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PRESENTATION

Operator

This webcast presentation is for Bank of America clients only. If you are a member or representative of the press or media, please disconnect now.

And now I would like to turn the call over to our moderator.

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

Good morning. I'm not sure if you guys can see me. But okay, great.

Well, welcome to our 2020 Annual Media, Communications & Entertainment Conference. Sorry we're not in Los Angeles, but it is a pleasure to begin and do this virtually. We welcome Jeremy Darroch, Group Chief Executive of Sky, which of course, is a major division of Comcast.

Jeremy, it's a pleasure to welcome you to our conference.

Jeremy Darroch - *Comcast Corporation - Group Chief Executive, Sky*

Thank you.

QUESTIONS AND ANSWERS

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

So let's get started. You've been at Sky since 2004. You've been CEO since 2007. During that time, you've seen Sky and the industry undergo very significant changes. And this year, you've had to manage the company through a pandemic and historic economic downturn. So let's start with the basics. Can you give us an update on how Sky is performing through the crisis, including a recap of your efforts to date?

Jeremy Darroch - *Comcast Corporation - Group Chief Executive, Sky*

Sure. I think, Jessica, I mean, you said it at the start, having run Sky through a whole variety of environments and significant industry change over this period, I think as you go into it, one of the things I've learned about Sky as a business is we're a very resilient business. And so when things happen, actually, I'm typically less worried about the business sometimes than others.

Now having said that, a pandemic is, as we've seen, is totally new territory, I think, for all of us. And of course, it means that the year hasn't panned out as we'd anticipated.

I think you go back then to the sort of fundamentals of the business. So we focus on 2 things: We focus on our customers. More than anything, we're basically a business that's architected around customer insight and customer relationships. And then we focus very much on protecting our people.

So what does that mean? Well, it meant that we stood down our retail stores and stopped putting people into customers' homes very, very early. But at the same time, we transitioned all of our huge customer service estate to really focus on retention. We accelerated and stood up our digital services, and they took on a lot of the load of managing customer service and are proving to be very resilient. And actually, we're going to build upon that going forward when we come and talk a little bit about some of our operating changes.

We helped customers, when sports basically went away, pause their subscriptions. But we had a very clear plan to bring those back, and that's basically happened since then.

So as a consequence, our business is very stable. We've maintained 99% of all of our household relationships. We've run the business without sports, and it's been fine. 95% of our sports base is here, and we've brought the sports customer base -- paying base back well.

We made -- we kept progressing the big, strategic initiatives we've laid out last year. So we've continued to make very good progress with Sky Q, which is our next-generation box platform that's growing well. We've launched broadband in Italy. We've completed another -- a number of major rights renewals: the likes of Sony, Discovery come to mind; the Bundesliga, which is a very big one for the German business.

So I'm pleased -- very pleased with where the business is now. The goal now is really to get the -- step the business back progressively through the balance of the year, so we can exit 2020 in good shape and on course for our plan for the next few years. But I think the business is on track as we sit here today.

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

Great. You've stated that Sky is on a path to more than double EBITDA over the next several years. Can you outline the steps you plan on taking to get there, particularly your plans to grow revenue in each of Sky's geographies and also, specifically, the time frame to reach these goals? Is it coming more from expense? Or is it coming from revenue?

Jeremy Darroch - *Comcast Corporation - Group Chief Executive, Sky*

So sure. So it's a reasonably simple plan from where we are. Now I'd say at the outset, none of it is particularly predicated on a lot of kind of new revenue streams that we haven't already got in market today or actually a big turnaround in the performance in either Italy or in Germany. That, hopefully, will come through later.

So the way I think of it is really 4 building blocks: The first building block is the sort of COVID recovery plan. We've essentially had 3 pressures on the business, which is sports subscriptions pricing, advertising and our hospitality business. So we call it the pubs and clubs business here, which is under stress. Bringing that back to where it was, I think we're through the first of that. Obviously, we've got advertising where the market is improving in Q3, but we need to see that come through. And then I think the hospitality sector will take a little bit longer. We're working with our customers there very closely. So there's the sort of step back from COVID as one chunk of that.

