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Sector: **Services**
Industry: **Media**

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Scripps Network Interactive (SNI) Earnings Report: Q1 2016 Conference Call Transcript

The following Scripps Network Interactive conference call took place on May 5, 2016, 11:00 AM ET. This is a transcript of that earnings call:

Company Participants

- Dylan Jones; Scripps Networks Interactive; Chief Communications Officer
- Ken Lowe; Scripps Networks Interactive; Chairman, President and CEO
- Burton Jablin; Scripps Networks Interactive; COO
- Jim Samples; Scripps Networks Interactive; President, International
- Lori Hickok; Scripps Networks Interactive; CFO

Other Participants

- Anthony DiClemente; Nomura Securities Intl.; Analyst
- Vasily Karasyov; Sterne, Agee & Leach, Inc.; Analyst
- John Janedis; Jefferies LLC; Analyst
- Michael Nathanson; MoffettNathanson LLC; Analyst
- Ryan Fiftal; Morgan Stanley; Analyst
- Todd Juenger; Bernstein; Analyst
- Doug Mitchelson; UBS; Analyst
- Alexia Quadrani; JPMorgan; Analyst
- Laura Martin; Needham & Company; Analyst
- Michael Morris; Guggenheim Securities LLC; Analyst
- David Joyce; Evercore ISI; Analyst
- Steven Cahall; Royal Bank of Canada; Analyst
- Tim Nollen; Macquarie; Analyst
- Jason Bazinet; Citi Investment Research; Analyst
- Ben Mogil; Stifel Nicolaus; Analyst
- Matthew Harrigan; Wunderlich Securities, Inc.; Analyst

MANAGEMENT DISCUSSION SECTION

Operator:

Welcome to the Scripps Networks Interactive first-quarter earnings call.

Operator Instructions)

As a reminder, this conference is being recorded.

I would now like to turn the conference to our host Dylan Jones, Chief Communications Officer. Please go ahead.

Dylan Jones (Chief Communications Officer):

Thanks, Operator. Good morning, everyone. On the call with us this morning is Ken Lowe, our Chairman, President and CEO; Burton Jablin, Chief Operating Officer; Lori Hickok, Chief Financial Officer; and Jim

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Samples, President of International.

We'll start the conference call with prepared remarks that should take about 20 minutes. Then we will open it up for questions.

Let me remind you if you prefer to listen in via the Internet, go to our website, click on the investor button and find the microphone icon on the landing page.

Additionally, on the page under the microphone icon, you'll find our first-quarter earnings presentation materials that we will be referencing during the prepared remarks portion of our call.

An audio archive will be available on the site later today and we will leave it there for two weeks so you can access it at your convenience.

During the Q&A this morning, please limit yourselves to one question and one follow-up so that we can accommodate as many people as time allows.

Let me remind you that our discussion this morning will contain certain forward-looking statements. Actual results may differ from those predicted. Some of these factors that may cause results to differ are set forth in our publicly filed documents including our Form 10-K.

With that, I will turn it over to Ken.

Ken Lowe (Chairman, President and CEO):

Okay. Thank you, Dylan. Good morning, everyone. Very happy that you are able to join us today, especially since this is a very busy couple of days for all of you, I know.

Put simply, this was one of the best quarters in the Company's history. Scripps Networks Interactive has become synonymous with distinctive lifestyle programming and strong, consistent financial performance. That is something that we are committed to every quarter and every year. And needless to say, we are off to another great start this year.

In the first quarter of 2016, total operating revenues grew 24%. Consolidated advertising revenues grew 31%, thanks in part to the inclusion of TVN. Advertising revenues for the US networks increased 14%, making Q1 the best advertising revenue growth quarter for us in more than five years. Adjusted segment profit increased 27%, and adjusted earnings per share grew 34% to $1.37.

Now, Burton and Lord will go into the details on the quarter in a few minutes, but I want to highlight some of the remarkable results delivered by our brands during the first quarter.

Scripps Network Interactive was the only network group to see all of its US television networks' ratings increase compared with the prior-year quarter. We are six for six in network growth, making this one of the best ratings quarters in the Company's history. HGTV continues its impressive string of records. The first quarter in 2016 marked the network's highest-rated quarter ever with adult viewers, 25, 54 for sales prime, total day and weekend.

Food Network and Travel Channel both saw their second consecutive quarter of primetime ratings growth, and TVN Group delivered an outstanding ratings quarter, up 4% over last year on the strength of the new TVN primetime lineup.

We have strong brands, compelling content and programming that viewers love and trust, especially the upscale and highly engaged audiences that advertisers are looking to reach. Our audiences are savvy, they are well-informed and, most importantly, they are ready to buy.

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Research speaks for itself. In the March 2016 Brand Identity Study published by Beta Research, HGTV tied for first as a favorite network among viewers over 18. Additionally, viewers designated five of our six US networks to be among the top 12 networks on which they are inclined to pay the most attention to commercials. Now, this is exactly why our advertising partners trust us quarter after quarter, resulting in the remarkable advertising performance that we reported today. These are all great brands with high-quality content that consistently deliver and engage audience better than anyone else in the industry, and we do it night after night.

For example, HGTV primetime viewership is within 15% of its weekly primetime average every night of the week. At Food Network, it is six of seven nights. Now, this remarkable consistency really demonstrates the high degree of schedule and programming strength over a broad number of shows and nights. In the midst of ever-changing and expanding viewer options, our family of networks remains essential to distributors. They are the must-have networks that consumers consistently seek out for lifestyle content.

