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PRESENTATION

Jason Bazinet - *Citigroup - Analyst*

We're very fortunate today to have Mike Hopkins, the CEO of Hulu. I'm super excited that you're here just because you don't come to every conference, right? You've come to them before but it's not an every week or month thing, right?

QUESTIONS AND ANSWERS

Mike Hopkins - *Hulu - CEO*

That's correct.

Jason Bazinet - *Citigroup - Analyst*

So, I thought maybe, just by way of background maybe if you could just give us a thumbnail sketch of sort of your career, how long you've been the CEO of Hulu, why you took the job, just to start it off.

Mike Hopkins - *Hulu - CEO*

Sure. Thanks for having me. Happy New Year.

Jason Bazinet - *Citigroup - Analyst*

Thanks. Happy New Year.

Mike Hopkins - *Hulu - CEO*

It's great to be here in Las Vegas in the first week of the year. I'm sure everyone's excited. But, yeah, I've been at Hulu for a little over three years. Before Hulu I spent about 20 years at Fox, running distribution and other areas of the company.

One of the things that's been great and one of the reasons I came to Hulu is that I've had an opportunity to see first-hand several cycles of technology advancements and new sets of competitors coming into television. And with each one of those new sets of competitors, you had advancements in customer experiences and new businesses that emerged.

If you think about decades of broadcast TV as the only way to get television and then cable emerged quickly followed by satellite and the teleco build out in the 2000s and you got digitization of content, more bandwidth, more channels, DVRs, time-shifting, HD. For me, when I looked at Hulu, we've got this great technology, we've got this great brand, and I think we're right now at the cusp of yet another wave of innovation and new opportunities in TV with respect to live over-the-top video. And I think that's among the reasons I joined.



Jason Bazinet - Citigroup - Analyst

All right. Maybe before we get into some of the details, maybe, can you just level set us in terms of what Hulu has in the marketplace today, both in terms of the services that are out there, the subs, just some basic parameters?

Mike Hopkins - Hulu - CEO

Sure. Today we have two products on the market. We've got an \$8 subscription on-demand offering that has a limited ad load and then we have a commercial-free plan at about \$12. In terms of subscribers and those sorts of things, as a privately-held company we don't publically comment about them but I can tell you that we have been growing the company very fast over the last three years, both in terms of our subscribers and revenues. Both of those are growing in excess of 30% annually.

And one of the things that the investors asked me to do 8 years ago when we launched was to be a leading edge company. One of our missions internally is to reinvent TV. I think that's really what we've been focused on, is how do we gain scale, reinvent the category. I think we've over the last 8 years proven that there's a different way that consumers want to enjoy television and that's what we've been mainly focused on.

Jason Bazinet - Citigroup - Analyst

Okay. Within the SVoD space, it seems like it's getting a little bit more crowded. I guess Netflix pioneered it and then Amazon came in. as you think about the Hulu service, what are you hoping to achieve to differentiate your product vis-a-vis the other services that are out in the field today?

Mike Hopkins - Hulu - CEO

Sure. Well, it's certainly a competitive space and I think it's only getting more competitive over time. As we look at our service today, I think we really can differentiate ourselves around content. We still have as the foundation of our offering over the last few years is last night's TV from Fox, ABC, and NBC.

But really over the last three years, we've heavily invested in acquisitions, acquiring past seasons of current shows, things like Homeland, South Park, Fear the Walking Dead, by way of example. Classic hits like Seinfeld. We've also heavily invested in original programming and we'll double that investment again this year. We've added feature films and kids programming. I think content is really where we differentiate from a consumer standpoint today. This year we'll also launch a live service which will be another way we differentiate against our competitors.

But from a business standpoint, I think our differentiation in the market is we are a dual revenue stream business. I think for us what that means is that we have a much higher RPU than our competitors, we can pore that additional revenue back into the product and I think that will help us get to scale quicker. I think scale for us is going to mean a lower number of subscribers than our competitors need to achieve to get to profitability and to have a scalable business.

