



3Q18 Script
November 14, 2018
11:00 a.m. ET

OPENING SCRIPT

Operator: Good morning and welcome to Univision’s Third Quarter 2018 Earnings Call.

I would now like to turn the call over to Adam Shippee, Head of Investor Relations and Senior Vice President, Corporate Business Development. Go ahead Mr. Shippee.

Adam Shippee: Thank you and welcome everyone. This morning, we issued an earnings press release, which along with our reporting package and a transcript of today’s call, will be on our IR website at investors.univision.net.

Some of the information discussed today will contain forward-looking statements. These statements involve risks and uncertainties, including those highlighted in our press release, that may cause actual results to differ materially from these statements. Univision is not obligated to update forward-looking information discussed on this call, except as may be required by law.

During the third quarter, we initiated a process to sell our English-language digital businesses, primarily comprised of Gizmodo Media Group, The Onion and The Root. These businesses were previously included in our Media Networks segment. The financial results of the English-language digital businesses have been classified as discontinued operations in our earnings press release and reporting package for all periods presented. Unless we say otherwise, the information we are providing on our call this morning relates to the company’s continuing operations.

Finally, we will refer to Adjusted OIBDA in our prepared remarks today as “EBITDA.” The press release provides definitions and how we determine our non-



GAAP measures, including core results and a reconciliation of Adjusted OIBDA to net income or loss. Unless we say otherwise, we are providing year over year comparisons. And, for TV ratings, it is among Adults 18-49 in primetime. With me today are Vince Sadusky, CEO, Peter Lori, CFO and Matt Drucker, Chief Accounting Officer. With that, I will hand the call over to Vince.

Vince Sadusky:

Thanks Adam. Thank you and good morning everyone. Our third quarter financial results were impacted by headwinds, including our dispute with Dish, the World Cup's impact on advertising and the 2018 Televisa PLA rate increase.

This has been a period of transition and considerable change across Univision. However, we're nearing completion of our formal transformation process. The team is re-energized and re-focused on our core business, which is serving Hispanic America.

Univision is uniquely positioned to do this. That's what drives us, and that's why I'm enthusiastic about what we can achieve as a company going forward and what we can deliver for our audiences, our partners, and our customers.

Even with all the change the company faced this year, Univision wrapped up the 26th consecutive broadcast season as the #1 Spanish-language network in the U.S.

We're seeing considerable operational momentum headed into the fourth quarter and looking towards 2019. For instance, the Univision Network is off to a strong start to the broadcast season, including the 10 o'clock hour, which over the last two years has been Telemundo's strength.

"Amar a Muerte" at 10 p.m., is a proven example of our efforts working with our largest program supplier, Televisa, in Mexico, to make the traditional Novela into an exciting series. The series is showing positive trends with audiences in both Mexico and the U.S., where it is outperforming Telemundo.



We are also focused on adding compelling content to complement our Televisa pipeline. An example of this is our 8 p.m. series “Jesus,” which premiered in November and is outperforming Telemundo by double digits every night. With the success of these recent premieres, we are winning November Sweeps despite not being carried by Dish. These new shows are also outperforming top English-language programs in key markets across the country including Los Angeles. Following the launch of “Amar a Muerte,” Univision was the #1 broadcast station in primetime among all broadcasters in L.A. on 5 of its first 7 nights on the air.

I’m encouraged by the direction of our overall content slate—both in terms of our Televisa pipeline and in our strategy of diversifying our sources of content from around the world.

With mid-term elections wrapping up last week, I want to thank our entire news team for their contributions to the company and those that depend on Univision. Hispanic America comes to Univision Noticias more than any other network. Noticias continued to outperform Telemundo by double digits and has a larger Hispanic audience than the evening news programs of CBS, NBC, and ABC combined.

In July sweeps, we also continued to have the #1 or #2 local news in key markets across the country. I’m pleased to announce that Diane Kniowski recently joined Univision as President and Regional General Manager of Local Media. I’ve worked closely with Diane in the past, and under her leadership we will add more local news in key markets, ensure robust sales processes, and build marketing partnerships to start closing the gap on our fair share of advertising in markets, given our considerable audience share.

Moving to sports, Telemundo having the World Cup shifted advertising in the quarter; however, Univision remains the home of soccer in the U.S. Even without the World Cup, Univision networks carried over half of the top 100 soccer matches watched in the quarter. We expect our networks will deliver more than 50% of all soccer ratings points in the U.S. this season.



