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<<Michael B. Nathanson, Analyst, MoffettNathanson LLC>>

Now, let’s go to our second interview. I’m really delighted to have John Nallen, Senior Executive Vice President and CFO of Twenty-First Century Fox. John’s joining us after a year off. Last year, we had Uday from STAR. John, thanks for being here.

<<John P. Nallen, Chief Financial Officer & Senior Executive VP>>

Thank you, Michael. Thanks for having us. It’s my pleasure.

<<Michael B. Nathanson, Analyst, MoffettNathanson LLC>>

Since the conference last year, media stocks have been on a rollercoaster ride. I wonder what do you see as the biggest changes, both positive and negative to the media ecosystem over that time?

<<John P. Nallen, Chief Financial Officer & Senior Executive VP>>

The last year is too bite-sized to localize it to that. I think it’s been really over the last several years. If there’s two themes that come out of the ecosystem change that we’re focused on at least, it’s on a macro basis, it’s the time shifted audience and how you deal with that and it’s volume, where we are on the subscriber roll. Both of those really being domestic U.S. issues, we see less of that in our portfolio outside the U.S.

So, taking the two of them, on the time shifted audience, we’re still, I think as an industry, still – and I should emphasize that this deals with the entertainment piece of our business, news and sports are unaffected by the time shifted audience and it’s a big piece of our business. But on the entertainment side, what we’re all dealing with is how we monetize on a advertising basis, this time shifted audience, and measurement, engagement adds, how we target them.

We will probably talk about Hulu at some point, which is a big element of this for us. But that’s a place where we’re spending a lot of time and despite a robust ad market, which I’m sure we’ll as well, there is a bit of leakage in this time shifted audience because we can’t fully monetize them. We know a very significant amount of the audience is moving that way on entertainment programming. Probably half the audience that ever watches a show, a Fox show off our network, has watched it on a time shifted basis and by show it’s dramatically different.

For example, work we’ve done around and it makes sense around a show, we have Scream Queens. Two thirds of that audience won’t watch it on the night we put it on.

They'll watch it on a time shifted basis. So, trying to capture and monetize that audience is a big theme, a big change over the last few years. And the second is, you've written about it recently, the volume decline that we've had in the traditional MVPD world and how do we deal with that because it's pure volume.

You can't deal with it exclusively on just pricing. How do we address the product and address the issues that are having people leave that ecosystem and provide some product to them that will capture them and will keep them on a subscription model. I'd say those are the two big things.

<<Michael B. Nathanson, Analyst, MoffettNathanson LLC>>

This June marks the end of your three year guidance picture and you made it clear that from now on Fox will be abstaining from formal guidance going forward. I think Bob agreed with you upstairs and I agree too. But with that said, when you look at your key business drivers over the next year, what are those things that you can point to, to drive the growth at Fox the next one or two or three years?

<<John P. Nallen, Chief Financial Officer & Senior Executive VP>>

So, I'm not about to give you guidance.

<<Michael B. Nathanson, Analyst, MoffettNathanson LLC>>

No.

<<John P. Nallen, Chief Financial Officer & Senior Executive VP>>

And three year periods, I learned long ago is way too far out…

<<Michael B. Nathanson, Analyst, MoffettNathanson LLC>>

Yes. We realize that.

<<John P. Nallen, Chief Financial Officer & Senior Executive VP>>

I never expected currencies to go the way they were and other issues, but looking out in a year is pretty manageable. I think we've got momentum as a company. We've got momentum around two areas that are intersecting quite well for us and that we've got an advertising market that's pretty encouraging right now, the domestic U.S. entertainment market. At the same time we have momentum at the Fox network and at FX.

So, having that intersection – now a couple of years ago we couldn't have said that about the Fox network. We were really still rebuilding and transitioning the network. But those of you that saw the upfront earlier in the week, everything we've heard from it is mainly from critics as well as from advertisers is very encouraging and to have that at a time when the market is healthy is a real great trend. Then we have some very specific items as we look into next year. We've got the Super Bowl on Fox which is a big event. We've got a political cycle that seems to be lined up to be pretty frothy and around that the stations and Fox News will participate quite heavily in that.

We've got a big film slate as we end the year. In fact, by the time we do our earnings release in August, four really big films that will be meaningful to 2017 will have released. So, we'll have a pretty good sense as to that set of films. And then of course what goes into 2017. So Super Bowl, political, healthy advertising market, and the film slate, are for us in the next year pretty big events.

