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CMCSA - Comcast Corp at Bank of America Merrill Lynch Media,
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CORPORATE PARTICIPANTS

Jeff Shell *NBCUniversal - Chairman of Universal Filmed Entertainment Group*

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Jessica Jean Reif Cohen *BofA Merrill Lynch, Research Division - MD in Equity Research*

PRESENTATION

Jessica Jean Reif Cohen - *BofA Merrill Lynch, Research Division - MD in Equity Research*

Okay. We'll get started with Jeff Shell, Chairman of the Universal Filmed Group. It is a pleasure to have you here, finally.

Jeff Shell - *NBCUniversal - Chairman of Universal Filmed Entertainment Group*

Good to be here, Thank you.

QUESTIONS AND ANSWERS

Jessica Jean Reif Cohen - *BofA Merrill Lynch, Research Division - MD in Equity Research*

So Jeff, having worked at Fox, Gemstar, NBC International and Comcast Programming, I mean, we've known you throughout all these -- you have many, many -- your long career. You bring a very unique point of view to the traditional studio business. Can you talk about your outlook for the feature film business over the next 3 to 5 years? What are your priorities for Universal Studios?

Jeff Shell - *NBCUniversal - Chairman of Universal Filmed Entertainment Group*

Thank you, and thanks for having me here. So I've been -- actually been on the film job at Universal for 5 years now. It's 5 years actually this week. And I have to say I'm probably more bullish now than I was 5 years ago when I started, and there's a couple of reasons for that. I think the first reason is that everything that people have been talking about all day here at your conference, all the explosion in Netflix and Hulu and all the different platforms, movies are one of the big drivers of each of those platforms. And so as that kind of all these different businesses grow and explode, it's great for business like ours that makes movies. So I think there's going to be lots of different opportunities to make movies and sell movies across different platforms, and that's going to be good for us. I think the second reason, I knew this coming in 5 years ago but didn't quite appreciate that international is still such a big opportunity in the film business. There's a lot of growth markets still out there. The growth has not subsided, and that's becoming a bigger and bigger part of our business. And so I'm excited about that. And then I guess specifically to Universal -- those 2 are more industry. I think for Universal, if you look at the other companies in the film business, I know you've had a lot of them here today, and you look at what's really driving the film business's IP is franchises and our IP is really ascendant, if you look at some of the things that we have in our portfolio, they're just on the upscale of their trajectory. I'll just mention one, Trolls, for example. We got Trolls as part of DreamWorks. First movie did okay, theatrically. Has just kind of blown up in the consumer products world. The second movie comes out in 2020. So we have a lot of property like Trolls that are kind of on their way up, and I like where we sit given where the film business is going. So I'm pretty excited by the future of the film business and our Film business.

Jessica Jean Reif Cohen - *BofA Merrill Lynch, Research Division - MD in Equity Research*

Okay. And we'll come to a lot of these topics as we speak. But kind of a separate question, do you -- what do you expect in terms of the evolution of windows? Do you think windows will change? Do you have a point of view at this point on premium VOD?



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Jeff Shell - NBCUniversal - Chairman of Universal Filmed Entertainment Group

So I've been talking about this for years in the film business. It is a fact in the media business that the consumer eventually wins. What the consumer wants, the consumer gets. So there's no question the way we distribute movies today is probably not optimum for the consumer. So there's no doubt in my mind that windows are going to change in the future. The key is how do you do it in a way that adds to the ecosystem, that is additive? I'm also -- I'm a believer that people should get movies at home earlier in a different way, but I also am a believer that the theatrical experience, I truly am, is an important part of the movie business. And we've got to find a way to evolve windows in a way that benefits everybody. So I think it's coming. It's just a question of when.

Jessica Jean Reif Cohen - BofA Merrill Lynch, Research Division - MD in Equity Research

How does being -- well actually, just on that, is there a way to make the exhibitor -- how do you envision the exhibitors coming in as partners? Or I mean, there's been -- it's come and gone, come and gone. Sometimes it's the studios that block their -- some of them aren't in favor. But a lot of times it's the exhibitors. Is there a way to bring them in as partners? Or is there a way to bring them in, in a less controversial -- well, less conflictive way?

Jeff Shell - NBCUniversal - Chairman of Universal Filmed Entertainment Group

Yes. I get their point of view. I mean, having been now in the business for 5 years, I kind of get the point of view of the exhibitors. They've invested a lot of capital in bricks and mortar, and their business is dependent on a lot of the current system. I do think there's a lot of people in the exhibition business right now that are maybe a little bit forward-thinking. So you look at somebody like Adam Aron of AMC, we've had a lot of discussions and a lot of very productive things with his company. So I think it's going to be a mixture. And it just may be time and inertia. I mean, look at what Disney is doing. Disney has already publicly announced they're making movies for their OTT platform. That's a form of compression of windows. So it's just -- it's going to have to evolve with the way it's going to evolve. And I am actually confident it's going to get there. It just has to be done in a way that's positive.

