

# ASSET MANAGEMENT

This report is published for educational purposes only by students in the Asset Management class of St. John's University.  
June 26, 2005

**GICS Classification**  
**Industry: Telecommunications**  
**Sub industry: Cable, Internet, Data network operators**

## Comcast Corporation

**Ticker: • CMCSA**  
**Price: • \$31.00 (6/21/05)**

**Recommendation: • BUY**  
**Price Target: • \$33.02**

### Stock History

	FY High	FY Low	P/E High	P/E Low	Per Share Earnings	Book Value
<b>Dec. 2004A</b>	\$36.50	\$26.25	85	61	\$0.43	18.73
<b>Dec. 2003A</b>	34.85	23.42	24	16	1.44	18.50
<b>Dec. 2002A</b>	37.55	17.05	---	---	(0.25)	17.05
<b>Dec. 2001A</b>	45.81	31.85	199	138	0.63	15.84

Source: Hoovers

### ANALYSTS

**Alexis Acevedo**  
[thgreataex@aol.com](mailto:thgreataex@aol.com)

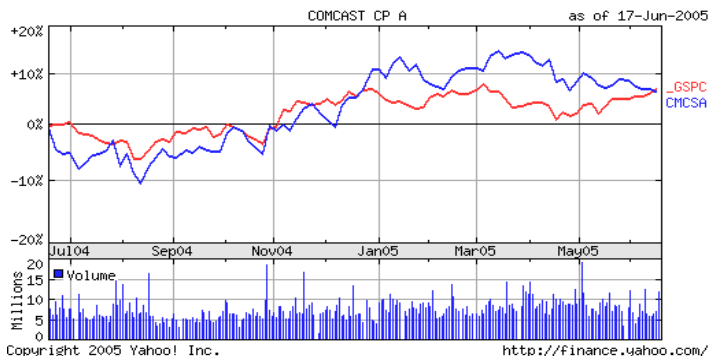
**Jency Jones**  
[JencyJones@hotmail.com](mailto:JencyJones@hotmail.com)

**Nick Logan**  
[nicolas.logan02@stjohns.edu](mailto:nicolas.logan02@stjohns.edu)

**Suril Patel**  
[suril.patel@gmail.com](mailto:suril.patel@gmail.com)

### Highlights:

- **Undervalued:** We put together a financial analysis to determine the value of Comcast's stock. The first approach was a Relative Valuation where we estimated the EPS and PE. The second approach was a Discounted Cash Flow Model where we came up with another target price. The average of the two was then taken to come up with a target price of \$33.02. This value is not significantly undervalued but has good potential for the future. Therefore we recommend a buy of 500 shares at the market price.
- **Satisfies Client Needs:** Comcast has launched a program called "Think Customer First," which is a comprehensive initiative aimed at delivering the best possible service every time a customer interacts with a Comcast employee, product, service or brand.
- **Honorable Achievements:** Comcast has grown tenfold and into a Fortune 500 company under the leadership of Brian Roberts. He is chairman of the National Cable and Telecommunications Association and was named one of America's best CEO's in 2004.
- **Has Great Future Outlook:** Comcast has entered into partnership deals with many leading firms. There is an increased opportunity in the communications marketplace because of the variety in products and services. It provides a valuable resource by adding to the customer's bottom line results.



Source: Yahoo.com

### Market Profile

52 Week Price Range	\$ 34.50 to \$26.25
Average Daily Volume	9,923,780
Beta	.723
Dividend Yield	0.0%
Shares Outstanding	2.21 B
Market Capitalization	69.63 B
Institutional Holdings	2.8%
Return on Equity	2.52%
Return on Assets	1.84%
Debt to equity	.56
Forward P/E (fye 31-dec-06)	32.89

Source: Hoovers

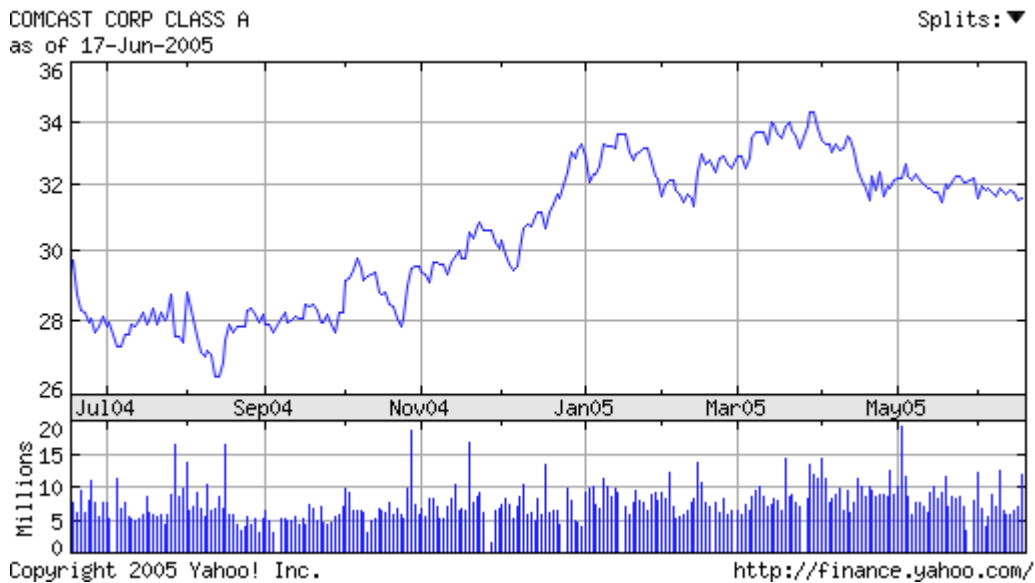


## Investment Summary

When deciding on a company for the Graduate portfolio that would yield long term results, we considered companies that ranged from healthcare, to internet search engines, to outsourcing. Due to the great changes for the future healthcare, the internet bubble of 2000, and the already saturated outsourcing market, we were looking for a new trend. We noticed the Broadcasting & Cable TV Systems market was up and coming with new changes that emphasized digital voice. We did not feel this market was saturated and looked at this sector's historical PE for the last 3 years. Its average in 2004 was 60, it now ranges around 48. Comcast though has a relatively high PE of 69. Naturally, we would assume that this high of a PE would mean the stock was overvalued.

We did a quick analysis of why Comcast had a high PE and saw that its growth potential was very strong. It has many new ventures that will differentiate their product line instead of relying on a digital cable business that has slowed to less than 6% per year. The biggest key to the growth of Comcast is their digital voice unit. At 1.2 million subscribers it puts them up on top as one of the top phone service providers in the country and it hasn't hit most of their markets yet. Combined with the expected decline of satellite subscriber growth, there is a good reasoning for their P/E. Goldman Sachs announced they feel Comcast may be the first cable company to implement a dividend policy by 2006. When comparing this stock to our current Graduate portfolio, we noticed that there is no current exposure to this sector. Secondly, the correlation analysis (discussed later) revealed that Comcast does add diversification by not moving exactly or very close to the returns of other stocks in our portfolio. After completing an analysis on the industry, company product lines, management, news, earnings, risks, and valuations, we determined that Comcast was a good company to invest in. We came out with a price target of \$33.02, which is slightly undervalued from the market price of Comcast on June 24, 2005 of \$31.00. We therefore recommend a buy of 500 shares at the market price.

Figure 1: CMCSA Daily Stock Prices / From July 2004 to May 2005



Source: BigCharts.com

Comcast's stock has traded at a relatively stable pace throughout the past year. Stability may be attributed through acquisitions and paying off debts.

## Industry Overview (Cable & Satellite Services)

*The current environment shows plenty of room for growth with the new "bundle packaging" however it also leaves room for competition as well.*

### Brief History

For a number of years the cable industry had been known as simply that, the cable industry. However, after the telecommunications act of 1996 the whole face of the cable industry itself changed dramatically. This act removed existing barriers to entry into cable operations by phone companies and cable companies to break into the telecom market if they so chose. This set the stage for changing what was once a cut and dry industry platform into a dynamic one with plenty of growth opportunities it is today.

Since 1996 spending on cable systems facilities and infrastructure improvements have been close to \$85 Billion. These newer two-way networks make it possible for companies today to offer video on demand, broadband internet access, digital video, and very competitive telephone services. Since cable system operators use coaxial and hybrid fiber-coaxial cable systems that are able to provide a larger bandwidth than most phone companies traditional copper lines, it has allowed them to gain the lead in the broadband internet access market.

While cable infrastructure in North America has seen many upgrades since 1996, the cable infrastructure outside North America is less developed. With the weaker infrastructure in place fewer cable operators are able to offer advanced services. Many of these regions rely on satellite

delivery, which quickly loses its cost effectiveness rather quickly when applied to heavily populated areas.

Regardless of the cost effectiveness of the two-way cable systems versus the satellite both operators are counting on one thing. That is the increasing demand for broadband internet access to continue to be a major growth driver. Currently cable companies are at the forefront of the competition of the DSL services that are being offered. Even though satellite broadband delivery proves promising for rural areas that would be inaccessible otherwise, they have yet to provide serious competition for either the DSL or cable providers.

## Industry Trends

Currently the cable and satellite providers are competing with various offerings on the video front, such as digital video recorders (DVRs), video-on-demand (VOD), and high definition television (HDTV). However it is a highly saturated market with close to 86% penetration and it is not likely to grow, which is why the focus is now on keeping the broadband growth alive.

### CABLE, RADIO, & TV ADVERTISING REVENUES (In billions of dollars)

	1997	1998	1999	2000	2001	2002	2003	2004	E 2005
Broadcast TV <sup>1</sup>	36.89	39.17	40.01	44.80	37.79	42.14	42.53	47.19	48.37
Cable TV <sup>2</sup>	8.08	10.19	12.41	14.80	14.62	15.24	17.20	18.78	20.32
Radio <sup>3</sup>	13.80	15.43	17.68	19.85	18.37	19.41	19.60	20.01	20.67
Total	58.77	64.79	70.10	79.45	70.78	76.79	79.33	85.98	89.36

E-Estimated. <sup>1</sup>Broadcast TV includes network, local, and syndication. <sup>2</sup>Cable TV includes network, local spot, and regional. <sup>3</sup>Radio includes local/retail, national spot, and network.  
Sources: Television Bureau of Advertising; Cabletelevision Advertising Bureau; Radio Advertising Bureau; Standard & Poor's estimates.