The second is quite a lot of change we're planning and running through in our operating model. This was really -- we had this in train before COVID. You can imagine that transforming Sky from being a successful public company to being a fantastic operating division gives us a lot of opportunity about what we focus and importantly, what we don't do. So we are centralizing a lot of our product development and technology, our channel management, basing a lot of that around our U.K. business. And then allowing our businesses in Germany and Italy and elsewhere to really focus on what they need to do really, really well locally. And that will deliver a big chunk of savings on the back of that.

You can sort of see what we've done in the past. It's been a part of the Sky story to reduce our operating costs considerably as a percentage of sales, but I think there's good progress still ahead of us.

The third bit of it is really our programming cost line. Well, there are quite material changes that are going on. A lot of that is enabled by our product set now in Sky Q, in particular, which gives us so many more options around the programming that we have, how we can showcase that, how we can provide that for a longer period of time for customers. And so as a consequence of that, we can be a lot more choiceful around where we spend our money and where we don't.

So a good example of that might have been our renewal with Disney this year, where we essentially took what was, in the past, a pretty high fixed cost base focused either on Sky Cinema or a declining Disney channels portfolio. And we've turned that into an à la carte app, which is a sort of pass-through of revenue, but has released a lot of cost in our base that we can deploy elsewhere. So we've got so many more options now around where we choose to spend, and that means that our programming costs will reduce again as a percentage of sales over the next few years, and that will release capacity through the P&L.

And then the final piece of it is really maintaining growth. It's really maintaining our course and speed just in the U.K. So the U.K. is performing very well, very consistently. Its base is very stable. We're hitting record levels of loyalty from our customers. So provided we maintain that growth rate in the U.K., that will provide good growth, which will close out profit growth over the next few years. And we've really got sort of 3 priorities there. First of all, in our core TV business with Sky TV, getting the dividends from investments from Sky Q, which will flow through, maintaining that level of customer loyalty and stability, which I think is there.

We can see good potential in our second brand in the U.K. That's NOW TV. That's an over-the-top streaming service that essentially is a vehicle for all of Sky's channels and allows us to get to new headroom to serve other customers differently and well. And we're starting to make good progress there as we accelerate ARPU growth, increase takeup and it's very complementary to Sky. And then thirdly, we continue to see good opportunity in the broader comms business.

Our broadband business, which is the #2 business in the U.K., is still only in less than half of our -- all of our homes. So there's good headroom to grow in our home base. We know a lot of Sky customers want to aggregate their services with Sky, so we'll continue on that trend.

We've -- we're just getting going in mobile. In mobile, we've got a very good agreement with Telefónica. We've got about -- mobile is in about 12% of our base today. We don't see any reason at all why we can't grow that to a much higher proportion of the Sky base. It's already EBITDA-positive, so it's just a case of leveraging that over the next few years.

And then finally, we're going to enter the business segment for broadband. That's a big segment here in the U.K., not a segment we've particularly focused on in broadband to date. It's one of the things that's been enabled actually by being part of the Comcast group. So we can see that come through. So there's really sort of 4 building blocks to that, all broadly about the same.

Now over and above that, we see good opportunity still in both Germany and Italy. We've got specific plans there, but we're not predicating doubling of EBITDA from where we are today on those. Hopefully, they will come through later and can take up more of the load as we get through the next phase.

And we've not set a specific date and time frame. We said over the next few years, and we'll work through that. I would -- hopefully, growth will be reasonably consistent through that period. But it's very clear. Most of it is in place. Now we just need to get on and execute it.

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

Right. I mean you only disclose customer relationships. Can you help us understand the mix of your customer base in each of the -- your main countries, U.K., Germany and Italy? And what could drive customer growth in normal times?

Jeremy Darroch - *Comcast Corporation - Group Chief Executive, Sky*

It's really best to sort of do that by market, I think, really. So if you take the U.K., that's our most developed market. In many ways, it's the sort of model for what we're trying to do elsewhere. Got about 13 million households, retail households through Sky in the U.K. and we have about 3 million distributor households where we sell essentially Sky's channels through others. So we're in about 16 million homes, essentially anchoring their TV experiences in all of those homes. Our broadband business is about 6 -- slightly over 6 million in the U.K. A little bit half of those homes take broadband, as I said, and a bit -- a little bit over 10% now take mobile from us, and that's growing very well.

