

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

FWONA - Liberty Media Corp Announces Formula One Group Investor Meeting Webcast

EVENT DATE/TIME: OCTOBER 30, 2019 / 1:00PM GMT



CORPORATE PARTICIPANTS

Charles Carey *Formula One Group - CEO*

Courtnee Alice Chun *Liberty Media Corporation - Chief Portfolio Officer & IR*

Gregory B. Maffei *Liberty Media Corporation - President, CEO & Director*

CONFERENCE CALL PARTICIPANTS

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

Jeffrey Duncan Wlodarczak *Pivotal Research Group LLC - Principal & Senior Analyst of Entertainment, Interactive Subscription*

John Philip Tinker *G. Research, LLC - Senior Research Analyst*

Vijay A. Jayant *Evercore ISI Institutional Equities, Research Division - Senior MD and Head of Media, Entertainment, Cable, Satellite & Telecommunication*

PRESENTATION

Courtnee Alice Chun - *Liberty Media Corporation - Chief Portfolio Officer & IR*

Before we begin, we'd like to remind everyone that this presentation includes certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, specifically statements regarding Formula One. Actual events or results could differ materially due to a number of risks and uncertainties, including those mentioned in Liberty Media Corporation's most recent Forms 10-K and 10-Q filed with the SEC.

These forward-looking statements speak only as of the date of this presentation, and Liberty media expressly disclaims any obligation or undertaking to disseminate any updates or revisions to any forward-looking statements contained herein to reflect any change in its expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

So this will just be a Q&A format. If you don't mind, wait until you get a microphone to ask a question, and we're going to keep this to Formula One and Formula One Group. So go ahead, Chase and...

Gregory B. Maffei - *Liberty Media Corporation - President, CEO & Director*

I bet that's almost impossible, but I like you, Courtnee, when you go there. Can we -- that volume is, I don't know, it sounds like the voice of God, or maybe that's because we're on the...

Courtnee Alice Chun - *Liberty Media Corporation - Chief Portfolio Officer & IR*

That's the webcast.

Gregory B. Maffei - *Liberty Media Corporation - President, CEO & Director*

Yes, webcasting. Okay.

Courtnee Alice Chun - *Liberty Media Corporation - Chief Portfolio Officer & IR*

Who wants to kick us off?



QUESTIONS AND ANSWERS

Gregory B. Maffei - Liberty Media Corporation - President, CEO & Director

Jeff?

Jeffrey Duncan Wlodarczak - Pivotal Research Group LLC - Principal & Senior Analyst of Entertainment, Interactive Subscription

So are we going to get a Concorde Agreement signed this month?

Charles Carey - Formula One Group - CEO

So let me describe the process and then -- so essentially, there are 5 elements to the discussion we've been having with the teams, 3 of them are regulatory: financial, technical and sporting. And then there -- and those 3 will be voted on tomorrow. So -- and they include certainly the cost cap and things like that or elements like that are in the financial regulations. Technical regulations deal with the aerodynamics of the car and things like that for the racing future.

There are 2 other elements that are not subject to a vote that are agreements with the teams: governance and the profit sharing. So those discussions, we're in advanced discussions with the teams on those. But they're not -- they are -- while it's one agreement, it actually ends up being 10 individual agreements with the teams. So there are -- certainly, the whole process is in an advanced stage. Those 3 components will get voted on tomorrow. The others are, again, more discussions unilaterally with the teams to conclude.

Gregory B. Maffei - Liberty Media Corporation - President, CEO & Director

Vijay.

Vijay A. Jayant - Evercore ISI Institutional Equities, Research Division - Senior MD and Head of Media, Entertainment, Cable, Satellite & Telecommunication

How do you feel about the votes? Is there any risk to teams leaving or any of that? And then once the Concorde is signed on all these specifications, do you think there is some of the sponsorship deals and the like that might have been waiting for some continuity on the league going forward? Is that something you could expect that's sort of in the backlog?

Charles Carey - Formula One Group - CEO

I guess I'd vote -- I never want to handicap a vote come in. We feel good about the vote. We've gone through a long process engaged -- engaging with the teams. We took the World Motor Sport council through what's being voted on earlier this month. So I guess I am hopeful and expecting the vote to be approved, but I'm never going to -- sort of at the end of the day, you don't control votes.

I think having it done, it's a positive. I think, just -- I don't know that it's a game-changing positive. I think people believe we've been making headway. I think it's been a constructive process. But it's never done until it's done. So I think having it, it's not the -- there won't be a flood of things that happen behind it, but I think it's a positive step to go forward, just as I think you take any uncertainty about how much we feel we're in a good place. Again, we've had agreement with the teams really for a long time on the goals we're trying to achieve here. When you got 10 teams, every team has its own twist and turn on specifics, but I think it's a positive step. But I think it's a -- it isn't like we have a bunch of things backed up that are awaiting this. But I think in terms of momentum going forward and looking to the future, I think it's an important and positive step.



Unidentified Analyst

Are there any changes to the governance structure in these deals that would enhance Liberty's flexibility going forward to improve the spectacle? Like I know there's been a lot of coverage recently about this reverse grid idea. It sounds like that's not happening. Is there any reason to think that in the future, it will be easier for Liberty to make those kind of changes?

Charles Carey - *Formula One Group - CEO*

Yes, I don't want to -- I mean we -- I don't want to get into specifics of what we've got -- what we put in place to what we proposed to the teams, but I think the primary goal is to simplify the governing structure. I think today, we feel we have a very cumbersome governance structure. There are 2 layers of approvals, very complicated votes, a lot of different parties that get involved. So I think if there was one goal overriding overall in this -- it's a complicated enough sport with enough complicated issues already -- is to simplify the decision-making structure, so we can move forward and not have the type of -- sort of dynamics we've had to some degree in the past.

