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PRESENTATION

Bryan Kraft - *Deutsche Bank - Analyst*

Okay. Thanks everyone for joining us today. I want to introduce John Nallen, Chief Financial Officer of Twenty-First Century Fox, John, thanks for joining us today.

John Nallen - *Twenty-First Century Fox Inc. - Chief Financial Officer*

Thanks, Bryan.

Bryan Kraft - *Deutsche Bank - Analyst*

John, I thought we'd just get right into it and maybe start with your Cable Networks. So Fox's Cable Network margins took on some pressure in 2014 and 2015, when you took on the increased content costs both internationally and domestically to invest in building those assets. Where are you now in the investment cycle with respect to the Cable Networks and is it realistic to expect Cable Network margins to come back to that historical 38% range, give or take over the next few years?

John Nallen - *Twenty-First Century Fox Inc. - Chief Financial Officer*

So, I guess in responding that I'll go back quickly [on legal] forward which is, as you said, back in 2013, we launched an initiative to squeeze down the brands that we had into, at least domestically, into five real focus brands, Fox News, Fox Sports, the Fox network, FX and National Geographic. And in doing it, we got out of the small brand business reality, FUEL, soccer and put a big emphasis domestically behind sports and the FX brand. So we launched Fox Sports 1 and 2 and FXX and; you're right, in 2015 and 2016, we had a big step-up in expenses in support of those brands.

At the same time internationally, the big initiative was launch of Star Sports, where we launched six channels nationally in India on the back of some big cricket product that we had having acquired a venture from ESPN around 2012, 2013. So likewise, internationally, our expense ticked up and we were kind of high-teens expense growth in 2014 and in 2015. And what we said and what we've done is, we're at about half that rate of expense growth now in fiscal 2016.

So, all of the plans we had in place for the growth of Fox Sports 1, FXX and Star Sports. We're pretty well on track. We're focused a lot -- I'll probably cover it on Fox Sports 1's programing, it's non-event programming. But as I look at the expense base in 2016 and 2017, I don't see a really dramatic change in growth pattern in that period of time.

What you have to come to a conclusion on is where you believe affiliate volume was going to be in 2017? So looking at the pattern, the big expense drivers and the big expense initiatives we had to drive the growth is behind us. And in 2016 and in 2017, we're beginning to harvest the margin that comes out of that. Now I would just say one thing, as you look in the next couple of quarters, probably the next four quarters and maybe we'll talk about this as well, we did a transaction where we acquired assets from National Geographic.

And there is a, probably per quarter a $100 million increase in expense, a more substantial increase in revenue. So, don't be fooled when you see expense growing as if we're out of pattern, it's merely the consolidation of that business.

Bryan Kraft - *Deutsche Bank - Analyst*

Okay. So, you brought in National Geographic. You completed a very unique transaction with National Geographic this past November. In light of the transaction and the ratings trends at National Geographic, how are you planning to stabilize or turn the Nat Geo ratings and how does this transaction change your broader business plan for that asset?

John Nallen - *Twenty-First Century Fox Inc. - Chief Financial Officer*

So, if you look at the five brands I referred to earlier. For us, National Geographic is probably the most under -- well it's the most global, it clearly is. The National Geographic brand resonates in every part of the world and it had also been probably the most under-valued or under-appreciated in our portfolio. So, we had the opportunity with the Society to complete a transaction in the last six months where a partnerships that we're in with them acquired all of the commercial rights, all of the intellectual property rights that the Society had.

So we brought in the magazine, publishing, brand extensions, studio operations, insight; so all of the commercial exploitation of National Geographic now happens inside of one platform as opposed to, it was bifurcated. We were handling the channels, which were all global and the Society was handling everything else. So we put this together, the Society is now focused on its core mission of education and exploration. They were paid $625 million in cash to do the transaction, but now, all of the IP sits inside this one commercial enterprise.

