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A Financial Valuation of Comcast (CMCSA)

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ABSTRACT

The current valuation of the global entertainment and media industry revenue is $2.32 trillion. When investing in the entertainment and media industry, individuals think of the fame and glamorous side of the entertainment industry. However, the industry is fiercely competitive and continuously evolving. Through examining the historical financial statement of the publicly traded media and technology conglomerate Comcast, as well as its competitors, I forecasted the future financial valuation of Comcast utilizing the Discounted Free Cash Flow and Public Comparable Firm Multiples models. This analysis examines the effects of the pandemic and other economic conditions on the entertainment and media industry and how companies are reacting and adapting to these changes. The report provides a holistic approach to investigating Comcast through a discussion of its business model, industry placement, and the various risks it faces from an operational basis. To explore these questions and create the financial models, I used databases such as Mergent Online, the SEC's EDGAR, yahoo finance, financial statement analysis, and industry reports to construct an Excel model and written thesis report. My work highlights the importance of infrastructure and innovative thinking at this inflection point for the major players in the entertainment and media industry as they balance the competitive streaming market and attempt to attract consumers viewership and attention to their respective platforms. It explores an investment approach to the entertainment and media industry, and identifies factors investors ought to consider when looking to diversify their portfolios to create lower unsystematic risk. The report provides a starting point for closer investigation into the entertainment and media industry and its future.

INTRODUCTION

The media and entertainment industry has seen significant developments and shifts following the Covid-19 pandemic. In 2020, the global pandemic impacted the theatrical and home/mobile entertainment industries, as movie theaters and production studios across the world were forced to temporarily close. During this time, consumer spending for theatrical and home entertainment sank to $80.8 billion which was the lowest figure since 2016 and a decline of 18.8% from the prior year (Adgate, Forbes). These turbulent times for the media and entertainment industry caused consumers to turn to a reliance on digital forms of media such as video-on-demand, streaming video, and electronic sell through. This trend led to the rise in streaming popularity as the emergence of new streaming video services from major studios such as Disney, Universal, Warner Brothers, Hulu, and Amazon all coincided with the period of the pandemic. In result, the pandemic sped up the pace of adoption of streaming to homes across the United States and world.

After the pandemic, the media and entertainment industry slowly recovered and at the center of this recovery was streaming. In 2021, the global home/mobile entertainment market reached $78.5 billion which was a 14% increase from 2020 driven by digital (Motion Picture Association, 2021 THEME Report 2021). One of the key takeaways from the MPA's 2021 THEME report was a significant return to production once Hollywood studios and networks were able to implement health and safety protocols. However, the rise of streaming and digital services in the post pandemic recovery did not mean that the media and entertainment industry was in the clear. The rise of streaming services ushered in fierce competition. Many businesses were forced to shut down because they could not stay afloat with the high operational costs necessary to acquire content and close competition to secure subscribers. At the current position of the industry, the major companies are at an inflection point in how they should strategically move forward within the streaming, traditional media, and economic landscape.

Comcast (CMCSA) is a worldwide media and technology conglomerate right in the heat of this turning point. It is in a unique position to take advantage of its diverse portfolio of brands to capture growth in a consolidating industry. Despite its size and success over its long history, investors must understand how the company operates and how current market and industry trends will have an impact on its future. This report will dive into Comcast, the media and entertainment industry, and trends and market drivers that will impact both.

RESEARCH QUESTIONS

This report will fully explore the following research questions:

1. What was the overall impact of the covid pandemic on the business structure of the media industry? Were there any significant changes with how studios do business and if so, what were they?
2. Based on Comcast's financial statements, what is a fair financial valuation of the company given the current industry conditions?
3. What industry changes would affect the financial health of the company in the future that investors should be aware of?

DISCUSSION

This portion of the report will explore the macro-overlay of Comcast and the media and entertainment industry to provide further detail for the valuation model and industry analysis.

BUSINESS DESCRIPTION

This section of the report will engage in a top-down examination of Comcast and all its operations.

OVERVIEW

Comcast enjoys a history spanning more than 50 years, serving as a global media and technology company. It was founded by Ralph J. Roberts in Tupelo, Mississippi as a small cable system with 300 subscribers. In the 1970s, it began its long and successful history of growth and acquisitions in result, becoming a major player in the cable industry. Today, it reaches hundreds of millions of customers, viewers, and guests through the connectivity, platforms, content, and experiences it provides. Its main objective is to offer convenient access to reliable connectivity, entertainment options, and voice solutions. It serves residential customers, businesses, and partners with media companies to expand its entertainment offerings and infrastructure. Under the Xfinity, Comcast Business, and Sky brands, it delivers broadband, wireless, video, and voice services to the United States, United Kingdom, and Italy. Under the NBC, Telemundo, Universal, Peacock, and Sky brands, it produces, distributes, and streams leading entertainment, sports, and news content. It strives to maintain a strong balance sheet with a consolidated net leverage of around 2.3x through investments in its residential broadband, wireless, business services connectivity, theme parks, studios, and streaming services. As a historically reliable media and technology brand, it aims to return capital to shareholders with its 16th consecutive annual dividend increase occurring at the end of FY2023.

BUSINESS MODEL

Comcast has 4 operating segments: cable communications, NBCUniversal Media, NBCUniversal Studio and Theme park, and Sky.

Cable Communications: It is the largest provider of high-speed internet, video, voice services in the United States. This segment, also known as the Residential Connectivity & Platforms segment, primarily includes its residential broadband and wireless services, and residential and business video services. It sells to residential customers under the Xfinity brand. It offers broadband services in the United States over its hybrid fiber-optic and coaxial (HFC) network, and direct connections to premises for customers. Internationally, in the United Kingdom and Italy, it leverages networks owned by third-party telecommunications providers to offer broadband services to customers. It acquired AT&T broadband in 2001 for $44.5 billion which solidified Comcast as the largest broadband company in the United States.

NBCUniversal Media: This segment includes NBCUniversal's television and streaming platforms, including national, regional, and international cable networks; the NBC and Telemundo broadcast networks, local broadcast television stations; and the Peacock streaming services. Comcast operates its media segment as a combined television and streaming business. It acquired NBCUniversal in 2011 aiming to expand its media and entertainment portfolio. It distributes a wide variety of programming on its linear television networks and streaming services and generates revenue from the sale of advertising and the distribution of its television and streaming programming. This segment competes for the acquisition of content, including sports rights, and on-air and creative talent primarily with other television networks, DTC streaming, and other local broadcast television stations.

