

THOMSON REUTERS STREETEVENTS

# EDITED TRANSCRIPT

CMCSA - Comcast Corp at MoffettNathanson Media & Communications Summit

EVENT DATE/TIME: MAY 19, 2016 / 3:00PM GMT



## CORPORATE PARTICIPANTS

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

## CONFERENCE CALL PARTICIPANTS

**Craig Moffett** *MoffettNathanson - Analyst*

## PRESENTATION

**Craig Moffett** - *MoffettNathanson - Analyst*

So thank you all for joining us for the 3rd Annual MoffettNathanson Media & Communications Conference. Thank you for those of you who are listening by webcast as well. And I am really delighted to welcome Neil Smit of Comcast. This is Comcast's third appearance, but I think your first time that you have spoken on behalf of Comcast at our conference, so I really want to welcome you, and we are delighted to have you here.

I'm going to dig right into what has been one of the pervasive themes of the conference and that is just how well cable is doing right now, even in the context of a pay-TV market that is compressing at the fastest pace we've ever seen. Your video results have been really terrific. Talk about that. What is the key leverage point and what's the switch that seemingly got flipped that has given you all that momentum?

---

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

I think for us it's been a combination of things. We put out 53,000 subs in the first quarter. Over the last 12 months, we put on 25,000 subs. We are positive. So the trends you are referring to are enduring. I think part of it is the X1 product. It's just a great product, great user interface. It drives churn down, it drives ARPU up, and customers love it. And the voice remote is part of it; it is addictive. People are using it 180 million times a month.

The second has been we are segmenting the market better and we are targeting the right customers with the right offers and we've built a big data function that helps us figure out which segments are higher churn or lower churn and how to manage them over the course of the lifetime.

And then third would be the customer experience. We are spending a lot of time on the customer experience and we are making a lot of traction. Churn was the biggest driver in our results. Connects are still healthy, but the churn has been the thing that's coming down 26 straight quarters now and I think it's due to a good extent to the customer experience where we have the highest ever first call fix rate, the highest ever -- fewest ever repeat truck rolls, so we are getting it right the first time and we are just making good progress there. Everybody is focused on it.

---

**Craig Moffett** - *MoffettNathanson - Analyst*

So if I look at the broad trend of cable and you in particular taking share from satellite, I tend to think of that as a churn issue, that there is a bigger and bigger part of the cable customer base that is effectively off limits because the two-way interactivity of the platform is simply a baseline requirement for those customers now and they wouldn't envision switching to a provider that doesn't have that. That's taken 10 years longer than some people thought, but is that finally what we are seeing, that the two-way interactivity of the platform is finally emerging as something that is a must-have rather than nice to have?

---

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

I think it is. I think having the data product, and the video product, and the phone product, and the home product, and having the ability to deliver all of those and what comes with them is making a difference. And you saw our Olympic demo of X1 and it's merging live linear content with streaming content in the same experience and it's just a very different world with a two-way network, and I think it is a reason all the cable operators had good video results this quarter I thought.

**Craig Moffett** - *MoffettNathanson - Analyst*

But X1 for you is obviously much more than a set-top box platform. It's much more than a user interface. It's really sort of an organizing principle for your cable business. You talked about the number of voice commands, but can you drill down a little bit on what the experience of X1 customers has been and how the economics of those customers change when they get X1?

---

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

Sure. Churn is down double digits across that cohort. VOD viewing is up 40%, or 50%, excuse me, but the transactional VOD is up 160%, 50% more DVRs, more additional outlets. It's hit the mark on so many levels and what's kind of interesting is, from a content provider perspective, it's a great platform to be on too because we can promote the content. Generally speaking, the ratings are higher in our markets than other markets because people can get to the content they want and they call it flattening the UI where you go in with a voice command and you don't have to sort through and channel select and go through networks and titles. You can say show me kids movies without basketball and guide right through the UI and get to the content you want in a quick, simple way. And once people have it, they can't believe the experience and they don't ever want to have any other --.

---

**Craig Moffett** - *MoffettNathanson - Analyst*

And they wouldn't leave?

---

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

Yes. And we have about 42% TV Everywhere penetration. It's up 30% from last year, so we are getting it across all platforms and it's really a great experience.

