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TIVO - TiVo Corp at Citi Global TMT West Conference

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CORPORATE PARTICIPANTS

Peter C. Halt *TiVo Corporation - CFO*

CONFERENCE CALL PARTICIPANTS

Jason B Bazinet *Citigroup Inc, Research Division - MD and U.S. Cable and Satellite Analyst*

PRESENTATION

Jason B Bazinet - *Citigroup Inc, Research Division - MD and U.S. Cable and Satellite Analyst*

I'm Jason Bazinet. I cover media and cable here at Citi. We -- and all of our disclosures are at the front, if you want them. We are very fortunate to have Peter Halt, Chief Financial Officer of TiVo, with us here today. And we've never met. So thank you so much for coming. Always a pleasure.

Peter C. Halt - *TiVo Corporation - CFO*

Jason, thank you for having me here.

Jason B Bazinet - *Citigroup Inc, Research Division - MD and U.S. Cable and Satellite Analyst*

Of course, of course. And I guess my hope is that this is as interactive as possible. So if anyone wants to ask a question, just raise your hand at any moment and just hit the button because it's going to be webcast or is being webcast so it can get out.

QUESTIONS AND ANSWERS

Jason B Bazinet - *Citigroup Inc, Research Division - MD and U.S. Cable and Satellite Analyst*

But maybe I can just start off with a high-level question. I think it was about -- is it a year ago that Rovi and TiVo merged?

Peter C. Halt - *TiVo Corporation - CFO*

16 months ago.

Jason B Bazinet - *Citigroup Inc, Research Division - MD and U.S. Cable and Satellite Analyst*

16 months ago. So maybe, just for those that are maybe a bit less familiar with the story. Roll back the clock, explain sort of what the original rationale for the merger was, for the combination? And then what's gone well since then? And what -- where do you feel like it maybe didn't pan out as to what you thought? Or maybe everything went according to plan?

Peter C. Halt - *TiVo Corporation - CFO*

If you go back in 2 years back or something like that, if you look at the 2 companies, you have TiVo and Rovi, both basically playing in the same place, both offering discovery solutions to MSO and DBS providers. On the legacy TiVo side, they had started out as a hardware-centric consumer product, but they had migrated to a point to where they were more focused on the MSO business and using the consumer business really for innovating their product, with the focus being on deploying through MSOs. And we're looking at a business, where on the MSO side, they were becoming hardware agnostic. They were investing in analytics, taking advantage of the data they capture on their set-top boxes. They had acquired a company named Digitalsmiths to focus on advanced search, to kind of complement what they had in TiVo already in terms of recommendations. You take a look at Rovi, it was a pure B2B play; also providing guide solutions to MSO and DBS providers; also having bought an analytics business to take advantage of the return path data from the set-top boxes deployed by them; also having bought an advanced search company, having bought Veveo, which actually brought in technology around voice and voice search. So clearly, both companies had the same vision of the world, providing a full guide solution to smaller and mid-tier companies that couldn't afford the capital investment on their own. And for those larger companies, where they looked at it as a strategic imperative to control the look and feel of the brand of the user interface and were building their own guides to provide them best-of-breed point solutions in search, voice, data, learning more about their audience and stuff like that. And when you're looking at an industry as we are the MSO and DBS providers, where you're seeing consolidation, it makes all the sense in the world of consolidation and the vendor side too. So both of us had the same vision of the world, both focused kind of the same customers. Looking at customer base, we thought it made tremendous sense to bring both of the companies together. So that deal was announced in, I believe it was April of 2016, closed in September of '16. As part of the announcement, we said we thought we had achieved synergies of approximately $100 million for the 2 companies. The 2 companies, as we've said publicly, had a combined budget of about $640 million in spend in 2016. So we're looking at taking $100 million in spend off of that in synergies. We said that we thought we'd be able to achieve a fair amount in the first year, and we looked at it. We brought the 2 companies together, and we've actually achieved, as we've said publicly, the synergies at a much faster rate than anticipated. It's been really interesting. I've worked on a lot of deals in my life, and usually you open a closet somewhere and you're surprised by something. No surprises here. It's not to say that isn't hard work bringing 2 companies together, it is. It's not to say it isn't hard work taking the synergist out, it is. But we are doing so without the surprises. Both companies really understood each other, really understood the space. We're looking to do the same things. So we're well ahead of our pace on the synergies, and we've announced that we're looking at exiting the year, if you annualize our Q4 spend with a run rate of about $540 million, well it's $100 million lower than the 2 combined companies. Budgets for '16, there's still some more to come out in terms of annualization and synergies. Some of that savings is just a reduction in hardware spend. We've also said we look to be out at some point in time of hardware. TiVo had been moving on the MSO side to being hardware agnostic. We're looking to accelerate that pace and even looking at partnerships. Perhaps on the consumer side, it doesn't much make sense for us to be in the box business with an OEM. Why not partner with someone and -- on that product. So that's kind of been our focus.

