AT&T's Management Presents at Nomura Global Media Summit Conference (Transcript)

Executives

Jeff Weber - President, Content and Advertising Sales

Analysts

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Jeff Weber

[Starts Abruptly]

… apologize I've got a little cold and I'm doing some coughing. So I will try and protect you on the mic when I cough, but I can make no promises. So want to run through a couple of slides here and give you a base line of where we are. I think you know this one.

So start here, we've talked about Project Velocity IP and what we are doing. But I just want to hit, because it's really foundational to how we move forward and it is really an integrated network approach, wireless and wireline, and covers the consumer business, mobile business and our, obviously, enterprise business services across all of those components.

So a couple of highlights, you can read the numbers on the page. But by the end of '14, 300 million -- covering 300 million people in the U.S. with LTE, by 2015, excuse me, by 2015 you see a much denser set of macro DAS systems and small cells, so it's a pretty significant build.

On the wireline side, 57 million customer locations, so materially expanding the coverage we have with IP, 75% of our wired services area is covered and it brings in a million new business locations with fiber wired up.

In total, in our wireline footprint 99 plus percent of our customer locations are covered with IP whether that's wired or wireless. So really good dense coverage and the foundation of us as a broadband and wireless company, and extending the success we've seen out and continuing that as we move forward. So really the foundation of what we are doing. We've talked about that before but it's really important to highlight.

So part of the why is pretty straightforward. You can see the chart on the right-hand side and where we have U-verse we are winning and you can sort of measure how we win market share, or ARPU, all of the metrics that we use, but it's significant success where we have built out U-verse and Project VIP is all about extending that footprint, so we can continue this kind of success.

So whether its gaining broadband market share, part of what we are doing is not just coverage it's increasing speed and we've grown U-verse too in roughly $11 billion annualized revenue stream from zero, seven years ago roughly, so pretty significant growth opportunity, 30% still year-over-year growth and we are seeing that 8.7 million U-verse subs whether its broadband or TV. And so that's sort of underlying the thesis of why we wanted to continue and expand where we are because we are winning, pretty simple.

U-verse is at the core of obviously the consumer growth story. So I just hit, you can see on the top right, 2% consumer growth. So everybody in this room knows the story on the voice side of the house and what's been happening there.

We have with U-verse with the investments we've made, turn that around, consumers now a growth story for us, 2%

and very solid and U-verse is underneath all of that. And 31 plus percent revenue growth, ARPU even on the broadband side is up 9%, and total U-verse subs up, I mentioned that 8.7 million number, 40 plus percent year-over-year.

Terrific broadband success in the last quarter, record quarterly growth, terrific TV growth, you can see 232,000 we are up to 4.8 million. So broadband, excuse me, U-verse has been a real success story for us. We are continuing to see opportunity and taking share in the marketplace and the U-verse growth is fueling the consumer growth, which is terrific story.

Importantly, we are seeing that growth not at the expense of ARPU, so can see our triple-play ARPU over $170 per sub. So we are not buying that share. We are aggressive in the marketplace as you might imagine, but we are having both volume success, as you see here, as well as ARPU growth and continued revenue success.

So I mentioned U-verse in total is at the heart of the consumer story. U-verse TV has been driving everything we've, a lot of the success we've had and it's been all about differentiating the product offering we had.

As we came in the market it was fairly share shift and so we had to have something better and how we differentiated that. We are the only, still the only all IPTV network in the United States and that's offered all kinds of opportunity and how we can differentiate.

And we continue to win video awards and various flavors most recent is Frost & Sullivan, National Video Company of the Year that is focusing on multi-screen mobile. As you might imagine, we are mobilizing everything, you've heard Randall say that in forums, time and time again, and it's no different than the TV space. And really making sure that customers can watch content on all screens, obviously, but also control their experience from wherever they are across all devices and all screens.

I sort of highlight the Wireless Receiver, it's not something that everybody has seen, but it's a Wi-Fi receiver. You can move that anywhere in the house, you don't need the jacks, so if you want to rearrange the leaving room and move from one wall to the other wall, there is no need to have anybody out and put new jack in, you just move it from either one room to another, you can take the TV out by the pool, if that's what you want to do.

We are first in the market and it's been a real success story for us. I highlight it because it helps with that mobilize everything theme and it's a pretty good example of how we continue to differentiate and innovate in front of what our competitors are doing.

Other thing is interactive experience, again because we are all IP, the level of interaction, the level of applications that we can put around TV, whether they are television apps themselves or they are applications that sit on smarthphone and tablets, and work with the set-top because we are all IP, because we have Wi-Fi in every single installation, every single home, the ability to have that communication and create the application and you see a couple of examples up here, is really different than what our competitors can do and we continue to differentiate there and frankly, that's the space where I think we've got opportunity.

Just a quick comment about bundles, because we have wireless, it's an obvious advantage for us, we continue to drive bundles, 70 plus percent of our customers have at least three services with us, so have three or four services and that every time you add a service, you know the story about reducing churn, increasing loyalty, better experience and the wireless component is just critical and really driving that, again differentiate what satellite cable can do.

And then the last thing just as we talk about differentiation and continuing to drive the advantages we have, there is a static picture on the bottom here of our new on-demand store front, so it's not particularly exciting, I get that. You saw it live, you'd really be blown away.

But it's been a real success. We are rolling this out in the market now. We've seen it in several markets. In the market we've rolled it out thus far, customer feedback is terrific. More importantly, we are seeing kind of 14%, 15% increase in usage, because the store front easier, it's a better UI.

I don't know that that it will continue, so it's unclear how that settles out. But what is clear is its better experience and customers are using it more. It's just one more example of how we can iterate within all IP environment and start to create differentiated capability. So we'll, obviously, that is at the core of how we've create a success and we continue to differentiate across the services going forward.

So, with that, just wanted to lay the foundation and I think jump right into the Q&A.

Question-and-Answer Session

Unidentified Analyst

Jeff you bet, unfortunately you get regular water, for you not buying the water.

Jeff Weber

Yeah. I'll be loaded up on the plane going home.

Unidentified Analyst

Exactly. We'll thanks again for joining us.

Jeff Weber

Sure.

Unidentified Analyst

I think, clearly the big topic of discussion is over the top and we can sort of segment this into a bunch of different questions, but just starting, the starting point would be and I thought last night about, my own family's wacky doing behaviors and overseeing some of the efficiencies there obviously as well, but when you think about how viewing habits of video changing, what are you seeing out there the key trend?

Jeff Weber

So obviously customers want control and whether that's when they are viewing it, how they are viewing it device, location, et cetera. And so over the top, particular implementations that we've seen in the marketplace so far, over the top give customers more control in some cases.

The other side of that is in traditional pay-TV, TV every where, those rights are moving at a much more accelerated pace. We saw those starts to really shake out at the end of last year and we did, we in particular had a lot of deals up and got all of those TV everywhere rights for our customers.

And so you are seeing TV everywhere give customers that ability to control when they are watching at a much broader and deeper library capability, and OTT obviously continues to drive that. I think it's really about that control as oppose to customers caring whether it's OTT or not, because they are clear…

Unidentified Analyst

Can you talk a little bit about devices we talk, again last night about sort of the big screen TV being less important and saying this proliferation of smaller devices in the home and multiple devices among the youth in particular about. Can you sort of measure that and discuss how that view is changing?

Jeff Weber

Yeah. So it's very interesting, you see the usage on non-TV devices, in particular tablets, smarphones as well, and it is inside the home, where a ton of that usage is taking place. So you sort of at least, I would have thought before started really seeing how customer use the devices, that if you are inside the home, you are going to watch on a TV, the biggest TV you can go find, and certainly, there still some of that, a lot that. But increasingly tablet usage is inside the home, predominantly as oppose to out of the home.

Now the caveat there and you need to be careful with that data is, the rights are granted at a much more prevalent inside the home than outside the home, so its not a perfect science experiment and its crystal clear, people want to use it inside the home and not outside the home, I don't think that's going to be the case, rights are granted more heavily inside the home.

And but what is clear is customers like that ability just to watch either in the bedroom that doesn't have a TV or just even in the same room with somebody else that has the TV on and so inside the home it's been pretty significant, I think that will continue for awhile.