NBCUniversal Studio and Theme Park: This segment includes NBCUniversal's film and television studio production and distribution operations as well as its Universal theme parks in Florida, California, Japan, and China. Its film studio develop, produce, acquire, market and distribute filmed entertainment worldwide and primarily operate under the brands: Universal Pictures, Illumination, DreamWorks Animation, Focus Features, and Working Title. Its television studios develop, produce, and distribute original content including scripted and unscripted television series. It primarily produces content under the following names: Universal Television, Universal Content Productions, Universal Television Alternative Studio, Universal International Studios, and Sky Studios. The central indicator of current and future operational success for film studios is its film slate. At CinemaCon 2024, NBCUniversal announced its upcoming 2024 and 2025 film slate which includes more than eight upcoming films that span all genres (NBCUniversal, CinemaCon 2024). The slate consists of *Despicable Me 4* (July 4, 2024), *Twisters* (July 19, 2024), *Speak No Evil* (September 13, 2024), *The Wild Robot* (September 20, 2024), *Wolf Man* (October 25, 2024), *Conclave* (November 8, 2024), *Wicked Part One* (November 29, 2024), *Nosferatu* (December 27, 2024), and *Five Night's at Freddys Sequel* (2025). The slate demonstrates that the studio has projects in development and is engaged in content diversity which will allow it to invest in its future projects.

Under the operation of Universal Orlando Resort, Universal Studios Hollywood, Universal Studios Japan, and Universal Beijing, Comcast invests in existing and new theme park attractions, hotels, infrastructure, and new destinations and experiences. It plans to open a smaller scale Universal theme park in Frisco, Texas in 2025 designed for younger audiences.

Sky: Based in Europe, Sky operates video, high-speed internet, voice, and wireless phone services and runs the Sky News broadcast network and Sky Sports networks. Sky was acquired by Comcast in 2018 and is a leading provider to 23 million customers of entertainment and communication services in Europe. It provides television, broadband, and mobile services in the United Kingdom and several other European markets. It also has a content portion of the business which produces original programming and sports broadcasting.

In 2023, Comcast displayed strong execution on its main objectives. It began rolling out multi-gigabit symmetrical broadband speeds. The company started this initiative in select United States markets and announced plans to offer these speeds and other advanced capabilities across its entire United States footprint. Comcast's business connectivity services approached $10 billion in annual revenue continuing to serve as a high margin growth engine. Theme parks increased adjusted EBITDA by 25% to $3.3 billion in 2023 and Peacock remained the fastest growing streaming service with paid subscribers increasing by nearly 50% to 31 million. NBCUniversal also ranked #1 for film studios in worldwide box office with films such as *Super Mario Bros. Movie*, *Oppenheimer*, and *Fast X*.

Overall, Comcast is a diversified entertainment/media and technology company that has a significant global presence across multiple sectors including cable communications, entertainment, content creation, and theme parks. Its wide-ranging portfolio allows it to continue to innovate and remain an important player in the global media landscape. However, the company does face operational risks that can influence how Comcast does business and performs financially.

RISK FACTORS

The main risks that Comcast faces are streaming platform subscriber stagnation, heavy debt burden, decreasing cable revenue, and threat of 5G competitors.

With streaming platform subscriber stagnation, it is important for Comcast to continue to innovate and lead the way in the dynamic streaming landscape. Constant improvements and adaptation are crucial for retaining and gaining subscribers. It risks falling behind competitors who offer more diverse content libraries, personalized recommendations, and seamless integration. It balances this risk with high operational costs of content, overall reduced streaming profitability, and expected decreasing consumer spending. This mix of factors is why the entertainment and media industry are closely competitive and any missed growth opportunity such as streaming and its development would lead to a disruption in a company's business model.

With a heavy debt burden, Comcast has net debt worth 2.4x EBITDA and EBIT at only 5.7x its interest expense. This suggests that interest payments are somewhat of a burden. Comcast's EBIT grew by 3% last year, which is a good sign when it comes to paying off debt. This debt burden makes Comcast a risky investment. These debt levels leave Comcast vulnerable to the elevated interest rates which would leave its debt servicing costs increased and as a strain on its financials. This combination of risks is why it is important to understand and highlight Comcast's debt levels as a risk.

Third, with decreasing cable revenue, cable television has traditionally been a major source of revenue for Comcast. Overall, decreasing cable revenue from this segment directly impacts the company's overall profitability which would lead to reduced cash flow and lower earnings. This risk highlights Comcast's dependence on a shrinking market with cable television experiencing a decline as audiences shift towards streaming services and other entertainment alternatives. This factor also negatively impacts Comcast's other segments as cable television often serves as a gateway to its other services such as it internet and phone services. Overall, the shrinking cable market presents itself as a risk to Comcast's business model and its transition into the streaming market.

Finally, with the threat of 5G competitors, 5G offers faster internet speeds, lower latency, and improved network capacity in comparison to traditional cable internet. T-Mobile and Verizon have been rolling out cheap home internet service powered by 5G networks which gives customers an alternative when none previously existed. To compete effectively with these 5G providers, Comcast will need to continue to invest heavily in upgrading its infrastructure to support 5G technology. The emergence of 5G forces Comcast to improve and innovate in order to stay relevant, ensure it does not lose market share, and differentiate itself from competitors.

INDUSTRY OVERVIEW

This section of the report will provide a comprehensive review of the industries that Comcast operates in.

MARKET DYNAMICS

The Federal Reserve aimed to contain inflationary forces and maintain maximum levels of employment through its rate hikes in 2022 and 2023 all while steering the United States economy from a recession. The Fed hiked interest rates a total of 11 times making borrowing more expensive for banks, businesses, and individuals in an attempt to curb rampant inflation. This tightening of monetary policy has slowed as inflation has fallen, consumer spending has remained strong, and the Fed has paused rate hikes. With this context, economic growth is likely to decelerate in 2024 as the effects of monetary policy take a broader toll and post-pandemic tailwinds fade. The expectation is that real GDP growth will walk the line between slight expansion and contraction until next year which is the soft landing that the Fed was aiming for. Consumer spending is forecasted to decline in growth from its firm pace in 2023 due to diminished excess savings, plateauing wage gains, low savings rates, and less pent-up demand. This means the main players in the entertainment and media industry will compete for diminishing revenues and will need to continue to innovate to capture viewers and subscribers.

ENTERTAINMENT/MEDIA INDUSTRY DYNAMICS

The media and entertainment industry are currently undergoing a period of change and innovation that will reshape how companies engage with their audiences and consumers. Streaming video, social media, and gaming are helping to enable new business models and create new competition and pressure for the traditional media and entertainment conglomerates. Media and entertainment companies are face to face with a time of change and innovation and must adapt to this continuous change in the industry to survive and capture growth. Studios and video streamers must confront the reality of their own market disruption: finding profit in the less profitable streaming business model. Streamers are not only in competition with each other for attention, time, content, and revenues, but with social media, user-generated content, and video games. They must find ways to recapture the attention of younger demographics while maintaining its relationship with their core demographics. Streaming video on demand (SVOD) has also disrupted profitability. The revenues enjoyed during the cable television era are now gone and streaming generates about one-sixth as much revenue per home as pay TV. Audiences and audience loyalty are fragmented and disconnected from streaming services as they can cancel subscription easily. The United States remains the focal market of the global streaming wars with revenue of $49.44 billion in 2022, and PricewaterhouseCoopers estimates that by the end of 2027, the United States will reach revenue of $75.5 billion which is more than threefold industry growth in a decade (PricewaterhouseCoopers, US Edition: Global Entertainment & Media Outlook 2023–2027).