A brand new management team is in there and if you look at one brand that we will really be getting behind in our portfolio over the next two years, it will be the National Geographic brand and not only on the IP that we acquired, but clearly in the channel, where the content will be more directly linked with the mission of the channel and what the channel stands for and it really is -- when I look at growth, one of the places that we're going to see some good growth is out of the National Geographic suite of assets that we now have.

Bryan Kraft - *Deutsche Bank - Analyst*

Do you see the most of that growth coming from the traditional advertising affiliate or are there other revenue streams, digital or IP licensing that can also drive a lot of that?

John Nallen - *Twenty-First Century Fox Inc. - Chief Financial Officer*

Well, to be fair, the biggest piece of the business is still the channels. So all of the assets that we acquired ensure that the digital extensions to the channel and anything that the Society was doing digitally, all occurred inside of one platform. But if I look at where I expect the growth to come from that whole suite of assets, I guess the biggest piece of it is the channel, and affiliate and advertising growth globally is where we expect that growth to come from.

Bryan Kraft - *Deutsche Bank - Analyst*

Okay. I'd be remiss if I didn't have some question around politics and the election cycle, especially given Fox News. How would you characterize the election lift that you expect to see at Fox News and also your stations this year relative to prior cycles?

John Nallen - *Twenty-First Century Fox Inc. - Chief Financial Officer*

It's quite unique; that's one way to describe it. I'll talk about Fox News and then the local station and then maybe comment on the ad market overall. So Fox News is enjoying a lift from this, not from the politicians, but just from the engagement that the American public has in this election.

So as a result, ratings are very strong; viewership is incredibly high and as a result, the advertising is quite strong across most every category. So Fox News' numbers continue to be outstanding related to the political cycle. We hope it keeps coming.

At the station level, it's a bit more interesting in that we've got -- if you look at each side, the Democrats are spending quite significantly, but on the Republican side, the leader is relying on social media and we're not getting much of a lift; everyone, I mean not just us, but the market is not getting much of a lift out of that.

But having said that, when we look at our portfolio, we've got today is Michigan; we've got Florida, Arizona, Michigan, Illinois, North Carolina ahead of us. And the primaries are not really big market generators for us. We get lift but our biggest lift comes in, what is our Q1 and Q2 when the national election is on; that's both Presidential and Senate.

So we probably get 3.5 times the revenue in that cycle that we get in the primary cycle. So the biggest piece of our election lift really rolls into 2017, that's the biggest piece for us, not so much the bluster and commentary around the primary. And Fox News will continue, obviously, during that cycle as well.

Commenting -- I guess reflecting more on the ad market overall, I know there has been a lot of discussion around this at this conference. And I think I'd probably echo what others have said, the market is very encouraging on a national basis. We've seen now great momentum over the last three quarters. So it was driven a year ago by fantasy sports and a couple of categories. Right now, it's across the board. So it's an auto, it's telco, it's mobile devices, this is national. And pricing is up 20% plus above upfront and the strength keeps coming.

So what we've seen in conversations with agencies and advertisers is that it's not like their total budgets have increased. What they've done is rebalance spending from other places they were in, most notably digital, back to long-form premium entertainment and sports and that's what we do. So we've enjoyed that. That's the national level.

At the local level, forget politics for the moment, base advertising markets are up mid-single digits from a year ago and like national, autos are a big driver. And we've also seen retail being quite active there as well. So where we are right now; when we sat here a year ago and had this conversation, the ad market was in a rougher spot than it is right now. It's in a really strong spot.

Bryan Kraft - *Deutsche Bank - Analyst*

I think that's perhaps the strongest statement I've heard today on a reallocation of digital budgets back to TV. Sounds very interesting and that's based on what you've been hearing from talking to the agencies?

John Nallen - *Twenty-First Century Fox Inc. - Chief Financial Officer*

Yes. Because we haven't seen any of the advertisers I described come out and say that they are spending more absolute dollars in advertising. It's not like, pick any auto company they haven't come out and said or beverage company, we are now increasing our ad spend by X percent. In some cases, they've actually -- and been very vocal about reducing it. So the strength that we have has come from somewhere else and in our conversations, it's move from digital.

