TiVo Q3 2019 Earnings Script - FINAL

Internal and Confidential

On November 7, 2019, TiVo Corporation held its quarterly conference call to discuss its third quarter 2019 financial and operational results. This document is a reproduction of management's planned remarks during such call, following the below disclosures with respect to forward looking statements and Non-GAAP financial information.

Forward Looking Statements

These statements contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to, among other things, the Company's future business, operating results and growth with profitability strategies, the success of the Company's plans to separate the Product and IP Licensing businesses into two independent companies, the realization of stockholder value resulting from separation of the businesses, the timing, structure and tax-free nature of the separation of the two businesses, as well as future business strategies and investments, future product offerings, features, launches and deployments, future development of markets in which our customers operate, results of litigation and the future growth, market acceptance, business opportunities and operating results of the stand-alone businesses. These forward-looking statements are based on TiVo's current expectations, estimates and projections about its business and industry, management's beliefs and certain assumptions made by the company, all of which are subject to change. Forward-looking statements generally can be identified by the use of forward-looking terminology such as, "future", "believe," "expect," "may," "will," "intend," "estimate," "continue," or similar expressions or the negative of those terms or expressions. Such statements involve risks and uncertainties, which could cause actual results to vary materially from those expressed in or indicated by the forward-looking statements. Factors that may cause actual results to differ materially include delays, whether inside or outside the Company's control, in the Company’s process to separate the Product and IP businesses, delays in development, the failure to deliver competitive service offerings and lack of market acceptance of any offerings delivered, as well as the other potential factors described under "Risk Factors" included in TiVo’s Annual Report on Form 10-K for the year ended December 31, 2018, Quarterly Report on Form 10-Q for the period ended September 30, 2019 and other documents of TiVo Corporation on file with the Securities and Exchange Commission (available at www.sec.gov). TiVo cautions you not to place undue reliance on forward-looking statements, which reflect an analysis only and speak only as of the date hereof. TiVo assumes no obligation to update any forward-looking statements in order to reflect events or circumstances that may arise after the date of this presentation, except as required by law.

Non-GAAP Financial Information

TiVo Corporation provides Non-GAAP information to assist investors in assessing its operations in the way that its management evaluates those operations. Non-GAAP Pre-Tax Income, Non-GAAP Cost of Licensing, Services and Software Revenues, Non-GAAP Cost of Hardware Revenues, Non-GAAP Research and Development Expenses, Non-GAAP Selling, General and Administrative Expenses, Non-GAAP Depreciation, Non-GAAP Total OpEx Excluding Goodwill Impairment, Non-GAAP Total OpEx, Non-GAAP Total COGS and OpEx, Adjusted EBITDA and Non-GAAP Interest Expense are supplemental measures of the Company's performance that are not required by, and are not determined in accordance with, GAAP. Non-GAAP financial information is not a substitute for any financial measure determined in accordance with GAAP.

Non-GAAP Pre-tax Income is defined as GAAP income (loss) from continuing operations before income taxes, as adjusted for the effects of items such as amortization of intangible assets, equity-based compensation, accretion of contingent consideration, amortization or write-off of note issuance costs, discounts on convertible debt and mark-to-market adjustments for interest rate swaps and interest on escheat liabilities; as well as items which impact comparability that are required to be recorded under GAAP, but that the Company believes are not indicative of its core operating results such as goodwill impairment, restructuring and asset impairment charges, separation and transformation costs, transaction, transition and integration costs, retention earn-outs payable to former shareholders of acquired businesses, earn-out settlements, CEO transition cash costs, remeasurement of contingent consideration, TiVo acquisition litigation, expenses in connection with the extinguishment or modification of debt, gain on settlement of acquired receivable, additional depreciation resulting from facility rationalization actions, other-than temporary impairment losses on strategic investments, gains on the sale of strategic investments and changes in escheat liabilities.

Non-GAAP Cost of Licensing, Services and Software Revenues is defined as GAAP Cost of licensing, services and software revenues, excluding depreciation and amortization of intangible assets, excluding equity-based compensation and transaction, transition and integration expenses.