Source: Standard & Poors

Due to the growth of the broadband market many companies are now offering "bundle packages". While a considerable number of cable operators have recently added a voice service to their bundle, satellite providers and telephone carriers are partnering together to offer their own bundle package of voice, video, and data services. The goal of each of these companies is to be the exclusive provider of entertainment and communications, which leaves lots of room for competition.

To combat the so called triple-play services offered by cable companies telecom companies have unveiled a plan to lay fiber-optic networks capable of video delivery over the next several years at a cost of \$10 Billion. However at and 86% penetration rate the growth in the industry is more likely to come from non-video services. The next 12-18 months should see cable modems remain as the primary growth device for the industry. That being said the cable industry is losing market share due to the aggressive DSL discounting of the telecom companies. The increasing competition will force the triple play into a quadruple within the next few years. For example: some telecom companies already have the wireless offerings while cable companies are working on strategic alliances with independent wireless providers.

## Industry Highlights

- *Cable putting pressure on the telecom companies with VOIP rollout*  
- Together companies made the digital phone service available to an additional 1.2 million homes in the first quarter.
- *Time Warner & Comcast Deal*  
- The companies split the buyout of Adelphia systems as well as trade some of their own to both add customers and improve service for each.
- *FCC reviewing the cable ownership cap*  
- Previously the cap stipulated that a company could not own systems that service more than 30% of US subscribers; however a judge ruled that it was not justifiable and ordered them to review.
- *Companies in search of cellular phone deals*  
- Time Warner and Cablevision have begun limited trials

## Future Outlook

The final piece of the triple play is the Voice over Internet Protocol (VoIP) platform which could possibly be the next growth provider for the cable industry. Although cable operators have taken different paths to deployment, the economics of the new systems are favorable when comparing them to the traditional circuit-switched platforms. Currently only Cablevision Systems And Time Warner have rolled out the digital phone service throughout their footprints. Comcast has announced plans to have its launch completed by they end of 2006. With increased marketing and longevity in the marketplace the digital phone service should not only have a greater penetration rate, but also increase penetration of the bundle services as well.

## Company Description

### Businesses

Comcast corporation (CMCSA) is the nation's largest provider of cable, entertainment and communications products and services. With 21.5 million cable customers and 7 million high speed internet customers. The company was founded in 1963 by Ralph J. Roberts, Daniel Aaron, and Julian A. Brodsky in Tupelo, Mississippi. The company was incorporated in Pennsylvania in december 2001 in order to acquire AT&T's broadband business.

Comcast operates in three segments: Cable, Content and Other Business and Programming Interests. It operates in the Cable segment through the development, management and operation of broadband communications networks. It is involved in the Content segment through its programming investments, including E! Entertainment Television, Style Network, The Golf Channel, Outdoor Life Network, G4 and International Channel Networks. Comcast is involved in Other Business and Programming Interests through Comcast-Spectator, the Company's group of businesses that perform live sporting events and own/manage facilities. Through Comcast-Spectator the company has major

holdings in the Philadelphia Flyers NHL hockey team, the Philadelphia 76ers NBA basketball team and two large multipurpose arenas in Philadelphia.

Comcast operate their business in an increasingly competitive, highly regulated and technologically complex environment. They have become the largest video, broadband high-speed internet and cable phone service provider in the United States and intend to retain this position by the completion of the upgrade of their broadband communications networks, allowing the company to provide customers with new and improved products and advanced services in their video, high-speed internet and phone services along with their expanded ownership and management of their content businesses on national, regional and local levels.

Comcast in recent years has evolved dramatically, beginning with the acquisition of AT&T's corporation's broadband business in November 2002, which substantially increased the size of the company's cable operations. The company has also expanded its efforts to acquire and develop technology that will drive product differentiation and new applications and extend their nationwide fiber-optic network. The company has met many of these objectives through strategic agreements with companies such as Gemstar-TV Guide and Microsoft, which enabled the company to control and develop the enhancement of the user interface and the functionality of their service offerings, such as the company's interactive programming guide and the VOD and DVR service. Additionally Comcast and Gemstar in 2004 formed an entity to develop and enhance interactive programming guides.

In December 2004 Comcast also made a strategic agreement with Level 3 Communications to work on the extension of the companies fiber-optic network, this national network will provide a technically-advanced, nationwide broadband network over which the company can deliver new and enhanced services.

(Dollars in millions)	2003	2002	2003/2002	
			\$	%
Video	\$12,096	\$5,516	\$ 6,580	119.3%
High-speed Internet	2,255	715	1,540	215.4
Phone	801	127	674	530.7
Advertising sales	1,112	474	638	134.6
Other	620	275	345	125.5
Franchise fees	608	243	365	150.2
Revenues	17,492	7,350	10,142	138.0
Operating expenses	6,762	2,685	4,077	151.8
Selling, general and administrative expenses	4,380	1,867	2,513	134.6
Operating income before depreciation and amortization	\$ 6,350	\$2,798	\$ 3,552	126.9%

Source: Comcast 2004 Annual Report

## Management Analysis

**Brian L. Roberts** - Chairman and Chief Executive Officer.

Brian L. Roberts is Chairman and Chief Executive Officer of Comcast Corporation, becoming President in 1990. Under his leadership, the Company has grown ten-fold into a fortune 500 company with 59,000 employees. Roberts has held several leadership positions in the cable television industry, including chairman of the National Cable & Telecommunications Association (NCTA). He is chairman of CableLabs, the cable industry's research and development arm, and serves on the NCTA's board and executive committee. Roberts is also a board member of The Bank of New York. Roberts, 44, is a graduate of the Wharton School of Finance of the University of Pennsylvania. Roberts was named one of America's Best CEO's by Institutional Investor magazine in early 2004.

**Ralph J. Roberts** - Chairman of the Executive and Finance Committee of the Board of Directors.

Starting with the purchase of a single cable television system in Tupelo, Mississippi, in 1963, Roberts went on to create the largest cable television company in the United States. Roberts served as Chairman of the Company from 1989 to 2002. Roberts graduated from the Wharton School of the University of Pennsylvania and served a four-year tour of duty in the U.S. Navy. His entrepreneurial and humanitarian endeavors have brought him many awards including the Distinguished Vanguard Award for Leadership from the National Cable and Telecommunications Association; induction in the Broadcasting & Cable Hall of Fame; the Cable Television Hall of Fame Award; and the Walter Kaitz Foundation Award for contributing to the cable industry's diversity efforts.

**Lawrence J. Salva** - Senior Vice President, Chief Accounting Officer and Controller.

Lawrence J. Salva joined Comcast Corporation in January, 2000. Prior to joining Comcast, Salva was a partner with PricewaterhouseCoopers for over 12 years. His specialties include mergers and acquisitions and SEC matters. He is a CPA in Pennsylvania and is a member of the Financial Executives International Committee on Corporate Reporting, the AICPA and the PICPA.

**Stephen B. Burke** - Executive Vice President and Chief Operating Officer.

Since joining Comcast Cable in June 1998, Stephen B. Burke has been a driving force in the company's growth from a cable industry leader to a world-class communications company. During his tenure, the Company's cable subscriber base has increased by 370% to more than 21 million customers across the country. Burke has won him numerous industry awards, including the 2001 Vanguard Award for Cable Operations Management. Prior to joining the Company, Burke served with The Walt Disney Company as President of ABC Broadcasting. He is a 1980 Phi Beta Kappa graduate of Colgate University in Hamilton, New York, and a 1982 graduate of the Harvard Business School.

**David L. Cohen** - Executive Vice President, Comcast Corporation

David L. Cohen joined the company in July 2002 previously serving as a partner and Chairman at Ballard Spahr, Andrews and Ingerwell, LLP. Cohen serves as a member of the Board of Directors, the Executive Committee and the CEO Council for Growth of the Greater Philadelphia Chamber of

Commerce. Cohen also is Chair of the Trustee Board and the Executive Committee of Penn Medicine and a member of its Executive Committee. A former Chairman of the United Way of Southeastern Pennsylvania, Cohen continues to serve as a member of the Board of Directors of United Way, its Executive Committee and co-chair its 2003-2004 campaign. Cohen is Chair of the Southeastern Pennsylvania Chapter of the American Red Cross.

**Lawrence S. Smith** - Executive Vice President and Co-Chief Financial Officer

Lawrence S. Smith is responsible for all corporate development, internal reporting, external reporting, taxation and other administrative matters. He also has certain oversight responsibilities with respect to a number of Comcast businesses. Smith joined Comcast in 1988. He previously served as Chief Financial Officer to Advanta Corp. Smith also worked in the Philadelphia office of Arthur Andersen & Co. as a tax partner. His community activities include board positions with Meadowood Corporation and the YMCA of Greater Philadelphia and Vicinity. Smith serves on the corporate boards of E! Entertainment Television and The Golf Channel.

**Arthur R. Block, Esq** - Senior Vice President, General Counsel and Secretary

Arthur R. Block has been an in-house attorney at Comcast since 1989, becoming General Counsel in 2000. Prior to joining Comcast, Mr. Block was a partner in the Corporate Department of Wolf, Block, Schorr and Solis-Cohen, which he joined in 1978. Throughout his career, he has specialized in mergers and acquisitions, financings and other complex transactional matters. At Comcast, Mr. Block has been the lead in-house attorney in the company's acquisitions of cable businesses such as AT&T Broadband, Jones Intercable and Surburban Cable. Mr. Block is a graduate of the University of Pennsylvania's Wharton School (BS Economics and BA 1975) and the University of Michigan Law School (JD 1978).

**John R. Alchin** - Executive Vice President, Co-Chief Financial Officer and Treasurer

John R. Alchin manages the Company's capital formation activities, including equity and debt placements in domestic and international markets. He is also responsible for investor relations and treasury cash management functions. Prior to joining Comcast in January 1990, Alchin was a Managing Director of Toronto Dominion Bank. He was active in founding the bank's U.S. Communications Finance Group in 1980, which rapidly became the largest lender to the cable TV industry.

## **Insider Trading**

Over the last two years the insider trading pattern has been stable. What is meant by the term stable is that there has not been an overall trend in either the buy or sell direction. The transactions were reviewed over 2 years (July 2003 to June 2005). Only the last one year's data is put in this report. It appears to be that most transactions are insignificant. Other than a sale of 1.2 million shares by Ralph Roberts, all the other transactions seem to be a routine profit taking. The profit taking can be best illustrated when we look at someone who exercises an option and then in turn sells those same shares the same day. For example, Lawrence Smith exercised an option for 33,086 shares and paid approximately \$333,000, later that day he turned around and sold them for \$913,173 an approximate gain of 580,173. Since there are no real trends developing, it can be said that the insiders at Comcast

feel that the company is steady, and it will continue the solid, albeit slow growth that it has had in the past.

