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21st Century Fox, Inc. (FOX)

Goldman Sachs Communacopia Conference

CORPORATE PARTICIPANTS

James Rupert Murdoch
Chief Executive Officer & Director

OTHER PARTICIPANTS

Drew M. Borst
Goldman Sachs & Co.

MANAGEMENT DISCUSSION SECTION

[Call starts abruptly]

Investing in those brands. I think brands matter more today and will in the future than ever before and I think being able to focus on that execution and really get the company around the world moving at a velocity and a pace that can really take us forward and move faster may be than our competitors.

Drew M. Borst
Goldman Sachs & Co.

Q

Yeah. So let's dive into a couple of hot-button issues, really two come to mind and they're sort of interrelated, one is cord-cutting, the other is sort of the skinny bundles and what people call cord-shaving. Let's sort of adjust each in turn, let's first talk about cord-cutting, but just to sort of set the landscape right, the number of pay TV subscribers in the second quarter, it was one of the worst quarters on record. I think investors are increasingly concerned that we're going to see potentially an acceleration from this point on the decline of pay TV subscribers in the U.S. So, could you talk about what you guys are seeing in your business and how you're thinking about the next two years, one to two years in terms of the pace of pay TV subscribers?

James Rupert Murdoch
Chief Executive Officer & Director

A

Well, in terms of the pace of pay television, specifically in the U.S., we'll talk about that. But also I would say that we see – we're a global business, we operate more globally I think than some of our competitors and we're seeing actually really good growth in pay television subscribers in a lot of market, some of that are new platforms, but also existing platforms that have been, I think may be better at really innovating and moving faster. If we look at Europe, where we see continued growth in the Sky business and in pay television generally as well across Asia and Latin America in most places.

So I do think it's not the same story everywhere. Domestically in the U.S., I think the stuff that I've seen says consensus would be kind of a 1% decline in the pay TV – the traditional pay TV universe and that seems reasonable. For us though we're in a slightly different position than others where many of our channels are younger, are just newer businesses, and we're actually growing our billable subscribers as well as rates. So, if I look at clearing Fox Sports 1 and 2, if I look at the growth in National Geographic, if I look at the total FX suite with FX Movies, FXX, we're actually still growing into a marketplace there. It's really only two of our channels Fox News and FX that are closer to fully distributed, where we're seeing some of those – others sorts of declines.

I think the real story here though is that we will see and we're starting to see it already a kind of re-bundling, where customers might say they want to have more choice, they want to have a streaming service for $10 or $15 depending on which one it is. And they may want to have something from their MVPDs, that's a little less everything in it.

And I think we're going to see a re-bundling happen. I don't think it's a zero-sum game between the $90 bundle, $100 bundle and then a $10 skinny bundle with broadcast basic. I think we're going to see a lot of different packaging options emerge, and I think it's going to be harder to distinguish or it's going to be less clear cut, what's really an over the top SVOD service or a virtual MVPD and what's a traditional retailed MVPD package, because there is going to be a lot more choice in the marketplace.

Our focus and my focus is really on making sure that the brands that we're investing in are as fully distributed as possible, and candidly less on whether or not a customer is paying $90 for a whole bunch of channels and brands that aren't ours. But actually how do we make sure that we're reaching those customers in the right way, be it over the top or through the traditional MVPDs. And I think even within the MVPD universe, there is a huge amount of room to grow consumption.

Certainly, as we see better products enter the market, like the X1 product and things like that, we see better consumption there, and we're able to work more closely with our distribution partners around things like advertising innovation, things like discoverable programming. We see volume increases and electronic sell through of movies and series of television shows. So I think there's real benefit as this competition impacts the downstream MVPD market, and you see a faster pace of innovation and you see that 10 million broadband-only households, which may grow to 20 million over the next four years, five years, those households buying television in new ways. And the question for us is how do we make sure we're distributing our brands in the right way to those households as well?

Drew M. Borst
Goldman Sachs & Co.
Q

Yeah. Another hot-button issue and it's probably been one for the better part of a year is just advertising – television advertising in the U.S. And in general, we've seen a more pronounced decline in TV ratings sort of across almost all channels. On the last earnings call, you spoke about your expectations for this upcoming fiscal year and the expectation that your TV segment advertising could hopefully be flat this year with declines in your linear viewing because of ratings and some of the challenges, but it will be matched, offset by the growth in the digital. So I was wondering if you could elaborate a little bit on sort of that digital piece and how you are going to drive that – that growth. And also would be useful if you can, just sort of size that business today in terms of the percentages or dollar terms, but in general what are you doing with your digital TV advertising?