We recently held our upfront presentation in seven United States markets. And I have to say we received an enthusiastic response to the new season of entertaining and family-friendly programming. We are confident this will be reflected in our upfront negotiations. We have the best advertising sales team in the business and that continues to pay off.

We are also well-positioned to take advantage of the wealth of opportunity of our lifestyle brands outside the United States. Since launching in 2009, our international networks have expanded to more than 175 countries and territories, touching more than 272 million cumulative subscribers in 29 languages.

We continue to launch our lifestyle brands in major international markets recently with Food Network in Australia and will soon benefit from additional distribution in seven Latin American countries. And there remains significant opportunity to grow the HGTV brand around the world.

Of course, our international growth was topped off last year by the transformative acquisition of TVN, which is the leading multiplatform media business in Poland. Now, the team there is doing a great job working across all consumer touch points to deliver content that consumers crave, that audiences and advertisers demand. TVN is really the leading Lifestyle Media company in Poland, and we believe it has the opportunity to become even stronger. We've got a number of initiatives in the pipeline to make that a reality.

We've accomplished much in a short amount of time with our international networks, and we are very excited to see what comes next as we continue to develop and grow our global footprint.

I want to thank you again for your interest in Scripps Networks Interactive . And with that, let me turn it over to Burton, who has some details on our first-quarter results. Burton?

Burton Jablin (COO):

All right. Thanks, Ken. Good morning, everyone. Well, what a way to begin the year. With the investments we've made in programming and the international business, the Company is performing at a high level.

As Ken mentioned, the first quarter in 2016 marked HGTV's highest-rated quarter ever with viewers 25 to 54 for sales primetime total day and weekend and outpaced the next-highest-rated quarter by an incredible 12%. In fact, HGTV was the only top five cable network to post a ratings gain in the first quarter versus last year for adults 25 to 54 in primetime. Driving this record growth were viewer favorites like Fixer Upper, which finished its record-breaking third season as one of the highest-rated programs in the network's history, and Flip or Flop, with ratings soaring 26% for adults 25 to 54.

HGTV also delivered its highest-rated quarter ever for millennials, 25 to 34, with ratings up 10%. And so far

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in the second quarter, these positive trends are continuing. HGTV just announced that April 2016 was its highest-rated and most-watched April ever for primetime adult 25 to 54 viewers, a 9% increase over April 2015.

Food Network continued to post solid ratings in the first quarter, too, especially among adults watching with their children. Kids Baking Championship, Cake Wars and Chop Junior helped push up primetime co-viewing during the quarter. Food Network wins with millennials as well, posting a 5% ratings improvement with that viewer group in the month of March.

Travel Channel continues to gain momentum, reporting its highest-rated quarter in two years. We are building our upscale female audience on the network as well. In fact, on most nights, the network now attracts more women than men. In April, Travel Channel grew 15% among adults 25 to 54 and 26% for women 25 to 54 compared with the prior year. This was the network's best performance since 2013 and we feel this is just the start. Travel Channel represents one of the most significant growth opportunities for the Company, and its recent progress shows that we are well-positioned to deliver on that expectation.

DIY Network had a very strong showing, delivering its most-watched quarter ever among adults 18 and over, driven by strong-performing shows including Texas Flip and Move and Tiny House, Big Living.

Cooking Channel had the highest-rated and most-watched first quarter in its history among both adults and women 25 to 54, maintaining its steady growth rate that it's had since 2010.

And rounding out the US networks, Great American Country also experienced ratings gains, posting its highest-rated sales time ratings in eight years.

Now, linear TV isn't the only place we built success in the first quarter. We launched Scripps Lifestyles Studios in the fourth quarter of 2015, consisting of a dedicated editorial team to create digital and video content. Their online videos have received great response and increasing engagement from their targeted audiences during the first months of 2016.

The Scripps Lifestyles Studios team produced over 1,000 videos for mobile and social platforms in the first quarter, and that's quite an achievement for a group we formed just a few months ago. This output is helping us gain greater traction in the content marketing and social video marketplaces. Food was our entry point onto these new platforms, but we are aggressively targeting the home category as we move further into 2016.

And speaking of growth in digital, we recently renewed our agreement with Snapchat, which offers us another way to reach millennials and provides a new path for our advertisers to reach consumers. It is still relatively early days for the platform, but we are looking forward to bringing more content to life through that application.

Scripps Networks Interactive proudly embraces innovation and pioneering new formats, and we'll continue to expand our content and functionality as we make our valued programming available on as many platforms as possible.

The last several quarters have been especially exciting for our international networks as the Company continues to grow outside the United States. To start, I want to highlight the promotion of Derek Chang, who will head up our international lifestyle channels, and the addition of Eduardo Houser, who will direct SNI's businesses across Latin America. Derek and Eduardo's wealth of industry experience will enable us to tap into the numerous opportunities for our networks as we continue to build our global lifestyle brands.

In Poland, TVN's networks achieved 6% revenue growth in local currency compared with the prior-year

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quarter. TVN, the broadcast channel, was number one in its commercial target group for viewers 16 to 49, attaining more than 13% market share in the first quarter. And over the same period -- time period, the TVN Group increased their total market share by 4%.

We are incorporating original lifestyle content into TVN's lineup. One of the first efforts was a locally produced version of DIY Network's Kitchen Crafters, which premiered on TVN's Style Channel. Another SNI format, House Crashers, that is locally produced will premiere later this summer. And TVN is also producing episodes of House Hunters International in Europe, and those episodes will premiere in the US later this year. As you can tell, the integration of TVN into our international portfolio is producing impressive results.

