

MIPCOM–OCTOBER 2017

MEDIA MASTERMIND KEYNOTE

VARIETY VANGUARD AWARD

AT MIPCOM:

RICHARD PLEPLER,

CHAIRMAN - CEO,

HBO

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Paul Zilk

Good afternoon, ladies and gentlemen. Welcome to MIPCOM 2017. There are many exciting events taking place in MIPCOM during the next few days and several truly inspirational speakers will be right here on this stage. This is one of those exciting events. MIPCOM, together with Variety, will present Variety's 2017 Vanguard TV award to Richard Plepler, who is the chairman and CEO of HBO. For years, HBO has entertained global audiences with many extraordinary and unforgettable series, films and more. Under Richard Plepler's guidance, HBO has significantly extended its international reach and pioneered new distribution models. Before we welcome Richard on stage to receive his award, I'm pleased to invite Variety's managing director of television, Cynthia Littleton, to join me. Thank you very much.

Cynthia Littleton

Thank you, everyone. Thank you for joining us this evening for a session. This is part of our effort to honour a television company that really doesn't need a lot of introduction, but really should be celebrated and recognised for being one of the first US based networks to truly build a global brand around the world. From its earliest forays into Latin America in the early nineties, when going international was not something that a lot of other networks were doing, to the present day when it has proven to an innovator in the cutting edge, new OTT space that a lot of us are talking about here at this conference. So we are very grateful that Richard Plepler has given us his time to come and talk with us about how he did it all, or how HBO, over a 45 year career, built this incredible brand that has proven to travel so well. So we're going to hear about that as soon as we sit down, but right now we'd like to bring out Richard and present him with the Variety Vanguard award, for contributions to the global television business.

It's a crazy business right now - a lot going on at any given moment. We appreciate you coming over here. Before we start to talk, let's just take a quick look at a clip of some of what you and your team at HBO have been up to in recent years. And that's just the last year or two, that is a lot.

Richard Plepler

Exactly, and much more to come.

Cynthia Littleton

A lot of programming. I'm spoiled because I have press access, I binged The Deuce, the latest show from David Simon, in about two days. It's fantastic.

Richard Plepler

No surprise from David, but it's exciting to see.

Cynthia Littleton

I can highly recommend it. So, you have been at HBO for some time now, since 1992, but you have been CEO for just about an even five years now, and you look back at the last five years and it's probably been the most dynamic period of change in HBO's 45 year history. Can you tell us about, as you stepped into the CEO slot, the kind of strategic business decisions that you were coming up against? Some of them through a quirk of the calendar, with a lot of important deals coming up, and some of them being at a business crossroads at that time. Just to clarify, we're talking about early 2013. At that time, Netflix had 36.3 million subscribers, almost all of them domestic; they were about a month away from launching House Of Cards, their first foray into original. Amazon was just in the very infancy of their efforts; they would launch their first two shows later that year. Both of those now very formidable competitors were spending a fraction of the kind of money that they're spending on programming today. You took the reins at a lighter period for franchises. Talk to us about what some of those first challenges were.

Richard Plepler

So we asked a couple of interesting questions at the end of 2012, where our penetration in the basic cable universe was somewhere around 30 percent. I had a hunch that we were almost so in love with ourselves as a brand that we assumed that everybody out there knew what HBO was and that everybody understood the range of our library, the range of our programming, the fact that we had four Hollywood studios, first pay window under license. We asked a couple of simple questions through some research. If, in fact, you understood what the value proposition inside this brand was, were you likely to go from either an undecided voter user, political metaphor, to a persuadable voter and did we have an opportunity, if we could talk directly to our consumer. Which remember, for most of our history, the relationship between HBO and the consumer was through an intermediary. The cable operator, the satellite operator, the telco operator. So we couldn't talk directly to our consumer and at that time, end of 2012, beginning of 2013, you have about five million broadband-only homes in the United States. So we asked a couple of

questions.

Could we, if we explained better to that group, move into deeper penetration and could we motivate our current partners to market and package us more efficiently and more effectively, if they understood that was gold in the hills that they were leaving untended. So we asked those questions and what came back to us was very interesting, and it was unequivocal. We had about 15 to 20 million homes out there, that if you explained more efficiently what was inside the curated bundle of HBO, you could move those people to the persuadable and then into your base.

We then asked the second question which was, if we built a director consumer platform, did we have an opportunity to really tap that market? And as I said, it was quite a small market at that particular time. Now if you fast forward a little bit to March of 2015, because obviously we made the decision to do that. When I stood on the stage in Cupertino, we had about eight and a half million broadband-only homes in the United States. As we sit here today, you've got 19 and a half million broadband-only homes in the United States, that is a big market for us to approach.