Gregory B. Maffei - *Liberty Media Corporation - President, CEO & Director*

If I could add. I mean there are many, many formal structures. And then a lot of them aren't really very powerful. They're just noise factors. And I think what Chase and his team have done a good job of changing is trying to move it away from these structures where you have Board representation, but Liberty has an outright right to outvote you. It's sort of like, well, why does it exist, to dialogue which is much more open and much more constructive about how do we move the sport forward together. And I think that's been very positive and given a lot of people more confidence on that these sort of somewhat big structures are not the right method to build a relationship and build the sport together.

Unidentified Analyst

(inaudible) some meaningful changes that you already announced. The budget cap kicks in in 2021, meaning teams can spend whatever they want next year to offset the benefit that you guys are trying to implement. Can you talk about what you're doing, what you have done to help mitigate that offset that they're trying to achieve?

Gregory B. Maffei - *Liberty Media Corporation - President, CEO & Director*

To mitigate the offset?

Unidentified Analyst

Yes, the teams are going to try and...

Gregory B. Maffei - *Liberty Media Corporation - President, CEO & Director*

So you'd mitigate what they're spending?

Charles Carey - *Formula One Group - CEO*

I mean there's been noise around this. I mean realistically, these teams at this point, they're practically rebuilding the car every year no matter what, I mean. So I don't think people realize how much goes into rebuilding a car every year as you're going forward. So I think this is a transition, and we feel it's important to move forward with this transition.



Some of the arguments that are put out are arguments to try to defer the implementation as opposed to issues about what are the consequences of the transition. And again, what we're really doing is transition to a --if it's a structure, it's a long-term structure that's helped the business -- that's healthier for the business, healthier for the support of the track, healthier for the teams in it. I think we're pretty comfortable we can -- that the transition through to that next year, realistically, it's not going to be that different to what they do every year when they go in and rebuild a car.

Unidentified Analyst

(inaudible) Assuming the changes do go through, what's sort of your vision a few years down the line?

Gregory B. Maffei - Liberty Media Corporation - President, CEO & Director

I can't hear you.

Charles Carey - Formula One Group - CEO

Think you've got to speak up a little bit.

Unidentified Analyst

I'm sorry. Assuming the changes do go through, what's sort of your vision a few years down the line for the number of teams that will be sort of competitive at the front of the pack relative to what you see today?

Charles Carey - Formula One Group - CEO

I guess -- today, we have 10 teams. And historically, we've had up to 12. I don't -- I mean I'm quite comfortable with 10. I mean I think we had an 11th and 12th team that were additive to it. I think it's a quality issue to me, not a quantity issue. Obviously, you need a certain quantity. But I think whether it's 10, 11 or 12, I think you've got enough competition, enough cars on the track. I mean it's really about competition on the track.

Today, we really have a competition at the front amongst 3 teams, not 10 teams. And I think if we are able to make that a competition among 10 teams, that's a much bigger issue than realistically, if we just added -- if we add an 11th and a 12th team that were just still making the group -- the group of 7 that are behind the group of 3 was now a group of 9 that's behind a group of 3, I don't think that's doing a lot for the sport.

We'd like to have some -- I think we want to make the sport more exciting and inviting to potential new teams. We think there -- we have some number of parties that have expressed interest in the sport. And we -- I think they all want to see sort of what are the rules around things like the cost caps, see it finalized, to know what they're coming into.

But I think, again, it's really more about the quality of the competition than the number, though obviously you need a certain number. But if we went from 3 to 6 to 7 teams competing, I think that is a -- it's an enormous change in a positive way. You'd like all 10 teams to have a -- like everybody have a shot to win. I mean you're always going to have favorites and underdogs. It's not that realistic -- and that's probably good, too. And I'm not sure pure parity is the goal you strive for. And it's probably not realistic, but you want an underdog having a chance to win. But again, I think it's about the quality of the teams more than the quantity.

Gregory B. Maffei - Liberty Media Corporation - President, CEO & Director

John?

John Philip Tinker - *G. Research, LLC - Senior Research Analyst*

How many races are you now focusing on? And can you update us on Miami?

Charles Carey - *Formula One Group - CEO*

So I mean how many new -- you mean number or new -- or locations?

John Philip Tinker - *G. Research, LLC - Senior Research Analyst*

(inaudible) and new races.

Charles Carey - *Formula One Group - CEO*

Well, we have -- I mean right now, we're -- I mean I think probably one of the things that we've been, I think, particularly enthused about is the breadth of interest that we have in places hosting races, which, if anything, probably, I'd say, is increased in the last year plus. And I think we have discussions literally in every continent other than Antarctica, and countries we don't race in, countries -- places we do race in. And they're in varying degree discussions. Obviously, our capacity to add races is quite limited. So the demand right now exceeds supply. The vast majority of our races are long-term agreements, and we want them to be long-term agreements. We value that long-term partnership. Though, that being said, I think we always believe there'll be some churn, as if you look at a year like this, where we have 2 new races, Zandvoort and Vietnam, and one race that's not continuing next year in Germany. So I think we do feel excited by it. And some of it's in, again, traditional markets, some of it's in new markets, like the U.S. and China.

The discussions are in varying stages of -- depending on which one, and I guess I'm not going to handicap individual discussions, but I think we always think every year there will be something new to it. I think in terms of capacity at 22, we don't have a magic number. I mean it's to some degree a little bit like the comment on number of cars. I think it's quality over quantity. When we add a race in a place, we want to make sure it really brings something special to the sport. And I think we think Vietnam's a tremendously exciting country to add to sort of the breadth of what we have in Asia. We think it gives us a good spread across Asia with Japan, China, Singapore and Vietnam and sort of Australia, I guess, in some degree, probably one thing because of time zone there. A country that has been incredibly enthusiastic, and we think will be a great race. And Zandvoort, we announced in -- it's a 3-year agreement and they've sold out all 3 years. So the enthusiasm in Holland for the sport, for the race, for the event.

