. And people are spending too much programming channels that are not fully distributed and you'd much rather put your money and have Mr. Robot on USA and have The Voice and Blindspot on NBC and really go with your strong networks.

Jason Bazinet - *Citi - Analyst*

How far along are you in that evolution?

Steve Burke - *Comcast Corporation - Senior EVP & CEO, NBCUniversal*

I don't know. I think there is more to do. We've done some.

I think there is more to do. We've done some, I think there's more to do.

I don't think it's going to have a material impact on the way our profitability looks in terms of cable channels one way or the other. It might be slightly positive but I think it will evolve itself over the next number of years. And we'll continue to invest what we need to invest in the big guys and try to trim some of the smaller ones.

Jason Bazinet - *Citi - Analyst*

Okay, thank you.

Operator

Brett Feldman, Goldman Sachs.

Brett Feldman - *Goldman Sachs - Analyst*

Thanks for taking the question and just going back to the video trends and you talked about this long cycle you've seen and improvements in churn, and I'm just curious you feel like you are getting to the point where maybe most of that improvement is behind you? Or do you still see some obvious ways you can continue to chisel away at that?

And then just at a higher level your thoughts on the competitive environment in video. It seems like the second quarter may not have been the most competitive quarter in light of some internal issues that your competitors are facing.

Are you expecting any meaningful change in the second half of the year? And is there anything you think you need to do to may be reposition around the competitive environment in the back half? Thanks.

Neil Smit - *Comcast Corporation - Senior EVP & President and CEO, Comcast Cable Communications*

You know, I think on the video side we've got what I believe is the best product out there in X1. We continue to add content. We are getting integrating new content into the platform.

We are getting on more devices so and I think we're just executing better. So I see room in continued churn reduction, it's been 29 straight months in the video and HSD side and I think there is still opportunity there as we improve the customer experience and continue to develop the product. And your second question was?

Brett Feldman - *Goldman Sachs - Analyst*

The broad competitive environment, particularly looking into the second half.

Neil Smit - *Comcast Corporation - Senior EVP & President and CEO, Comcast Cable Communications*

The competitive environment, I mean I think that we're competing well across all markets. Verizon had the strike this quarter but that's only in 15% of our footprint and the rest of our footprint performed just as well.

So I think we're always in a competitive environment. Nothing has changed dramatically and we think we're competing very well.

Brett Feldman - *Goldman Sachs - Analyst*

Thanks.

Operator

Anthony DiClemente, Nomura Securities.

Anthony DiClemente - *Nomura Securities - Analyst*

Good morning and thanks for taking my questions. First for Steve, given the agreement for Netflix to be integrated with X1, Comcast Cable is giving its customers better access to an ad-free viewing option relative to an ad-supported VOD option on cable, are you concerned that that integration could have an impact on ratings and potentially ad revenue at NBCU and other cable TV programmers in the industry?

Then second question for Neil, I just wanted to get your thoughts on the value of premium pay-TV networks to your Video platform given that they are going direct-to-consumer increasingly. So for example, how does HBO going direct-to-consumer with HBO Now change your approach to marketing it? Does it change the value of HBO to your Video customers or do you look at it as an opportunity on the broadband side? Thank you both.

Steve Burke - *Comcast Corporation - Senior EVP & CEO, NBCUniversal*

So when you look at all the changes going on in the video spaces I think it's easy to overreact to a change or to predict that a change is going to be more dramatic than it really is. The fact of the matter is something like 40% of the people in America have Netflix now and the people it's obviously an extremely successful service and people are watching a lot on Netflix. And whatever Netflix is doing to viewing habits I think a lot of that is already done and it's going to change and the tide will come in and go out, but the fact that Neil is putting it on the set-top box is a great idea.

It's very customer focused. It's going to make Comcast an easier place to view, particularly with X1, easier place to view all the options in video. And I think it's a very smart strategy for Comcast and I think to the degree the MVPD ecosystem stays strong, that's good for NBCUniversal.

Our relationship with Netflix has never been better. They are huge purchasers of our content, we talk to them all the time. So my prediction is it will be quite a good thing for Comcast Cable and it will be a good thing for NBCUniversal.

Neil Smit - *Comcast Corporation - Senior EVP & President and CEO, Comcast Cable Communications*

As Steve said, the X1 platform gives us the ability to be an aggregator of aggregators and to incorporate services like Netflix and to give the customer easy access to it, a seamless access. We had tossed around the decision for a while but really it came down to what's best for the customer as we get very customer experience focused and making sure we had critical mass in X1 so it made a difference.

But concerning the premium packages overall I don't see their role changing dramatically. I think there needs to be some sort of a relationship or an indexing between retail and wholesale pricing. But we still think they add great value to the service and we'll continue to work them into the service.

Anthony DiClemente - *Nomura Securities - Analyst*

Okay, thanks.

Operator

Bryan Kraft, Deutsche Bank.