At this point, competition in the entertainment and media industry is elevated because operational costs are high and competition for subscribers and viewers is fierce. Amid this close competition and declining economic conditions, most streamers are beginning to offer and will start to offer cheaper, ad-supported tiers. Studios are also experimenting with FAST services (Free ad-supported television) which provides live and on-demand programming with an ad-heavy approach. These paths lower the price of subscription and test how much viewers and audiences will spend for content. The next couple of years ahead will see even more experimentation with content windowing and multi-tiered subscription offerings. Competition among streamers will also be amplified by more acquisitions to consolidate their positions, such as current merger and acquisition offers for Paramount Global.

SVOD companies are expected to expand their portfolios into gaming and user generated content-based services (UGC). Instead of betting billions on content, UGC-based services focus on data technologies that target users with personalized content and advertising in shoppable interfaces. On the other hand, gaming can absorb idle time with mobile games, offers intricate narrative and multiplayer experiences, and monetizes content expansions and digital goods. While both are competing more directly with streaming video for audience engagement and attention, they offer streaming services opportunities. SVOD companies can diversify their offerings in gaming through IP deals or acquisitions. They must work to leverage social media and content creators to capture fans and engagement without becoming social networks and UGC providers themselves. While streaming services may never regain the historic revenue streams of cable television in its prime years, the path forward to grow and survive will be through new innovations and business models, and the ability to adapt to the continuously shifting state of the industry.

The important industry trend of 2023 was how streaming video, social media, and gaming increasingly began to interweave and became interdependent as a media and entertainment ecosystem. Successful companies will likely create closely tied ecosystems that span these different areas in entertainment and pull the entire industry forward. These three are moving closer together and will foster greater innovation and potentially drive further disruption to the traditional media and entertainment companies. Mature companies will have to balance pumping out profitability from their legacy businesses while attempting to fund growth in new ventures and innovations that may not succeed. Whatever pathways open, the imperative will be to lean into innovative thinking. Entertainment and media industry revenue is expected to increase over the next five years, so it is important for companies to capture this growth through creative endeavors and new forms of monetization.

COMPETITIVE POSITIONING

Through recent consolidation, the entertainment and media landscape has constantly been changing. The major players in the industry have a varying mix of production companies and business models that make each company unique and diverse in the way they operate. These companies compete at the box office and with their content offerings every year. Comcast stands as one of the largest media companies with a market capitalization of $150.98 billion. It has grown since the 1960s through acquisitions such as NBCUniversal and DreamWorks Animation. Two of the companies in this list were used as comparable companies to Comcast. Here is a breakdown of the basic information of each publicly traded company:

Company	**Market Cap**	**Return on Equity**	**Earnings Per Share**
Walt Disney Company (DIS)	$213.49 billion	3.90%	1.63
Netflix Inc. (NFLX)	$256.12 billion	29.90%	14.43
Warner Bros. Discovery Inc. (WBD)	$19.51 billion	-6.47%	-1.28
Paramount Global (PARA)	$9.35 billion	-2.90%	-1.13
Comcast Corporation (CMCSA)	$150.98 billion	18.13%	3.77

REPORT METHODS

This portion of the report will describe each valuation methodology and its key assumptions. The model follows the steps of two different valuation methods: Discounted Free Cash Flows, and Public Comparable Companies. Both methods were used to include an analysis of Comcast's financial statements and a relative valuation that considers the financial metrics of its competitors. The model was built with the financial statement information for Comcast and its competitors which was drawn from Mergent Online and the SEC. Each sheet in the model is labeled appropriately to keep the formatting of the sheet consistent and clear. The model was constructed using several assumptions which are explained below:

1. 15 years of annualized financial data was determined to be a good reflection of each company in order to include data from before and after the pandemic and includes a complete picture of Comcast as a conglomerate in recent years.
2. The EBITDA margin, depreciation margin, net working capital as a percentage of revenue, capital expenditures as a percentage of revenue as calculated from the Cash Flow Statement, and tax rate were calculated from the historical data and remained constant across the forecasted and terminal windows.
3. The forecast window sales growth is estimated to be higher than the historical growth rate to account for the estimated growth of the U.S. market as well as future innovation surrounding the media and entertainment industry and product expansion from Comcast.
4. On the other hand, the terminal sales growth rate is forecasted to be lower than the historical growth rate to accurately reflect future changes in the market and within Comcast.
5. The equity beta was estimated using the bottom-up approach with Comcast's comparable peer group chosen for the public comparable valuation method.
6. The risk-free rate (Rf) was found using the 10-year US Treasury Rate.
7. Market risk premium and implied spread was drawn from data provided by Damodaran Online.

8. The number of shares outstanding was taken from Comcast's most recent 10-Q reported to the SEC.
9. The forecast window was calculated for the next five years to reflect a standard estimate of growth before calculating the terminal window values.
10. The comparable firm multiples that were calculated were EV/Sales and EV/EBITDA. These ratios are useful when comparing companies with different degrees of financial leverage who are in the same industry.
11. The prices per share were taken from Yahoo Finance to accurately capture data consistent with Mergent Online and the SEC.

DISCOUNTED FREE CASH FLOW MODEL ASSUMPTIONS

Discounted cash flow analysis relies on many key assumptions to forecast cash flows as well as to discount these cash flows and arrive at an implied enterprise value. While these assumptions are necessary to conduct the analysis and using defensible assumptions are a DCF's highlight over comparable analysis, these assumptions are also limiting in many ways. Listed below are key assumptions used in valuing Comcast with a discounted cash flow model:

Cash Flow Assumptions:

The most important assumption of the Discounted Cash Flow model is determining the projected revenue growth for the chosen forecasting window. There are several tools that may be used in order to project the cash flow performance of a company. According to Gary Ozanich's essay "Media Finance and Valuation", "the first tool here is the historical performance of the line of business. Historical growth rates and performance are the best yardsticks for forecasting future performance. The second tool is an analysis of future competitive and macroeconomic factors that will affect an industry. […] A third tool is the use of peer-group analysis" (Ozanich 612). First examining Comcast's historical revenue performance, the data shows that Comcast has grown at a consistent level except for a 47% revenue growth spike due to its successful integration of NBCUniversal and a strong cable performance with its new Xfinity brand. Comcast also saw a 5% revenue decline in 2020 due to the impact of the Covid-19 pandemic on shifting consumer trends toward streaming, and disrupting Comcast's installation, and maintenance services. To provide a general view of Comcast's historical revenue growth history, a simple linear regression model was run. The model identifies the report year as the independent variable and revenue as the dependent variable. The model highlights a correlation coefficient of around 0.9898 which indicates a strong positive linear relationship between report year and revenue. The model has a coefficient of determination of 0.9792 which means around 97.92% of variance in revenue is predicted by the independent variable. Since the F-significant/P-value = 2.5773E-12 which is less than $\alpha = 0.05$, the null hypothesis (the independent variable is not statistically significant) is rejected and the model concludes the alternative hypothesis that the independent variable is statistically significant in explaining revenue. This simple linear regression model predicts the following revenue streams for Comcast in the forecast window:

Report Year	**Forecasted Revenue (in millions)**	**Forecasted Revenue Growth**
2024	132,454	8.95%
2025	138,749	4.75%
2026	145,044	4.54%
2027	151,340	4.34%
2028	157,635	4.16%

However, this predictive analysis is too simplistic to capture the complexities and all the factors that influence Comcast's revenue on a year-to-year basis. Ozanich agrees in his emphasis that "a major forecasting mistake to avoid is assuming a linear growth rate without having a basis on which to do so" (612). While this model might serve as a starting point in understanding and utilizing Comcast's historical growth rates to project its future revenue streams, this valuation will turn to Ozanich's second and third tools in projecting Comcast's future revenue performance.

Ozanich's second and third tool go hand in hand and allow an investor to construct a holistic picture of the company. Beginning first with an analysis of the media and entertainment industry, the industry analysis provided earlier indicates that the industry is undergoing a volatile and highly competitive period of innovation. Major players are grappling with balancing a transition into streaming and a decline in traditional media formats. This transition combined with rising operational costs and fierce competition for subscribers and consumers will lead to an industry growth slowdown for the next few years. The 2023 PricewaterhouseCoopers media industry report believes that "the main challenge is consumer spending" (PricewaterhouseCoopers, Global Entertainment and Media Outlook 2023–2027). Consumers are weary because of inflation, high interest rates, the lingering effects of the pandemic, and geopolitical uncertainty. Also, as entertainment and media products become more digital, the costs of production and distribution are declining, but competition over content and services is increasing. PricewaterhouseCoopers observes "as a result, consumer spending per capita on E&M will decreases as a share of overall spending," and it believes consumer spending will grow at "2.4% CAGR between 2022 and 2027" (PricewaterhouseCoopers, Global Entertainment and Media Outlook 2023–2027). With this industry consolidation, Comcast stands in an opportune position to continue to grow through its product offerings, business segments, and acquisitions.

As mentioned in Comcast's business model earlier, the four main risks that Comcast faces are streaming platform subscriber stagnation, heavy debt burden, decreasing cable revenue, and threat of 5G competitors. In addressing the first risk, Comcast manages Peacock as part of its total media business. The United States is the most attractive streaming market and in 2023, Peacock was the fastest growing streamer in the US. Peacock is rapidly gaining high quality scale and ended 2023 with 31M paid subscribers at around a $10 average revenue per user (ARPU). In January 2024, Peacock's exclusive coverage of the AFC Wild Card Game was the largest in the US history and drove internet usage to a single day US record. These initiatives combined with Comcast's new streaming bundle which will package Peacock alongside Netflix and Apple TV+ for Xfinity internet and TV customers at $15 a month (Yahoo, Comcast Reveals Price for Peacock, Netflix and Apple TV+ Streaming Bundle). This StreamSaver bundle allows Comcast to continue to draw in consumers in a saturated market where customers are wary of signing up and paying for varying streaming services.

Next, in addressing its heavy debt burden, Comcast has strengthened its balance sheet since the end of 2018. It has refinanced over $40 billion of its debt obligations and lowered net leverage from 3.3x to 2.3x. At the end of 2023, 97% of its debt was at fixed rates compared to only 82% at the end of 2018 (Comcast Investor Relation Presentation Q4 2023). Maintaining a strong balance sheet will allow Comcast to invest through business and economic cycles in the near future, consistently return capital to shareholders, and remain flexible in its ability to efficiently and cost-effectively refinance its maturing debt securities. As Ozanich states "in general, media companies employ above-average levels of debt because they believe that they can generate substantial cash flow or net income that will accrue to shareholders as interest and debt maturity expenses are paid. Thus, companies seek to lever their balance sheets to fund internal operations or pay for mergers and acquisitions under the assumption that growth rates of these assets will outstrip the cost of the debt capital" (606). Comcast continues to operate in line with this business strategy and are currently at a point where it can continue to grow its free cash flow / share and invest for growth in its residential broadband, wireless, business services, theme parks, streaming, and film and television studios segments.

Finally with Comcast's threat of 5G competitors, it continues to assert that its strong domestic network is a major differentiator in its business model. Comcast will focus on a balanced approach to drive continued broadband revenue growth and profitability by focusing on offering best-in-class product and innovation, expanding its footprint, and converging the customer experience by creating a connective ecosystem within all its segments. It also has driven early-stage growth in domestic wireless with Xfinity mobile. It saw 24% growth in subscriber lines from 2022 to 2023 and gained 19% revenue growth in 2023. Comcast understands where it faces risks from and continues to innovate to address this volatile period within the media and entertainment industry.

Finally, examining Comcast's operating margins in comparison to its competitors, it has demonstrated healthy historical operating margins. Ozanich highlights that "metrics such as operating cash flow margin can be compared across an industry. […] Understanding the performance of a line of business relative to its peers provides insight into tis operations and can provide some guidelines in the forecasting process" (612). It is clear to see in the Peer Group EBITDA Margin analysis in the Appendix that Comcast demonstrates stable operating profitability in relation to its competitors. EBITDA margins show how much operating cash is generated for each dollar of revenue earned. Before the pandemic, Comcast maintained high levels of operational efficiency at around 33%. During the pandemic, its EBITDA margin dropped to around 20%, but bounced back after the pandemic to around 30%. In comparison to its competitors, Comcast remained at stables levels of operational efficiency and revenue growth which has allowed it to recover after the pandemic. Overall, this peer analysis demonstrates that Comcast has room for revenue growth but must remain careful in how it addresses its transition into streaming, and a digital ecosystem during this uncertain period of the media and industry landscape.