Gregory B. Maffei - *Liberty Media Corporation - President, CEO & Director*

For Max Verstappen.

Charles Carey - *Formula One Group - CEO*

So he's got -- the sea of orange. He has -- so we felt excited about those races. So it is quality over quantity. I think there, we recognize that there's a lot of wear and tear in this sport. So I think there are limits to the number of races. We don't have a magic number. I think we do feel we still have a little capacity, although we know if I went to ask a team or a driver, they're going to end up saying, we'd rather have 21 than 22 or 23. But we think with the demand and the global nature of this sport and the growth we're trying to pursue in markets, I think we want to make sure we maintain, we're not growing at the expense of a foundation like Europe. I think it's important to maintain the foundation, and we did just renew some of our truly historic -- 2 of our truly historic events in Europe on a longer-term -- long-term basis in Monza and Silverstone as well as renewing Spain on a 1-year basis.



But we want to maintain that, but we do want to grow in Asia and the Americas. So I think as we can find the right event, we would hope to take advantage of that opportunity, but there's not a magic number. But we do think there's -- continues to be a bit of room.

Gregory B. Maffei - *Liberty Media Corporation - President, CEO & Director*

To some degree, this is, as Jason pointed out, it's a matter of wear and tear, logistics and timing. And what's positive that I see is willingness of the teams to entertain how do we make the races more compact, make a great story that is less wear and tear. So looking at -- there have been discussions about how formats may change, all of those things to try and create great spectacle, but less wear and tear. That's part of probably enabling thinking about different structures and numbers of races.

Charles Carey - *Formula One Group - CEO*

Yes. I mean we are taking a -- when we went to 22, we took some steps to take some of the wear and tear out. So we've -- there's a preseason testing session that we do in Barcelona. We've condensed that. So it used to be a 2 full weeks, it's now really -- it's a shorter period. There was some in-season testing that was wear and tear we've taken -- we've reduced, and we're trying to make the weekend a little less wearing by giving them a little more flexibility. We'll still have a 3-day where they get support, in terms of our promoters, that we have a 3-day, Friday, Saturday, Sunday event. But I think we can restructure the front end of it to give them a little more flexibility on when they arrive and the like. So that we can take the days -- we can take days out of the calendar elsewhere -- without weakening the sport for fans and make it a little more manageable for the teams, drivers, everybody in it.

Gregory B. Maffei - *Liberty Media Corporation - President, CEO & Director*

Jason.

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

I just had a 2-part question. One, when you look at the teams that are the most successful, how much of a straight line do you think you can draw between a team's performance and the money that they're receiving through the various sort of mechanisms to get them that \$1 billion?

And my second question is you've been very consistent about wanting to build this business for the long run. If the answer to the first part of the question is, yes, there's a straight line between money that goes to the teams and the outcome, would you be willing to pay a higher percentage to the teams to help level the playing field? In other words, give more money to the teams at the bottom of the pecking order?

Charles Carey - *Formula One Group - CEO*

Yes. I think probably the strongest correlation, if you look at the success of teams on the track is probably on cost, and probably it's a more direct correlation. As I said, we really today have a 3-team competition at the front and 7 teams competing at the back. Those 3 teams at the front spend significantly more than the other 7 teams. Now are they spending that money -- that's clear -- are they spending that money because they get more revenue, a bigger share of the profit fund? Or are they spending that money because they -- because their competitive spirit drives them to spend what they want to spend to win and they're just going to -- I think it's like if Jerry Jones, if you didn't have cost cap in the NFL, what would Jerry Jones spend to win a Super Bowl at the Dallas Cowboys and what did George Steinbrenner spend to win a world championship for the Yankees. And I think these sports have that competitive underpinning.

So the fact is, those teams do get a larger share of the prize fund profit sharing. Obviously, the teams also have their own revenue streams through sponsorships, both what they sell in sponsorships, and what's the value of the sponsorship to a Mercedes, a Ferrari, to their underlying brand. So that is not a direct -- I mean clearly, the revenues there, whether that -- if the revenue was changed, would that change their approach or would their competitive spirit -- their competitive instincts still drive them to spend significantly more, which is why I think the cost cap is certainly, we



think, critical to bringing more -- making it a more competitive sport. But we are also looking to address the revenue side of it, to make it less skewed than it is today. And I think we still will reward -- we want to reward success on the track, respect sort of elements of long-term success in the sport, but make it a more balanced distribution than it is today. So we will take steps on that.

But I think to me, cost has a much more direct correlation to the competitive balance than revenue, though they both clearly are part of it. And the revenue is important to getting to a place where not just we have healthier teams, not just competition, but healthier teams and a business model that is more inviting to new teams coming into it.

Gregory B. Maffei - Liberty Media Corporation - President, CEO & Director

But the causation there is with spending, right? The lagging indicator, and as Chase pointed out, it's not the only one, is on how prize money works. But what drives their performance on track is what their spending is, right? That's the line.

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

Without naming names, if you had to just give a high-low in terms of the percentage of prize money as a percentage of the total spend, what would that look like? Are some teams, like, the only money they spend is what they're getting the prize money and other people, it is 20%. What's sort of the high-low?

Gregory B. Maffei - Liberty Media Corporation - President, CEO & Director

No, but everybody has the sponsorship deals outside. And teams have other means of benefit which may vary dramatically differently. Mercedes may say what the value of their promotion on track is is very different than some other team. So -- and we're not able to judge, as well as we might, what that value is. And hopefully, they're judging, and that's why they're in the sport. So I think you're drawing a line, it's very hard to say how that -- how they value those elements.