James Rupert Murdoch
Chief Executive Officer & Director
A

Well, it's a big focus for us. As I said before, in the next couple of years that's one where we really need to make an impact, and we really need to do well. I think just to put it in context, our advertising business globally is about 30% of our total business in terms of top line. And within that, the domestic entertainment sites or excluding sports and news and international, you're really only talking about a third of that. So it's about 10% of our view that where you see a more pronounced impact here. And it has been a big focus for us because what we're seeing is both declines in linear viewing as you said and those can be pretty sharp. Some of that is product, we didn't have a great year last year on the main Fox Network, other times there are other challenges.

So the first order of business is to make sure that shows are great. And they were putting stuff out there that people really want and that it could be competitive. But the second order of business is to make sure that the non-live viewings, three days and out. And it's not just the seven day window that we talked about in terms of measurement, but also the total amount of viewing that occurs. We're still – we're two weeks away or a week and change away from the launch of Empire, its second season, and we are still adding viewers to the first season. Now, as people catch up on it ahead of the launch, et cetera and they are watching it on streaming platforms, et cetera and we don't monetize that today as well as we can. But the audience is really growing there and that's something that's very exciting.

So for a big premium entertainment product like an Empire, way more than half the viewing of an episode is going to be time-shifted past that three day window and that's a place where – when we see that audience grow, we think we should be able to monetize that audience even better than we can monetize the live window, but there is a lot of different – there are a lot of blockages in the system in terms of how this is bought, how it's measured, et cetera, and also the technology to deliver those ads in the right way. And that's something we've been very focused on.

So when we look at the digital advertising business for entertainment, it's really to say, let's take the total viewing that we're seeing for primetime entertainment, which is for us, it's less than others, its two hours a night. Let's take that and see if we can – does that double, does it triple over three month, six month period, et cetera? And how can we make sure that an impression in an audience in that environment, at home on a big TV screen with immersive advertising is as valuable if not more so given the data that we can deal with there, than in the live window. And we are seeing some really encouraging results there, both with new kinds of products like products that engage the customer in a certain way and then the customer can avoid a whole number of other ads, so we'll charge a higher price. The customer watches one ad for 30 seconds and engages with that with his or her remote control and then we basically deliver all the rest without ads, streaming free. And that's very valuable to marketers and that's been a successful product for us. But also just our ability to monetize Hulu inventory, where a lot of the time shifted inventory is, is getting better every day. And that's been a technical challenge, but also a people challenge. As we've invested in growing that capability in our own advertising business, as well as acquiring some key technical assets and engineering experience.

So we do think we'll offset it and we think actually, as just to be clear, I really believe that the streaming environment is – really is a better business for us. Given the amount of control we have, the amount – the ease of discoverability for customers, the better customer experience and the opportunity to innovate in advertising.

Drew M. Borst Q
Goldman Sachs & Co.

And I assume you can also do better targeting, right? I mean, I think that's been one of the bigger critiques...

James Rupert Murdoch A
Chief Executive Officer & Director

Yeah.

Drew M. Borst Q
Goldman Sachs & Co.

The Internet offers behavioral targeting much more specific targeting than television has historically, but as TV programming moves to that digital environment, it should allow you to sort of match what traditional Internet advertising has offered?

James Rupert Murdoch
Chief Executive Officer & Director

A

And it is starting to, and you're starting to get the better – the good bits from traditional Internet advertising in terms of targeting data, and much more efficiency, as well as the good bits of television, which is immersive, much more engaging media, very clear metrics in terms of what an impression really is. I mean if you look at, video impressions, a lot of – in social platforms and other things, they're defined as two seconds viewability on a quarter or a half the screen et cetera, whereas the television business measures an impression as a full 30 seconds, full bleed, full screen experience. So they're not apples – they're not apples and apples, they're apples and oranges, and I think people need to understand that. And I think the marketing community, certainly some of our biggest clients both agency buyers as well as some of the bigger marketeers are really recognizing that today and I think we're seeing a much deeper engagement in how to make television advertising better to your point about bringing that technology and bringing the learnings of buying and selling advertising on the Internet to an environment that is ultimately a much more impactful marketing environment for the buy side.