Jessica Jean Reif Cohen - BofA Merrill Lynch, Research Division - MD in Equity Research

Right. Absolutely. Could you talk a little bit about how being part of the Comcast umbrella benefits Universal Studios?

Jeff Shell - NBCUniversal - Chairman of Universal Filmed Entertainment Group

So that's -- I can talk for an hour about that. Let me start. We've got time. First, let me just start 30,000 feet on that for a second. I think if you look at the entire company, let's look at NBCUniversal overall, and it's been 7 years this week since we closed the transaction for Comcast buying NBCUniversal. And it's really actually pretty remarkable. I know you've followed the company the whole way. If you take a step back and look at each of our businesses, the performance across the board is pretty stellar. And you look at things that you never would have anticipated. You have Telemundo eclipsing Univision.

Jessica Jean Reif Cohen - BofA Merrill Lynch, Research Division - MD in Equity Research

That is shocking.

Jeff Shell - NBCUniversal - Chairman of Universal Filmed Entertainment Group

Right? That just happened, right?

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Jessica Jean Reif Cohen - BofA Merrill Lynch, Research Division - MD in Equity Research

I mean, that's a pretty -- that's amazing.

Jeff Shell - NBCUniversal - Chairman of Universal Filmed Entertainment Group

MSNBC eclipsing CNN, that's happened. You've got NBC Network, which was mired in fourth place when we bought the company and has now been #1 for a gazillion years with all the best events on TV. The Parks story has been phenomenal. And I think you can go really down the list. And clearly, good management and things we've done are an important part of that, but there's no question in my mind that being part of Comcast and kind of the culture that Steve and Brian have built of collaboration and working together -- and I'll give you an example. When we bought the company, there was not much dialogue between the Theme Park division and the Film division, which is kind of shocking because our movies -- if I said yes to a movie right now, it will be 3 years before you saw the movie. It takes us a long lead time in making a movie. There's probably even a longer lead time in making a theme park attraction, right? So it's at least 3 years when you say yes to a theme park attraction until you're actually marketing and opening the doors. And we work together -- we sit down with the Parks once a quarter now. We go through our -- they know our slate as well as I do, right, and I know their road map as well as they do. So we're really in sync with them. And when you look at this year, they're a little light as far as new attractions this year. We're a little light as far as animation this year. But if you look going forward 2 or 3 years, the ascendancy of some of our real brands are going to show themselves in attractions of the parks. And then when those open, they're going to actually have a benefit for us as we launch additional Fast and Furious movies and Minions movies and things like that. So there's no question being part of the Comcast umbrella is benefiting the whole company. I would say Universal specifically, it is empirically provable that the Symphony idea, which I was skeptical about when we first bought the company, but Steve Burke really envisioned, it has worked. And it's not only worked to promote movies. But it's gotten films that we would not have had a chance of getting. Filmmakers want to come to Universal because they know they're going to get that support. And increasingly in the movie business, becoming an event is so important. And marketing things are so difficult. Eric talked about that in the panel just now. Cutting through the clutter is so tough. So when you have something like Symphony behind your film, you can see the evidence that it actually makes the film more successful.

Jessica Jean Reif Cohen - BofA Merrill Lynch, Research Division - MD in Equity Research

Can you give us an example of Symphony, how -- what it's done for any of your projects?

Jeff Shell - NBCUniversal - Chairman of Universal Filmed Entertainment Group

Yes. So I think -- the first one that comes to mind is Secret Life of Pets. It's very, very hard to launch an original movie of any kind, particularly original animation, in a world with lots of Disney sequels and everything like that. Secret Life of Pets, which was one of the greatest kind of high concepts out of the mind of Chris Meledandri, what do pets do when you're not at home? We all have pets. What do they do? And that was a property that for the month before the movie opened 2 years ago, you could not -- if you were in a Comcast home you could not, not see Pets. It was on the front of the XFINITY Box. It was promotions running across all the NBCUniversal channel. We had a Pets segment on the Today show, just onward. And you could actually see, we measured it back when it launched, it actually did better in Comcast markets empirically significantly than it did in non-Comcast markets. So now we have a Pets 2 coming out next year, which is -- and we've created a franchise. So you can go down the list of a lot of our different movies and show how Symphony has actually had a meaningful effect on the launch of our movies.

Jessica Jean Reif Cohen - BofA Merrill Lynch, Research Division - MD in Equity Research

So did you tell Brian he needs to buy more cable systems to promote your movies?

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Jeff Shell - NBCUniversal - Chairman of Universal Filmed Entertainment Group

I don't tell Brian that. I think he tried. Didn't he? Yes.

Jessica Jean Reif Cohen - BofA Merrill Lynch, Research Division - MD in Equity Research

Before we dig more into your business, M&A has been a really prominent theme in the last year or so in media. What did pending deals like Disney-Fox and the recently closed AT&T-Time Warner deal mean -- combination mean for Universal?

