TheStreet

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TheStreet Transcript

Viacom (VIA) Earnings Report: Q4 2015 Conference Call Transcript

The following Viacom conference call took place on November 12, 2015, 08:30 AM ET. This is a transcript of that earnings call:

Company Participants

- Jim Bombassei; Viacom Inc. ; SVP IR
- Philippe Dauman; Viacom Inc. ; President & CEO
- Wade Davis; Viacom Inc. ; EVP & CFO
- Tom Dooley; Viacom Inc. ; COO

Other Participants

- Doug Mitchelson; UBS ; Analyst
- Michael Nathanson; MoffettNathanson ; Analyst
- John Janedis; Jefferies & Co. ; Analyst
- Unidentified Participant; BTIG; Analyst
- Alexia Quadrani; JPMorganChase ; Analyst
- Brian Wieser; Pivotal Research ; Analyst
- Bryan Kraft; Deutsche Bank ; Analyst

MANAGEMENT DISCUSSION SECTION

Operator:

Welcome to the Viacom fourth-quarter 2015 earnings release teleconference.

Today's call is being recorded.

At this time, I would like to turn the call over to the Senior Vice President of Investor Relations, Mr. Jim Bombassei. Please go ahead, sir.

Jim Bombassei (SVP IR):

Good morning, everyone. Thank you for taking the time to join us for our September quarter earnings call.

With me from Los Angeles is our Chairman, Sumner Redstone and joining us in New York are Philippe Dauman, our President and CEO; Tom Dooley, our Chief Operating Officer; and Wade Davis, our Chief Financial Officer. Please note that in addition to our press release, we have slides and trending schedules containing supplemental information available on our website.

I want to refer you to page number 2 in the Web presentation and remind you that certain statements made on this call are forward-looking statements and involve risks and uncertainties. These risks and uncertainties are discussed in more detail in our filings with the SEC. Today's remarks will focus on adjusted results. Reconciliations for non-GAAP financial information discussed in this call can be found in our earnings release or on our website and now I will turn the call over to Philippe.

Philippe Dauman (President & CEO):

Thanks, Jim and good morning, everyone. Thank you for joining us to discuss Viacom's results for 2015's fourth quarter and full fiscal year. We are seeing real progress as the ecosystem adapts and coalesces around innovative new models, both in distribution and in advertising in the US and around the world. We believe these changes will usher in a new period of prosperity and growth, but also know that success will require a focus on the long-term health and vitality of our business.

More than ever, this is a great time to be in the content business and those with a more long-term view than is currently in vogue will be richly rewarded. Viacom continues to take a leadership role in capturing the opportunities that are rapidly taking shape. We are effectively adapting to a digital, on-demand, socially-driven, global marketplace even as we demonstrate quantifiable success in achieving our strategic goals.

Importantly, we are also accelerating the critical initiatives that are driving improvement throughout the Company. First, I will recap our financial performance in the quarter and the year and share some operational and strategic highlights. Tom and Wade will go into greater detail on the results in a moment.

In the fourth quarter, revenues declined 5% to $3.79 billion. Adjusted operating income was $1.06 billion and adjusted net earnings from continuing operations were $614 million. Adjusted diluted earnings per share from continuing operations declined 10% to $1.54 per diluted share.

For the year, revenues were $13.27 billion, a decline of 4%. Adjusted operating income totaled $3.92 billion and adjusted net earnings from continuing operations were $2.21 billion. Full-year adjusted diluted earnings per share grew 1% to $5.44, which was an all-time record for the Company.

Viacom continued to generate substantial free cash and returned $2.1 billion to shareholders in fiscal 2015 through share repurchases and dividends. As planned, we resumed share repurchases last month at a relatively modest pace thus far as we focus on growth initiatives while maintaining a strong financial position.

Looking back at the quarter and the full year, Viacom continued to execute on our top strategic priorities -- investment in content, especially original content for all technologies; building international scale, capabilities and profitability; and expanding the use of data and technology in advertising, distribution and the viewer experience to derive additional value from our brands.

As I said earlier, our industry has been moving through a period that has challenged established patterns of media consumption and measurement of that consumption. Because of our young audiences and highly focused brands, Viacom experienced the changes early in the cycle and across more of our properties than other media companies. That transition has now taken hold across the industry, creating disruption, but also spurring action and real momentum toward solutions.

As the early birds, we see that as platforms expand and opportunities increase, fully measured consumption becomes even stronger. In fact, recent research revealed that young people are spending more time consuming media each day than they do sleeping. So apparently media executives aren't the only ones losing sleep in this modern world.

I am pleased to say that, at Viacom , we are starting to turn the corner. Once again in the quarter, the Viacom family of networks was number one according to Nielsen for people 2 plus, people 18 to 34, people 18 to 49 and people 2 to 49. That's a lot of people. Ratings are improving at key networks like Nickelodeon, Nick at Night, TV Land, BET, CMT and VH1 with additional improvement expected at our other networks as new programming kicks in.

Our investment in data is producing meaningful incremental revenue and the benefits of digital distribution continue to develop and grow. As other companies now begin their pivot through the transition, many of our Media Networks brands are already beginning to emerge well-positioned to grow and succeed.