Jason Bazinet - Citigroup - Analyst

Interesting. I know at least in the investment community everyone is excited about Hulu's SVoD service but super excited about the pending live TV service that you're going to launch. Is there anything that you can share about that in terms of launch date, channel lineups, price points, anything that as a private company that you'd be willing to share?

Mike Hopkins - *Hulu - CEO*

I mentioned before that our internal mission is to reinvent TV and I think we're going to take several strides towards that mission this year with the launch of our live TV service. There are a few things that we're going to be talking about here at CES that are new and I'm happy to share a lot of them with you here this morning.

The first thing is that we're going to be launching this over the next couple of months, next few months, and we're going to price this very competitively. We're going to price it at under \$40 and that will include our \$8 subscription on-demand package. So, we felt like if you're going to be coming into this market you really have to compete at least on that level. You have to be competitive in the market. I think when we include the thousands of TV shows that we've got in our library, our originals, movies, kids, and then along with this great lineup of channels that we're amassing, I think you've got a very compelling offering for the consumer. So, that's the first thing we're going to be talking to a lot of folks this week at CES about.

The second thing is that we are going to launch I think a little class cloud DVR service from launch. When we looked at what was out there when we looked at our competitive set, we felt that if you're really going to compete in this space, you really have to -- you can't take a step backwards from consumer expectations. So, we will have that at launch and it's going to have fantastic functionality.

And then the third thing is we're announcing today that we have done a deal with CBS and it's related cable channels to be included in our live TV service. If you're going to launch one of these you have to have the best content and having CBS along with our previously announced deals with Walt Disney Company, with ABC, and ESPN, 21CF with the Fox network and all of their slate of channels from news to sports to National Geographic and then our Turner deal. We think we're now starting to form a great lineup of channels and I imagine that we'll be announcing a few other deals before we launch.

Jason Bazinet - *Citigroup - Analyst*

Okay. Is there any piece of content that you know will be on there that you'd be willing to share?

Mike Hopkins - *Hulu - CEO*

We're engaged in a bunch of conversations right now so it would be premature for me to comment on that. But I think the most important thing here is all of the things that I just mentioned I think are largely table stakes. I think you have to have all of those things. And we're going to deliver and compete with all of that. That's been the main focus thus far when you look at the competitive set in this area. But the place where I think it's the most important is the consumer experience.

And so when we decided about a year ago to launch a live service, I really challenged the team to go back and take a look at the 8 years of learning that we have at Hulu about consumer behavior, all the behavioral data that we have in machine learning, et cetera. And really go back and come up with a new way to display and give people access to content. We didn't feel like you could just layer on top of our existing interface live TV.

And the team really delivered. And in fact I have some screenshots of what this new experience is going to look like. And we're going to be rolling that out in the coming months. Sam, I don't know if you have that, that you can put up there? I know I can see it here. Oh, I can see it on the side there too.

So, we really designed this around three design principles. The first is that we want it to be very easy to use, intuitive, and seamless for customers to get access to their favorite shows.

The second thing is that we want it to be highly personalized. And for us, I think that's something that people throw around a lot -- we want to make a personalized service. But for us what that means is that we need to be able to anticipate what's the content that you're going to want to watch right now based on where you are, what device you're using, and the time of day it is. We think over the last few years with our current algorithms we've gotten very good at anticipating what people want to watch. And so we're going to fuse that into this service.



And the third design principle is really around the seamless, transparent interaction between live, on-demand, and recorded content. When you really think about your own experience with TV, you really don't care whether you've recorded it or it's available via an on-demand asset, or whether it's live. What this experience is going to do is fuse those things together so it's seamless for customers. They don't care about content rights. They just want to get to their show. And I think we're going to do a very good job of delivering that to consumers this year.

So, we'll be showing a lot of these demos at CES this week and we're really excited about it. I think that's the place where we're really going to shine.

Jason Bazinet - Citigroup - Analyst

So, easy to use, highly personalized, and seamless integration with live, on-demand, and recorded content?

Mike Hopkins - Hulu - CEO

Yeah. Exactly.