Jason B Bazinet - *Citigroup Inc, Research Division - MD and U.S. Cable and Satellite Analyst*

So what -- maybe you can just go over what the -- what TiVo offers consumers today. And do you think the investment community, given your brand name and your ticker, understands that you're not in the hardware business anymore? Or is that still evolving?

Peter C. Halt - *TiVo Corporation - CFO*

Jason, I think there's a bit of an overhang still on that. I think that for a lot of people, they remember a TiVo from quite a few years back. They think of TiVo as a consumer-focused company. They think of TiVo as a hardware company. It's often -- I've ceased being surprised now when I come to a conference like this and some of the 1-on-1 meetings, people start asking me about the consumer and hardware business, not recognizing the change that's gone through. We are very much a software and intellectual property company. Let our MSO partners use whatever box partner they want. They'll have better deals and all that kind of stuff. We don't need to or want to be box-centric. The consumer business is exciting for us, but it really isn't where we get our revenues. Why we like the consumer business is it gives us the opportunity to innovate. You'll see us introduce feature sets in consumer first, and then it's a great way to sell it into our MSO customers. To say, look at this, it's deployed and working. That's a lot easier sale than it is to go into someone and say, hey, we would like to deploy this, would you be our first customer to do that? Generally speaking, our customers aren't always the fastest to move. So once they see it out there deployed in consumer, it really has helped us. So it's been very good and powerful for us as an innovation space, but it isn't where we're focused on revenues. As we talked in our last call, hardware revenue is less than 5% of the company's revenues, and we're looking to drive that down.

Jason B Bazinet - *Citigroup Inc, Research Division - MD and U.S. Cable and Satellite Analyst*

So when I look at your stock, at least during in 2017, it didn't look like a particularly robust year, sort of stagnant. What -- can you just talk about what you think drove that? And what could or should investors be thinking about as we think about '18, '19 and '20, to be more excited about?

Peter C. Halt - *TiVo Corporation - CFO*

Yes, we're very disappointed in terms of where our stock is. I think we've got a couple overhangs. I think one, when people look at us, we do hope that people take a discovery product from us. We are the 2 leading innovators that were brought together in the discovery space for entertainment, TiVo and Rovi. That said, as I mentioned earlier, for the larger companies who feel an imperative to build and control their own user interface, that's fine. We'll license them our intellectual property, and then we look to sell in best-of-breed point solutions. In the United States, we've basically got all the MSO's and DBS's license with one exception, and that one exception is Comcast. We are litigating with Comcast. We have litigation running in both the ITC or just finished a case in the ITC and [are] litigated them in the District Court of New York. So I think there are some expectations people had that this could be a matter resolved rapidly, and it's going be a matter that's going to take some time. For us, the company, as we keep saying, for us it's really a question of when, not if, they come under license. We've got everyone else licensed. We recently did a deal with Altice. We did this, a year ago, a deal with Charlie Ergen and DISH. You talk about 2 litigious players, there they are, shoot. And they recognized the applicability of our IP. So we've said publicly before we litigated -- well, when we litigated with Comcast, it really wasn't a question of whether they needed an agreement but what the rate should be. We have a deal with the largest provider in North America with AT&T Direct. The industry traditionally has most-favored-nation clauses, so clearly they're the floor for a deal. We're not looking to give back anything in terms of what we're paid by AT&T Direct. So it's really about when and if we can get -- reach a settlement or do we have go through the court to get Comcast as a licensee. But I think there were some expectations out there, perhaps it could be resolved quickly. Clearly, the prices reflect any resolution there. But that's been an overhang. I think for some of the investors, again, people having some limited familiarity maybe from the Rovi side with TiVo, or some of the people who think of TiVo as a different story. The time warp patent deals that were done in 2011, which will be expiring, that is a bit of an overhang also out there. And so I think those 2 items have kind of overhung the stock, and people aren't recognizing shoot, we've got just about everybody, with the exception of Comcast, under long-term licenses. We've announced the deal with AT&T Direct, it was 10 years. We announced -- it was originally 7, extended to 10 to include the TiVo patents. We announced the deal with DISH, it was 10 years. We just announced a long-term deal with Altice. We've got long-term locked-up licenses, cash flow coming from those deals. We're paying a dividend now that equates to about a 5% yield. It's a really good investment, but -- so we're not happy with the price. We're looking at '18, looking at with a new CEO about getting the message out there, and hopefully looking for some improvement in that area.