Unidentified Analyst

So could you talk a little bit about, along those lines cord-cutting debate. We talk about Netflix and Hulu and these other providers of content. Are you seeing full replacement and then in your home, like you start to see those utilizing IP streams in the home outside of your U-verse app. How much capability you have in the plant to handle the multiple streams coming in?

Jeff Weber

Yeah. So first piece, so far we have not seen cord cutting in any material way, in fact not even in an immaterial way at least for power perspective. Now, we're growing. We've grown faster than anybody over each of the last five years. And so when you're in a growth mode, you could -- we could have some of that around the edges and not -- it not be as clear as -- if you're a cable company, it's kind of stagnant. You notice those things little more directly.

So I mean I think that's at least a possibility but on the whole we're not seeing cord cutting. It really is a complementary, the OTT services that are out there so far are complementary in that cord cutting. So the second part of that, are we seeing additional streams, additional broadband usage? Absolutely.

So if you look at peak times in the evening, the OTT services drive enormous amount of bandwidth on top of our network. Our particular implementation with Wi-Fi again because we have Wi-Fi in every single home and it is really robust. I don't think we felt pressured yet but there's an enormous load on the network. And I think others are probably seeing it. And at some point, I think everybody will feel that.

Unidentified Analyst

So you think about not so much cord cutting, completely but are you seeing capitalization of premiums barred, stuff like that sort of impact your revenue stream?

Jeff Weber

So it's been interesting. We haven't yet and that's the place where I'm really vigilant in terms of looking because, I guess, I would have predicted we would have seen some complementary shaving around the edges. But the way we offer products, the way we package, I mean, I think our pricing, we have -- we have not seen it yet. So we are very well penetrated in the premium services.

We do a terrific job and partner with the premium services. And those would be where you would kind of look first for that. We have not seen that. And when we offer -- we just rolled out an enhancements for U-verse TV customers, a movie package that they could buy for $5 and it just gives them -- gives our U-verse TV customers 1500 movies that they can watch on any screen.

And what we saw there, it was actually very interesting. It was more heavily penetrated, that package is more heavily penetrated in our bigger, our U450 package, so our biggest TV package. And so what we saw in that particular example really clearly was customers that buy a lot of TV, the biggest package, bought that additional movie package at a higher rate. And so they weren't substituting. We saw no impact to the premiums or anything else. It was, they're big TV users and it's kind of $5, they wanted more.

Unidentified Analyst

So I think we'll think about the computing plans in the marketplace, we've gone over the decades, FiOS is better, U-verse is more efficient, cable has got shared architecture, we're talking offline to think about what IPTV can give to you. And I think those site shows a very interesting data around that, data collection which I assume is enormous. What that provides you in content negotiations, in consumer behavior, we also talked about first set top box versus second, maybe what the some of the IP capabilities that you guys have that others might not?

Jeff Weber

Yeah. So about a year ago, when I took this job, we really started to focus on the data we have and what I was telling. So again because of all IP and its every set top, every home and every set top in every home, we collect the data anonymously, aggregate and enormous, let me repeat that a couple of times. But we have that information and have very good insight on how our customers are behaving, what they are watching et cetera.

So we've used the data so far in a couple of different ways. So as you might imagine in our conversations with the content providers, it gives us much greater insight in terms of the value of a particular channel or piece of content. And we've been able to get real clarity on whether we should pay that rate, whether we should ask for lower rate, whether it's something that we have to carry. I mean, it works, it works in both ways.

And it's been very beneficial for us in terms of the decisions we've made. Everybody is facing margin pressure as content costs go up but the question is how will customers react to higher prices as content costs go up. Everybody is having to make tough decisions and we've been able to use that data. And I think make very smart decisions for our customers around.

We're not going to pay prices. We're not carrying certain regional sports networks in one of our biggest markets. We're not carrying it and we knew we didn't need to because the data was crystal clear about how intense those viewers were.

So I'll give you a perfect example. We looked at not just viewership, everybody can't have access to that. We looked at how many of our customers watched zero of those games, one, two, all the way through 150 games for baseball and 80 games for the basketball team that we're talking about. And you could see if a customer watched 30 games, just pick a number, that's a pretty intense viewer and they are really passionate in the likelihood that they are going to churn, goes up.

And we could compare that against the bunch of other teams and it was very clear the viewership intensity in that particular market was low and therefore we didn't need to pay the rates that were being asked and we're not. And so there is 57 flavors of that same type of analysis but having that perfect insight into what customers are really doing and how they're watching has been really valuable for us.

Unidentified Analyst

That's one of the things that our media team has spend a lot of time thinking about is sports. And when you'll be paying more if that particular team is in your market and they start to charge different rate cards for different providers?

Jeff Weber

So you already see today you pay higher for certain zones, meaning the core pays the higher rate than periphery. And that gets cogged up and measured in different ways. It's not perfectly clean. So that already happens and then kind of every where else. And you see those things.

I think over time what's going to happen is every -- I mentioned everybody is facing the same basic pressure, maybe at a little different rates and people are going to make tough decisions around content. So we don't carry that RSN. We don't carry what are the new college networks. We don't carry an agile network. We don't carry some linear channels that in a perfect world we would carry.

There are certainly customers that would like to have it but people are making tough decisions and that's not -- we're not immune to that. And it's really just can you make smart decisions or not. And particularly the sports pricing is what is driving a lot of that pressure, as you know. And I think there is going to be a lot of push there at those. The Dodgers will be an interesting example at LA this next year around how that gets sorted out.

Unidentified Analyst

And just thinking about AT&T TV in the first distributor of the SEC channel, I'm guessing that plays into all of the things we're talking about, the IP capability, learning what people are watching and clearly it's in your region as well?

Jeff Weber

Yeah. So we are -- we looked at that and I mentioned the data will either tell you that you don't need to carry it or you really ought to carry it. And that was the case where the SEC is a new network obviously. So nobody -- we couldn't go back and look at the usage. What we were able to do is essentially build the SEC network as if it were there a year ago.

So we know what the right that the ESPN has, where they choose games. So we just went back to last year and built the SEC network as if they were live. And then we looked at the viewership for those customers and all of the schools are in our market. So we kind of knew that without any data and then we looked at the viewership intensity in various ways around those particular schools, those particular markets compared it to some of the other college networks.

And the viewership intensity was dramatically higher and suggested that the something we would want to carry and wanted to move quickly to make sure we got the right price when we did that. And it was -- again it was just the data that sort of guided us on what we needed to do.

Unidentified Analyst

Can you think about over the top sort of outside the sports, thinking about the way, you're negotiating with content providers, we're going to hear from a lot of them today. How does the negotiation change when we hear things like an HBO impairment that goes direction of going straight with the broadband bundle. But if they struggle with more and more content over the top, how does that change your discussion as AT&T U-verse?

Jeff Weber

So the conversations, we've had with various players is if they are going to go over the top then that's a -- that's a very different conversation and a very different value for our customers. And I think the negotiations reflect that. And so that's a choice the content providers can make, totally okay with that but exclusive versus non-exclusive has materially different value for our customers. And I think we would want that reflected.

Unidentified Analyst

When we think about sort of continuing over the top thoughts on your own advertising business, things changed pretty dramatically in the way you tried to deliver that service. And obviously, it's a revenue stream that I presume as really high margin to attached stewards. So how do you alter your business to deal with the change in viewing behaviors?

Jeff Weber

So what we've tried to do with our ad work is the advertising business that I run. And obviously in the TV space, we're part of interconnect, sort of, in that traditional mode. We use that setup box data in the advertising business and have some products that are pretty interesting.

But in the addition of the TV space, we also obviously participate in advertising on the mobile side and online and made a few announcements last week that really start to be able to really, really got privacy aware way, start to leverage our data and give customers choices around how that data gets used but leverages that data into our products.

So advertisers can really get at audience segments in a way that I think is better than a lot of our competitors can do. And as you start to think about across mobile or across online and TV, OTT, we're short of indifferent at that point because we can offer advertising regardless of where our customers are.