Jason Bazinet - Citigroup - Analyst

What about download-to-go? That's something that Netflix I think just recently announced they're going to do. Do you view that as an integral part of your service?

Mike Hopkins - Hulu - CEO

It's definitely on the roadmap. We will have that as part of both of our services but it likely won't be at launch. But it's something that will happen over the coming months.

Jason Bazinet - Citigroup - Analyst

I think there's some digital MVPDs that don't have local channel availabilities, sort of ubiquitously, right? Is that something that you view as critical at launch, to have all of those agreements in place so there's no market where a consumer doesn't get -- I'm sure it wouldn't be the ONOs but maybe the affiliate TV stations?

Mike Hopkins - Hulu - CEO

I think local TV is extremely important. We're going to have a lot of affiliates and ONOs at launch. We won't have all of them. But I do believe that over the coming weeks and months post-launch we'll be adding more and more affiliates to the lineup. Ultimately I think services like ours will have most if not all the broadcast stations.

Jason Bazinet - Citigroup - Analyst

You mentioned the CBS deal you did but what role do you anticipate Comcast playing in your overall portfolio? They're a 30% owner of Hulu. Do you view that as integral with the Disney content and Fox content and Time Warner content and the CBS agreement that you just announced?



Mike Hopkins - Hulu - CEO

Yeah. We have a great relationship with Comcast and NBC as you mentioned, 30% of the company. NBC actually makes three of our original programs for us. They're the studio behind three of them. We're in active discussions with NBC and I'm confident we'll work something out with them.

Jason Bazinet - Citigroup - Analyst

What about devices? When you think about it, there's so many different devices out there, the Roku player or -- what's it called? The Fire Stick? Is that what it's called?

Mike Hopkins - Hulu - CEO

It comes on Fire TV.

Jason Bazinet - Citigroup - Analyst

Fire TV. Will you be supported? When all of those devices that are out in the field today be compatible with your launch of live service?

Mike Hopkins - Hulu - CEO

Today we have the Hulu SVoD service available on virtually every device that matters for content consumption and ultimately we will have our live service on all of those as well. At launch we anticipate having Apple TV, Chromecast, Xbox One, Android, and iOS. And the other devices will soon follow post-launch.

Jason Bazinet - Citigroup - Analyst

Is it all backward compatible? Like if I have a Roku box that's three years old, is it just like a software upload or is it more complicated than that?

Mike Hopkins - Hulu - CEO

For a lot of devices that's true. There are some legacy devices where the device manufacturer isn't supporting that device any longer and so those aren't updatable, if you will. But as you open the Hulu app across an array of devices you'll be offered both the SVoD service and the over-the-top live service and it will all be seamlessly integrated into one experience.

Jason Bazinet - Citigroup - Analyst

Okay. Because we've never met, you wouldn't know this, but I spend the vast majority of my waking hours defending Hulu, promoting Hulu, and the main pushback that I get from investors is this. They say, okay, I get it. Fox and Disney and Comcast own a stake in this Hulu entity and those affiliate fees that they're charging are going to rise at some high single digit rate and that's just going to pose a problem for Hulu because they're just not going to be able to pass along all of those price increases at a retail level, i.e. the retail price rises pretty significantly. Therefore, this just isn't going to work.

And their proof point is -- look what happened to Netflix. As soon as Netflix tried to raise the price a smidgen, it was a disaster. What would you say to that? How does this play out assuming that the owners of Hulu raise affiliate fees at the same rate that they do the traditional pay TV distributors? How do you think about navigating the retail price points?



Mike Hopkins - Hulu - CEO

I think when you look at Hulu and where we are today, our core business at the moment is the subscription on-demand business which is dual revenue stream. So, with that business I think we're less reliant on price increases because we have this other revenue stream. As you look out ahead, I think there's clearly content costs are going to increase, not just for us but for everyone and I feel pretty confident that we're going to manage that as we find new ways to find value for customers. And so, I'm not really concerned about that. I think we're on a pretty level playing field with the rest of the marketplace.

Jason Bazinet - Citigroup - Analyst

Can I show you my answer that I give them? And you can tell me if --

Mike Hopkins - Hulu - CEO

I'd love to hear it. And by the way, thank you for defending us.