Charles Carey - Formula One Group - CEO

Yes. I think on -- I think Greg's exactly right. I mean I think there's sort of 3 elements of revenue or implicit revenue, is sort of: what's their share of the prize fund, what are the third-party sponsorships and what's the underlying value of the sponsorship, which is obviously a subjective number to their own brand. So what is -- what's the value to Mercedes, Ferrari, Red Bull of sort of promoting their brand. I mean obviously they have a big business behind that brand. So I think those 3, and obviously, the last one's quite subjective. But I do think it makes it difficult therefore to get overly specific.

Gregory B. Maffei - Liberty Media Corporation - President, CEO & Director

Well, I'd even add a fourth, because, look, we're in a sport, like all sports, that has [absolute] enthusiasts, and people want to own teams for reasons that are about a lot of things, and it may not be current income, and it may very well be the potential for future income and asset value. Look at how -- we're very familiar with how baseball works, right? What percentage of baseball teams actually make cash money? It's not that many. How many people still bet that they can in the future? There's other psychic benefit. There'll be an asset value growth. And I think we'd like to see a world where these teams become much more, yes, we'd like to see a profitable model, but also where that asset value, franchise value can grow over time. I don't know if you want to add on that in any way?

Charles Carey - Formula One Group - CEO

No, no.

Gregory B. Maffei - *Liberty Media Corporation - President, CEO & Director*

Well, can we -- everybody else got a first shot before we go -- we're happy to give you -- we're happy to go back to Jeff, but we'll make -- let everyone get their first shot.

Unidentified Analyst

I was wondering what are your latest thoughts on implementing the cost caps? What are going to be the greatest challenges? How will penalties work for those who don't conform?

And then secondarily, in Miami, assuming local politics go your way, could you update us on your latest thoughts or your tolerance for risk-sharing with that type of promotional model?

Charles Carey - *Formula One Group - CEO*

Yes. So the -- what was the first part of your question?

Unidentified Analyst

Cost cap.

Charles Carey - *Formula One Group - CEO*

Cost cap. So essentially, we're going to use '20 -- I mean we have a more -- we honestly have a more complicated cost cap than probably the sports you're -- you think of here, I mean where you just add up salaries and get to a number. So it's more complicated than that still. But obviously, we have many more moving parts.

We've gone through a very extensive process to try and establish the principles for determining cost, what's in it, what's covered. We will have independent parties so it needs to be independently verified. What we're going to do is use 2020 as sort of a dry run to hopefully shake out whatever the issues are, so teams can understand how things are being accounted for. Because obviously, 2021, we'll go through the cost cap, but there's no consequences to it. And so put the rules in practice, it will be independently run.

There'll be procedures for appeals. Clearly, to make this effective, it needs to be enforced and needs to have consequences and penalties for it. Those penalties are not predefined. We think it's better to have -- but they will be significant. And obviously, the penalties, there'll be an independent body that will determine what -- which -- look, our sport already obviously has penalties. So it's not a new concept. They're mostly today dealing with technical and sporting issues. But it would -- so it will be an independent body determines what were the circumstances, how did it arise, and what's the appropriate consequence to it? So we do feel that this process is well defined. But clearly, I think we'll benefit from a year to, sort of, again, give everybody a feel for how it works in real life as opposed to just on a piece of paper. And so I think we and everybody recognize it needs to be independent, needs to be transparent, needs to be enforced and needs to have consequences. And we've been complete and clear on that from day 1.

Miami, we are still engaged. There are clear hurdles to get over, that we still have to address. And those just -- we just had a vote yesterday that created new issues for us to try and address. I'm not sure what, just because I've been traveling. So I wasn't in Miami, so I don't have the details of what are the steps from here to there, but we do have hurdles we have to overcome now to put the race in place in Miami. So that is ongoing.



Gregory B. Maffei - *Liberty Media Corporation - President, CEO & Director*

But your larger -- if I look at your larger context, which is how much risk sharing, basically the historical model that Bernie created, the promoters took that risk. And some promoters do an unbelievably good job of fulfilling all the elements of being a promoter from literally promotion to running the operations to selling out the hospitality and managing the hospitality and creating fan excitement. Others do not do it as well. 20, 21 races, guess what? You're going to have a range, and relatively little attention was spent to what is best practice, how do we share? I think Chase and team, [Sean], have done a really good job of trying to create fan excitement with things like fan zones and think about how you create a higher experience. Part of that, though, is is there a model where we are taking on more of that -- those other elements -- to help the promoter, maybe, in some kind of a sharing arrangement to help boost the overall experience. And in new races like Miami, if you got there, you're more likely to do it than where you have an existing relationship.

So I think imagining over time, we experiment with how to make it better. That may involve us taking more risk with potentially more upside. It does involve us adding capabilities that we have some of, but we probably need to add as well, and trying to look at what is best practice and take from that and learn, and -- so we can raise not only our take, which would be nice, but also the overall quality of the sport and the fan experience across the world.

Charles Carey - *Formula One Group - CEO*

Yes. I mean I think the sport historically really had a one-model-fits-all. And I think as we grow and evolve this sport in different markets, I don't think that's the right way to maximize the opportunity, and I guess you talk about risks, but risks and opportunity. And I think there are markets where we feel they're unique opportunities. I'm not sure the business model -- I mean today we have a business model where essentially we control the high end -- the highest end of the hospitality, called the Paddock Club, and then the promoter ends up controlling an array of secondary hospitality and corporate relationships. I could contend you'd be better off coordinating how do you create the right packages across the right experiences, engage the right customer, engage the right corporate entity with the right package is a better business model.

Now there are probably markets where you wouldn't do that, but there are markets where you would do that. So I think the sport is getting to a place, as it grows and as we expand it as we expand the reach and we expand at the markets, that we still want to make intelligent decisions on risk and opportunity, but a one-size-fits-all, trying to jam everybody into one model, I think is suboptimal for the business.