So, give you a really simple example, we use that setup box data. And if an advertiser wanting to by the Ellen Show, we know based on our data who that audience is. We can do a couple of things. We can go find that same audience outside of the Ellen show and maybe extend reach or drive price a little bit better. We can also go find that same audience online or on your mobile phone.

And so as an advertiser, you're not -- typically people buy our show. We're able to turn that show into an audience, go find an audience online, on mobile and TV. And it really starts to, sort of, bring together whether it's OTT or not is almost irrelevant. We can go deliver that audience across all platforms.

Unidentified Analyst

So we talked a little bit about content costs being….

Jeff Weber

To high

Unidentified Analyst

…relatively smaller player in the market place and to high of course. Does this…

Jeff Weber

Make sure you tell the guys later.

Unidentified Analyst

They might be aware that I'm not. But thinking about what we're deciding whether the three screens, the number of wireless subscriber you have, is that some point of that plan of negotiation process, where you guys might be a much bigger provider than you look like on paper today?

Jeff Weber

Yeah. I think -- so I don't think it's really showed up yet, that's probably the first thing. As the OTT market evolves, my particular belief is there is a market for rights. And if you want to buy this library with on-demand rights, no linear, how where you're sort of piece it together, there is a sort a price for that. And I think what's happened over the last couple of years as there was this view that there was TV pricing over here and OTT pricing from the content provider perspective and they were markedly different.

And I think what's happened with TV everywhere and as people have gotten in a little more sober and how can look at these market, there is a price for rights. And so what the implication specific to the question is as if there are rights that make sense and we start buying those rights at scale whether it's for our wireless business or for our broadband business, in addition to TV business than I think that's scale will come into the play. That for us and I think for most people at this point, it really haven't but that's how I think that scales start to show up and help us.

Unidentified Analyst

And then thinking about maybe circling back to your thoughts about Project VIP and the amount of money that AT&T is investing to make the experience better for end users and then also learning on the top of that change in viewing behaviors in this proliferation devices and the wireless are dumping, devices in the home they are turning to Wi-Fi streaming video devices. There must be some point which you need to get paid, not only for your content piece but also the broadband piece. So what are your thoughts on whether it's just, can we continue tier pricing or moving to a use of base pricing scenario and if there are any regulatory concerns there?

Jeff Weber

Yeah. So I don't think I mentioned it, but project VIP is really a focus for us around as a broadband provider. So TV is a really important piece on top of that broadband and that's kind of my background. And so I continue to believe that. Customers continue to tell us and the way they buy. But at the core, it's about improving the fundamental broadband business, extending our footprints to be able to cover and sort of more of our customers. Because our core belief is that broadband business is a very good business for a long time.

Part of that assumption is there as traffic continues to grow, you need to be able to monetize that traffic in some way shape or form. And we've all heard various flavors of how incremental usage drives incremental revenue, I guess what I would say is I'm not in a position certainly to say it's going to be this flavor or that flavor but I think very clearly incremental broadband usage is going to drive incremental revenue.

And we've seen examples of that around the globe or that's in place and I think a pretty efficient pricing mechanism. So I suspect that will come to pass in the U.S. We've seen it in some markets at some level already and I think that will continue.

Regulatory implications, I think those discussions will happen. At the end of the day, it's a pretty efficient market and a really efficient way for customers to pay. I mean, in every, in almost every other way the more you use, the more you pay. And I don't think that's a radical notion and I suspect that's a kind of thing we'll see.

Unidentified Analyst

Yeah. thinking about almost, along those lines, the more you use, the more you pay, maybe move that into a discussion regarding a la carte, we're obviously watching cable (inaudible) pretty closely but is there a model that which we move away from these bundle of packages. I know you guys are talking about sort of cutting out certain channels that are not being watched, clearly in the raft of 500 in any tier, many are being watch. So is there a model that moves a la carte at some point, what are the stumbling blocks to getting there?

Jeff Weber

I think it's -- we would love to move to a la carte. And we are very open to that model. We've suggested that a number of -- in particular the regional sports network conversations we had that something we're very open to. I think it's very tough for the industry to go there. The economics on the content side of bundling those networks together.

And importantly what you have to remember it's not just the subscription fees that get bundled up, but it's also on average, half the revenue comes from advertising and so if you unbundled those networks not only you lose the subscription fees potentially but you also lose all that advertising inventory that the content provider gets.

And so I think it's a really tough -- a tough not to crack, I think and you've seen the content providers, they are not open to subscription and in any way share performance and I think it will be a while before we get there.

Unidentified Analyst

Can you talk about, we've been discussing devices in the home and broadband capabilities and that being I think at some point moving to the core product and video shipping app over that, so in the scenario U-verse has got a great interface, obviously shows today. Can that move out of the AT&T footprint and move beyond just your U-verse build and sit on top of buyers or come down via computing video products?

Jeff Weber

Yeah. There are a lot of issues associated with that, what the broadband pricing looks like, getting those rights. I think that's an option. I don't know that it's on top of our list. I mean, we really go back to broadband, is the core of that experience and we're the broadband provider, us be in the TV space makes a lot of sense and helps -- broadband helps TV, TV helps broadband and wireless by the way.

Where we're not the underlying broadband provider and we would just be in the TV space, I think it's a very different option and probably, not where our focus is today, never seen ever and as things continue to change and so we'll continue to push on that but at least now I think it's really focus on broadband.

Unidentified Analyst

Yeah. And that's just economically it's going to be more interesting for consumers to buy the bundle, video and how should get product from whoever in their footprint today, but

Jeff Weber

That is our experience.

Unidentified Analyst

I don't expect that change anytime soon.

Jeff Weber

I think that's right. I think that's right.

Unidentified Analyst

We want to give the audience chance as well. I think there is a microphone holding around the back, so anybody has a question they can just raise their hand and if the roaming mic. Michael?

Unidentified Analyst

Thanks. Jeff, you mentioned at the end of the year there was increase in your ability to buy, that you have real rights? You talk a bit about what network what kind of rights in and what was a large kind of starting to thinking about it?

Jeff Weber

So, probably we won't talk about these specific networks, but I think there are two things in our particular case. One, we just had a bunch of deals up, so it was sort of part of the conversation and obviously given our mobile focus it was high on our list. But the other thing that's equally important is I think the industry started to coalesce and use that term fairly softly, because it's a long ways from here's the checklist and go do this and we are all good.

But the industry started to coalesce on the things that pay-TV provider needed to do to get those rights. They typically are around helping the content provider, be able to monetize the viewing of on all of those devices around advertising. So are you measuring it properly so they can build it into their ratings, are you able to dynamically insert advertising or have the path to get there. Those kinds of things that turn the viewership into advertising revenue for them, or the checklist that the industries looking for.

So we're still in this place where programmer acts and programmer why have a different view on how those are implemented, so it's not perfectly clean and we'll continue to see staggered timing and this network behind that network and all of those things that unfortunately make the consumer experience not real neat and tidy and understandable, but we did seem to turn that philosophical corner towards the end of last year that it's starts to make sense, that those are the requirements to be able to deliver TV everywhere.

Unidentified Analyst

(Inaudible) some of the content provider who cover, one you can call they are trying to get that site on their own, just haven't get to them, other providers, I mean, too concern, do I have a central place to go, but what's your philosophy on that (inaudible)?

Jeff Weber

Yeah. I think, I mean, everybody started those conversations with what was in there, a home best interest, big surprise. I think, where we got too pretty quick and I think what makes the most sense for the industry is about. So it makes, I think, absolute sense for consumers to be able to come to U-verse app on your tablet and be able to look across all of the TV everywhere authenticated content, just like you sit down and have access to all the aggregated content on TV.

It's an experience that makes sense that customers are comfortable with. The flip side of that is, if the customer wants to go to watch ESPN app an authenticate as U-verse TV subscriber in the ESPN app that's okay too.

I think only one of those is probably not the right answer and really difficult for either company to make work and so, I think what you are see an increasingly as customers who are going have that flexibility, we're perfectly comfortable with that because we think customers are going to come to us to be able to look at everything that's available to them and then choose what they want to watch, but If you go to watch ESPN in that particular case that's fine too, because you are still a U-verse TV sub. Yeah.