<<Michael B. Nathanson, Analyst, MoffettNathanson LLC>>

Okay. We did a note a couple weeks ago, looking at return on invested capital for the industry and Fox I believe had the best return on capital improvement over the past three or four years. That came from divesting the Sky assets, Sky Italia and Sky Deutschland. So, the question we always focus on or we go to is the minority stake in Sky jumps out at us as an asset that's not fully captured in the value of the company. It has been that way for a long time. So how do you view the strategic value of that Sky stake in the long-term? And would you rather be a buyer or a seller of that business?

<<John P. Nallen, Chief Financial Officer & Senior Executive VP>>

I don't think, since I last talked about this, our view hasn't changed at all in that our focus right now on Sky, is Sky executing on what was the business case of putting the three Skies together. Probably 18 – I think it's about 18 months ago now we put the three Skies, Italy, Germany, under BSkyB, and the opportunity for that business to grow as one was the business case and they're delivering on that.

So for us, right now, our focus is to allow Sky stock price to transfer into the Fox stock price and achieve a value that they should be achieving through the three Skies. Now, it's hard work. And the Skies now every year will have a major sports cycle renewal coming up in Italy and Germany and in the middle Bundesliga offering right now and then of course in the UK with the EPL. So, right now, there's no urgency around doing anything with Sky. We understand the bookends. We understand what it means to sell Sky. We understand what it means to acquire Sky.

But at the moment, there is no urgency for us to do anything other than harvest value out of Sky and quite honestly it yields a nice dividend to us, a cash dividend and earnings contribution. So, at the moment, there's no compelling urgency. What we've constantly said is we know that a 40% ownership is not the right end state. But at the moment there's nothing pressing. There's no catalyst for us to say we need to change that at the moment.

<<Michael B. Nathanson, Analyst, MoffettNathanson LLC>>

When we look at return on invested capital by your assets, are there any areas that you can identify, assets that could represent a material improvement in the current rate of return on invested capital? We're just not seeing it today because of investment?

<<John P. Nallen, Chief Financial Officer & Senior Executive VP>>

Well, I think if I look backwards and look at what we've got on the plate going forward, the investment return that we're yielding from STAR will be dramatic. We peaked – the investment, we peaked there probably 18 months ago into the new sports business, putting a bit more money into the Hotstar business and we'll probably talk about STAR, but I won't spend a lot of time on it now.

But clearly the returns there will be significant. Likewise, taking in the U.S. the disparate brands that we had and shaving them away, getting rid of them and concentrating on five core brands in the U.S. and putting investment behind two of them in particular, Fox Sports 1 and FXX, will equally yield a high return on invested capital. It already has, particularly what's gone on with Fox Sports 1. Going forward, one place that we know has been underinvested in and the acquisition we did about six months ago, the National Geographic partner business is a catalyst for it, is the National Geographic brand and the things that in partnership with the society we can do with that brand. It is a global brand, it is a loved brand.

The channel, somewhat – from a programming standpoint – disconnected from the brand over time and we're now really putting investment into it, into a brand new programming strategy to reconnect the programming with Nat Geo and of course what that should mean to advertising, affiliate fees. At the end of the day, we're in this for a profit. And the focus of this is to monetize the brand across every piece of the media, from the magazine to digital to the channel to travel, everything around there.

So, you'll see us really focused on National Geographic because we weren't focused enough on it over the last several years.

<Q – Michael Nathanson>: Okay. Allocation of capital, from where you sit today with now James and Lachlan in charge, has Fox's desire to put capital to use changed in any way? Has there been a rethink?

<A – John P. Nallen>: Allocation of capital is a big industrial topic and I think a personal observation I would make is over the last several years, this accelerated repurchase program by corporate America probably hasn't yielded the benefits that we all thought it would. Share counts have come down but so have multiples. As a result we haven't delivered the kind of value to corporate America and that's a personal view. But turning to Fox we look at and really focus on capital returns to shareholders. We look at this on an annual basis. We look out one year. We don't have a permanent structure around return of capital. And other companies will distribute a certain percentage of free cash flow.