Turning to the Media Networks results, revenues increased 5% to $2.79 billion in the quarter. Affiliate revenues remain strong, up 15% domestically and 10% worldwide in the quarter. For the year, domestic affiliate revenues increased 8% and worldwide revenues were up 5%. We expect continued high single digit growth in domestic affiliate revenue in fiscal 2016.

With the renewal of our AT&T agreement at the end of the quarter, we concluded a year in which we successfully renewed affiliate deals covering close to 20% of our distribution. In addition, we closed an unprecedented Hulu deal in September that provides outstanding value for our programming while supporting the vitality of the overall distribution ecosystem.

On the advertising sales front, we delivered sequential improvement in quarterly domestic advertising revenue growth with a decline of 7% improved from a 9% decline in Q3. While it is still early in the quarter, we expect continuing improvement in domestic ad sales this quarter, which we expect to accelerate further as our fiscal year progresses.

Worldwide, the decline in the fourth quarter was 1%. For the year, worldwide advertising revenues increased 1%. Once again, advertising revenue substantially outpaced traditional ratings as we continue to provide significant value-added offerings to marketing partners. And we continue to deepen our value proposition to partners offering deep social connections through our Viacom Echo platform.

A key component of Viacom's next-generation advertising portfolio is Vantage, our bet on sophisticated data that leverages our leadership in analytics and data aggregation for the benefit of marketing partners. It is a proven success and a platform that is in great demand among the largest and most sophisticated advertisers. Currently, we have 11 advertisers using Vantage, leading national advertisers across sectors that include automotive, beverages, consumer goods, financial services and quick service restaurants.

We are in discussions with dozens of additional Fortune 500 partners. Demand is strong and building. We anticipate that we will triple the total number of Vantage deals by next year's upfront, representing a significant portion of our advertising revenue base.

Many of our peers are beginning their own data programs. The market is moving rapidly in this direction led by sophisticated national advertisers. This is good for the ecosystem and will create more demand. We are confident that Viacom will remain in the forefront as we continue to evolve and improve our proprietary products.

Our brands remain powerful. Our creative and technical talent is unmatched and our exclusive relationships cannot be replicated like the TiVo partnership we announced just last week. In addition, we have in the last few weeks taken a significant ownership stake in DigiTour, a leading live events provider for social media talent with many partnership opportunities across our brands. We are deeply committed to keeping our leadership in this area and firmly believe that as others catch up, we will already be executing on the next generation of these high margin, highly sophisticated programs for our marketing partners.

Of course, all of this continued improvement depends on great content and our Media Networks are delivering more new original programming than ever before for every platform. Nickelodeon is a prime example of the success of this commitment. The network delivered a strong fourth quarter by launching innovative new shows and increasing the volume of high-quality premieres. Throughout the quarter, Nickelodeon had more than 100 new episodes of preschool and kids content with positive results. Paw Patrol and Blaze and the Monster Machines are preschool hits with [Y] plus 3 ratings for premieres exceeding a 10.

Saturday nights now host two new hits, Henry Danger, which was the number one live action show for kids 2 to 11 in the fourth quarter and Game Shakers, which has become the number one live action show in recent weeks. Game Shakers also plays cross-platform with its Sky Whale game already generating 3 million downloads since its September launch.

August marked Nick's highest rated month of the year with kids 2 to 11 and 6 to 11. By September, Nick had taken a strong lead over its nearest competitor and has continued that trend into the current quarter where Nickelodeon will premier 140 new episodes and event programs in the hard eight.

In digital, the Nick app, Nick Junior app and Noggin are all expanding their reach. The Nick app has surpassed 20 million installs across iOS, Android, Xbox and Roku and the Nick Junior app has surpassed 2 million installs with kids spending over 100 minutes per week within the app. Noggin continues to perform well and will be available on Android and internationally for the first time beginning next week.

VH1 is another success story. With new leadership in place, the network increased total day ratings 6% over the fourth quarter of 2014 driven by a strong Monday lineup. For the quarter, VH1 was the number one cable network on Monday nights among women 18 to 49 and number three among all adults 18 to 49 fueled by the Love & Hip Hop franchise. The season four finale of VH1's Love & Hip Hop Atlanta was the number one telecast on all television for the day among women 18 to 49 and women 18 to 34. The episode was also the number one cable telecast among adults 18 to 49 delivering a 2.3 rating in that demo and over 3.3 million total viewers. When combined with the evening's two encore airings, more than 5.3 million total viewers tuned in for the season four finale. In the current quarter, VH1 is continuing to roll with October primetime ratings up 33%. VH1 owns Monday nights as the number one non-sports cable network for women 18 to 49.

BET delivered sequential improvement in ratings growth in the fourth quarter with the top two sitcoms on all of basic cable for the key 18 to 49 demo, The Game and Real Husbands of Hollywood. And the network delivered on their all-new reboot of the classic MTV series Punk'd making it the third highest rated BET series in the quarter.

In the first quarter of fiscal 2016, BET is driving even more ratings growth, quickly bringing more quality and more volume to the schedule. The Being Married chain season three premiere was Tuesday night's top scripted program on cable this season among adults 18 to 49 and the Westbrooks is already becoming a new reality hit.