We recognize we have to navigate through different promoters, looking at it through different lens. And -- but that's life. And I think -- and I don't think it's the right way to ultimately grow the sport. So I think we have to be thoughtful about it and sort of make sure we're managing those. But -- and it depends on the market, the opportunity. If we're going to a market like Las Vegas, I think there are obviously unique elements to a place like Las Vegas and those casinos type of customers they bring in, the type of -- how you -- what is a high-end customer? What's it worth in a market like that? And so again, I think we do need to evolve to a place where we have more flexibility than we've historically had in optimizing the business model.

Unidentified Analyst

Within sponsorship, you guys have talked a lot about the categories you don't address. Do you guys have the inventory to sell kind of Heineken level-type global sponsorship deals within each of those categories? And can you just talk about how you manage those respective categories across your assets?

And then maybe secondly, are you guys exploring different sponsorship structures than the ones you traditionally have, potentially kind of someone who would sponsor both the league and the teams at the same time?

Charles Carey - Formula One Group - CEO

Yes. I mean first, we do have capacity, just to be -- it's not infinite, but right now, we certainly have -- we have different tiers of a global sponsor, like Heineken or Rolex or Emirates is the top tier, then there are groups below. At each one of those, we have capacity, again, not infinite, but clear capacity. We are engaged actually at every level. We're engaged with a number of parties on global sponsorships, particularly in categories that we think are conducive to our sport.

And realistically, sponsorship today are all going to be uniquely tailored. I mean that's the nature of the sponsorship world. I mean clearly, the advertising world as a whole, I think, is more challenging for everybody. If you're not named Facebook or Google, it's a -- the market's there, we've actually -- probably, it's been slower than we anticipated. But today, as we've told our story and developed our capabilities, we actually feel great about the interest we have in it. So I think we feel very good about the building interest. I think has it taken longer than we anticipated? I'd say yes, but I think that's probably the nature of the broader advertising world. What you need to do is tell your story, develop capabilities. Most sponsors today want a unique relationship. So a deal like we have with Amazon is uniquely tailored to bring -- to take advantage of things that advance Amazon's objectives and agendas. And the global sponsors we're engaged in now, each one of those conversations would have elements that are uniquely important to them that our sport can uniquely deliver a package for them. And that really is the nature.

The real opportunities are when we're able to create that unique marriage of something that obviously benefits us, fits our sport, but is uniquely tailored to whatever that sponsor's -- the message and agenda, that objectives that sponsor has in the marketplace. So they're not -- in the past, it was all -- it's been signs on a wall and count the number of minutes the signs showed up on TV. It really isn't that. At this point, sponsors want more engagement. They want to connect with their core customers. They want things that uniquely identify them with the sport, that give them a natural fit with it that they can build on. And so they really are much deeper, broader partnerships than in the past, where, again, it was a one size fits all, it's how much signage do you get and what are you counting? And the market clearly is moving away from that to measuring success much more in impact; impact and value in how are we connecting them to their fans with the right -- to their customers with the right message.

Unidentified Analyst

Maybe just a quick second question. Is there any deadline on the second element of the Concorde Agreement that you talked about that don't have to be voted on, the kind of financial ones? And I forget the other element of it, you said was more financial...

Charles Carey - Formula One Group - CEO

Financial and governance?

Unidentified Analyst

Yes.

Charles Carey - Formula One Group - CEO

Yes. I mean -- well, I mean realistically, what we put out is what will be the structure of the business starting in 2021. We'd like to get it -- our goal would be to get things signed off as soon as possible with the teams just to remove the uncertainty around it.

But essentially, come 2021, we can put -- we can say these -- so this is the way the sport is governed, and this is the way this sport operates. We obviously have the capability to create deadlines inside that. But the regulations had an approval process they have to go through. These are, again, more bilateral agreements that you can obviously create deadlines, too. But the reality ends up being what they are are agreements of how the sport will be run and operated for the 2021 season.

Gregory B. Maffei - *Liberty Media Corporation - President, CEO & Director*

In the front.

Unidentified Analyst

I guess, on that point, presumably with the cost cuts, once you have those in place and you have some underlying profit...

Gregory B. Maffei - *Liberty Media Corporation - President, CEO & Director*

Cost caps, just to be clear.

Unidentified Analyst

Cost caps, sorry, the cost caps.

Gregory B. Maffei - *Liberty Media Corporation - President, CEO & Director*

Sorry. Cuts for some, caps -- potentially raises for others, right?

Unidentified Analyst

Got it, got it. So presumably, the teams should be much less dependent on kind of the prize pool for their revenue over time. I guess how do you get to the point where your share of the profits can go up? And then you guys have talked about sort of the idea that it's not a cut for anyone, it's growth, sort of for the sport and for the league. I guess like how do we think about the point in time at which that share can actually go up based on the growth progress that you've made?

Charles Carey - *Formula One Group - CEO*

I don't think we're going to -- I mean we're not going to probably get too far into the -- because it seems like you're addressing really what's the structure of that profit sharing between us and the teams. I think when we've concluded the agreements with the teams we'd probably comment on it, but I don't think it becomes less important to them, I mean I think is probably the one thing I would say, it's not -- I don't think it becomes less important. I think we all benefit. And so we want to create more of a shared interest and more of a shared partnership for the future.

And I think what would be clear is we all benefit if we can grow the sport, and that's what we want to have is a structure that enables everybody to reap the benefits of growth and has incentives for us to grow the sport successfully.

The sport before we came in had not really had a period where we thought it was growing in the way it could and should. So we believe we can grow that. And if we grow that, we think everybody should share in the benefits of it, and that's essentially the structure -- what the structure attempts to address.