But the exciting thing is, and we made this point when we announced our OTT business, we always believed that it was not going to be cannibalistic of our core business, we always believe it was going to additive and I think if you look at 2017, where we're on track to have our biggest year of subscriber growth in our 45 year history, you see that we made the right bet. I remember when we announced at an investor day in New York, that we were going to go over the wall in the United States, there were two central questions and they were implicit criticisms. One, could we do it? Because we had no tech DNA in our company's history, to be able to do something that big, even though we had already developed HBO Go and digital on demand and multiplexing, etc., but we didn't have that kind of tech footprint. Two, of course, what I alluded to earlier, was it going to be cannibalistic?

Cynthia Littleton

Would you alienate the cable operators?

Richard Plepler

The answer to the first was yes, we could and we did, and the answer to the second was no, it

wasn't. And so I think what really has happened is we've looked at an expanded pie and we have been able to develop deeper penetration in the United States and deeper penetration all over the world, with our businesses throughout the globe.

Cynthia Littleton

So HBO Now was launched and you were absolutely in the vanguard, in the US, of that, but you did an interesting deal in the Nordics. You launched HBO Nordic about 18 months before or so. Did you learn a lot from that process, that influenced what you did in the United States?

Richard Plepler

Yes, we did. We learned a lot about marketing, we learned a lot about technology, we learned a lot about director consumer and the different kinds of marketing, efficiencies that you needed to focus on when you were dealing with that kind of business where the churn was going to be much faster. Our growth in Nordics has been fantastic over the last years. We've just launched last December in Spain, where we've also seen good growth. What's exciting to us internationally is that, just as we're running a multilateral strategy in the United States, we're running a multilateral strategy around the globe; we have licensing businesses in 140 markets and territories around the world, we have networks in 60 countries. We have home of HBOs, where we lend the brand name to our partner, in 17 countries.

Cynthia Littleton

There's a block that airs on it.

Richard Plepler

The entire HBO oeuvre in one place. What's been very dynamic is to see growth across all three of those businesses. Technologically, we will be ready at some point in the middle of next year, we'll have one global platform and we'll have full optionality, to be able to deliver HBO however we choose to do it strategically.

Cynthia Littleton

Given the current trends in the market, do you see yourself leaning towards more of an OTT strategy around the world, where you have more control of the channels, versus the licensing and the home of HBO?

Richard Plepler

We have terrific licensing deals which are very high-margin, low-risk revenue businesses; they're businesses which have performed very well for us. As the price of content goes up around the world, our content, which we think is terrific, also goes up. So those are wonderful deals for us, they go on a number of years; we wanted to build the kind of flexibility so that we could do whatever we chose to do down the road, if we choose to do that. We look region by region, market by market and will make those decisions and determinations at the appropriate time. But, where we have built OTT businesses - you mentioned Nordics, Spain, Brazil, Argentina, Mexico - we've seen a lot of progress.

Cynthia Littleton

In the OTT markets, are those margins appreciably better for you, than in your other forms of international distribution?

Richard Plepler

It depends what part of the country you're in, because output differs region by region.

Cynthia Littleton

We've talked about local international programming. As much as you export these incredible brands like Game of Thrones, you have found the local language complement; on an HBO owned and operated channel, you must have original programming and you've been investing in a big way.

Richard Plepler

Absolutely, and it's no surprise that indigenous programming always outperforms imported programming; indigenous programming outperforms even Game of Thrones. In fact, we're bringing a kind of best of, from Europe, Latin America and Asia, to the United States. We're going to announce that almost contemporaneous with our conversation.

Cynthia Littleton

You're going to make those shows available?

Richard Plepler

We're going to take a couple of shows from each of those regions, bring them back to the United States and distribute them on demand through HBO Go and HBO NOW, and we look to develop and enhance that over the coming years.

Cynthia Littleton

That would seem to be a signal of a level of sophistication and production value that you are looking to showcase. That must be quite an infrastructure that you're building, because if you're doing these originals - and I know certainly in Latin America you've been doing them for some time - you've got to have people with taste working with producers. Is building out that capability and that infrastructure a priority?

Richard Plepler

Very important, and just as you want to be able to have a shared vision with your creative team in the United States, you want to have a shared vision with your creative team, and with the leadership of those teams, around the world. So the same kind of shorthand that informs the HBO brand in the decisions that we make to elevate the HBO brand in the United States is very much similar to the kinds of conversations that we're having with our teams around the world.

Cynthia Littleton

I'm guessing that there's going to be, if not now, certainly down the road, some terrific talent scouting opportunities. You'll have people on the ground that you will become aware of and a level of talents. It's interesting. So, in that five year span, when you got in the hot-seat of CEO, you made a lot of strategic moves influenced by research and other factors. Can you look out at the next five years and what do you see as the major challenges and the crossroads that you're going to hit?