Jeff Shell - NBCUniversal - Chairman of Universal Filmed Entertainment Group

So I'm not sure -- it's a good question. I'm not sure that either of those deals is really going to have an impact on Universal per se. I mean, we have -- there's no question scale matters in the movie business. Scale matters in 2 ways in the movie business. It matters in your cost structure, and it matters in your ability to kind of make events of things and launch movies. We already have scale. We can already do that. We just talked about it on the launch side. And clearly, we're big enough with the amount of films we're doing to have it on the cost side. I think it might have an impact on other smaller competitors who are going to need that scale at some point to compete in this universe. But for us, I don't know if it has much of an impact for us.

Jessica Jean Reif Cohen - BofA Merrill Lynch, Research Division - MD in Equity Research

Okay. Do you expect to see more M&A among other -- the other studios? It kind of sounds like...

Jeff Shell - NBCUniversal - Chairman of Universal Filmed Entertainment Group

Maybe because you need that scale. I don't -- I think some of the smaller companies have to compete. And it takes -- to create an event in the movie business these days takes a lot of resources, and I think it's going to be harder and harder for smaller players to do that in a world with Netflix and lots of different things competing for share of mind.

Jessica Jean Reif Cohen - BofA Merrill Lynch, Research Division - MD in Equity Research

I mean, interestingly TV productions -- just switching gears, but TV productions have exploded over the last few years, in part driven by more buyers. But U.S. film production has been largely flat. Do you think anything will change the dynamic for films either way?

Jeff Shell - NBCUniversal - Chairman of Universal Filmed Entertainment Group

Well, it's interesting. If you actually look at the film business, there is a huge amount of films produced every year. I think something like 2,000 films last year were produced in the United States, and studios only released 120, 130 of the films out of the 2,000. So unlike the TV business where you really actually need distribution to make something and get it out there, in the movie business, you have all sorts of filmmakers making films and trying to launch them. So we're at such a high level of production already. I'm not sure the opening of platforms. What I do think is it's going to make the economics of our business such that we can make more movies because the economics are going to get better for us and less volatile.

Jessica Jean Reif Cohen - BofA Merrill Lynch, Research Division - MD in Equity Research

So let's explore that a little bit, and maybe one way, I don't know, if you can come back to that comment. I mean, Netflix and Amazon are increasingly active in film acquisitions and production themselves. Do you think there's a place for volume above all else?



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Jeff Shell - NBCUniversal - Chairman of Universal Filmed Entertainment Group

No. I mean, the one thing I've learned in my 5 years at Universal is if you want to know the biggest predictor if a movie will work is if the movie is good, right? So good movies tend to do better than bad movies do. And so I think if you're just going to go volume, which some of the other players are doing right now, there's a real risk that you'd sacrifice quality and you don't have the creative passion that you need to make a good movie, which is really hard. So I actually don't think volume for volume's sake makes a lot of sense. I do think that with all of these platforms starting to put movies into the home, there's going to be a place for movies on a Friday and Saturday night when you're not going out, and I think that's actually going to be good for all of us.

Jessica Jean Reif Cohen - BofA Merrill Lynch, Research Division - MD in Equity Research

Right. When you greenlight a movie, can you talk about what's changed in importance? Are there any -- what are the key factors you look for now that may have been different from a few years ago?

Jeff Shell - NBCUniversal - Chairman of Universal Filmed Entertainment Group

I think probably the 2 biggest -- if you look at kind of our greenlighting 5 years ago from now, I think international continues to be more important, right? The numbers -- when we greenlight a movie, we put together -- we actually had a greenlight meeting this morning, and we put together all the economics of a movie. And increasingly, not for every movie but for most movies, the international share in China is becoming a big, big portion of whether you say yes or no to a movie. So international has changed. And then for us, with animation being a big part of our business, the ability to drive consumer products and games and other ancillary revenues is starting to be a real factor on whether a movie gets a yes or a no.

Jessica Jean Reif Cohen - BofA Merrill Lynch, Research Division - MD in Equity Research

Given your background on sports, international and other areas, is the movie industry missing anything? Do you think there are any customer segments or geographies or genres that are still being underserved?

Jeff Shell - NBCUniversal - Chairman of Universal Filmed Entertainment Group

I will say the most amazing thing to me about the movie business when I started -- I didn't know much about the movie business when I started at Universal. And still to this day, one of the most amazing things to me is how in maybe 10, 15 years ago, it was appropriate to look at domestic box office as a proxy for profitability. It's so not true anymore. There's really no resemblance in how much box office something does and how much money it makes. And we really look at profitability in our company. And it's amazing to me if you look throughout the industry -- I have a business I came from before. You look at profitability. You look at profitability in the sports business, the international business. The film business has traditionally been so box office focused, which isn't even revenue, right, that I think if you focus on profitability, you sometimes make lots of different kinds of decisions.

