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21st Century Fox, Inc. (FOX)

Bernstein Strategic Decisions Conference

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Todd Juenger
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MANAGEMENT DISCUSSION SECTION

Todd Juenger
Analyst, Sanford C. Bernstein & Co. LLC

I think we're live. All right. Good morning, everybody. Thank you for joining us here. I'm Todd Juenger. I'm over here. I'm the Bernstein media analyst. Sitting next to me is the company speaker. As you see, we didn't even [ph] spring (00:16) for personalized name tags this year. It's a cost efficiency move. But if you don't recognize the company speaker, of course, it's none other than James Murdoch, CEO of 21st Century Fox...

James Rupert Murdoch

Morning.

Todd Juenger
Analyst, Sanford C. Bernstein & Co. LLC

...and my personal pen pal. Really thrilled, of course, to have James here. We have a lot we want to talk about. Just a reminder, for procedural order, I'm sure this is the second presentation today, so you probably got this down. But we're old school on the Q&A here. So, there's index cards sitting around. James and I are going to talk for a while. We'd love to entertain your questions as well. The way that happens is you actually write them down if you don't mind. We'll collect them and get that up to me. So, please go ahead and do that as the spirit moves you.

QUESTION AND ANSWER SECTION

Todd Juenger
Analyst, Sanford C. Bernstein & Co. LLC

Q

James, we're at the strategic decisions conference. I think you've got a lot of the strategic decisions you're weighing right now. Let's start broad, right. You have been working in and leading global entertainment businesses, upstream and downstream, for a long time now. A lot is changing and going on. In the midst of all that, what is 21st Century Fox need to do? What are your sort of guiding principles? And how you're trying to shape your contribution to succeed giving all the stuff that's going on in the world?

James Murdoch

A

Well, first of all, Todd, thanks very much for having me here and thank you all for coming this morning. I think – first of all, I would say for customers of video entertainment, it's an incredible time right now. It's a time of really rapid innovation. It's a time where customers have more choice, really a level of [indiscernible] (01:55) in the marketplace that we haven't seen before. And also real advances as we have new IP streaming distribution platforms that are emerging, real advances in the user experience, in the ease of discovering programming and the breadth of that programming that they can have. And I think that's also really spurned a lot of creative excellence in the business. So, customers I think, which is where we always start in terms of ho w we think about the business are in a great period today.

And one of the fundamental reasons for that is as we go to, as we move closer to an environment where there is much more flexibility in the way we develop the user experience and that's really driven by a lot of the Internet streaming services but also some of the more advanced digital television platforms, for example the Sky in Europe, et cetera or like a Hotstar, the IP streaming service in India that we started, we are seeing, really an explosi on of competition downstream. So, the fundamental thing that we think and we have been thinking about a lot is as we see more competition downstream for customers, we believe that actually that both spurs innovation faster but it also really moves value upstream to the brands and the content and the programming that really matters for customers.

So, when we look at this environment, we think first of all, how do we license our programming? How do we think about windowing? How do we think about availability of our programming? But more importantly than that, we really have had to focus on our core brands that really matter for customers and really jettison a lot of the things that might have been incremental space on the dial, in the past. But now, in a stre aming environment and primarily on on-demand environment because much of our scripted programming for example is consumed on demand even off of the network and the traditional networks.

It's really a question of how do you focus on the things that are going to matter for customers over the long-term, how do you make sure you're not just in the game of taking up space on the dial and getting incremental affiliate fees for what we used to do, the Fox Reality Channel, the Fuel Channel, the Soccer Channel, et cetera, and focus here in the U.S. on our core brands, Fox, Fox News, Fox Sports, National Geographic, and FX. And internationally, on the Star business in India, and the Sky businesses across Europe.

And we also have a Fox channels group and National Geo graphic channels around the world, but probably less concentrated in individual markets and spread out in a different way with some real strength in Latin America though.

So, when we look at it, we said, I mean, how do we take the assets that we have. This has started a number of years ago. How do we fundamentally simplify our operating model, but also how we think investing in those things and simplify our own investment case to say, okay, if we can make FX better, if we can Fox Sports better or take our assets like fuel and soccer and things like that and turn them into Fox Sports 1 and FXX and those brands, that's something that we thought in an environment where you have much more downstream competition. That would be really valuable for customers, and therefore, our distributors who we wholesale to would be able to digest that, would be able to understand that, and it would be really content that could form the part of the core offerings for customers that out there.

And we see that sort of playing out right now with – we're very pleased to be included to be able to get the deals on, to be a core part of the sling platform, the multi-stream service that just launched. Obviously, Hulu is launching, a new competitor in the marketplace downstream which we're a minority investor in, but we're excited about that and that bundle of brands that are going to be a part of that service.