---

**Craig Moffett** - *MoffettNathanson - Analyst*

When do you integrate -- there's so much expectation of fully integrating Netflix, for example, and those kinds of services. What are the impediments and when can we look forward to those services being more integrated?

---

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

We have a number of apps now on the service and they are widely used. We think that we can provide an integrator role and make it easier for the customer to consume the content they want. It's a matter of prioritization and just getting the work done. But it's relatively easy to integrate third-party players either an HTML app or integrating their content fully into the experience into the metadata and then the universal search, so we are working on that right now.

---

**Craig Moffett** - *MoffettNathanson - Analyst*

And is the rate limiter for the deployment of X1, at this point, is it just installer capacity and you've --? It's been so successful. The question is obviously always there as to could you go even faster and push the penetration of X1 even faster?

---

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

We could. We are doing 40,000 boxes a day now and we've reached about 35% of our customer base. We will be at 50% by the end of the year. It's a balance of CapEx and capacity of the organization to get the boxes out there, but the demand is high and we are really balancing off the CapEx and the capacity to get the boxes out there. But we will be migrating onto IP video over the next call it 12 to 18 months and that will take more processing power out of the boxes and into the cloud, which makes the hardware cost per household will come down and it would be delivered over Wi-Fi. You saw some of the devices at the show and it'll improve the experience, we think, even further.

---

**Craig Moffett** - MoffettNathanson - Analyst

And presumably make it also faster to let customers start to do self-installs and accelerate deployment?

---

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

Yes, right.

---

**Craig Moffett** - MoffettNathanson - Analyst

It was hard not to -- the first thing you take away from the Olympics demo at INTX last week was just, wow, this is really an incredible platform. But I guess one of the things -- and you and I talked about this briefly afterwards -- was that it is, to some extent, the Mercedes version of video. It is a really, really sophisticated premium experience of lots of things brought together on a platform. It's gorgeous; it's exciting. But it almost inevitably connotes it's expensive. It's a very full bundle and very rich bundle with lots of content.

Can you talk about the other end of the spectrum, the lower-income customers and how you think about addressing the need for not just a Mercedes, but something at the low end of the market that's more affordable to those customers?

---

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

Sure. Well, I think one aspect of it is we've announced deals with Samsung and Roku where, via an HTML5 app, you can get the same guide experience, a very similar guide experience on other devices and contrary to what DSTAC is all about.

But the other thing is -- with Shaw, we gave them a TV Everywhere experience to begin with. With Cox, we were wholesaling the product too. We gave them a full experience. It's very -- we can -- it's so flexible. It's software we can make lighter or heavier versions depending on the customer base, but we basically are trying to put in -- make the experience for any customer the best it can be. I wouldn't really call it a Cadillac or whatever -- what's a cheap car these days?

---

**Craig Moffett** - MoffettNathanson - Analyst

A Yugo.

---

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

I think it's a matter of having the flexibility within the platform to be able to do different things for different audiences. We provide a college on-campus product targeted at people who are young college students who didn't have access to the content or didn't choose to have access to the content. We are streaming it to their dorm room, so we are getting it to them where and how they want to watch it. And it's a similar experience, not quite the same, not quite as functional, but it's a very similar experience.

**Craig Moffett** - *MoffettNathanson - Analyst*

You haven't seen the same level of demand or maybe it's been the same level of push for really skinny bundles that some of your peers have, the broadcast tier only plus HBO. You offer it, but it's become a much bigger part of the mix for some players than others. What have you learned about skinny bundles and where do you want to take skinny bundles as a company?

---

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

So we started with Internet Plus, or skinny bundles, 2.5 years ago in I think 2013, actually. And it was basic, along with the premium and a great Internet product. These were millennials who wanted a great Internet product; didn't want video per se. So we put a light video product on attached to it. What we found was that, as they came off contracts, 30% of the customers upgraded to a higher level of video service. So those were possible cord nevers, or video nevers anyway, who, once they got introduced to the content, they upgraded, and so we brought, in our minds, new customers into the stream.