We don't have that kind of visibility to be able to look out that long to establish that kind of permanency around our capital return. But we've had a vibrant return of capital program. Since the separation we've returned $16 billion of capital to the shareholders. We've reduced the share count by one-fifth over that time. But we bought back the stock on average at a touch above $32. The stock yesterday was at $29. So, it's not the best – one could argue on a spot basis that wasn't the best use of your capital at that time. It's also been a very robust program. We've distributed way in excess of the free cash flow that we generate in a year such that – and I could connect dots but our gross leverage now is on the edge of the 2.5 to 3 times limit that we're using to run the company. We're really touching on the 3 times side.

So, from a – we look at Fox as a growth company. That's what we're focused on. How do we grow the business by investing in ourselves, Fox Sports 1, FXX, STAR, or through accretive acquisitions like Nat Geo. We did a big transaction to acquire an India regional business, Maa TV. So, in doing that, if anything's changed, it's that there's so much transformation and opportunity in our business and in our industry that we don't want to be on the sidelines.

<Q – Michael Nathanson>: Right.

<A – John P. Nallen>: We want to have liquidity to participate in those opportunities. But at the end of the day, this is a decision around allocation of your capital, right. Too often, when you say capital allocation people think – okay, it's buybacks and it's dividends. It's a much more thorough analysis about how you're going to allocate your capital and how patient you're going to be about using your capital and it's a discussion we'll have with the board and in August we'll announce it to the market as to what our next 52 week program will be, right. We're not looking any further beyond that.

<Q – Michael Nathanson>: Can we talk basically about foreign exchange, bring it down to something more mundane? Can you update us which currencies you're most exposed to and over the past three years, where do you think the negative impact was from the currency moves on EBITDA from what your first thoughts were to where you are today?

<A – John P. Nallen>: So I get these kneejerk nightmares when I think back to the great show we did in Hollywood three years ago and the one, clearly I don't think anyone had a view as to where currencies were headed at that point and cumulatively, if I just add each of the years from that point through probably the end of this year, there's $900 million of cumulative annual degradation of profits that we've had from foreign exchange. And the Latin American rates, you know have halved the euro, the peak is down 20%. So, foreign exchange has hit us pretty hard and it's pure growth dollars. Because organically on a local basis our international businesses are growing. And I mean that by the channel businesses. Uniquely when if I take the channels and separately I'll take film, our business in the entertainment side is highly dependent upon U.S. product.

So, as a result, once our revenues get hit by foreign exchange, it's not like STAR where it's local product. It's almost a margin hit. But likewise when it goes the other way, it's a margin improvement. If we get stability in the currencies this upcoming year, you'll truly see what has been 20%, high teens, 20% growth of our international businesses during that period.

<Q – Michael Nathanson>: Okay.

<A – John P. Nallen>: And on the film side we get hit almost similarly because our production costs are generally in U.S. dollars and we're taking in foreign currencies that have been degraded. Even like to like film, obviously the revenues are that much shorter. So, currency has impacted our growth and we're hopeful we've got some stability now.

<Q – Michael Nathanson>: Okay. Let's turn to Hulu because I think on the last earnings call it became a Hulu call. I know it was a Fox call but James made some comments about Hulu and it sparked a lot of interest from everyone here. We've seen Sling and Sony Vue rolled out last way. In what way would Hulu be different than what we've seen in this market so far?

<A – John P. Nallen>: One thing I don't want to do is be Hulu's promoter, meaning on the frontend. Because they've got to do that. They've got to speak to the market. But as a shareholder and a programmer, what Hulu is talking about is really exciting. It's the best – it's not a skinny bundle. We don't use that term. It's a core bundle. It provides for that volume decline that's coming out, a real alternative in two ways. One, it's the best of linear television and second it will provide an on demand experience that right now some of the other models out there really don't do.

The other side is that Hulu is a technology company as much as it is a video company. And those of you that have experienced the Hulu SVOD product, the user interface and ease of use, will find that same experience over in whatever the Hulu and virtual MVPD is called. But it's – I think the difference is that you've got a core set of channels. You've got on demand capability. You've probably – you will have the ability to go over to the SVOD product and that's a suite of product where when we hear about subscriber losses on the traditional MVPDs, this product resonates with that consumer and particularly – which hasn't been discussed but particularly the price point. If they're leaving because of price, they realize that this SVOD product, given what it is and the price point, is the kind of product that they're really looking for.

<Q – Michael Nathanson>: It seems like when you opened with your two things that you think you want to focus on, this hits both of those, the advertising side and the….