For its just-completed fiscal year, UKTV posted record revenues that increased 13% and record operating profits which grew 10%, both in local currency. The multichannel broadcaster also grew its share of viewing from prior year. UKTV's phenomenal results were driven by strong advertising revenues, continued investments in original programming and strong financial discipline.

So 2016 is off to an extraordinary start. We remain committed to what we do best, bringing life to lifestyle as we develop an even deeper connection with our consumers across all of our brands.

Now I will turn it over to Lori, who will review the Company's financial performance for the first quarter of 2016.

Lori Hickok (CFO):

Thanks, Burton. Good morning, everyone. Since you have seen our strong results, I will highlight the consolidated numbers, discuss our segment performance, provide updated guidance and then open it up for Q&A.

And as Burton mentioned, what a terrific start to 2016, with revenues up an impressive 24%. This growth was primarily driven by a strong US advertising market coupled with ratings improvement across all six US networks and a significant expansion of our international business through our acquisition of TVN last year.

Adjusted segment profit increased 27%, fueled by the strong revenue growth. This increase in adjusted segment profit translated into a robust 34% growth in adjusted earnings per share compared with the prior year. We had a great quarter at our US network segment. Revenues increased 10%, driven by strong revenue demand for our lifestyle networks as well as continued distribution revenue growth.

For advertising revenues, strong CPM pricing coupled with ratings growth at all six of our networks drove a 14% year-over-year increase in the first quarter. Scatter versus scatter CPM pricing was up in the low double digits year over year and up low 20s over the broadcast upfront. Our top five advertising categories during the quarter were food, retail, consumer packaged goods, financial and automotive. These categories are fairly consistent with the prior period.

The strong advertising market has continued into the second quarter, with scatter versus scatter CPM pricing up mid to high teens year over year and up low to mid 20s over the broadcast upfront.

Contributing to the 2% growth in US networks distribution revenue for negotiated rate escalators with our traditional distribution partners as well as new distribution related to over-the-top broadband providers. These were partially offset by the previously disclosed one-time rate equalization of certain distributor agreements related to consolidation. And low single-digit subscriber decline also in line with expectations.

The healthy 20% growth in adjusted segment profit for the US networks reflects the increase in revenues

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partially offset by a slight increase in expenses. The increase in cost of services was largely offset by decreases in SG&A expenses. This reflects the shift in marketing costs to later in the year along with the ongoing operating efficiencies achieved from the restructuring, including the recent Travel Channel reorganization.

International networks revenues increased significantly to $121 million from $24 million due to the inclusion of TVN in the first quarter of 2016. And as Burton mentioned, for the quarter, TVN's revenues grew 6% in local currency compared with the same time a year ago. International segment profit was $10 million compared with a loss of $6 million a year ago. This $16 million improvement was primarily related to the inclusion of TVN as we continued to invest in our international lifestyle network.

Historically, for TVN, the first and third quarters have lower margins while the second and fourth quarters have higher margins. In addition to our consolidated results, we have significant international operations reported in our equity earnings.

In total, equity in earnings of affiliates was $26 million, up 36% compared with the prior year. This growth is primarily related to the addition of nC+, an investment held by TVN, and UKTV's improved performance.

Partially impacting the growth was the sale of our minority interest in Fox Sports South. We recorded a $208 million pretax gain during the quarter related to the sale of this minority holding.

Going forward, we expect that the majority of equity in earnings of affiliates will come from our international investments.

On the balance sheet, I want to touch on a couple of items. Our capital allocation priorities are to use operating cash flow to fund organic growth, reduce our overall leverage and invest in M&A, both in the US and internationally.

On the M&A front, in addition to selling our Fox Sports South minority stake, we also acquired the remaining 35% interest in Travel Channel from Fox Communications for $99 million in cash and certain tax benefits. Travel Channel is a key asset for the Company and one which we believe holds great upside potential.

We finished the first quarter with approximately 3 times gross leverage, down from 3.2 at the end of 2015. The first-quarter leverage reflects both the Fox Sports South minority sale and the Travel Channel buy-in. It also reflects the reduction on the amended revolving credit facility of approximately $325 million. And we did not repurchase any shares during the quarter as we focused on de-levering and the M&A activities previously mentioned.

Finally, as a result of the stronger-than-expected advertising market combined with the strong ratings performance, we are updating our full-year 2016 guidance. All guidance is based on adjusted consolidated Company results. Due to the increase in revenues, we now expect adjusted segment profit to increase approximately 8% year over year, up from the previously issued 7%. All other 2016 guidance remains unchanged.

As a reminder, for the first half of 2016, we expect to realize a higher growth rate due in part to easier advertising comps for the US network segment and because TVN results were not included in the first half of 2015.

We continue to expect that the third quarter will be impacted by the Summer Olympics and to a lesser extent the presidential election. So it should be the slowest revenue growth quarter of the year. Then revenue growth should accelerate somewhat for the fourth quarter of 2016.

Additionally, for the third quarter, due to the timing of certain expenses, it should be the lowest adjusted

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segment profit margin quarter of the year.

And with that, we are ready for your questions.

QUESTIONS & ANSWERS

Operator:

(Operator Instructions)

Anthony DiClemente, Nomura.

Anthony DiClemente (Analyst - Nomura Securities Intl.):

I think in the prepared remarks you talked about embracing innovation in terms of over-the-top platforms. And just to continue the (technical difficulty) subject of Hulu Live, I would think that for your content, it would actually lend itself better to live programming. So I guess to the extent that Internet-delivered viewership of cable TV content shifts to live and away from SVOD or on-demand viewership, I think that's a benefit to your Company. Is that consistent with your view of what's going on in terms of the introduction of these newer platforms.