We use it in a measured way. We target other audiences with other products, but there is a segment who wants that product and the upgrade percentage has been very high. It's still a relatively small part of our base. We grew video ARPU 3.9% in Q1 and put on customers, positive customers, so we are balancing the mix of rate and volume and there are, of course, penetration restrictions over how much we can put out on the skinny bundle (multiple speakers).

---

**Craig Moffett** - *MoffettNathanson - Analyst*

Do you think this industry obsession with skinny bundles is misplaced? Is it that fundamentally the customer value proposition is still strongest when it is a really rich, diverse platform, or is it, no, we actually hear loud and clear people want fewer and fewer channels at a lower price as the option that resonates the most?

---

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

I think there are different packages for different segments and we want to deliver -- we are focusing on a great user interface so they can get to their content they want, and we are packaging different offers to different segments. So there is a segment who want a lighter bundle, but also there's a segment that wants to upgrade to a heavier bundle that wants to be introduced in a different way. So we want to have the flexibility to be able to offer the right package to the right customer base.

---

**Craig Moffett** - *MoffettNathanson - Analyst*

And what role does sports play in that? You are obviously right now in one of the most protracted programming disputes you've had. It's not a big one by some industry standards, but not carrying the Yankees in the Princeton area is a big deal for you guys. Can we draw bigger conclusions about what role sports and the pricing of sports networks in bundles -- can we draw bigger conclusions from this, or is this a very situational-specific issue?

---

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

Well, sports is a big part of our overall cost, but it draws ratings and it's best watched live. The YES dispute is a matter of, we have a big data area where we look at set-top box viewing and we found that the viewing, relative to the price we were paying, just didn't make sense for us. We'd love to get something done, but it needs to make fiscal sense (multiple speakers).

---

**Craig Moffett** - *MoffettNathanson - Analyst*

And is that generic because of the level of penetration of interest in baseball, or is that that specific geography is split between Phillies fans and Yankees fans, and so the value of the Yankees is lower than it might otherwise be if you were closer to New York?

---

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

I think it's a little of each. We find some RSNs are very reasonable rates, great viewership and are a good value proposition, and others are much more expensive and the viewing, partially because we are not in the core Manhattan market, we are in northern New Jersey, which is slightly outside the core market and there are some fan differences in teams they support. That's part of the reason as well I think.

---

**Craig Moffett** - *MoffettNathanson - Analyst*

Bottom line, is the pendulum swinging back toward distributors in negotiating leverage when the content guys come in to do a renewal now?

---

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

I don't know if the pendulum is swinging. I think what's happening is we are going into the conversations with much more data and many more facts and we are better informed over the value proposition of the content. And that makes a big difference. But good content is always something we are going to want. We want comprehensive content, and we want it across multiple platforms. So whether the pendulum is swinging or not, I'm not sure. Content providers are providing the content across more different viewing platforms and as it goes out across to OTT players and whatnot, it can diminish the value to us because it's less concentrated, but they are going after more eyeballs and I get that.

---

**Craig Moffett** - *MoffettNathanson - Analyst*

In your heart of hearts, do you think that the high single digit like-for-like rate increases that we've seen from the programming community for so many years, are those inevitably going to moderate or not?

---

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

We've had a little lumpiness in our programming expenses this year, some of which carry over into next, but then the high single digits seem to be where we've been in 3, 5, or 10-year trends. If you look at them, we've been in that range. So where it'll end up, who knows. I think there will be different types of rights that are granted. I think there may be some packaging flexibility that's granted and when we work with programmers, we look for genuine win-win because we are paying a lot more money, but we think there are things that we can do together. We are building an advanced advertising platform. Just did an acquisition last week of StickyAds, and we think that can deliver value and perhaps ease some of the pressure off the affiliate fees.

---

**Craig Moffett** - *MoffettNathanson - Analyst*

Let's think about one of the big OTT topics that's pervaded this conference as well and that's been Hulu. The announcement that Hulu, which, obviously, you guys are a part owner, will be coming into the market with an OTT service. That sounds to most people like a real cable substitute, rather than a supplement. How do you think about that, and that's literally one of many. Amazon, Apple, Google are all around the edges. DIRECTV is launching an OTT service. But for Hulu or somebody that has direct access to content, how do you think about the challenge of competing against an OTT service that could potentially underprice your cable package with a pretty similar bundle?