Jason B Bazinet - *Citigroup Inc, Research Division - MD and U.S. Cable and Satellite Analyst*

So just to be -- on the Comcast litigation to be clear, is it litigation around whether or not Comcast needs to license this IP from you at all? Or is the litigation all around the rate?

Peter C. Halt - *TiVo Corporation - CFO*

No, the license -- anytime you litigate IP, it's a multi-part litigation. Do you need the IP? Is the IP applicable? Is it valid? And then what is the rate? So we're going through that whole thing. So we recently prevailed in the ITC and got a ruling against them related to 2 patents. They announced publicly that they were going to remove that feature, say, from their product. And I think for a lot of investors, that was kind of a wait. This could be a while before this litigation gets resolved. I think that's been an overhang on our stock.

Jason B Bazinet - *Citigroup Inc, Research Division - MD and U.S. Cable and Satellite Analyst*

Okay. Any -- is there -- oh, yes, go ahead.

Unidentified Analyst

Just curious if you could address some of the OTT world and kind of what you think the impact will be longer term on your business? I think you're one of the few players that has made a good attempt at providing a search function across platforms and -- but yet the DVR functionality, I think, is problematic and that the OTT world doesn't allow for that. So if we were to see everyone cut the cord tomorrow, kind of what would that mean? Or how do you think your business can play in that world in the future?

Peter C. Halt - *TiVo Corporation - CFO*

Well, I think you're -- we look at the world and we kind of see 3 different areas, shall we say. There's your traditional PayTV providers. And clearly, very strong in there in terms of intellectual property and product. Touching on what you were talking about, we have a product there that is really where the world is evolving to and needs to be. That's a single-user interface where you can find your content regardless of its source. You can do a search and find the content you have your rights to on linear television through your carrier as well as any and all of your OTT content all in one user interface. If you do a search for a Netflix show on a traditional MSO or DBS user interface, you're not going to find it. You're going to going into Netflix. And what research has shown is once in there, you'll stay in there until you exhaust yourself of what to watch there. So finally, in a slow-moving industry, there's recognition, wait a second, I can't maintain a wall garden, I really need to be offering the ability to find OTT content, too, and a guide where they come back to my guide to search. Because if they don't, then the next program they'll watch will come from that OTT app. You won't have the chance for them to maybe watch some of your linear programming and rationalize your carriage fee. You won't have the chance for them to watch your catch-up TV and get the benefit of a pre-roll ad. You won't get a chance to offer them maybe you're VOD offering. So that recognition is coming in there, and we've got that product. So I'm very excited about that. And for that, that's a good guide to have. When you look at our business, shoot, people may then cord cut because they can get a lot of the content OTT, but they're still taking some linear TV. We could care less how much linear TV they're taking. That -- this is the guide they need. So we feel very good about that area. A lot of people are looking at that area declining, and we appreciate that. Then the second set, I would say, is the virtual MVPDs. And in that area, you look at on the IP side, if you look at what DISH is doing with Sling TV, what AT&T is doing with DIRECT NOW. If you look at the recent deal we did with Sony that covers the Sony PlayStation view, we're getting the same rates as in PayTV on the intellectual property side for the VMPDs (sic) [MVPDs] as long as linear TV is included. And then you look at our product, then you start thinking about what they're offering, we've got the right product for them, too. Next up for us is maybe some small tweaks to it, and starting to look to get our product, not just a full solution but perhaps our best-of-breed point solutions, such as voice search, such as the advanced search functionality, are [meant to] getting it into area. So we feel very good about that area, too. And then the third and final area is just a pure OTT, where someone is getting no linear television. On that front, what we've said is there's a lot less functionality in just a pure OTT offering, so an IP license is significantly less. But there's a whole lot of them out there, so our goal is to aggregate them, and then the combination means something in a world where perhaps there's a meaningful amount of people who are going and cutting the cord completely and not taking any linear television. To get cover there, we do think that also our products on the best-of-breed side can play into that area, too. Again, an area now that we're starting to look at moving forward into, voice again, shoot, is where the future is going. I always find it hard to believe, because I like quality audio to my music. But for my kids, Amazon Alexa is the only way they want to listen to music. So voice is becoming really important, and we see a penetration of some of our best-of-breed point solutions in the OTT space, very excited about it, too.