Drew M. Borst
Goldman Sachs & Co.

Q

And do you have to wait for third-party measurement to sort of catch-up? I mean there's been a lot said by your peers and your competitors about that certain third-party measurement services maybe haven't kept pace with the change. Do you have to wait for that or do you think this is something you can push on your own without having that in place?

James Rupert Murdoch
Chief Executive Officer & Director

A

I think you can push it, but I don't think it's something you can solve unilaterally, but you certainly don't have to wait for everyone. So I think that a handful – look, the more conversations we have with the buying agencies, the planners and our clients, the more we see a real demand for, A, thinking about currency in a different way, right; how do we really measure viewing and what matters, is it live, is it plus 3, is it plus 7, but more importantly, really what was the audience doing yesterday, and what they'll be doing tonight across streaming platforms, traditional broadcast and cable and satellite. That's a better way to look at the audience irrespective of what they're watching.

And we're also seeing new services. I mean, Rentrak is making great process in terms of real customer level set-top box data to measure things in different ways and we're working with them in Texas actually on seeing if we can sell solely on Rentrak data down there and some of the local stations. So I think there is a lot of activity in that space. I absolutely think it's possible and necessary for some of us, some of the bigger firms to actually just push on this and set the pace because I think the impassive and waiting for the traditional ratings agency to catch up, I think, is a bad answer and will take too long or it won't work.

Drew M. Borst
Goldman Sachs & Co.

Q

Yeah. Last year, you guys made a change in terms of having to – into putting your TV studio and the Fox network under common leadership; Gary Newman and Dana Walden, running both. That was kind of a major strategic shift and it seems they'll mark a change in how you're thinking about the television business as a whole. Can you talk about that decision, and how you're thinking about it strategically, and how the business is really changing?

James Rupert Murdoch
Chief Executive Officer & Director
A

Well, I think, we've combined that 21st Century Fox Television and Fox network business really for a couple of reasons. One was to really align the creative approach of the studio with what we're trying to do on the network, and make sure that we could structure – we could have a structure that where everyone understood that even though we continue going to sell, we're going to continue to sell products to third-parties, we sell Modern Family to ABC and Homeland to Showtime and so on and so forth, that we really wanted to try to find a way to control and develop more of the copyrights and more of the rights themselves within one structure.

And when we think about how we sell television shows in multiple windows to multiple different players, we thought having more control over that would make more sense. And today, this year I think something like 70% of our prime time new shows are from TCFTV that used to be 50% or so. So we think that's working well and actually there is some really good product coming out of that also. Fundamentally, it's about controlling the rights and understanding where they're going to be exploited over multiple windows and multiple platforms.

It's similar to what we did at FX. I mean, some of this was really informed by that where FX was buying in a third-party market, from outside independent producers. But we thought it would be a good idea to just step up FX productions to really produce more in-house for the cable network and for new platforms, and that's been very, very effective with a lot of great shows. So we just thought creatively it was better to be aligned that way, and from a business perspective, having the origination and authorship of these shows aligned with essentially the transportation and how you distribute it was the right answer. When we look at – at the end of the day how a customer is interacting with this and how do we put our brands as Fox, right front in center, and know that we're owning all the rights within that chain so that we can deliver that show in a reliable way.

Drew M. Borst
Goldman Sachs & Co.
Q

Let's talk about how you're thinking about the SVOD providers, particularly the impact that it may be having on the U.S. market. Investors I think are increasingly concerned that the growth in these SVOD providers is starting to have a more meaningful impact on the basic cable business, the cord-cutting. How is your thinking evolving on your relationship with those companies? There is sort of a friend-foe debate to be had and should the media companies collectively and Fox in particular, take a more aggressive stance in dealing with SVOD providers?

James Rupert Murdoch
Chief Executive Officer & Director
A

Well, look, I mean we have a very – I think we already take a, I wouldn't say aggressive, but certainly a commercial stance and we're not trying to do anything – we're not either negotiated this or complicated agreements when we sell to these guys, but I think certainly the business rules around how we sell to SVOD providers are changing, and our thinking is evolving.