---

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

Well, I think it's not clear yet what the package will be and how long it will take to get things done with the content providers. So let's preface by saying that. I think there are going to be a number, a handful of players revolving around the space. We haven't seen a model yet that is as profitable for us as selling within our footprint, servicing within our footprint and packaging video with HSD, or phone, or home security. So we think the best return on our dollar and the best investment is within our footprint. But you have to also I think acknowledge that there are going to be different ways of delivering the content and that we have to be prepared for that. So we don't want to be caught short-sighted and we think about that platform of delivery and want to be prepared.

---

**Craig Moffett** - MoffettNathanson - Analyst

And is it -- let's say specifically with this in-region, out-of-region, you said on your conference call a couple of weeks ago that you still haven't seen an out-of-region OTT model for you guys that quote/unquote hunts. Can you talk about this some more? What are the specific limitations that you say this is why it just doesn't work for us?

---

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

Well, first off, there's rights. And while we may get MFN rights, we still find that you'd have to service customers out of your footprint theoretically and we get the best return on where we've already invested the capital into the network. We've passed 54 million, 55 million homes and we are only 42%, 43% penetrated, so we still see a lot of growth in there.

---

**Craig Moffett** - MoffettNathanson - Analyst

Let's transition to broadband for a second. Improbably, given where penetration is in the United States with getting close to 80% penetration and with the legacy DSL base now getting pretty depleted, your broadband growth rate has actually started to meaningfully accelerate. That implies that there's been a big share shift starting to happen in places where you compete against fiber to the neighborhood, twisted pair services, U-verses of the world. Is that right? Is that what we are seeing here, that just the seeds that customers require are starting to gap away from what the infrastructure is that you compete with can offer?

---

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

I think that's part of it. I think the ranges I've heard is broadband penetration is somewhere, depending on how you define it, between 70% and 80%. So there's still room for growth there, as well as we are 42.5% penetrated. So we see a lot of room for growth in that regard, just share of lives. We've invested a ton in our network. We are launching DOCSIS 3.1 in Atlanta right now and have announced four other cities, so we can get the gigabits speeds. We have an Internet Pro product where we can offer up to 2 gigs and we are investing a lot in Wi-Fi and we will have multi-gigabit routers coming out in the relatively near future. So if you get a gig coming up to the house, you can actually get a gig going through the house across the Wi-Fi network with all the devices people are hanging over it.

So I think it's -- and the DOCSIS -- our HFC network is very flexible. We can do things beyond DOCSIS. So I think it's continued investment in capacity. We double our capacity every 18 months or so, but we want to have the best product out there both inside and outside the house.

---

**Craig Moffett** - MoffettNathanson - Analyst

Can you say anything about the pricing of your new DOCSIS 3.1 types of services when you start to move to gigabit speeds?

---



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

We will play around with pricing in different markets, but it'll be very successful.

---

**Craig Moffett** - MoffettNathanson - Analyst

So it's not going to be a -- initially it's a business services offering only and then you will start to bring it to the consumer market later? You will start in the consumer market right away with a high-speed offering?

---

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

Yes.

---

**Craig Moffett** - MoffettNathanson - Analyst

Have you seen any evidence that there is wireless substitution going on? There were some very well-publicized studies like Pew Research that said we are starting to see lots of wireless substitution. It's hard to find that in any of the national numbers, but are you seeing any in your footprint?

---

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

We are really not. I thought the Commerce Department piece was a little bit vague. It didn't really define whether mobile included Wi-Fi or not very clearly. The FCC came out and said that broadband, fixed broadband, is going up at 7.5%, which exceeded the broadband growth rate of -- exceeded the substitution rate. So I think we still see healthy growth. I think even if you go to a 5G environment, you are going to need space, you are going to need power, you are going to need backhaul and we think we are in a very, very good position as that evolves.

---

**Craig Moffett** - MoffettNathanson - Analyst

And I want to go back to something you said a second ago about your DOCSIS 3.1 rollout. Is there any scenario that you would envision where you actually have to start upgrading the facilities to a fiber drop to homes or --?