We are also looking forward to Centric's Soul Train Awards at the end of this month, which is a proven viewership tentpole and much like the wildly successful BET experience, the Soul Train Awards continues to build the scale of its weekend-long live event reinforcing connections with fans and creating unprecedented marketing opportunities for our advertising partners.

At MTV, we've also installed new leadership. Sean Atkins joined us in October. He is an accomplished, versatile, media executive who brings excellent management skills and creative experience across development, production and digital products. He has hit the ground running and we expect to see significant improvement at MTV in fiscal 2016.

Despite traditional ratings challenges, the MTV brand maintains its prowess and vitality, engaging its young audience in more and deeper ways than ever. The recent Video Music Awards is a great example. The show attracted 10 million viewers on air and more than 76 million video views across platforms in the first three days, including 12 million views on SnapChat. The show generated over 0.5 billion social impressions and also set a new record for tweets during an entertainment program.

To kick off our second fiscal quarter, MTV is returning some of its biggest hits and bringing hotly anticipated new series to air, including new seasons of Teen Mom OG and Teen Wolf, as well as the epic fantasy drama, The Shannara Chronicles.

Comedy Central also had a quarter of successes that illustrate its continued vibrancy as the home of fresh comedic talent and ever more engaging programming. The network had its most successful Emmy season ever with 26 nominations and 8 wins, the third most wins of any network. We couldn't be prouder of their achievements and the validation of the network's position at the center of the comedy zeitgeist.

Comedy Central remains the destination for the most intriguing comic minds and has consistently pushed the envelope to create programming that drives culture and explodes on digital platforms among its dedicated fans. While traditional ratings softened in the quarter, the network's homegrown hits like Inside Amy Schumer, Broad City, South Park, Drunk History and Tosh.0 continue to drive substantial gains on well-monetized digital platforms like Hulu and the Comedy Central app. Comedy will see improvement in traditional ratings with upcoming new programs and schedule changes and will be a big beneficiary as more complete and accurate measurement takes hold.

The network also successfully relaunched the Daily Show in September with new host Trevor Noah. Trevor has exceeded our expectations and has already built an audience that is younger, more digital and more diverse. Over the first four weeks, Trevor grew linear viewing among adults 18 to 24 by 20% and men 18 to 24 by 32%. And the program remains the number one late-night show on all of television with those audiences.

In addition, The Daily Show is now averaging 750,000 digital full episode views per show, over and above the traditional measurement totals. Looking to the second fiscal quarter, the Comedy Central pipeline is full with 10 original series on the schedule, including Idiotsitter, a scripted series starring Charlotte Newhouse and Jillian Bell, a fan favorite from Workaholics, as well as a new multiplatform series Not Safe with Nikki Glaser.

We are seeing additional improvement across our portfolio. The recently completed SPIKE series, Ink Master, posted the highest C3 ratings in its history, up 14% from the prior season. And I Love Kellie Pickler got off to a terrific start on CMT last week posting triple digit ratings gains for the channel in its timeslot.

As we have discussed in the past, we are hyperfocused on building upon our industry-leading footprint outside of the US. No other media company can match the breadth of Viacom's international network brands or our broad geographic reach. We intend to push our advantage. In that regard, fiscal 2015 was a landmark year with the full integration of Channel 5 into our operations and the launch of 21 channels around the world, including seven in the fourth quarter.

Also in the quarter, Viacom International Media Networks launched Viacom Play Plex, a global suite of branded mobile apps designed to complement our linear TV channels and allow our distribution partners to deepen and improve the entertainment experience they offer their subscribers, consistent with the TV Everywhere products we offer in the US. These apps will be available in all 180 markets we operate in. We believe no other international entertainment company is offering this type of innovation at this scale serving every major demographic in every major TV market.

And last month, Viacom International Media Networks held the EMAs, our largest international music tentpole of the year. TV viewership remains strong for the show around the globe and digital video views exploded by 340% over last year. We also had an impressive 300 million social mentions and #MTVEMA was the number one worldwide trending Twitter topic on the night of the show.

At the studio, Paramount delivered one of the top five movies of the summer in Mission Impossible Rogue Nation. Once again, Tom Cruise performed at a superstar level at the box office in the US and particularly overseas where we drew more than 70% of the sales revenue. Paramount's ability to produce and market films is stronger than ever, but we simply did not have enough films in the pipeline this year to take full advantage of our capabilities. In fiscal 2016, we have committed to returning Paramount to a full 15 film slate.

In addition, Paramount Animation has a number of exciting projects on tap, including The Little Prince, which the studio will release next March. Paramount's animation team is also currently in production on Monster Trucks, Sherlock Gnomes, SpongeBob SquarePants 3 and Amusement Park. With three new shows set for early next year, including School of Rock on Nickelodeon, Grease Live on Fox and Vinyl on HBO, [Ham Up] Television continues to expand and demonstrate its creative approach to developing and producing television and entertainment.

The division is also growing its original programming slate and a distinguished roster of creative partners. Most recently announcing a straight to series order with Netflix for 13 Reasons Why, being executive produced by Selena Gomez and an overall television deal with in the Emmy award-winning director Cary Fukunaga. To date, Paramount Television has 10 shows ordered to production and an additional 12 projects set up at networks and major digital outlets.