Bryan Kraft - *Deutsche Bank - Analyst*

Interesting. On the political side, I mean just sort of a related question to both of those, some investors have been concerned about election spend shifting to digital this year and sort of surprising television and taking away some of that upside. Do you think based on what you've seen so far and I know it's early, but do you think that's a real concern or anything?

John Nallen - *Twenty-First Century Fox Inc. - Chief Financial Officer*

Not at all. I mean, if you're in -- I was in the Boston market around the time of the New Hampshire primaries. And this is anecdotal, but any of you that are in primary markets right now, it's reflective of what you'll see in the national market. You couldn't get an ad break, where it wasn't filled with political advertising.

And like any ad cycle has before, this cycle yet again is going to be more expensive for the politicians than in the last cycle was. And luckily, local television stations in the key markets where it matters will enjoy that benefit. So i.e., there will be a lot of money spent on digital, there's no question, but targeted advertising on local television will be better than it was last time.

Bryan Kraft - *Deutsche Bank - Analyst*

Let's talk about the RSNs for a minute. As you know, there has been much debate over the past year or so over how well or poorly the RSNs are positioned, given the level of affiliate revenues that they earn and the gradual pay-TV subscriber shift toward skinny bundles and cord cutting, combined with the fixed-rates contracts that you have. So why should your investors be confident in your ability to continue to grow RSN revenue and profit over the next, say five years given these concerns?

John Nallen - *Twenty-First Century Fox Inc. - Chief Financial Officer*

At every meeting I'm at, I have to defend the RSNs and they continue to go from strength to strength. So if I look at it from a couple of different ways. First, from the team standpoint, we run [20 plus] RSNs, we've got 44 teams, we reach 85 million households. From a team rate standpoint, we don't have any significant renewals coming up over the next three years. So our cost base is secure under contracts that go as long as 30 years for the Yankees and one that we're in negotiations now, that's up for one year with the Clippers. But it's a base that is, from a cost standpoint, is pretty secure.

On the affiliate side, we just completed significant renewal and you didn't hear a peep about the RSNs being negotiated off of a platform. It was done on a traditional basis with traditional volume and rates and there was really no drama about the RSMs being up. Because in every case, the MVPD's recognize that the RSNs are so important to their local market product. You take New York and I know we're in a discussion with a MVPD in that market, but the YES Network when the Yankees are playing is the number one cable network in the market, it's the number three Television Network on that night in the market.

So for an MVPD to offer to its consumers, a package that doesn't have what is the most important television in the market would be pretty surprising. From a growth standpoint though, what you should look at is the RSNs are an enormous store of value for us. They are a very significant profit generator for the Company. But to your point, when you look out, they will not be the growth driver of the business. They will grow but they won't be the growth catalyst of the Company. Rights cost will absorb some of the affiliate rates. There will be growth, but it won't be a dramatic growth that we will see from some of our other networks.

Bryan Kraft - *Deutsche Bank - Analyst*

Okay, and following up on that, you mentioned YES, do you think you're make any progress toward getting YES back on Comcast?

John Nallen - *Twenty-First Century Fox Inc. - Chief Financial Officer*

That's a negotiation between the two parties. So again, I come back to the point that the YES Network, any of these networks, whether it's in Detroit or in Florida here or in New York, these networks are pretty important to the consumers in that market and I think, we will see a day where we will settle that and YES Network will be back on. And I realize you haven't seen, I go back over the last several years, you haven't seen a skirmish where the RSNs have been off. This is a unique situation and we're hopeful we get it resolved pretty quickly.

Bryan Kraft - *Deutsche Bank - Analyst*

And it's unique because that's really the outer fringe of the New York DMA that they have?

John Nallen - *Twenty-First Century Fox Inc. - Chief Financial Officer*

Right, okay.