We added to our leading soccer franchise by launching UEFA coverage with tremendous success. Group stage matches for UEFA Champions League have aired in the U.S. since 1994. Opening matches on Univision represent the most-watched opening week matches ever. Univision far outpaced coverage in English-language with audiences nearly 2 times larger than TNT. Importantly, we estimate 45% of those who watched group stage matches on Univision had not watched Liga MX in the prior 4 weeks, an indication that we are bringing new viewers to our channels. We believe soccer is the growth sport in the U.S., and Univision aggregates the largest soccer audiences.

Univision Deportes Network, UDN, continued to be the #1 Spanish-language sports network. In fact, it's not even close, delivering a double-digit audience advantage over Fox Deportes and ESPN Deportes combined. UDN also outperformed English-language peers including ESPN2, NFL Network, and NBA TV.

This brings me to Dish. On Monday night, the last of our top 4 networks, UDN, was dropped from the Dish lineup. UDN was one of Dish's top sports networks and we believe one of the last reasons for Dish Latino subscribers to continue with the service.

As you have probably read with Dish's earnings last week, they experienced one of their worst ever quarterly subscriber losses which directly coincides with their drop of Univision's networks and stations. Given that Hispanic adults spend twice as much time with Univision as with any other U.S. media company, it should come as no surprise that our viewers have left Dish in unprecedented numbers. We believe without Univision, UniMás and Galavisión, Dish lost hundreds of thousands of subscribers in the quarter alone.

I believe getting a deal done would have been best for both companies; however, Dish has been unwilling to pay fair market rates that we have already achieved. We will not do a deal that undermines the value of our services. While not doing a deal will create short-term financial and operational headwinds for Univision,



we expect the long-term impact to Dish will be more significant. We estimate that for Dish, U.S. Hispanics generated at least \$1 billion in revenue annually with hundreds of millions in EBITDA.

As Dish has said, Univision's comprehensive Sports portfolio is one of our strongest assets. And now, without UDN for the first time and Univision likely moving on from the deal, we would expect a significant portion of Dish's approximately 1 million remaining Dish Latino subscribers will migrate to other MVPD partners, leading to continued quarters of accelerated subscriber declines for Dish.

Looking ahead, we are already in discussions with other MVPD partners on how we can help them grow their Hispanic businesses. I'm pleased to report that this included signing a new deal with Altice in early October.

In summary, the company remains singularly focused on serving Hispanic America. I'm confident in Univision's underlying strengths, our strategies, and our team. I'm encouraged by some of the recent successes I shared with you, and I believe we are on an exciting and successful path as we look ahead to 2019. And with that, I'll hand the call over to Pete.

Peter Lori:

Thank you Vince, and good morning all.

We have spoken recently about optimizing our core business while continuing to pursue a key priority of reducing our net debt.

Although it was a challenging quarter, we continue to be the destination of choice for U.S. Hispanics across entertainment, news, and sports. As part of our transformation this year, we have achieved savings in areas of our business that do not impact our core offerings, while continuing to invest in core soccer and entertainment content and continuing to reduce our net debt.



Net debt in the quarter decreased by \$80 million, and year-to-date, net decreased by over \$336 million, reflecting the cash-flow generative nature of our business. In the quarter, interest expense was lower by 8%.

As we mentioned in prior quarters, this year the Televisa PLA rate increased. If the rate increases were in effect last year, expenses would have been approximately \$32 million higher in the third quarter of 2017.

In the quarter, total revenue decreased 17% to \$628 million, while core revenue decreased 8% to \$649 million. Core results are presented consistent with prior quarters. In addition, the one-time contractual revenue adjustment of \$41.1 million is excluded from core results, due to its unusual and non-recurring nature.

Income from continuing operations was \$12 million, compared to \$110 million.

EBITDA decreased 33.4%, or \$117 million, to \$231 million, largely due to the impact of the PLA rate increase, the contractual revenue adjustment, disruption of carriage on Dish, and the World Cup being aired by a competitor. Core EBITDA declined 17%.