We've got the most -- the broadest range of content, the most developed content business in the U.K. of all of our markets. So traditionally, we had movies, sports, news. And we've added to that a very significant entertainment offering that covers everything from high scripted drama, factual, nature programming, history, kids, the arts. And essentially rounds that out and means pretty much in a household, Sky becomes the core to your pay TV viewing. So we want it to be the service that you must have around, which everybody else can orbit.

In Italy, less developed. We've got about 5 million homes in Italy. We really only play in the TV segment in Italy today, both traditional Sky, but also NOW TV in Italy. We have a very strong share in that segment. And as a consequence, we have a very, very powerful brand in Italy, that's very well-known, and I think has got the capacity to do more and to go to other places.

Our challenging issue is really more to sell. And so we're launching broadband in Italy because that will give us another big leg of growth much the same as we developed in the U.K. We see a lot of similarities to the U.K. and Italy. And on the back of launching broadband here in the U.K., that really became a real accelerator to our basic TV business as well. We'd hoped over time, both of those things will happen in Italy, and that's starting to roll through now.

And in Germany, we've got about 5 million households as well, again, split over traditional satellite, distribution over cable and OTT. We found Germany harder going over the last few years. Our plan really in Germany for growth is built around 3 or 4 things: first of all, getting our -- more of our best products into more customers' homes, and we're accelerating that; increasing our marketing spend, particularly above the line because our brand is probably too small today, and we need to resonate much more; broadening our content offering away from sport, where we've been overinvested, and much of that is in place and as we broaden out and offer more of a whole home service in Germany, that will lead to good growth, we think; and then finally, we're changing their operating model quite a lot.

So we see an arc of growth, if you like, that's very much anchored off the U.K., is supported by headroom in all of our markets and in our base of homes to sell more into those homes. And on the back of that, we amplify that, we think with pricing and also cross-sell and upsell. So the rate of growth, which is -- it should be consistent, I think, over the next few years as we step back from COVID, and we're sort of broadly in line with what we've been able to deliver in the past.

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

So coming into this year, there was a big focus on your Sky Q investment. Can you give us an update on that -- on your progress there? And when should we begin to see a positive impact on financials?

Jeremy Darroch - *Comcast Corporation - Group Chief Executive, Sky*

So we like Sky Q, and we chose to really push hard with Sky Q for 2 really fundamental reasons: I mean the first thing is you should know is customers love it. They love it as a product. They use it more. So viewing typically goes on by something like 20% roughly in a household that takes Sky Q. It's a great vehicle and an easy vehicle for us to present the full breadth of what we serve to customers in a more compelling way.

Loyalty goes up. So as a consequence of that, churn comes down. And so that's a good sign, which we like as well.

I think it gives us great strategic flexibility around those content relationships I was talking about before. So Sky Q can be a mixture of an older -- your channels business, on-demand and recorded programming. We got something like, I think, 40 apps now on Sky Q. So it's our ability to decide how we distribute is much more flexible.

Unsurprising, therefore, we love it because the financial profile from Sky Q is very strong. The investment now is on a customer-by-customer basis. So it's very much leveraged to success. We can see clearly returns that we get from customers through either larger and better loyalty, we can grow our advertising revenues more, and typically, customers will spend something between 5% and 10% more in terms of ARPU on Sky Q versus a standard customer.

So we're rolling that through where our goal is to be at about 60% penetration broadly this year, but then for it to continue to grow over the next few years. And those returns really will come through the plan. I think through this year, we'll have been through the bulk of the investment to get Sky Q into more houses. And that, of course, will help fuel the plan and deliver consistent growth over the next few years.

Importantly, though, there's no sort of major investment we need to make in Sky Q to leverage that. That's pretty much done that now. We just need to roll it out customer by customer.

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

How does NOW TV compared to OTT products in the U.S., what's your strategy for NOW TV? And does NOW TV expand your customer base? Or do you see satellite customers switching to the service?