And then second question, and maybe this is for Burton or Lori, in terms of the conversations you are having with your marketers, they are obviously allocating a lot greater spend to your networks. And, clearly, ratings is a big part of the reason why. I just wonder what are you hearing from big advertisers about their view on the ROI or effectiveness of your ads in terms of driving conversion to sales. And obviously that conversation dovetails with what is the relative ROI of social media ad spending given the growth in spend on social media platforms. Love to hear about that. Thanks.

Ken Lowe (Chairman, President and CEO):

Good morning, and thanks for your questions. Yes, let me take the first one that you partially answered. As you know, we have consistently always delivered a better live performance. As you have heard us say many times, 94% of our viewing on average, very similar in the low 90s, is done in a C3 window.

And by the way, to that point, you probably saw the information that Nielsen released yesterday which very much reflects that live viewing with reality-based nonfiction programming is more in the first three periods than over -- the first three days than over the seven days.

And, yes, look, because the way we've been built, part of that is the advertising environment so that the commercials not only are viewed but are viewed in that live window, which is very important in advertising, especially when it's timely.

And it also plays well, I think, to our content. And that's why we have longer viewing periods where people tune in to our networks and they tend not to tune away. Because there's very few objectionable periods or speed bumps, if you will, or just blockbuster type shows. And that's why you heard my comments we do so well consistently over a seven-night period. Our content is not, from a rating success standpoint, this roadblock over a night or two. It is consistently six or seven nights a week.

So all of this plays very well into, I think, some of the trends you mentioned that we are starting to see more important pace on live, live streaming and even with the announcement of Hulu's up-and-coming venture in 2017.

So I hope that answers your question. But, yes, it is the way we've been built. It's the expectations that our viewership has now of the networks, and also the way we stack programming and promote.

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So I will let -- Burton, do you want to take the second?

Burton Jablin (COO):

Sure. Hi, Anthony. Thanks for asking that question. I was with our ad sales team last week, so I have got very current point of view on how advertisers are seeing that. This really ties in to the long history of value that we provide to advertisers. And I think in the current environment where social media and digital certainly bring a lot of data to an advertiser that they can use, there are also questions about the ability of all the things that you've read.

But we bring a lot of great data to advertisers as well. And there are factors like the environment that we create in our networks. Demonstrably, the third-party research shows that viewers are more receptive to the advertising on our networks. That's been true over a long period of time and remains true. Simply, the subject matter that we are in provides an opportunity for advertisers to reach upscale viewers. Again, the independent data shows that we have as a group the most upscale collection of viewers on television.

And then you combine that with just the consistency that we talked about in our opening remarks. Night after night, advertisers, marketers know what they are going to get when they advertise on our networks. There are no clunkers that they will find their ads in. There is a consistency of viewing. And it ties into part of Ken's answer, which is the live viewing -- the high rate of live viewing means that those ads are going to be seen when the advertisers intend them to be seen. So we are hearing very positive point of view about what we offer marketers as compared to other television networks and even some other opportunities for them.

Now, that said, we have digital assets, too, and we package those up with our television offerings. And we're doing all we can to minimize some of the objections to digital in terms of viewability and measurement and, I think, doing a very good job there, too, as well.

Operator:

Vasily Karasyov, CLSA.

Vasily Karasyov (Analyst - Sterne, Agee & Leach, Inc.):

My question is about advertising. Some of your peers are talking about reducing advertising loads this year. Can you please talk about what your ad loads look like this year compared to last year, where historical average? And are you planning on changing that in 2016 or 2017?

Burton Jablin (COO):

Hi, Vasily. This is Burton. Yes, I can answer that. Our ad load has been really consistent for long periods of time. We have no intention of changing that, adjusting up and down. We think we have the right ad load, have had it for years, and we will stay that way.

Operator:

John Janedis, Jefferies.

John Janedis (Analyst - Jefferies LLC):

You talked about your rating success which, as you know, is a stark contrast to the industry. And I guess you are able to take advantage of that on the ad front. So I realize you get more live viewing, but to what extent are you seeing advertiser demand for VOD or maybe what opportunity that might present for you going forward, assuming industry ratings keep declining and the networks take out supply?

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Burton Jablin (COO):

Hi, John. This is Burton again. I'm sorry to monopolize a little bit here. But, again, I was with our ad sales team last week, so I've got current information.

We've seen growth in VOD and the advertising demand for it, but it still remains small. And that's because the greater interest in our networks is a preponderance of live viewing and the benefit that that offers any marketer. We do believe, as we have said many times, in TV Everywhere, which is essentially a version of VOD, at least in part. And over time as that becomes a more meaningful number in terms of the number of people using it, watching it, then we will expect to see some ad revenue there, too. But the nature of our networks, the live viewing means that that's really where advertisers see the value over time.

Ken Lowe (Chairman, President and CEO):

John, I would just -- I would also add, I do think the opportunity for us for digital ad insertion going forward is going to be very, very strong. But, as Burton said, I think we need more of a sample size going forward in how that is going to work and a little more time on the technical side to make sure the efficiency and the results are there.

But if you look at how viewers and consumers consume our content, use our content -- and as you can imagine -- because Burton came up with this three years ago, it's the three i's ideas, information, inspiration. When they are using it, maybe at a remodeling project or at a recipe or whatever, in a delayed basis or on a mobile device or wherever, being able to digitally insert ads, I think, is going to become an enormous opportunity for us over the long term.

Operator:

Michael Nathanson, Moffet.