These outlooks on media and entertainment consumer spending, Comcast's business segments, and its peer analysis highlight opportunities for Comcast to capture revenue. This combined with Comcast's historical sales growth average of 7% (excluding the outlier in 2011 of 47% sales growth) indicates a safe projection range of 3-5% that will not under or overvalue Comcast's growth. As per the industry analysis, the next three years will be a crucial period for the major players in media and entertainment as the industry consolidates and consumer spending becomes more focused. The terminal growth rate of 2% was chosen based on the forecasting of how consumer spending growth will decline within the media and entertainment industry in the following years because of the fragile state of the economy. These projections are reflected in the table below:

Assumption	2024	2025	2026	2027	2028
Sales Growth	4%	5%	5%	4%	3%

Terminal Value Assumptions: For the first valuation method which estimated implied equity value utilizing the terminal growth method, the model assumes Comcast's terminal growth rate to be 2%. This is a standard practice as it is based on average GDP growth in the United States. A terminal growth value above US GDP growth is theoretically impossible and so a terminal growth rate of 2% was used.

For the second method which estimated implied equity value using an EBITDA exit multiple, the model estimated Comcast to have an EBITDA multiple of 6.6x. This assumption was based on guidance from Capital IQ in addition to considering industry EV/EBITDA multiples.

WACC & Beta: Total debt was calculated using Comcast's latest 10-Q from the first financial quarter of 2024. Pretax cost of debt was found using the 10-year US Treasury Rate. The market risk premium of equity was estimated to be 7.4% and Beta was found to be 0.81 based on the results from Bottom-Up Beta analysis. Current and terminal WACC were estimated to be 7.5%.

PUBLIC COMPARABLE ASSUMPTIONS

The peer group of firms chosen for Comcast's valuation based on the public comparable methodology were Verizon, AT&T, Charter Communications, the Walt Disney Company, and Warner Brothers. The companies were selected because they occupy similar markets. It is a mix of entertainment/media, and technology companies that Comcast identified as core competitors in their specific segments of operation. The chosen companies all are undergoing similar business conditions to Comcast with the recovery from the pandemic and current uncertainty in the media/entertainment industry. Comcast is a significantly sized entertainment/media and communications company and that's why the comparable companies include major players that Comcast directly compete with from the media and communications industries. This decision to choose companies from various industries ensures that the group is well balanced and provides a full picture in valuing Comcast.

Analyzing this peer group, the mean and median were obtained for all of the comparable companies. The methodology for finding the Implied Price Per Share went: first use the mean and median of the public comparable companies to establish a starting range, and second use Bloomberg terminals to incorporate analysis of Comcast into the ranges used in the public comparable valuation. Then the averages of both ranges were taken to produce the ranges used in the final valuation.

RESULTS

The Comcast Valuation Summary in the appendix consolidates all the estimate ranges from the two discounted cash flow valuation methods, and the comparable methodology. All valuation methodologies result in the same conclusion: Comcast is undervalued. Comparable analysis generally results in a lower valuation in comparison to the discounted cash flow valuation. The 52-week historical stock price has a tight range fluctuating from $36.43 to $47.46. Considering the consensus of all valuation methodologies as well as industry knowledge about the challenges and room for growth that Comcast has, it is recommended that Comcast be bought as stable growth investment that can continue to dominate in the markets it operates and competes in.

CONCLUSION

1. What was the overall impact of the covid pandemic on the business structure of the media industry? Were there any significant changes with how studios do business and if so, what were they?

The report highlights that the most significant impact the pandemic had on the entertainment and media industry was the escalation of the transition into streaming. While traditional media faced interruption and hindrances during the pandemic, content consumption soared because of the lockdowns, and covid restrictions. Consumers turned their attention to streaming, gaming, and social media for entertainment. The pandemic also led to the financial struggle of movie theaters and other entertainment venues. Studios accelerated their focus on streaming platforms by building out their platforms, increasing content acquisition, and experimenting with releasing films directly to streaming services instead of relying solely on theatrical releases. These trends continued after the pandemic and the major entertainment and media companies are at a turning point with regard to streaming and how to make the business model profitable while retaining subscribers and audiences. Studios also focused on building direct-to-consumer (DTC) platforms to form closer relationship with consumers and bypassing traditional distributors. These impacts of the pandemic on the entertainment and media industry has led to further consolidation over the past 2 years with larger studios acquiring smaller studios and production companies to gain resources and infrastructure in preparation for the close competition in streaming. The pandemic forced the entertainment and media industry to adapt and highlighted the need for companies to embrace digital technologies and an innovative approach to their business models.

2. Based on Comcast's financial statements, what is a fair financial valuation of the company given the current industry conditions?

   The current stock price as of May 2024 was $38.53, and the valuation model demonstrated that Comcast is slightly underpriced. When examining the discounted cash flow model, the fair price value of Comcast was $58.60, and when examining the public comparable model, the fair price value of Comcast was $43.34. This valuation reflects Comcast's potential for innovation in each operational segment and ability to capture growth as both an entertainment, and technology company.

3. What industry changes would affect the financial health of the company in the future that investors should be aware of?

   The most significant industry change or shift that Comcast needs to address is its transition into streaming. Continued cord-cutting and dominance of streaming services will erode its cable television revenue. It's important that Comcast continues to innovate when it comes to streaming and form a platform that encompasses streaming, gaming, and social media as a way to form a digital ecosystem. Comcast's success will depend on the strength and differentiation of Peacock, and how well it manages the transition into 5G.

In conclusion, it is important to engage in a holistic approach when evaluating a company. It is necessary to understand how a company operates, competes, and innovates when making decisions on whether to invest in the company or not. In examining Comcast, it is essential to understand its context and the complexities of the industries it resides in. Identifying its infrastructure and business model allows an investor to understand that Comcast engages in innovation in each of its operational segments and has the potential to be a major player in both the streaming and 5G markets. Further research into Comcast's competitors and industry is critical to painting a full picture of its growth and expansion potential. Individuals will be surprised when they look closely into the entertainment and media industry. They may not realize that it is an area of innovation and fierce competition and not just fame and glam.