Non-GAAP Cost of Hardware Revenues is defined as GAAP Cost of hardware revenues, excluding depreciation and amortization of intangible assets, excluding equity-based compensation and transition and integration expenses.

Non-GAAP Research and Development Expenses is defined as GAAP research and development expenses excluding equity-based compensation, transition and integration expenses and retention earn-outs payable to former shareholders of acquired businesses.

Non-GAAP Selling, General and Administrative Expenses is defined as GAAP selling, general and administrative expenses excluding equity-based compensation, separation and transformation costs, transaction, transition and integration expenses, retention earn-outs payable to former shareholders of acquired businesses, earn-out settlements, CEO transition cash costs, remeasurement of contingent consideration and gain on settlement of acquired receivable.

Non-GAAP Depreciation is defined as GAAP depreciation expenses excluding the impact of additional depreciation resulting from changes in the estimated useful lives of assets involved in facility rationalization actions.

Total OpEx Excluding Goodwill Impairment is defined as GAAP Total Operating costs and expenses excluding goodwill impairment.

Non-GAAP Total OpEx is defined as the sum of GAAP research and development and selling, general and administrative expenses, depreciation and gain on sale of patents excluding equity-based compensation, separation and transformation costs, transaction, transition and integration expenses, retention earn-outs payable to former shareholders of acquired businesses, earnout settlements, CEO transition cash costs, remeasurement of contingent consideration, gain on settlement of acquired receivable and additional depreciation resulting from facility rationalization actions.

Non-GAAP Total COGS and OpEx is defined as GAAP Total Operating costs and expenses, excluding depreciation, amortization of intangible assets, goodwill impairment, restructuring and asset impairment charges, equity-based compensation, separation and transformation costs, transaction, transition and integration expenses, retention earn-outs payable to former shareholders of acquired businesses, earnout settlements, CEO transition cash costs, remeasurement of contingent consideration and gain on settlement of acquired receivable.

Adjusted EBITDA is defined as GAAP operating income (loss) excluding depreciation, amortization of intangible assets, goodwill impairment, restructuring and asset impairment charges, equity-based compensation, strategic review costs, separation and transformation costs, transaction, transition and integration costs, retention earn-outs payable to former shareholders of acquired businesses, earn-out settlements, CEO transition cash costs, remeasurement of contingent consideration and gain on settlement of acquired receivable.

Non-GAAP Interest Expense is defined as GAAP interest expense, excluding accretion of contingent consideration, amortization or write-off of issuance costs, discounts on convertible debt and interest on escheat liability, plus the reclassification of the current period benefit (cost) of the interest rate swaps from gain (loss) on interest rate swaps.

Cash Taxes are defined as GAAP current income tax expense excluding changes in reserves for unrecognized tax benefits.

Non-GAAP Diluted Weighted Average Shares Outstanding is defined as GAAP diluted weighted average shares outstanding except for periods of a GAAP loss. In periods of a GAAP loss, GAAP diluted weighted average shares outstanding are adjusted to include dilutive common share equivalents outstanding that were excluded from GAAP diluted weighted average shares outstanding because the Company had a loss and therefore these shares would have been anti-dilutive.