---

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

We are doing fiber to the seller and MDUs now and we are doing fiber to the home in newbuilds and we are hauling fiber deeper into the network with business services, which has been a great story. And we do what we call hyperbuilds where we used to go in and say you have to show this much business before we pull the fiber in, and now we are going in and building it because we know we are going to get 30%, 40% penetration and getting that fiber deeper into the network. And we coordinate all the fiber buildout, whether it's resi or commercial, across the business, so it's done strategically and we are leveraging the most off (multiple speakers).

---

**Craig Moffett** - MoffettNathanson - Analyst

So is your plan future-proofed against whether it's virtual reality, whether it's against ultra HD or 4K?

---

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

I think we feel very good about ultra and 4K. I think VR is still TBD, how much bandwidth that will haul, but we've upped our speeds 17 times in the past 15 years, and we think the network is very flexible and capable of (multiple speakers).

**Craig Moffett** - *MoffettNathanson - Analyst*

And it's kind of amazing to hear now -- as we start to talk about DOCSIS 3.2 already and start talking about 3 to 5 gigabit per second symmetrical speeds, so there's still a lot of room left in your plan.

---

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

Yes.

---

**Craig Moffett** - *MoffettNathanson - Analyst*

I want to talk about the usage-based pricing issue for a second because shortly after Charter agreed to what turned out to be a seven-year prohibition on usage-based pricing, you guys raised the usage caps on your tests from 300 to a terabyte. Can you talk about what the thinking was behind that shift? Is there any connection between those two things, the timing of the Charter announcement and your increase?

---

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

No real connection there. We continuously monitor our markets where we have usage-based pricing. It's about 14% of our customer base, and what we found is there were superheavy users using terabytes and there were low-end users who were never going to get to 300, but then there was a group in the middle who were valuable customers and it was disruptive somewhat to their experience to have to buy off of it \$50 at a time. We had different varieties of plans, so we said for those terabyte plus, they can buy unlimited for \$50. So we wanted to address that audience. And then people in the middle, we said let's just make it a carefree experience, and so far it's been well-received and we will continue to monitor it as well.

---

**Craig Moffett** - *MoffettNathanson - Analyst*

But that means that the onerous going forward on price increases may have to be spread across everybody, at least to some degree, or else the alternative argument would be that this linkage between speed and throughput continues as far as the eye can see and that customers who want to do more throughput will inevitably want higher and higher speed. That's been true from a marketing perspective, but it's not true from an engineering perspective. There's no real reason for much higher speeds just because you want to stream a lot of video. But is it still your expectation that you can keep steering the customer base with the old model, which is higher and higher speeds for the heaviest users?

---

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

I think there are a lot of ways to get rate in our business, whether it's rate via speed tiers or we're working on a smart Internet product where you can allocate bandwidth by device within the house. You can put child controls into it; it's easy to set up; all devices authenticate at the same time. So I think there's other value adds we can add to the data value proposition where we can take rate and pricing.

And I think broadband, it's like water now. I can probably do without water as long as I have connectivity and I think that's going to continue to be the case and speed will be one of the things that customers value, but there will be other things.

---

**Craig Moffett** - *MoffettNathanson - Analyst*

As you look out to the day where the unit growth rate inevitably has to decline, just because penetration rate in the US starts to come up against ceilings, how do you think about longer term the mix of pricing and volume in the broadband business?

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

We are forever managing price and volume, and I think we've struck a pretty good, over the last couple years, a pretty good mix where we've put on over a million subs for the last 10 years, and our revenue has grown in the high single digits, low double digits. So it's an ongoing task and we monitor it carefully. How many high-speed-only customers do we have; how many do we have in the bundles? If the promotional pricing isn't there, what could come with the HSD product that could add more value? So it's kind of a constant exercise.

---

**Craig Moffett** - MoffettNathanson - Analyst

And let's, since we are on the topic of broadband, let's talk about the other customer segment for broadband, which is the enterprise or the commercial segment for a second. That's been an 18% grower for you guys despite the fact that you are much bigger than your peers in dollar terms and better penetrated on average than most of them. How long can you keep growing that business at those kind of rates and how do the strategies evolve as you start to move upstream to larger customers?