Jason B Bazinet - *Citigroup Inc, Research Division - MD and U.S. Cable and Satellite Analyst*

So is the net of all that, whether you're a pure cord cutter, someone that is a cord shaver, someone that has a digital MVPD subscription like Vue or Sling, or a traditional PayTV package, there's a role for you to play?

Peter C. Halt - *TiVo Corporation - CFO*

Absolutely. And the traditional PayTV full offering, the cord cutters, the virtual MVPDs, that's really all basically very similar economics for us. With the OTT, it's a much smaller IP license. It's just point solutions. But still, there are so many that the aggregate starts to have good value for us.

Jason B Bazinet - *Citigroup Inc, Research Division - MD and U.S. Cable and Satellite Analyst*

So someone, like a -- like I'm a cord cutter, I've got a Roku box, and I can search within Netflix, I can search within Amazon or I can search at the Roku level, for lack of a better word. That would be an -- but I don't think they have the -- I don't think Roku has the voice search, at least I haven't used it if they do. Is that an example of what -- where you would...

Peter C. Halt - *TiVo Corporation - CFO*

That would be an example of an opportunity. Roku is an interesting company. They are both a customer of ours. They have an IP license. They are a potential partner. A while back, we announced a deal where they could leverage certain assets of ours to do something in joint. And then they are a competitor of ours. So an interesting company for us in terms of working with.

Jason B Bazinet - *Citigroup Inc, Research Division - MD and U.S. Cable and Satellite Analyst*

Understood. What about your new CEO? A couple of months ago, you named Enrique Rodriguez who replaced Thomas Carson. What drove that change of a new CEO? And what skills, or what do you think Mr. Rodriguez will bring to the table that Mr. Carson did not?

Peter C. Halt - *TiVo Corporation - CFO*

Yes, Tom chose to retire this year. I think if you would have asked him when he first took the job, he probably would have envisioned that his career might have ended a year or so earlier. But the opportunity to bring the companies together to acquire TiVo, to see that pulled together kept him at Rovi. With the 2 companies pulled together, with the integration well underway, I think Tom looked at it as an opportunity to move on and to leave the work world. And Tom has done that. The company announced a search, and we announced Enrique coming on board as us our CEO. Incredibly excited to have Enrique on board. He's got 35 years of experience really in the television business. Everywhere from starting out in the television set manufacturing, all the way through his last stop at AT&T Direct, where he oversaw there basically their broadband offering opportunity. He's well versed in intellectual property. He's a product person by background. And he's very focused on delivering. So I think for us, we're bringing 2 companies together. I think you could argue that Rovi was less successful on product than TiVo, but TiVo probably wasn't as focused as it should have been on the economics of this product. To have a product person like Enrique coming in now to help us with that combined offering, and someone who's very focused on deliverables and the excellence of those and the timeliness of those, I think he's a great fit. He's also a person who stresses every day that we need to be improving and looking for opportunity to cost out, too. So it's a good fit. We're very excited to have Enrique on board.

Jason B Bazinet - *Citigroup Inc, Research Division - MD and U.S. Cable and Satellite Analyst*

So I know Comcast has spent a lot of money on X1. They've now begun to license that software to some Canadian cable firms. I believe Cox is now licensing from X1; Charter is not, I believe. When you talk about the litigation that you're having with Comcast, is it essentially removing it from the whole X1 experience? And therefore, to the extent that Cox's licensing X1 from Comcast that has negative collateral implications for other distributors or no?

Peter C. Halt - *TiVo Corporation - CFO*

No, Jason, it's the opposite. The litigation of Comcast is solely about the Comcast footprint.

Jason B Bazinet - *Citigroup Inc, Research Division - MD and U.S. Cable and Satellite Analyst*

They're 0 and 0. Okay.

