

# Michael Fries

PRESIDENT AND CEO, LIBERTY GLOBAL

If there is any doubt about the future of cable television, one need only look at Liberty Global. It's the leading cable operator in 14 countries, most in Europe but also in Australia and Latin America, serving 28.3 million subscribers and providing video, broadband and telephony. As Michael Fries explains, ten years ago revenues were only \$1 billion; today they amount to more than \$10 billion.

**WS:** What are the factors that have been driving Liberty Global's growth over the last year?

**FRIES:** There have been three factors. We have a pretty concerted focus on driving scale. If you look at what we've done in the last three years, we've concluded about \$15 billion in M&A [merger and acquisition] transactions all focused on rebalancing our footprint into Europe. When we complete the remainder of these deals, about 90 percent of our revenue will come out of Europe. That helps us in a number of ways: first, it drives capex [capital expenditure] and content ben-

efits. Second, we're extremely focused on innovation. Look at what we've done with broadband—we have 22 million homes today that can get 100 megabits of broadband speed. That's certainly a key focus for us and that's allowing us to regain market share from telcos and really become market leaders again in broadband. Third, we're always focused on organic growth. If you look at digital, even though we're 48-percent penetrated with digital receivers today, we've got something like 8 million households that are still watch-

ing analogue television, so with HD and the DVR and VOD, we're able to drive a pretty compelling digital product into our homes.

**WS:** How are you allowing your subscribers to access that content on their iPads, online, wherever they may be?

**“We have the best relationship with content providers: we protect their content; we pay them for content.”**

**WS:** What kind of demand are you seeing for double- and triple-play offerings?

**FRIES:** It goes without saying that for us the bundle really is the product today. Some 40 percent of our customers take a bundle from us, and I'd say 85 percent of the net [subscriber] adds that we've created in the bundled environment have come from triple play. There's no turning back—the bundle really is what drives our business and broadband drives the bundle. In Europe, some 70 percent of our triple-play sales include a broadband speed of 20 megabits or higher. They work hand in hand.

**WS:** What about video on demand?

**FRIES:** For all cable operators, video on demand is becoming very much a basic component of the video offer. Today we've launched video on demand in seven countries. We have tens of millions of streams each month. The reasons that people are using the video-on-demand service vary by market. In most cases, catch-up TV from broadcasters, movies and key cable channels drive usage. But it varies by market. And VOD is not just a retention tool for us; it's also a revenue driver. In places like Belgium, we generate some-

thing like €3.50, €4 [\$5, \$5.80] a month per customer in extra revenue. So VOD is really an important piece of the cable promise, and even though the vast majority of usage is free—which is fine with us because we're generally not paying for that content—it's very much a product and service subscribers expect to be able to access randomly.

**FRIES:** There are three things cable does very well today. Given the size of our pipes, we are the best at providing connectivity. We have a very large customer base in the video sector and we have the best relationship with content providers: we protect their content; we pay them for content. But there are three things we don't do well. We don't really allow you to move our content onto other devices. We don't allow you to integrate other content onto the TV screen or into your cable box, and our user interface, our programming guides, leave a lot to be desired. What we're focused on in our company is really [improving] those three weaknesses. Later this year we're rolling out in Holland what we call Horizon, which is our new IP gateway that will do all three of those things. It's an amazing user interface with 3D rendered graphics powered by an Intel computer chip. We're integrating web content and online content into the user experience on the television set with apps and widgets. It will be a very powerful recommendation, search and navigation tool. It'll automatically find your iPad and your PC and allow you to share content between them, and it'll come with an over-the-top cloud-based service that allows you to watch the content we have available on your iPad or PC free of charge. In my opinion it's cable's game to lose, and the innovations we are introducing on the



Liberty Global's  
UPC Broadband.



digital platform are going to be tremendous game-changers in Europe.