In closing, we are optimistic about the state of our industry and the significant opportunities Viacom has to benefit from changes in technology, consumption and the growing international marketplace. As we move through 2016, we are committed to tripling our roster of Vantage clients leading into the 2016 upfront, rolling out more original programming across the Company at an unprecedented level in our history, improving the scale and profitability in our international Media Networks group, driving Paramount to significantly improve financial performance in the years ahead by returning the theatrical slate to 15 films per year, together with the continuing buildup of our television production and animation activities.

2016 will be a significant year as measurement and monetization come into realignment around sophisticated data-enhanced programs that we are pioneering. The application of data insights will lead to more and more differentiation in technology-driven advertising. Consumption will continue to expand across all platforms and international markets will present new and exciting opportunities.

Of course, the turn is not fully complete. We are all learning more and more every day, but we are confident that the pace of change we have set gives us an important long-term advantage over our competition. With that, I'd like to turn the call over to Wade.

Wade Davis (EVP & CFO):

Thanks, Philippe. Before I take you through our operating results, I want to note that our earnings release and Web presentation summarizing the results for our September quarter are available on our website. Now let's take a look at our segment results. At our Media Network segment, revenues in the quarter were up 5% compared with the prior year. Domestic revenues were up 3% while international revenues increased 11%. Excluding a 10% unfavorable impact from foreign currency, international revenues were up 21%, primarily due to the acquisition of Channel 5. Page 10 of our Web deck provides a breakdown of our Media Networks revenue performance.

In terms of advertising, worldwide advertising revenues declined 1% in the quarter. Domestic revenues were down 7% and international revenues grew 45%. The increase in international advertising revenues was driven by growth in Europe, principally from Channel 5. Foreign exchange losses had a 9 percentage point negative impact on international advertising growth.

In terms of affiliate revenues, worldwide revenues were up 10%. Domestic revenues were up 15% in the quarter while international revenues declined 14%. The growth in domestic affiliate revenues was due to the timing of product available under certain distribution agreements, as well as rate increases.

Foreign exchange had a 12 percentage point unfavorable impact on the international affiliate revenue growth. Excluding the impact of foreign exchange, international affiliate revenue declined as revenue growth from new channel launches and increases in subscribers were more than asset by the timing of product available under certain distribution agreements.

Turning to expenses, overall expenses increased 12% in the quarter. Within operating expenses, programming expense grew 19% while distribution and other expenses increased 11%. SG&A expense increased 3% in the quarter. Expense growth was driven by the acquisition of Channel 5, as well as higher programming, advertising and promotion expense primarily related to new original series and specials. Media Network's adjusted operating income was down 6% for the quarter and the adjusted operating income margin was 37%.

Moving to Filmed Entertainment, revenues were down 24% in the quarter, principally due to decreases in home entertainment and theatrical revenues. Foreign exchange had a 5 percentage point unfavorable impact on Filmed Entertainment revenue growth. Page 13 of the Web presentation provides a breakdown of Filmed Entertainment revenues.

Theatrical revenues declined 20%. Foreign currency had a 9 percentage point unfavorable impact on theatrical revenues. Lower carryover revenues from prior-period releases were partially offset by revenues from our current quarter releases, including Mission Impossible Rogue Nation and Terminator Genisys.

Home entertainment revenues declined 54%, principally due to the absence of releases in the September quarter of this year whereas last year we released Transformers and Noah. Ancillary revenues declined by 38% due primarily to lower consumer product licensing revenues with last year's September quarter benefiting from the release of Transformers.

Filmed Entertainment generated adjusted operating income of $122 million in the quarter as compared to $213 million last year. The September quarter of last year benefited from both the theatrical and home entertainment performance of Transformers.

Moving to taxes, the full-year adjusted effective tax rate was 31.2%, reflecting a 20 basis point improvement as compared to the prior year. With that, I would like to turn the call over to Tom.

Tom Dooley (COO):

Thank you, Wade. I want to cover our full-year results, as well as talk about our cash flow and our debt. I'll also cover seasonal factors impacting the 2016 fiscal year that haven't already been discussed.

For the full year, Viacom generated $13.3 billion of revenue, $3.9 billion of adjusted operating income, $2.2 billion of operating free cash flow and $5.44 of adjusted earnings per share. That breaks down as follows. Media Networks generated revenue of $10.5 billion, which is an increase of 3% over the prior year. Adjusted operating income of $4.1 billion declined 3% as compared to 2014. Affiliate revenue grew 5% for the year while advertising revenue increased 1% and the Media Networks adjusted operating income margin was 39.5%.

Filmed Entertainment generated revenue of $2.9 billion and adjusted operating income of $111 million and an operating income margin of 4%. For the total Company, foreign currency had an unfavorable impact of 2% on revenue growth, 1% on operating income growth and $0.14 on full-year EPS. As I mentioned, we generated $2.2 billion in operating cash flow for the year or $5.50 per share, which is a free cash flow yield of approximately 11%.