Jessica Jean Reif Cohen - BofA Merrill Lynch, Research Division - MD in Equity Research

You mentioned animation, and it's been an area of success for Universal. And now you're -- and DreamWorks, of course, DreamWorks Animation, which you now own. Can you talk about what's the outlook? Is it oversaturated? Do you think there's still legroom to grow? It just seems like everybody is still jumping into this area.



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Jeff Shell - NBCUniversal - Chairman of Universal Filmed Entertainment Group

Yes. There's lots of different kinds of animation. I mean, there's a total continuum of quality, and we felt that quality animation having a big event -- we have Illumination. Illumination is maybe one of the most successful. If you look at the success of Illumination, even more successful in a more rapid fashion than Pixar or Disney. But you can't make more than 2 movies a year. So the acquisition of DreamWorks, one of the key part of it was to get another 1 or 2 movies a year in a high-quality event way. And we think we absolutely now are prepared to do that and have the IP and the capabilities to do that. If you take a step back and think about animation, the beautiful thing about animation is, number one, you can make every movie local in all the big territories. So it's -- when you're doing a live-action movie and you have Vin Diesel in Fast and Furious, you have Vin Diesel in Fast and Furious, and you can dub him or you can put subtitles. When you have an animated movie, you can actually re-voice in a local territory with the local stars. You can have the biggest movie star of Brazil be the voice of your character or the biggest movie star of Germany. So a movie becomes, by definition, local to the global audience, which is a huge advantage. It makes it much more profitable. And the second thing is traditionally, and Disney led the way on this, animation tends to drive consumer products. Animated movies tend to be a real driver of consumer products. When you look at -- I think switching gears to our company, I could not be more excited. This was the year that was tough for us in '18 because we had no Illumination film until the Grinch this Christmas, which by the way is great. I was a skeptic when we said yes to the Grinch. The Grinch is a fantastic movie, and we have high hopes for it. But starting next year, we have 3 animated movies. We have our first reboot. When we got DreamWorks, the development cover was a little bare. So we had to reboot a lot of the stuff they had. Our first movie from the rebooted kind of DreamWorks platform is going to be How to Train Your Dragon 3 next year, which is great. And then we have the Secret Life of Pets, the sequel to the Secret Life of Pets, which is fantastic, and then an original called Abominable. And then if you look at the next year, 2020, we really get to cruising altitude. Our goal is to have 4 a year. And in 2020, we're not only going to have 4 animated films, but they're all going to have a 2 after them, which is unheard of. So they're all sequels to successful originals. If you look at the DreamWorks slate, we're going to have Trolls 2, which I've talked about. I'm very excited about that. I think it's a much better movie than the first one, and given the consumer product explosion, I think it's going to be great. We're also bringing back Croods. So we have a sequel to The Croods franchise with Croods 2. And then on the Illumination side, we have a sequel to Sing, which was a big success for them, with Sing 2. And then, of course, Minions 2, which is our granddaddy of all of our animated franchise. So I think animation is going to be a big driver for success in the next couple of years.

Jessica Jean Reif Cohen - BofA Merrill Lynch, Research Division - MD in Equity Research

You mentioned consumer products a few times. Like -- so can you talk about where did you start when you got here? Where is it now? And how big -- I mean, it's a huge business for Disney. Can you talk about what your goals are for this business?

Jeff Shell - NBCUniversal - Chairman of Universal Filmed Entertainment Group

It is. It was one of the low-hanging fruit when I got there. We really had a licensing business. We took our properties with a handful of people that licensed our rights out, and we made what licensees make, which is high single digits or low double digits on licensing. What we've done is we followed the Disney playbook, and we've moved ourselves down the value chain so that we have -- we've added a lot of people. We've gone direct in a lot of international offices over the last 2 years as opposed to using agents. We now sell direct in those markets. We've hired an executive named Vince Klaseus, who's built a great team. And we've gone from, I think, tens of millions of dollars of revenue to \$0.5 billion of revenue. And if you look at where Disney is, we're only a fraction of where they are right now. I think they did \$2 billion of EBITDA or something like that in their consumer products business. So we have a long runway. And based on these properties we're building, the further we can go down the value chain, if we can do that in a measured way, you can't grow too fast, but that should be one of our big growth drivers for years to come.

Jessica Jean Reif Cohen - BofA Merrill Lynch, Research Division - MD in Equity Research

Yes. It seems like a big opportunity. But back to -- on the animation side. So DreamWorks Animation supplies a lot of kids program into Netflix. And you recently announced you're going to migrate this programming -- the output relationship to Hulu. Can you talk about the dynamics behind the change? Does it ever make sense to go direct to consumer with your animation product or...