Uses and Limitations of Non-GAAP Information

The Company's management evaluates and makes decisions about its business operations primarily based on Non-GAAP financial information. Management uses Non-GAAP financial measures as the basis for decision-making as they exclude items management does not consider to be “core costs” or “core proceeds”. For each Non-GAAP financial measure, the adjustment provides management with information about the Company's underlying operating performance that enables a more meaningful comparison to its historical and projected financial performance in different reporting periods. For example, since the Company does not acquire or dispose of businesses on a predictable cycle, management excludes the amortization of intangible assets, separation and transformation costs, transition and integration costs, retention earn-outs payable to former shareholders of acquired businesses, earnout settlements, CEO transition cash costs, remeasurement of contingent consideration, TiVo Acquisition litigation, and gain on settlement of acquired receivables from its Non-GAAP financial measures in order to make more consistent and meaningful evaluations of the Company's operating expenses as these items may be significantly impacted by the timing and magnitude of acquisitions. Management also excludes the effect of goodwill impairment, restructuring and asset impairment charges, expenses in connection with the extinguishment or modification of debt, gain on the settlement of acquired receivable, additional depreciation resulting from facility rationalization actions, other-than-temporary impairment losses on strategic investments, gains on the sale of strategic investments and changes in escheat liability. Management excludes the impact of equity-based compensation to provide meaningful supplemental information that allows investors greater visibility to the underlying performance of our business operations, facilitates comparison of our results with other periods, and may facilitate comparison with the results of other companies in our industry, as well as to provide the Company's management with an important tool for financial and operational decision-making and for evaluating the Company's performance over different periods of time. Due to varying valuation techniques, reliance on subjective assumptions and the variety of award types and features that may be in use, we believe that providing Non-GAAP financial measures excluding equity-based compensation allows investors to make more meaningful comparisons between our operating results and those of other companies. Management excludes the accretion of contingent consideration, amortization or write-off of note issuance costs and discounts on convertible debt, mark-to-market adjustments for interest rate swaps and interest on escheat liability when management evaluates the Company's expenses. Management reclassifies the current period benefit (cost) of the interest rate swaps from gain (loss) on interest rate swaps to interest expense in order for Non-GAAP Interest Expense to reflect the effects of the interest rate swaps as these interest rate swaps were entered into to control the effective interest rate the Company pays on its debt.

Management uses these Non-GAAP financial measures to help it make decisions, including decisions that affect operating expenses and operating margin. Management believes that making Non-GAAP financial information available to investors, in addition to GAAP financial information, may facilitate more consistent comparisons between the Company's performance over time with the performance of other companies in our industry, which may use similar financial measures to supplement their GAAP financial information.

Management recognizes that these Non-GAAP financial measures have limitations as analytical tools, including the fact that management must exercise judgment in determining which types of items to exclude from the Non-GAAP financial information. In addition, as other companies, including companies similar to TiVo Corporation, may calculate their Non-GAAP financial measures differently than the Company calculates its Non-GAAP financial measures, these Non-GAAP financial measures may have limited usefulness to investors when comparing financial performance among companies. Management believes, however, that providing Non-GAAP financial information, in addition to GAAP financial information, facilitates consistent comparison of the Company's financial performance over time. The Company provides Non-GAAP financial information to the investment community, not as an alternative, but as an important supplement to GAAP financial information; to enable investors to evaluate the Company's core operating performance in the same way that management does. Reconciliations for each Non-GAAP financial measure to its most directly comparable GAAP financial measure are posted on our IR site at http://ir.tivo.com.

Legal Overview/Nicole Noutsios

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I'm Nicole Noutsios, Investor Relations at TiVo. With me today are Dave Shull, CEO, and Peter Halt, CFO. We just distributed a press release and filed an 8-K detailing our third quarter 2019 financial results. In addition, we posted a downloadable model on our IR site showing our historical financial results and GAAP to non-GAAP reconciliations. We are also webcasting this call; and along with the audio, we are webcasting slides that we will reference during portions of today's call. After this call, you will be able to access a recording of this call on our website at tivo.com, as well as a transcript of the Company's prepared remarks.

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Our discussion includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to, among other things, TiVo's future Product business, operating results and strategies to drive long-term profitable growth, our future product offerings and deployments and market acceptance of these offerings, the future growth, business opportunities and operating results of each of our Product and IP businesses, the success of the Company's plans to separate the Product and IP Licensing businesses into two independent companies; and the realization of stockholder value resulting from separation, and, the tax-free nature, structure and anticipated timing of the separation.

We caution you not to put undue reliance on these forward-looking statements, as they involve risks and uncertainties that may cause actual results to vary materially from these forward-looking statements, as described in our “Risk Factors” in our reports filed with the SEC. Any forward-looking statements made on this call reflect our analysis as of today and we have no plans or duty to update them except as required by law. With that, I will now turn the call over to our CEO, Dave Shull.

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Dave Shull, CEO

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Thank you for joining us for the third quarter 2019 earnings call. We are very focused on Company execution. This quarter we delivered solid financial results in the quarter, while accomplishing key business milestones. We streamlined our business operations and improved non-GAAP OpEx and adjusted EBITDA year-over-year. Also, for the second consecutive quarter under my leadership, we are increasing our fiscal 2019 expectations for Adjusted EBITDA. In addition to the financial results, we continue to make progress on our separation process and also successfully launched TiVo+ last month. I will discuss all of these in further detail later in the call.