Jeremy Darroch - *Comcast Corporation - Group Chief Executive, Sky*

So NOW TV is an OTT-delivered app. It's essentially a -- predominantly a vehicle for all of Sky's channels that allows us to grow and open up new segments of the market that are emerging in a way that's complementary to the traditional Sky service. So we can think of customers who don't want to make a regular commitment, certain parts of the country where it's difficult to get a satellite-enabled service in place, certain segments, of course, we can see that are emerging and growing.

It complements what we do with Sky very well. So a lot of our customers continue to like the peace of mind of a service like Sky, they like the idea of bundling services still. Remember, pricing in Europe is very, very different than you'll see from other services in the U.S. But it allows us to give a lot more freedom to those customers who don't want that. So we'll sell today something like 4 monthly passes. We sell Sky Sports, Sky Entertainment, Sky Movies, Sky Kids. We sell a daily Sports pass. And all of these are very attractive from an ARPU point of view. They're not lower-priced in that sense. Actually, if you start to aggregate more passes, you'll quite quickly spend more than you would spend with Sky.

The job of NOW TV is really to grow our penetration. We're growing our usage of customers who are taking more passes from us, so we're growing there. We think we can scale NOW TV well. It doesn't particularly cannibalize Sky. It probably is a little bit more in acquisition because, of course, Sky was going after those markets on its own. Now, NOW TV is competing there, but it doesn't cannibalize Sky to any great extent in the home. And it just gives us more choice, a greater portfolio, more flexibility.

And I think an important thing to remember in Europe as well is that pay TV is a very considered purchase. So there are good free-to-air offerings. So we know that customers research before they buy, and therefore, providing more of the choice over time just gets you more of the share. So we like having the flexibility of 2 brands that can sell alongside each other of essentially the same cost base. And NOW TV has very good marginal economics that sit well with Sky. And we do similar things in both Italy and Germany, largely off the back of what we're doing here in the U.K.

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

How has being part of Comcast -- being part of that Comcast umbrella benefited Sky?

Jeremy Darroch - *Comcast Corporation - Group Chief Executive, Sky*

I think -- look, I think at it's sort of most fundamental level, I think Sky and Comcast are very, very similar. So we sort of have similar ethos as a business. I actually think the cultures of the business, the mindset of the teams, I'm being struck at how similar they are. And we essentially wake up every morning and think about the same things and have the same problems and opportunities. Sky, in some respects, is a lot smaller than the combination of Cable and NBCU. But it sort of covers that full suite of opportunities and challenges. So as a basic sort of a jumping-off point, it's -- we're very similar. And I think that's one of the reasons why the businesses immediately integrated very well.

There's a sort of patchy history, I think, of U.S. corporates coming over to Europe. Some of those have gone well and some not so. And I think the way that the broader Comcast team have landed here has been really exemplary.

Our initial focus then is, in terms of then how we leverage that, was very much in terms of cost. How do we do things smartly together, procurement, bring these together and leverage savings? That secured initial chunk of benefit that we're after, that will continue to grow as we do more and get better along.

I think now we're sort of thinking much more about capability. I'd see capability broadly in 3 areas: I think there's opportunities in areas like product, there's areas in content, and there's definitely areas of people development and broadening our people, giving them better career opportunities and moving them around, particularly our top people, to become more international over time.

And just as well bringing that to life. If you looked at product, therefore, what does that mean? Well, we've launched a global voice control platform. We stood that up in about 9 months. That's -- basically, we took the Xfinity voice platform and rolled it back into Sky and Sky Q, in particular. We've doubled our voice control in Sky Q over that period. We're now turning it into a multi-territory, multi-language platform, all anchored off Dave Watson's business in the U.S.

We're well developed on an IP video platform for the globe. At the heart of that was NOW TV, which we rolled into Peacock but we'll extend that into the likes of X1 and Flex and Sky Q. So we'll have one global IP video platform, which means we can go faster, we can be more consistent over time and leverage it quicker. We're developing that over 3 countries today, which gives us greater resilience.

We're well advanced in a global IP hardware product or products that's based upon RDK from Comcast. But also Sky's ability in hardware design and sort, which is something we've let out, I think, for a long period of time. So both of the businesses bringing their expertise to bear. So we can start to see now in an area like that, which is very significant over the long term, real opportunities to grow the capability of the business for all of our benefit.