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Jeff Shell - NBCUniversal - Chairman of Universal Filmed Entertainment Group

So first of all, it was one of the gems we got with DreamWorks. We knew it was a good business. It's turned out to be a great business. A woman named Margie Cohn runs the business that came from Nickelodeon. And Jeffrey Katzenberg actually did something really smart at DreamWorks which -- he saw the way the world was going and the fact that Disney had vertically integrated and Nickelodeon had vertically integrated and that nobody was there to sell kids programming to Netflix, who needed to have kids programming. It's one of the big retention drivers of OTT. So he fired up a kids programming business and essentially became the exclusive supplier to Netflix. We didn't migrate away from Netflix. What we did is we renewed that deal with the shows that they wanted. And then because we now have access to all of the Universal IP, Fast and Furious and Jurassic and down the list, we did a separate deal with Hulu for a number of new shows on Hulu. So we diversified. We still have our Netflix deal. We now also have a Hulu deal. And so in my view, we already are direct-to-consumer. We're selling to the big guys, right? And I think Steve has been pretty candid when he said we're going to look across the whole scheme of ways to go direct to consumer, whether it's ourselves or through other people or selling to people. And I think we're kind of moving down that chain in the TV business.

Jessica Jean Reif Cohen - BofA Merrill Lynch, Research Division - MD in Equity Research

Okay. So let's shift gears, just talk about the broader theatrical market. The U.S. box office had a nice rebound this year. Last year, we were all like, oh, my gosh, is this cyclical or is it secular? What's happening? So it feels like it really was cyclical, like all the studios heads were saying. Can you talk about like the balance of this year into 2019? It sounds like you're excited. You mentioned some of the animation stuff and some of your other products. But how much visibility did you have on your own slate? And what do you think about the industry overall?

Jeff Shell - NBCUniversal - Chairman of Universal Filmed Entertainment Group

Well, the good news and the bad news in the movie business is you have a lot of visibility going forward, right, because you know -- we're working on our slate for '21 right now. So we have a ton of visibility. Now you don't know what's going to work and what's not going to work. But I think we're pretty excited. First of all, '18, it's interesting, we've had what -- if you look at the '18 versus '17, we've had a light year this year as far as box office. But 2 things about '18. If you actually look historically at Universal, '18 is amongst the most profitable, biggest years we've ever had. It just happens to be compared to '17, which was the most profitable, biggest year in the history of -- 100-year history of Universal. So by definition, you're going to be down when you comp against that. If you actually look at the difference between the 2 years, '18 and '17, the entire difference is really due to animation. If we had one more animated movie in the summer, we would've been pretty much where we were in '17. So we've actually had a really good year here this year driven by Fifty Shades of Grey and Jurassic World and some of the Jason Blum horror movies that we always have. And if you look at the fall, I can go through the whole list. But we have a -- we have actually some pretty good movies coming in the fall. I talked about the Grinch, which is really going to cap off Christmas for us. We have a movie called Night School coming out in a couple of years with Kevin Hart and Tiffany Haddish, which is tracking great. We have a remake of Halloween, which is tracking at unbelievable levels and is very -- Donna Langley saw 1. She won't watch it again until the premier because it's so scary. And it is -- so those are a couple of things. And then if you actually look going forward, we're very excited about '19. We talked about the animated movies. We not only have the 3 animated movies, but we have Doctor Dolittle with Robert Downey Jr. It's kind of like an animated movie because all the animals are animated and he's live action. So that will serve kind of as a fourth movie. And then maybe most excited about Fast and Furious, we're actually taking it -- we're doing a spinoff of Fast and Furious with Dwayne Johnson and Jason Statham, which is being directed by David Leitch and coming out in August the next year, followed by, in 2020, Fast 9, believe it or not, with Justin Lin directing and the whole crew and Charlize and everybody coming back. So we're actually going to have back to back Fast and Furious the next 2 years. Fast and Furious -- by the way, Fast and Furious 7 was the biggest Hollywood movie in the history of China. Fast and Furious 8 was the second biggest live-action Hollywood movie in the history of China. So that franchise is alive and well in Latin America and Asia in addition to the U.S. And I can keep going on and on. But we're excited about the slate in '19. And then '20, we have a lot of other stuff coming.

Jessica Jean Reif Cohen - BofA Merrill Lynch, Research Division - MD in Equity Research

All-you-can-eat subscription programs appear to be gaining traction for theatrical, not just at MoviePass but also across all the major exhibition chains. What do you make in the shift in the exhibitor model?



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Jeff Shell - NBCUniversal - Chairman of Universal Filmed Entertainment Group

So I -- first of all, I don't think MoviePass was a shift in the exhibitor model. I -- for those of you who talked to me about movie pass before, I have a very strong opinion. I think it was just discounting, right? It -- there is no question in most businesses, if you discount your product, more people will buy it. And it's clearly true in the movie business, right? And there's been a long history of that in the movie business. If look at the home video market, Walmart for many years subsidized the home video prices to get people in the door, and we were very happy with that. And we're equally happy with venture capitalists giving MoviePass a bunch of money, and then they subsidize our business. I don't think that says anything about the subscription model. I do think there will be different models in the movie business, and I think some people will want to have subscriptions. I think what AMC is doing with their Stubs program is pretty interesting. So it's at the right price point, so it's not a discounting model. And I do think -- I don't think it's going to be a major contributor. I just do think most people across the U.S. certainly are used to going to a theater, buying a ticket and going in and watch a movie and don't see the need for a subscription. But subscription is a good model, and I think there will be a place for it.