Peter C. Halt - *TiVo Corporation - CFO*

It's about X1 and their own footprint. We have a separate agreement with Cox. We have a separate agreement with the Canadian provider. And to the extent that they have X1 being deployed, it's fully licensed and covered. Our preferred model is to go direct with the operator on a per month, per household licensing model. And so we're covered with the companies where Comcast is looking to license in X1 as a product offering. Clearly, we're also competing with X1 in terms of the TiVo offering. And then the litigation itself is only around the 22 million unlicensed digital households that Comcast has.

Jason B Bazinet - *Citigroup Inc, Research Division - MD and U.S. Cable and Satellite Analyst*

Understood. What about Altice? Is there anything you can share? You recently announced that agreement with Altice. They're known for having that relentless focus on cost. They have very ambitious EBITDA margin targets that they just reiterated this morning. What would you say -- how would you, sort of to a skeptical investor that sort of thinks about Altice as a relentless cost cutter, how would they square that with the recent deal that you did with them?

Peter C. Halt - *TiVo Corporation - CFO*

Well, I think, if you look at the Altice deal, it's just like if you look at the DISH deal. I mean, these are both very, very tough negotiating companies, very, very focused on what they spend. And clearly, if you get Charlie at DISH to do a deal, and if you get Altice to do a deal, you must have a plethora of relevant IP that they understand they need. Both of those were very long-term deals, so both of them clearly realized that this company is continuing to innovate. And its IP will continue to be relevant, so we're very proud of that. It is a deal that then combined the TiVo and Rovi portfolios. We've talked about it as being a benefit and uptick in doing that in our go-forward run rate. But equally as exciting for us is the opportunity in the future to be doing some product work with them on the best-of-breed point solutions again. And there's that opportunity in that deal, too.

Jason B Bazinet - *Citigroup Inc, Research Division - MD and U.S. Cable and Satellite Analyst*

What about on the international side, outside the U.S.?

Peter C. Halt - *TiVo Corporation - CFO*

Outside the U.S., we've commented on, in terms of intellectual property licensing, the next market we're focused on is Canada. We're not fully penetrated in Canada. Candidly, the last couple of years, very focused on the renewals in the states and getting the TiVo deal closed. So Canada, as a company -- country that pays IP rates equivalent for equal size, MSO and DBS providers as the U.S., we're not fully licensed there. That's our next step. When you look over at Europe, we've said publicly that we're about 40% penetrated in Europe in terms of either product or IP. This is one where I think there's a great synergy in bringing Rovi and TiVo together. Legacy Rovi never had a product for Europe. Legacy TiVo has a phenomenal product. It's deployed by a couple of operators over there. You've got a 4K user experience. We've got a cloud-based one. It's giving you search functionality, a single-user interface for all your rights with linear and OTT. So now we can go in there with the Rovi sales force that was knocking on all the doors over there, saying, wait a second, you need an IP license. And we say, wait a second, you're on license, but look what you're offering is a product and look what we could provide you instead. We have the product you need to become fully licensed. Choose which path you want to do. You're going to need to evolve your product. Do you want to pay us an IP license and find someone or invest yourself in creating it? Or do you want a solution that works today? This past week, we announced that we've got an IPTV solution, and I think that's going to be really important when we look at moving and penetrating into Europe.

Jason B Bazinet - *Citigroup Inc, Research Division - MD and U.S. Cable and Satellite Analyst*

I know it's very small, but T-Mobile was just talking about their recent acquisition of Layer3. Is there an -- T-Mobile seems very excited about sort of integrating mobile with linear video. Is that an opportunity for you?

Peter C. Halt - *TiVo Corporation - CFO*

We view anyone that's looking to combine linear television with internet protocol-delivered content as a phenomenal opportunity for us. We can partner with them on many different levels.

Jason B Bazinet - *Citigroup Inc, Research Division - MD and U.S. Cable and Satellite Analyst*

Okay. And what about big data? We hear a lot about big data. In your earlier remarks, you talked about TiVo collecting quite a bit of a data in some of the acquisitions that each of you did. I think it was Veveo, and what was the other one?