Date	Insider	Shares	Type	Transaction	Value*
1-Jun-05	<a href="#">BREEN, EDWARD D.</a> Director	N/A	Direct	Statement of Ownership	N/A
1-Apr-05	<a href="#">RODIN, JUDITH</a> Director	185	Direct	Acquisition (Non Open Market) at \$0 per share.	N/A
1-Apr-05	<a href="#">ANSTROM, S. DECKER</a> Director	185	Direct	Acquisition (Non Open Market) at \$0 per share.	N/A
1-Apr-05	<a href="#">COLLINS, JOSEPH J.</a> Director	185	Direct	Acquisition (Non Open Market) at \$0 per share.	N/A
1-Apr-05	<a href="#">COOK, J. MICHAEL</a> Director	185	Direct	Acquisition (Non Open Market) at \$0 per share.	N/A
9-Mar-05	<a href="#">ROBERTS, BRIAN L.</a> Chairman	16,500	Direct	Option Exercise at \$0 per share.	N/A
9-Mar-05	<a href="#">ROBERTS, BRIAN L.</a> Chairman	7,251	Direct	Disposition (Non Open Market) at \$33.67 per share.	\$244,141
9-Mar-05	<a href="#">BLOCK, ARTHUR R.</a> Secretary	1,500	Direct	Option Exercise at \$0 per share.	N/A
9-Mar-05	<a href="#">BLOCK, ARTHUR R.</a> Secretary	1,500	Direct	Disposition (Non Open Market) at \$33.67 per share.	\$50,505
9-Mar-05	<a href="#">SALVA, LAWRENCE J.</a> Controller	1,500	Direct	Option Exercise at \$0 per share.	N/A
9-Mar-05	<a href="#">SALVA, LAWRENCE J.</a> Controller	1,500	Direct	Disposition (Non Open Market) at \$33.67 per share.	\$50,505
9-Mar-05	<a href="#">SMITH, LAWRENCE S.</a> Executive Vice President	7,500	Direct	Option Exercise at \$0 per share.	N/A
9-Mar-05	<a href="#">SMITH, LAWRENCE S.</a> Executive Vice President	2,393	Direct	Disposition (Non Open Market) at \$33.67 per share.	\$80,572
7-Jan-05	<a href="#">SMITH, LAWRENCE S.</a> Executive Vice President	121,843	Direct	Planned Sale	\$3,898,9761
3-Jan-05	<a href="#">RODIN, JUDITH</a> Director	188	Direct	Acquisition (Non Open Market) at \$0 per share.	N/A
3-Jan-05	<a href="#">COOK, J. MICHAEL</a> Director	188	Direct	Acquisition (Non Open Market) at \$0 per share.	N/A

10-Dec-04	<a href="#">ALCHIN, JOHN R.</a> Chief Financial Officer	100,000	Direct	Planned Sale	\$3,048,0001
16-Sep-04	<a href="#">BRODSKY, JULIAN A.</a> Director	70,647	Direct	Planned Sale	\$1,968,0001
12-Aug-04	<a href="#">ROBERTS, RALPH J</a> Director	343,329	Indirect	Disposition (Non Open Market)	N/A
12-Aug-04	<a href="#">ROBERTS, RALPH J</a> Director	462,135	Direct	Disposition (Non Open Market) at \$0 per share.	N/A
10-Aug-04	<a href="#">SOVERN, MICHAEL I.</a> Director	1,000	Direct	Purchase at \$27.029 per share.	\$27,029
3-Aug-04	<a href="#">ROBERTS, RALPH J</a> Director	1,200,000	Direct	Private Sale at \$28.04 - \$28.22 per share.	\$33,756,0002
9-Jul-04	<a href="#">BRODSKY, JULIAN A.</a> Director	95,622	Direct	Option Exercise at \$27.21 per share.	\$2,601,874
9-Jul-04	<a href="#">BRODSKY, JULIAN A.</a> Director	95,622	Direct	Disposition (Non Open Market) at \$27.21 per share.	\$2,601,874
8-Jul-04	<a href="#">ALCHIN, JOHN R.</a> Treasurer	35,400	Direct	Option Exercise at \$9.5625 - \$10.5834 per share.	\$357,0002
8-Jul-04	<a href="#">ALCHIN, JOHN R.</a> Treasurer	35,400	Direct	Disposition (Non Open Market) at \$27.29 per share.	\$966,066
2-Jul-04	<a href="#">SMITH, LAWRENCE S.</a> Executive Vice President	33,086	Direct	Option Exercise at \$9.5625 - \$10.5834 per share.	\$333,0002
2-Jul-04	<a href="#">SMITH, LAWRENCE S.</a> Executive Vice President	33,086	Direct	Disposition (Non Open Market) at \$27.60 per share.	\$913,173
1-Jul-04	<a href="#">RODIN, JUDITH</a> Director	222	Direct	Acquisition (Non Open Market) at \$0 per share.	N/A
1-Jul-04	<a href="#">ANSTROM, S. DECKER</a> Director	222	Direct	Acquisition (Non Open Market) at \$0 per share.	N/A
1-Jul-04	<a href="#">COOK, J. MICHAEL</a> Director	222	Direct	Acquisition (Non Open Market) at \$0 per share.	N/A

*Source: Yahoo.com*

## News Analysis

This analysis provides a summary of major news items for Comcast in the recent year. In the June 13<sup>th</sup> issue of Investor's Business Daily, it talks of how Comcast has been in talks with some of Asia's biggest consumer electronics firms as part of its strategy to buy digital set-top boxes from a wider range of suppliers. This deal will give Comcast another competitive edge in terms of lower prices and a wider array of set tops. This deal will allow Comcast to provide a high-definition receiver with two TV tuners, a digital video recorder and built-in cable modem. This new innovation will give Comcast a step ahead in the technology sector. It will allow consumers to navigate through TV channels and while managing entertainment options. Having two TV tuners lets set-top user's record one program while watching another. The set-top boxes can also store photos and music, and have a built-in DVR and cable modem. Buying set tops is a big expense for cable firms. The firms lease the boxes to subscribers and will eventually recoup that investment over several years. Currently, Comcast pays about \$150 per digital set tops that provide programming and VOD. Comcast would like to use competition to drive the price below \$100.

The June 8<sup>th</sup> publication of Newswire discussed that as part of Comcast's On Demand en espanol service, cable subscribers throughout the United States will now have access to a selection of Fox Sports en Espanol's programming. Beginning in June 2005, subscribers will be able to enjoy 10 hours of the leading Spanish-language sports cable network's marquee events and programs. Comcast believes that by making these important sports and news events available to their Hispanic viewers, that they are offering a greater choice and control of their entertainment experience as well as helping them stay connected to their rich heritage.

AP Online, in its June 1<sup>st</sup> publication, discussed how Comcast, as an effort to expand their business, hopes that their digital telephone service will soon become the cable giant's next profitable venture. They have already begun testing in areas such as Massachusetts and Philadelphia. Comcast hopes to offer its Digital Voice service in 20 markets this year and all its markets by 2006.

### **Overall News Analysis**

Overall, Comcast has made a name for itself through innovation and strategic partnerships. Expanding their supplier network will drive costs down which will be both beneficial to Comcast and its consumers. This will allow for a greater cash flow which will service its existing debt. Partnering with companies such as TiVo and Motorola ensure that Comcast's consumers will experience the greatest television experience in terms of variety in programming. Comcast realizes the importance of expanding their programming network by offering a sports channel for the growing Hispanic community in the United States. They know that there are untapped markets that have not been taken advantage of and Comcast wants to be the first to enter into these markets so that consumers can stay loyal to the Comcast brand.

Also, they own programming interests such as E! Entertainment television, Style network, the Golf Channel etc. In addition, it partially owns Philadelphia's pro sports teams, the 76ers and the Flyers. By expanding their efforts they have become a major player in various markets. In 2004, Comcast's results demonstrated clear consumer demand for all of their new product offerings, led by Comcast High-Speed Internet that added a record 1.7 million new customers. Comcast's expects robust customer additions to continue in 2005 as they maintain their focus on adding new applications and value to their service.

We can expect Comcast to continue growing in the upcoming years. They have proved to be a strong company and will continue to be so through their strategic partnerships. In fact, in 2004, Comcast

generated nearly \$2 billion of Free Cash Flow by making strategic investments to drive product differentiation and growth. They also returned \$1.3 billion to shareholders through their stock buyback program. In 2005, Comcast will continue to extend their product offerings even further with the introduction of Comcast Digital Voice. As they begin to integrate this new service with Comcast's video and High-Speed Internet services, their goal is to build a unique experience for their customers, to differentiate their products and their company from the competition, and to deliver growth and increasing value to their shareholders.

## Earnings Analysis

Total revenue for FY2004 grew 10% for the year. This includes passing the \$20 billion mark in revenue for the first time in Comcast's history. The cable division's revenue increased by more than 10% to \$19.3 billion, while operating cash flows increased nearly 18% to 7.5 billion. Comcast was able to generate an increase in free cash flow (\$2 billion) by making strategic investments to drive product differentiation and growth. To reward their shareholders, Comcast returned \$1.3 billion to shareholders through their stock buyback program.

Comcast's expects continued growth due to the demand in their new product offerings. In 2004, Comcast added a record 1.7 million new customers. This increase is due to the subscription of Comcast Digital Cable, On Demand, HDTV programming and DVR functionality. In 2004, 560 million customers ordered On Demand programs and Comcast expects to exceed one billion orders in 2005. Also, they have seen an increase in their high-speed internet service, whose revenue has grown 38.6% in 2004. This reflects the addition of 1.707 million new subscribers and stable average monthly revenue per subscriber for the year of \$42.42 compared to \$42.20 for 2003.

Unfortunately, Comcast had a decrease in their cable phone revenue in 2004. Cable phone revenue declined 12.5 % during 2004 to \$701 million, the result of a 3.4% decrease in subscribers as well as a decrease in monthly spending by subscribers. The results reflect the company's ongoing focus on profitability, rather than unit growth of its circuit-switched telephone business as it begins the transition to Comcast Digital Voice service using IP technology in 2005.