Bryan Kraft - *Deutsche Bank - Analyst*

All right. I realize that currency and lower film results as well as some asset dispositions have impacted the 2016 guidance that you have given back in August of 2013. But the question I have is, if you look at just the Cable Networks business and if you look -- so domestic Cable Networks business and then the International Channels and STAR on a local currency basis, how are you tracking against those 2016 target you had originally put out?

John Nallen - *Twenty-First Century Fox Inc. - Chief Financial Officer*

It's hard to go revision; given the journey that we've been on since we saw most of you at this Investor Day in 2013. But if you look at just the Cable group on the conditions you just mentioned; take currency out and look at the EBITDA performance of that business, we're right on. And where the shortfalls from an EBITDA standpoint, we would be under those metrics in advertising but well over on affiliate.

So we would hit that EBITDA if you had a constant currency number from 2013 to 2016. So I think, look I'm as frustrated as everyone when currency gets in the way of the business. We operate a global footprint. I'm told more global than most of the other media companies. With it comes currency risk, some of which you can manage, others of which it's a pure bet, if you decide to hedge currencies and it's wrong. So we've suffered like most multi-national, industrial companies have, the ups and downs of currencies during this cycle with the dollar strengthening, it's mainly been a headwind.

Bryan Kraft - *Deutsche Bank - Analyst*

Also at the Analyst Day back few years ago, management had predicted $500 million in EBITDA for STAR in 2018 I believe and $1 billion plus a few years after. The rupee has depreciated against the dollar, I think by about 13% since then, curious as to where you are tracking against those targets; given the currency decline and the operational performance that you had so far?

John Nallen - *Twenty-First Century Fox Inc. - Chief Financial Officer*

So let me open up just part of a wider question which is, if I look at our Company there are three assets in it that frustrate me that we don't get appropriate value for. One is Sky, which is public, you can just figure that stock; the other is Hulu, which is a developing business; but the third is STAR.

And STAR is -- that market is growing dramatically and luckily, we're a leader in that market. If you go back, STAR was purely a national entertainment network in Hindi and we've now expanded it to a four pronged business, which is the entertainment business, sports, regional where we just completed a fairly big acquisition in the last six months. And then this business called Hotstar, which is a digital over-the-top provider. The beauty though, is people continuously asked how we're doing at STAR. The beauty of, at least the way we're looking at it is, we are providing a bit of a canopy to STAR to allow it to grow, so I don't have to sit and go through quarter-by-quarter metrics on how its performance is going, because that will just get in the way of its growth.

The ad market is growing by 20% a year. The cable and satellite households will grow by over 45% over the next three or four years, and STAR will enjoy that ride along the way as the leader in the market. What we've done is launched the sports business where, in 2015 we took almost entirely the profits we generated on the entertainment side, which was near $300 million and invested it into the sports business to launch the sports business.

And what you're now seeing, as I said earlier, that that peak investment is gone, the entertainment trajectory continues and now sports is continuing the growth. So we have a high degree of confidence around the two milestones we set for STAR of $500 million in EBITDA in 2018 and $1 billion shortly thereafter despite the worsening of the currency, because in those numbers we had considered the depreciation of the rupee over time; not as dramatic as it is, but on the other side STAR has done better.

So we, lucky on a local basis, even exceeded the plans that we set back then. STAR is really, when I look at the growth engines of the Company overall, one of the top three is where we're going with STAR.

Bryan Kraft - *Deutsche Bank - Analyst*

Okay, and I think you recently realigned the International Channels management team. I was wondering if you could talk about your international strategy ex-India, so can you just address that.

John Nallen - *Twenty-First Century Fox Inc. - Chief Financial Officer*

What you saw us do in the last 45 days in changing this structure of what we call Fox International Channels was part of the playbook that we got from STAR and that at STAR, we're now on our second-generation of local management and an entirely local leadership team. We don't have expats that come in and run the business, it's entirely local, entirely -- STAR is an Indian business. And we learn that that's the appropriate way to run an International Channels business.