Now that doesn't mean we're trying to run strategy centrally or we're trying to figure out things from afar. We're being smart, I think, about how we do that. But I think we'll see more and more of those opportunities over time. And I'm certainly convinced that Comcast is a really good home for Sky at this stage of our development.

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

As you mentioned, Sky successfully launched broadband in the U.K., and you're now the second largest provider. What's the market opportunity going forward?

Jeremy Darroch - *Comcast Corporation - Group Chief Executive, Sky*

So I think it flows into a number of buckets, as I talked about. And certainly, the first bucket is just with our existing base of homes. I mean less than 50% of our homes take Sky Broadband. I don't see any reason why that can't be greater. I think over the last few years, we've tended to focus elsewhere, and we're getting back to that. We've gone quite quickly from start to being the strong #2 in the U.K.

We're not just a reseller. We've got our own core broadband network built around the canal system in the U.K. and that's important because, of course, when you get to things like optimization of the network, backhaul capacity, where you innovate and where you don't, it gives us a very complete picture of what we need to do. So I think continuing to grow into our base of homes is opportunity one.

Extending broadband into the business sector would be opportunity 2. We've got quite a sizable business organization today. We've got something like 40,000 business customers in the video business, but we've never really pushed in broadband. We've always had, I think, probably other things to do, and that's been our focus.

One of the things that Comcast have brought, because they've got a very big broadband business, B2B business, is to really help us with that. So we've brought leadership over to help us here. And so we think we can attack the business market over the next few years, big market, $12 billion or $13 billion. So there's plenty of room for us to go into. It's a market we like because we can disrupt. We have got no business to protect. And as I said, we've got a big base of clients already that we can start with. And the goal really is to prove that out in '21, and if we're successful to get our foot on the gas.

And then 2 other ideas that will flow from that. Well, the U.K. has been a laggard in full fiber. So only about 6 million homes in the U.K. of 26 million are at full fiber. We're now hoping that will accelerate. BT are talking about getting in 20 million homes over the next few years. And we're seeing the likes of Liberty and Vodafone, CityFibre all seeking to make investments.

I think as the strong #2, we will be really important in that journey because I think people know that Sky can help make that market. And we have guaranteed supply from BT. So supply side, we're in a good place.

And then we just launched recently, NOW Broadband. So off our second brand, we've launched a broadband service there. And so once again, we can have 2 brands in that marketplace, and that just gives us greater flexibility from a trading point of view to optimize and profitably grow. So we're not done with broadband here. That's going to be a big part of the business here in the U.K. for the next few years.

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

You mentioned that Sky Mobile is now EBITDA-positive, only 3 years after launch and that you expect profitability to increase as you scale. Can you give us an update on the strategy and frame how big the market there is as well as Sky's opportunity for growth?

Jeremy Darroch - *Comcast Corporation - Group Chief Executive, Sky*

Yes. So size-wise, about 12% of our base today -- of about I think 50 million postpaid connections or something. There's a huge number of postpaid connections to go for. So we're very, very small in that market. But why should we succeed?

I think, first of all, mobile is seen as a very relevant service for Sky to scale -- to sell from Sky customers. So right from the outset when we decided to progress in mobile, I was very struck by the intention in our base or the openness of our base to take a Sky Mobile product. And that was really the anchor of that. And that hasn't changed through that. The opportunity for us was to try and find the right way in. So the brand fit is very good.

Again, we think it's a market that's ripe for improvement in quality, in service delivery, in flexibility, which are all the things that we enjoy doing and can bring the markets. And we see a good fit with what we do.

We've chosen to lead very much with a digital offering. We've got a retail estate that we're leveraging as well, but it's predominantly digital service offerings. So it's quite cost efficient in terms of growing. Of course, our partnership with O2 means we can run alongside them. We don't have any significant capital investment. Our capital investment in mobile is very, very small.

And I think if you look at our record over the last few years, you can see that we've been very, very good at cross-selling into our base. I mean roughly, about half of Sky customers like the idea of aggregating their services with Sky. And so there's a big headroom, I think, for us to push into.