Jason Bazinet - Citigroup - Analyst

Sure. Absolutely. What I say is if you look at Netflix's customer base, whatever it is, the 45-ish million in the U.S., maybe 10 million to 15 million are true cord cutters and the derivative implication is Netflix doesn't really have a lot of pricing power because it's a compliment to their paid TV subscription. When you launch your live TV service it's a radically different proposition because if the traditional pay TV operators are raising their prices a couple bucks, let's say it's \$80 and you raise it 3% a year, so it's up \$2.50, there's no reason that you couldn't raise your price \$2.50 because the alternative for the consumer is what? They have to go back to the traditional pay TV service. So, it feels like you have more power as a substitute for the pay TV experience as opposed to a complement to the pay TV experience. Does that -- ?

Mike Hopkins - Hulu - CEO

I think it's a fair point. But I do think on the subscription on-demand side there's also over time pricing power there as well. I think that certainly Netflix had that situation where they were separating the DVD business from the SVoD business. And that didn't go that well at that time but my understanding is this most recent price increase that they've had has been largely accepted which I think gives us -- it heartens us and gives us some confidence that as we start to look at our retail pricing we'll have an ability to raise price when we think it's appropriate on that side.

But I do think you hit on a great point which is that when we look at subscription on-demand, that is a complement to pay TV. And when we start -- when we enter this live space, for those subscribers, we become, we're your primary experience. Which is why I think the experience is so important. I think as you see this new competitive set coming into the market, you're going to have opportunities and pretty low switching cost. You can sign up for these, in many cases right on the device or through the website.

And so I think people are going to try a lot of these out. You're going to try each of these out and I think our job is to provide an experience that's so great and personalized and seamless that they invite us to stay, right? Because I think you're going to be able to try these out, figure out which one you like, and that's why I think hitting that experience right out of the gate is so critical and I'm really confident that we'll be able to do that.

Jason Bazinet - Citigroup - Analyst

One of the complexities of somebody being in your seat as the CEO of Hulu is that you sort of have several masters. It's difficult enough when a corporation has one boss and navigate all the politics inside the organization and deliver on the goal with whatever financial constraints you have.



But you have three masters, right? Is that an impediment? Has it been an impediment in the past? Would you describe every owners' strategic goals with Hulu as perfectly aligned and this is just easy-peasy?

Mike Hopkins - Hulu - CEO

I think that was certainly a concern of mine when I first joined Hulu. But I can tell you I think the ownership has been very supportive of our strategy all along. They've been very -- they've been great to work with from not just a resources standpoint but from advice and counsel. I actually think we're as nimble as you can be integration his space, even with our more complex ownership structure.

Jason Bazinet - Citigroup - Analyst

What about the international opportunity? Do you view that as real or are you just focused on domestic?

Mike Hopkins - Hulu - CEO

At the moment we have our growing SVoD service in the U.S. We're launching the live service. We think there's a lot of room to run here domestically. There will be opportunities internationally but our focus right now is mainly in the U.S.

Jason Bazinet - Citigroup - Analyst

Is that just because it's a bigger pay TV market? Or is that just because the rate of change in the U.S. is occurring a bit more quickly in the U.S. than it is in other markets? Is it because broadband adoption is lower in some international markets?

Mike Hopkins - Hulu - CEO

I think there's definitely going to be opportunities for us and we're looking at them internationally at the moment. There's really nothing specific to talk about at this time but I think there will be opportunities and I think you do have to look at all of those things. You have to look at broadband rates, what are the speeds, what are the economies looking like? What are the consumer needs in those markets that aren't being met and try to master your product that way and I think given that we're going to be a live TV service, we've got on-demand, we've got an ad business, I think we have a lot of flexibility to look market by market at what makes the most sense and we'll be talking more about that in the years ahead.

Jason Bazinet - Citigroup - Analyst

One of the raging debates among all the folks in this room is whether or not content is globally scalable. Based on the experience you have on the on-demand part of your product, what would you say to that? Is there a simple answer to that? Is content globally scalable or does it have to be tailored into each market to appeal to the needs and wants of each individual culture?