Our model had been, as FIC grew, was to grow it from the center and control it from the center, out of the programing purchasing, some of the strategy, even some of the affiliate deals were done from the center out of Los Angeles.

Looking at the history of STAR, what we said is we got to break that apart and focus on this region by region and we've broken into three areas, Europe, Asia and Latin America. So, local management will drive the growth of this business going forward. Programing decisions will be made on a local basis based on what the local market needs, both entertainment and sports. And growth is going to be driven by mainly advertising and then the growth of pay-TV in those markets.

We really ride the growth of pay-TV in principally the Latin American and Asian markets. In Europe, the penetration is more significant. So you don't see as big a growth trajectory on affiliates. But in those other markets, we will ride the growth of pay-TV.

Bryan Kraft - *Deutsche Bank - Analyst*

And actually going back, one follow-up on India. Hotstar, we didn't really talked about that, you mentioned it. Can you talk about what you've been seeing with Hotstar since you launched it and how big of an opportunity is that?

John Nallen - *Twenty-First Century Fox Inc. - Chief Financial Officer*

For those that don't know what Hotstar is, you can obviously Google it. But it's an over-the-top product that's entirely ad supported. At STAR, going back on the entertainment side, we produce and own all of our programing. So except for movies that are on our movie channel, everything else is owned and produced. We have all the IP for STAR. So we put 40,000 hours of programing on to this over-the-top product called Hotstar. We also now broadcast sports, because we have the digital rights across Hotstar.

We had, I think in the first week 40 million downloads of the Hotstar app, and we continue to get very significant engagement. It's the kind of product that over time, could be a subscription product. But that's not what we're doing right now and most of the focus right now is on active engagement, principally on the STAR entertainment product.

Bryan Kraft - *Deutsche Bank - Analyst*

Okay, alright. Why don't we talk about the Filmed Entertainment business a little bit. The performance of the film slate is one of the reasons as we talked about, along with currency, that you had taken down your 2016 guidance a few weeks ago. Deadpool was released a week later and seems to have exceeded all expectations. Is it fair to say that you're now tracking closer to the old guidance than the revised guidance?

John Nallen - *Twenty-First Century Fox Inc. - Chief Financial Officer*

I'm not about to guide every weekend on what happened, because remember after that we had Eddie the Eagle a after we had Deadpool. So, and we still have -- which I'll cover here. But the Deadpool has been a dramatic success. I think we're at $325 million of domestic box office as of today, and it's just been a fantastic ride for us. But remember, the first six months of the year were difficult for us; starting with Fantastic four and we underperformed on a number of products we had like Joy and Peanuts and others. We still have two very big movies ahead of us in the year with X-Men and Independence Day and we've got great confidence in those films.

But I'm not about to declare victory and re-guide the Company based on that kind of activity. But you're right, Deadpool unto itself has been a great jolt, coupled with really a slight change, even some spend on the strength of the advertising market. So I'd say there is more positives than negatives as we look at the rest of the year and we look into 2017.

Remember, going into 2017, we've got basically three big events for our Company that will help drive growth. We've got Super Bowl, we've got the political tailwind that I described and we have a tailwind of a number of these big films coming into 2017. So we will have released two of them at the end of 2016 and spent all the money on marketing Ice Age 5 in 2016 and we enjoy the benefits of that into fiscal 2017. So fiscal 2017 has three big pieces of momentum behind it that we're looking forward to as well as we're hopeful, a continued buoyancy behind the advertiser.

Bryan Kraft - *Deutsche Bank - Analyst*

So you're saying that the ad market has actually even strengthened since your earnings call?

John Nallen - *Twenty-First Century Fox Inc. - Chief Financial Officer*

I'll tell you what we are sensing is the mood continues to get stronger. And obviously we're going into the upfront. Look we've all been through these cycles. [I said] a year ago, we sat here and the mood was completely different. I don't know what changes it. And I'm focused here my discussion on linear advertising, traditional linear advertising. But we go from strength to strength and that's -- look it's good to be in this position as against where we were when we sat here a year ago.