We'll seek to innovate in areas like brand and packaging. So we've got very innovative pricing and packages in areas like rolling of data, flexibility of how you mix your data over time that rewards customers. They feel like we're rewarding their loyalty, so it has a halo back into the business. So it's very complementary to what we're doing, and it just sits as part of our business. It's not a separate division or anything. It's just part of the sales and marketing group.

So net-net, it's a very complementary business, with low capital investments, and I think speaks to the capabilities and brand that Sky is. So I don't see any reason over the next few years, whilst our broadband business -- our mobile business can go along a similar trajectory. We'll see where it gets to as we've been able to achieve in broadband.

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

So Sky U.K. remains the anchor of the overall business, and the anchor of that business remains the satellite TV offering. How does your negotiating approach -- how has it changed as more content owners go to direct-to-consumer?

And what is your recent programming deals? You mentioned Discovery and Sony. I think you also did one recently with HBO. What does that say about your outlook on these negotiations going forward?

Jeremy Darroch - *Comcast Corporation - Group Chief Executive, Sky*

So I think the first thing I just want to sort of push back on a bit is I don't think the satellite anchors the U.K. position. I understand why from afar, it can look that way and of course, there's a historical association. But Sky in the U.K. is anchored by different things.

Yes, we're the #1 brand in the U.K. If you go and talk to customers about which brand would you trust to bring your entertainment and communication services together, they talk about Sky above all others.

Our channel portfolio in our channel business is really at the heart of the pay TV ecosystem here. We are a huge go-to-market organization. And if I took you back to when we launched Sky Atlantic and made that the home of HBO, we were able to, I think, elevate the HBO brand to a place it wouldn't have easily got to on its own.

And we've -- since 2007 now, actually, since I became CEO, we've developed a hybrid technology that seeks to use the best of what the satellite does, combines out with either local storage or increasingly, cloud-based storage and a broadband return pathway. That means we can be so much more flexible around how we seek to innovate and how we seek to distribute content.

Now the satellite is an important part of that. It's diminishing over time, but it remains an efficient way for us to offer services like ultra HD for multiple live sport feeds, for example. And I think it will continue to diminish, and we'll continue to take the business and move it to a different place.

When you put all of that together, I think we become an excellent partner for content providers to work with. Building D2C businesses isn't particularly easy or cheap. We can really help them with that. We've got 24 million homes we can get people to very, very easily and quickly. But also, we can decide who we work with and who we don't.

So you've seen us move away from traditional areas, and we'll continue to do that perhaps in sports. Germany would be a good example, where we've renewed the Bundesliga contract that we have certainty now over the next 4 to 5 years, but at a significantly reduced cost, but having retained all the best games, all the best picks, all of the best slots, so we're delighted with that. We made similar progress with the Premier League last time around. Discovery and Sony, we'll make choices as to what's right for us. We've moved Disney to a different relationship.

So we can offer a content partner today a variety of different ways to work with Sky. We can take our linear channels business. We can ingest your content for an on-demand service. We can host an app on the platform. We can sell you as part of a Sky bundle. We can sell you á la cart alongside that. Or we can have you as a straight service, where we do all of the billing and integration and just pass it through. And that, I think, is really good options for our partners, but importantly, is really good options for us.

Netflix is probably the best example of that, I think, to date where we've essentially got all of Netflix' content hosted on the Sky platform. Increasingly, Sky customers choose to watch Netflix through Sky because it's just so easy, and they like that. We can bundle it into Sky packages. And if you think about it, we've got access to all of Netflix's fantastic inventory and back-catalog on the Sky platform. And so we've got more content really than we need. And that's -- that feels like that's a good position to be in.

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

And what's your original content strategy? How important is that to you?

Jeremy Darroch - *Comcast Corporation - Group Chief Executive, Sky*

It's going to be very important, and it's going to be important for a couple of reasons: First of all, if I -- as I look at the content marketplace here in Europe, you typically see -- so 2 or 3 things from that. First of all, a lot of free-to-air content. And I think free content is under, whether you're a commercial free-to-air broadcaster or a public-funded broadcaster, you're under real stress now in terms of sort of top line growth. So we see that content becoming more and more general as it either chases license fee money or TV advertising dollars sold.