Richard Plepler

I think the same core ideology that informed our thinking the last decade, which is to define success correctly and define success for our brand correctly. Our brand is about curated quality, curated excellence and we believe that if we continue to do that, there will continue to be a huge market for that. As you know, and as your publication has written for years, there's a surfeit of programming out there, unlike we've ever seen before.

You have something like 500 hours of scripted programming. Now you're in the business, your colleagues are in the business, I'm in the business, my colleagues are; nobody can keep up with all of this. There's some very good stuff being done, there's some mediocre stuff being done and there's some not so good stuff being done and so I think what will matter more than ever as we go forward is brands and the sacredness of quality brands. Because I think what people understand when they come to HBO, they might not love everything, they might have certain passions or be addicted to certain programmes and not others, but what they understand is that inside our company, inside our network is superior programming across a wide range of genres: documentaries, sports programmes, half hour, late night, hours, mini series, made-for movies. They understand that the brand stands for quality.

So when people say to me, or they say to my colleagues in LA, "What are you looking for?" We're looking to elevate our brand and we're making decisions about programming on the basis of whether we think it elevates our brand, and we're not always right. We miss occasionally, but I think particularly if you look over the last ten, 12 years, we have a pretty good track record. We're gallerists, we're trying to get the very best artists to come and hang their paintings in our gallery; you have emerging artists, you have masters, you have contemporary painters, but what you want great writers, producers and talent of all kinds to think about is, if I have something in the world of story telling, in the world of entertainment that I want to say in this medium, I'm going to come to HBO.

I think what's dynamic over the last years, even amidst all this competition and the fierceness of all this competition, is that the line at our door today is even bigger than the line at our door five years ago, when I started, and it's even bigger than the line at our door then when I started as co president in 2007. That's what's very dynamic about what's going on right now. Every Friday at our company, we know of something and are pondering something that we didn't know about on Monday, because talent is excited to come and work at HBO, and that's the most important ingredient to our success and to our future. How we distribute all of that has been an essential part of our thinking, but that's undergirded by a pretty basic point, which is we want to be available however, wherever and whenever a consumer wants to get the network.

So we think, and this is a conversation not for today, but as bundles get skinnier, that's good for

HBO. Because the price of the bundle goes down, HBO's always been à la carte, we've always had to sell on top of a cable or satellite bundle. The cheaper that bundle gets, the more likely we have an opportunity to sell HBO on top of that.

Cynthia Littleton

And you've been tethered to a business that, certainly in the United States, people don't always really like. They don't have the best perception of their cable company and now, you have the option, people can go online and push the button to get HBO.

Richard Plepler

Let's just go back to the research that I spoke about at the beginning of the conversation. We have always believed, and we made this case to our partners, that we could help them grow. Not only their broadband-only customers, but as their bundles got skinnier, we believed we made those bundles stickier. I think what people have seen over time is that that's true. Nobody's doing us any favours selling HBO. One of my favourite lines from Godfather II, "Hyman Roth always makes money for his partners." HBO always makes money for their partners and we have always been a source of growing the cable business, the satellite business, the telco business and the digital business.

Cynthia Littleton

Since 1972.

Richard Plepler

Yes, and the exciting thing is that, as all of our different distributors come to understand that we're there to help them grow, that's a win-win, that's great for HBO; we think that's great for them and that's great for the consumer.

Cynthia Littleton

How much does the fact that, in your history, you've never had a competitor like a Netflix with a seven billion arsenal? Apple is coming online, take a quick look at the stock price, we know that they can fund programming? The line is certainly long and there's no shortage of high wattage talent on that reel, but do you feel the pressure in terms of the financials, the economics of deals?

Richard Plepler

The price of content has been going up for a long time. Again, Hyman Roth, "This is the business we've chosen." So the price of content goes up, so have our revenues. So the most important thing for us to think about is, are we executing efficiently and effectively on our strategy, which is to curate excellence? We're not trying to be Netflix. Netflix has grown, we've grown. We over-index in their homes, they over-index in our homes. I remember when the late, great David Carr, who I had enormous respect for, said to me.

Cynthia Littleton

The New York Times writer.

Richard Plepler

He said to me, "Oh my god, this is going to be disaggregating.", and I said, "No, it's not. It's going to additive." The reason I think that we over-index in each other's home is these are entertainment junkies; they like great entertainment. So this has never been about them or us, I think it's about them and us. You mentioned that we're 45 years old. 20 percent of our subscriber growth has come in the last five years and this year, we're on track to have our biggest year ever. So play our game, concentrate on what we do well, invest properly. Our mantra and our maxim is, "We never want to have to say no to what we want to say yes to." As we continue to grow, that gives us the opportunity to do exactly that: say yes to what we want to say yes to, make the investments in the kind of talent that we want to work with, and part of what you saw on the screen is a manifestation of that.