Bryan Kraft - *Deutsche Bank - Analyst*

So, expecting a strong upfront I take it.

John Nallen - *Twenty-First Century Fox Inc. - Chief Financial Officer*

We're hoping for a strong upfront.

Bryan Kraft - *Deutsche Bank - Analyst*

Fingers crossed. Okay, so you talked about the slate for a little bit and it sounds like 2017 is going to be a strong profit year on the film side. From a slate standpoint next year and into 2018, it looks like, I'm assuming, I know you haven't announced a date yet for Avatar, but until Avatar, it's probably going to be a little bit light though, I guess, after this summer's films. Is that right way to think about it?

John Nallen - *Twenty-First Century Fox Inc. - Chief Financial Officer*

No, I'd say if you look at our film division, we generally are in the 23 to 25 films a year on a fully distributed basis. And six of those in a year; five or six are franchise films. So if I look after the three I mentioned, X-men, Independence Day, Ice Age, we will have another X-Men Gambit at some point. We've got Assassin's Creed, Alien, we've got another Planet of the Apes coming out, Maze Runner coming out.

So there are still some very big franchise films over the next 18 months that we're looking. Now beyond that, the schedules aren't even -- we haven't even produced those films and obviously we're still focused on, without announcing dates or direction where we are on the next set of Avatars that will come out. But in the interim, we have some pretty sizable franchise films that will support the rest of our slate coming out.

Bryan Kraft - *Deutsche Bank - Analyst*

On the television side of the Studio business, you deconsolidated Chime and that's affecting the year over year growth this year. But what about the underlying growth in the television licensing and syndication -- all of your content licensing and syndication activities, what's the underlying growth looks like this year and should we continue to think about that as a growth driver into next year?

John Nallen - *Twenty-First Century Fox Inc. - Chief Financial Officer*

So just a point of detail on Chime, from an earnings standpoint, that really is not affecting the trend at all, but we had about $350 million of revenue in 2015, that doesn't comp into 2016. But from an earnings standpoint, it wasn't that substantial and I'll comment on what we did with that business in a moment.

But the TV business, for us it's very strong. We have 36 series, 16 new, 20 returning between the fall and what will end this summer before the upfronts. That was a very big slate for us. Roughly 70%, 75% of that is pointed toward Fox. This was part of the initiative we did when we put Gary and Dana in charge of both the television production business which they had and the network.

So that on the production side, like I said 70%, 75% of the output is for our networks. On the broadcast side, if you take idle for the moment, 80% of what we're showing is our product as well. So TCFTV is clearly one of the leaders in television production. They had 15 pilot orders already, looking into next season. Not all of the announcements have been made about renewals of those 36 series that I mentioned, but there is a very substantial number that will be renewed yet again.

So as a home for content and for long-form -- which is what we do, we do long-form engaging premium content. We're not a short-form content house. TCFTV will continue to grow. The point I wanted to mention, because it's an asset that doesn't get a lot of play, people don't know a lot about, when we took Shine, we merged it with Apollo into a business they own called Endemol, and we formed the Endemol Shine Group. It is the largest quote unquote, Independent Production Company in the world and it's the home of a lot of the formats that people know Big Brother, Deal or No Deal et cetera and that business continues to grow.

But we don't get -- it's a hidden asset almost that people don't give us a lot of credit for. But there is a healthy competition -- continues to be a healthy competition for the content that we have. Not only on the networks that we serve, but on the SVOD platforms who want that output coming in. And it's to be a producer of long-form engaging television of the quality that we have is a pretty good place to be right now, because of the activity at the networks and the activity at many of these platforms who are looking for our product.

Bryan Kraft - *Deutsche Bank - Analyst*

So, it's probably a good segue to maybe talk about broadcasting and broadly the TV model evolution, if you will. I guess to start with broadcasting; ad revenue growth turned positive in this last quarter, but underneath that I mean, one of things that I think you guys have been more aggressive in going after over the last year or so has been full-season stacking rights for the entire schedule. How important do you think that is as a driver of ratings for the shows and building the audiences over the season, and how far along are you in securing those rights for the whole schedule?