Advertising revenue decreased 17%, down 19% in our Media Networks segment, partially offset by growth of more than 1% in the Radio segment. The decreases in advertising revenue were primarily the result of reduced ratings capacity, shifts in spending due to World Cup, and decreases in spend from telecommunications, retail, and automotive advertisers, partially offset by scatter growth and pricing gains. Additionally, in 2017, the Gold Cup tournament incremental revenue was estimated at \$27 million, and there was no Gold Cup tournament in 2018.

Total core ad revenue was down 12%.

Due to midterm elections, political and advocacy advertising at the Media Networks increased 22% to \$9.5 million. We believe our top-rated news



programming and unduplicated audiences continued to make us critical for any candidate who understands the growing importance of U.S. Hispanics.

Media Networks non-advertising revenues declined 19% to \$246 million. The decrease of approximately \$57 million was a function of the \$41 million contractual revenue adjustment, coupled with the lapse in Dish carriage.

Excluding the contractual revenue adjustment, Media Networks subscriber fees declined in the quarter by \$10 million, or 4%, due to the disruption of services with Dish, partially offset by the timing of renewals and contractual rate increases with other distributors. Excluding Dish and the contractual revenue adjustment, the rest of our MVPD portfolio was up low double digits.

Switching over to costs, we continue to focus on reducing our expenses while reinvesting in areas important to our core business, such as sports and entertainment content.

Excluding the PLA, direct operating expense and SG&A decreased 7% in total.

Direct operating expense related to programming, excluding the PLA, decreased 7% to \$142 million. The decrease is primarily due to a savings of 2017 costs related to Gold Cup soccer, partially offset by investments in recurring soccer and entertainment.

The PLA cost increased \$6 million, or 8%, to \$83 million, due to the previously referenced contractual rate increase, offset by lower revenue.

SG&A decreased 7% to \$157 million, reflecting a reduction in certain employee-related costs and lower professional services costs.

Our efforts to improve our cost structure resulted in \$55 million in restructuring costs this quarter. We don't expect significant restructuring costs in 2019 and



beyond related to the 2018 initiatives. We expect these actions to be accretive to both operating results and cash flow going forward.

We will continue to evaluate our overall cost structure while reinvesting in the core business and reducing debt.

And with that I'll hand it back over to Adam for questions.

Adam Shippee: Thanks, Pete. Operator, we are ready to begin the Q&A portion of the conference call. First question, please.

Q&A PORTION

Operator: Thank you. At this time, I would like to remind everyone that if you would like to ask a question, please press star then the number one on your telephone keypad.

Our first question comes from the line of Aaron Watts from Deutsche Bank.

Aaron Watts: Hey guys, thanks for having me on. A lot of moving parts this quarter, so I had a few questions. Pete, maybe I can start with you. Can you give any more color on the origins of the \$41 million charge you took in the quarter? Where did it stem from? Should we expect an impact in the fourth quarter and maybe even if it was due to any MFN impact or if it was something else?

Peter Lori: OK. Well this is a very isolated situation, which will only impact 2018, a very unique circumstance and a contractual anomaly in our subscriber business. For those reasons, we have adjusted it out of core as it will not impact 2019. There may be an additional impact in the fourth quarter, which will be less than the impact this quarter.

As you can understand, I'm sure, due to the confidential nature of our distributor partnerships, we're not going to go further into details other than to say it was isolated and it is isolated to 2018, meaning it will not recur in 2019 or beyond.



Aaron Watts: OK, all right. Got it. And as I think about the third quarter that you're reporting here, any impact Dish had on it? I know your subscriber fees dropped to around \$206 million in the quarter. I believe that the \$41 million charge impacted that. Did I hear you right in saying that if I kind of exclude that and exclude the Dish impact, that you're growing sub fees at a low double digit rate? Is that the right way to think about it?

Peter Lori: That's correct. So excluding that one-time contractual adjustment and Dish, the rest of our MVPD business grew low double digits in the quarter.

Aaron Watts: OK, got it. And then just one other question on Dish, maybe for Vince. As I think about kind of your discussions with them, if there were any, can you give us any update on kind of where you're at in terms of negotiations? Did Deportes going dark spur any additional conversations given the importance of that programming to their audience?

Vince Sadusky: I would characterize the conversations as, they've been ongoing right through the takedown of UDN, but we've been really challenged.

I think the distribution team and myself I think we made every reasonable effort we could with getting a deal done with Dish, but at the end of the day, it's all about economics and I just think it's very odd that they have not been willing to recognize the power that Hispanic consumers and the popularity of Univision's programming across news, sports, and entertainment, I think it's really, really strange.