Gregory B. Maffei - *Liberty Media Corporation - President, CEO & Director*

If I could add, if you think about all those elements, whether it be broadcast or doing something with the promoters that creates more value or creates sponsorship, creating excitement on the field, we think, will help our sponsorship story, getting certainty will help our sponsorship story. And obviously, the teams take a percentage of that. But if you think about the teams and their own sponsorship stories, they're out there selling as well. Excitement, on track performance, balance, is going to help a lot of those teams with their direct sponsorship opportunities.

So this has got knock-on effects all the way around, rather than just thinking about how much are you getting out of the prize pool. That kind of experience is going to help them all the way around, both with cost reductions, with incremental revenue opportunities directly.

Unidentified Analyst

In the past, you guys have talked about the participation of technology giants in sports rights options as a possible way to unlock the historical under-monetization of F1 broadcast fees in terms of dollar grab per viewer hour. And I'm curious kind of what is your latest thinking on that? And kind of what is the time frame over which you think that that force or that dynamic might start to transpire. Is it more of a 5-year process or more of a 10-year process? Just...

Charles Carey - Formula One Group - CEO

Yes. I mean realistically, first, I don't know when the time frame could be. I mean what is clear is the digital players have an increasing interest in the content world, particularly in unique content like ours. We are probably -- we're having more discussions than we were a year ago. And they're different than -- being a global sport, they're different in every market. I mean a lot of the other sports have one dominant market, and therefore the discussion evolves around what happens in that one market, and so it's easier to sort of address how is that going to evolve. Because if it's the NFL or MLB or NBA, (inaudible), but the U.S. is obviously an enormous part of what they do. For us, we have business around the world. And realistically, what we're trying to do -- we certainly value our traditional partners. Today, we look at the broadly defined television world, and I call it "television world," as one that has an array of participants in it: traditional free broadcast, which is probably the most mature; pay, which is in varying degree, probably maturing; and the digital platforms, over-the-top, all of those are sort of tools we have when we go into a market to figure out how do we optimize the value of the sport and create the right experience for fans.

In some of those places, digital becomes a competitor; in some of those places, digital's becoming a partner, where the traditional -- our traditional television relationship -- we'll do things with a digital player that is a win-win for both of us, that is expanding the reach, creating a new package of product for that customer.

So I think it is one where we really have to deal with it in a market or region on differing bases. I do think it's not a step curve when -- what is the appetite of these -- the digital guys -- to go deeper and deeper, as opposed to foot in the water, knee in the water or jump all in. I think you're getting to a place where I think, particularly as these over-the-top platforms start to launch, I think that activity will accelerate in the next couple of years.

And so I don't think it's a 5- to 10-year -- I mean I don't have a crystal ball, but I think you're getting to a place with the size of players that are committing and engaging. When you've got the Apples and Disneys and AT&Ts coming in on top of the players like Amazon and the others that are already there, that that activity will accelerate.

I don't think -- you probably have most of them, but it's tough to envision in the very short term, you'd have sort of a significant amount of our core races on a digital platform because I think you have an issue of -- if you did it next year, how many customers can find that. So are you creating different products? So I think it comes back to things like over-the-top, creating different products that may be conducive to different platforms and ways to engage them in ways that work and are additive, so whether it's to a high-end customer, a highlight package later or different ways to slice and dice the product in a way that, again, is a win-win for everybody. But I think it's a competitive force.

It does feel like, certainly, what we're experiencing is increased interest. And I think that interest is moving relatively quickly with the activity that's out there.

Gregory B. Maffei - Liberty Media Corporation - President, CEO & Director

If you think about one other factor, which -- think about. As you see all the increased amount of money being spent on scripted, which we've been somewhat vocal about, that the -- headed towards \$100 billion. I think that actually creates only more opportunity where a lot of these digital



platforms are going to look for other alternatives. We talk about sports rights going up, but if you look at the escalation of non-sports, of scripted content, and trying to differentiate yourselves in that world, I think I feel pretty good about some of the prospects that will be generated for us down the road.

Yes, here in the -- can we get one over there, Kelsey? Thank you.

Unidentified Analyst

Just following up on that, can you talk about the OTT platform? How it performed and how you expect it to perform? And how you might consider that in markets where you are offering OTT products with one of the big streaming companies?

Charles Carey - Formula One Group - CEO

Yes. The OTT plat -- I mean there's no question the -- we had issues with the stability of the OTT platform during its initial launch and actually for the second half of this season, probably even a little more in the second half. I think we feel we've gotten on top of the platform, and it's technically stable.

I guess, as we think about the OTT platform, I think it's up -- I think there's sort of 3 core steps to it, and you almost have to do them in sequence because then it doesn't work, which is, one, get a platform that is stable enough that you're not frustrating customers. There's no reason to go out and sell something that ultimately they're not going to be satisfied with as a technical experience. But they don't buy it for technology, they buy it for content. So first, we've got to get the platform to a place where it's technically stable, then sort of define and build the content experience, which is why they're buying it, and then sell and market it.

So I think for us, we feel we're -- we've now gotten on top of the first. We are focused on sort of expanding and enhancing the content experience, and we'll move forward in terms of selling and marketing it. How we sell and market it will again vary by markets, because I think there are markets where we will do it directly, and there are probably markets and opportunities where we will do it probably more in partnership with a platform. And there are a number of platforms that have done that. I mean I saw just last week or the week before an example, Sky Italia in Italy was talking about the success they've had of bundling Netflix with their package to sell Netflix. So I think increasingly, there are opportunities to go at it in different ways, in different shapes and forms that enable us to take advantage of.