For example, we have a long partnership with Netflix. That has been good for both sides I think. But we increasingly do more and more business with Hulu, as Hulu's appetite for investment in original program – not original program, investment in output agreement and things like that grows, we're doing more business with Hulu. We just did an FX productions output agreement with Hulu. We sell our currents to Hulu. And what we like about Hulu is that they pay content – owners and creative companies on a per subscriber basis many times, for some of the – for our currents and things like that. And the way that we license the programming is attractive for us from a financial point of view, as well as it's a business where we control much of the ad inventory, we can control ad loads and we can really innovative in partnership more.

So I think you'll see the business rules of how we license to SVOD players probably change, and that may mean that we sell less to one and more to another over time and emerging platforms as well. We're very excited about new entrants into the digital video distribution because we think ultimately that's what provides competition, it's what provides value to customers and I think it also makes the traditional MVPDs innovate faster and do a better job. So we licensed to Sony with their kind of virtual MVPD. It remains to be seen how successful that will be. But we expect other new entrants to come in and we also expect some existing SVOD providers to maybe expand their offerings, which we are excited about licensing to.

New entrants into digital video distribution has traditionally been a good thing for us. When the satellite industry kind of emerged and people worried about what would happen there, it actually spurred a lot of new growth and a lot of innovation. Certainly the telcos re-entering television space, we look at the [ph] RBOX (17:00) coming back in. That was something that has been a real positive. And this new piece here, I think is probably a little harder to get your head around because some of these look more like TV channels and some of them look more like TV platforms if you will, but ultimately new entrants on the platform side are a good thing. And I think they provide an opportunity to reach customers in new ways and provide competition, which ultimately makes products more available at a lower price.

Drew M. Borst
Goldman Sachs & Co.
Q

That variable point that you mentioned that Hulu was licensing on variable fees per subscriber is very interesting to me because I think with the benefit of hindsight you can look back at some of the initial deals that were done with say, Netflix and those were fixed fee deals and then...

James Rupert Murdoch
Chief Executive Officer & Director
A

For library product, you'll still do that [indiscernible] (17:47), right. But for currents, you would end – for recent seasons, you would approach it differently.

Drew M. Borst
Goldman Sachs & Co.
Q

Okay. So, you do think there is an opportunity to maybe sort of change that relationship and how you're licensing the terms and...

James Rupert Murdoch
Chief Executive Officer & Director
A

I think – so, yeah, and also there is an opportunity here when we think about making our product available to customers to grow our relationships with the MVPDs as well, right. And I'm not trying to make a big statement about the industry generally since there are a lot of different firms in the industry that approach things in a different way. When I think about our brands and what we're investing and how we get them to customers, again, there is real opportunities, particularly with the bigger MVPDs who are innovating, who are investing in their platforms, to make our products more available, series stacking, in season, full series stacks as well as multi-platform access, TV Everywhere so-called. We think all of that is very attractive for customers. It's something that the industry has not – the downstream business has not really executed on well to-date, but we're seeing that start to change.

Drew M. Borst
Goldman Sachs & Co.
Q

The stacking is kind of fascinating, because it seems – I guess, it's great for the consumer. I think the consumer clearly would want it, but it seems like we've been, it's been very slow to get deployed. What are sort of the – what's causing the holdup? Is it money, is it sort of license terms, is it the fact that it's very complicated because sometimes you have an MVPD, a TV studio, a network and they all have to sort of be aligned, but how quickly could we see stacking rights maybe start to see more of a standard in the industry?

James Rupert Murdoch
Chief Executive Officer & Director

A

I think it's already starting to happen. I think certainly we want to move towards a place where for a current season, the in season full stack is available for the whole season, right. That's been something where other down sort of later windows have argued that they will pay less for that et cetera or Netflix, others et cetera and I think you just have to kind of put your foot down about that. That's what a customer expects when they're buying this. And that's what we've been able to do with our brands. So I think that's something where those rules are emerging. I think there are fundamental questions around this because the windowing process, both in film and television really came out of the scarcity of spectrum, right. So you had movies that could only be shown in the theatres and then there were only three channels. So there were some later windows, so when a movie was on TV, it was a big deal. And then cable happened and VHS. So all of these kind of windowing kind of grew up out of the staggered innovation in terms of the products being available. Today, where you have connectivity everywhere and you have very high-speed connectivity everywhere, and you have multiple devices, all of those are largely artificial constraints. So it really comes down to price and the different commercial interests where you might have sold something already, and how do you unpick that to make something available in a new way. Those are the challenges in this. But I think over the next three sort of probably – really over the next five years, more and more of that is clear. The trajectory is very clear where some of those windows are coming together and pricing and commercial terms are being changed and negotiated.