Unidentified Analyst

Few questions, if I may, on the programming cost. The first one is…

Jeff Weber

Too high that's my answer to everyone this questions.

Unidentified Analyst

Is it too hard because you don't have the scale, I mean if I take a look at other competitors in your space and they are twice or maybe three times your size, are they getting a better pricing and if so, how much is that gap, is it $2, $5, $10, and where can you, at what point can you benefit from your scale, is it that 15 million subs, 20 million. So that's the first question.

Jeff Weber

I get that question a lot internally as you might imagine. So there are number of factors in play here, at each new kind of type of entrant when DBS entered, they came in at a higher price. When we entered, we came in at a higher price even than DBS. Part of that is scale and part of that is content, providers trying to reset the market and then bring everybody else up.

So we do pay a higher rate. I obviously don't have perfect insight into what their cost structure is, but you can look at their publicly available information. I think there're two pieces to this and this is really important.

One is, are we paying $0.05 per sub and cable company access paying $0.04, just making numbers up. The other piece and I think at least as important is what package, am I paying $0.05 for all of my subs and they're paying $0.04 for half of their subs. That drives at least as much as the differential and cost as the actual per sub rate, and so both of those two things are in play.

What we've done and I think that our focus has been because of the packaging requirements which are heavier on us and therefore cause us to have to spend more on content. We've also been very successful in driving our customers up to bigger packages and making sure that's where the best value is. So when we talk about that $170 plus per sub ARPU, yeah, we're paying more in content cost. We're also getting more on the revenue side to try and really mitigate the difference in the gross margin number, and so we're paying higher content cost.

There is no magic number. Not like, it's, if I can just get 7 million, my job working half time from therefore it is much about catching the next person ahead of you and hopefully getting some benefits from [RSN's] that exist all over this industry, and so we've been pretty successful in tracking those down and part of the advantage of being the fastest growing TV provider is we catch those that had been ahead of us and start to see the advantages, but we're going to be fighting that for a long time.

Unidentified Analyst

And the second question is…

Jeff Weber

Too high. I'm sorry.

Unidentified Analyst

What is the reasonable in your mind the reasonable price increase on a year-over-year basis, is it 5%, is it 6%, is it 10%, because all what you mean, all the distributors they come and they compare what the cost increasing from year over year and yet you subscribe for because your subscribers are paying for it. But at some point, the subscriber is paying $170 in ARPU may not have the ability to pay you $170 one-o-one fee whatever the number is. So at what point are we at that limit?

Jeff Weber

I would suggest that we're as an industry we're sort of at that now and what I point to is your statement I think in the past was exactly correct, so content cost went up X percent and pricing went up X percent to cover that, and so the margins held.

I think what you're seeing in the industry, isn't just U-verse discussion at all, is margin compression starting to take hold, they are driven by retrans and driven by support pricing, and so that's what is I think people are able to pass those price increases along at the same rate they've been in the past and that's what's causing some of these harder decisions around, we're not going to carry something that 18 months ago, I've said this, a lot 18 months ago the thought of going without an [RSN] in one of our biggest markets and not carrying a pro baseball team and the pro basketball team was just not something, I would have contemplated, is just that you just don't compete that way because that's not how the world works, okay?

You start getting under this kind of pressure and you really need to use the data that we have that allows us to have a better insight then our customers. You start making those hard decisions and it turns out with the data, they're not as hard as I thought they were going to be and we're going to see more and more of that going forward, because you can't have an environment where costs and revenues are at whack and so we're going to have to figure out how to do that. Maybe broadband usage is a part of that but really hard decisions, hard smart decisions on the content side are clearly going to be a part of that.

Unidentified Analyst

Jeff, when you think about the pay-TV industry as a whole we've been watching has information is recovered pretty nicely, but pay-TV subs continue to get less under spent and at some point probably got negative, does that change the dynamic or the negotiating power that distributors have for the content industry?

Jeff Weber

Well, certainly, when the industry is flattening out based on household formations in pay-TV penetration, as you know, has been really high for a long time. So that's not a new phenomena and it absolutely helps us that we're still growing. And I would not want to be in the conversations when our sub cap is declining and that's what others have.

But it is a share shift game and it has been a share shift game for some time which makes for tough environment. And hence all the focus on differentiation that we have had and making sure that we stay ahead. But, yeah, in a world where there is not growth then the discussions get tougher for sure.

Unidentified Analyst

Thank you. Can you speak to your preference on structure of the content deals, whether it'd be shorter term versus longer term deals and then also we've seen there're typically two types of deals, one where there is initial step up and then you get more moderate kind of CPI plus escalators going forward. And then more recently, we've seen some of the bigger players at least from the public view is like a Disney move to more straight-line deals where mid to high single digits whatever the escalator is on price but over the term of the deal. So can you give us a little sense of what you're seeing has the marketplace changed at all and your kind of preference?

Jeff Weber

I don't think from what I have seen that the marketplace has changed so much on that. I think typically you see deals that are heavy retrans. The content providers like those to be a little bit shorter because the market is moving so quickly and hard. I think step ups are always hard so to the extent that we can avoid those, but you sort of take cost upfront which can be difficult.

But I haven't seen movement in how those things are starting to get structured in particular. Individual companies tend to have a different view of their particular view of what the right answer is. I am not religious on any of that. I'm sort of religious about the total cost and what we're really spending. So I am pretty flexible on structure.

We've done all of those. We've done flat rate. We've done a lot of different things. Again it's probably a nice function of having growth where we can maybe be a little bit more flexible on some of that.

Unidentified Analyst

Thanks. Just curious if you've been looking at the set-top box data long enough to see trend-wise differences in what shows up versus what you see from Nielsen centers brought to you on the program, is it more viewing overall, does it seem like the way you present the lineup gets more viewership to different channels and what might show up on a more international view from Nielsen?

Jeff Weber

Yeah. So have I answered that one? The actuals are in a number of cases very different from what we see in the Nielsen data turns out samples aren't as good as 100%, right? But it's not like I don't think I can sit here and say this profile is always underrepresented and this profile is always overrepresented.

I haven't really looked at it that way. That's a good question. It's really been more on a case-by-case basis where we're trying to understand whether it's because of the content negotiation or a question we're trying to answer where we sort of see it's materially different. There are material differences in a lot of the ones we look at. I don't know that I can frame it into a profile though.

Unidentified Analyst

Jeff, just we'll wrap it up with your thoughts on AT&T's interest in owning content obviously, affix with passive cards as bit of a hit. And is there anything that you guys look at whether it's traditional content, exclusive mobile content, something that you want to own?

Jeff Weber

Yeah, I don't, right? So AT&T has an ownership interest in MRC which is the company that did house the cards and did tad. So we certainly participate at that level, but that is very different than we're in the business of producing content. I don't think that's where we want to be. I think our interest in content is more around how do we use data to find partners to create tads and to create value.

The other side of the data discussion that we've talked about a couple of times here today is we know more about what customers are watching and therefore we can partner with content providers either existing to help them improve the ratings and the hit ratio that they get or with new and emerging type of content providers and use our platforms to help them create hit.

So I think our focus is more around how do we use our platforms, how do we use our data to increase hits and to drive value and maybe participate in that way as opposed to we're going to get into the production business and start to create exclusive content. Certainly doesn't make sense I think for the most part when you're sitting at 4.8 million TV subs. If something changed in the OTT space and there was a much bigger number then maybe that's a conversation down the road, but that's not where our focus is today.

Unidentified Analyst

Great. Well, thanks very much for your time today.

Jeff Weber

Thank you. I appreciate it.

Executives

Jeff Weber - President, Content and Advertising Sales

Analysts

AT&T, Inc. (T) Nomura Global Media Summit Conference Transcript May 29, 2013 8:45 AM ET

Jeff Weber - President, Content and Advertising Sales

[Starts Abruptly]

… apologize I've got a little cold and I'm doing some coughing. So I will try and protect you on the mic when I cough, but I can make no promises. So want to run through a couple of slides here and give you a base line of where we are. I think you know this one.