In terms of capital returned to shareholders, for the full year, we repurchased 21 million Viacom B shares for an aggregate purchase price of $1.5 billion. In July, we also increased our dividend per share by 21% to $0.40 a share. Between our buyback and our dividend programs, we returned a total of $2.1 billion to shareholders in the fiscal year, which is a return on market capitalization of approximately 10%. We ended the year with 50 million Viacom A shares and 348 million Viacom B shares outstanding.

Now moving on to our debt, it remains principally fixed rate with an average cost at quarter-end of 4.6%. In September, we repaid the $250 million of outstanding of our 4.25% senior notes, which came due. We also redeemed $550 million of our 6.25% senior notes, which are due in April 2016, leaving $368 million remaining outstanding.

We ended the quarter with $12.3 billion of total debt and $506 million of cash and cash equivalent. This is an $800 million decrease in gross debt from our June quarter. As previously mentioned, we redeemed the $550 million of senior notes to ensure that we stayed within our leverage ratio target. At the end of the quarter, our leverage ratio was 3 times.

Now let's turn to some of the factors impacting fiscal 2016. Let me discuss ad sales and affiliate revenues. For the full year, we expect that Media Networks programming expense growth rate will be in the mid to high single digits. In terms of taxes, for 2016, we are forecasting a book tax rate of approximately 32%. We will refine this as we go through the year and get a better sense of the domestic versus international profitability mix.

At Paramount, we are excited about our upcoming slate, which includes Teenage Mutant Ninja Turtles 2 and Star Trek 3. For fiscal 2016, we expect profits to be weighted to the back half of the year as the studio benefits from their summer releases. For the December quarter, given the softer performance of certain of our theatrical releases, we anticipate difficult bottom-line comparisons to the prior year.

Looking ahead at the studio's production and development pipeline, Paramount has just wrapped production on Star Trek 3 and they are currently in production on the next Jack Reacher film. Current films in preproduction include Brad Pitt starring in a romantic thriller set in World War II for Director Robert Zemeckis and a film by award-winning filmmaker Alexander Payne titled Downsizing.

In addition, the studio is in active development on Transformers 5, as well as future installments of the franchise and the studio extended their first-look production deal with Martin Scorsese.

In summary, we are investing in our brands and we are building new capabilities to take advantage of the opportunities and meet the challenges as our industry continues to evolve. At Media Networks, we are growing the level of original programming. Six of our top 10 networks are seeing year-over-year ratings growth and we continue to secure long-term affiliate deals with both traditional and digital distribution partners.

At Paramount, we are developing our franchise pipeline on films and we have made great progress in TV production in a short period of time. On the advertising front, we are at the dawn of a new age of data-enhanced marketing. We have invested in technology and in our capabilities, which have enabled us to establish a leading position providing advanced ad sales products and solutions for our marketing partners. It is important to remember television remains the most compelling vehicle for reaching and influencing consumers and data-enhanced marketing will only make that more true.

With that, I'd like to turn the call over to your questions.

QUESTIONS & ANSWERS

Operator:

(Operator Instructions)

Doug Mitchelson, UBS.

Doug Mitchelson (Analyst - UBS):

One for Philippe; one for Tom.

Philippe, there's been a lot of discussion this quarter on these calls regarding SVOD strategy and I was just hoping for a more detailed update from your end, especially as you're getting bigger into more traditional Hollywood dramas and comedies, but also the strategy around your core channels.

If there's anything in the data that you are seeing that suggests the strategy needs to be revised or changed and any thoughts on the idea of holding back multiple seasons from current shows to push through TV Everywhere versus selling to SVOD.

And then for Tom, I was hoping for some thoughts on free cash flow generation as you look at fiscal 2016. When I look at the last four to five years, your conversion ratio has really bounced around a lot. I think there was some discussion on this call about ramping the film slate a little bit, which can use some capital. Any thoughts around free cash flow progression versus 2015 would be helpful. Thank you.

Philippe Dauman (President & CEO):

Thank you, Doug. I will take your SVOD question. We have always been at the forefront of thinking through how we handle distribution of our content. Remember, we have a vast library of owned content. For many, many years, most of our networks have created original programming. While we have stepped up the level of original programming, this is nothing new for us.

So we have successfully, over the last several years, generated a large amount of revenue from this new revenue stream and we have strategically developed and chosen windows for different types of programming down to specific shows and moved around distribution of some of these shows around the existing major SVOD players in the US. And for example, we've seen growth in our presence in Hulu and a diminishment of our presence on Netflix and that goes both for our networks here at Viacom and EPIX.

So we think that through -- we look at not just the monetary value, but the promotional value of having shows at different points in the cycle on SVOD and it is often useful to have prior seasons as we launch new seasons, as an example. Internationally, SVOD is a driver of growth. When you look at a country like China, which is somewhat limited in the traditional distribution of television product, you are seeing a large number, a larger number than in the US, of significant SVOD players.

So for the first time, we see China as a potentially significant growth market, not just in the film business for Hollywood, but also for us in the television business. And we are seeing rapid expansion of distribution opportunities there and elsewhere, as well as increases in pricing as those services grow.

So we view in this arena as in everywhere else that technology is our friend and it is good to be on the content side of the business and we maintain the flexibility and distribution.