And the key thing in all of this is to go back to the sort of the root of our business, is how do we make sure that the things that we're investing in are sufficiently distinctive and differentiated, be they sports rights, be they scripted series, be they great movies so that we have a volume of that at a scale and a quality that's really going to matter for any distributor and ultimately any customer because if we are not doing that and we're just doing sort of me too type programming, if we're trying to compete around the edges for a 0.1 of a ratings point here and there, et cetera, and we're doing things that are not distinctive and can be replaced elsewhere then we won't do well. So for us, it's really about investing in that content and I think these changing business rules I think that we're going to be able to be a pacesetter in as opposed to be a follower.

Drew M. Borst
Goldman Sachs & Co.

Q

Let's segue over to the regional sports network business for a second. It's a significant business for you guys. There is a lot of sort of change that's been happening in the space over the past couple of years where the cable operators in some markets are getting more actively involved and negotiating directly with the teams. More recently you hear about some teams contemplating more of an over-the-top direct-to-consumer model. The pricing of the RSNs on sort of a wholesale basis, they are more expensive channels but it is very unique content. The cable operators, the MVPDs have now being breaking out surcharges so consumers can get a better feel for exactly what they are paying for. But that's a lot of background but I guess I'd like to get your perception on the health of this business, how much disruption may or may not happen over the next couple of years, and what sort of the growth outlook is for it?

James Rupert Murdoch
Chief Executive Officer & Director

A

So the RSN business I think is a really interesting business and it's one that we actually really like. There are a couple of different parts of your question. First of all, the regional sports network you said, they have – it's very unique programming and in a particular market, there is real loyalty to those networks and to the teams obviously that are there. But I do think it's true that RSNs, not all RSNs are created equal. I think it's harder for example, if you are a single team RSN in a market, right, and you have multiple and there et cetera how can – what price do you expect and how do you get there? It's harder for example as an independent, sort of just alone out there so I think the over-the-top distribution is probably going to be a difficult path.

For us, the way we've looked at is as we've said, let's pick the markets and let's focus on the market that we think are really going to matter. Let's focus on teams and brands that really matter for their fans and that don't take their fans for granted and invest in their product all the time on the field. And let's focus on doing this over the long-term, so we can really build businesses behind this.

So, over time RSN business has changed and we've chosen to stay out of some markets or to stay out of some deals and do other deals, et cetera. So, I think it's important for us to have clear judgment around what kind of returns we're going to be able to make in a particular local market but that's not to say that – and the reason is that I should say that those are – all the markets are very different. So, we stepped away from Los Angeles with the Dodgers, and we've got very, very focused on the YES Network and acquired the YES Network under the long-term deal with the Yankees.

And I think you see our portfolio of RSNs continue to change. But remember you know that – in St. Louis, for example, where we just renewed, the RSN there will beat the four networks on primetime television during baseball season on a regular basis. So these are very, very popular networks that get a good price, a fair price, given the cost of the rights and the cost of fielding these teams and how the whole sports business works. So we think they're pretty good. That said, not every team is going to work and not every RSN is going to work, and some markets are pretty messy right now in terms of how it's evolving.

Drew M. Borst
Goldman Sachs & Co.

Q

Okay. Before I open it up to audience questions, I wanted to ask one more and – it's about sort of the leadership structure, the management structure that was recently implemented. And you and Lachlan have sort of talked about it being a 50-50 partnership and I've gotten a lot of questions from investors sort of wondering how exactly will that work? I think you guys have been quite clear like you don't intend to divvy up the businesses and sort to say, Lachlan you take those and James take these, but you really intend for it to be kind of a 50-50 partnership. I think investors are hesitant because there is not a lot of examples where this type of co-CEO structure works. So could you talk about how you and Lachlan are sort of thinking about how to work?

James Rupert Murdoch
Chief Executive Officer & Director

A

Well. I mean, Lachlan became Co-Chairman when I became the CEO, and we do – look, this is a business where obviously we're big shareholders in the business and we're very, very aligned. We communicate very regularly, and see eye-to-eye on the businesses strategy. And we really thought that, and I think my father and the Board thought as well that to have a – to have a smooth transition as well as sort of real clarity over the long-term, the best thing to do would be to align us and make us invested in each other's success and then in success of the business because we're very aligned with the shareholders obviously.