Cynthia Littleton

I can't let you off the stage without asking you a couple of Game of Thrones questions. There's obviously a very big merger agreement that is pending, that is expected to get the green light within a couple of weeks in the United States, with AT&T. How do you think that impacts all of what you were just talking about and your ability to say yes to the things that you want to say yes to?

Richard Plepler

I think a couple of things. I think that having the kind of data that will come from this merger,

which I think will help our ability to talk to our consumers, to talk to potential consumers, to help with subscriber acquisition. That is a terrific added advantage for us. Now they won't be able to only do that with HBO, that will no doubt be sold across the medium, but if we have access to that kind of consumer data, I think that helps us market, I think that helps us keep our subscribers stickier, I think that helps us with churn. I think that helps us in designing our UI and UX for our product. So I'm very excited about that possibility. Secondly, I think that these are smart people. They understand exactly why they've made this acquisition, these are three fabulous brands: Warner Brothers, Turner and HBO. I think in each case, there's an opportunity to make investments and to do things that will be dynamic for each of the businesses. So I look forward to it.

Cynthia Littleton

Is there concern that with every merger comes the question of a potential culture clash? Do you have a sense of how that is going to play out? These are two different worlds.

Richard Plepler

They are, and I think that Randall has been both articulate and vocal about this. He understands that these are two very different cultures, he understands that the entertainment culture has its own particular DNA. He said as recently as last week, in Vanity Fair, the last thing they want to do is mess with winning games and I don't see that happening.

Cynthia Littleton

You have Game of Thrones coming next year, the final season. That's been a milestone show in the growth of HBO. You've done something interesting, you have no less than five different groups of writers working on potential spin-offs or loosely related. Can you give us any glimpses as to how those hamsters wheels are going?

Richard Plepler

No. Other than to say to you that it's a fantastic group of writers and talent. Most of whom have lived inside the Thrones ecosystem, so are very familiar with its intricacies. None of those groups would do anything just to do it and, of course, nor would we. So I think we will find, in this embarrassment of riches, an exciting property for us to move forward with. We're looking at some things, I've read a couple of early bibles. You never want to say that something is ready

before it's ready, but I'm excited about what I've seen.

Cynthia Littleton

Stay tuned. With your Game of Thrones show runners, David Benioff and D.B. Weiss, you announced another project concept that created quite a stir, called Confederate. An alternate world where, at the end of the Civil War, the South did secede and slavery was still intact. That created a real storm of response in the US, is that project still going forward?

Richard Plepler

It is. I commented on this last week at another conference. I think the mistake we made, both Casey and I have said this publicly, there's nothing new in this, is that we announced a very complicated project in a two page press release. When you sat and listened to intricacies of the pitch from Nichelle Spellman, Malcolm Spellman, David and Dan, it was actually very moving; their embryonic ideas about what this can be are the very opposite of the perceptions that accrued from the announcement. So I think the mistake that we made was we tried to explain something that's very nuanced, very intricate, quite complicated in a two-page press release, that was not a smart thing to do. When we get to the point that we're ready to move forward with this, they have to get through Thrones, there's an enormous amount of work to be done on that. When they start writing, then I think we'll sit down with a group of reporters and others and explain what it is we're trying to do. I would just say parenthetically one point that I think is worth mentioning about this which is, I don't know if you saw the Vice special on Charlottesville?

Cynthia Littleton

I did, it was a powerful piece.

Richard Plepler

It was a very powerful piece. What that did is it held a mirror to what Michael Hayden, the former head of the National Security Agency, called the thin veneer of civilisation, I think what that extraordinary reporting did is it showed that thin veneer; there was enormous value in reminding people what that kind of invective and vitriol looks like. I think some of that is what the Spellmans, David and Dan want to address in this show, but they're the artists, not me. So we'll let them complete that process of writing their bible, writing their script and we'll go from there.

Cynthia Littleton

What should we most look out for on HBO in 2018?

Richard Plepler

Succession, Jesse Armstrong's show about power and relationships between fathers and sons, I think is going to be very dynamic. The next season of Westworld. Lisa and Jon, as brilliant as they were in season one, I think there's even more momentum coming in season two. Again, the panoply of stuff that we have across our canvas is more exciting today than at any time in our history, whether it's Veep, whether it's Silicone Valley, whether it's Big Little Lies, whether it's Zaillian working on the next The Night Of. So there will be no shortage of dynamic programming on HBO, that I can promise you.