Mike Hopkins - Hulu - CEO

It's a great question. And I think it's one that's probably content specific. I think there are certain TV shows and certain shows that translate globally and there are other categories that are going to be much more locally focused. I don't know that there's a peanut butter approach to that. I think you have to look at the content on an individualized basis and make that determination whether that's going to transcend globally or that's more tailored to a U.S. market or to a foreign market.



Jason Bazinet - Citigroup - Analyst

Is that something that you think you can identify a priori. In other words one of the struggles we have, when a movie comes out and all we have is the title, we don't really know what number to put in our model. We just have to wait until it comes out and see whether the consumer liked it or not. When you're looking at a piece of content in the business, do you look at that and think, oh, that's absolutely a piece of global content or is it one of those where you only know after the fact?

Mike Hopkins - Hulu - CEO

Boy, I tell you, that's the \$100 million question. If you can really spot things that you believe and I think we all try to make those calls. Sometimes we're right and sometimes we're not.

Jason Bazinet - Citigroup - Analyst

Another raging debate about the digital MVPD marketplace is that Sony Vue and DISH Sling, I think each have around a million subs and they've been in the marketplace over a year. Those numbers strike me as kind of small given their retail price points and given that we can infer from the cord cutting numbers from the traditional pay TV service that people do want a lower price point. Do you have a hypothesis in terms of why those numbers have been sort of timid? And what do you think will make your live TV service different or better or more successful?

Mike Hopkins - Hulu - CEO

I think for us, when we look at the marketplace, we think we have I'd say three advantages versus some of our competitors with this entry into live TV. The first thing is we have a very vibrant subscriber base right out of the gate that we can market our service to. I think that's a big advantage.

The second thing is I think we will have a slight -- not a slight, a big content advantage when we're talking about the billions of dollars of investment we've made in our subscription on-demand service that will be part of this live TV experience. I think that's something that's unique in the marketplace and we'll see how that plays out. But that gives us some confidence that we'll be successful.

And I think the third thing is that we've got such a great experience that we don't -- that I think that is going to be the thing that helps propel us forward is the content and the existing subscriber base and this great experience.

Jason Bazinet - Citigroup - Analyst

I suspected you were going to say you're going to be more successful and when I thought about that, I thought what are the reasons you're going to give? And one potential reason I thought you were going to give was advertising because your partners have so much ad inventory that's out there that they can use some of their ad avails to promote Hulu. Do you anticipate that?

Mike Hopkins - Hulu - CEO

We certainly advertise quite a bit on our partner networks and we'll continue to do that, particularly with the new live service. But for us, we don't look at it as we're going to get a lot of free advertising from our owners but we have a lot of resources, we have a very high and growing top line that we're going to pour back into marketing and so we definitely will make a lot of noise with our marketing effort but I definitely think the overall experience, the fact that I think you've got a vast array of content that others won't have, and we have this install base to market that I think will give us a little bit of a shot in the arm as we come out of the gate.



Jason Bazinet - Citigroup - Analyst

If I become a subscriber to your live TV service and I turn on my television is the feed exactly the same as what I would get if I were a traditional pay TV customer in terms of the commercial loads and all of that or is it slightly different?

Mike Hopkins - Hulu - CEO

I think it will largely be the same. As you look at services today there are certain ads that may not be available but I think by and large the live feeds are the live feeds for all the channels we're acquiring.

Jason Bazinet - Citigroup - Analyst

So, who's in charge of the local minutes that are normally allocated to the pay TV distributor?

Mike Hopkins - Hulu - CEO

We'll get the same share of those minutes that the traditional operators receive and I think one of the other advantages we have is we've got this 8 year history of developing ad technology and targeting abilities and in short order we'll be targeting into live TV just as we do on-demand with that time that we're allotted. And we'll also be making that targeting ability and dynamic insertion available to our partners as well. So, I don't anticipate that necessarily being a huge thing at launch. I think over time we have an opportunity to transform advertising. I don't know if it will necessarily change ad loads, per se, in linear TV. That will be a decision that each network has to make. But we're excited about that opportunity and I think that's something that we'll be able to do that is a little bit better than what others can.