<u>APPENDIX</u>

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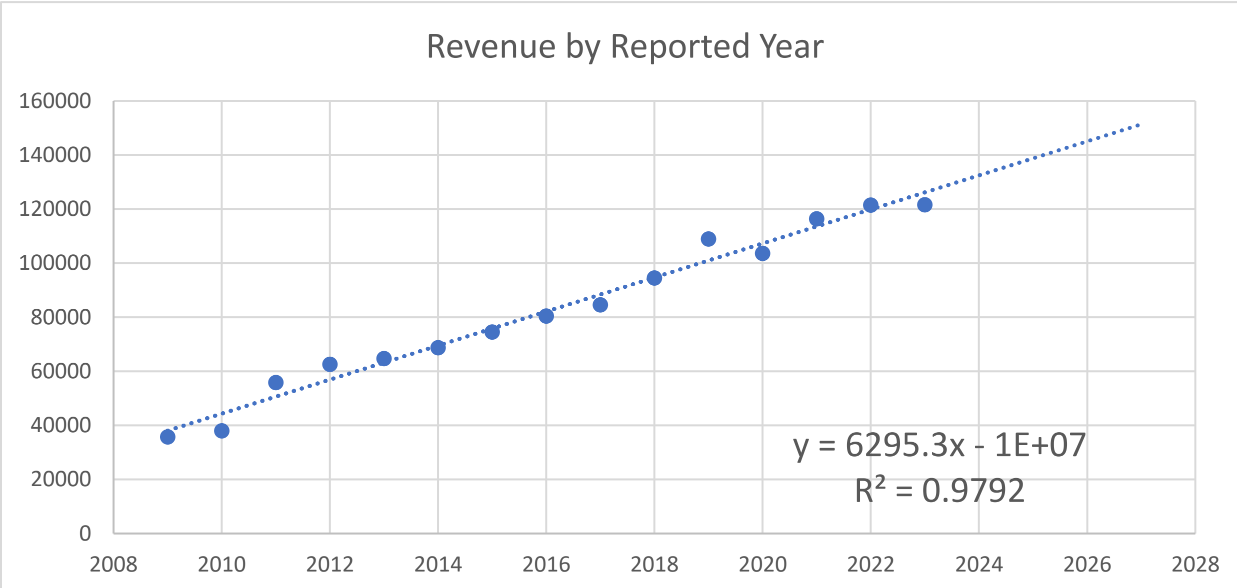
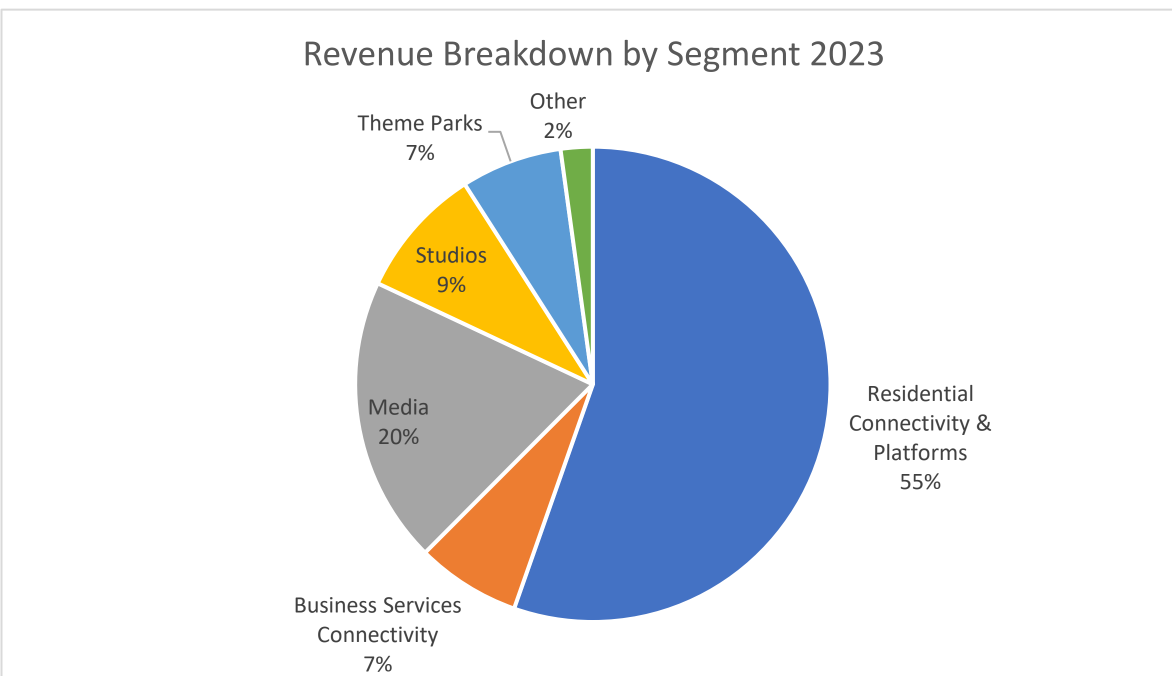
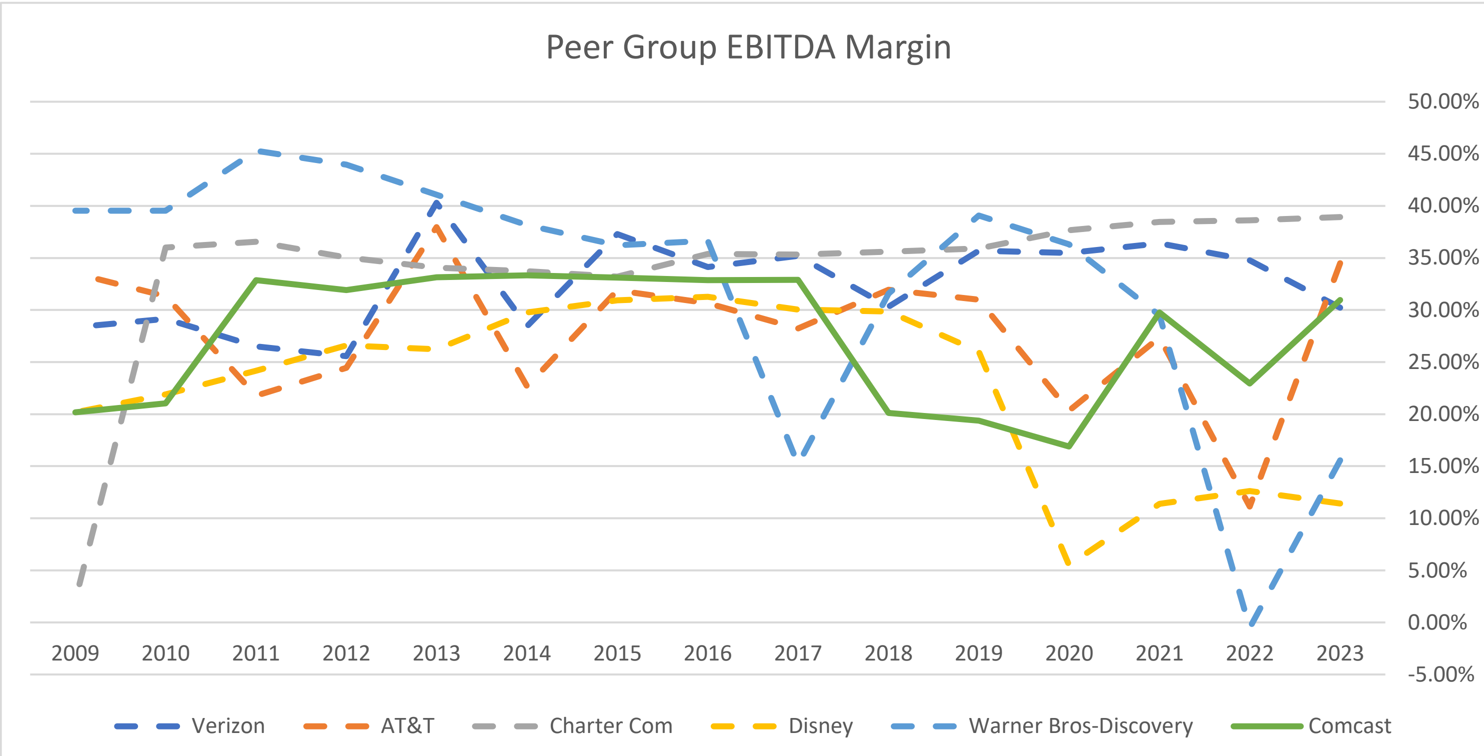
SIMPLE LINEAR REGRESSION MODEL