<A – John P. Nallen>: Yeah. You're right. And I spent a bit of time with Mike Hopkins last week, the CEO of Hulu, and particularly on the first part, on the advertising piece, you don't realize the complexity between delivering a linear ad and delivering a digital ad until you go through the plumbing of this. People say moving to a digital ad world, what's so hard? Well in essence you're delivering a digital ad every millisecond. Because I'm on demand on some product and a second later you're on a completely different

product and your profile is for a BMW. My profile's for a Ford. They're delivering completely different ads, right?

It's a much more complex experience but for the advertising a much more rewarding and valuable experience. So, you're right. Hulu is a solution towards this and I expect that others are going to emerge.

<Q – Michael Nathanson>: One of the questions we have is, besides the ad tech and the delivery of the addressable advertising, what are the other challenges? This time last year we all were enthralled with the Apple idea of here's Apple, going to bring out product, and it never got off the ground. So, when you think about, from your programming seat, what are your challenges at Fox and as maybe partners in building something that is a, as you call it, core bundle alternative?

<A – John P. Nallen>: They become – they're less than they were a year ago and I think as Hulu gets off the ground they'll become less yet again so that other competitors will emerge. But I think if we reflect back on what Apple was trying to achieve, this issue about advertising, to be fair, it's not what they do, all right. So it's a big challenge just to get the complexity of that process out. Another issue that was very significant back then, becoming less significant now, is you have to offer a national product.

So, when Hulu launches, we don't want the product to be launched only to cities where each of the partners or each of the participants own ONOs because the broadcast networks are so important, and all of a sudden in Green Bay and in Boise that product can't be offered, or only a patchwork of the product can be offered because one network happens to own an ONO in that station in that market but the other isn't in that network in that market but the other doesn't.

So, getting the affiliates onboard with the product and participating and enjoying the benefits of it through retransmission consent dollars was a real complexity a year ago and it's becoming less of one now. These structural issues, as we look to changing these two areas I talked about, addressing the time shift in audience and volume, the business rules are just changing. They just have to. You can't be stuck in the 1970s MVPD world because the consumer has moved on and therefore our partners have to move on as well.

<Q – Michael Nathanson>: Let's talk about your partners and affiliate fees. Can you give us a sense of the portion of your footprint coming due over the next few years on affiliate fees? And as you said in the last earnings call, why are you confident that there's going to be a reacceleration in calendar year '17 on affiliate fees?

<A – John P. Nallen>: So we did have – and we were pacing in our fiscal quarter, this was domestic, up 11, up 10, and then we were up seven in the third quarter and I said on that call that we expect that's about the zone to be in through the end of the calendar year just to set the stage. In calendar '17, '18 and '19 have roughly 15% to 20% of our volume coming up for renewal at that period. And the early ones, we already have market deals set on that suite of channels. So, it's not like we're breaking new ground on pricing that

we have to negotiate because we already have deals in the market around the RSNs, Fox News, FX, whichever ones are there.

So, from a pricing standpoint, we're confident that we'll reaccelerate in – beginning in the first quarter of calendar '17. Again, only because I've got deals in the market that I just point to and I can't really get less than this because that's what the market has already set. In addition, we're hopeful that the emergence of Hulu will add to volume at market prices. I think that's very important that none of the discussions that Hulu has had with participants in the core bundle has been about pricing any less than what the channel providers are currently getting in the market.

So, some pundits have said this will be a discounted price. Actually, any new entrant that's come into the market, if you look back in history, being a teleco or satellites that paid premium pricing as they enter the market. So, hopefully some volume comes back into the market. So, the one place I don't have a crystal ball, once you come nine months in is – where will the volume be? You've written down 1.5% to 2%. I think you've said that those that are Sling, you'll probably update it to say Hulu as well, are less effected by those that aren't from a volumes standpoint. But pricing, we feel very good about it.

<Q – Michael Nathanson>: Let's look at expenses. I've been asking this question since the new company's evolved on the cable network side. So, there's three divisions, U.S., we call FIC but it's now FNG, and STAR. Can you rank, looking out the next few years, the order of investment in terms of expenses? What's the right way to think about the hierarchy of expense growth between those three different assets?

<A – John P. Nallen>: Looks like a quick tour. In domestic, as I referred to, as I look out the next couple of years, the biggest investment in the cable side will be behind the Nat Geo brand. Because we've got to dial it up. We've got not only put it in programming, we've got to do it in marketing as well, to emerge with the brand that is world-class. So, we'll be putting investment behind Nat Geo. The rest of the domestic businesses, we'll probably ramp up a bit on originals at FX. But that's in support of both advertising as well as the affiliate fees.