---

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

Small business has been the growth driver; 70% plus of the growth has come from that, but now there's more growth coming out of the midsize business. And we've got a great product set and I think a very good value proposition. It's at a \$5 billion run rate business now and we decided to enter the enterprise space about a year ago, hired someone from that space and built a sales team.

And we combined -- we had some national accounts that we were servicing from other areas, but most of those enterprise customers are regional offices with many hubs -- banks, fast food, convenience stores, things like that. And those convenience stores are like small business customers, so we know how to do that.

I looked at the number, when we combined our national accounts with the new accounts, we bought a company called Contingent, who provides managed services. We service over 200,000 locations already, so we are getting our legs underneath us and we think that's a \$13 billion to \$15 billion opportunity within our market.

---

**Craig Moffett** - MoffettNathanson - Analyst

And you are just at the very starting gate of that?

---

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

Yes, we are at inning one.

---

**Craig Moffett** - MoffettNathanson - Analyst

And so how big can commercial services be as a part of your business? Do you look out and say there's a time when commercial services could be a third or more of your business?

---

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

At the growth rate it's going at, yes, I would think that is certainly possible. Bill Stemper has done a terrific job managing and building the capability, and we keep investing in fiber and extending the network and adding more services. So I think it's got a lot of potential.

**Craig Moffett** - *MoffettNathanson - Analyst*

And then when you think about the enterprise segment, for most people -- certainly I admit I think of it this way -- it's not just what you described, which is the branch networks that in aggregate add up to an enterprise customer, but it is the very sophisticated data communications needs of large companies, everything from the connectivity piece of Gigabit Ethernet and now 10 GigE, but also the security and all the services that you provide in the wiring closet for those customers. How soon is that a realistic opportunity for Comcast?

---

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

I think that will evolve over the next couple years. We've started out with access and connectivity and sometimes even as a tier 2 player just to get in the door, but we run one of the biggest networks in the world and hopefully reliably for our customers. So we have core competency in that, but I think it will take time to get (multiple speakers).

---

**Craig Moffett** - *MoffettNathanson - Analyst*

Are there skills that you would envision having to acquire or do you grow it organically?

---

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

We've acquired, as I mentioned, Contingent, which has some of those managed service skills, but there might be other acquisitions or we will grow it organically. Most of the business services that we've built we've grown organically.

---

**Craig Moffett** - *MoffettNathanson - Analyst*

I want to transition to wireless, and I know there are some limitations on what you can say because of the ongoing auction, but you are a participant in the auction, or at least registered. You have a paddle, so to speak. You've activated your MVNO agreement with Verizon. Investors have always found this an incredibly interesting and potentially compelling part of the story. So can you talk about how your thinking has evolved for what role wireless plays in the future of Comcast and where you are today?

---

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

Well, there's no doubt that there's a trend towards mobile, and we feel that we need to participate in that mobile trend. We have a great asset, we believe, in our Wi-Fi network. We have 14 million hotspots and we think we can leverage that network as well. 70%, 80% of the data that's consumed in the house or in the home is over the Wi-Fi network. So the MVNO relationship with Verizon, we find it's very valuable -- it will be very valuable to us. We are going to test and learn that mode right now on the wireless side and --.

---

**Craig Moffett** - *MoffettNathanson - Analyst*

Fran Shammo, by the way, said please remind Neil that he has an NDA just like we do.

---

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

Fair enough. So we are looking at the wireless base. We are going to test and learn. We think there's an opportunity there. And if you look at some of the European models, they've done very well where they are reducing churn, penetrating their base and it's been a good addition to the portfolio.

**Craig Moffett** - *MoffettNathanson - Analyst*

Can you give us an update at least on the timing of when you are going to start to have test markets for the Verizon MVNO and when people will start to see what some of the experimentation looks like?

---

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

No. No news for now. Suffice it to say we are working on it.

---

**Craig Moffett** - *MoffettNathanson - Analyst*

So one of the things we talked about, and this has been another pervasive theme of the conference is, if you think about what is projected for 5G networks, from the carrier's perspective, it is pushing smaller and smaller cells deeper and deeper and deeper into neighborhoods so that if I project out five years, it's not clear that the wireless network and the -- let's say 10 years -- it's not clear that the wireless network and the cable network actually look all that different. They are a bunch of wires with some wireless endpoints on the end.