2023 COMCAST REVENUE BREAKDOWN BY SEGMENT



PEER GROUP EBITDA MARGIN ANALYSIS



Peer Group Analysis															
Peer	**2023**	**2022**	**2021**	**2020**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**	**2013**	**2012**	**2011**	**2010**	**2009**
Verizon	30.23%	34.76%	36.41%	35.48%	35.69%	30.32%	35.20%	34.12%	37.29%	28.43%	40.29%	25.57%	26.49%	29.14%	28.35%
AT&T	34.50%	11.13%	27.36%	20.33%	31.00%	31.93%	28.24%	30.65%	31.88%	22.66%	37.96%	24.44%	21.78%	31.34%	33.50%
Charter Com	38.92%	38.62%	38.45%	37.65%	35.92%	35.61%	35.34%	35.38%	33.21%	33.74%	34.08%	35.03%	36.55%	36.01%	2.12%
Disney	11.40%	12.63%	11.38%	5.51%	26.02%	29.85%	30.05%	31.27%	30.92%	29.77%	26.22%	26.60%	24.17%	21.91%	20.16%
Warner Bros-Discovery	15.58%	-0.52%	29.48%	36.30%	39.09%	31.57%	15.18%	36.63%	36.21%	38.15%	41.08%	43.95%	45.29%	39.54%	39.53%
Comcast	30.97%	22.95%	29.75%	16.89%	19.39%	20.11%	32.90%	32.86%	33.12%	33.33%	33.15%	31.93%	32.87%	21.03%	20.18%

DISCOUNTED CASH FLOW

Comcast (CMCSA) DISCOUNTED CASH FLOWS MODEL
Fiscal year ends in December USD in thousands except per share data.

FORECASTING CASH FLOWS

		Historical					Projected				
		2019A	2020A	2021A	2022A	2023A	2024E	2025E	2026E	2027E	2028E
Revenue		108,942	103,564	116,385	121,427	121,572	125,219	128,976	132,845	136,830	140,935
COGS		34,440	33,121	38,450	38,213	36,762	37,054	37,330	37,589	37,831	38,053
Gross Profit		74,502	70,443	77,935	83,214	84,810	88,165	91,646	95,256	99,000	102,883
SG&A		40,424	39,850	43,314	46,769	47,161	49,379	51,688	54,091	56,591	59,193
Other operating expenses		12,953	13,100	13,804	13,821	14,199	14,956	15,745	16,568	17,427	18,322
EBIT		21,125	17,493	20,817	22,624	23,450	23,831	24,213	24,597	24,982	25,368
Taxes	25%	5,281	4,373	5,204	5,656	5,863	5,958	6,053	6,149	6,246	6,342
Tax-effected EBIT		15,844	13,120	15,613	16,968	17,588	17,873	18,160	18,448	18,737	19,026
Depreciation and amortization		12,953	13,100	13,804	13,821	14,199	14,956	15,745	16,568	17,427	18,322
Capex		(11,069)	(10,677)	(10,150)	(10,956)	(12,379)	(12,750)	(13,133)	(13,527)	(13,933)	(14,351)
Change in Net Working Capital		0	(3,098)	(423)	1,962	(11,217)	(5,009)	(5,159)	(5,314)	(5,473)	(5,637)
Unlevered free cash flows		17,728	12,445	18,844	21,795	8,191	15,070	15,613	16,175	16,757	17,360

	Historical					Projected				
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
Assumptions										
Sales Growth		-5%	12%	4%	0%	3%	3%	3%	3%	3%
COGS (as a % of revenue)	32%	32%	33%	31%	30%	30%	29%	28%	28%	27%
SG&A (as a % of revenue)	37%	38%	37%	39%	39%	39%	40%	41%	41%	42%
Capex (as a % of revenue)	-10%	-10%	-9%	-9%	-10%	-10%	-10%	-10%	-10%	-10%
D&A (as a % of revenue)	12%	13%	12%	11%	12%	12%	12%	12%	13%	13%
Gross Margin	68%	68%	67%	69%	70%	70%	71%	72%	72%	73%

TERMINAL VALUE AND EQUITY VALUE PER SHARE

Terminal Value - Perpetuity Growth	
WACC - for terminal value	7.5%
Unlevered FCF in terminal year	17,360
Terminal growth rate	2.0%
Terminal value	$ 320,943
WACC - current	7.5%
PV of Terminal Value	$ 223,376.78
PV of Unlevered Free Cash Flow	$65,158.54
Total Enterprise Value	$288,535.32
Net debt + Preferred stock + NC	32148
Implied Equity Value	$256,387.32
Diluted Shares Outstanding	3,962
Implied Equity Value per Share	$64.70

Terminal Value - Exit Multiple	
Terminal year EBITDA	43,690
Terminal year EBITDA multiple	6.6x
Terminal value	$ 286,169.06
WACC - current	7.5%
PV of Terminal Value	$ 199,174.33
PV of Unlevered Free Cash Flows	$65,158.54
Total Enterprise Value	$264,332.87
Net debt + Preferred stock + NCI	32148
Implied Equity Value	$232,184.87
Diluted Shares Outstanding	3,962
Implied Equity Value per Share	$58.60

WORKING CAPITAL SCHEDULE

	Historical					Projected				
	2019A	2020	2021	2022	2023	2024	2025	2026	2027	2028
Total current assets	25,392	26,741	24,807	21,826	23,987					
Cash & Cash Equivalents	7,100	11,740	8,711	4,749	6,215					
Total non-cash current assets	18,292	15,001	16,096	17,077	17,772					
Total current liabilities	30,292	28,796	29,348	27,887	40,198					
Current portion of long term debts	4,452	3,146	2,132	1,743	2,069					
Operating Lease liability	715	718	766	675	748					
Total non-debt current liabilities	25,125	24,932	26,450	25,469	37,381					
Non-cash Net Working Capital	(6,833)	(9,931)	(10,354)	(8,392)	(19,609)					
Change in NWC		(3,098)	(423)	1,962	(11,217)					