Michael Nathanson (Analyst - MoffettNathanson LLC):

I have two for Burton. Let me do one at a time. First on travel, Burton, given the improvement in ratings, is there anything changing on your promotion of the network? Have you changed maybe the cross-promotion of HGTV and food for travel? And then attracting the female demo, what has changed in terms of the skew of the programming to become perhaps more female?

Burton Jablin (COO):

Well, on the last part, we do so well on our other networks with the upscale women audience that it is intentional that we are trying to move Travel Channel programming in that direction. And we're having some success with that. It ties into the cross-promotion capability. The more we are able to make that audience on Travel Channel reflect the audience that we have on HGTV and Food Network, the more we able to use cross-promotion to do that.

The benefits that we've seen in terms of improvement in ratings at Travel are really coming from what we said all last year that we put on a group of shows in the fourth quarter, some of which didn't work. We took some write-offs, but some of which did work. And we're reaping the benefits of that now into 2016.

But we also have stabilized the schedule. It is something we have talked about for a couple of years there, too. Our scheduling team has worked really hard to create that greater consistency night after night. We are beginning to see that. We still have a ways to go with Travel Channel, but that's why we think there is more upside.

So consistency in viewing patterns is something we have seen on the rise. And then we have -- we

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consolidated all of our networks under the same leadership of Kathleen Finch, and she put all of our marketing teams under the leadership of Shannon Driver. And as a result of that, we are looking at bringing the successful marketing strategies that we had at HGTV to Travel Channel, and you'll see those unfold over time, too, which, again, makes us confident that we have more upside there.

Michael Nathanson (Analyst - MoffettNathanson LLC):

Okay. And let me just ask one of you based on what Lori said last quarter. I think when the year started, we all assume that first quarter would be strong, and then it would decelerate in Q3 below because of the Olympics. Giving the ratings trends and given your scatter commentary, which was actually better than the first quarter, is there much of a slowdown in 2Q advertising versus first quarter, or can you keep running at this nice rate that you just put up this quarter?

Burton Jablin (COO):

I'll take that, but Lori can chime in as well. Again, our ad sales team is very positive about second quarter. As Lori also said, though, that our comps year to year on a quarterly basis get harder as the year goes on. So we still see a robust marketplace. Our ratings, as we've said, into April are still doing well. All of the factors are still in place. So we feel good about second quarter, but those comps are going to get a little harder as we go through the year.

Lori Hickok (CFO):

And I would just -- that's really what we have to remember is that the comps get harder, and they get harder as they move through the year. But the market is very strong. The other factor there is just the mix of what we are selling. You've got to keep in mind, too, that it is multiple marketplaces that we are selling into, too.

But healthy demand, and it helps when you are producing the kind of impressions and growth that we are as they --. That there is audiences, and we are a safe haven for advertisers because they know we are going to deliver those impressions, which really, really helps us and helps our sales team.

Operator:

Ben Swinburne, Morgan Stanley .

Ryan Fiftal (Analyst - Morgan Stanley):

It's actually Ryan Fiftal on. Just a follow-up on the previous question. I think some of us -- given the strength in the quarter and the strength in ad market, we are kind of scratching our heads on why you didn't feel comfortable raising the top-line guides. So I get on the ad side that comps get tougher. Is there anything on affiliate rev side we should be thinking about potentially timing through the year, a deceleration through the year as the pending deals out there close? Thank you.

Lori Hickok (CFO):

No, Ryan, I think what you saw is the confidence that we are seeing is much easier to exhibit that through expanding our guidance on the adjusted segment profit. Revenue is a much bigger number. We feel very confident that we are there. And I would say just stay tuned. We are not comfortable raising revenue at this point, but all the signs are very positive, and the 12% that we've got for the full year is very, very solid.

Operator:

Todd Juenger, Sanford Bernstein.

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Todd Juenger (Analyst - Bernstein):

I feel like I do this every quarter, so I apologize if that --. Let me just talk a little bit on the cost side, especially given the nice success at Travel, which I think has been a big recipient of a lot of investment over time trying to get that formula right. And it seems like you have latched onto something here.

So as we think about what that means going forward in terms of having to try and find new shows and add new hours, are we approaching more of a steady-state sort of situation at least for a while? And would that mean that maybe the year-over-year costs to the investment as we look forward the next couple of years might be expected to continue to taper down a little bit?

Lori Hickok (CFO):

Well, Todd, much like you feel like you keep repeating that, I will keep answering is that we really feel comfortable with where we are as far as our investment in hours. And if those hours go up at Travel or any of our networks, it is really commiserate with the revenue growth at this point.

So you really wouldn't see one going up without seeing some sort of boost on the top line. But we really -- as we said, we see the investment on our US networks really moderating. When we brought on Travel and we were trying new shows, we knew some would fail, some would work. That there was an outsized investment there.

What we will have is more stability in those hours as -- especially with Travel. As you start having more and more returning series, your predictability and your ability to control your investment growth becomes more certain.

But, again, it's a little art and science, and we will continue to do the right thing for the screen.

But, again, we have a fairly good focus on the investments. We feel like the number of hours that we are producing are the right hours. We will mix the mix and change those things. And, again, the success you are seeing like at HGTV gives us the ability to experiment and find the new -- the hits of the future while still having the strength of the current schedule.

Operator:

Doug Mitchelson, UBS.

Doug Mitchelson (Analyst - UBS):

A few questions. Ken, I'm just curious, your thoughts on the new virtual MVPD is partly because you are already in Sling. Do you think overall these are going to be successful or highly successful taking share from traditional operators? Do you think this is really yet to be proven?

And for Burton, I'm just wondering you have the calendar upfront, and obviously we are going into this upfront with your scatter pricing continuing to ramp. Is that your expectation that the midyear upfront here you should have better pricing than you just saw in the calendar upfront? And would you care to share what kind of price increases you did see in the calendar upfront? Thank you.