Jessica Jean Reif Cohen - BofA Merrill Lynch, Research Division - MD in Equity Research

You've brought up international a number of times as well. So let's talk about that a little bit. We've seen amazing growth in several countries over the last 5 to 10 years. I mean, really surprisingly strong growth, China, Russia, et cetera. Sitting here today, what markets now -- or for the most upside over the next, let's say, 3 to 5 years. And do you have like a different strategy to tap into those larger opportunities?

Jeff Shell - NBCUniversal - Chairman of Universal Filmed Entertainment Group

Well first of all, just to go back to my profitable question, you have to judge each international market based on the profitability potential that it is. And so there's a lot of hype around China. I've talked about China a couple of times, but the reality is for every \$1 in profitability -- or \$1 in box office we make in China, we make \$0.26 of profitability versus the U.S., every \$1 is about \$1.70 in profitability. So -- and you have a whole continuum by market depending on all the ancillary revenue streams. So when you look at it that way, the markets tend to skew in importance a different way. Personally, I think Southeast Asia is maybe the most exciting area for movies. It's very underscreened, very underserved by SVOD. Lots and lots of people with lots of lots of buying power. So I think Southeast Asia, Indonesia, Vietnam, that's going to be tremendous. I'm still a big believer in Latin America. We've been in Latin America with our Fandango business. Latin America tends to be a place that actually is more profitable per dollar of box office than most places in Asia. And so I think Latin America and Southeast Asia are the 2 most prominent places for our profitability.

Jessica Jean Reif Cohen - BofA Merrill Lynch, Research Division - MD in Equity Research

And do you have a different strategy or just...

Jeff Shell - NBCUniversal - Chairman of Universal Filmed Entertainment Group

It really depends on the market. I think for Asia, the big action movies and the animation worked really, really well. And then for Latin America, both animation and action movies but also some of the more musical-based properties work really well.

Jessica Jean Reif Cohen - BofA Merrill Lynch, Research Division - MD in Equity Research

How does your transitioning relationship with Legendary alter your China strategy?

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Jeff Shell - NBCUniversal - Chairman of Universal Filmed Entertainment Group

So we had -- there were 2 reasons we did the Legendary deal originally. Two actually separate reasons. One was, it was a pure financing deal where they finance -- they invest in our movies and finance our slate. And the second one was at the time they were bringing big original movies that we had not shown an ability in the past at Universal to do successfully. I think if you actually fast-forward now 5 years, we don't need either of those things. We don't need the financing. We have our deal with Perfect World in China that we think is the best financing deal around. So we don't need the Legendary money. And then separately, we've shown the ability in the last 5 years to be pretty successful at making big tent-pole movies and don't really need help with that. So I think Legendary, I think -- we love the people at Legendary. It's been a good relationship. But I'm happy for them that they found a new home at Warner Bros. It kind of doesn't make any difference in our China strategy. Our China strategy was kind of independent of Legendary. When I got here, we were -- we had a wrap in China. We actually didn't even have a China office. I think now we have the most successful China office. I mentioned the 2 highest-grossing movies in the history of China, Fast and Furious. One interesting story I'll tell you. We -- there's been a lot of kind of talk and hype, and I know you've interviewed some people about co-productions in China, right? So we took a different strategy rather than doing a big deal on doing lots of movies. We tend to try to cultivate some relationships with filmmakers there and really do one-off basis and learn. So one of the early groups of filmmakers we made asked to have the rights to remake a Universal movie. And so we said, "What movie?" And they said, "We'd like to remake Brewster's Millions." Of all the movies in the Universal, they picked Brewster's Millions, which was kind of shocking to us. So we went and got the rights for them to remake Brewster's Millions. And we -- and they went for it and then produced -- we did not -- we actually licensed it to them. We didn't -- it was complicated to co-invest on a one-off basis. We licensed it to them. And Brewster's Millions got remade as Hello Mr. Billionaire, which for the people out there who will recognize, I think 3 or 4 weeks ago was the highest-grossing movie in the weekend in China and now is at \$400 million, I think just under USD 400 million in China for the remake of Brewster's Millions in China, which is a nice little positive for us. So I think we're going -- doing just fine in China.

Jessica Jean Reif Cohen - BofA Merrill Lynch, Research Division - MD in Equity Research

Just as a general question for the -- I mean, not just for Universal, but do you think the quotas will change anytime -- at any point in the near -- in the foreseeable future?