**WS:** What does cable do better than over-the-top providers like Netflix or LOVEFiLM?

**FRIES:** Customers still want quality, which means they want the best content, and nobody provides better content than cable. We have all the free-to-air channels, we have all the studios, all the premium sports, all the live content, and we provide it on multiple devices in multiple ways. Secondly, people want clear signals. It's not easy to access content from various over-the-top providers using different browsers and different applications, and cable is really a one-stop shop. If you're going to provide folks with an easy one-stop shop, it has to have simple and functional tools and it has to be a clear signal, an easy experience. Thirdly—this is more of an industrial point—I don't think people want to work that hard. The idea that somehow, in the future, all of your content will be consumed from any and all sources whenever you choose and you're going to search for every single piece of that content, I think is false. Consumers want curators, they want aggregators. They want people they trust to provide them with great content, and they trust brands and they trust certain destinations.

**WS:** Is the issue of cord-cutting something you've started thinking about in terms of your business in Europe?

**FRIES:** It's not really that evident or a big risk today for us in Europe. The European market is very fragmented, so over-the-top providers have had a difficult time entering this market. Rights are not easy to come by. Language issues, structural and regulatory issues exist, and so the breadth and the quality of content isn't there today. Scale is hard to achieve. The second thing to remember in

Europe is that we have a very cheap video product—on average our video product is €15 [\$22] a month, not €60 [\$86] like in the U.S. So the opportunity to come and undercut cable with an inferior content offer but a slightly better navigation tool is either zero or short-lived. And despite the concerns around cord-cutting or cord-swapping, depending on how you want to describe it, TV viewership around the world continues to rise. There seems to be no lack of people willing to sit down and watch television, and broadcast revenues are hitting new highs. I'm not by any stretch suggesting that we're ignoring the trend, I'm just pointing out that we're being very sensible about the pace of that trend and watching things probably a little more closely than others.

**WS:** You talked about Horizon. What are some of the other services you're offering to maintain the loyalty of your subscriber base?

**FRIES:** In terms of retention, certainly the bundle is the stickiest part of our offer. If you look at Europe, our triple-play customers churn 50 percent less than our single-play customers. We also need to continue to improve and innovate the experience, so faster speeds, more HD channels, new services like Horizon and our own over-the-top platform. As long as we continue to innovate and improve the customer experience, I think we're in great shape.

**WS:** What are the opportunities and challenges for Liberty Global and cable operators in general in the next 12 to 24 months?

**FRIES:** If you look at our opportunities, first of all, as I mentioned, we have a very long digital runway, so we've got 8 million homes that are watching a few dozen TV channels. Every time we put a digital box in the house we double revenue, and today

we're also spending considerable time on making that digital-video experience much more rich with projects like Horizon. We also have to stay ahead of the curve on broadband, so even though 85 percent of our homes can get 100 megabits today, we've got to continue to drive and be market leaders in broadband. If you look at us versus the U.S., regulators definitely like us in Europe; we have a very level playing field, we're driving competition with the telcos. I'd say we have a lot of opportunity in terms of building further scale in Europe. There's something like 8,000 cable operators in Europe, it's like the old days in the U.S. We have a tremendous opportunity to continue to consolidate that market and derive the benefits that scale delivers.

In terms of some of the risks, I'd say there's no question that European cable operators face the same basic consumer challenges and over-the-top risks that U.S. operators face. The difference is the time frame. Because the market is highly fragmented, because it's very difficult to enter the markets that we operate in, because we have such an inexpensive video product to begin with and because we're innovating at a faster pace than even our U.S. peers, it's going to be difficult in our markets for over-the-top services. But we're vigilant; we never ignore these things. We're trying to innovate around them.

**WS:** Are you looking at opportunities in Latin America or Asia?

**FRIES:** Ten years ago we were in 27 countries with roughly \$1 billion in revenues. Today we're in 14 countries with \$10 billion in revenues. We've decided very purposely to focus our resources today in our core markets where we can drive scale, raise capital, and where there are the best opportunities for us. ■