Ken Lowe (Chairman, President and CEO):

Yes, Doug, in answer your first question, I think I heard. It was a little hard to hear on this end of the line. But on the virtual -- yes, I think in general they will do okay. It is pure speculation at this point. But I will -- I do think you might see some shifting from one distributor to another, and it's going to be on an incremental basis.

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What's going to be more important, I think, is the technology that goes along with it. And by that, I mean -- let's just take the new Xfinity box that Comcast has rolled out, and Cox is using the same technology. These new generations of boxes and what you're going to be able to do as a consumer is going to have, I think, a great impact on the competition between distribution models going forward. You marry that with smart TV, you put an enormous amount of power in the consumer's hands as to what they can watch, when they can watch, how they can watch, and I think those are going to be the game changers.

So it's not just about packaging and coming up with another service, be it traditional models that we've all grown up with over the past X number of years. It's some of the newer models that are rolling out. It's going to be all the bells and whistles that come along with it. Because I do think not only the millennial generation, but everybody now is just becoming accustomed to, in a world of iPhones, more technology and more options.

And one comment I would just make before I turn it over to Burton, a lot around the advertising market. If you look at the first quarter, it was a really unique quarter in the sense that the amount of sports programming and compelling sports programming, everything from the NFL playoffs to the Super Bowl. And NBA season, which we saw a team surpass the Chicago Bulls with 73 wins -- if you look at the NCAA playoffs, which has never been more competitive and never more watched, and for us to be able to deliver a 14% year-over-year advertising growth rate, I think it really underscores the value of our content, the environment that we are giving the advertisers.

So it's hard not to feel confident about advertising going forward, but we still have to factor in seasonalities. We have dream home giveaways. We have different things throughout the year. So, consistency to me is more important that quarter after quarter, if we are delivering the best of the peer group and advertising growth, we are pretty happy.

Burton Jablin (COO):

Yes. And along those lines, we are feeling confident about the upfront. But, of course, our big presentations just ended. We are still all over the country doing dozens and dozens of presentations at individual agencies. And so it's a little early for us to give an indication of any kind of number.

But our sales team feels very confident about the upfront. Calendar, as you noted, is traditionally a very strong market for us. There are a lot of endemics on the home side in particular that are in the calendar market and enjoy the benefit of that. But as far specifics on those CPM increases, just a little early for us right now. But we feel good.

Operator:

Alexia Quadrani, JPMorgan .

Alexia Quadrani (Analyst - JPMorgan):

Just following up on those comments about the upfront. You guys have been doing this for many years. I would love to hear how you think -- how much more leverage you think you have or how much better your position going into these upfront negotiations when you have such incredible ratings momentum like you have now versus maybe more of an ordinary year.

And then just sort of speaking generally on upfront pricing, I know it's early days, but do you think you will still be able to maintain or you think grow that premium pricing versus your peers given your positive live audience skew that you've enjoyed?

Ken Lowe (Chairman, President and CEO):

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Hey, Alexia. As usual, great questions from you. It does give me the chance to say -- you heard in my comments we actually were in seven cities across the country with our upfront presentations. There are few of us out there anymore doing upfront presentations. So the obvious question is why do you guys do it.

Well, one reason we do it is because we like the ability for our advertisers to come commingle with our talent and truly understand why we are asking for these increases on something that is already premium-priced. So I think just to sit back and think that we will just push out data -- we have to get out with advertisers. We have to also hear them when we come up with advertising solutions because this is now becoming, again, (inaudible) about 30s and 60s, as we all have seen evolve over the last several years.

This is about advertising solutions. It is very much why we started the Scripps digital lifestyle studio. Because a lot of what we are doing now is in conjunction with these packages that we are selling. So you are not just buying advertising across this network; you are buying solutions, you're buying maybe placement in dream home giveaways, smart home giveaways, Food Network kitchen and what we are doing there, and on and on and on.

So, it's a long-winded way of saying, yes, we think not only are we priced at the top of the market but can continue to push that. Because, let's face it, at the end of the day, quality and exclusivity are always going to be at a minimum and therefore are going to be priced at the high end of the market.

Burton Jablin (COO):

And I'll just add -- and we come through. We are completely reliable. We haven't suffered the kinds of viewership declines that others have, which means make-goods and not delivering on a buy. And our current results show that that consistency just continues to support higher prices.

Operator:

Laura Martin, Needham.

Laura Martin (Analyst - Needham & Company):

Congratulations on the quarter. I've got a couple things for you. The chatter in this kind of earnings period has all been about skinny bundles or digital bundles. And I guess I'm interested from you -- Fox said yesterday they are not giving anybody in the digital world a break compared to the old world in MVPD. Is everybody approaching you guys for all of your channels? Are they trying to cherry-pick your channels as these new digital alternatives come to you? And how are you thinking about price in the new world? Especially if they're threatening -- if you are going to give them only one or two of your channels.

Ken Lowe (Chairman, President and CEO):

Well, actually, we were talking about this before the call. I'm going to let Burton give you his opinion on this because I think, collectively, we've had recent meetings about this in distribution models. So Burton, why don't you weigh in here?

Burton Jablin (COO):

Yes, the way we would look at it is our -- we have our main networks on every existing smaller bundle that's been out there. And, as you know, our less distributed networks, our premium tier networks, DIY Cooking and GAC, have always been on tiers. And so we would expect a similar kind of relationship between a core bundle, if you want to call it that, and the premium tier bundles to continue. And that's not unusual for us, and that's how we will approach this particular aspect of distribution landscape. But for HGTV, Food and Travel, you know, we want to make those part of any kind of core bundle that's out

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there no matter how skinny or fat. And the others will talk to distributors about various tiers.