John Nallen - *Twenty-First Century Fox Inc. - Chief Financial Officer*

So let me just put it in perspective, because this is an important issue, but it sometimes gets outsized. When you look at our business, Company overall, 30% of our revenue, consolidated revenue, is advertising. And of that two-thirds of that is either international sports or news and the three of those pretty much right now are unaffected by many of the topics that's behind your question meaning only a third of our third; 10% of our revenue is from domestic entertainment revenue channels, FX and the FOX Broadcast channel.

In those, what we're seeing clearly is the time-shifted audience is pretty dramatic and it's getting more so. If you take any of our Scream Queens as an example or O.J.; but Scream Queens, two-third of the audience didn't watch the show on the night that we put it on television. They watched it sometime later. On O.J. that we've got on FX, half the audience has watched it on a time-shifted basis, not on the night that we put it on. So this whole shift to non-linear requires you to have the rights to that programing.

Now, on FX, a 100% of the programing that's on there is owned and produced by FX. We have all rights. We don't have to go to anybody to seek those rights. Take American Idol out of the network as I said earlier, 80%, 85% of that is produced by TCFTV. We have all the rights, we don't have to seek them out. So having full rights to that IP and being able to provide those rights to any platform is just vitally important to your strategy now.

You can't disconnect the linear broadcast anymore from the opportunity for people to consume that in a non-linear basis. And if you don't have those rights -- if we have a show on linear but somebody else has the rights for non-linear, really we're just a showroom for their product and that's not the business that we're in.

Bryan Kraft - *Deutsche Bank - Analyst*

As a follow-up on that, as you shifted toward getting the full season stacking rights, how did that affect the cost of your programing, even if you are producing it in-house because of the participants in the programing. I mean, did you have to compensate the participants more because they aren't going to be able to take advantage of a shorter term or near term licensing window?

John Nallen - *Twenty-First Century Fox Inc. - Chief Financial Officer*

No because I don't want to go through individual negotiations, but what's happened really across the industry is that the cost of an hour of programing is increasing. There is just so many more -- there is 400 series being produced in Hollywood now; five years ago there were 220. There is just that much more proliferation of content being made. And as a result, the cost of all of this is rising, including the deals that we're doing with participants. But having said that, we want to be sure that the participants are fairly compensated for their work.

Our biggest partners are the creative minds and the talent that are involved in the show. So as we get these rights, we ensure that the community is happy with the economic deals we've done for them. If you wind forward into the future, it will get a bit muddled as you work through what the right compensation deal is for participants. But in every case, we want to ensure that the creative people behind all of our product are properly compensated.

Bryan Kraft - *Deutsche Bank - Analyst*

Okay. And then, I think the other areas I'd like to get into on that topic is and you mentioned how you're insulated from a lot of the secular negatives of advertising, because of news and sports international. But when you look at that entertainment piece, I guess how are you approaching the evolution of the ad model for the networks, when it comes to things like reducing the ad loads, leveraging dynamic ad insertion and incorporating data and targeting and I guess even native?

John Nallen - *Twenty-First Century Fox Inc. - Chief Financial Officer*

So, if you separate linear, which we've commented on as being healthy and traditional from non-linear, which is where most of this technology comes in. To be honest, it's still nascent. The issues around -- let me contrast that, in the case of Sky, we have a technology there called AdSmart where we can put the Sky subscribers into cohorts and go to an advertiser and say who do you want to reach? And we can download and add into their box and when they experience a VOD product, the ad that I see will be completely different than the ad you see based upon our cohorts.

The reason you can do that is you're inside one system. You're inside of Sky. In the US, as a content provider, just take the 10 biggest, there are 10 distinctly different systems for us to try to get DAI technology into the box and into their subscriber base. The place we're able to do that the best right now is at Hulu, where we have the data, we have the access, and we can provide to you a completely different ad than provided to me.