So start here, we've talked about Project Velocity IP and what we are doing. But I just want to hit, because it's really foundational to how we move forward and it is really an integrated network approach, wireless and wireline, and covers the consumer business, mobile business and our, obviously, enterprise business services across all of those components.

So a couple of highlights, you can read the numbers on the page. But by the end of '14, 300 million -- covering 300 million people in the U.S. with LTE, by 2015, excuse me, by 2015 you see a much denser set of macro DAS systems and small cells, so it's a pretty significant build.

On the wireline side, 57 million customer locations, so materially expanding the coverage we have with IP, 75% of our wired services area is covered and it brings in a million new business locations with fiber wired up.

In total, in our wireline footprint 99 plus percent of our customer locations are covered with IP whether that's wired or wireless. So really good dense coverage and the foundation of us as a broadband and wireless company, and extending the success we've seen out and continuing that as we move forward. So really the foundation of what we are doing. We've talked about that before but it's really important to highlight.

So part of the why is pretty straightforward. You can see the chart on the right-hand side and where we have U-verse we are winning and you can sort of measure how we win market share, or ARPU, all of the metrics that we use, but it's significant success where we have built out U-verse and Project VIP is all about extending that footprint, so we can continue this kind of success.

So whether its gaining broadband market share, part of what we are doing is not just coverage it's increasing speed and we've grown U-verse too in roughly $11 billion annualized revenue stream from zero, seven years ago roughly, so pretty significant growth opportunity, 30% still year-over-year growth and we are seeing that 8.7 million U-verse subs whether its broadband or TV. And so that's sort of underlying the thesis of why we wanted to continue and expand where we are because we are winning, pretty simple.

U-verse is at the core of obviously the consumer growth story. So I just hit, you can see on the top right, 2% consumer growth. So everybody in this room knows the story on the voice side of the house and what's been happening there.

We have with U-verse with the investments we've made, turn that around, consumers now a growth story for us, 2% and very solid and U-verse is underneath all of that. And 31 plus percent revenue growth, ARPU even on the broadband side is up 9%, and total U-verse subs up, I mentioned that 8.7 million number, 40 plus percent year-over-year.

Terrific broadband success in the last quarter, record quarterly growth, terrific TV growth, you can see 232,000 we are up to 4.8 million. So broadband, excuse me, U-verse has been a real success story for us. We are continuing to see opportunity and taking share in the marketplace and the U-verse growth is fueling the consumer growth, which is terrific story.

Importantly, we are seeing that growth not at the expense of ARPU, so can see our triple-play ARPU over $170 per sub. So we are not buying that share. We are aggressive in the marketplace as you might imagine, but we are having both volume success, as you see here, as well as ARPU growth and continued revenue success.

So I mentioned U-verse in total is at the heart of the consumer story. U-verse TV has been driving everything we've, a lot of the success we've had and it's been all about differentiating the product offering we had.

As we came in the market it was fairly share shift and so we had to have something better and how we differentiated that. We are the only, still the only all IPTV network in the United States and that's offered all kinds of opportunity and how we can differentiate.

And we continue to win video awards and various flavors most recent is Frost & Sullivan, National Video Company of the Year that is focusing on multi-screen mobile. As you might imagine, we are mobilizing everything, you've heard Randall say that in forums, time and time again, and it's no different than the TV space. And really making sure that customers can watch content on all screens, obviously, but also control their experience from wherever they are across all devices and all screens.

I sort of highlight the Wireless Receiver, it's not something that everybody has seen, but it's a Wi-Fi receiver. You can move that anywhere in the house, you don't need the jacks, so if you want to rearrange the leaving room and move from one wall to the other wall, there is no need to have anybody out and put new jack in, you just move it from either one room to another, you can take the TV out by the pool, if that's what you want to do.

We are first in the market and it's been a real success story for us. I highlight it because it helps with that mobilize everything theme and it's a pretty good example of how we continue to differentiate and innovate in front of what our competitors are doing.

Other thing is interactive experience, again because we are all IP, the level of interaction, the level of applications that we can put around TV, whether they are television apps themselves or they are applications that sit on smarthphone and tablets, and work with the set-top because we are all IP, because we have Wi-Fi in every single installation, every single home, the ability to have that communication and create the application and you see a couple of examples up here, is really different than what our competitors can do and we continue to differentiate there and frankly, that's the space where I think we've got opportunity.

Just a quick comment about bundles, because we have wireless, it's an obvious advantage for us, we continue to drive bundles, 70 plus percent of our customers have at least three services with us, so have three or four services and that every time you add a service, you know the story about reducing churn, increasing loyalty, better experience and the wireless component is just critical and really driving that, again differentiate what satellite cable can do.

And then the last thing just as we talk about differentiation and continuing to drive the advantages we have, there is a static picture on the bottom here of our new on-demand store front, so it's not particularly exciting, I get that. You saw it live, you'd really be blown away.

But it's been a real success. We are rolling this out in the market now. We've seen it in several markets. In the market we've rolled it out thus far, customer feedback is terrific. More importantly, we are seeing kind of 14%, 15% increase in usage, because the store front easier, it's a better UI.

I don't know that that it will continue, so it's unclear how that settles out. But what is clear is its better experience and customers are using it more. It's just one more example of how we can iterate within all IP environment and start to create differentiated capability. So we'll, obviously, that is at the core of how we've create a success and we continue to differentiate across the services going forward.

So, with that, just wanted to lay the foundation and I think jump right into the Q&A.

Question-and-Answer Session

Unidentified Analyst

Jeff you bet, unfortunately you get regular water, for you not buying the water.

Jeff Weber - President, Content and Advertising Sales

Yeah. I'll be loaded up on the plane going home.

Unidentified Analyst

Exactly. We'll thanks again for joining us.

Jeff Weber - President, Content and Advertising Sales

Sure.

Unidentified Analyst

I think, clearly the big topic of discussion is over the top and we can sort of segment this into a bunch of different questions, but just starting, the starting point would be and I thought last night about, my own family's wacky doing behaviors and overseeing some of the efficiencies there obviously as well, but when you think about how viewing habits of video changing, what are you seeing out there the key trend?

Jeff Weber - President, Content and Advertising Sales

So obviously customers want control and whether that's when they are viewing it, how they are viewing it device, location, et cetera. And so over the top, particular implementations that we've seen in the marketplace so far, over the top give customers more control in some cases.

The other side of that is in traditional pay-TV, TV every where, those rights are moving at a much more accelerated pace. We saw those starts to really shake out at the end of last year and we did, we in particular had a lot of deals up and got all of those TV everywhere rights for our customers.

And so you are seeing TV everywhere give customers that ability to control when they are watching at a much broader and deeper library capability, and OTT obviously continues to drive that. I think it's really about that control as oppose to customers caring whether it's OTT or not, because they are clear…

Unidentified Analyst

Can you talk a little bit about devices we talk, again last night about sort of the big screen TV being less important and saying this proliferation of smaller devices in the home and multiple devices among the youth in particular about. Can you sort of measure that and discuss how that view is changing?

Jeff Weber - President, Content and Advertising Sales

Yeah. So it's very interesting, you see the usage on non-TV devices, in particular tablets, smarphones as well, and it is inside the home, where a ton of that usage is taking place. So you sort of at least, I would have thought before started really seeing how customer use the devices, that if you are inside the home, you are going to watch on a TV, the biggest TV you can go find, and certainly, there still some of that, a lot that. But increasingly tablet usage is inside the home, predominantly as oppose to out of the home.

Now the caveat there and you need to be careful with that data is, the rights are granted at a much more prevalent inside the home than outside the home, so its not a perfect science experiment and its crystal clear, people want to use it inside the home and not outside the home, I don't think that's going to be the case, rights are granted more heavily inside the home.

And but what is clear is customers like that ability just to watch either in the bedroom that doesn't have a TV or just even in the same room with somebody else that has the TV on and so inside the home it's been pretty significant, I think that will continue for awhile.

Unidentified Analyst

So could you talk a little bit about, along those lines cord-cutting debate. We talk about Netflix and Hulu and these other providers of content. Are you seeing full replacement and then in your home, like you start to see those utilizing IP streams in the home outside of your U-verse app. How much capability you have in the plant to handle the multiple streams coming in?