Laura Martin (Analyst - Needham & Company):

Okay. And CVS is saying they are getting a pricing premium in these digital stripped-down bundles. Is that true of your channels as well in these skinnier bundles -- those three big channels you mentioned?

Burton Jablin (COO):

We have really not discussed that and disclosed that publicly. So I really don't have anything to say on that one. Ken, do you want to --

Ken Lowe (Chairman, President and CEO):

Yes, well, look, Les is the master of all this. But I think once you get into retransmission consent and those type of dollars, it is hard to classify premium if you are bringing retransmission consent into it, I think.

So, in general, I think the best thing to say is we are not getting any -- or offering any type of decreases in any of the packaging that are out there. And we think we continue to have upside, Laura, on the subscription side just because, in my opinion, we are still undervalued. But that's something for us and our distributors continue to talk about, which we will.

Operator:

Michael Morris, Guggenheim.

Michael Morris (Analyst - Guggenheim Securities LLC):

Couple questions on HGTV, which is particularly strong. Is it fair to assume that the affiliate growth for that network is generally similar to what you see for the US networks overall, and therefore the top line growth is primarily advertising-driven?

And also when you look at the ratings strength, I'm thinking HGTV but maybe more broadly, are you seeing new viewers coming in to watch the channels? Or is it a case where you see yourselves keeping your core viewers on longer? Thanks.

Burton Jablin (COO):

Hi, Michael. This is Burton. Thanks for those questions. On affiliate growth, yes, we are pretty consistent with what the universe overall is doing. But I would add this

So in terms of just overall viewership, HGTV and the rest of our networks aren't immune, but have a pretty good protection against those kinds of declines that are affecting the overall universe.

In terms of ratings, yes, HGTV is absolutely drawing new viewers. The millennial growth that I reported on, 10% in ratings, shows that we are bringing in viewers who are new to the network. And, as we have seen over two decades now, once they become viewers, they stay with us. So HGTV's trick, if you will, has been both maximizing the viewing of the viewers that we already have. And we do that probably better than any network programming, mainly (inaudible), but also drawing in new viewers who we then keep in the family for a long, long time.

Ken Lowe (Chairman, President and CEO):

Yes, one thing I would just like to add to that is we view the first-time homeowners, condominium owners, tiny homeowners as potential new viewers because, in some cases, they need to age into the network a little bit, if I may use that phrase. Because until you own your first home or you are getting serious about

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home renovation picks up or whatever, HGTV may or may not be as relevant in your viewing. But once that happens, and you can immediately see it in viewing numbers and in numbers we that associate with advertising with our home-improvement partners and various other advertisers on the networks.

Operator:

David Joyce, Evercore.

David Joyce (Analyst - Evercore ISI):

Given the increase in pay-TV penetration around the globe, I was wondering if you could discuss a heat map of where there is increasing demand for you to produce more locally-based originated programming. And then if you could also tie that in with how much of your programming is going to transportable around the globe. Thank you.

Jim Samples (President, International):

This is Jim Samples. I will start by talking about Poland and TVN, where we have already been able to bring over both some of our formats to TVN. And they have produced local Polish versions of shows like Kitchen Crashers. Now they are doing House Crashers, and they are performing very well. So that's probably both the best and most immediate example of how we are bringing our lifestyle know-how to networks around the world.

Similarly in the UK, we are producing content for Food Network UK and Latin America. As we are expanding there, we have a number of shows that are in production, both in Brazil and throughout Latin America. We find these teams that work all around the world. And so it's not just the programming that we are able to voice over or to localize. But actually, we can bring both the formats and the production know-how and interpret that in each of the markets where we are operating.

Operator:

Steven Cahall, Royal Bank of Canada.

Steven Cahall (Analyst - Royal Bank of Canada):

Just a couple of questions, maybe first on your affiliate C growth, I think you talked about last quarter that is starting to reaccelerate as we get to the beginning of 2017. So I was just wondering if that is still the case and if there was an additional MVPD consolidation that has yet to occur that would have any impact on that.

And then also the TVN organic growth was very helpful. I was wondering if you might be able to share some of the organic trends in the entire international business just to give us some idea of what it was doing year on year. Thanks very much.

Lori Hickok (CFO):

Yes, Stephen, on the affiliate, yes, it still remains true that we will see acceleration again as we hit 2017. We are expecting mid to high single-digit pricing increases as we get through really the impact of consolidation which is factored in pretty much this year for us.

Jim Samples (President, International):

And this is Jim Samples on the international growth. You saw the TVN growth. So we've seen both good underlying fundamentals in the Polish economy, which is translating into strong demand for our programming and the advertising on that programming. So, very, very positive trends there.

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Similarly, in the UK, if you took a look at the UK TV performance, very strong ratings performance as well as strong demand for advertising. As you look around the world, one of the nice things about beginning to develop a diversified portfolio to the extent you have got some of these markets that are really popping if others are softer, it sort of brings in a nice balanced growth from year to year.

Operator:

Tim Nollen, Macquarie.

Tim Nollen (Analyst - Macquarie):

My question is also about the traditional bundle and the affiliate fees. One would've thought maybe one or two quarters ago, I think that the consensus (inaudible) is much more negative than it appears to be on this set of results. And you've also had obviously very, very strong advertising growth.