So, I think actually it works – it's so far working pretty well, with his – he's just moved, got his kids back into school and stuff. But it's working well, and I think we're very committed to making it work for the future. It's something that's actually – I think there have been good examples of it working, and you mentioned our 20th Century Fox Television business. Dana and Gary have jointly led that business for a long time, it's different they are Co-CEO was, he is Chairman and I am CEO, but we see it as a partnership and it has to be a partnership to work. So, I think it's actually reasonably straightforward and the nice thing is, I'm very happy actually that Chase has agreed to stay for a little while as Vice Chairman.

We have – I've been in the business and partnered with Chase and my father for many years. And frankly, at this point, I would say, it's – and certainly when I look at lots of other companies, I would say that in terms of leadership transition it's pretty clear and pretty smooth.

Drew M. Borst
Goldman Sachs & Co.

Q

Okay. Great.

James Rupert Murdoch
Chief Executive Officer & Director

A

It's certainly relative to lots of other places.

Drew M. Borst
Goldman Sachs & Co.

Q

So, why don't we open up, see if there are some questions from the floor. Right. Go up here upfront? Wait for the microphone. A question up here in the front. Thank you.

Q

Good morning. Thanks, Drew. Welcome, James. You're in an unique position because you have four years at the leading UK Media company and if you look at the Street's treatment of the U.S. media industry versus the UK media industry this year, you would think that the UK media industry is structurally sound and the U.S. media industry is structurally broken.

When you answered several of Drew's questions you almost sounded like the CEO of Sky in your answers and your outlook. So from your view, is there a fundamental difference between the two countries media industries and if not, it would seem to be appropriate time to go long Fox, and short Sky for 40% [ph] mean reversion (28:36). So how long would I have to wait for that trade to pay off?

James Rupert Murdoch
Chief Executive Officer & Director

A

I would say – I'll – short answer to the first part.

Drew M. Borst
Goldman Sachs & Co.

Q

Yes. Good move.

James Rupert Murdoch
Chief Executive Officer & Director

A

Look I think there are differences. First of all, the U.S. pay television industry has been more fully penetrated. It's just further along in its development. In the UK, for example, and UK and really across Europe, you have much lower levels of penetration in pay television and they've really grown in different ways. You don't have the sort of bundling – you have different kinds of bundling that's occurred there, largely premium sports for example. So everything has been priced in a sort of a different way. But I think fundamentally, without commenting on anything – any sort of macro issues around Europe, I think that the Sky businesses are tremendously strong. But they are very different. I think you have to look at the Sky businesses as they're not normal MVPD, they're vertically integrated. We own – our own – many of our own programming assets there, frankly, the two big investments – three big investments over the last 15 years there have been a vast amount more in original programming and really investing upstream in content, which is something that obviously at 21st Century Fox we do a lot of and investment in multiplatform services in the UK; building our broadband and voice to really bundle all of those things in a vertically integrated kind of enterprise. And I think in innovation, we see it very effective across all the Sky's, 50% penetration of the TV Everywhere service Sky Go, rapidly growing streaming services in NOW TV and even in the face of Netflix. So I think UK is probably its most successful market internationally, really good product growth at Sky in the UK since the launch of Netflix there as well.

So I think it's just been a business where buy – we started buying multiplatform rights and started TV Everywhere streaming to PCs in 2006, I think. So it's just further along on that side, it just had to compete in a different way whereas the MVPDs, I think here being fully distributed, having for many, many years monopoly positions has in their markets, has been – slower to innovate frankly, but hopefully that's changing now.

Whether or not the media industry here is broken and it's not there, I think the same trends are true everywhere, right, which is customers want to have more choice, they're fundamentally more empowered in a more connected marketplace, and there are new entrants that are giving in those choices and I think the challenge becomes for us at 21st Century Fox is, how do we make sure we're not putting business rules in place that get in the way of the customer and create artificial barriers for the customer to consume things, and how do we make it simple both with our distributors who we wholesale to, but also potentially directly with them or with new distributors like Hulu or new entrants like Sony or Apple if they ever do it. So I think it's a different set of challenges, but also I think the larger broadcast industry in Europe has got lots of other issues, largely with all the big, the big license commercial players, the state actors, the other is there, I wouldn't say it's that great.