The first quarter of 2005 demonstrates that Comcast is delivering strong operational and financial results, returning capital to shareholders and making investments to support their ongoing growth. Comcast has generated \$722 million of Free Cash Flow in the first quarter of 2005, repurchased \$326 million in Comcast stock and continued to make investments to support their growth and differentiation strategy. They also announced that our Board of Directors has authorized a \$2 billion addition to our stock repurchase program, providing \$2.3 billion of repurchase capacity. Since December 2003, they have repurchased \$1.7 billion of Comcast stock.

Digital television continues to be a huge success for Comcast, with customers viewing more than 100 million ON DEMAND programs. That is three times the number of programs viewed ON DEMAND in March of last year and a 40% increase in usage from the fourth quarter of 2004. Pay-per-view revenues have increased each of the last six quarters reflecting the strong consumer appeal of the ON DEMAND service. Their cable sector reported revenue of \$5.1 billion for the quarter ended March 31, 2005, representing a \$453 million or 9.7% increase from the \$4.7 billion in the first quarter of 2004. Video revenue increased \$178 million or 5.6% to \$3.4 billion in the first quarter of 2005, driven by higher monthly revenue per subscriber and an increase in digital cable subscriptions.

Comcast Cable added 200,000 new digital customers in the first quarter of 2005 and, with more than 8.8 million subscribers, digital cable penetration reached 41.1% of basic subscribers. Basic cable subscribers declined 29,000 subscribers during the first quarter of 2005.

Internet revenues continued to increase. There was an increase of 32.5% to \$925 million in the first quarter of 2005 reflecting strong growth in the number of subscribers and higher average revenue per subscriber. Comcast Cable added 414,000 high-speed Internet customers to finish the first quarter of 2005 with 7.4 million subscribers, representing a penetration rate of 18.3% of available homes. Average monthly revenue per subscriber was \$42.81 in the first quarter of 2005, a slight increase from the first quarter of 2004 and a 1.8% increase from the \$42.06 reported in the fourth quarter of 2004.

## **Competitive Positioning**

### **Strengths**

When it comes to innovation, Comcast leads the pack with their competitive edge. Currently, they lead the pack with 21.5 million subscribers and offer services such as cable TV, high-speed internet, and voice services. They also own programming interests such as E! Entertainment television, Style network, the Golf Channel etc. In addition, it partially owns Philadelphia's pro sports teams, the 76ers and the Flyers.

One of the main strengths of Comcast, is their ability to form strategic partnerships. In 2005, Comcast joined the Sony led consortium that bought MGM. This will enable Comcast to broadcast movies from both Sony and MGM libraries on cable channels and via video-on-demand (VOD) services, which equals additional revenue for Sony. Other partnerships include T-Mobile, to provide customers out-of-home wireless access and with Rhapsody, a leading internet music service, to provide even more features.

In 2003, Comcast made another strategic move by acquiring AT&T Broadband. The broadband acquisition substantially increased the size of their cable operations and caused Comcast to acquire a higher amount of debt. In 2004, through strategic agreements with Gemstar-TV and Microsoft, Comcast was able to control and enhance their user interface and the functionality of their services, such as their interactive programming guide and their VOD and DVR service.

Another competitive advantage for Comcast is that they have strong local management teams to respond quickly to customer needs and competitive challenges. This local focus was one of the primary reasons Comcast was able to reverse the loss of customers in many of the cable systems they had acquired previously.

To sharpen this edge, Comcast has made customer satisfaction a top priority. They have launched a program called "Think Customer First," which is a comprehensive initiative aimed at delivering the best possible service experience every time a customer interacts with a Comcast employee, product, service or brand.

The success of Comcast demands not only on their leadership but also their ability to listen to their customers needs. They realize that consumers don't simply want more channels. Instead, they want

more choice, flexibility, and control. Comcast is both a driver and a beneficiary of this culture-shaping trend in the sense that they have both the size and scale to make a difference. With systems that pass through 40 million homes across the United States, Comcast's unmatched size and scale will enable them to accelerate the development and delivery of new products and services. Comcast's size also enables them to obtain volume discounts and helps them lower their cost structure.

Secondly, Comcast has upgraded all of their systems to two-way capability. These high-bandwidth systems enable Comcast to deliver a growing number of digital cable products and services to their customers. This gives them capacity to constantly improve their video, data and voice services and to stay one step ahead of their competition. For example, Comcast recently doubled the download speed of their high-speed internet service at no additional charge to their customers. During 2004, these innovations helped Comcast to attract a record 1.7 million new high-speed internet customers. Driving a 38.5% increase in revenues from this product to \$3.1 billion.

Thirdly, Comcast has a growing suite of products that customers crave. Customers today want to shape their in-home media and entertainment experience to be personal and comfortable. Thanks to advanced technology built into Comcast networks, Comcast is in the perfect position to deliver the next generation of video products and services, including high-definition television, digital video recorders and thousands of hours of video-on-demand (VOD) programming.

### **Weaknesses**

A future weakness of Comcast is that its size might be getting too large. There have been many times where companies venture into many projects and then lose sight of their initial goal. For example, Comcast acquired QVC and decided to sell it in 2003 to Liberty Media for \$7.7 billion. Also, Comcast has registered for the sale of their interest in Time Warner Cable. Both TWC and Comcast have agreed to purchase the troubled Adelphia Communications. Through this deal, Comcast will contribute \$3.5 billion in cash and after swapping some assets with TWC, will add about 1.8 million subscribers. After the deal, Comcast will no longer own any stake in TWC.

Another troubling factor is that a lot of the cash proceeds provided by their operating activities are a result of the sale of their investments not from their recurring operations.

Furthermore, Comcast has a considerable amount of debt as listed below:

#### Repayments (millions)

- \$867 under senior and medium-term notes
- \$700 under revolving credit facilities
- \$609 of Comcast exchangeable debt
- \$147 under capital leases and other debt instruments

#### Borrowings (millions)

- \$320 net under their commercial paper program
- \$10 under other debt instruments

Also, as of December 31, 2004, \$950 million in debt was outstanding at Comcast Holdings. Also, the net change in operating assets and liabilities was \$331 million. The changes in operating assets and liabilities are primarily a result of \$515 million in cash payments for liabilities recorded associated with the Broadband acquisition.

In addition, programming expenses will increase in the future primarily as a result of increased costs to purchase programming and as additional programming is provided to their subscribers. In 2004, programming costs increased \$240 million to \$4.149 billion from 2003. Comcast anticipates that these increases will be mitigated to some extent by additional volume discounts.

The amount of Comcast's capital expenditures for 2005 and for the subsequent years will depend on numerous factors, some which are beyond their control, such as competition, technology and the timing and deployment of new services.

### **Opportunities**

The opportunities that lie ahead for Comcast seem positive. Their future ventures should increase revenues and enable Comcast to further expand their services. Through Comcast's acquisitions in 2003, they were able to increase total revenues by more than 15% to \$885 million while boosting operating cash flow by 18% to \$227 million. Comcast has faith in that content and distribution work best when they work together. In essence, they want to continue expanding their portfolio by creating new programming, by partnering with others or by finding the right opportunities to acquire it. Among their recent initiatives, is the partnership with Radio One, which is dedicated to the diverse interests of African-American adults.

Since Comcast's system upgrades are nearly finished, they will have a decrease in capital expenditure spending. Total cable capital expenditures decreased to \$4.1 billion in 2003 and will decline further in the upcoming years. They will employ this free cash flow in two primary ways: reinvesting in their business to drive future growth and returning capital to their shareholders. During 2004, for example, Comcast invested \$600 million to increase their presence and drive product innovation. Their employees continue to evaluate new opportunities such as their strategic partnerships with Motorola and TiVo, both announced in March 2005.

Comcast's presence in 22 of the nation's top 25 markets gives them the opportunity to compete for a larger share of the \$28 billion that advertisers spend in the U.S. spot television market every year. To capitalize on this major growth opportunity, Comcast has assembled a new national sales team and have completed fiber interconnects in more than three-quarters of their top 72 markets during 2003. These interconnects allow advertisers to make local, regional or national cable ad purchases more easily and efficiently. In 2004, Comcast launched Comcast Spotlight to highlight their new capabilities in the advertising market.

### **Threats (Competitors)**

#### *Time Warner Cable*

TWC is the #2 US cable company after Comcast. It provides internet access to more than 4.1 million customers, through its own cable-based ISP, Road Runner. It is a major threat in that it has set partnerships with both MCI and Sprint, to provide digital phone service. After Comcast and TWC swap some assets, Comcast will no longer own any piece of TWC. The deal will add about 3.5 million subscribers to TWC's operations. In addition, they own several local new channels.

#### *Echostar Communications Corporation*

Echostar is the #2 US direct broadcast satellite TV provider, behind DIRECTV. Echostar has formed alliances with ISP's and voice communications providers such as Earthlink, Qwest, SBC and Sprint to offer combined services. Its subsidiary, Echostar technologies, develops DBS hardware such as dishes, set-top boxes and other digital equipment.

Echostar's Dish network provides a wide range of programming (more than 1,000 digital TV and audio channels) and has nine operational satellites in orbit and maintains sales and service locations throughout the continental U.S. In addition, Echostar has partnered with OpenTv. To thwart increased competition from regional cable companies, DISH Network has been working to provide customers with local TV channels. The company now offers local channel service to markets in all 50 states. Echostar deals with various telecommunications providers which allow the companies to offer a triple threat in television, internet access and voice services. The companies involved also want to offer bundles services, which will drive cost down and increase competition.

#### DIRECTV Group

DirecTV is the largest US direct broadcast satellite provider. It provides service to about 14 million customers in the US and more than 1.5 million in Latin America. The company has a deal with Verizon and BellSouth to sell voice service and internet access. News Corp. currently owns 34% of the company and has sold a stake in their satellite network operator PanAmSat to KKR, the Carlyle Group and Providence Equity Partners. DirecTV received \$2.6 billion for this deal. They also sold half their satellite equipment company and its holdings in XM Satellite Radio.

One of DirecTV's distinguishing points in terms of programming (relative to cable operators and EchoStar) is that it's the only broadcaster authorized to sell NFL Sunday Ticket, which gives subscribers access to most of the Sunday football games. In addition, DirecTV, offers high-speed internet access via satellite and is selling its subscriber base in Mexico.