Jeff Shell - NBCUniversal - Chairman of Universal Filmed Entertainment Group

I don't know. I do know that we did an analysis at Universal a year ago now. How much more money would we make if there was no quota? And it's actually not a huge difference because most of our big movies tend to get into China. Sure, we'd like to have an open market and have lots more movies get into China. But the reality is most of our big movies get in, and the amount of money we actually make in China on profits if some of our smaller movies got in would not be that material. Where we would like to see the market change is we would like the ability -- right now, you get dated -- you find out your date 3 or 4 weeks before the movie is opening in the market. It doesn't give you time to market the movie. It doesn't give you time to trailer it. It would be much more meaningful to our business to have more openness on the ability to market and promote movies in China than having a change in quotas. We want both, but I think the marketing stuff -- and we've had a number of conversations, and I'm pretty optimistic that things will change positively there at some point.

Jessica Jean Reif Cohen - BofA Merrill Lynch, Research Division - MD in Equity Research

Do you see any impact from trade wars in China for the film business -- for the film industry?

Jeff Shell - NBCUniversal - Chairman of Universal Filmed Entertainment Group

We haven't seen it at this point.



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Jessica Jean Reif Cohen - BofA Merrill Lynch, Research Division - MD in Equity Research

And then one last China question. But with your pending theme park coming, can you talk about any relationship, any benefit to you either way?

Jeff Shell - NBCUniversal - Chairman of Universal Filmed Entertainment Group

Oh, it's going to be huge. It's a huge benefit. So I think the theme park's opening, I'm looking at my people, 2020, 2021, around that time frame. One of the things we got when we bought DreamWorks is Kung Fu Panda, for example, which I know is going to be a big element of the theme park. And we're working right now on a Kung Fu Panda remake that we hope will be around the same time as the theme park opening. So I actually think the ability to kind of have a cross-marketing relationship -- if you think about the name Universal, most people out there think of the name Universal, when you think of Universal, you actually don't think of Universal movies because nobody goes to see a Universal movie or a Warner Bros. movie or whatever. They go to see a movie, right? But when people think of Universal, they tend to think of our theme parks because we do so much marketing and they have an experience directly with Universal. And I think having that Universal branding in China that we're going to have, by virtue of this theme park, is going to be gigantic for our business.

Jessica Jean Reif Cohen - BofA Merrill Lynch, Research Division - MD in Equity Research

What's your outlook for the Home Entertainment? What kind of trends do you see in Home Entertainment, both physical and electronic?

Jeff Shell - NBCUniversal - Chairman of Universal Filmed Entertainment Group

So in Home Entertainment -- by the way, it's still a big business, right? Whenever I tell people I can't obviously talk about the specific numbers now, but when I break down our financials for people and talk about how much revenue is coming from physical, it's still a gigantic part of our business. There's no question that it's declining, and it's declining double digits every year and will probably for the remainder of time. It's still a good business because by the way, there's nothing that fits in a Christmas stocking better than a DVD. So it's a really good business in the holidays and lots of other times in the year. The good news is if you actually look at the digital business, it is a fraction of the physical business but it's growing much faster than the physical business is declining. So in our company, we actually look at our economics and we think that next year, '19, or maybe '20 will be the year where the absolute change actually equalizes. So the nominal growth in the digital business will actually offset the nominal decline in the Home Entertainment physical business. And so if you look at the businesses combined, what has been kind of a steady decline is going to kind of plateau and should start heading up. So it's -- we've been waiting for this inflection point for a number of years, and it's finally here.

Jessica Jean Reif Cohen - BofA Merrill Lynch, Research Division - MD in Equity Research

And then let's -- let me just -- one more topic before we open it up to the audience. But cost management is a critical part of -- it's a critical discipline in your part in the industry. Can you talk a little bit about what you're seeing in negative cross-marketing expenses, talent participations, how they've changed, how do you expect them to change over the next few years?

Jeff Shell - NBCUniversal - Chairman of Universal Filmed Entertainment Group

So I have to say, I talked about the biggest surprise being box office versus profitability. I think maybe another big surprise for me in the movie business was I had read all the horror stories about cost overruns and everything. And what I found when I got to Universal was that costs were actually much less of an issue than you hear from the outside. We -- I can count on one hand the amount of times that we've gone over budget on a film in the 5 years I've been there, and that was from a million miles away and very consciously done and everything. So we have a good handle on cost in the business. I think that -- I heard Eric talk about sports cost before here and Aaron Donald and I think Khalil Mack that you referenced maybe, and you know you're going to pay for that eventually. Obviously, the more money we make in the movie business, the more money talent is going to get because that's core to the industry like the sports industry. I think the benefit we have in the industry is on the flip side of that, marketing cost should get much more efficient. Right now, we spend so much money on media. And really, we put a TV spot out there. And we



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expect people to be aware of the movie when the reality is data's getting so good, not just from Fandango but other places where we're going to have the ability increasingly to be much more efficient in our marketing and much more targeted in our marketing. And so even though talent cost will continue to rise like they will on the sports business, I think the marketing cost on our business will come down.