And really what the OTT is about is -- which I think you need to do in today's world and the digital technologies enable you to do it -- is how do you maximize the value of every customer. And you don't want a one-size-fits-all. There are clearly customers that will pay a lot more for a richer, deeper experience. And you want to make sure if they're willing to do that, you give it. Now it's got to be good, but we want to make sure those customers, and I think our sport has a uniquely passionate group of customers around the world, that we can give them that experience, will pay, and will pay for that enhanced value and to optimize the value of the sport.

I think that's what we need to do is create those different ways, as well as things that go beyond the traditional sport like, the Netflix series, is take advantage. Because I think, again, the power of our sport I think is unique. It's stronger than many other sports because of the sort of marriage of the sport to technology to the uniqueness of the experience around it that it gives us that opportunity to create those packages.

So I think the over-the-top is going through. Again, I think we've gotten to a place now where we can start to sort of turn our energies as opposed to stabilizing the platform. There was no reason to try and sell it if people were going to find it glitched and frustrated them. So it's not perfect, but we think we've got it. We feel good about what we've had the second half of this year. So it enables us to turn to that. And as we go through our broader television strategy and discussions in each market, it is very much a core part of those discussions that have -- to how do we optimize the value for us?



Unidentified Analyst

Now that we've got some potentially more clarity on what the sport is going to look like after 2021, how does that impact capital allocation, leverage levels, share repurchase, things like that?

Gregory B. Maffei - Liberty Media Corporation - President, CEO & Director

So we are -- if you look at the targets we set forth, I think we said 5x to 6x. We're now in that range. We are -- if you look at -- I think we're 5.3 or something like that, 5.35 at the end of the third quarter, we'll start to generate a little more free cash flow as we run for the year. We're evaluating both ways to look at leverage and whether that's a sustainable level. I think it is, but we'll evaluate that. We'll look at potentially ways to return capital, but also ways to look at -- make sure all our liabilities are covered. And there are pieces of our somewhat complex capital structure which we want to ensure are covered off. So no announcement today, but we'll -- we've been relatively aggressive as a Liberty family in return of capital and thinking about those issues, and when we have something more concrete, we'll be back on it. Thank you.

Charles Carey - Formula One Group - CEO

I guess I -- and probably all I'd add operationally is, I mean we're still not a -- we're not a capital-intensive business in terms of managing it and realistically, we are predominantly a revenue business. Even -- we did -- we were creating capabilities in '17, '18, even from an operating cost perspective. I think we've really been pretty much -- now, I don't expect significant increases. I think we have the organization we need. I mean there are some costs that are variable with operations. So like we provide freight services, and there's a cost of freight. So if we ship more stuff or go to more races, freight costs will go up with freight revenue. But the sort of core operating, I think we've really got the organization in place today to enable us to grow the sport as we hope to.

So I think we've done the foundation building in '17 and '18, and really do expect, we're starting to -- this year is the first step, and it's starting to take advantage of the momentum and strength, momentum and initiatives we put in place.

Gregory B. Maffei - Liberty Media Corporation - President, CEO & Director

Yes, next.

Unidentified Analyst

The last few years, you've spent a lot of time marketing the sport in ways that it was never marketed before. That's been a big area of focus, to kind of grow the fan base and grow the engagement. As you think about the broadcast rights and level of interest absent technology players bidding on the rights, how much increased interest do you think that that has created, as you start to look at renewals coming up again?

Charles Carey - Formula One Group - CEO

Yes. Look, I think we feel -- I mean look, we feel good about the interest in the sport. I mean our attendance is up, our viewership's up. We've got some really exciting growth in some ...

Gregory B. Maffei - Liberty Media Corporation - President, CEO & Director

Yes, digital engagement is up dramatically.

Charles Carey - *Formula One Group - CEO*

In digital. So I think the momentum -- and it all helps. I mean realistically, when you get the core broadcast rights, competition is the biggest factor. So sort of competition is going to drive it. Clearly, that doesn't mean the value. So I think we've improved the value, but the -- a dynamic clearly that has probably -- is a bigger influence than anything is sort of competition for those rights. That's why some of the -- you want to continue to engage the broader universe of players. We think people are excited about, certainly, the reaction we're getting is -- we feel very good about the interest in the product, the strength of the sport. I do think the marketing initiatives help. So I think there is a fresh -- almost across the board, we will get comments about the renewed energy, the renewed excitement, the renewed enthusiasm about it. I think having things like the cost cap help as well because I think, clearly, the core element is making sure the competition on the track delivers the competition and action we want. So we've got more to come as we talk about it, but it's subjective, but certainly the enthusiasm for the sport, we feel very good about. How you -- when do we monetize it really gets in -- will get into dynamics on top of that, like competition for the rights.

Unidentified Analyst

How long is the next Concorde Agreement, I guess, expected to last? And I guess beyond that, can you kind of talk about the steps you see towards actually creating franchise value for the teams?

Charles Carey - *Formula One Group - CEO*

I don't know that we've -- it's a multiyear agreement. I'm not sure we've -- because we haven't, again, concluded all the agreements with the teams. And so I don't know that I'd want to comment on the specific terms until we're sort of announcing it. But it is certainly a long-term agreement, not infinite, but multiyear agreement. And I think franchise value for the teams is really about, I guess, almost all the things we've been talking about this morning, some direct, some indirect, having us where everybody has a chance to win on the track. I mean I think that enhances every team's ability because, as Greg said, you can go to sports like baseball, and they don't have a lot of cash flow, but as long as they -- if they feel they have a competitive franchise, the asset value is pretty strong.

So certainly, just the strength of the competition on the track and the ability for everybody to feel they have a chance, even if they're an underdog, to win, I think is important to franchise value. Underlying economics are important. So the cost cap creates more stability. It not only enhances competition, but I think obviously creates a healthier business model.