So, I don't see that as dramatically building any new business where Nat Geo I do. So, that's domestically on the cable side. On the entertainment side of FBC, clearly those that saw the schedule, we're replacing 38 hours of idle this year which was tried and true programming, top ten programming. So, while the programming costs probably won't be dramatically different, we're launching six, seven new products. So, we will be marketing those shows into the markets until we settle on replacing those hours which is probably a two-year project. There's no way that all six are going to be hits. It's just not the way it works.

Turning to FIC, Fox Networks Group International. I'm still the same as you are. I think sports-wise we're pretty set. There's nothing – in Latin America we've got what we want, in Asia and Japan. Entertainment, I don't see a massive increase. But where I do see it is increasingly the partners that we have because most times we're selling to the very big platforms in the markets we're in. For their own product, it's very similar to here in the U.S., for their own product that they're offering to consumers, they want more rights. They want the ability to have stacking, to have NCs and to have prior seasons. So, if anything we may have to go acquire additional rights in order to provide to our customers the MVPDs or platforms there that they're looking for to provide to the ultimate consumer.

<Q – Michael B. Nathanson>: Okay. Let's talk about RSNs for a second. That's an area where we do hear a lot of questions about sustainability. I know you guys are confident about the business but can you help explain what you think the market is missing when it comes to RSNs or what we do not fully understand? We get, as you know, a lot of questions about…

<A – John P. Nallen>: Yes, but we've also been talking about it for the last five years, right? And during that period of time we renewed, other than a skirmish – we're in the middle of a small skirmish right now – we've renewed all our big MVPD deals during that. We've renewed rights with a significant number of teams. We don't have any big rights that are up for the next couple of years. The only one that's out there right now is the Clippers that we're in negotiation with to try to renew. There's no – on the product side there's no big rights deals that interfere with the business.

And on the revenue side, on the affiliate side, we think we'll get through the renewals. And I point to a couple of factors. One is Sling, the RSNs are on there. People have said no, in the core bundle, the RSNs will not be there. That's an independent negotiation where they recognize the value of the RSN in their markets to the product. Likewise on Hulu. The RSNs will be in that product. When you then go to the value of the RSN in a market, the RSNs on a game night, particularly in baseball, can be the number two network viewed in the market overall.

And in certain markets, certain baseball markets and certain hockey markets, it can be the number one network viewed that night on television. It provides an enormous amount of viewing drama. Every 160 games of baseball or 160 nights are on there, available to a consumer, and then add hockey and basketball on top of it. There's a lot of talk and noise around it but at the end of the day, the MVPD season is very valuable. I would say, though, that if we look at – you were talking earlier about growth – the MVPDs will not be a growth driver of the company. It's a great store of value, fantastic cash flow coming out of it. But if I look at the growth drivers at Fox, the RSNs are not there.

<Q – Michael B. Nathanson>: And people point to the skirmish now, what is unique about that skirmish that it's not transferable to other potential battles out there?

<A – John P. Nallen>: I think what was unique about that is it's an outer market skirmish. The way that the calendar worked on that particular MVPD negotiation, they're able to take an opportunity to save some money for a period of time. So, that discussion will be part of a broader discussion that will come up in time. It's not – it hurts us on a month to month basis and I don't know enough about how it hurts the other side but in the scheme

of 22 RSNs, 44 teams, to have a discussion around a market or an area that has 900,000 subs is really not – there's not a lot of drama there.

<Q – Michael B. Nathanson>: Let me take you to India, it's an asset that's clearly differentiated for you. How has the Indian market performed over the past year? STAR has been buried in the financials. How has India progressed? Can you talk about your investment strategy at STAR?

<A – John P. Nallen>: So, STAR is one of the growth drivers. When I look forward, clearly our assets in India are – we spent a lot of money investing in developing a four pronged business. STAR used to be a single prong which was a national Hindi entertainment business. It's now added a regional business, a sports business, and a digital business being Hotstar. The entertainment business alone makes well in excess of $300 million of EBITDA per year and up until last year, not 2016 but 2015 we reinvested most of that back in the prior two years into developing these other businesses.

We've still got the milestones out there for $500 million of EBITDA in 2018 and not long after that $1 billion in absolute sum three year issue that I'm not contemplating which includes currency, we're on track to do that. So, the market, if you think about it, the market's got 7.5%, 8% GDP growth. The advertising market is growing at 15%, 16% in total. TV advertising is growing above that and STAR over index is even above that. They capture more of the growth than even in the market because they're such a significant player.