Peter C. Halt - *TiVo Corporation - CFO*

IntegralReach. So IntegralReach was the data company that legacy Rovi had acquired. TRA was the analytics company that legacy TiVo had acquired. Between the 2 companies, we have about 23 million homes with product deployed with set-top boxes. It varies as to who has the rights to the data. Generally, the data rights belong to who has the customer, so the MSO. The neat thing about the TiVo consumer footprint, that's about 1 million households, where that right belongs directly to TiVo as a result of their customer relationship. But we've been working on a series of different deals to get access to the data through partnerships with our customers whose boxes are deployed. We have some product that helps them better understand their customers and offer more targeted advertising. We've talked quite a bit about our ad optimizer, and one of the broadcast partners we have who has gone out and been able to, for instance, identify to a large truck manufacturer, that while their show may be #4 in the demo that's historically looked at for trucks, it's actually #1 in lightly truck buyers by pairing that viewing data with other data available on households. And so we think that's a phenomenal opportunity. We think there's a lot to be done in that area in the future. I think it's something you'll hear us speak more about when we do -- when Enrique speaks about his vision for the company, when we do our year end call.

Jason B Bazinet - *Citigroup Inc, Research Division - MD and U.S. Cable and Satellite Analyst*

You spoke about some of these very long-duration contracts that you have with some of the providers. How much of your revenues today come from recurring revenues as opposed to sort of episodic? Or any other set of services that you provide where the revenues would necessarily be recurring?

Peter C. Halt - *TiVo Corporation - CFO*

Well, I guess, it depends what you call recurring. I think that when you think about the midpoint of our guidance of $820 million, you need to subtract out what we publicly disclosed as the legacy TiVo time warp IP deals. There's $95 million there. It'll go down to $43 million in 2018 and then to 0. Those were deals related to settlements, related to the TiVo litigation that ran from '04 to '11 or on a couple of patents, where most of them were the time warp patent. And then you can to think about the hardware business. The hardware business, we've disclosed that the midpoint of our guidance is $35 million in revenue and $45 million in cost. And clearly, that revenue model has been shrinking, and we look to ultimately bring it down to something close to 0. So those 2 are headwinds, not what I would call recurring. There are elements that we have in given quarters that create lumpiness. We have catch-ups as we bring new customers on. An element of that is recurring, and we kind of refer to it as our recurring, nonrecurring revenue, because we continue to bring new customers on. That said, I think this current year and the year before -- or in the fourth quarter of last year, there was an element of the catch-up which you can look at in our Qs and kind of break out by quarter, where what we're doing, we're taking existing customers and adding in licenses where they weren't covered on the TiVo IP. I'd argue that's not really recurring, it's a onetime opportunity around the acquisitions.

Jason B Bazinet - *Citigroup Inc, Research Division - MD and U.S. Cable and Satellite Analyst*

Understood. So if you go out a few years, once the TiVo onetime IP time warp stuff rolls off and hardware sort of fades away, it'll all be recurring. Is that fair, other than these angulations you spoke about...

Peter C. Halt - *TiVo Corporation - CFO*

Yes, it'll all be recurring. We look at it as a growing high-margin business. Our board instituted in Q1 a dividend. We've never done a dividend before. It was in part just to help people or try to communicate to folks, shoot, here's a company with long-term contracts, high margins and very meaningful cash flow. It doesn't mean for a moment that we aren't looking at growing, we absolutely are looking at growing. But look what you've got in terms of long-term, meaningful cash flow. And we believe we can give a portion of that cash flow away and still be able to fund our operations, be able to look at rightsized M&A when appropriate and other matters like that, that can best achieve an appropriate capital return for our investors.

Jason B Bazinet - *Citigroup Inc, Research Division - MD and U.S. Cable and Satellite Analyst*

You mentioned a 5% dividend yield, what was the yield when you set the dividend? I know you probably didn't think about it in terms of yield but more in terms of cash flow payout. But do you remember?

Peter C. Halt - *TiVo Corporation - CFO*

I'd have to go back, but I'd say it's approximately 4%.

Jason B Bazinet - *Citigroup Inc, Research Division - MD and U.S. Cable and Satellite Analyst*

Okay. So it's still a chunky dividend yield then. Okay. All right, interesting. And what about R&D? You spent a fair amount on R&D. How much visibility do you -- how do you think about your R&D spend? And how much visibility do you have in terms of the returns that you'll generate from that?