I just want to touch on TV Everywhere. We also believe it is extremely important to work with our long-term distributors in expanding the television experience for consumers. It is good for the ecosystem and we are working very closely with them as they invest capital in developing a technology for a better TV Everywhere experience to provide the underlying content and to assist in better consumer interfaces, to assist in greater availability of video on-demand and work with them on better monetization of the on-demand viewing where there is great opportunity for us and distributors in areas such as dynamic ad insertions, better monetization of all the content that consumers want to watch in the home and outside of the home.

Tom Dooley (COO):

Doug, on the cash flow question, as you can see from the cash flow schedule that we provide in the Web deck, the Media Networks segment continues to generate in the area of $3.5 billion to $4 billion of free cash flow a year. We expect that to continue. We've made some capital investments in terms of incremental working capital, in terms of Paramount. That's to fund the incremental production and expanded production that Philippe and I discussed in our remarks. And in the future, I think we can look forward to that tapering down as we get to the production level that we need to get to for those films.

One of the big variables for us that you see in the backup is cash taxes. Cash taxes benefited in 2015 from a very nice benefit associated with our acquisition of Channel 5. That has helped us in certain tax policies. Next year, we won't have the benefit of that Channel 5, so there could be an increase of $300 million plus associated on the tax line, but we are also looking at certain tax legislation that may offset some of that into the future. It's kind of hard to predict that tax line until that tax legislation gets nailed down, but we see the Company being able to generate very strong free cash flow well into the future.

Doug Mitchelson (Analyst - UBS):

Thanks so much, guys.

Operator:

Michael Nathanson, MoffettNathanson.

Michael Nathanson (Analyst - MoffettNathanson):

I have two, Philippe and Tom. Either one of you guys can grab it. The first one is you mentioned this on the opening remarks. In 2016, Nielsen has gone out and made two big changes to their measurement services. One is they are going to move to an NPX audience universe and the second, they are going to add total audience measurement. So I wonder what do you think is going to happen to your GRP deliveries as they expand their measurement in 2016? Have you done any work about the lift you get from all that?

Tom Dooley (COO):

Universe estimates will take us down a little bit and the other adjustment they are making will take us up a little bit. It's hard to forecast exactly how that's going to play out in the aggregate, but we think net net we may benefit and this would begin in January and forward. And it's not only us; it would benefit the entire cable ecosystem. So we do look forward to that and think Nielsen is doing some good work there to try and make things more accurate and get a broader sample to help everybody get a better definition on some of the smaller networks.

Philippe Dauman (President & CEO):

I just want to reinforce what Tom just said in that we are working very closely with Nielsen so that the Nielsen measurement system continues to improve. So we are optimistic on that happening. The precise timing of when different levels of improvement occurs is obviously not within our control. And so that is a parallel joint effort to the efforts that we are making in better measurement through data analytics, as I described in my remarks.

Michael Nathanson (Analyst - MoffettNathanson):

Okay. Secondly on Paramount, if we look at the results this year and the trend the past couple years, it's been disappointing to our estimates. And I wonder, given the need for perhaps more scale or to make, as you said today, more production starts, why not seek to consolidate Paramount with another studio? Is scale an issue here and if not, what's the diagnosis for the ales of the past couple years?

Philippe Dauman (President & CEO):

Look, the movie business is a cyclical business. We certainly have seen that in a big way with what Universal has done this year where they are -- they have moved from what was a couple years ago lower operating income performance than what Paramount had last year to well over $1 billion in operating income. That's just the nature of the business. For a variety of reasons having to do with issues in development, to cast availability and so forth, we just had too few movies to support the infrastructure that we have and really to generate revenues.

So we think Paramount will turn around. That's why we are investing in it. We are operating Paramount efficiently. We have growth initiatives in television and animation. That will pay off. As you know, Michael, it does take a little time. Had we, for example, started the television production business a few years ago, there would be significant deficits in the startup business. We are able in today's environment to start up very successfully this television production business with almost no net cost to us in either overhead or development with the variety of shows that we have.

So we are very optimistic about where Paramount can go. We do have a large number of franchises. We do have long-term relationships with some of the top talent around -- ranging from the recent renewal of Martin Scorsese to Michael Bay to JJ Abrams coming off the coming release of Star Wars. So just a broad variety of talent and we believe Paramount will come back and come back strongly in the years to come.

Michael Nathanson (Analyst - MoffettNathanson):

Okay. Thanks Philippe. Thanks, Tom.

Operator:

John Janedis, Jefferies.

John Janedis (Analyst - Jefferies & Co.):

Philippe, you talked about fully measured consumption earlier. The market is getting more comfortable with Vantage. So can you talk about what contribution you are seeing to growth and to what extent there may be an opportunity that you monetize Vantage outside of Viacom and also are you still on target for your non-Nielsen advertising target of 30 going to 50? Thanks.

Philippe Dauman (President & CEO):

Yes, we are driving to growth of Vantage. Obviously, there are big opportunities as you head into -- as you have upfront discussions. They are leading up to next year as part of the upfront sales, which is why we are targeting this tripling of Vantage clients. And remember, let me put the number of Vantage clients in context. If you look at our advertising revenues, our top 100 or so advertising clients account for more than three-quarters of our advertising revenues. These are the major marketers in the US.