So this is going to take some time and might even take, in theory, someone that sits between the content companies and the MVPDs to be able to get the data on the one hand and then ingest the ad from the content companies to have it transport into the subscriber base. But it's an area that's still in its infancy. Some MVPDs are much more sophisticated around this than others but there is no uniformity, right. And this is a piece that in a non-linear world that the industry really has to address.

Bryan Kraft - *Deutsche Bank - Analyst*

Yeah, okay. All right, we have a few minutes left, I think we have a question over there?

QUESTIONS AND ANSWERS

Unidentified Audience Member

Hi, actually I could fit right into, I had a couple questions on Hulu. Couple of months ago, James said at a conference that advertising from Hulu represented 10% of FOX Broadcast's advertising. It seems like it's a pretty large number. So can you couch that a little bit, so of the FOX Broadcast recognized revenue, what percent of it comes from Hulu?

John Nallen - *Twenty-First Century Fox Inc. - Chief Financial Officer*

I just want to make sure because, first, he would have been referring to Fox Entertainment division, not sports where we got a big business. I wouldn't put it as high as 10%, but probably it's in the high single digits, mid-to-high single digits is where we are.

And we've got a split, the way it sold is, our ad sales force sells Hulu inventory as part of their arrangements with advertisers. In addition, Hulu sells inventory on our behalf to the extent that it's available and they have advertisers that want it and there is a split that happens between us and Hulu on the revenue there. But I'd put it about high-single digits that Fox Entertainment revenue is generated by Hulu.

Unidentified Audience Member

Alright, thank you. And the second question on Hulu is how do the owners of Hulu get out of a kind of round tripping relationship with Hulu, where you record license revenue and advertising revenue, but then also have to hold an equity loss income on your income statement?

John Nallen - *Twenty-First Century Fox Inc. - Chief Financial Officer*

Well certainly don't view it as round tripping because Hulu has got relationships with all the content providers and the three partners happen to be the biggest ones around, except for one that was here before me who is a very big content provider. So Hulu's growth is dependent upon it having high quality program and it's just gone to the right people who have the best programing to drive its growth. It's now through 10 million subscribers and growing pretty dramatically.

It's moved on to an ad free model that has been universally accepted and still the smallest bit of that sub base, meaning subscribers still actually have opted into having advertising provided to it as opposed to paying the premium for the ad-free. So Hulu's growth, I guess, like any platform is dependent upon the content it has, and the fact that there is a market for our content and Hulu happen to buy it. We weekly sold content in Netflix and Amazon at premium prices as well.

Unidentified Audience Member

John, can you review for us the share repurchase strategy, where are we? What was the authorization? How far into it are we? When might it conclude? So on.

John Nallen - *Twenty-First Century Fox Inc. - Chief Financial Officer*

Okay. So, we announced at the beginning of our fiscal year a $5 billion authorization to be completed within 12 months of that date. As of the last earnings release, we were pacing ahead of that, if you look at a 12-month period, and confirmed that we would complete on plan the $5 billion authorization. Now $5 billion is in excess of, this year, our annual free cash flow. So, we are returning more capital.

In fact, since the separation, we've returned in share repurchase alone $13.5 billion in share repurchases from 2013 through the end of this year. So our expectation is to complete the share repurchase, the $5 billion by the anniversary of the announcement. And then, what we do every year is we assess our capital allocation and we announce to the market how much we're going to invest in ourselves, whether we are keeping any for M&A, we haven't -- we made some big investments during the current year, Nat Geo I described, Maa TV in India. And then, we announced, at that point with the Board, we will assess what our capital return strategy should be and deal with it then. We don't set a long-term, which some companies do, a long-term fixed percent of cash flow to be returned to the shareholders.

Bryan Kraft - *Deutsche Bank - Analyst*

Okay. We're out of time, so why don't we stop there. Thank you very much, John.

John Nallen - *Twenty-First Century Fox Inc. - Chief Financial Officer*

Thank you.