Normally, these conversations, I've been involved in so many of them over the years, are challenging. It's about economics; normally, you leave the table both sides, feels like they left a little something on the table, but their position throughout this entire negotiating process has been really, really bizarre. And I think it's been disappointing from the perspective of clearly the Street, everyone's has been cheering for both of us to reach a deal.



They have built up a disproportionate amount of business on Latino subscribers historically, from all accounts, everything we can see it's good business for them, it's a good amount of cash flow.

But for whatever reason, they have been incredibly stubborn and really not allowed us to do a deal is the way to think of it based upon the economics that have been discussed. So yes, you should – I think view UDN coming down as a sign that an incremental sign that we were not able to get a deal done.

Aaron Watts:

OK, that's helpful context. And, maybe the last one for me, and I appreciate the time. But just thinking about Vince, your comments about the improved ratings you're seeing in the November sweeps, for instance.

How should we think about your pacing outlook for the fourth quarter? Maybe you can give us some color, Pete, about how local, national TV are looking and the Radio business as well, kind of an add-on to that?

Peter Lori:

So Aaron, I'll talk about pacing both on a core and all-in basis just given the concentration of political, given the election cycle, in the fourth quarter.

So for the fourth quarter, our Media Networks core advertising is pacing down mid-single digits, but all-in, it's pacing flat.

Radio core is pacing down mid-single digits, but it's benefiting from political and pacing up mid-single digits, all-in. Total company core advertising is pacing down mid-single-digits, but all-in, our advertising is up low single digits.

I should say too that within Media Networks, our television station business, in particular, which is not impacted by being dark or not being carried on Dish, is pacing up nicely on both a core and an all-in basis. And just to remind that pacing is done on a cash basis as orders came in. It does not include the effect of any impact of audience guarantees.



Aaron Watts: OK. So those pacing include the impact you're having from not having Dish's audience. Do they include any impact of any charge you have may similar to the \$41 million charge you had in the third quarter?

Peter Lori: There's no charge whatsoever affecting our advertising revenue. And this is – again, this is based upon volume of orders coming in.

So the pacing of volume and sort of the demand for our advertising business as our revenue has worked through not been affected by Dish really other than Dish itself not advertising on our networks. So we're happy with that volume.

There has been a slight increase this quarter, and we expect a slight increase next quarter that will affect reported revenue, but not the actual volume of orders that are coming in and that reported revenue, then – there's an opportunity to express that in 2019 when we deliver on that.

Aaron Watts: OK, great. Thanks for all the color.

Operator: Our next question is from Jason Kim with Goldman Sachs.

Jason Kim: Hi, thank you, good morning. On the impact from Dish, are you able to estimate how much of -- how many of the subscribers have you lost from them you're able to recapture via your direct-to-consumer service or other pay TV operators that may be gaining those subs from Dish.

And then on the last earnings call in early August, you noted that you have not been as aggressive as you can be in trying to convert Dish subscribers to other providers.

Can you update us on where you stand on that front, and have you been more proactive in pushing Dish's subs to other cable and satellite providers and if so,



how should we think about any cost that you may incur to do that or benefits to the top line in the future quarters?

Vince Sadusky:

Yes. I think what we've seen so far you have seen in Dish's most of the media reporting for the quarter, they experienced their largest subscriber loss. We think the losses continue.

They had, I think, somewhere in the range of over 1 million Dish Latino subscribers alone, much less Hispanics who subscribe to other packages. And that's down significantly. We think somewhere between 200,000 and 300,000 subscribers, which is a terrific amount for a relatively short period of time.

The other pay TV providers have been active, they are active advertisers with us, they have been active in adding Hispanic subscribers pre-Dish come down and they have certainly been very active since. U NOW is another data point that we have, our direct-to-consumer service, and that service is at an all-time high in terms of subscribers.

So clearly folks are seeking other ways to get Univision. I think we mentioned on the last call, Dish is one of the more difficult pay TV providers to get out of a contract in that a good many subscribers have a breakage fee that they need to incur.

And so I think as you see people work their way through that breakage fee throughout the course of months of us being off and with our specific messaging on our outlets. So we have got a terrific complement of radio and digital properties as well, where we can message to our consumers that this is likely permanent and there are other alternatives available.