Is that the way you see it because there's an argument that would say if that's really the way networks evolve, it's not an if as to whether we get into the wireless business. By definition, there will just be a network and we are going to be providing network services.

---

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

Yes, and we will be part of it. That's a good way of thinking of it. So 5G is very exciting, and it's very early stages, as you know. It has propagation of 300 feet. It doesn't go through trees and walls very well, and it's going to require a lot of these cells, as you say, to make it work, and we find that we are very well-positioned should that come around. You are going to need space. You are going to need power. You are going to need backhaul. And we already have some backhaul relationships with some of the telcos, but I think it does become part of the overall network. In the Wi-Fi space, we in a way already are in the mobile business, so I think it'll be exciting to see how it evolves (inaudible).

---

**Craig Moffett** - *MoffettNathanson - Analyst*

I guess that conversation about backhaul and providing that role, I guess I have to ask and I'm going to be talking to the Chairman in about an hour and a half, but does the broad outline of the BDS or special access NPRM give you pause about your appetite for investing in that network if there is the risk of price regulation that might follow behind it?

---

**Craig Moffett** - *MoffettNathanson - Analyst*

I think any time there's uncertainty, it causes you pause and you look at your assumptions and your ROIs more closely. I think what surprised me about the special access NPRM was it was focused on new entrants, like us, who are bringing more competitiveness to the space and clearly gaining share in doing that. So I fail to see the necessity of it in that particular space, and it would cause us to look at our ROIs more carefully.

---

**Craig Moffett** - *MoffettNathanson - Analyst*

Do you agree with what former Chairman Powell said last week that cable is suffering a regulatory barrage or an onslaught I think was the word he used? Do you feel like cable is being unfairly targeted by the FCC right now in all of these NPRMs?

---

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

You wake up in the morning, you wait for the next news. It feels like there's been a number of things in a relatively short sequence between DSTAC, privacy and special access. I think we've operated under the consent decree for six years now in conditions like net neutrality and it hasn't affected the way we run the business. And we will work with the commission to make sure that the right facts and considerations are included in the conversation. The best you can hope for is let's discuss facts. We shared at the show our Samsung and Roku HTML5 app running X1 over a Samsung Smart TV and that didn't require another piece of hardware. So I've got to believe that the Commission will be open to discussion and getting the facts on the table.

---

**Craig Moffett** - MoffettNathanson - Analyst

Okay, well, we will see if we can get some more insight as I say in an hour and a half or so.

---

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

And any help --.

---

**Craig Moffett** - MoffettNathanson - Analyst

One of the questions here gets to some of the disparate video strategies that are in the marketplace. You've been clearly, I think, the most dedicated to the vision that video is a central part of the strategy. Cable ONE has taken a very different approach, which is to say video is not a moneymaker and that we will support it, but our emphasis is clearly elsewhere. What do you make of that strategy as an outside observer and what can you learn from it?

---

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

Well, video is still call it 50% of our revenue and still a profitable product for us. Margins are being squeezed as you can't pass on the rate of programming increases through to the customer. But I think we believe that if we can provide a great experience to the customers that they are still going to want to watch video. We tend to lead more with Internet offers and pull video along more than we used to. We used to lead more with video in our marketing offers, but I think the programmers are looking for ways of adjusting the delivery of video to the customers as well, and so I think there are win-wins. I think it will continue to be an important part of our business, and I think there's things we can do together with the programmers.

---

**Craig Moffett** - MoffettNathanson - Analyst

And what can you learn from Altice? The kind of cost-reduction targets they've set are so aggressive relative to the more traditional operators. Is it a wake-up call that says, wait a second, there's a lot more there that we should all be looking for, or is it a skepticism that says they've bitten off more than they can chew?

---

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

I always think there's a lot we can learn. They've been successful in a number of markets taking costs out and improving margins. I think one always has to look at the sustainability of the cost reductions on the business. So I think it remains to be seen, but we are certainly open to learning.