Jeff Weber - President, Content and Advertising Sales

Yeah. So first piece, so far we have not seen cord cutting in any material way, in fact not even in an immaterial way at least for power perspective. Now, we're growing. We've grown faster than anybody over each of the last five years. And so when you're in a growth mode, you could -- we could have some of that around the edges and not -- it not be as clear as -- if you're a cable company, it's kind of stagnant. You notice those things little more directly.

So I mean I think that's at least a possibility but on the whole we're not seeing cord cutting. It really is a complementary, the OTT services that are out there so far are complementary in that cord cutting. So the second part of that, are we seeing additional streams, additional broadband usage? Absolutely.

So if you look at peak times in the evening, the OTT services drive enormous amount of bandwidth on top of our network. Our particular implementation with Wi-Fi again because we have Wi-Fi in every single home and it is really robust. I don't think we felt pressured yet but there's an enormous load on the network. And I think others are probably seeing it. And at some point, I think everybody will feel that.

Unidentified Analyst

So you think about not so much cord cutting, completely but are you seeing capitalization of premiums barred, stuff like that sort of impact your revenue stream?

Jeff Weber - President, Content and Advertising Sales

So it's been interesting. We haven't yet and that's the place where I'm really vigilant in terms of looking because, I guess, I would have predicted we would have seen some complementary shaving around the edges. But the way we offer products, the way we package, I mean, I think our pricing, we have -- we have not seen it yet. So we are very well penetrated in the premium services.

We do a terrific job and partner with the premium services. And those would be where you would kind of look first for that. We have not seen that. And when we offer -- we just rolled out an enhancements for U-verse TV customers, a movie package that they could buy for $5 and it just gives them -- gives our U-verse TV customers 1500 movies that they can watch on any screen.

And what we saw there, it was actually very interesting. It was more heavily penetrated, that package is more heavily penetrated in our bigger, our U450 package, so our biggest TV package. And so what we saw in that particular example really clearly was customers that buy a lot of TV, the biggest package, bought that additional movie package at a higher rate. And so they weren't substituting. We saw no impact to the premiums or anything else. It was, they're big TV users and it's kind of $5, they wanted more.

Unidentified Analyst

So I think we'll think about the computing plans in the marketplace, we've gone over the decades, FiOS is better, U-verse is more efficient, cable has got shared architecture, we're talking offline to think about what IPTV can give to you. And I think those site shows a very interesting data around that, data collection which I assume is enormous. What that provides you in content negotiations, in consumer behavior, we also talked about first set top box versus second, maybe what the some of the IP capabilities that you guys have that others might not?

Jeff Weber - President, Content and Advertising Sales

Yeah. So about a year ago, when I took this job, we really started to focus on the data we have and what I was telling. So again because of all IP and its every set top, every home and every set top in every home, we collect the data anonymously, aggregate and enormous, let me repeat that a couple of times. But we have that information and have very good insight on how our customers are behaving, what they are watching et cetera.

So we've used the data so far in a couple of different ways. So as you might imagine in our conversations with the content providers, it gives us much greater insight in terms of the value of a particular channel or piece of content. And we've been able to get real clarity on whether we should pay that rate, whether we should ask for lower rate, whether it's something that we have to carry. I mean, it works, it works in both ways.

And it's been very beneficial for us in terms of the decisions we've made. Everybody is facing margin pressure as content costs go up but the question is how will customers react to higher prices as content costs go up. Everybody is having to make tough decisions and we've been able to use that data. And I think make very smart decisions for our customers around.

We're not going to pay prices. We're not carrying certain regional sports networks in one of our biggest markets. We're not carrying it and we knew we didn't need to because the data was crystal clear about how intense those viewers were.

So I'll give you a perfect example. We looked at not just viewership, everybody can't have access to that. We looked at how many of our customers watched zero of those games, one, two, all the way through 150 games for baseball and 80 games for the basketball team that we're talking about. And you could see if a customer watched 30 games, just pick a number, that's a pretty intense viewer and they are really passionate in the likelihood that they are going to churn, goes up.

And we could compare that against the bunch of other teams and it was very clear the viewership intensity in that particular market was low and therefore we didn't need to pay the rates that were being asked and we're not. And so there is 57 flavors of that same type of analysis but having that perfect insight into what customers are really doing and how they're watching has been really valuable for us.

Unidentified Analyst

That's one of the things that our media team has spend a lot of time thinking about is sports. And when you'll be paying more if that particular team is in your market and they start to charge different rate cards for different providers?

Jeff Weber - President, Content and Advertising Sales

So you already see today you pay higher for certain zones, meaning the core pays the higher rate than periphery. And that gets cogged up and measured in different ways. It's not perfectly clean. So that already happens and then kind of every where else. And you see those things.

I think over time what's going to happen is every -- I mentioned everybody is facing the same basic pressure, maybe at a little different rates and people are going to make tough decisions around content. So we don't carry that RSN. We don't carry what are the new college networks. We don't carry an agile network. We don't carry some linear channels that in a perfect world we would carry.

There are certainly customers that would like to have it but people are making tough decisions and that's not -- we're not immune to that. And it's really just can you make smart decisions or not. And particularly the sports pricing is what is driving a lot of that pressure, as you know. And I think there is going to be a lot of push there at those. The Dodgers will be an interesting example at LA this next year around how that gets sorted out.

Unidentified Analyst

And just thinking about AT&T TV in the first distributor of the SEC channel, I'm guessing that plays into all of the things we're talking about, the IP capability, learning what people are watching and clearly it's in your region as well?

Jeff Weber - President, Content and Advertising Sales

Yeah. So we are -- we looked at that and I mentioned the data will either tell you that you don't need to carry it or you really ought to carry it. And that was the case where the SEC is a new network obviously. So nobody -- we couldn't go back and look at the usage. What we were able to do is essentially build the SEC network as if it were there a year ago.

So we know what the right that the ESPN has, where they choose games. So we just went back to last year and built the SEC network as if they were live. And then we looked at the viewership for those customers and all of the schools are in our market. So we kind of knew that without any data and then we looked at the viewership intensity in various ways around those particular schools, those particular markets compared it to some of the other college networks.

And the viewership intensity was dramatically higher and suggested that the something we would want to carry and wanted to move quickly to make sure we got the right price when we did that. And it was -- again it was just the data that sort of guided us on what we needed to do.

Unidentified Analyst

Can you think about over the top sort of outside the sports, thinking about the way, you're negotiating with content providers, we're going to hear from a lot of them today. How does the negotiation change when we hear things like an HBO impairment that goes direction of going straight with the broadband bundle. But if they struggle with more and more content over the top, how does that change your discussion as AT&T U-verse?

Jeff Weber - President, Content and Advertising Sales

So the conversations, we've had with various players is if they are going to go over the top then that's a -- that's a very different conversation and a very different value for our customers. And I think the negotiations reflect that. And so that's a choice the content providers can make, totally okay with that but exclusive versus non-exclusive has materially different value for our customers. And I think we would want that reflected.

Unidentified Analyst

When we think about sort of continuing over the top thoughts on your own advertising business, things changed pretty dramatically in the way you tried to deliver that service. And obviously, it's a revenue stream that I presume as really high margin to attached stewards. So how do you alter your business to deal with the change in viewing behaviors?

Jeff Weber - President, Content and Advertising Sales

So what we've tried to do with our ad work is the advertising business that I run. And obviously in the TV space, we're part of interconnect, sort of, in that traditional mode. We use that setup box data in the advertising business and have some products that are pretty interesting.

But in the addition of the TV space, we also obviously participate in advertising on the mobile side and online and made a few announcements last week that really start to be able to really, really got privacy aware way, start to leverage our data and give customers choices around how that data gets used but leverages that data into our products.

So advertisers can really get at audience segments in a way that I think is better than a lot of our competitors can do. And as you start to think about across mobile or across online and TV, OTT, we're short of indifferent at that point because we can offer advertising regardless of where our customers are.