I do believe you'll continue to see significant subscriber loss. The thought is, why would you stay with a service when there is a competing service available that has something that's why we watch. Again, we've got over 50%, close to 60%, of all the viewership to Spanish-language programming in the U.S.



So these are -- this will be the -- in my mind kind of a sum total of losing ESPN, CBS and ABC plus other services, let's say TNT altogether. If you had that bundle of services in terms of very highly viewed and, just to make it kind of relevant to English-language packages, you would never stay. You'd go to the competition.

It takes a while for folks, again, given that there are breakage fees, given that I think in this day and age people feel more and more like, well, it's a couple of big companies fighting it out and they'll figure it out. So I'll be inconvenienced for a while and I will figure out how to get it.

But again, I think once we really begin to crank up that messaging, you'll see a continued decline in subscribers to Dish. And that will benefit our other MVPD partners that we've got, I think, very robust partnerships with.

Jason Kim:

Thanks for the color. My other question was, can you update us on where you stand with respect to cost-cutting initiatives or, there are a lot of moving parts here, and I understand some of the initiatives are more focused on foregoing new projects that you don't necessarily need as opposed to actually cutting on spending, but as we think about the operating expense profile of the business going forward, how much expense rationalization have you implemented already?

And as a related question to that, one area where you saw an opportunity to invest in was a new digital expertise. Help us understand some of the major initiatives you have in place to invest here and the magnitude of those investments.

Peter Lori:

OK. Well, I'll let Vince talk about the digital expertise, but I will start to cover where we are on overall cost-savings efforts. So the easiest way to measure that is by looking at our results year-to-date in terms of our direct operating expenses and SG&A expense.



And to focus that appropriately, you would focus on those two excluding the PLA with the variable cost that we have talked to a lot of you about, the PLA rate increase this year. So for the 9 months ended September 30, our direct operating expense and SG&A is down \$57 million compared to last year.

The lower costs are relatively equally split between direct programming expense and SG&A. The programming expense savings are really due to content that was previously produced by Univision that is now being produced by our partners at Televisa. So we are not taking content off the air, but we are getting that content produced by a provider as part of the variable cost rate structure. So that's a trade we'll make every day.

And the lower SG&A expenses, primarily due to lower employment-related costs and lower professional business service cost. I should say too that within direct operating expenses, there is a reduction because we did not have the Gold Cup tournament in 2017.

But we took that money and we have spent that amount and more on recurring soccer in 2018, and that's really been the strategy that we have, and that was part of the strategy that we started to undertake when we decided not to overpay for the World Cup, and I'll maybe leave it to Vince to talk about some of the strategy.

Vince Sadusky:

Sure thing. I think we spoke on the last call about this exercise that had begun before I got here. And the major pivot for us was to -- I've got a chance to spend a lot of time with the operating teams -- was to continue to invest in the most important things. So there was a clear shift from kind of cost cuts at the company to truly repositioning the company for growth and success.

And so we had savings on the programming front, but it was around things, like Fusion, that we've deemphasized in terms of original expense production, co-productions that were moderately successful in the past with moderate ratings and high costs. But it was really, really important for me to ensure that we were investing for the long-term growth in this competitive programming environment.



And so putting money back into network programming, sports, news, and local were really critical. So that is all part of this plan, but having said that, the cost saved as a result of, what I think is really smart restructuring, is significant.

And I think, your assumption is right, Pete laid out some of the impact that you've seen in the quarter. But as you annualize and look forward, greater savings are certainly realized as we unwind programming agreements and wind down certain operations, et cetera.

But again, it's very important for this company to do things like we made investments in, I think, you pointed out local digital so we'll be firing up here in the fourth quarter local digital text alerts, local digital mobile new sites, we're investing in several really exciting things we will be bringing to market on the sports front.

We were already very strong in sports with UDN and airing sports on all of our networks and we have doubled down through UEFA. We have seen the World Cup ratings, they were not anything close to what we experienced 4 years ago.

So the decision to walk away from the World Cup and instead spend money on European League Soccer to complement our already strong soccer franchise was made before I got here, but clearly a smart strategy.

We continue to drive soccer ratings all year long. I mentioned on the call, our ratings for UDN are stronger than ESPN Deportes and other services by far. On the news front, we continue to invest back in local television stations. I believe that's a good business, especially in the area of morning news as well.