We are modifying, changing the profit sharing. That will benefit the teams in the lower -- the lesser teams will benefit from that. So that helps the value. And I think as much as anything, strength in the sport helps it. Right now, we've got a sport that we feel has a lot of wind at its back with growth and growth in the metrics we just talked about, whether, again, it's live -- I mean we're setting records at tracks in terms of attendance, interest around the world in it. I think the unique elements that make this sport so special -- global technology, all those things -- I think seems to be giving us a story that is resonating with fans and connecting as we're building out things like social media platforms and digital. I mean I think the reaction to the -- I talked a minute ago, the Netflix show was tremendous. So I think continuing to build on that momentum in the sport, I think all those things are part of creating franchise value, making it a great platform for those that want to compete in it.

Gregory B. Maffei - *Liberty Media Corporation - President, CEO & Director*

John?

John Philip Tinker - *G. Research, LLC - Senior Research Analyst*

You have a problem of success in that Live Nation is now a bigger piece of the -- part of the stock price for Formula One.



Gregory B. Maffei - *Liberty Media Corporation - President, CEO & Director*

It's a high-quality problem.

John Philip Tinker - *G. Research, LLC - Senior Research Analyst*

Great problem to have. How are you thinking about the sort of structure of Formula One capital structure and where it should be?

Gregory B. Maffei - *Liberty Media Corporation - President, CEO & Director*

We certainly hear the complaints, if that's the right word, of some of our holders that they can't get a pure F1, they have to hedge this out, okay. Look, we have a high-quality problem that we sit with Live Nation having had such a run that it's become a bigger and more important piece of the FWONK overall value. It's not -- there are some -- you can imagine some operating synergies between Live Nation and Formula One, but as a practical matter, we all agree it's probably more and better aligned with the music assets we have over at Liberty Sirius, but with Liberty Sirius trading where it is, something that we are taking advantage of every day that the market wants us to give us Sirius at a discount. We're buying it in. I don't expect that to change. In fact, I expect that to accelerate.

That having been said, I don't think I have a good currency at Liberty Sirius today to move it over. So I think the answer is stay tuned. But while the market is going to give us a discounted Liberty Sirius, we're going to take advantage of that. And hopefully, to the benefit of Liberty Sirius shareholders.

Jeff, you were the first, you've got -- we've made you a lot of money in Charter. Thank you. So at least...

Jeffrey Duncan Wlodarczak - *Pivotal Research Group LLC - Principal & Senior Analyst of Entertainment, Interactive Subscription*

No, I picked that up at \$30, so a nice run. I had a question about the engines. When you all bought Formula One, there was a big focus on let's get rid of the V6 hybrid, make it louder, make it faster. I think you kind of backed off from that just because you're already herding cats, and so that just makes it much more complex. When should we expect you guys to address -- I mean you've gotten this. It sounds like it's getting close -- knock on wood -- when should we expect you all to start addressing the engines in terms of making them simpler, cheaper, faster, louder?

Charles Carey - *Formula One Group - CEO*

Right. We are -- actually, we're addressing it now. So it's not part of what's being -- it's not what part of what we voted on tomorrow, but it's actually become a very significant issue. And I do think we -- I don't think we backed off. I think actually, in fair -- and we did change from when we were going up modify the engine. I think we actually, as we engaged -- and we do try and listen. We try and listen to the teams, as much as they may think we don't, but -- and felt stability was the right path to address some of the cost and other issues.

I think probably one of the things that has changed as well is we feel, in today's world, the environmental issue has become a bigger part of the future. And we actually think we have a great story to tell, that is -- I mean first, we haven't done a good job of telling the story about the engine we have. I mean today, the hybrid engine we have in those cars, it's the most efficient engine in the world. And we haven't told that. And that's just the start.

And so we're engaged with an array of parties of how do we continue to be at the forefront. In some ways, Formula One has been at the forefront of the automotive world, whether it's safety or other features that have become engines over the years. And how do we be at the forefront of an engine -- a combustion engine that continues to reduce the carbon emissions of it or other efficiencies that we think is actually going to be an important part of the world going forward. And there's a lot of talk about -- I mean it's obviously -- enormous focus today on electric. I think people -- when you talk to people inside the industry, realistically, A, they don't understand the environmental issues that come from the batteries, driving electric and things like that, but they also don't, I think, recognize electric is a part of the solution, but clearly, there are issues, whether it's the cost



of creating electric cars [to like] that, in many ways, a carbon neutral combustion engine may ultimately be more important than anything else in terms of a path forward.

So we are going to put a lot more energy with the teams. Teams are completely supportive of this, of how do we stay at the forefront. Essentially, we're not obviously going to do the R&D, but what we are is a platform that can display the capability of an engine that is more environmentally friendly. So whether that's energy recapture, synthetic fuels, biofuels, hydrogen fuels, all of those capabilities, as well as realistically addressing sort of the broader environmental issues, having our vents be waste-free and things like that. But I think as we've gone through the last few years, clearly, it's a more central issue. So we want our -- I think we -- it's important we stay at the -- we are the pinnacle of motor sports. We -- important we stay at the forefront. We've always led the way, and I think lead the way in a way that makes sense for us.

So I think we are looking at an array of initiatives to address both the costs and the future direction and the time frame with the teams of where these -- where the engines go, that respect the DNA of the sport and ensure that we continue to be at the pinnacle in terms of performance capability and where the world is going.

Courtnee Alice Chun - Liberty Media Corporation - Chief Portfolio Officer & IR

Okay. So I think that's it. Thank you, Chase. Thank you, Greg.

Gregory B. Maffei - Liberty Media Corporation - President, CEO & Director

Thanks for joining us.

Courtnee Alice Chun - Liberty Media Corporation - Chief Portfolio Officer & IR

Remember Liberty Investor Day, November 21.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2019, Thomson Reuters. All Rights Reserved.