## **Investment Risks**

The digital Cable market in itself is a fairly saturated market. With an 86% penetration rate there is not much room for extensive growth, with even less room for future growth. This has led Comcast to expand into the broadband and digital telephone service business and change its business model. While diversification is a good thing, exploring new areas of business is always considered a risk.

With the increased market spectrum comes increased competition. Not only is Comcast embarking on a journey in uncharted waters, they also now have to deal with other companies attempting the same blueprint. Comcast now not only has to deal with satellite competition, but also telecom companies, not to mention the satellite companies that are partnering with telephone companies. While Comcast is the #1 cable provider, they have not been in the digital phone market long enough to warrant a name for themselves as of yet. They are competing with companies that have been around a long time, and since they only recently upgraded their capabilities to include phone service they have yet to gain a reputation which could slow expected growth.

DSL prices continue to drop and that has contributed to customer churn. Telecom companies are expected to drop prices even further however Comcast is hoping to compete on quality of product not on a price level. They feel that they provide a much faster, useful service than DSL, but it is still expected that Cable modems will lose 2-3% market share to DSL over the next 12-18 months.

Comcast's success is highly dependent upon the continued growth of their broadband unit and

the eventual penetration of their digital voice service. With over a 51% penetration rate to its total footprint Comcast is hoping that the bundle packaging that they offer will get them in to the 19 million plus homes that currently do not use any service that Comcast offers, but there is no guarantee that their services will be wanted.

## Correlation Analysis

The Correlation Analysis is evaluated by listing the recommended company's stock price returns over the past 3 years, as well as listing the individual company stock price returns from our Graduate portfolio for the same time period. A perfect correlation is 1.0. The highest correlation that our recommended stock Comcast has with any other security in our portfolio is 0.60, and that is with Citigroup. This is considered a moderate correlation. What this translates to is that Comcast's stock price does not move exactly or very close to the movements of any other stock in our portfolio. Therefore recommending Comcast does not present a risk to the diversification of our portfolio. When calculating the average rate of return for the past 3 years, Comcast average came at 0.06%. Coach demonstrated the highest return of 0.24% and Kohl's presented the weakest return of -0.02%. The average rate of return for the entire portfolio excluding Comcast was 0.06%, which was the same return Comcast gave.

## Common Size Statements

COMCAST	Dec. 04		Dec. 03		Dec. 02	
	\$	Percent	\$	Percent	\$	Percent
<b>Income Statement</b>						
Revenue	20,307	100.0%	18,348	100.0%	12,460	100.0%
Cost of Goods Sold	7,462	36.7%	7,041	38.4%	6,304	50.60%
Gross Profit	12,845	63.3%	11,307	61.6%	6,156	49.40%
SG & A Expense	5,314	26.2%	4,915	26.8%	2,465	19.80%
Depreciation & Amort.	4,623	22.8%	4,438	24.2%	2,032	16.30%
Operating Income	2,908	14.3%	1,954	10.7%	1,659	13.30%
Interest Expense	1,876	9.2%	2,018	11.0%	870	7.00%

Tax Expense	826	4.1%	-16	-0.1%	134	1.10%
Income from Cont Op	970	4.8%	-218	-1.2%	-276	2.20%
Net Income	970	4.8%	3,240	17.7%	-274	2.20%
<b>Balance Sheet</b>						
Cash	452	0.4%	1,550	1.4%	781	0.7%
Short Term Investments	1,555	1.5%	2,493	2.2%	3,258	2.9%
Accounts Receivable	959	0.9%	907	0.8%	1,383	1.2%
Inventory	0	0.0%	0	0.0%	0	0.0%
Current Assets	3,535	3.4%	2,946	2.7%	4,433	3.9%
Long Term Investments	12,812	12.2%	14,818	13.60%	15,174	13.40%
Net Fixed Assets	18,711	17.9%	18,473	16.9%	18,866	16.7%
Other Assets	82,448	78.8%	85,283	78.1%	87,163	77.1%
Total Assets	104,694	100.0%	109,159	100.0%	113,105	100.0%
Current Liabilities	8,635	8.2%	8,635	7.9%	15,383	13.6%
Total Liabilities	63,272	60.4%	67,497	61.8%	5,652	5.0%
Stockholders' Equity	41,422	39.6%	41,662	38.2%	38,329	33.9%

### Common Size Analysis

Revenues- Revenues increased due to their video sector. This includes their basic, expanded basic, premium, pay-per-view, equipment and digital cable services. They increased throughout the three years as a result of rate increases in their traditional video service, growth in digital subscribers and the repricing and repackaging of their digital and premium channel services in the Broadband systems. From 2002-2003, Comcast added approximately 140,000 basic subscribers and over 1.0 million digital subscribers. Also, their revenues increased through the selling of QVC and Liberty Notes at \$4.0 billion.

SG & A- Selling, general and administrative expense stayed relatively stable due to them no longer outsourcing Broadband's customer service operations. They reduced their administrative and overhead expenses through reductions in headcount and the elimination of redundancies. Offsetting these decreases were increases in labor and other volume- related operating expenses associated with the growth of their high- speed internet and digital cable services.

Amortization- Increase is attributed to their cable segment (Broadband). They recorded a \$3.4 billion of franchise- related customer relationship intangible assets, which are being amortized over their average estimated useful life of four years.

Interest Expense - We see a decrease of \$142 million in interest expense from 2003 to 2004 due to Comcast's management decision to significantly reduce/eliminate the company's exposure to debt as soon as possible. Comcast paid \$3161 million in 2003 and \$3499 million respectively towards their significant long term debts. We expect the interest expense figure to continue to dramatically reduce as the company maintains its aggressive payment policy.

Net Income - The decrease in net income is attributed to the selling of the QVC portion of their operations. In 2003, Comcast sold 57% interests in QVC to Liberty and received \$7.7 billion. They received \$4.0 billion of three-year senior unsecured rate notes and 218 million shares of Liberty Series A common stock valued at \$2.339 billion and cash of \$1.35 billion. In 2004, there was also a payment made of \$515 million in cash for liabilities in association with the Broadband acquisition. In addition, there was a \$3.6 billion payment for capital expenditures.

Statement of Cash Flows- Increase is due to their operating income before depreciation and amortization, the effects of interest and income tax payments, and changes in operating assets and liabilities as a result of the timing of receipts and disbursements.

Net cash used in financing activities consists of borrowings and repayments of debt. In 2003, they borrowed \$9.398 billion consisting of senior notes, revolving credit facilities and a term loan.

Under the terms of the Broadband acquisition, Comcast is reliable for 50% of any liabilities incurred by AT & T. These are due to the allegation that AT & T knowingly provided false projections relating to AT & T and its common stock.

## DIRECT COMPETITOR COMPARISON

	<u>CMCSA</u>	<u>DTV</u>	<u>DISH</u>	<u>Pvtl</u>	<u>Industry</u>
Market Cap:	70.29B	21.23B	13.71B	N/A	770.19M
Employees:	74,000	11,800	20,000	30,000 <sup>2</sup>	9.12K
Qtrly Rev Growth (yoy):	9.30%	26.30%	28.10%	N/A	10.70%
Revenue (ttm):	20.76B	12.01B	7.60B	8.48B <sup>1</sup>	659.05M
Gross Margin (ttm):	63.64%	14.78%	39.38%	N/A	53.12%
EBITDA (ttm):	7.85B	638.60M	1.44B	N/A	228.82M
Oper Margins (ttm):	15.10%	-1.88%	11.47%	N/A	6.36%
Net Income (ttm):	1.05B	-1.27B	575.18M	N/A	-4.62M
EPS (ttm):	0.468	-0.976	1.262	N/A	-0.18
P/E (ttm):	68.10	N/A	23.93	N/A	30.50
PEG (5 yr expected):	3.41	3.92	0.55	N/A	1.19
P/S (ttm):	3.38	1.77	1.81	N/A	2.68

Source: Yahoo.com

## Fundamental Analysis

### Building Block 1: Short Term Liquidity

	<u>Liquidity</u>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>Echo-star</u>	<u>Direct TV</u>	<u>Industry</u>
ASSET MANA ST. JOHN'S	<b>Current Ratio</b>	0.41	0.56	0.46	1.02	1.77	0.92
	<b>Acid Test Ratio</b>	0.16	0.25	0.14	0.62	1.39	0.60
	<b>AR Turnover</b>	21.77	20.74	14.45	15.38	10.22	14.6

Various measures of short term liquidity for the most recent three years are reported in table above. The table also includes industry composite data for 2004 along with a direct competitor comparison. Several findings should be noted.

The current ratio trend is not favorable current liabilities exceed current assets by a significant margin and if there were to be a need to cover liabilities in the short term Comcast would have difficulty in doing so. The adverse ratio is largely due to the acquisition of AT&T corps's broadband business which caused significant changes in the company's capital structure, including a substantially higher amount of debt. The 2004 current ratio of 0.41 implies that Comcast has \$0.41 of liquid assets to cover \$1 worth of current Liabilities. Comparisons against their key competition and the industry as a whole reveal that the company seems to have a poorer liquidity position then most.

A more stringent test of short term liquidity is based on the Acid Test Ratio, which uses only the most liquid current assets to assess liquidity including cash short-term investments, and accounts receivable. The ratio reveals that Comcast has only \$0.16 of liquid assets to cover each \$1 of current liabilities. Competitor and Industry reveal that the company as was found to be in the Current Ratio analysis has a significantly poorer liquidity situation then most.

The receivables turnover ratio indicates how often on average, receivables revolve - that is are received and collected during the year. This ratio is an indicator of the age of receivables. Liquidity refers to the speed in converting account receivable to cash. We see a positive trend for Comcast over the last three years resulting in an average of almost 22 times a year in 2004 a significant increase from 14.45 times a year in 2002. A competitor and industry comparison reveals that the company is in a superior position in regards to this factor then most. The importance of this ratio

should be underlined as experience shows that the longer receivables are outstanding beyond there due date the lower is the likely hood of collection.

Comcast has a negative working capital ratio however it should be noted the figure is significantly less then two years ago. This is largely down to its servicing current portions of long term debt from its acquisition of Broadband mentioned previously. The current portion of debt for 2004 was 3499.