And when you have got television stations that, to this day, are the highest-rated English or Spanish in markets like L.A., Houston and Dallas and Chicago. I mean, that's exciting. That's an area from which you build, you incrementally build off of, as well as the entertainment side.



The primetime entertainment has been a troubled area for the company for the last several years having some hits, but not enough hits. And I think not having a programming pipeline that was deep and broad enough was a big part of the problem. So we've changed the strategy dramatically.

Early signs of the working relationship with Televisa, the use of many, many outside producers throughout Latin America has started off strong with our strongest 10 o'clock time period that we have experienced in many, many years. So that's terrific. And then something completely different, an output deal we got with another provider at 8 o'clock has been a runaway hit as well.

So that's, that's really a redeployment, but net-net, still a terrific amount of savings in things that are not focused on the things that we think are most important, which is programming, marketing and promotion and helping our advertisers and distributors.

Jason Kim: Thank you.

Operator: Next question is from David Phipps with Citigroup.

David Phipps: Hi, thank you for taking my question. I would like to probe a little bit on the \$41 million contract revenue adjustment with you, Pete.

So, I'm trying to figure out when I look through economically, did it change some of the cash flows that are in and out, or is this more accounting so that when I look at the third quarter, is it better advised to look at the non-core advertising as the adjusted number that you have like \$279 million versus the \$288 million?

So when I look forward to start rolling it out, is that kind of a realistic base revenue metric or should I start working from the \$246 million non-advertising revenues. I think that's the question I'm getting from a lot of investors right now. Is it really contra or when we look at next quarter will we see a number kind of like the \$246 million instead of more like a \$300 million number?



Peter Lori: OK. Thanks, David. It's Pete. I just want to be very clear. This one-time adjustment, which will not recur in 2019, did not, in any way, affect advertising revenue, be it core, non-core, whatsoever.

The charge was reflected as a reduction of subscriber fee revenue and then we talked about subscriber fee revenue, we talked about the growth in subscriber fee revenue -- with our MVPD partners, excluding Dish and excluding that one-time charge, and that growth being up low double digits.

So if you are looking to normalize anything, you should normalize by adding that charge back to the subscriber fee revenue to kind of get a basis for what they will look like going forward.

David Phipps: Fair enough. And then, when you said that there could be a little bit of a charge, is that less than 25%? Because it would also be a contra to the revenue, again, so if it is going to be \$10 million, then we would expect \$10 million less on that revenue line going forward?

Peter Lori: Yes. We do expect a charge in the fourth quarter arising from the same circumstance, again which will not recur beyond 2018.

That charge will be less than the charge this quarter, but it's going to be, I'm not going to forecast the charge for the fourth quarter. It will be somewhat less than the charge this quarter, and it will hit in the same place.

David Phipps: OK. And then second, maybe for Vince. When we look at some of these subscribers and certainly everybody was a little bit surprised that this went on and transpired the way it did. Some of your customers if they already had a dish for their satellite TV, they could have switched to DirecTV and moved on where the programming is there.



When you look and see the number of subscribers that you have and the attrition that you had, can you talk about the pace of how disconnects have happened from month-to-month throughout at least the third quarter and maybe into October as well?

Peter Lori:

OK. David, this could add some more color to this. We don't have exact visibility – they are not our subscriber losses. So feel free to ask our friends from Dish about the exact pace of the subscriber losses that they have incurred, which has been, by our estimates, 25 to 30% of their Latino business, which as Vince mentioned is \$1 billion business for them, throwing off hundreds of millions of dollars of EBITDA.

We certainly know that at the beginning in the first couple of months of not being carried with them, we were not anywhere near aggressive as we are now going to become in terms of converting these subscribers. Now that there feels like there is more of a sense of permanence to the situation. And also that impact to the subscriber losses, we think is going to be more pronounced now with the very important Univision Deportes Network services not being carried by Dish anymore, at our volition, with the choice that we made as of Monday evening.

So, we expect the subscriber losses to be accelerated as a result of UDN and to continue, and I think even in Dish's earnings call there is a short-term sort of benefit that they realized and they realize there is going to be a longer-term hangover and we believe it is the opposite for us. We are feeling some short-term affect and we are looking at things from a longer lens in terms of how we make our business decisions.