Jessica Jean Reif Cohen - *BofA Merrill Lynch, Research Division - MD in Equity Research*

Okay. Let's open it up to the audience for any questions. There's one back there.

Unidentified Participant

Just one quick question. I think you said for every \$1 of revenue in the U.S., you get \$1.70 of return. Can you please reconcile that?

Jeff Shell - *NBCUniversal - Chairman of Universal Filmed Entertainment Group*

Yes. And so when I say return, the return is the contribution before you pay participants, before you pay for the movie and everything. It's kind of the summation of all the revenues. So I can't break that down for you, but generally speaking, it's theatrical. It's your split of theatrical. It's your physical revenue from home video. It's your digital revenue from VOD and EST. It's selling the movie in the pay 1 window to HBO or Sky or Foxtel. It's selling them on the pay 2 window to FX or somewhere else and then free television and then all the consumer products and other ancillary streams. Whereas in China, what you're doing is you're getting a set \$0.25 on the dollar. That's the way it works in China. For every \$1 of box office, you get \$0.25 back in profit. And then the reason why it's a little bit above \$0.25 in China is we do a little bit of SVOD revenue. In China, we sell to platforms like Youku and stuff like that and they make us money. But in China, there's no physical home video market. There's no television sales business. There's no VOD business. And so you make do on your theatrical business largely. And all countries across the world are somewhere in the middle of that continuum.

Jessica Jean Reif Cohen - *BofA Merrill Lynch, Research Division - MD in Equity Research*

There's another one.

Unidentified Participant

I had a question on long-term margins in the film business. I mean, where do you see those trending? Is -- are we in just a temporary period where revenues have gone up and we just haven't seen budgets catch up and kind of compete that away or...

Jeff Shell - *NBCUniversal - Chairman of Universal Filmed Entertainment Group*

It's interesting. I actually don't know where margins are going to go on the long term. I can argue that they're going to go up because of the lower marketing cost. I can argue that they won't go up because we pay talent more money and it's proved out. What I will say though is I think volatility is going to go down because as we sell more movies to OTT platforms and direct-to-consumer, those are going to become a bigger part of our portfolio, and those are going to be cost plus or some form of more traditional margin businesses. And the rest of the theatrical movie business is a very volatile business because you never know. You start from 0 every time. So I think margins, I don't know where margins go long term, but I think volatility will come down.

Unidentified Participant

So with the consent decree -- the NBCUniversal's consent decree now expired, Comcast, once again, has management rights over Hulu. You've been named to the board. Can you just sort of maybe talk about your overall view of how Hulu fits within Comcast now and in the future?

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Jeff Shell - NBCUniversal - Chairman of Universal Filmed Entertainment Group

Yes. It's a -- I only got named to the board, I think, like 20 minutes ago or something before this meeting. So I don't have a ton of knowledge. My knowledge of Hulu is that Looming Tower is really good and Handmaid's Tale was more of a struggle for me. But there's no question Hulu's a great business and a very valuable business. And it's important to us not just because of our equity ownership in it but because we sell a lot of our TV content to Hulu. And I talked about our animated TV content. We also have a deal with them to sell that as well along with some feature movies. So I think it's an important asset to us, and I think it's also an important customer to us. And I think we're excited to once again participate in the governance of it.

Jessica Jean Reif Cohen - BofA Merrill Lynch, Research Division - MD in Equity Research

And let me just ask this one last question because you're ramping up animation. Are you cutting your live-action films? Or what's your view on that side of...

Jeff Shell - NBCUniversal - Chairman of Universal Filmed Entertainment Group

No. We're ramping up both sides. I think -- we actually -- I think there's going to be -- as buyers explode in the movie business, I actually think our overall volume in movies is going to continue to increase. We actually have, in the last couple of years, increased our volume. So animation's not going to go up that much. We're going from 1 or 2 to 4.

Jessica Jean Reif Cohen - BofA Merrill Lynch, Research Division - MD in Equity Research

Right.

Jeff Shell - NBCUniversal - Chairman of Universal Filmed Entertainment Group

But live action, we have 8 million movies a year from Jason Blum, which we choose 3 -- release the 3 to 4 best of them. But I actually think our volume will marginally go up over time overall.

Jessica Jean Reif Cohen - BofA Merrill Lynch, Research Division - MD in Equity Research

Great.

Jeff Shell - NBCUniversal - Chairman of Universal Filmed Entertainment Group

Thank you, Jessica.

Jessica Jean Reif Cohen - BofA Merrill Lynch, Research Division - MD in Equity Research

Thank you so much.

Jeff Shell - NBCUniversal - Chairman of Universal Filmed Entertainment Group

Thank you, everybody.



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