So when we talk about having 11 today and tripling them, and obviously is a focus of the biggest even among the 100, it really does turn into a significant portion of our advertising base and that's what gets us over this three-year period to having all these measurement metrics complement the Nielsen part of our business. And we intend to grow that roster of clients from next year into the following year.

Because we have this leading capability, it is true that there are a lot of other players, new emerging players, as well as existing ones who are interested in talking to us about opportunities to work together and driving advertising revenue. So you are quite right to identify the possibility of some enhancement as we work with others and engage in these partnerships. You will be seeing more announcements in the months to come of partnerships like the one we recently announced with TiVo and others.

John Janedis (Analyst - Jefferies & Co.):

Thanks, Philippe. And maybe separately, just another theme this quarter has been reducing ad loads. You talked about it a few months ago. Now that we are kind of there, meaning calendar fourth quarter, on a practical level, will there be any visible impact on ad growth?

Philippe Dauman (President & CEO):

I think, as I mentioned, we expect to see continued sequential improvement and this is despite this reduction of ad loads. We think it's a good strategic decision. We are playing for the full year, then we are playing for the long term. We have all these other products that I've mentioned that we just talked about as one example that will enhance our monetization as we go forward. Not to mention a continued growth in compelling programming. We continue to have a large number and a big proportion of the top hits on cable television and that will continue to grow as we accelerate the development, production and airing of all these new shows in different genres on our different networks. So I believe all of that together will continue to improve our advertising performance and ultimately bring it back to a positive.

John Janedis (Analyst - Jefferies & Co.):

Great. Thank you.

Operator:

Rich Greenfield, BTIG.

Unidentified Participant (Analyst - BTIG):

Hi, this is Matt on for Rich. Just a quick one for Philippe. So selling to Hulu has been perceived as better than selling to Netflix because at least it protected the ad model. So I guess I just was curious to hear your thoughts on Hulu's ad-free subscription and I guess Viacom's willingness to sell to other ad-free SVOD services going forward.

Philippe Dauman (President & CEO):

As I said before, we are both strategic and tactical in how we license content to all forms of distribution and we want the entirety of the ecosystem to work well together. We think there's just a lot of opportunity. Consumers are using multiple services in the course of their lives. They watch television on a big screen. They will use their tablets, they'll watch on apps. There are new mobile products like Go90 out there.

We think there are a lot of opportunities for content owners, both for existing content that we produce for television and new forms of content. What I did not mention, except touching on it in the opening remarks, is we have an opportunity to create a lot of new short form and even longer form content specifically for new platforms. We've announced development for platforms like SnapChat, a series that are 10 seconds each. We are going to have a leading mobile video production capability both in LA and New York and as well as internationally.

We are willing to look at all models. Of course, it depends on what value we receive in exchange for that. So the model of having both advertising and affiliate revenue is a great model, but an ad-free model can also be good depending on what monetization you get and we are getting good monetization when we do SVOD deals and that whole environment we look at as a totality. It's been a growth market for us. Even though content moves from platform to platform, it's been overall a steady growth market and I believe you will see new players emerge both here in the US and abroad and that will create even more opportunity for us and our competitors.

Unidentified Participant (Analyst - BTIG):

Thank you.

Operator:

Alexia Quadrani.

Alexia Quadrani (Analyst - JPMorganChase):

Just two questions. I guess first following up on your commentary on advertising revenues and the outlook, any color you can give us on your ability to monetize both a healthier scatter market that we are seeing right now and obviously better ratings at Nick in the December quarter when taking into account the reduction in ad loads that you've mentioned, perhaps prior make goods and in the commitments you've made in the upfront. Are you still in a good position to monetize it?

Philippe Dauman (President & CEO):

Yes, the scatter market, as many of our brethren have pointed out, is strong. We are seeing good pricing, good demand and we will make every attempt, particularly on networks that -- and there are more of our networks that are growing their ratings -- we will look at opportunities to take advantage of that.

And of course, to your point, we are working our way through our ADU obligations and we expect to see continued momentum not just at Nick, but across a number of our networks. As Tom mentioned and I named some of the networks, 6 of our top 10 networks are showing growth and we are working on the other 4 to turn to growth with very specific measures, including I think good changes in leadership that have occurred over the last several weeks and months.

Alexia Quadrani (Analyst - JPMorganChase):

And then just as a follow-up on your commentary on content sales, I think you just said it's a good growth opportunity, a good growth market. Is there any way you can frame it for us in terms of even just very generally speaking in terms of what inning are you in, how much -- you've got some great deals that you've done so far. I guess any sense of how much opportunity still exists to do these deals both domestically or internationally?

Philippe Dauman (President & CEO):

Well, we are in constant dialogue and as we are ramping up production, obviously, there's a lot of interest in what we are doing among those distributors, as well as others. Also, as I touched on earlier, it's an opportunity for Paramount to produce original programming with some of those who are generating original programming and a lot of this production also creates opportunity internationally.