## Building Block 2: Capital Structure and Solvency

<i>Capital Structure &amp; LT Solvency</i>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<i>Echo-star</i>	<i>Direct TV</i>	<i>Industry</i>
<b>Total Debt Ratio</b>	0.47	0.50	0.56	1.28	0.47	1.27
<b>LT debt to Equity</b>	0.49	0.57	0.73	-2.77	0.32	-
<b>Interest Coverage</b>	1.96	2.61	0.84	1.45	-12.34	0.70
<b>Financial Leverage</b>	2.53	2.62	2.95	-2.90	1.91	3.3

The Total debt ratio shows a gradual decreasing trend for Comcast as it improves on its capital structure situation by becoming less reliant on debt and spreading its capital structure more equally proportioned between debt and equity. The 2004 ratio of 0.47 implies that 47% of Comcast's total capital was debt. This indicates a good balance between both forms of financing and the company's revenues and profit margins reveal that the company is leveraging very wisely. A direct competitor and Industry comparison reveals many firms seem to be highly leveraged in contrast to Comcast's capital structure set up, highly leveraged companies face greater risks on debts being recalled along with significant interest payments on debt having adverse effects on the company's short term operating capabilities, therefore Comcast should be seen in a favorable situation in regards to this ratio.

The Long Term debt to equity ratio measures the relation of Long Term debt to equity capital. A ratio of 1:1 indicates greater long term debt financing then equity capital. Comcast's ratio has steadily decreased over the last three years suggesting that the company has a decreasing amount of long term debt to equity. Measured against it main competitors the company seems fairly comfortable.

The Interest coverage ratio determines how easily a company can pay interest on an outstanding debt. The lower the ratio the more the company is burdened by debt expense. When a company's interest coverage ratio is 1.5 or lower, its ability to meet interest expenses may be questionable. Below 1 indicates the company is not generating sufficient revenues to satisfy interest expenses. Comcast's coverage ratio reveals that even though the company has acquired a significant level of debt over the past three years, largely due to its broadband acquisition the company's improved operations and improved revenues can comfortably service the debt. Their ratio of 1.96 is greater than either Echostar or Direct TV and far superior when compared to the industry average.

The financial leverage ratio measures the relation between total assets and the common equity capital that finances assets. The greater the proportion of assets financed by common equity capital, the lower the financial leverage ratio. We see that Comcast's leverage ratio has decreased over the past three years to reflect this position. In comparison to its competition we see the company has a significantly higher financial leverage ratio. For a company successfully utilizing leverage a higher financial leverage ratio enhances return on equity. The ratio shows that every dollar of common equity commands \$2.53 in assets for the company.

### Building Block 3: Asset Utilization

<i>Asset Utilization</i>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<i>Echo-star</i>	<i>Direct TV</i>	<i>Industry</i>
<b>Sales to Receivables</b>	21.18	20.23	9.01	12.24	12.37	-
<b>Sales to Working Capital</b>	(3.98)	(4.32)	(1.50)	(5.23)	5.47	-
<b>Sales to Total Assets</b>	0.19	0.17	0.11	1.19	0.79	-
<b>Sales to Cash and Equivalents</b>	44.93	11.84	15.95	10.15	4.01	-

Asset turnover measures the intensity with which companies utilize assets. The most relevant measure of asset utilization is sales, since sales are essential to profits. Our initial analysis of asset utilization will begin with the sales to receivable ratio. Comcast's receivables turned over 21 times in 2004, far higher than its main competitors. The company has seen a steady increase in this ratio implying an increasingly efficient running of operations and collection methods. The sales to working capital ratio is negative due to Comcast's servicing of debt from its acquisition of broadband.

The relation between sales and total assets is long term and fundamental to most companies. Comcast has significantly higher assets than its competition and therefore has a lower ratio. However the ratio has improved greatly over the recent years and with additional changes that management plan to make will continue to do so further.

Cash and cash equivalents are held primarily for the purpose of meeting day to day transactions and as a liquidity reserve to prevent shortages arising from imbalances in cash inflows and outflows. Comcast's high cash turnover implies a liquidity problem as was revealed by our analysis in section one.

#### Building Block 4: Profitability

<i>Profitability</i>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<i>Echo-star</i>	<i>Direct TV</i>	<i>Industry</i>
<b>Gross Profit Margin</b>	63.25%	61.63%	49.41%	22.76%	56.02%	54.15%
<b>Operating Profit Margin</b>	31.68%	23.44%	16.87%	10.51%	(8.12%)	(3.38%)
<b>Net Profit Margin</b>	4.78%	17.66%	(2.20%)	3.00%	(9.42%)	(3.62%)

Comcast's gross profit margin has steadily improved over the last three years to 63.25% in 2004 an excellent figure far superior compared to its main competition and the industry. The year on year improvements prove that management actions and implementations since the company was incorporated in 2002 are beginning to prove fruitful and the strategic alliances and acquisitions that the company has undertaken have provided a synergy that Management initially targeted. Companies with high gross profit margins will have money left over for other business operations and this will allow management to continue their strategic activities and improve company profitability further.

The operating profit margin shows how successful management has been in generating income from the operation of the business. Comcast has steadily been improving this ratio over the last three years and in comparison to its competition and the industry the company's 31.68% ratio is very impressive.

Net profit margins are those generated from all phases of business, including taxes. This ratio comes as close a possible to summing up in a single figure how effectively management have been running the business. We can see that Comcast has had a strong couple of year in comparison to it competitors.

The 2003 figure is especially high due to the sales of businesses primarily the QVC channel for \$7.7 billion to Liberty Media Corporation. The 4.77% figure similarly like the other profitability ratios is superior to both the industry and main competitors by a significant margin implying that Comcast is being run efficiently and effectively by management.

### Building Block 5: Return on Invested Capital

<i>Return on Invested Capital</i>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<i>Echo-star</i>	<i>Direct TV</i>	<i>Industry</i>
<b>Return on Assets</b>	2.67%	4.82%	0.61%	1.58%	(5.91%)	(1.00%)
<b>Return on Common Equity</b>	2.34%	7.78%	(0.71%)	(13.80%)	(12.48%)	-

The Return on Assets is a measure of a firm's effectiveness in using the assets at hand in generating earnings. Comcast's ratio of 2.68% is superior to both the industry whose ratio is (1.00%) and its main competitors who range from (5.91%) to 1.68%. Overall for each \$1 worth of assets that Comcast possesses, the company generates on average about 3% in profit.

Return on Common Equity is of great interest to the shareholders of the company. ROCE differs from ROA due primarily to what is excluded from invested capital. ROCE excludes assets financed by creditors and preferred shareholders and is the rate common shareholders are earning on their shares. On the recent 2 year average, the common shareholders earned 5% on the shares they invested in Comcast. Both ROA and ROCE were slightly down in 2004 from 2003, this was largely due to a significant decrease in net income down to the sale of QVC in 2003 which increased revenues by a significant margin and an all time high.

The Equity Growth Rate is used to assess the common equity growth rate of a company through earnings retention. The resulting measure implies a company can grow at a certain percent without increasing its current level of financing. Comcast does not pay out dividends. Its common equity growth rate has been increased greatly from -0.71% to 8.10%, from 2002 to 2003. 2004 saw a decline to 2.33%. This ratio is not strong. They cannot continue with its current strategy and current level of financing.

### Building Block 6: Market Measures

<i>Market Measures</i>	<u>2004</u>	<u>2003</u>	<u>2002</u>	<i>Echo-star</i>	<i>Direct TV</i>	<i>Industry</i>
<b>Price to Earnings Range</b>						
High:	76.37	22.56	-	79.35	(12.70)	-
Low:	62.33	17.76	-	60.26	(10.91)	-
<b>Earnings Yield</b>	1.44%	4.96%	-0.88%	1.34%	(8.47%)	-

Price to earnings also referred to as the "multiple", shows how much investors are willing to pay per dollar of earnings. Comcast's P/E has increased substantially over the last three years and in 2004 ranged from a low of 62.33 to an impressive high of 76.37. Comcast's P/E is currently in line with

Echostar but far superior to Direct TV. The increasing trend in P/E reveals the growing level of expectations that analysts and investors have for Comcast's future endeavors and growth prospects.

The earnings yield is the inverse of the price-earnings ratio. It's the amount of earnings you buy for every dollar worth of stock. For Comcast, the earnings yield has increased from 2002 to 2003 and had a decline from 2003 to 2004. Its current earnings yield of 1.44% is greater than both Echostar and Direct TV.

### Overall Ratio Analysis

The overall analysis of Comcast reveals that whilst the company seems to be heavily saddled with debt largely due to their acquisition of AT&T's broadband and thereby resulting in a poor liquidity situation most of the other areas of analysis seem to be very favorable when compared against the company's main competitors and the industry as a whole. Additionally the interest coverage ratio reveals that the company's growing revenues can easily meet current interest expenses on the debts incurred by the company and as such it is likely that liquidity will not be a decreasing concern in the foreseeable future. An especially impressive component of Comcast's financial structure has been their profitability. In comparison to the industry and main competitors the company is extremely well positioned, the improving profitability trends have largely arisen due to strategic decisions and actions taken by management. The 2004 P/E high range reveals that investors and analysts regard the company's future growth prospects as very positive. In summary we can conclude that Comcast's financial structure is solid and stable the company is also increasing its profitability and is becoming more efficient and effective in the running of its operations as revealed by the positive and improving trend return on invested capital ratios.

### DuPont Analysis

**ROE = PROFIT MARGIN \* ASSET TURNOVER \* EQUITY MULTIPLIER**

$$\begin{array}{ccccccc}
 \frac{\text{NET INCOME}}{\text{EQUITY}} & = & \frac{\text{NET INCOME}}{\text{SALES}} & * & \frac{\text{SALES}}{\text{TOTAL ASSETS}} & * & \frac{\text{TOTAL ASSETS}}{\text{EQUITY}} \\
 \\ 
 \text{FY '04} & & & & & & \\
 = & & \frac{970}{20,307} & \times & \frac{20,307}{104,694} & \times & \frac{104,694}{41,422}
 \end{array}$$

=	4.78%	x	19.40%	x	252.75%
=	<b>2.34%</b>				
<b>FY '03</b>					
=	$\frac{3,240}{18,348}$	x	$\frac{18,348}{109,159}$	x	$\frac{109,159}{41,662}$
=	17.66%	x	16.81%	x	262.01%
=	<b>7.78%</b>				
<b>FY '02</b>					
=	$\frac{-274}{12,460}$	x	$\frac{12,460}{113,105}$	x	$\frac{113,105}{38,329}$
=	-2.20%	x	11.02%	x	295.09%
=	<b>-0.71%</b>				

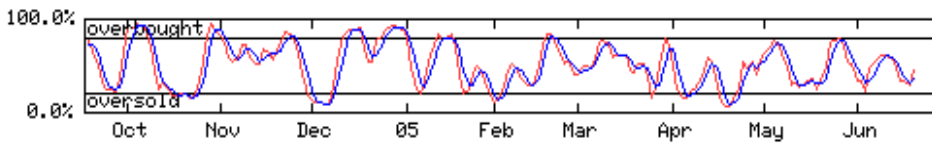
The DuPont Analysis breaks down the ROE into 3 components. The Profit Margin shows a decrease from 2003 to 2004 mainly due to the sale of QVC. It doesn't mean that Comcast has no control over its costs. Its Asset turnover (amount of sales generated from each dollar of assets) has increased from 2002 to 2004 mainly because Revenue has increased steadily. It shows improvement in Comcast's efficiency in generating revenue. The Equity multiplier has decreased year over year.