Jason Bazinet - Citigroup - Analyst

So, those are your two minutes or whatever it is now.

Mike Hopkins - Hulu - CEO

Yes.

Jason Bazinet - Citigroup - Analyst

All right. Do you have a goal to generate -- this is the other big debate on the buy side. Will Hulu ever generate free cash flow? Because there's one camp that says Hulu's not going to generate substantial cash flow. That's not its mandate. Its mandate is to help its owners generate robust affiliate fees in the world of cord cutting. And the other camp says -- no, no, no. This is why Disney and Fox are very compelling stocks, because nobody's putting in a robust enough enterprise value in the valuation for Hulu. So, is there a goal that you've been given by the owners to say by this date you must generate free cash?

Mike Hopkins - Hulu - CEO

As I said before, commenting publically on our metrics and financial targets isn't something we do but I can tell you that we're headed in the right direction to getting to scale. We're in a relatively high fixed cost business when you look at the SVoD side of the business and getting to scale starts to kick off a lot of cash flow. We're on a growth trajectory to get there on the timeline that we set out for. So, I don't anticipate us perpetually being in a loss mode.



Jason Bazinet - Citigroup - Analyst

What about Pantech? Does Pantech, the 30% stake that Disney has in that, is that integral to what you're doing at Hulu or is it tangential or totally irrelevant?

Mike Hopkins - Hulu - CEO

We're using a variety of vendors in our digital supply chain, if you will, to acquire and distribute the live TV service and Pantech is one of the vendors we're absolutely going to use. We have a great relationship with them and we're definitely going to be using Pantech.

Jason Bazinet - Citigroup - Analyst

Okay. I don't know if there are any questions. There are. If we can just get a microphone -- I don't know if you can handle a few questions from the audience, Mike?

Mike Hopkins - Hulu - CEO

Sure.

Unidentified Audience Member

Thanks. I have a two part question for you and they both relate to how you compete going forward in the future.

Jason Bazinet - Citigroup - Analyst

We can't quite hear you.

Unidentified Audience Member

Sorry. Is this better?

Mike Hopkins - Hulu - CEO

That's better.

Unidentified Audience Member

So, I have a two part question for you, they both relate to how you compete. Number one is I assume that your cost for putting together a package is similar or the same as to what a cable op gets. Can you confirm that?

Mike Hopkins - Hulu - CEO

I'm sorry.

Unidentified Audience Member

Number one is I assume that your cost to put together a package for a subscriber is the same as a traditional cable operator would pay. Can you confirm that? Are your costs similar in terms of the content that you provide?

Mike Hopkins - Hulu - CEO

We're not going to talk publically about the specific rates that we have. But I think we're being treated fairly with respect to our content costs and I'm confident we'll be able to manage them and have a compelling retail price point as a result.

Unidentified Audience Member

Okay. And the second thing is, it's kind of a bigger picture question which is I think the issue that most subscribers have is they're tired of paying \$125 a month to get 400 channels of crap, pardon my French. What they really want is to pay \$50 a month and get the 12 channels that they really care about and be able to put it together a la carte. Do you ever see a day like that arriving?

Mike Hopkins - Hulu - CEO

I think you might be hitting on some of the challenges in certain sets of cohort subscribers are having with retail pricing. I think one of the advantages we're going to bring is that you're not going to have a whole bunch of set top box charges on your bill from Hulu. You're definitely going to have, we hope, your favorite 12 channels with the lineup we're putting together.

We won't have hundreds of channels as part of our offering but we think we've selected the best network groups to do business with and I think we're going to have the best channels for people and hopefully for a lot of people their favorite 12 are in there as part of this smaller priced package we're going to be offering. And so I think that's how we're going to compete and I think that will be effective in the marketplace.

Jason Bazinet - Citigroup - Analyst

Question up front?

