

TIME WARNER INC.

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The following is a transcript of a live interview with AT&T CEO Randall Stephenson and Time Warner Inc. CEO Jeff Bewkes posted on the website of the Wall Street Journal on October 25, 2016:

1 P R O C E E D I N G S

2 INTRODUCTORY SPEAKER: All

3 right, what would you buy if I

4 gave you 85 billion dollars? AT&T

5 just bought Bugs Bunny, Batman,

6 and the Baratheon family, it's the

7 deal of the fall, and I'm sure

8 you've got a lot of questions, and

9 we've built in some time for that

10 today.

11 To get things started let's

12 bring out the deputy editor in

13 chief, Rebecca Blumenstein, also

14 the CEO of AT&T, Randall

15 Stephenson, and the chairman and

16 CEO of Time Warner, Jeff Bewkes.

17 MS. BLUMENSTEIN: Well,

18 thanks so much to you both for

19 coming all the way, after

20 announcing the biggest media deal

21 in years.

22 I -- I want to cut to the

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1 chase: Time Warner was bought
2 once before, tell me why it's
3 going to turn out better this
4 time.

5 MR. STEPHENSON: Well, we
6 didn't try before, all right?
7 I'll start there.

8 But this -- this deal was
9 about one thing, and that was, how
10 could we change the game in this
11 ecosystem, because if there was
12 ever an environment that was
13 begging for innovation it is this
14 environment.

15 And if you think about
16 what's happened in this system
17 literally you have 20 million
18 households now who have left the
19 premium content system. They're
20 not buying a bundle of premium
21 content, they're gone, they're not
22 around, and this is one of the

1 things we're trying to do, how do
2 you begin to do something to
3 access that -- that segment of the
4 market.

5 MS. BLUMENSTEIN: So they've
6 kind of cut the cord?

7 MR. STEPHENSON: Yeah,
8 they've cut the cord. They're not
9 even engaged in the premium
10 ecosystem anymore.

11 And then so we're going to
12 launch, at the end of next month,
13 November, a product that we think
14 does this, and that's what this
15 deal is about, and I think it's
16 important to understand it, it's
17 Direct TV Now is what we're
18 calling it, but this is, for the
19 first time, a hundred plus premium
20 channels, all right? This isn't
21 the junk nobody wants. This is a
22 hundred plus premium channels,

1 purely over the top, a mobile
2 centric platform for \$35 a month,
3 all right? It has all of Jeff's
4 content, it has all the premium
5 content that you know and love,
6 you like to watch, \$35 a month,
7 and that includes your mobile
8 streaming costs, all right?
9 Streaming it over the mobile
10 internet. So 35 bucks pretty much
11 all in, we think this is big. We
12 think it's a game changer.

13 MS. BLUMENSTEIN: So you're
14 making more news now by announcing
15 the price point.

16 MR. STEPHENSON: We haven't
17 announced the price point before
18 but we're announcing it right now.
19 And as you think about people
20 saying this is nothing but a way
21 to increase prices, no, this is a
22 way to drive pricing down in the

1 marketplace. We think this is

2 really important.

3 And I think there's

4 something else that's important,

5 and it's instructive to how you

6 consider this deal, and that is:

7 That would not be possible, we

8 started trying to develop this

9 product over a year ago, it would

10 not be possible had we not done

11 the Direct TV deal, it would be

12 impossible, because we had been

13 trying to do this for the last

14 three years.

15 We cannot get the media

16 companies to participate in this

17 until we have scale, in fact,

18 interestingly enough, one of the

19 last companies to finally come in

20 to this hundred channel package

21 was Fox. They were the last ones

22 to come in.

1 And I think what's equally
2 instructive is one of the first
3 ones in was NBC Universal, which I
4 think is ironic, when you think
5 that the one company that is
6 vertically integrated, like we're
7 talking about doing, is one of the
8 first ones in doing the innovation
9 in the marketplace.

10 And I would tell you one of
11 the other first ones in was this
12 guy, we got TBS, TNT, all of those
13 channels we got in early in the
14 game. And -- and I think that's a
15 really important observation, that
16 if you want to innovate you're
17 going to have to have scale,
18 you're going to have to have
19 content that will allow you to
20 innovate.

21 And so to that end, just
22 considering that, there was a lot

1 of noise yesterday around what
2 this new company looks like, and
3 -- and what people should be
4 concerned with.

5 And we have, internally, at
6 AT&T, that Jeff's team will be
7 introduced to, we call it our
8 Magna Carta: What are the guiding
9 principles as you put these two
10 companies together. And it starts
11 with, "Dear AT&T executives, with
12 distribution assets, Direct TV,
13 our mobility company, number one
14 principle of the Magna Carta is:
15 Recognize, Time Warner will
16 continue to distribute their
17 content widely and broadly.
18 You're now going to get exclusive
19 access to Time Warner content.
20 They've built a franchise on wide
21 and broad distribution that's
22 going to continue.