## Technical Analysis



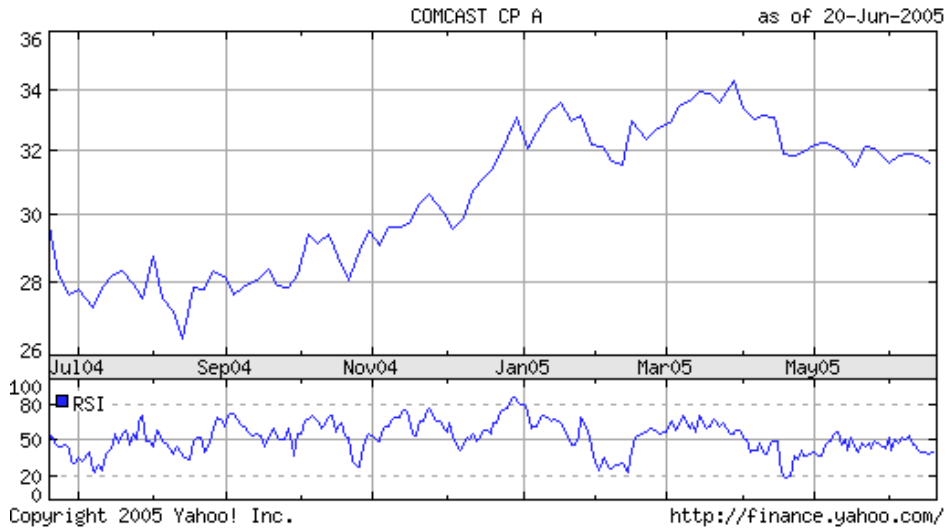
Source: E\*Trade

Figure 2



Source: E\*Trade

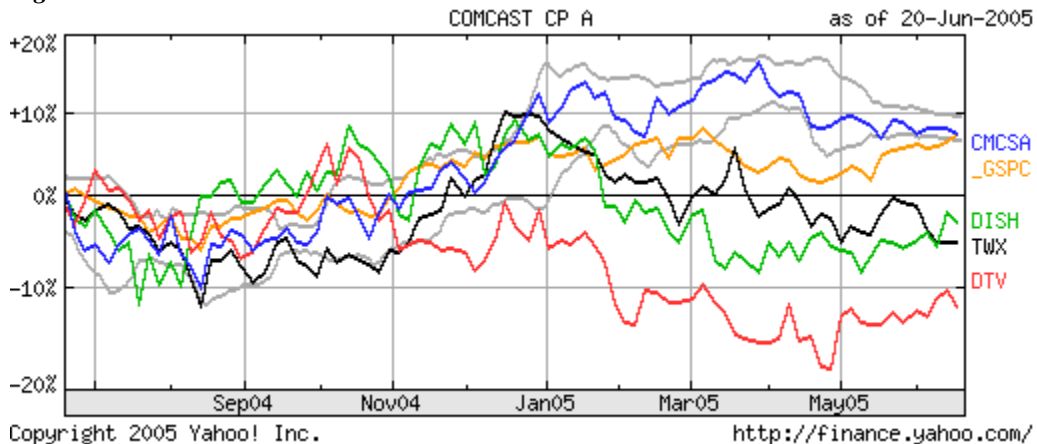
Figure 3



Source: Yahoo!

Although it might seem like Comcast is in the midst of a down trend it looks like it is just nearing the end of one. In figure one you can see the overall upward trend over the last 9 months, however since mid April the stock has been down trending. While it is trending down at the moment the stochastic diagram in figure 2 in combination with the relative strength index chart in figure 3 lead us to believe that Comcast is close to being oversold. This leads believe there is room for price appreciation in Comcast’s future.

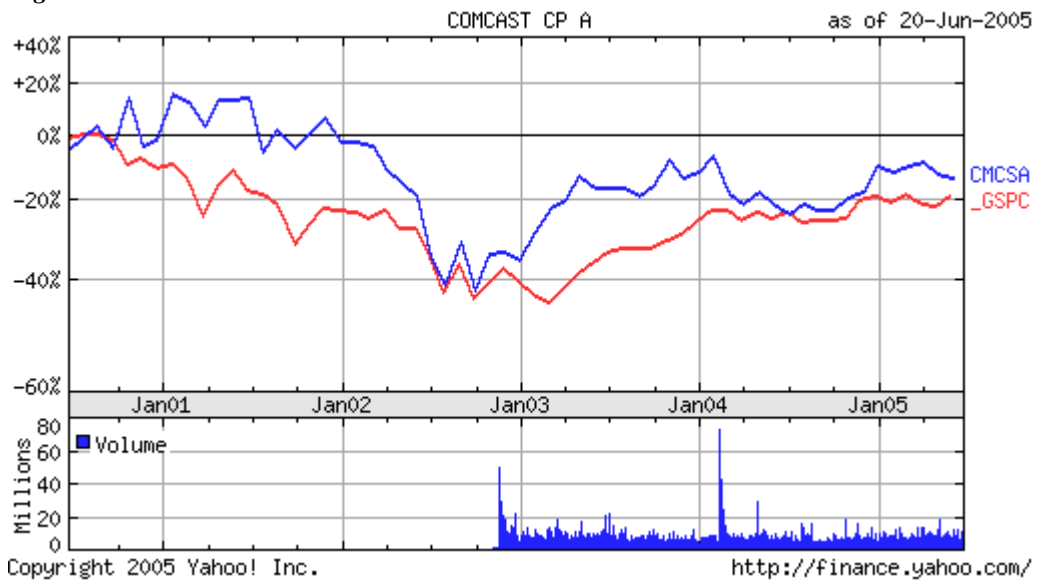
Figure 4



Source: Yahoo!

Figure 4 shows the returns over the last year, not only has Comcast outperformed the S&P, but it also has outperformed its top competitors within the industry.

Figure 5



Source: Yahoo!

Figure 5 shows that Comcast has beaten the S&P 500 over the last 5 years, since this is a long term investment portfolio we believe that Comcast will continue to outperform and that it will be a good long term addition to the portfolio.

### Relative Valuation

Comcast Stock Price  
(6/16/05)

**\$ 31.38**

Current EPS FY 04	0.47
Current PE	67.03
Estimated EPS (FY 05)	0.56
Forward PE	56.04
Estimated PE (FY 05)	64.00

***Target Price = Estimated PE x Estimated EPS***

64 x 0.56	=	<b>\$ 35.84</b>
61 x 0.56	=	<b>\$ 34.16</b>
59 x 0.56	=	<b>\$ 33.04</b>

***Average Target Price***

<b>\$ 34.35</b>
-----------------

It is important to note that we looked at Comcast's quarterly reports, annual report, and analyst reports to give us guidance for this industry and company. When preparing the valuations for Comcast, it is important to note that we started off with preparing Common Size income statements for Comcast, as well as its main competitors DirecTV and EchoStar. The purpose of this analysis was to see a break up of each item and analyze how the percentage increased or decreased year over year. We completed the Fundamental Analysis and DuPont Analysis.

Following that was our Relative Valuation. We listed their current market price, earnings per share, and PE ratio. We estimated Earnings per share at a value of \$0.56 after analyzing the company earnings from 2001 to 2004 and a break up of each quarter in 2004. We had to take into consideration the seasonality of the business. When we saw a decline of revenue and earnings from the 4<sup>th</sup> quarter of '04 to the 1<sup>st</sup> quarter of '05, we asked Investor Relations for an explanation. They stated that the 4<sup>th</sup> quarter is the strongest and the 1<sup>st</sup> is the weakest. The students discontinue use in 2<sup>nd</sup> quarter and reconnect 3<sup>rd</sup> and 4<sup>th</sup>. The average analyst estimate was \$0.60 but we took a more conservative approach. We also estimated our PE by using 3 separate declining values. We had looked at the S&P's Broadcast and Cable TV average PE for the last 3 years and have noticed it ranges about 49. We knew that Comcast's current PE was not sustainable and factored that as it matures, its PE would decline. After we calculated the numbers for 3 separate scenarios, our average

target price came to be \$34.35 which is slightly undervalued against the market price of \$31.00 (6/24/05).