Unidentified Audience Member

Thanks for being here today. I'm wondering if you can give us any insights into your subscriber base. Does it skew by geography? Is there a certain part of the country that's more interested in Hulu versus other parts of the country? Does it skew by age group? Are there certain demographics that are big fans of your service? Does it skew by gender? Anything you might be able to share with us?

Mike Hopkins - Hulu - CEO

Sure. Absolutely. We're pretty broadly distributed across the country. I think in the heavy population centers we obviously have more subscribers than where we have fewer people. We're pretty evenly split between men and women. And we're pretty young. The average age of a Hulu viewer is 33. So, we have an awful lot of Millennials. We have an awful lot of young people consuming Hulu which also gives us an ability with our ad business to target them. Those are an elusive viewer to reach. I think that's one of the reasons why our ad business has been flourishing the last couple of years is that we have them and we're able to segment them and target them pretty effectively.



Unidentified Audience Member

As investors we've heard attractive price points for different offerings multiple times only to then learn that they're promo pricing. When you say sub-\$40 is that the long-term true price of it or is it a promo price? And then how many streams does that include?

Jason Bazinet - Citigroup - Analyst

The question was is the under \$40 price point you alluded to a promo price or indicative of a run rate price absent escalators?

Mike Hopkins - Hulu - CEO

Sure. We're going to try to keep our pricing very simple and we may offer certain promotions at certain times but our -- when I'm talking about an under \$40 including our \$8 subscription on-demand price, that's going to be the price. We haven't settled exactly on what that price will be but it will be under \$40 and that will be our every day price when we launch.

Jason Bazinet - Citigroup - Analyst

And there was a second part to your question, I think?

Mike Hopkins - Hulu - CEO

I didn't hear that second question.

Unidentified Audience Member

Number of streams.

Mike Hopkins - Hulu - CEO

Number of streams. So, we haven't fully settled on streams but where we're heading right now is I think it will be two streams in the base product and then an opportunity for a lot more streams for an upgrade for those homes that want to have multiple streams.

Jason Bazinet - Citigroup - Analyst

While we wait for the next question, I'm just going to pivot. On your tables you have these little clicker devices. If you can just throw up the first question, we'll give you all a chance to vote on this. The question is how many digital MVPD subs do you expect in five years across all providers? DIRECTV Now, Hulu, Vue, Sling, many other entrants. So, less than 5 million, 5 million to 10 million, 10 million to 15 million, 15 million to 20 million, the last option is more than 20 million. And I'm going to read these back because the people on the web want to hear the answer to this.

Mike Hopkins - Hulu - CEO

I can't wait to hear the answer.

Jason Bazinet - Citigroup - Analyst

That's it. Exactly. Interesting. People have gotten more bullish in our numbers. The answers, only 6% say less than 5 million. 22%, 5 million to 10 million. 25%, 10 million to 15 million. 21% 15 million to 20 million, and a quarter of you say over 20 million. So, you guys think this is going to be real, all of those are pretty robust numbers. There's another question.

Unidentified Audience Member

So, my question was on the local live broadcasts. If you have cable, they basically have a retrans mechanism set up to pay the affiliate broadcaster in that market. If you're watching local sports, local news, what mechanism does Hulu have or what type of sharing is there to pay for local content?

Mike Hopkins - Hulu - CEO

I'm not sure I quite captured that one.

Jason Bazinet - Citigroup - Analyst

I'm not sure I quite understood.

Unidentified Audience Member

So, for local live, whether that be local news or local, regional sports, is there a mechanism to pay the local broadcaster. So, the LA market station or the Philadelphia market station?

Mike Hopkins - Hulu - CEO

I see. I understand. Yeah. We're going to be compensating local stations through a variety of ways to have access to their stations. They won't allow us to have them otherwise. But, yeah, we're actively working on that right now and anticipate having the vast majority of local stations on board in short order.

Jason Bazinet - Citigroup - Analyst

Are Fox's RSNs part of this?

Mike Hopkins - Hulu - CEO

Yes. They are.

Jason Bazinet - Citigroup - Analyst

And I guess Comcast too?