1 Time Warner, when you come
2 in, point number two, our
3 distribution businesses are going
4 to continue to distribute a wide
5 variety of content. That's what
6 the customers expect and want, a
7 hundred channels of premium
8 content, that will not change.
9 Time Warner don't expect that to
10 be premium.

11 MS. BLUMENSTEIN: So you're
12 vowing you're not going to take
13 any price advantage?

14 MR. STEPHENSON: We're
15 actually trying to bring prices
16 down, \$35, you know, find that in
17 the marketplace with wireless
18 streaming, right?

19 Principle number three, and
20 this is to the AT&T board, when
21 you own a news company
22 independence is sacrosanct. You

1 must protect the independent
2 editorial privileges of that news
3 organization. And to the extent
4 your customers deem otherwise you
5 damage the brand of a CNN,
6 specifically.

7 Fourth is, Time Warner is
8 going to become the launching pad
9 for innovation. Time Warner is
10 what we're going to try to touch
11 these third rails that the
12 industry will not and has not
13 touched. It's where we're going
14 to begin to experiment and test,
15 how can you bring a la carte
16 pricing into the ecosystem? How
17 can you do that?

18 I think this is going to be
19 a really important innovation.
20 It's also the place where we'll
21 begin to develop new ad support
22 models, where you can net \$35

1 price point, these content costs
2 are not going to be flat. So how
3 can we develop new ad models that
4 will allow us to keep the price
5 point in check offsetting the
6 price increases on content?

7 I think that's really,
8 really important. And then last
9 element of our Magna Carta is: We
10 are going to be a head-to-head
11 nationwide competitor with the
12 cable ecosystem.

13 And 5G deployment is a game
14 changer. We will be a new
15 competitor nationwide with 5G.

16 And so the intent is to bring Time
17 Warner and AT&T together and
18 create a very new and a very
19 different kind of competitor,
20 nationwide, in the cable
21 ecosystem.

22 So that's how we're framing

1 this, this is what we're trying to

2 become as a company.

3 MS. BLUMENSTEIN: So Jeff,

4 are you trying to right the

5 historical wrong of AOL, in part,

6 here? You have come out

7 previously against the

8 distribution coming together.

9 MR. BEWKES: No, no, no,

10 we're way past that. I've got to

11 add an example, if I could, and I

12 think it will resonate with

13 everybody here: It was about

14 seven years ago that we at Time

15 Warner we saw that the world

16 wanted to go to VOD. We already

17 had it at HBO. Richard's here, he

18 talked this morning, we had done

19 at VOD at HBO 15 or 20 years ago,

20 but we knew people wanted it on

21 every channel.

22 So we want and literally

1 unilaterally at Time Warner we put
2 all our channels out on VOD. We
3 gave a contract with no
4 negotiation, no change, any
5 distributor, large or small, could
6 take it, and what did it say? It
7 said: "You can have the right,
8 cable, telco, satellite, anybody,
9 you can have the right to have all
10 our channels on VOD, if you didn't
11 have it before, you don't pay us
12 for this, provided, really, one
13 thing, you don't charge consumers
14 for it, you don't create a package
15 where if you pay extra you get it,
16 another guy doesn't pay he doesn't
17 get it, it's got to be go -- got
18 to go to everybody."

19 And we also said: "You
20 can't tie your broadband service
21 to your video service, because
22 anybody that's got a video

1 service, anybody who's paid for"
2 -- which we all know 80 percent,
3 90 percent of the people have paid
4 for CNN, Fox News, et cetera, you
5 get it, what happened? Seven
6 years ago.

7 So we waited, year after
8 year we've talked about this, the
9 old media business, the other
10 media companies, the distributors,
11 they didn't offer this to
12 consumers, even though it was
13 sitting there for no charge. Why
14 not? Because the old distribution
15 company they -- some of them did,
16 we can go through who did it
17 better than others, but basically
18 they didn't want to make the plan
19 investments in what you have to do
20 to provide that, they didn't have
21 either the skill or the scale to
22 do the interfaces, which everybody

1 out here knows so well is
2 important when you have more and
3 more volume of programming you
4 need a better interface to find it
5 and recommend it and share it, et
6 cetera.

7 So that was on the
8 distributor side. But then you look
9 at the other network companies, they
10 didn't offer it, either. Why not?
11 They were waiting for years for this
12 renewal negotiation or that renewal
13 negotiation. That's not how you
14 change consumer behavior.

15 What you want, and we wanted
16 this seven years ago, we want you to
17 go to your TV dial or your tablet or
18 your mobile device and you should be
19 able to get any network on that, on
20 demand, because the originators of the
21 program, whether it's NBC or TNT, or
22 HBO, we paid for the program. You

1 paid for it, you ought to have it,
2 there's no cost to doing it on DOD.
3 So now we come to this
4 stitch, we've made some progress,
5 there, but you all know what did it
6 force consumers to do in this interim
7 period? They all had to go out and
8 pay extra money to get library SVOD
9 services, for the very same
10 programming that should have been
11 available on VOD all along.