	Historical					Projected				
	2019A	2020	2021	2022	2023	2024	2025	2026	2027	2028
Non-cash NWC as a % of Sale	0.0%	(3.0%)	(0.4%)	1.6%	(9.2%)	(4.0%)	(4.0%)	(4.0%)	(4.0%)	(4.0%)

WACC

	Current
Percent of Capital	
Total debt	103,676
Share price	38.2
Shares outstanding	3,962
Market value of equity	151,364
Weight of debt	40.7%
Weight of equity	59.3%
Cost of debt	
Pre-tax cost of debt	4%
Marginal tax rate	25.0%
Cost of equity	
Risk-free rate	4.6%
Market risk premium (Rm - Rf)	7.4%
Beta	0.81
Cost of equity	10.6%
Weighted average cost of capital	7.5%

BOTTOM UP BETA

Company	Ticker	MV Equity	Book Value Debt	Debt/ Equity	Beta	Unlevered Beta	Marginal Tax Rate
Verizon	VZ	165.0	157.7	95.6%	0.39	0.23	25.0%
AT&T	T	121.3	145.4	119.9%	0.70	0.37	25.0%
Charter Communications	CHTR	37.4	95.8	256.1%	0.95	0.33	25.0%
Walt Disney	DIS	202.7	45.6	22.5%	1.39	1.19	25.0%
Warner Bros	WBD	18.7	41.9	224.4%	1.49	0.56	25.0%

Average unlevered beta	0.53
CMCSA Debt/Equity ratio	68.5%
CMCSA Tax Rate	25.0%
CMCSA Levered Beta	0.81

SENSITIVITY ANALYSIS

WACC

$64.7	5.5%	6.0%	6.5%	7.0%	7.5%	8.0%	8.5%	9.0%	9.5%	10.0%
1.0%	$ 84.51	$ 75.16	$ 67.52	$ 61.15	$ 55.76	$ 51.14	$ 47.14	$ 43.64	$ 40.55	$ 37.80
1.5%	$ 94.33	$ 82.88	$ 73.71	$ 66.21	$ 59.96	$ 54.68	$ 50.15	$ 46.22	$ 42.79	$ 39.76
2.0%	$ 106.97	$ 92.52	$ 81.28	$ 72.29	$ 64.93	$ 58.81	$ 53.62	$ 49.18	$ 45.33	$ 41.96
2.5%	$ 123.81	$ 104.91	$ 90.74	$ 79.72	$ 70.90	$ 63.69	$ 57.67	$ 52.59	$ 48.23	$ 44.45
3.0%	$ 147.38	$ 121.43	$ 102.90	$ 89.00	$ 78.19	$ 69.54	$ 62.46	$ 56.57	$ 51.58	$ 47.30

	2.5	3.5	4.5	5.5	6.5	7.5	8.5	9.5	10.5
$58.60	$ 27.52	$ 35.19	$ 42.86	$ 50.54	$ 58.21	$ 65.89	$ 73.56	$ 81.24	$ 88.91

COMCAST COMPARABLES

Valuation for period ended	
Ticker	CMCSA
Valuation Date	5/1/2024
Company Name	Comcast

Company	Ticker	Share price	Market Value of Equity	Enterprise Value	Enterprise Value Multiples EV/Sales	EV/EBIT	EV/EBITDA	Forward EPS	5 year growth rate	BV Equity	Equity Value Multiples Forward P/E	Forward PEG	Price(Market)-to-Book	Cash/MS as % of TA
Comcast	CMCSA	$38.20	151,364.2	243,003.2	2.0x	10.4x	6.5x	$4.51	11.0%	82,703	8.5x	0.8x	1.8x	
Verizon	VZ	39.20	165,003.0	314,981.0	2.4x	7.8x	5.8x	4.72	11.0%	92,430	8.3x	0.8x	1.8x	
AT&T	T	16.92	121,316.0	268,043.0	2.2x	10.1x	5.9x	2.29	11.0%	103,297	7.4x	0.7x	1.2x	
Charter Communications	CHTR	259.70	37,405.0	138,105.0	2.5x	11.5x	6.7x	34.52	11.0%	11,086	7.5x	0.7x	3.4x	
Walt Disney	DIS	110.48	202,653.0	248,637.0	2.8x	36.9x	20.5x	5.54	11.0%	99,277	19.9x	1.8x	2.0x	
Warner Bros	WBD	7.62	1,867.0	46,782.0	1.1x	-28.5x	2.1x	(0.07)	11.0%	45,226	-108.9x	-9.9x	0.0x	
				High	2.8x	36.9x	20.5x				19.9x	1.8x	3.4x	
				Mean	2.2x	8.0x	7.9x				10.3x	0.9x	1.7x	
				Median	2.3x	10.2x	6.2x				7.9x	0.7x	1.8x	
				Low	1.1x	-28.5x	2.1x				-108.9x	-9.9x	0.0x	

	Implied price per share	Diluted shares outstanding	Implied Equity Value	Implied Enterprise Value	Range of EV/Sales	Range of EV/EBIT	Range of EV/EBITDA	Range of Forward P/E	Range of Forward PEG	Range of Price-to-Book	Excess Cash
Comcast	$43.34	3,962	171,714.5	263,353.5	2.2x						
	$46.53	3,962	184,357.0	275,996.0	2.3x						
	$24.35	3,962	96,496.0	188,135.0		8.0x					
	$37.41	3,962	148,226.7	239,865.7		10.2x					
	$35.63	3,962	141,177.1	232,816.1			6.2x				
	$52.02	3,962	206,128.3	297,767.3			7.9x				
	$35.69							7.9x			
	$46.57							10.3x			
	$35.69								0.7x		
	$46.57								0.9x		
	$35.64	3,962	141,236							1.7x	
	$37.73	3,962	149,501							1.8x	

COMCAST VALUATION SUMMARY

Valuation date	5/1/2024
Current share price	$38.20

Data for graph				Inputs		
Methodology	**Low**	**Dif.**	**High**	**Low**	**High**	**Current share price**
Public comps EV/Sales range 2.2x-2.3x	$43.34	3.19	$46.53	2.2x	2.3x	$38.20
Public comps EV/EBITDA range 6.2x-7.9x	$35.63	16.39	$52.02	6.2x	7.9x	$38.20
Public comps P/E range 7.9x-10.3x	$35.69	10.88	$46.57	7.9x	10.3x	$38.20
DCF w/ perpetuity growth range 1.0%-3.0%	$ 55.76	22.43	$ 78.19	1.0%	3.0%	$38.20
DCF w/ EBITDA exit multiple range 4.5x-7.5x	$ 42.86	23.02	$ 65.89	4.5x	7.5x	$38.20
52 week high-low	$36.43	11.03	$47.46			$38.20