Management CV

Research Note:
Comcast Corp. (CMCSA)
April 30, 2010

Not Your Father’s Comcast

It has been a long and bumpy ride for shareholders of Comcast over the years but we think Chairman & CEO Brian Roberts (50) may finally be offering his investors a bundled package of better returns, fairer governance, and more conservative capital allocation. Comcast has long been run by and for the Roberts family and investors have sometimes felt like domestic help around the house, useful when needed, but a nuisance when not. Legendary founder Ralph Roberts saw little reason to apologize for his classic media mogul control of the fast growing firm and continues to infuriate the governance types with his avaricious share of the profit. Keeping Comcast a family controlled entity was always an unabashed goal of Ralph Roberts but we think his son Brian has struck a much more reasonable fiduciary balance that will become more evident to outside investors in the coming year and, most importantly, share the rewards of success more equitably with investors. We think CEO Roberts and his team are likely to continue their recent trend to better alignment with outside investors and that this CEO leads a top caliber team that is likely to deliver materially better operating results than most of its Media peer group.

Comcast's growth into the dominant U.S. cable franchise will always be the legacy of Ralph Roberts (90) but the ascendance of his son (one of five siblings) has marked the transformation of the firm into a media and entertainment titan. Brian Roberts has worked at Comcast since he graduated from Penn's undergraduate Wharton program in 1981 (his father is also a Penn Alumnus). Although his advantages in "working his way up" are clear, his aptitude for risk and return have also made him a stand-out in a colorful crowd. He has a hard analytical thought process similar to his father's and he combines it with an understated demeanor that makes him unusual among the super-egos of the Media industry. We think his skills and abilities are well suited to leading the firm. COO Steve Burke (51) is a 12-year Comcast veteran who was previously President of Comcast Cable, and worked at Disney from 1986 to 1998 running first its Euro Disney and then its Capital Cities groups. COO Burke is now leading the high profile NBC joint venture for Comcast and was succeeded by Neil Smit (47), as division President of Comcast Cable in March. Smit was a Lieutenant Commander in the Navy Seals before attending Tufts University where he received a masters in International Business. He spent his early career with Pillsbury in Mexico and Latin America before joining TWX's AOL division in 2000 where he ran the MapQuest and ISP businesses. Just prior to Comcast, Smit spent four years as the CEO of Charter Communications in a failed turnaround effort that ended in bankruptcy but we think that experience, and humbling setback, might actually make him a better executive for leading Comcast Cable. CFO Michael Angelakis joined Comcast in 2007 from private equity firm Providence Equity Partners ($20 billion AUM) where he was a managing director for seven years. Previously, Angelakis was the CEO of State Cable TV and Aurora Telecommunications and we think his combination of operating and banking experience is quite valuable. In 2009 Institutional Investor named him as one of America's Best CFOs. He is a Trustee and graduate of Babson College and on the Board of Big Brothers Big Sisters America.

Absolute compensation at Comcast is gigantic but relative to other large Media & Entertainment peers, not out of line. Comcast is certainly no stodgy cable operator in terms of its executive compensation or the cash bonuses it distributes to its broader employee group. In 2009 Comcast awarded $23 million in cash bonuses to its executives (with the CEO getting $8.2 of that) and over $247 million in bonuses to its non-executive employees. Good pay and attractive working conditions are a major reason Comcast is perennially on various "Best Places to Work" lists, which we like to see as indicative of healthy corporate cultures. All of the senior executive officers have employment agreements and their target cash bonuses range from 300% (Roberts, Burke, Angelakis) to 100% based on three good operating metrics: 60% on consolidated operating cash flow growth, 30% on free cash flow, and 10% on consolidate revenue. CEO Roberts has a base salary of $2.9 million, received a cash bonus of $8.2 million in 2009,

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and had total compensation of $27.2 million last year. His total compensation also includes a Company contribution to his deferred compensation plan of $2.4 million in 2009 and he is entitled to an additional contribution of $3 million in 2010 under his employment contract. CFO Angelakis has a salary of $1.7 million, received a performance bonus of $4.9 million, and had total compensation of $21.5 million last year. COO Burke is paid a salary of $2.3 million, received a performance bonus of $6.5 million, and had total compensation of $33.9 million. As signing incentives for executing new multi-year employment agreements with the firm last year, both COO Burke and CFO Angelakis received one time cash payments of $3 million and $1.5 million respectively (which are included in their total compensation figures above). Under these agreements, both the COO and the CFO are entitled to substantial Company contributions to their deferred compensation plans and they will also receive additional cash and restricted stock bonuses in June, 2010 based on the closing of the NBCU transaction. Nice work if you can get it.

Long term incentives for Comcast management are also generous and option dilution is a concern. The good news for investors is that major chunks of those option grants are within a few points of current prices so management's incentive alignments on their options are strong. The weighted average strike price of outstanding equity options is just over $20 per share. Restricted stock grants have been more reasonable in size and reflect operating performance. The LTIP performance thresholds are based on operating cash flow performance and the restricted stock grants in 2005, 2006, and 2007 were not met and thus those grants did not vest. The 2005 RSU grants expired this year but the 2006-2007 grants may vest in subsequent years if the cash flow performance targets are achieved. The beneficial equity ownership of the directors and officers (18 people) is 4.5% of the Class A shares, with Brian Roberts owning 2.2% of those personally. Brian Roberts owns 100% of the super-voting Class B shares.

We think Comcast's capital allocation priorities have reached a major inflection point. With cable CapEx moderating, management is now returning meaningful cash flow to shareholders. CMCSA recently increased its dividend by 40% (yield of 2.1%) and repurchased 19.2 million shares ($300 million) in the first quarter. Management has a remaining repurchase authorization of $3.0 billion in shares which they have targeted for completion by year-end 2012 (roughly 5% of the total outstanding at today's prices). Together, the dividend and repurchase actions amount to almost half of CMCSA's free cash flow. It appears to us that Roberts may have struck the NBC deal at the bottom of the advertising cycle which leaves a lot of upside for shareholders. Management has also been specific about its intentions to use NBCU's cash flows to reduce the JV's debt and ultimately purchase the remaining equity stake from GE. We like the shift in capital resources to the media content business, while moderating CapEx is likely to return strong cash flow from the more mature cable division. The one outlier risk with this CEO is that acquisition remains an integral part of the Comcast business model and we worry that NBC may not be the final, or largest, opportunistic deal that catches this CEO's eye.

The major fiduciary concern with Comcast is the dual class equity structure which effectively insures CEO Roberts control via his 100% ownership of the Class B shares with their super-voting power provisions over 33% of CMCSA. That said, many of the other problematic issues with Roberts family control have been substantially corrected in the last couple of years including abusive "golden coffin" provisions for he and his father providing for after death payments to the estate. Although Ralph Roberts received only a $1 salary and no bonus in 2009 he did receive over $26 million in various premium reimbursements and tax gross-ups for pre-existing "split-dollar life insurance policies" and other deferred compensation payments contractually due to him. Chairman Emeritus Roberts also remains on Company retirement, health, and welfare benefit plans as a testament to his self-serving approach. Co-founder, former CFO, and now Vice-Chairman Julian Brodsky also receives substantial deferred compensation and benefits ($6.7 million) from the firm and his daughter, Debra Brodsky is an employee earning over $350k a year.

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