David Phipps:

OK. Then two last from me. So one, when you look at Deportes channel. Would you expect that to have -- in relation to the overall Dish impact -- how do you frame that?



Is that like a third of what the Dish impact would be half, less, more? You have 1 million subs, and I believe on the last call you talked about to 2 million to 3 million subs at Univision overall, so does that triangulate to 50% or a third?

Vince Sadusky:

I think it is difficult to do the math. I think, at the end of the day, nobody knows. I think if you think about really, my analogy to the general market. Let's say you lost FOX, CBS and TNT, but ESPN was still on, and then months later you lost ESPN also.

So for people who hadn't already switched over who are heavy sports users, this is a big deal for them. To lose those games on UDN is a big deal. So that will, I think, create a wave of momentum of people that will seek out incremental services that perhaps were waiting around. But it's really hard to dissect the individual services.

I think the bottom line is we have an entire group of networks that, in our view, you can't really have a Latino service without us. And so the collective sum of them not being available on Dish and it likely being permanent is something that we believe will drive consumers to other services as each day passes.

David Phipps:

OK. If I can sneak one more. What percentage of contracts come up for retrans in 2019?

Peter Lori:

OK. We don't -- I think as you guys know -- we don't talk about the expiration dates or maturities of our MVPD business for reasons I'm sure you understand.

David Phipps:

Understood. Thank you, those are my questions.

Operator:

Your next question is from Avi Steiner with JP Morgan.

Avi Steiner:

Good morning, thank you for taking the question. Just on the charge topic, for a little more clarity. Does the \$41.1 million reflect three-quarters worth of an impact such that fourth quarter should be about prorated \$13.7 million, and why



wasn't it in the first two quarters of the year, is it related to Dish from that perspective?

Peter Lori: OK. Avi, as you mentioned before obviously due to the confidential nature of our distributor partnerships we are not going to indicate which distributor drove this one-time charge, but suffice it to say that the circumstance that triggered the charge was not in existence in the first half of the year, is in existence in the third quarter and is in existence to a degree in the fourth quarter. It will not be in existence in 2019.

Avi Steiner: Fair enough. Last question on this topic before I move on. Why is the flow-through of this charge \$33.5 million? What's the math?

Peter Lori: It's just the PLA. It's a revenue adjustment and it reduces the royalty base that we pay a royalty to Televisa on.

Avi Steiner: Perfect. That make sense, thank you. And then the \$10.1 million run rate sub fees decline ex that contractual charge. Is that the right way to think about that line, revenue line going forward? Or does it get a little worse with UDN having come off, I guess, directionally am I thinking about that the right way?

Peter Lori: Well -- as I mentioned the sub fees with our other MVPD partners, excluding Dish and excluding this one-time charge, actually increased low double digits. So I'm not sure what the math is on the \$10 million, but happy to connect with you after the call to see what your math is.

Avi Steiner: I appreciate that, and maybe I will end on this, and thank you for the time. So core pacing, I think, are sequentially better if I understood your comments on the prior question. Can you just maybe dig in a little deeper what's causing the change from Q3 to Q4. Is its upfront, or is it something else?

And I think you have said that excludes audience guarantees? Can you just drill down what that means exactly and is it fair to interpret advertising would be even



better if Dish were on? I just want to understand that whole interplay. Thank you very much for the time.

Peter Lori:

Sure. Yes, and so first I will talk about the third quarter. Third quarter, our total core ad revenue was down 12%.

That was impacted both by, we estimate the impact of the World Cup being carried by Telemundo and not on Univision and the migration of ad revenue away from Univision to Telemundo in that quarter, as well as by a slight increase in our under-delivery liability, our audience guarantee liability, which is a reduction of revenue. Those 2 things each impacted our growth in the quarter by 3 or 4%.

OK. So now into the fourth quarter we can't project forward our ratings or revenue at the end of the day. But I will say that, we're pleased that our ratings – with the quality of the content seems to be working through not being carried by Dish. As Vince mentioned, we've had this really good run at the 8 and 10 p.m. slots, even not being carried by Dish, in the third quarter.

Our portfolio outperformed Telemundo by 22% in primetime and 36% total day. And we are on track now to win the November sweeps, and that's all without being carried by Dish.