So I just wonder if going into affiliate fee negotiations -- whatever negotiations you may have upcoming, do you feel like you got a better hand right now? Just the mood in the markets is better and the ad growth is so strong. And then also could you please comment on TV Everywhere streaming rights that you may be offering and how the pricing might go on those? Thanks.

Burton Jablin (COO):

Sure. This is Burton, Tim. On negotiations, yes, we've always felt we were in a strong position given the nature of our networks, the value of the audience that we bring to a distributor. It is evidenced not only in our national advertising sales, but based on what we know is going on in terms of local advertising that our distribution partners insert onto all of our networks. They have very strong sales there, too. So we bring a benefit that's a little under the radar to our distribution partners, but that certainly factors in.

We also believe that when you have an HGTV that is pretty much the number one network for women viewing right now, particularly upscale viewing -- upscale women, it's been that way for nine years -- and Food Network, which is a top 10 to top 12 network, that those are two very powerful brands that bring great value to a distributor. And over the years, Ken has said this, we believe we've been a bit undervalued in terms of distribution payments, but that can also work to our benefit. We are very good value as a result for distributors. But we will continue to push the great benefits that our networks bring to any distributor.

On TV Everywhere, basically because we have rights for all of our programming, we own 100% -- pretty close to 100% of all of our shows, in the agreements that we've reached with our distributors, what you see of our top-rated, top-performing shows on our networks, you will see streamed on TV Everywhere, on demand. But, of course, our networks are available for live streaming on TV Everywhere right now. And we are beginning to see more and more uptake of our TV Everywhere apps and, as a result, more and more viewing, both live and on demand. We are very pleased with that.

Operator:

Jason Bazinet, Citi.

Jason Bazinet (Analyst - Citi Investment Research):

Historically, I guess there's been maybe two minutes allocated at local ad time to the distributor on the traditional model. As you move to these OBD models, is that holding true? Are they still getting a percentage of the local inventory, or is something changing?

Ken Lowe (Chairman, President and CEO):

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Jason, excellent question because I think, historically, it's just always been assumed that this is the way deals are structured. Going forward, in a world of virtual distributors and more consolidation on the linear side, it's easy to assume that these will become more into play in negotiations.

In our case, for example, those two minutes an hour, you can imagine, are extremely valuable. And I think going forward, they would come even more valuable to digital ad insertion and the localization of our content.

So, everything is on the table going forward in these distributions, especially with new and upcoming platforms and partnerships. So just because it's historically been that way, that two minutes is going to be put into these negotiations on the distributor side, does not necessarily hold true going forward in the newer deals.

But, having said that, we'll see. Because in some cases, it's a great partnership. It's worked very well depending on how local ad sales teams are structured, et cetera.

So we won't get into the details of our negotiations, but let's just say that that is at the forefront of our thinking because of the value we think we bring to those two minutes each hour.

Operator:

Ben Mogil, Stifel.

Ben Mogil (Analyst - Stifel Nicolaus):

Very shifting gears here. A couple articles in the UK newspapers about the BBC possibly looking to sell its half stake in UKTV. Maybe you can talk to us about if there is something ongoing there and whether or not you've got a first right of refusal and whether or not you've got appetite for the other half of it.

Jim Samples (President, International):

Hi, Ben. This is Jim Samples. Clearly, we can't comment on any speculation or the market rumors that you are seeing. But what I can tell you is that UKTV is a fantastic asset. And it just continues to perform very, very strongly, both financially and the ratings that we've seen. And the management there, Darren Giles and his team, they've just done a phenomenal job. So we are continuing to work with both UKTV and the BBC to deliver even greater value for the shareholders as we move forward.

Operator:

Matthew Harrigan, Wunderlich Securities.

Matthew Harrigan (Analyst - Wunderlich Securities, Inc.):

You give a presentation at CES every year that really goes into some granularity on the inefficiencies and the opportunities in the advertising market. And, clearly, you get a lot of rigidity; people have always done business a certain way. But when you look at -- when you get better measurement from comScore and Nielsen and all that, how much of a mispricing phenomena by demographic do you think there is relating to efficacy of advertising and buying power? Do you feel like you could be 20%, 25% underpriced by virtue of the demographics that you bring? Is it just impossible to say? I'm sure something like this takes a long time to correct itself, but it feels like a lot of things are moving in your direction, even beyond what you've talked about.

Burton Jablin (COO):

Matthew, this is Burton. Yes, you have seen these presentations. Steve Gigliotti, John Steinlauf are both

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big believers in exactly what you are saying

So I'm not going to put a number on it because it would be pure speculation right now what kind of percentage value we can unlock, but we certainly see value there going forward. As you said, this will play itself out over a period of time. But we are absolutely interested in pursuing this, and we think we will see the benefit of it.

Ken Lowe (Chairman, President and CEO):

Yes, Matthew, this is Ken. If I may just add on, it ties into a lot of questions asked on the call today, whether it's the upfront presentations, whether it's our thinking about advertising solutions. But I couldn't agree more with what Burton said. And the mere fact that you've actually seen our presentations at CES tells you this is the internal thinking that we have, and this is where we are prepared to go. Because once we unlock more opportunities for our content -- for example, on mobile devices -- we see a very big upside there in being able to create advertising solutions across multiple platforms that tie back to our content

We can't put a number on it, but let's just say we are very confident there is upside there.

Dylan Jones (Chief Communications Officer):

Well, thanks, everyone, for listening in today. As a reminder, Mike Gallentine and Sarah Bennett and our investor relations team will be available for follow-up calls for the rest of the day. I'll now hand it back to Operator for replay information.

Operator:

Ladies and gentlemen, this conference will be available for replay after 1 PM Eastern through midnight on May 19, 2016.

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