On the Product side of the business, we are extremely proud of our track record of innovation, and we’re going to bring that track record forward into this new chapter for TiVo. TiVo is well positioned to capture a significant market opportunity: The streaming wars have given rise to numerous direct-to-consumer and over-the-top offerings, with new names popping up seemingly every day. The proliferation of video apps is overwhelming for consumers. So TiVo is committed to bringing all entertainment together in one place, making it easy to find, watch and enjoy your favorite shows. Only TiVo can cut through all the clutter by providing a neutral, fully integrated platform for consumers to find and watch all of their favorite shows, regardless of the content provider.

To deliver on this mission, we need to execute rigorously. The first step is to expand the entertainment options on the TiVo platform. There is an opportunity to expand the base of consumers using the TiVo experience, and then to generate income from their engagement with real-time / live TV, subscription video on demand services, and the emerging digital entertainment channels and shows.

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Last month, we took the first product step toward this vision by launching TiVo+. TiVo+ delivers live streaming channels and thousands, thousands of movies and TV shows to viewers in an app-free environment, making them easy to find, watch, and enjoy. TiVo+ provides access to internet-based content for TiVo customers, translating into opportunities for advertisers to reach highly engaged television audiences. TiVo+ will continue to roll out to more of our customers over the next several weeks and will continue to add more premium content from well-known publishers in the coming months and on an ongoing basis.

As we look to the future, we'll be rolling out more innovative products and services in the coming months, with the ultimate goal of more than doubling the existing households of over 21 million that we already proudly serve. If successful, this strategy has the potential to drive significant product revenue for TiVo.

We also expanded our Android TV-based IPTV version of the TiVo user experience platform. We now have seven North American operators who will deploy this solution, including to their broadband-only households, that's up from five last quarter, and we continue to expand internationally. In the quarter, Liberty Latin America selected TiVo to bring cutting-edge innovations to its video customers in Puerto Rico, and they plan to launch the TiVo platform in other markets across Latin America as well.

At the core of our promise to consumers that we will make it easier to find, watch, and enjoy content is TiVo's Personalized Content Discovery, powered by TiVo's natural language voice solution. We believe that the machine learning technology underlying this solution is unique. TiVo provides a solution that incorporates both real-time / live linear programming as well as subscription video on demand services, such as Netflix, Hulu, Prime and all of the emerging digital entertainment channels. This quarter, Vodafone further endorsed our solutions by agreeing to deploy TiVo's content discovery solution as part of the new Vodafone TV service in Portugal, which is the first country to deploy its new "Intelligent Voice Search" feature that utilizes TiVo's natural language voice solution. In addition, Altice USA adopted TiVo's content discovery platform to power its subscriber entertainment platform. Our content discovery engine relies not only on sophisticated machine learning algorithms, but also on a knowledge graph that unites all of our entertainment metadata with real-time social media trends. TiVo generates monthly recurring revenue from subscribers using our content discovery solutions, so as our solutions are deployed it will add to our long-term contracted base.

On the cost side, it is critical that we right size our operating models in order to best position both Product and IP Licensing businesses for long-term success. We made good progress in the quarter by reorganizing the Product business in order to streamline operations and increase efficiencies. We expect an acceleration of the improved operating costs in Q4 and into next year. We also expect these improvements will streamline the Product business' operating costs and improve our standalone adjusted EBITDA. This will provide us the resources to reinvest in value-creating strategic initiatives.

As you can see, we have made a lot of progress in our Product business and are focused on execution, right-sizing the business, and driving the necessary changes to enable us to deliver profitable growth.

Our IP Licensing Business continues to build on a strong, diverse base of customers and in Q3 reported 8% year-over-year revenue growth. We remain focused on expanding our customer base further into the social media and consumer electronics markets, while also expanding into new geographic territories.