Mike Hopkins - Hulu - CEO

Assuming we have a deal with them, yes.



Jason Bazinet - Citigroup - Analyst

Let's switch to this end question I have. This goes back to a question I asked you earlier, Mike. Do you expect Hulu to generate profits in five years? And by profits I mean not EBITDA but cash flow.

Mike Hopkins - Hulu - CEO

I'm more interested in this answer than the other question. (laughter)

Jason Bazinet - Citigroup - Analyst

Interesting. They think you're going to do it quickly. For a long time maybe. Any other questions from the audience? It's a little hard for me to see. I hope I'm not missing anyone. I think there's -- do you mind waiting for the mic?

Unidentified Audience Member

Netflix's quality of service is pretty good because they've got distributed content across the internet. A lot of the new live services have been pretty poor, especially with live content. How do you address that?

Mike Hopkins - Hulu - CEO

Sure. One of the things that Hulu's been very good at and since inception, is we've got proprietary algorithms for distributing across multiple CDNs to homes. We've actually got a patent on that technology and so initially we're going to put live TV over that very same infrastructure and then all of our testing so far, our quality of service has been very good, just as good as it is with our VOD assets.

So, we're pretty bullish on our ability to do that. We're deploying some new technology as well, new codecs for distributing live TV and so we're pretty confident we're going to be okay there. We're also having conversations with a variety of folks to try to improve our quality of service in general. So, that's not been something we've had sleepless nights over.

Jason Bazinet - Citigroup - Analyst

Will you have a DVR capability and if so will that be true DVR or like other services that have been over-the-top, actually really VOD?

Mike Hopkins - Hulu - CEO

So, we're going to have a robust VOD lineup for sure. But we will have a cloud-based DVR at launch that will be fully functional.

Jason Bazinet - Citigroup - Analyst

Maybe just try our third question here. I'm going to ask you all to read this one carefully because it's a little bit complicated. So, the growth of digital MVPDs will cause cord cutting -- and this is the key part -- from the content owner's perspective.

So, we're not asking is Comcast going to see their pay TV subs go down because of this. We're asking if you're a content owner and you're getting affiliate fees, and you define cord cutting that way, how do you think these digital MVPDs will effect the market? Most of you on the buy side have



a minus 2% as your baseline assumption for here. So, your options are it gets worse even with the growth of the digital MVPDs, no change, it moderates a bit to 1.5%, it gets cut in half to 1%, or it just stops cord cutting in its entirety.

I would mention anecdotally, while you guys are waiting for everyone to tally their answers, it's increasingly the case on media that I'm starting to hear from all of you is the answer to this question may be dispositive in terms of whether or not we see multiple expansion in media this year.

Wow. All right. That's interesting. So, 32% said it's going to get worse even with the launch of digital MVPDs. 17% said no change. About a third of you expect it to shave about 50 basis points. 17% expect cord cutting to cut in half. And only 6% of you think it will get cut to zero. That's great. Any other questions for Mike before we -- one last question in the back.

Unidentified Audience Member

So, churn has been a real problem for over-the-top services. Netflix manages it by continuing to add fresh, new content. How do you plan to address that for the live service?

Mike Hopkins - Hulu - CEO

Sure. That's a great question. I think, as I said before, I think this is absolutely going to be a place with low switching costs. So, I think churn is definitely going to be a challenge for all of us. I think the way we're going to address it though is by including our subscription on-demand service, you're going to have a wide variety of new content constantly coming in to the service in general from our originals to the acquisitions. I think the other part of managing churn is going to be being really good at the experience itself.

As I said before I think that is really going to be the place where this game is won and lost is over the experience. If you can create a great experience where it's singular or personalized, where people -- where you get out of the way of getting to great content which is really our main objective is we want the content to be front and center for people. And make it easy to use. I think that's going to be the thing that wins. And so that's where I think we're going to excel and those are the ways I think you'll manage churn in this business.

Jason Bazinet - Citigroup - Analyst

Any other questions? All right. Good.

Mike Hopkins - Hulu - CEO

Jason Bazinet - Citigroup - Analyst

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