Drew M. Borst
Goldman Sachs & Co. Q

Sure. Over here?

Q

Thanks. You guys have an asset in STAR and your stake in Tata Sky that would probably be worth in excess of $10 billion, it was trading on, so just given where guys like Zee and DishTV trade, but both of them are together probably losing a little bit money right now. So you're probably actually getting negative value at FOX. So would you guys consider doing something like a tracking stock to shine a lot on that value and if not, what are some ways you think that you can sort of get the value of STAR and Tata Sky? I appreciate it.

James Rupert Murdoch
Chief Executive Officer & Director A

Thanks for your question. Look it is – you're certainly right, we think it's a great business, and we think it is very valuable, and it's not showing up in our earnings at all, right. So it's a drag on margin, right at this point, although it's not losing money this year. It's about a breakeven business. And we've talked about whether or not we wanted to create some tracker or list it somewhere and things like that. I think at the end of the day, the best way for us to show value over the long-term is to produce cash flow, and I think ultimately when we look at the STAR business over the next 5 years and 10 years, as the sports investment kind of peaks, and the underlying entertainment profitability that's there, as well as the sports investments starting to be – starting to go down and then be profitable, we actually think we're going to show really good earnings growth and cash flow growth from the STAR businesses, and we will definitely seek to highlight that to investors, and hopefully they will understand that, it's a real contributor to our growth over the next number of years.

Generally speaking, we've been on a path to really try to simplify our business and to simplify it around these investments in these bigger chunks. And I would be – I think all of us would be cautious about creating new complications, new public shareholdings and so on and so forth as we go forward. But certainly it's something we want to highlight and we think has got incredible prospects going forward.

The Tata Sky business is a little different because it's 30% shareholding there and we have partners there et cetera and we have to see what the future holds. I think probably the Indian GBS sector probably sees some consolidation in the medium-term. There's still probably one or two too many, but we're growing really well. The Tata Sky business is a tremendous business and we think can be a real contributor going forward.

What the sort of – what the shareholders look like and the capital structure there and all that stuff is really remains to be seen and something that we'll be talking to our partners about, but you will probably see some changes there.

Drew M. Borst
Goldman Sachs & Co.

Q

We have time for one more question. Let me we go over here.

Q

[Question Inaudible] (34:33-34:25)

James Rupert Murdoch
Chief Executive Officer & Director

A

So thanks for your question. So, in Latin America and there is a lot of obviously diversity in Latin America, so I don't want to generalize too much. But we have a – I think we've tried to be pretty progressive in terms of making product available to new platforms there, but also to work with our existing distributors, to create catch-up opportunities and on-demand opportunities for the Fox channels, which is really some entertainment channels, the National Geographic brands and now Fox Sports since we brought Fox Pan American Sports out, we've brought our partners out a couple of years ago there, so we could consolidate that.

And as to your Latin American business after India, it's probably our biggest international business, and we are very excited about it. FOX Play, we launched last year, which is an authenticated app essentially, that's a premium service. So, if you're a customer of DIRECTV or whatever – DBS provider or cable provider, you can get access to this, and actually you can authenticate using your mobile phone, it's really easy. It actually – it's really cool. It listens to the broadcast. And those that you're there with the broadcast and authenticates automatically and it's something we're looking trying to take, because authentication is hard in most places.

And that's actually growing really well, it's just started FOX Play last year, but it's growing well and customer seems to like it. And we really see that as an exciting opportunity, because if we can grow the distribution, and this probably true on a global basis, certainly in Latin America and in the U.S. of authenticated apps that are around the Fox brands that we can control the ad platform, the authentication pathways, as well as the customer data, but still provide value to our distributors, be they IP based distributors or traditional distributors, that's something that we really like the mix of and it's something that – there has been some resistance too in some of our distributors, but others have really embraced it. And we think the Latin American an example is a good experiment, if you will, but making real progress is a good business too.

Drew M. Borst

Goldman Sachs & Co.

Okay, very interesting. We're out of time. Thank you so much, James for being here.

James Rupert Murdoch

Chief Executive Officer & Director

Thank you very much for your time and thank you, Drew, [indiscernible] (37:22).