## Absolute Valuation

### WACC

Cost of Equity ( Ke )	Cost of Debt ( Kd )																
<p>CAPM: <math>Ke = (\text{Beta} \times (\text{Rm} - \text{Rf})) + \text{Rf} + \text{Ap}</math></p> <p>Where:</p> <p>CAPM Model = Capital Asset Pricing Model  <math>\text{Rm} - \text{Rf}</math> = (Small company stock returns) - (risk free rate) or the "market risk premium"  <math>\text{Rf}</math> = Risk Free Rate  <math>\text{Ap}</math> = Specific Company Risk</p>	<p>Borrowing rate taken from 2004 Annual Report</p> <p>Borrowing Rate <b>7.38%</b></p> <p>Tax Rate <b>40.0%</b></p>																
<table border="1"> <tr> <td>Beta</td> <td>=</td> <td><b>0.73</b></td> <td>*</td> </tr> <tr> <td>Rm - Rf</td> <td>=</td> <td><b>5.9%</b></td> <td>**</td> </tr> <tr> <td>Rf</td> <td>=</td> <td><b>4.07%</b></td> <td>***</td> </tr> <tr> <td>Ap</td> <td>=</td> <td><b>4.0%</b></td> <td>****</td> </tr> </table>	Beta	=	<b>0.73</b>	*	Rm - Rf	=	<b>5.9%</b>	**	Rf	=	<b>4.07%</b>	***	Ap	=	<b>4.0%</b>	****	<p>Kd Calculation</p> <p><math>Kd = \text{Borrowing Rate} (1 - \text{Effective Tax Rate})</math></p> <p><b>Kd = 4.0%</b></p>
Beta	=	<b>0.73</b>	*														
Rm - Rf	=	<b>5.9%</b>	**														
Rf	=	<b>4.07%</b>	***														
Ap	=	<b>4.0%</b>	****														
<p>* Industry estimated beta.</p> <p>** Standard and Poors</p> <p>*** Standard and Poors 10 Year Yield</p> <p>**** Addresses additional risk factors specific to the subject company, such as the lack recent profitable history.</p>	<table border="1"> <thead> <tr> <th>Capitalization</th> <th>Percentage</th> </tr> </thead> <tbody> <tr> <td>Long Term Debt</td> <td><b>31.76%</b></td> </tr> <tr> <td>Shareholders Equity</td> <td>68.24%</td> </tr> </tbody> </table>	Capitalization	Percentage	Long Term Debt	<b>31.76%</b>	Shareholders Equity	68.24%										
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	Rate	Percent	Weighted Total
Kd	4.0%	31.8%	1.3%
Ke	12.4%	68.2%	8.4%
Weighted Average Cost of Capital			9.7%
<b>Rounded</b>			<b>10.0%</b>

### CAPEX Prediction

	2002	2003	2004	2005	2006	2007	2008	2009
<b>Capital Expenditures</b>	\$5,200.0	\$4,100.0	\$3,700.0	\$3,250.0	\$3,300.0	\$3,300.0	\$3,300.0	\$3,300.0
As Percent of Rev.	259.7%	204.7%	184.6%	162.1%	164.5%	164.4%	164.3%	164.3%

### ESTIMATES

	2002	2003	2004	2005	2006	2007	2008	2009	Terminal Year
--	------	------	------	------	------	------	------	------	------------------

<b>Revenue</b>	<b>\$12,460.0</b>	<b>\$18,348.0</b>	<b>\$20,307.0</b>	<b>10.2%</b>	<b>10.2%</b>	<b>10.4%</b>	<b>10.5%</b>	<b>10.6%</b>	<b>10.0%</b>
Revenue Growth		47.3%	10.7%						
<b>COGS</b>	<b>6,304.0</b>	<b>7,041.0</b>	<b>7,462.0</b>						
% of Revenue	51%	38%	37%	36.0%	35.2%	34.0%	33.3%	32.1%	32.0%
<b>Gross Profit</b>	<b>\$6,156.0</b>	<b>\$11,307.0</b>	<b>\$12,845.0</b>						
<b>SGA</b>	<b>5,314.0</b>	<b>4,915.0</b>	<b>5,314.0</b>						
% of Revenue	43%	27%	26%	25.0%	24.0%	23.2%	22.7%	22.1%	22.0%
<b>Depreciation &amp; Amort</b>	<b>2,032.0</b>	<b>4,438.0</b>	<b>4,623.0</b>						
% of Revenue	16.3%	24.2%	22.77%	22.0%	21.0%	20.6%	20.2%	19.7%	19.5%
<b>Operating Income</b>	<b>(\$1,190.0)</b>	<b>\$1,954.0</b>	<b>\$2,908.0</b>						

	2002	2003	2004	2005	2006	2007	2008	2009	Terminal Year
<b>Revenue</b>	<b>\$12,460.0</b>	<b>\$18,348.0</b>	<b>\$20,307.0</b>	<b>\$22,378.3</b>	<b>\$24,660.9</b>	<b>\$27,225.6</b>	<b>\$30,084.3</b>	<b>\$33,273.3</b>	<b>\$36,600.6</b>
<b>COGS</b>	<b>6,304.0</b>	<b>7,041.0</b>	<b>7,462.0</b>	<b>8,056.2</b>	<b>8,680.6</b>	<b>9,256.7</b>	<b>10,018.1</b>	<b>10,680.7</b>	<b>11,712.2</b>
<b>Gross Profit</b>	<b>6,156.0</b>	<b>11,307.0</b>	<b>12,845.0</b>	<b>14,322.1</b>	<b>15,980.3</b>	<b>17,968.9</b>	<b>20,066.2</b>	<b>22,592.5</b>	<b>24,888.4</b>
<b>SGA</b>	<b>5,314.0</b>	<b>4,915.0</b>	<b>5,314.0</b>	<b>5,594.6</b>	<b>5,918.6</b>	<b>6,316.3</b>	<b>6,829.1</b>	<b>7,353.4</b>	<b>8,052.1</b>
<b>Depreciation &amp; Amort</b>	<b>2,032.0</b>	<b>4,438.0</b>	<b>4,623.0</b>	<b>4,923.2</b>	<b>5,178.8</b>	<b>5,608.5</b>	<b>6,077.0</b>	<b>6,554.8</b>	<b>7,137.1</b>
<b>Operating Income</b>	<b>(\$1,190.0)</b>	<b>\$1,954.0</b>	<b>\$2,908.0</b>	<b>\$3,804.3</b>	<b>\$4,882.9</b>	<b>\$6,044.1</b>	<b>\$7,160.1</b>	<b>\$8,684.3</b>	<b>\$9,699.2</b>
<b>Margin</b>	<b>-9.6%</b>	<b>10.6%</b>	<b>14.3%</b>	<b>17.0%</b>	<b>19.8%</b>	<b>22.2%</b>	<b>23.8%</b>	<b>26.1%</b>	<b>26.5%</b>
<b>Operating Income Growth</b>				<b>31%</b>	<b>28%</b>	<b>24%</b>	<b>18%</b>	<b>21%</b>	
Operating Income				\$3,804.3	\$4,882.9	\$6,044.1	\$7,160.1	\$8,684.3	\$9,699.2
Depreciation & Amortization				4,923.2	5,178.8	5,608.5	6,077.0	6,554.8	7,137.1
Tax on Operating Income	40%			(1,521.7)	(1,953.1)	(2,417.6)	(2,864.0)	(3,473.7)	(3,879.7)
Increase in Working Capital	10%			(207.1)	(228.3)	(256.5)	(285.9)	(318.9)	(318.9)
Capital Expenditures	12%			(2,752.5)	(3,033.3)	(3,348.8)	(3,700.4)	(4,092.6)	(4,501.9)
<b>Free Cash Flow</b>				<b>\$4,246.2</b>	<b>\$4,847.0</b>	<b>\$5,629.7</b>	<b>\$6,386.8</b>	<b>\$7,353.9</b>	<b>\$8,135.8</b>
Discount Rate	10.0%		<b>PV</b>	<b>\$3,860.1</b>	<b>\$4,005.7</b>	<b>\$4,229.7</b>	<b>\$4,362.3</b>	<b>\$4,566.2</b>	<b>\$69,040.2</b>
Perpetual Growth Rate	2.5%								

**Market Data**

Shares Outstanding	2,210.0
Market Price	\$31.00
Market Capitalization	\$68,510

<b>Valuation</b>	<b>\$90,064.2</b>
Debt	<b>\$20,000.0</b>
<b>Equity Value</b>	<b>\$70,064.2</b>

Undervalued/(Overvalued) \$1,554

Target Stock Price **\$31.70**

Percent Return 2.3%

In order to assess the absolute valuation of Comcast, we had to assume certain growth rates, the COGS, SGA, and Depreciation from 2005 to 2008. After speaking with a representative at the

Investor Relations department, calculating previous averages, and reading analyst reports, our targets were set. Capital expenditures are expected to be flat 2004-2008 at about \$3.3 billion because of the assumption of sustained new product deployment and Digital Voice ability network-wide by the end of 2006. In 2003, they had great expenses to pay when because of acquiring a cable system through AT&T. Comcast had to spend a significant amount to upgrade servers and lines. Cash flow was 1.9 billion in '04, a 35-45% growth is expected for '05 and a 20 to 30% average from '04-'08. It was only \$74 million in '03 because of the AT&T deal. The high speed internet is what gives them the most profit.

SGA and COGS would have a normal decline due to no significant investments or expenses. The major cost is SGA is programming costs for carrying channels such as MTV and Lifetime. Revenue would be estimated to be at 10% for 2005 and the CAGR from 2006-2008 would be 10%. Under the normal calculation of WACC, the discount rate would come out to 7%. But we added specific company risk of an additional 4%, making the discount rate 10%. This was due to the risk of this complex industry. This risk is seen well above the market's average especially due to the competition. We got this guidance after reading several analyst reports. If we had not increased the discount rate, Comcast's target price would have come out to almost twice their current price, which would have been very skewed. We came up with an average CAPEX as a percentage of revenue from 2005 to 2008 which was 12%. Any item in blue shows numbers we either had to estimate or enter in. The black numbers show the resulting figures. Once we put in our projections based on our research, we came up with free cash flows for the future years. Those figures were multiplied with our given discount rate to determine the present value figures for all future years. The sum of all present value figures came to about \$90 billion. We deducted \$20 billion in debt to come up with about \$70 billion in equity value. We took this value and divided it by the total shares outstanding (2.2 billion). Thus we arrived at the target price of \$31.70, which is a 2.3% return, and also almost at market value compared to the latest price of \$31.00 (6/24/05).

## Conclusions

Comcast does prove to be strong in the industry they operate in. They have great strategic partnerships already in place and will add about 3.5 million subscribers in the near future. They have

the ability to leverage the industry's leading position. They have a business model that is very focused on product differentiation and built on a strong technology base. Their free cash flow outlook is great for the long term. The valuation models also speak to the possibility that Comcast is slightly undervalued. If that is the case, we can capitalize on this investment and hope to receive good yields for the long term.

## **Recommendation**

In order to come up with our final target price, we simply took an average of the relative and absolute valuations and came up with a target price for Comcast at \$33.02, which represents a slight undervaluation. We considered if we should make an investment since this target does not prove to be a strong undervaluation. But we did consider every other area in this analysis, as well as look into their future growth prospects. We still felt Comcast was a good buy for the long term. However, we made a strategic decision to not invest a significant amount in Comcast because it is not highly undervalued, and the industry is complex and more risky than others. Therefore, we recommend a buy on Comcast for 500 shares at the market price, which is currently at \$31.00.

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