So, give you a really simple example, we use that setup box data. And if an advertiser wanting to by the Ellen Show, we know based on our data who that audience is. We can do a couple of things. We can go find that same audience outside of the Ellen show and maybe extend reach or drive price a little bit better. We can also go find that same audience online or on your mobile phone.

And so as an advertiser, you're not -- typically people buy our show. We're able to turn that show into an audience, go find an audience online, on mobile and TV. And it really starts to, sort of, bring together whether it's OTT or not is almost irrelevant. We can go deliver that audience across all platforms.

Unidentified Analyst

So we talked a little bit about content costs being….

Jeff Weber - President, Content and Advertising Sales

To high

Unidentified Analyst

…relatively smaller player in the market place and to high of course. Does this…

Jeff Weber - President, Content and Advertising Sales

Make sure you tell the guys later.

Unidentified Analyst

They might be aware that I'm not. But thinking about what we're deciding whether the three screens, the number of wireless subscriber you have, is that some point of that plan of negotiation process, where you guys might be a much bigger provider than you look like on paper today?

Jeff Weber - President, Content and Advertising Sales

Yeah. I think -- so I don't think it's really showed up yet, that's probably the first thing. As the OTT market evolves, my particular belief is there is a market for rights. And if you want to buy this library with on-demand rights, no linear, how where you're sort of piece it together, there is a sort a price for that. And I think what's happened over the last couple of years as there was this view that there was TV pricing over here and OTT pricing from the content provider perspective and they were markedly different.

And I think what's happened with TV everywhere and as people have gotten in a little more sober and how can look at these market, there is a price for rights. And so what the implication specific to the question is as if there are rights that make sense and we start buying those rights at scale whether it's for our wireless business or for our broadband business, in addition to TV business than I think that's scale will come into the play. That for us and I think for most people at this point, it really haven't but that's how I think that scales start to show up and help us.

Unidentified Analyst

And then thinking about maybe circling back to your thoughts about Project VIP and the amount of money that AT&T is investing to make the experience better for end users and then also learning on the top of that change in viewing behaviors in this proliferation devices and the wireless are dumping, devices in the home they are turning to Wi-Fi streaming video devices. There must be some point which you need to get paid, not only for your content piece but also the broadband piece. So what are your thoughts on whether it's just, can we continue tier pricing or moving to a use of base pricing scenario and if there are any regulatory concerns there?

Jeff Weber - President, Content and Advertising Sales

Yeah. So I don't think I mentioned it, but project VIP is really a focus for us around as a broadband provider. So TV is a really important piece on top of that broadband and that's kind of my background. And so I continue to believe that. Customers continue to tell us and the way they buy. But at the core, it's about improving the fundamental broadband business, extending our footprints to be able to cover and sort of more of our customers. Because our core belief is that broadband business is a very good business for a long time.

Part of that assumption is there as traffic continues to grow, you need to be able to monetize that traffic in some way shape or form. And we've all heard various flavors of how incremental usage drives incremental revenue, I guess what I would say is I'm not in a position certainly to say it's going to be this flavor or that flavor but I think very clearly incremental broadband usage is going to drive incremental revenue.

And we've seen examples of that around the globe or that's in place and I think a pretty efficient pricing mechanism. So I suspect that will come to pass in the U.S. We've seen it in some markets at some level already and I think that will continue.

Regulatory implications, I think those discussions will happen. At the end of the day, it's a pretty efficient market and a really efficient way for customers to pay. I mean, in every, in almost every other way the more you use, the more you pay. And I don't think that's a radical notion and I suspect that's a kind of thing we'll see.

Unidentified Analyst

Yeah. thinking about almost, along those lines, the more you use, the more you pay, maybe move that into a discussion regarding a la carte, we're obviously watching cable (inaudible) pretty closely but is there a model that which we move away from these bundle of packages. I know you guys are talking about sort of cutting out certain channels that are not being watched, clearly in the raft of 500 in any tier, many are being watch. So is there a model that moves a la carte at some point, what are the stumbling blocks to getting there?

Jeff Weber - President, Content and Advertising Sales

I think it's -- we would love to move to a la carte. And we are very open to that model. We've suggested that a number of -- in particular the regional sports network conversations we had that something we're very open to. I think it's very tough for the industry to go there. The economics on the content side of bundling those networks together.

And importantly what you have to remember it's not just the subscription fees that get bundled up, but it's also on average, half the revenue comes from advertising and so if you unbundled those networks not only you lose the subscription fees potentially but you also lose all that advertising inventory that the content provider gets.

And so I think it's a really tough -- a tough not to crack, I think and you've seen the content providers, they are not open to subscription and in any way share performance and I think it will be a while before we get there.

Unidentified Analyst

Can you talk about, we've been discussing devices in the home and broadband capabilities and that being I think at some point moving to the core product and video shipping app over that, so in the scenario U-verse has got a great interface, obviously shows today. Can that move out of the AT&T footprint and move beyond just your U-verse build and sit on top of buyers or come down via computing video products?

Jeff Weber - President, Content and Advertising Sales

Yeah. There are a lot of issues associated with that, what the broadband pricing looks like, getting those rights. I think that's an option. I don't know that it's on top of our list. I mean, we really go back to broadband, is the core of that experience and we're the broadband provider, us be in the TV space makes a lot of sense and helps -- broadband helps TV, TV helps broadband and wireless by the way.

Where we're not the underlying broadband provider and we would just be in the TV space, I think it's a very different option and probably, not where our focus is today, never seen ever and as things continue to change and so we'll continue to push on that but at least now I think it's really focus on broadband.

Unidentified Analyst

Yeah. And that's just economically it's going to be more interesting for consumers to buy the bundle, video and how should get product from whoever in their footprint today, but

Jeff Weber - President, Content and Advertising Sales

That is our experience.

Unidentified Analyst

I don't expect that change anytime soon.

Jeff Weber - President, Content and Advertising Sales

I think that's right. I think that's right.

Unidentified Analyst

We want to give the audience chance as well. I think there is a microphone holding around the back, so anybody has a question they can just raise their hand and if the roaming mic. Michael?

Unidentified Analyst

Thanks. Jeff, you mentioned at the end of the year there was increase in your ability to buy, that you have real rights? You talk a bit about what network what kind of rights in and what was a large kind of starting to thinking about it?

Jeff Weber - President, Content and Advertising Sales

So, probably we won't talk about these specific networks, but I think there are two things in our particular case. One, we just had a bunch of deals up, so it was sort of part of the conversation and obviously given our mobile focus it was high on our list. But the other thing that's equally important is I think the industry started to coalesce and use that term fairly softly, because it's a long ways from here's the checklist and go do this and we are all good.

But the industry started to coalesce on the things that pay-TV provider needed to do to get those rights. They typically are around helping the content provider, be able to monetize the viewing of on all of those devices around advertising. So are you measuring it properly so they can build it into their ratings, are you able to dynamically insert advertising or have the path to get there. Those kinds of things that turn the viewership into advertising revenue for them, or the checklist that the industries looking for.

So we're still in this place where programmer acts and programmer why have a different view on how those are implemented, so it's not perfectly clean and we'll continue to see staggered timing and this network behind that network and all of those things that unfortunately make the consumer experience not real neat and tidy and understandable, but we did seem to turn that philosophical corner towards the end of last year that it's starts to make sense, that those are the requirements to be able to deliver TV everywhere.

Unidentified Analyst

(Inaudible) some of the content provider who cover, one you can call they are trying to get that site on their own, just haven't get to them, other providers, I mean, too concern, do I have a central place to go, but what's your philosophy on that (inaudible)?

Jeff Weber - President, Content and Advertising Sales

Yeah. I think, I mean, everybody started those conversations with what was in there, a home best interest, big surprise. I think, where we got too pretty quick and I think what makes the most sense for the industry is about. So it makes, I think, absolute sense for consumers to be able to come to U-verse app on your tablet and be able to look across all of the TV everywhere authenticated content, just like you sit down and have access to all the aggregated content on TV.

It's an experience that makes sense that customers are comfortable with. The flip side of that is, if the customer wants to go to watch ESPN app an authenticate as U-verse TV subscriber in the ESPN app that's okay too.