Bryan Kraft - *Deutsche Bank - Analyst*

Hi, good morning. I wanted to ask I guess first on advertising, Steve, (technical difficulty) and also if you could comment on I guess how much of your inventory sold in the upfronts this year relative to last year? Did you sell more, roughly the same or less?

And I was also wondering what your expectations, Neil and Steve, are for political advertising as the election cycle gets underway? And then if I could separately I just wanted to ask you about the YES dispute. You had obviously the real viewing data that made you confident in going ahead without YES carriage.

Just wondering what you learned there and how it might affect future negotiations on RSNs. Thank you.

Jason Armstrong - *Comcast Corporation - SVP, IR*

Hey, Bryan, it's Jason. Just to clarify because you did break up for a part of the question, the first question was about inventory sold in the upfront. Is that the entirety of it?

Bryan Kraft - *Deutsche Bank - Analyst*

The first question was if you could comment on what you're seeing in the scatter market right now. And then also separately if you could comment on how much of the inventory you moved to this year in the upfront, yes.

Steve Burke - *Comcast Corporation - Senior EVP & CEO, NBCUniversal*

I would say the scatter market continues to be extremely strong, as strong as we can remember it being and that's continuing. We're going into an Olympics period, so who knows what's going to happen there. But I think the advertising market is very, very strong and some of that is reflected in the upfront.

In terms of volume in the upfront I think we could have sold a lot more than we sold in the upfront. We sold about 10% more volume on the broadcast side, about 5% overall. We turned away a lot of volume, we're working on mix on the cable side to try to get higher, more profitable advertising into our mix in some of our cable channels.

But there was plenty of volume. And we could have sold more if we wanted to. The percentage sold as a percent of the total is roughly comparable to previous years, so we still have depending on the network 20%, 25% of the volume available for a strong scatter market.

Neil Smit - *Comcast Corporation - Senior EVP & President and CEO, Comcast Cable Communications*

And concerning political, we see a good opportunity in the fourth quarter as we have seen in the past, so we think there is room there. And concerning YES, we had very detailed viewership data where we assumed that if we took it off the air there would be a certain amount of lost subscribers and our assumptions were much higher than the actual case turned out to be, if we had lost many fewer subscribers than we anticipated.

So I think at the end of the day great programming there will always be a price for. And we will go in well informed to our conversations and look for value add to the consumer and value add between the programmers and distributors.

Bryan Kraft - *Deutsche Bank - Analyst*

Great, thank you.

Jason Armstrong - *Comcast Corporation - SVP, IR*

Thank you, Bryan. Regina, make this the last question, please.

Operator

Mike McCormack, Jefferies.

Mike McCormack - *Jefferies LLC - Analyst*

Hey guys, thanks. Neil, maybe just a couple for you.

Thinking about the fourth quarter and the back end of the year we're seeing a lot of OTT offerings coming out. How do you guys think about positioning a single play broadband product and I guess how much flexibility do you have in pricing that?

And then secondly either Mike or Neil, just thinking about the cable OCF guide is that just programming in the back half that might weigh on it?

Neil Smit - *Comcast Corporation - Senior EVP & President and CEO, Comcast Cable Communications*

Concerning the Q4 OTT products, as Brian said earlier we haven't seen an OTT model that really is very profitable for us. And we think that bundling our products and having business services and operating the bundle is still the best value.

And concerning single play and broadband we do market that. We think there is going to continue to be streaming services and OTT services that come through and broadband will continue to grow as we continue to invest in the network and the WiFi capabilities.

Mike Cavanagh - *Comcast Corporation - Senior EVP & CFO*

In terms of programming costs, so for the full year we still expect to be up about 10% for the full year. Year over year we were about 9.4% for the year to date when you adjust out the deflation caused by the fight. And that's on the back of the contract renewals that we had at the beginning of the year and we will have in the second half and some of that will carry over to next year as well.

Mike McCormack - *Jefferies LLC - Analyst*

And Mike, is it just the programming piece, though, that drives what looks to be conservative guidance based on the first half?

Mike Cavanagh - *Comcast Corporation - Senior EVP & CFO*

Well, first half of the year on overall margin we were down 40 basis points to 40.3% versus 40.6% last year. And as we said at the beginning of the year it will be flat to down 50 basis points. And not going to tune up the second half of the year but all the trends are as described so we will be in that range.

Mike McCormack - *Jefferies LLC - Analyst*

Okay great. Thanks, guys.

Jason Armstrong - *Comcast Corporation - SVP, IR*

Okay, thank you, Mike. And thank you everyone for joining us today. Regina, back to you.

Operator

There will be a replay available of today's call starting at 11:30 a.m. Eastern Time. It will run through Wednesday, August 3 at midnight Eastern Time.

The dial-in number is 855-859-2056 and the conference ID number is 28741694. A recording of the conference call will also be available on the Company's website beginning at 12:30 p.m. today.

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