So, the investments that we've made in that business, as I said earlier, are returning to us. And then the sports business, really just give you guys a lot of credit. We built it after acquiring the other half of the business from ESPN, the ESPN STAR Sports business which inside of it had a lot of cricket rights that we were able to launch a six channel national sports product on. But off of that we built two other products that were indigenous. One was this – you'll just have to go on the internet to see it, this sport, Kabaddi. It's some combination of street tag and Ringolevio and volleyball and a bunch of other things but it's now – there are 200 million people watching the final.

It's just an enormous product that we own part of the league here. It's unusual to own the upstream rights in sports. And the second is we launched the soccer league in India as well and that's doing quite well. So, that business is strong. It goes from strength to strength and the market – we're operating in a market that's growing. The issues we talked about domestically, you flip the coin when you talk about India.

<Q – Michael B. Nathanson>: Bringing it back to the U.S., Fox Broadcast, you changed leadership a while back. What changes have you noticed in terms of the strategy and the network now that you've aligned Dana and Gary with the studio and the network? What's transitioned due to that?

<A – John P. Nallen>: I think it's something we should've done a long time ago because we're more directly aligning with production output with the channel's, Fox's needs. So,

the momentum that we've achieved over the last couple of years with a product that's become a household name now. I'm not so sure we could've done that without putting the two of these together. If you look most of the network schedule next year is from a scripted standpoint is product that's been developed in-house by TCFTV. Five years ago it was probably 50/50. Now we're probably at 80% of the schedule coming from TCFTV. And likewise from a production standpoint, 75% of what TCFTV produces is for the network. So, only 25% of what they produce is for third-party networks. So, aligning the content engine with the showroom, which is what FBC is, was important to do and has yielded all the benefits that we thought it would.

<Q – Michael B. Nathanson>: One of the benefits of that in the network is retrans. You've not been public in giving guideposts of how big it could be by 2020. I know some other companies have. But if you could talk a bit about the trajectory of growth over the past few years and how we should think about the cadence of growth for retrans and how much does that drive back to the network?

<A – John P. Nallen>: We believe if you look at the RSNs, as an example, I said they're the number one network, the number two network in their markets. And you look at the general view of what pricing of the RSNs is, you can say that networks are really underpriced. So, we believe that there's still a great deal of headroom available to properly price the Fox network from a retrans standpoint.

So, contractually the trajectory is still quite nice. You're right, I'm not projecting where it will be 2020, but retrans is a very important part of the revenue stream. The network is a very important part of what the MVPDs offer, particularly the entertainment side, very important, but particularly the sports product. The NFL, having the Worlds Series, having NASCAR, moving some UFC product on to the network is a really important element for us in discussion with MVPDs around the value of the network. So, I'm not about to give you numbers but we've got great confidence in retrans continuing to rise.

<Q – Michael B. Nathanson>: On the advertising, you mentioned this in the beginning, it's a really strong market. Can you discuss the sustainability of the market and whether or not you think your portfolio is different in terms of being more sustainable than others?

<A – John P. Nallen>: Obviously I think it's different. Like I said, there's momentum now in the market and the important part to us about the momentum and the mood is it's broad based. It's not – a year ago if I sat here and Uday was sitting here, I think everyone was questioning how strong the fantasy sports phenomenon would be and that was driving market, potentially driving prices. That noise is gone. This is – you have the telecos, retails, auto, mobile. They're all spending at this point in time. And it's healthy on a national basis to have that kind of tension in the process and that kind of enthusiasm around it.

Obviously our job is to deliver eyeballs. So, we can have a healthy market but we need ratings to capture what's going on there. But it's equally healthy on a local basis. Local auto, who had left – when I was here two years ago speaking to you, I think we were talking about a phenomenon where local auto was starting to spend more of their budgets on digital and what they found, to an extent, on the margins, that they're not getting the kind of return that they expected and those marginal dollars are moving their way back into television.

People have asked too what this enthusiasm and this mood around national advertising is about and we see the same thing. It's not the big – that money's moving away from the big digital players. It's not. We see their earnings releases like everyone else, and we see the growth in digital advertising. But on the fringe where issues like view ability, accountability are out there, what we see are those fringe dollars moving back into television where they can get a better measurement around their invested capital.