We are seeing significant demand for our IP portfolio in international markets. This quarter we licensed a number of over-the-top and IPTV video streaming providers. We signed a new deal with D'Live to license OTT services in Korea. We have also renewed a multi-year license with Fetch TV, an Australian IPTV provider. Canada is an area of future expansion for us. As another step in expanding our customer base in Canada, we signed a new, multi-year license agreement with Canadian operator Eastlink.

Additionally, I would like to provide an update on our ongoing Comcast litigation. TiVo is fully committed to protecting its intellectual property from unauthorized use and we are committed to our litigation strategy. We expect Comcast will eventually pay a license for our innovations, just as its pay-TV peer companies do and as Comcast itself has done in the past. On that front, we are pursuing cases in the ITC and the District Court system and I would like to provide an update of where we are at in that process. The Commission extended its time to issue its Final Determination in the second ITC case to December 16th. The third ITC case will be held from January 17th to the 21st, of 2020. The Administrative Law Judge's Initial Determination for the third ITC case is due by June 29, 2020 and the Commission's Final Determination is due by October 29, 2020.

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We continue to believe that separating the IP Licensing and Product businesses is the best strategy to maximize shareholders' value in today's rapidly evolving market landscape. As stand-alone separate entities, unconstrained by each other, the two businesses will be better positioned to pursue growth opportunities.

We have made good progress with the separation process. The Company is actively interviewing candidates to fill out the management teams of both companies, standing up separate systems, and working with the IRS and the SEC to prepare for separation. We are currently targeting completion of the transaction in April 2020 and will provide further updates in the coming months.

TiVo's Board of Directors decided not to declare a cash dividend this quarter due to the impending separation of the businesses. As the Company repays its remaining 2020 Convertible Notes by their maturity date, refinances the Term Loan B and separates the businesses, it is critical for TiVo to maintain cash for investment in TiVo's growth strategies going forward. This will assist us in optimizing the two balance sheets for the separation.

As we have stated previously, throughout the separation process the Board of Directors will continue to be open to strategic transactions that could create additional stockholder value and, to that end, we continue to be engaged in discussions with interested parties.

We made a lot of progress this quarter and I look forward to continuing our momentum in future quarters. I will turn the call over to Peter to provide a financial overview of the quarter.

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CFO Script

Thank you, Dave.

As Dave just outlined, we had a strong quarter and continue to make improvements to streamline the business. As we improve our financials, we are tightening the range for our fiscal 2019 revenue expectations and increasing our Adjusted EBITDA expectations. I will discuss this in more detail later in the call.

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Turning now to our current quarter results, on a consolidated basis, third-quarter revenues were $158.5 million. GAAP Total Operating Costs and Expenses of $296.2 million were up $123.9 million or 72% from a year ago due to a $137.5 million non-cash goodwill impairment charge. Excluding this non-cash charge, Total Operating Costs and Expenses were down by $13.6 million or 8% year-over-year due to reduced compensation costs, as a result of our cost savings initiatives, and lower Amortization of intangible assets, partially offset by Separation and transformation costs.

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We are very focused on optimizing our business for our separation of the IP Licensing and Product businesses. In Q3, we made progress on right sizing our cost structure for future success by taking actions that will create approximately $7 million in annualized savings. In October, we took additional actions which will result in an additional $8 million in annual savings, for a combined annualized savings of $15 million.

Q3 GAAP operating costs also include $33.5 million of depreciation and amortization, $9.5 million of Separation and transformation costs, $5.1 million in stock-based compensation and $2.2 million of other costs, primarily related to our ongoing cost savings initiatives, all of which are excluded from our calculation of Adjusted EBITDA. GAAP Operating Losses in Q3 was $137.7 million and our GAAP Loss from continuing operations before income taxes was $149.1 million.

Turning back to the non-cash goodwill impairment charge, $79.3 million of this charge related to our Product business and was due to the sustained decrease in our stock price and a re-evaluation of our long-term plan for the Product business under our new executive leadership. This sustained decrease in our stock price also caused us to record a $58.2 million non-cash goodwill impairment charge related to our IP business. This impairment charge represents 5% of our IP business' goodwill.

In terms of our non-GAAP results, non-GAAP Total COGS and OpEx was $108.5 million, down $9.2 million, or 8% year-over-year. This quarter's Non-GAAP Total COGS and OpEx benefited from our ongoing cost savings initiatives.