12 So we would say, and we've
13 been saying this since 1995, every
14 channel in the country, every network
15 should look like HBO or Netflix.
16 There's no reason it can't.

17 And now we have a
18 distribution platform where we can,
19 together, put out a launching pad of
20 services. And do we want it to be
21 just our channels? No. We want it to
22 be all the most important channels,

1 just this way I've described just now.

2 MS. BLUMENSTEIN: A question

3 for both of you: How much of this

4 is offense and how much is

5 defense? I mean, Randall, your

6 core business wireless subscribers

7 are down, ATT subscribers are

8 down, I mean, is this, in a sense,

9 almost to vet the company deal?

10 MR. STEPHENSON: I don't

11 know how you characterize it, vet

12 the company deal, when you buy an

13 asset like this that is EPS

14 accretive, cash flow accretive,

15 enhances dividend coverages, keep

16 credit metrics that are credit

17 quality, talk great credit

18 quality.

19 So I don't see how you can

20 characterize that as defensive.

21 It's just something where you have

22 customers, you have a known demand

1 that customers have, this isn't
2 one of those that you have to do a
3 lot of guessing and swing for the
4 fences and hope for the best.

5 We know what the customers
6 want. It's really, really
7 obvious. They want premium
8 content in a mobile environment.

9 We have had a really difficult
10 time getting that put together.

11 It's been really hard.

12 This is a way where we can
13 actually begin to move much, much
14 faster at bringing bundled premium
15 content over a mobile environment
16 to our customer. It's no more
17 complicated than that.

18 MS. BLUMENSTEIN: Regulators
19 and politicians have come up to me
20 against the deal. Donald Trump
21 has said he would nix it, and
22 actually went further and said

1 that he would try to do -- undo
2 Comcast NBC Universal. Tim Kaine
3 has said he has concerns that it
4 would raise consumer prices.

5 And there seems to be a
6 growing sense at the Department of
7 Justice and the FCC about this
8 state of mega deals and true
9 antitrust concerns.

10 What is -- what is your
11 response, are you surprised by
12 this?

13 MR. STEPHENSON: Not
14 surprised. They're uninformed
15 comments.

16 ...(APPLAUSE)...

17 MR. STEPHENSON: Anybody --
18 anybody who characterizes this as
19 a means to raise prices is
20 ignoring the basic premise of what
21 we're trying do here.

22 Again, a \$35 product we

1 bring into the market to innovate
2 on and find new ways of bringing
3 content to customers, that's not a
4 medium for raising prices.

5 Also, vertical integrations
6 are rarely a means for raising
7 prices. You're not changing the
8 market structure in any way,
9 shape, or form. You're not
10 changing the broadband market,
11 you're not changing the wireless
12 market.

13 When we wake up, after this
14 deal is approved, the wireless
15 market will look exactly the same
16 as it does today and the media
17 market will look the same as it
18 does today.

19 So this is not -- this is
20 not a combination that typically,
21 you know, gains that kind of
22 horizontal type merger scrutiny,

1 in fact, it's really important to
2 know it is a, by every technical
3 definition, a vertical merger
4 integration. And vertical merger
5 integrations are historically
6 approved.

7 Now, it doesn't mean they're
8 approved carte blanche. Regulators
9 will have some concerns with this, I'm
10 quite confident they will. Those
11 concerns are invariably remedied with
12 conditions.

13 So we anticipate there will
14 be a good, fulsome review and
15 discussion about this.

16 MR. BEWKES: You know, we
17 ought to talk about advertising,
18 because if you're looking into
19 competition this is going to be
20 extremely helpful to increase
21 competition in advertising. And I
22 think, since we are west of the

1 mountains, at least where I live,
2 we all need more competition in
3 advertising because what we've
4 been seeing is growing
5 concentration to a duopoly and
6 digital enabled advertising.

7 MS. BLUMENSTEIN: You're
8 talking Facebook and Google?

9 MR. BEWKES: Yes, I am. And
10 I hope some of you -- I know that
11 the Google and Facebook people,
12 because we work with them and know
13 them well, there's one thing they
14 love and that's innovation and
15 competition. And we are here to
16 help. We are. We're going to
17 bring more of that, and that's
18 good not only for -- that's
19 basically a very good development
20 for all media companies, because
21 when you create the ability to
22 have the same kind of digitally

1 powered advertising you get so
2 many benefits, you know,
3 competition always helps
4 consumers, and it gives
5 advertisers better choices.

6 But it, most important,
7 allows the consumer experience
8 watching video to have more
9 relevant ads, less intrusive and
10 interruptive ads. Therefore,
11 they're more valuable. Therefore,
12 more of the burden of cost of
13 content goes to advertising rather
14 than to people.

15 Again, more competition,
16 lower prices, better for consumers.

17 MS. BLUMENSTEIN: Randall,
18 explain how these less intrusive
19 ads are going to work, because
20 they seem a bit intrusive, I have
21 to say. You're going to be able
22 to target homes? You're going to