<Q – Michael B. Nathanson>: I was going to say, in the time remaining, I have one or two more questions but if people want to hand questions to me, I can ask them off the cards. Andrew is walking down the aisle to ask questions. But we have time for probably one or two more questions.

<A – John P. Nallen>: That's right. Sure.

<Q – Michael B. Nathanson>: Let me ask you this on studio. Studio the past couple of years has been definitely a little bumpier than we've seen the previous three years leading up to the separation. What do you think has happened to studio? And how has Jim's strategy evolved the past few years? And when you look at the next few years, what are the things you point to as opportunities on the film studio side of the business?

<A – John P. Nallen>: What I think we've seen from an industry standpoint is franchises are that much more important to a multiyear strategy around the film studio and everyone's got their own. As we look, we have four big films coming up. I referred to earlier on, we've got X-Men, we've got Independence Day which is I guess a quasi-franchise when you do it 20 years later, a smaller movie called Mike and Dave but we're spending against that July 5 release. So, we're spending all the money against it in the current year and then Ice Age 5 shortly thereafter.

So three of those you might say are franchise films. And as we look out, we've got Maze Runner coming out, we've got another Wolverine. And then even beyond that, we're looking to develop new franchises. Later in the year we've got this Miss Peregrine's for Peculiar Children and Assassin's Creed which hopefully, like Deadpool, capture something where we can now get into, as we are, a Deadpool 2 and go on from there.

Longer-term of course what we're excite about is a core franchise which is Avatar. But we'll spend against that. For the next couple of years we'll invest towards the production of a 2018 release of the second Avatar. And I guess we're skipping years with Star Wars as you look out to the rest of the decade as to when they release and Avatar releases. But there's a higher dependancy over a multiyear period in film studios having franchises. But I think we uniquely make sure we slot in the real special movies and the ones that capture some quadrant that the entire franchise movies don't capture in things like Birth of a Nation that's coming out, special movies that we know they'll do well and they'll catch an audience.

<Q – Michael B. Nathanson>: So, last three lightening round questions for you. FS1, growth prospects? Talk about your trends and what's your opinion of growth? I know you did have some changes in strategy prior to the new programmer.

<A – John P. Nallen>: I think that's – so that's the most – and we've been talking about this for the last two years saying like we did at Fox News, it took awhile to find level ground as to what your programming strategy was outside of game product. And almost taking a piece of the playbook from Fox News, what Eric and the team have done, have moved to opinion leaders in sports and we brought on a number of very significant ones to give them their own show, give them their own identity in the network and get away from the rolling sports scores and clips and get to really focused, opinionated sports.

I think that's where the signature of FS1 is headed outside of the product right now. So, from a strategic standpoint we see it that way. From a content standpoint, there's not – in the U.S. there's not a lot of sports available. So, almost everything that we need to have, we have. I guess the only product that would come up – and I'm not suggesting this for Fox Sports 1, is eventually there will be another Thursday night discussion at some point but that's a couple of years off at this point.

<Q – Michael B. Nathanson>: Okay. A question that I think has been around for awhile, since Mike Hopkins left Fox to go to Hulu is why doesn't Hulu make more sense as a TV Everywhere solution versus a competitor to the MVPD system? Can you talk about maybe as a partner, the evolution and maybe trying to be a white label catch up TV product versus going it on your own?

<A – John P. Nallen>: I don't see them as competitive in that sense because at least where we see the world headed, we are going to be selling our brands to distributors and our brands are linear channels. They're the in-season stack. They're the prior seasons. They're the library. That's what we'll offer. And we'll offer it to a digital MVPD and we'll offer it so a traditional MVPD can offer their consumers that. Because what we do know is that the consumer finds it clunky to – and this maybe is part of the volume decline – to leave the ecosystem they're in with that Mr. X cable, to experience the other product, the prior season product on a completely different platform. And more and more we're – this is breaking business rules that I talked about earlier, we have to get to a point where we're offering that MVPD all of that so that when they turn to their consumer they can get VOD, they can get prior seasons as part of their subscription. And that's really – Hulu will become much the same as that.

<<Michael B. Nathanson, Analyst, MoffettNathanson LLC>>

John, I thank you for your time. It was great. Thank you so much.

<<John P. Nallen, Chief Financial Officer & Senior Executive VP>>

Thanks, Michael. I appreciate it.

<<Michael B. Nathanson, Analyst, MoffettNathanson LLC>>

I appreciate it.