Then, of course, we've got the big global -- largely U.S.-based content that's appealing to a global audience. And so I think in between that is a great opportunity to create differentiated content that's relevant to Europe, that's local in its nature. And whilst I'm not a big believer in sort of uniqueness, I do think this is a position where Sky is sort of uniquely able to drive into that. And that's what where -- what we're doing.

And then if you look at all of the stats in our markets, local content remains a huge differentiator. It's very complementary to what we get elsewhere, but it's very, very important. And as we do that through Sky and through Sky Originals, we can effectively take money we would have spent elsewhere and invest it ourselves.

So if I take a service like Sky Atlantic, which is our high-end scripted drama service, in 2019, the biggest show on Sky Atlantic was Game of Thrones. No surprise there. But the next 2 shows were Chernobyl, which was a production we did jointly with HBO, and then a production called Catherine the Great, which we did ourselves here in Europe, that would be ahead of, say, Big Little Lies or Billions. If I look at Italy, that's a very, very developed local content market.

So Sky Studios is a great way for us to create more of our content. We can do it show by show. We can sell it on elsewhere. And it can increasingly, over time, occupy more of that central space to complement either what the free-to-air broadcasters provide or what we acquire in the global marketplace. So I'm very excited by it because I think that's going to be one of the big next phases of Sky's growth over the next few years and essentially, we can fund it from within.

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

And you alluded to advertising, I think, strengthening a bit in the U.K. Can you give us a sense of what current trends are? And what your outlook is for the rest of '20 and into '21?

Jeremy Darroch - *Comcast Corporation - Group Chief Executive, Sky*

Yes. So at its peak here in our markets, advertising was down about 40%, 45% in the sort of early summer at that kind of height of COVID, as you'll have heard, I'm sure, from others as well. Much, much better in Q3, still down year-on-year, but better.

We had an additional headwind, which was sort of the changing to gaming or gambling legislation in the U.K. that we've now lapped. That's behind us. So I'd expect the market to be better in Q3 and for us to outperform the market.

And then the goal is to make sure we can exit the full year in as good a shape as we can be with a lot of those declines behind us. We'll have to see how that pans out over the remainder of Q3 and Q4.

Our brand count is pretty much back to where it was. By brand count, I mean the number of advertisers who we have on the platform in September. That's essentially back to pre-COVID level. So I think we're tracking well to that coming through, but we're obviously going to give it the next few months and see how that develops.

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

And then one last thing on U.K. before we jump to Italy. But sports has been such a key part of Sky's strategy. Can you talk about the post-COVID or the -- well, we're still on COVID, but kind of the recovery of sports? And were you able -- with sports essentially canceled for a while, were you able to secure any rebates or any benefit? Like how does that balance out?

Jeremy Darroch - *Comcast Corporation - Group Chief Executive, Sky*

So I think the -- look, I think the sports broadcast business, I think we've seen this around the world, has progressively been under a bit more pressure over the last few years then as people -- I think at the heart of that, that is because people have more choice. And young people, in particular, have more choice around where they spend their time. And that's one of the reasons why we pushed into broadening out so much over the last few years.

It's why you're going to see us do 2 or 3 things: First of all, we'll continue to retain the rights that are really important to us and really anchor Sky Sports as the home of sport in all of our customers' markets. You'll see us invest in other areas where we can see good opportunities. So something like Formula 1 would be a good example of that because we know that motor sport speaks to a very different cohort of sports fans than a lot of ball sports. Typically, most people who are a ball sports fan will like multiple ball sports, but less sort of motor sports. So we'll extend where it makes sense, and we've invested more there.

But we've also reduced. We'll reduce some of the secondary sports, which I think are in danger losing -- less relevant and are less important. And we'd also be able to make choices around just the volume of sport that we carry because we can see better returns and actually better customer service, in its broader sense, by doing other things.

So our sports business is in really good shape. It's come back well post-COVID. Actually, we're in a period now where we're probably going to have a stronger sports schedule over the next 18 months than I think we've ever had. So we've got good visibility in sports, and it's important we leverage that. And when we think about things like advertising, that's going to be important. I mean in the U.K., for example, we've just won the contract to sell BT's advertising. And of course, that means we're in the leader in the sports marketplace somewhat. But over time, again, it will have -- it will become a smaller part of the mix, but an important big business in its own right.