Adjusted EBITDA in Q3 was $50.1 million, up $3.0 million, or 6%, year-over-year. Non-GAAP Pre-tax Income was $36.8 million, up $3.9 million, or 12%, year-over-year. The improvement in Adjusted EBITDA and Non-GAAP Pre-tax Income were driven by our previously discussed cost savings initiatives.

For the third quarter, estimated cash taxes were $6.3 million. GAAP Diluted Weighted Average Shares Outstanding were 126.1 million and Non-GAAP Diluted Weighted Average Shares Outstanding were 126.9 million. For those interested in calculating our Non-GAAP EPS, take our Non-GAAP Pre-tax Income, subtract our cash taxes, and divide by Non-GAAP Weighted Average Shares Outstanding.

Turning to Q3 segment results, Core Product revenues were $79.2 million, down 11% year-over-year. Q3 2018 offers a hard compare for this past quarter, as that quarter included a $3.3 million benefit from a Passport contract renewal that included guaranteed minimums that were all recognized in the quarter. There was also a reduction in revenues recognized in the current quarter of approximately $1.8 million related to adjusted reporting of subs from Latin American operators. We did not have a similar adjustment a year ago nor do we anticipate a similar adjustment next quarter. Additionally, NRE and Consumer subscription revenues contributed to the year-on-year decline. These revenue declines were partially offset by an increase in revenue from an international pay-tv operator exceeding its cumulative contractual minimums in 2019.

We exited Q3 with approximately $73 million in contracted quarterly product run rate revenues. These are contracted revenues, generally long-term, for our core products. The decrease in contracted quarterly product run rate revenues from Q2 was driven by the adjusted reporting of subs from Latin American operators previously mentioned and a decrease in Metadata revenue.

Product Adjusted Operating Expenses were $69.4 million in Q3, down 13% from last year. This was primarily attributable to our ongoing cost reduction efforts, as we reduced both compensation and contractor costs.

Moving on to the IP Licensing business, Core IP Licensing revenues were $75.7 million, up 13% year-over-year, due to a $4.1 million increase in catch up payments and the strength in the business. As a reminder, the last of the TiVo Time Warp agreements expired in July 2018 and we recognized $2.8 million of Time Warp revenues in Q3 last year. We exited Q3 with approximately $68 million in contracted quarterly IP Licensing run rate revenues, which excludes catch-up revenues intended to make us whole for the pre-license period of use.

IP Licensing Adjusted Operating Expenses of $25.7 million in Q3 were up 9% from last year. This is attributable to a $1.5 million impairment of a prepaid license and a $0.5 million increase in IP litigation costs, primarily due to the timing of ongoing litigation.

We have a strong balance sheet with cash and investments at the end of the third quarter of $282 million. We expect to refinance our Term Loan B Facility before year-end and to repay the remaining 2020 Convertible Notes by their maturity date.

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We have been very focused on company execution and based upon our performance in Q3, we narrowed the range and are raising the low end of our revenue expectations. Our revenue expectations for the year are now $655 million to $665 million. This raises the midpoint of our revenue expectations to $660 million.

Due to the non-cash impairment charge, we are now expect our GAAP loss before taxes to be larger and in the range of $198 million to $203 million. Additionally, we are raising our expectations for Adjusted EBITDA to a range of $190 million to $200 million and Non-GAAP Pre-tax Income of $137 million to $145 million. We anticipate incurring $28 million to $29 million in Cash Taxes based on our operating expectations. Additionally, we expect GAAP Diluted Weighted Average Shares Outstanding to be approximately 126 million and Non-GAAP Diluted Weighted Average Shares Outstanding to be approximately 127 million.

With that, I will now turn the call over to the operator to open the line for questions. Operator?

Dave Shull, CEO

Thank you everyone, for your time today. As I mentioned today in our call we made a lot of progress on a number of fronts. Financially, we continue to streamline the business and raised expectations for fiscal 2019 a second time this year. From a business perspective, we launched TiVo+ and have other innovative products coming out in the future.

I look forward to seeing many of you this quarter.