So projecting forward the effect of not having the viewers on Dish is something I can't forecast because in part our content is mitigating that and on top of that, we are now working to have the subscribers that previously viewed our content on the Dish platforms migrate over to the other platforms, which will also mitigate any potential audience delivery fulfillment obligation we would need to accrue at the end of the fourth quarter.

I will also say that the relative amount of audience fulfillment obligation versus other broadcasters is quite low as a percentage of our total network business and it is a very, very manageable number, and we're happy that the volume and pacing of the orders that are coming in, the demand by advertisers to have their



advertising expressed on our other platforms is there, it is actually better and its obviously following, to a degree, the ratings improving.

We're very happy with that and we would much prefer to have slight increase in our audience fulfillment obligation, which we can manage and handle in future periods.

Vince Sadusky:

And just to put it, from my perspective, a little differently. Yes, in the third quarter, Telemundo was strong. They had a couple of really strong novelas, 9 o'clock and 10 o'clock. They had great promotional value coming out of World Cup. And so they had World Cup in the summertime. So these were several things that were difficult for us from a compatibility perspective.

Much of the same way when NBC every couple of years has Olympics, especially every 4 years when they have Summer Olympics, it really takes share away and a lot of ad dollars out of the market whether or not that makes good financial sense given the cost of rights fees is another question. But it does have an impact once every -- in our case, once every 4 years now with Telemundo having the World Cup.

Going forward as we look into the fourth quarter, there is definitely I think we have some momentum as a result of it, honestly, being a good political year for other broadcasters. So I think we're able to participate and really focus on the core business, but I will give our team some credit as well, ultimately we've had an early, refined focus on the local side.

The ratings we get locally are really terrific, despite all the rhetoric from Telemundo about share and what have you -- we are incredibly strong relative to the general market, and we have a massive gap between the advertisers that spend money and the amount of money they spend with us and our current viewership levels.



So we have begun to focus on that and I think you'll see that being a really critical strategic initiative for us, to get our story out to allow more advertisers that I know will recognize purchasing Univision as a real media bargain and a smart move in the local markets. So I think we've seen some of that, which is terrific.

The Dish situation is a negative from a viewership level. Yet we have been able to perform much stronger in primetime since the launch of the couple of our new products over the last few weeks, so I think that's really assisted as well.

So I think getting out of the summertime where Telemundo was strong in prime, was strong with World Cup and now going into the fourth quarter I think I would say that's more of a normalized programming competitive dynamic for us.

We are strong I think we're seeing sustainable momentum in prime and World Cup's -- that noise is out of the system and the negative for us now is lower viewership levels associated with Dish, but again we still look to beat Telemundo in the sweeps and the strong numbers we talked about were something we have irrespective of not being carried with Dish and we think a lot of the conversation we have had collectively this morning over the phone about how fast will subs move over to other MVPDs, I don't know, but it will happen and over time, I think the negativity associated with not being on Dish from a ratings perspective will abate.

Avi Steiner:

I appreciate the time and those great answers. If I could sneak one more and I apologize. When you think about subs migrating, how do you think about between MVPDs and potentially over the air as an option and I really will leave it at that, thank you for the time.

Vince Sadusky:

No problem. Yes, I think our consumers over index over the air and I think that's a terrific target for MVPDs. As folks work, make money, pay for education, all these things. Yes, I think having pay TV service is an aspirational thing.



And when you think about the average for everybody has a cell phone and what the average cell phone bill is relative to kind of a basic package that includes Univision, I believe the MVPD offerings are quite competitive and quite a good value.

So I think that that's a real opportunity and I think as we come into the company and take a look at the landscape and I look at our relationships with our distributors.

I feel there is some really, really great marketing and incremental content opportunities we can offer up to our pay TV partners going forward to get them to really focus on this market segment as an opportunity to drive subscriber growth and look I know if it were me and I was making decisions at MVPDs other than Dish, I would say that the million plus Dish Latino subscription base alone is a really target-rich environment for me to go after and focus on.

So that's going to be our strategy going forward. To help our partners out in marketing our services to our consumers.

Avi Steiner: Great, thanks for the time. Thank you.

Adam Shippee: Thanks, Avi, for your questions. And thanks everybody on the phone for your questions and for joining us today. Just as a reminder, the IR team is available for any additional follow-up questions. Thanks for joining us and have a great day.

Operator: This concludes Univision's Third Quarter 2018 Earnings Call. You may now disconnect.

END