---

**Craig Moffett** - *MoffettNathanson - Analyst*

Another one of the questions here is how many video channels is the right number in your mind? One of the questions that has come up among lots of the content companies here is are we looking at a future where the long tail starts to get a little shorter, and some of those smaller channels even owned by the largest media conglomerates start to get cut back? Would you actually like the future better where you had 65 really good channels instead of 300 that included 25 really good ones and a long tail?

---

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

I think it depends on the customer. Some customers want a lot of choice and some customers want a narrower choice, and we ought to be able to give them the option. I think the user interface is very important. We've experimented with, as you know, with Watchable, which is a short form, integrated that into the experience, so I think that it's going to depend on the customer and you want to make it the best -- let them find that content the easiest way. I think there are some channels out there that get very little viewing and --.

---

**Craig Moffett** - *MoffettNathanson - Analyst*

And are there some you are just paying too much for? As you think of the future, is it more likely that you say we are just going to have to get smarter about which ones we say no to?

---

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

I think data-informed decisions and conversations are healthier from our perspective, but I think there's a lot of things we can do together with the programmers to deliver better, more relevant content to the customers. That's the way we go into the conversations, what can we do to make it a better experience. So I think that takes form that way.

---

**Craig Moffett** - *MoffettNathanson - Analyst*

So I want to go back to your announcement about Roku and Samsung and putting your app on other people's platforms. If I step back from that and add to that, whether it's Amazon's Echo or Google Home, is it a concern for you that your customer relationship may be disintermediated by all these new re-aggregators and that you've become one step removed from the real customer that's ultimately paying your bill?

---

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

You mean we are (inaudible)?

---

**Craig Moffett** - *MoffettNathanson - Analyst*

That's right. That's an even more Draconian approach, but even the approach where you say the first experience that the customer has is someone else's platform; it's a Roku platform where you are side-by-side among three or four other services. You may be the most comprehensive within your app by a long shot, but you are still at the same level as three or four other services and someone else ultimately controls the first level of the user experience.

---

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

I think there are pros and cons. The pros are we widen our addressable audience by getting it out on -- getting our app out on different devices. There are people who may not want our set-top box, but they have a Roku and they like our experience on it. So I think that's positive. We like and prefer to have people come through our experience for a lot of reasons. We think we can editorialize and get the recommendations engine

recommending great content for the customers, but we are open and flexible to getting it on other platforms as well. I think it is going to evolve and TV Everywhere will evolve. We want to make it as good an experienced on a tablet or a mobile device as possible as well.

---

**Craig Moffett** - *MoffettNathanson - Analyst*

So what I hear you saying is we are comfortable with that as long as we control the experience within our app, but DSTAC, as you call it, or All Vid or STB or whatever name it's going by is a bridge too far in your mind?

---

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

Yes.

---

**Craig Moffett** - *MoffettNathanson - Analyst*

And that unpacking --.

---

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

I think it's unnecessary. We are changing our hardware on a routine basis. You saw some of our new hardware. The new set-top is disk size (technical difficulty) to the set-top and HDR-capable. It's a great piece of hardware and that came out -- it will be coming out later this year. And who knows what will be the next evolution of that. So I think trying to come up with a hardware solution that's going to be probably outdated within a certain number of years or months is -- just doesn't seem necessary.

---

**Craig Moffett** - *MoffettNathanson - Analyst*

All right. We have I think just about a minute or so. What kind of closing thoughts would you like to leave for people either who already are or may be Comcast investors?

---

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

We have good momentum in the business now, both from a Comcast Cable, as well as an NBC perspective, and the merger works very effectively. And we have good momentum in both the subscriber side where we are targeting better, and we are segmenting better, and we are getting better quality customers. Churn is coming down. We are doing a lot on the customer experience side and that continues to improve. We are seeing best-ever metrics in a lot of different areas.

And finally, our products, I think, are world-class. We've got some world-class engineers putting out some great products, and the business has a good momentum right now. So that would be my closing --.

---

**Craig Moffett** - *MoffettNathanson - Analyst*

All right. Well, thank you very much for being here.

---

**DISCLAIMER**

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2016, Thomson Reuters. All Rights Reserved.