Peter C. Halt - *TiVo Corporation - CFO*

Our R&D spend is something which has been, if you think about the consolidation of the 2 companies, it is an area that has been going through some contraction. Clearly, overlap between the 2 companies is somewhat coming down. We'll continue to look for efficiencies there. If you look at us historically, as there's been transitions in where we invest, we've done that by taking out investments in the areas that we look at as more mature in order to fund our investments in new technologies and new areas of growth. Could we optimize it some more? Probably. We'll continue to look at that. But I think once we've completed the synergies, you can anticipate -- you shouldn't anticipate any real meaningful growth, but it is both the engine for our continuing innovation and intellectual property as well as for our next generation products, including the best-of-breed point solutions such as we were talking about earlier in the data area, which we think could very interesting.

Jason B Bazinet - *Citigroup Inc, Research Division - MD and U.S. Cable and Satellite Analyst*

Interesting. Okay. And what about swing factors? If someone's interested in your -- in TiVo and they're thinking about 2018, are there certain things that they should be aware of, either up or down that could affect 2018 specifically?

Peter C. Halt - *TiVo Corporation - CFO*

Well, we haven't given any specific guidance out on '18. We'll be doing that in February. It'll be Enrique's first chance really to talk about his strategic vision for the company as well as kind of where we look at things are going. I'd say that the biggest -- hope I'm using the swing term right for you, Jason. Correct me if I'm wrong. But yes, the biggest item out there is the one we've disclosed for a while and shoot, TiVo has disclosed it, too, and that's time warp patent is going away.

Jason B Bazinet - *Citigroup Inc, Research Division - MD and U.S. Cable and Satellite Analyst*

Okay, okay. What about if an investor is modeling out your firm and they get the revenue right, how would you sort of counsel them to get down to the EBITDA line and then all the way down to free cash flow, if they're sort of an income-oriented investor that's sort of looking at that 5% dividend yield and just wants to get comfort that the way your board did that it's a sustainable dividend? Or on the growth side, how much more free cash flow you could generate?

Peter C. Halt - *TiVo Corporation - CFO*

Yes, as we've said publicly, we look to exit the year with a run rate approximately, taking in the fourth quarter and annualize it, there's approximately $540 million. We'll have completed actions to do a very, very large percentage of our annualized cost synergy, but you won't see the full annualized benefit in '17. Some of the benefit will continue to flow through in '18. There's still some actions to take in '18, so clearly there's a little bit more cost coming out for that. We are clearly looking to reduce our hardware element. And right now, as I mentioned, the midpoint of guidance for '17, $35 million in revenue for hardware, $45 million in cost. So reducing the hardware revenue will help in terms of contribution. Historically, we've tried to keep our litigation spend around intellectual property flat. But clearly, we're spending and as we've talked about the one kind of vagrancy we have going to Q4 is how much to spend on the Comcast litigation. So clearly, when we ultimately -- the resolution with Comcast, there'll be some additional savings around the level of litigation spend we have there, too. So I've asked people to kind of factor that in. But as you work your way down, what we've told people is look at our tax rate as in the 10% to 12% range. We have about a $1.2 billion in NOLs, which help us in terms of federal and state taxes here.

Jason B Bazinet - *Citigroup Inc, Research Division - MD and U.S. Cable and Satellite Analyst*

And those are cash taxes.

Peter C. Halt - *TiVo Corporation - CFO*

Cash taxes, yes. So look at that as the cash tax rate.

Jason B Bazinet - *Citigroup Inc, Research Division - MD and U.S. Cable and Satellite Analyst*

Yes, okay. All right. Any other questions for Peter?

Unidentified Analyst

Just on the dividend again, can you quantify it in terms of what percentage of your free cash flow you're guiding it to?

Peter C. Halt - *TiVo Corporation - CFO*

We haven't given that guidance. [Again, if you look for this year], this year's cash flow is a little bit different than our normal free cash flow just because of the spend we have going out the door for the integration of the 2 companies. Historically, we've spent around $25 million a year in CapEx. We've talked publicly that, that would be, in the ballpark, what you should see going forward. But in the current year, we're looking at spending out about twice that amount as we consolidate facilities and stuff in data centers. We also had one last and large payment during the year of about $30 million related to one of our contracts. You wouldn't see something like that going forward. So we haven't commented on our dividend as a function of cash flow for '17 we think is appropriate but I think you can look for us to say that in '18.

Jason B Bazinet - *Citigroup Inc, Research Division - MD and U.S. Cable and Satellite Analyst*

Anything else? All right, Peter this was great. Thank you very much for the time.

Peter C. Halt - *TiVo Corporation - CFO*

Jason, thank you very much for the time. I appreciate the opportunity.