I think only one of those is probably not the right answer and really difficult for either company to make work and so, I think what you are see an increasingly as customers who are going have that flexibility, we're perfectly comfortable with that because we think customers are going to come to us to be able to look at everything that's available to them and then choose what they want to watch, but If you go to watch ESPN in that particular case that's fine too, because you are still a U-verse TV sub. Yeah.

Unidentified Analyst

Few questions, if I may, on the programming cost. The first one is…

Jeff Weber - President, Content and Advertising Sales

Too high that's my answer to everyone this questions.

Unidentified Analyst

Is it too hard because you don't have the scale, I mean if I take a look at other competitors in your space and they are twice or maybe three times your size, are they getting a better pricing and if so, how much is that gap, is it $2, $5, $10, and where can you, at what point can you benefit from your scale, is it that 15 million subs, 20 million. So that's the first question.

Jeff Weber - President, Content and Advertising Sales

I get that question a lot internally as you might imagine. So there are number of factors in play here, at each new kind of type of entrant when DBS entered, they came in at a higher price. When we entered, we came in at a higher price even than DBS. Part of that is scale and part of that is content, providers trying to reset the market and then bring everybody else up.

So we do pay a higher rate. I obviously don't have perfect insight into what their cost structure is, but you can look at their publicly available information. I think there're two pieces to this and this is really important.

One is, are we paying $0.05 per sub and cable company access paying $0.04, just making numbers up. The other piece and I think at least as important is what package, am I paying $0.05 for all of my subs and they're paying $0.04 for half of their subs. That drives at least as much as the differential and cost as the actual per sub rate, and so both of those two things are in play.

What we've done and I think that our focus has been because of the packaging requirements which are heavier on us and therefore cause us to have to spend more on content. We've also been very successful in driving our customers up to bigger packages and making sure that's where the best value is. So when we talk about that $170 plus per sub ARPU, yeah, we're paying more in content cost. We're also getting more on the revenue side to try and really mitigate the difference in the gross margin number, and so we're paying higher content cost.

There is no magic number. Not like, it's, if I can just get 7 million, my job working half time from therefore it is much about catching the next person ahead of you and hopefully getting some benefits from [RSN's] that exist all over this industry, and so we've been pretty successful in tracking those down and part of the advantage of being the fastest growing TV provider is we catch those that had been ahead of us and start to see the advantages, but we're going to be fighting that for a long time.

Unidentified Analyst

And the second question is…

Jeff Weber - President, Content and Advertising Sales

Too high. I'm sorry.

Unidentified Analyst

What is the reasonable in your mind the reasonable price increase on a year-over-year basis, is it 5%, is it 6%, is it 10%, because all what you mean, all the distributors they come and they compare what the cost increasing from year over year and yet you subscribe for because your subscribers are paying for it. But at some point, the subscriber is paying $170 in ARPU may not have the ability to pay you $170 one-o-one fee whatever the number is. So at what point are we at that limit?

Jeff Weber - President, Content and Advertising Sales

I would suggest that we're as an industry we're sort of at that now and what I point to is your statement I think in the past was exactly correct, so content cost went up X percent and pricing went up X percent to cover that, and so the margins held.

I think what you're seeing in the industry, isn't just U-verse discussion at all, is margin compression starting to take hold, they are driven by retrans and driven by support pricing, and so that's what is I think people are able to pass those price increases along at the same rate they've been in the past and that's what's causing some of these harder decisions around, we're not going to carry something that 18 months ago, I've said this, a lot 18 months ago the thought of going without an [RSN] in one of our biggest markets and not carrying a pro baseball team and the pro basketball team was just not something, I would have contemplated, is just that you just don't compete that way because that's not how the world works, okay?

You start getting under this kind of pressure and you really need to use the data that we have that allows us to have a better insight then our customers. You start making those hard decisions and it turns out with the data, they're not as hard as I thought they were going to be and we're going to see more and more of that going forward, because you can't have an environment where costs and revenues are at whack and so we're going to have to figure out how to do that. Maybe broadband usage is a part of that but really hard decisions, hard smart decisions on the content side are clearly going to be a part of that.

Unidentified Analyst

Jeff, when you think about the pay-TV industry as a whole we've been watching has information is recovered pretty nicely, but pay-TV subs continue to get less under spent and at some point probably got negative, does that change the dynamic or the negotiating power that distributors have for the content industry?

Jeff Weber - President, Content and Advertising Sales

Well, certainly, when the industry is flattening out based on household formations in pay-TV penetration, as you know, has been really high for a long time. So that's not a new phenomena and it absolutely helps us that we're still growing. And I would not want to be in the conversations when our sub cap is declining and that's what others have.

But it is a share shift game and it has been a share shift game for some time which makes for tough environment. And hence all the focus on differentiation that we have had and making sure that we stay ahead. But, yeah, in a world where there is not growth then the discussions get tougher for sure.

Unidentified Analyst

Thank you. Can you speak to your preference on structure of the content deals, whether it'd be shorter term versus longer term deals and then also we've seen there're typically two types of deals, one where there is initial step up and then you get more moderate kind of CPI plus escalators going forward. And then more recently, we've seen some of the bigger players at least from the public view is like a Disney move to more straight-line deals where mid to high single digits whatever the escalator is on price but over the term of the deal. So can you give us a little sense of what you're seeing has the marketplace changed at all and your kind of preference?

Jeff Weber - President, Content and Advertising Sales

I don't think from what I have seen that the marketplace has changed so much on that. I think typically you see deals that are heavy retrans. The content providers like those to be a little bit shorter because the market is moving so quickly and hard. I think step ups are always hard so to the extent that we can avoid those, but you sort of take cost upfront which can be difficult.

But I haven't seen movement in how those things are starting to get structured in particular. Individual companies tend to have a different view of their particular view of what the right answer is. I am not religious on any of that. I'm sort of religious about the total cost and what we're really spending. So I am pretty flexible on structure.

We've done all of those. We've done flat rate. We've done a lot of different things. Again it's probably a nice function of having growth where we can maybe be a little bit more flexible on some of that.

Unidentified Analyst

Thanks. Just curious if you've been looking at the set-top box data long enough to see trend-wise differences in what shows up versus what you see from Nielsen centers brought to you on the program, is it more viewing overall, does it seem like the way you present the lineup gets more viewership to different channels and what might show up on a more international view from Nielsen?

Jeff Weber - President, Content and Advertising Sales

Yeah. So have I answered that one? The actuals are in a number of cases very different from what we see in the Nielsen data turns out samples aren't as good as 100%, right? But it's not like I don't think I can sit here and say this profile is always underrepresented and this profile is always overrepresented.

I haven't really looked at it that way. That's a good question. It's really been more on a case-by-case basis where we're trying to understand whether it's because of the content negotiation or a question we're trying to answer where we sort of see it's materially different. There are material differences in a lot of the ones we look at. I don't know that I can frame it into a profile though.

Unidentified Analyst

Jeff, just we'll wrap it up with your thoughts on AT&T's interest in owning content obviously, affix with passive cards as bit of a hit. And is there anything that you guys look at whether it's traditional content, exclusive mobile content, something that you want to own?

Jeff Weber - President, Content and Advertising Sales

Yeah, I don't, right? So AT&T has an ownership interest in MRC which is the company that did house the cards and did tad. So we certainly participate at that level, but that is very different than we're in the business of producing content. I don't think that's where we want to be. I think our interest in content is more around how do we use data to find partners to create tads and to create value.

The other side of the data discussion that we've talked about a couple of times here today is we know more about what customers are watching and therefore we can partner with content providers either existing to help them improve the ratings and the hit ratio that they get or with new and emerging type of content providers and use our platforms to help them create hit.

So I think our focus is more around how do we use our platforms, how do we use our data to increase hits and to drive value and maybe participate in that way as opposed to we're going to get into the production business and start to create exclusive content. Certainly doesn't make sense I think for the most part when you're sitting at 4.8 million TV subs. If something changed in the OTT space and there was a much bigger number then maybe that's a conversation down the road, but that's not where our focus is today.

Unidentified Analyst

Great. Well, thanks very much for your time today.

Jeff Weber - President, Content and Advertising Sales

Thank you. I appreciate it.