Internationally, you really are seeing significant growth in new distribution platforms, not just SVOD, but just generally mobile, for example. That's creating opportunities for us over the medium and long term that just didn't exist before. And we are working hard to develop that.

The other benefit of the increased level of original programming we are creating here in the US is that it is supporting our launch of many new networks internationally. Very often those networks are being distributed in a TV Everywhere fashion with a lot of multiplatform capability. There are actually a number of countries in the world, which in many respects are more advanced than the US in that regard.

So we are particularly optimistic on the opportunities around the world and we have strong hold positions in the UK and in India, which are both great markets and a lot of open field opportunities in Latin America, in Africa, in other parts of Asia, as well as Europe. For example, this month, we have two launches going on in France. We have My MTV, which is a first time for this product. If you can remember My Nick Jr., so we have My MTV starting for the first time in France. Then you can expect to see that in other markets and we are also launching BET France this month.

So we continue to launch new products and are in discussions with a number of players and a lot of new players coming through our doors talking about the opportunity to take advantage of our brands and our content.

Alexia Quadrani (Analyst - JPMorganChase):

Thank you.

Operator:

Brian Wieser, Pivotal Research.

Brian Wieser (Analyst - Pivotal Research):

I was wondering if you could just talk about monetization of your apps and digital revenue associated with those apps and maybe more broadly how you are looking at monetizing non-video activity at the present time.

Philippe Dauman (President & CEO):

Well, there are several ways in which we monetize our apps. In a TV Everywhere environment, when we have expansion of the TV Everywhere universe with our affiliates, there will be more and more opportunities to monetize that content. We have additional content that is in front of the wall, including, as you suggest, other types of -- whether it is games or otherwise that we derive revenue from and that will also grow. And then finally there is the game apps and apps like Noggin, which we monetize through subscription revenue or sale revenue.

So that is a growing universe and again, that's not just in the US context, but in an international context. And for example, the Play Plex product that our international group is launching will open up multiplatform revenue in different parts of the world and we are working with affiliates around the world to roll that out and we've been told by a lot of affiliates that it is the most advanced product in the marketplace and they are very pleased with it.

Tom Dooley (COO):

Brian, on the digital world, as you know, the inherent linear television model that we live with today, if an advertiser buys females 18 to 34 or 18 to 49, any other delivery around that pod or that advertisement is now monetized. If you move to the VOD world where a cable system operator has video on-demand and a show is watched, you have the opportunity to really dynamically insert ads to each viewer, which results in a much increased yield in terms of the amount of revenue and monetization of each viewer watching a show.

So as that evolves and that's a long-term evolution that will take place over the next 3 to 5 years, that will provide I think many advertisers and certainly media companies selling advertising with an opportunity to get a much more efficient yield and monetization associated with the consumption and viewership around each television show.

Brian Wieser (Analyst - Pivotal Research):

If I may, just on that, when it comes to traditional television, what are you currently seeing in terms of the opportunity for programmatic TV sales and maybe monetizing some of the inventory that advertisers aren't chasing because of conventionally data-driven sales you are trying to push or traditional age/gender-based demos? Do you see --?

Tom Dooley (COO):

Programmatic has its role, Brian, but for us a lot of our advertising -- we use that for remnant inventory that we can sell and to be quite blunt about it, we don't have a lot of inventory that we can't sell. We sell the vast majority of our inventory. I think programmatic down the road combined with VOD will certainly drive up the yield and the net revenue per show as we get paid for more of the viewership on each show.

Brian Wieser (Analyst - Pivotal Research):

Great. Thank you very much.

Jim Bombassei (SVP IR):

Operator, we have time for one more question.

Operator:

Bryan Kraft, Deutsche Bank.

Bryan Kraft (Analyst - Deutsche Bank):

I just wanted to ask you two questions. Following up on the topic of ad load reductions, can you explain how you are going about implementing those ad load reductions across the networks? For example, is that happening all at once and is reducing the clutter giving you some visible improvement in the pricing you are getting? And then separately on your affiliate fee outlook, how dependent is the high single digit 2016 growth outlook on stepups from upcoming renewals? And can you just comment on what the underlying assumptions are for licensing revenue growth in 2016? Are you expecting growth there, or more of a flat outlook? So any help there would be great. Thank you.

Philippe Dauman (President & CEO):

As far as the ad load -- I will try to answer these quickly. As far as the ad load, we have been focusing mostly on networks prime time. We've been looking at it network by network and very often on shows. We expect over time, as the viewing experience improves, that that will improve ratings and we do believe there are some pricing opportunities, particularly when you marry it with our Viacom Velocity and Vantage product.

As far as affiliate, we have a large number of opportunities. We have long-term contracts that are in place, multiple years. With have all these new outlets, whether it's SVOD, mobile or otherwise. So as we have over the last many years, we continue to be comfortable with guidance now in the high single digits. We had double digit. We always guided to high single digit, low double digit. We continue to guide in the high signal digit. As a reminder, we did 8% domestic affiliate growth last year.

Bryan Kraft (Analyst - Deutsche Bank):

Okay, thank you.

Jim Bombassei (SVP IR):

We want to thank everybody for joining us on our earnings call.

Operator:

This does conclude today's conference call.