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

So let's quickly turn to Italy. You launched broadband across 26 cities with the goal of expanding to 120 cities, it sounds, by the end of summer. Could you give us your early takeaways from what you've had so far and how the offering has done so far in the market?

Jeremy Darroch - *Comcast Corporation - Group Chief Executive, Sky*

I can. Yes. So early -- with the caveat of early days, because it is early days. I mean look, the first thing when you do any of these initiatives is to test if the whole system works: that you can get customer acquisition right, you can get provisioning right, the customer experience is what we expect, and I think we've done that. So we're very pleased about all of the implementation. A little bit of work to do in some areas, but that's worked well. Our initial sales have been slightly ahead of what we'd anticipated, but we'll see how that matures.

Intention to purchase from customers, that's something that we track very, very closely. It is essentially -- has maintained at very high levels, which is one of the basis that we went in. That hasn't sort of degraded at all.

I think the broader broadband market in Italy has quite a lot of the dynamics of the U.K. I think pricing and speed actually are largely homogenized. Speed, for example, isn't a particularly unique advantage. So much more of the differentiation comes from areas like brand, service capability, bundling strategy, pricing propositions. And we like that as a business because we think we're good at that.

And then I think more broadly, as we scale now and go to new customers, there's just nobody in -- that we can see in Italy, who are going to be able to combine a product like Sky Q and broadband and sell those in a bundle. We think that's going to be very powerful in the Italian market. So early days. Happy with where we are. A lot of work to do. But we're on our way, and we want to see good progress in the balance of this year and then really start to scale in '21.

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

I know we're over time, but I just want to get one last question in. We really didn't talk about Germany that much. Can you talk about your strategy for increasing penetration in Germany? And how much more investment do you think you'll need over the next couple of years? What are your plans for future investment in Sky Deutschland?

Jeremy Darroch - *Comcast Corporation - Group Chief Executive, Sky*

So -- look, there's no doubt we found Germany harder going than we thought. I think actually in a sense, the good news is some of that's been -- we haven't executed particularly well in that market, and we're fixing that now.

Broadly, we need to do 3 or 4 things in Germany: First of all, we need -- we're not big enough as a brand, and we're investing incrementally in our marketing. And too much of our marketing in Germany has been to execution and tactical. We're changing that and spending more over the line. We know that's an important thing to drive demand and open up headroom, to your point, in these markets. And you need to do it on a sustained basis. So that, we have fixed.

Secondly, we need to be broader in our content offering. The investment, the bet we made in -- or the investment we made in Bundesliga has not come through in the last contract in the way that we'd hoped. So we've significantly reduced our investments in football, but maintained the quality because that has adjusted. And one of the advantages in Europe, of course, is we renew sports rights on a much shorter time frame. So the tail of getting the wrong side of that is less, and I'm very pleased now with where that is. And we've got good certainty now on sport over the next 4 years -- 4 to 5 years locked in.

We need to get better as an operating business, and that's part of this operating model change I was talking about. And I think the local German business will be the biggest beneficiary of that. And then finally, we need to invest in our broader entertainment content and broaden out what we offer for everybody in the home. We've had some good -- some very, very good, original programming in Germany. So we know what to do. We just need to scale it more.

I don't think that there's no huge, single investment that we need to make in Germany. We can invest as we go because much of it is already -- is leveraging off what we've done in other markets, in the U.K. in particular. What we need to do is we just need to execute well for the next few years.

And then I think the German business -- and bear in mind, Germany remains a huge opportunity, I think, in Europe. It's the biggest market. It's got significant pay TV headroom. As we modernize our business, that can take up the load of growth beyond the existing plan to double our EBITDA over the next few years. So our existing plan is also not predicated particularly on success in Germany. That could be beyond that.

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

Great. With that, thank you so much. So great to see you. Thank you for being part of the conference.

Jeremy Darroch - *Comcast Corporation - Group Chief Executive, Sky*

Great. Nice to see you. Thank you.

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

Thank you.