And also, we think about how do we kind of get away from overly slicing and dicing the windows which are confusing for customers, where they have one season of something here, and there's a holdback of x -number of episodes or months and then they have to find it on either Netflix or Hulu or something else. We want to really simplify that offering and make something that's much more straightforward for customers, so they can consume the shows that they want. They can do it in a time that they want. They can find the things that they want. And that's really important because today we're not in a place where we're competing just at 8:00 on a Monday night for the other stuff that's on 8:00 on a Monday night. Everything we've put out there is competing with everything else that's ever been made. Because if that easy pretty much for customers or will be that easy for customers to be able to consume all of that. So, when we ask customers that investment of time, when we ask them for their attention fundamentally, we have to make sure that it's excellent but also that there's an ease of use and an ease of discovery that is really in a profoundly different level than it has been in the past.

That's kind of the way we approach it. It starts with distinctive programming. Things that really matter for customers and then it's really about how do you monetize that, how do you organize your licensing and distribution strategies to make it great for customers. In the past, the industry, particularly here, I think, in the U.S. has kind of outsourced the customer experience to a handful of MVPDs that have had a mixed record in terms of – that's a kind way to put it – in terms of delivering our customers experience it's really great. And it's probably been because of a lack of competition.

Now, in this environment, where there is this competition, we find it much easier to engage in that user experience conversation. It's much easier to actually start the innovation and as you think, authenticated apps with streaming devices like Roku, Sticks, Chromecast, et cetera, and with new over-the-top MVPDs emerging like the Hulu one later this year or early next year, that's going to release for a whole another way of innovation and growth in the IP streaming business at a rate of return for us that's much higher than licensing individual shows to secondary window subscription video-on-demand platforms.

Q

Wow. There's so much in there that is near to my heart and I can't wait to get into as much of it as we can. Let me speak up, frankly, on when did it – still well in terms of the returns back to you because I can't help, but pick up and respond to those thoughts with this observation, right? You talked about what a great area it is to be a consumer of entertainment. I might offer, I doubt you disagree, changes in technology and distribution capabilities have created this opportunity for new platforms for customers.

It's created opportunity for new businesses to enter and serve customers and new businesses that don't have earn the same type of return product profile that you have been accustomed to earning on your television network businesses. All right?

And so when you think about putting that together, sometimes, maybe a lot of times, technology changes but is it consumers, it doesn't always good for the incumbent business. So, how do we get comfortable that Fox is going to make as much money or more money than you used to in a world where consumers can now access subscription video on demand for $8 or $10 a month with little or no advertising as opposed to a world where they used to pay for this big bundle every month with all these affiliate fees for Fox Reality and everything else, but there's some pluses and minuses in there, right?

James Murdoch

A

Yeah, I guess, so. But I think one of the things for us it's important for us to remember is that we're really that focused on the retail price that the MVPD gets out of the customer downstream but it would the traditional ones, right? Because there's a lot of stuff but it doesn't really accrue any value to us. So, first of all there's a lot of channels there that customers probably don't need and our effort is to make the channels and the brands that we invest in the ones that they or at least that they like scaled at a mass market better, big and get people talking and get people excited and get the whole community excited around it.

Number two, there's a lot of charges in there that really are totally irrelevant to us in terms of set our boxes, rental feels, services, all these other stuff that goes in there. So, we're focused on is what's the wholesale affiliate income that we're able to extract or not [indiscernible] (09:47) to earn, I guess, from that environment from the quality of what we're providing for customers.

And in that environment, we are pretty excited about actually new core bundles emerging. We've often said, this isn't a zero-sum gain between [ph] $8.99 or $9.99 (10:02) for an SVOD service of library products versus $100 for the so-called big bundle.

We actually think that there is a lot of room in the middle and one of the things that I take-away from just my own observations over the years is in Europe for example, with the Sky, we introduced a range of price points for customers around core bundles and key genres for example. We introduced a range of new services that were full service products but that warrant in that £40, £50, £60 or €60 kind of frame. And that was very, very successful and actually provided really the basis for a lot of growth in the business. The access to customers who otherwise that rest of that money was abridged too far. So, we think there is a lot of room to innovate from a packaging and pricing point of view by the distributors.

Now, some of them have been slow to do that, some have been faster. We think that these IP streaming services that don't have those box fees, that don't have all a facilities-based kind of incumbency there, can actually be a real spur to faster innovation and packaging and we want to be a part of that. So, we feel pretty good about it. I think the key for us is how do we focus on that affiliate income that we get, how do we make sure that we are licensing in a way that's attractive to new entrants but also licensing the same sort of price if we open the license the same way to our traditional MVPDs.

We think actually that most of the big MVPDs in the U.S. or probably the big ones anyway, [indiscernible] (11:28) to go out of market and compete with each other on a over-the-top basis. They all deny that but we see, I think that's pretty inevitable. And that opens up a whole new range of competition downstream for ultimately what the customers are buying, which is content. And we think that is really good and that margin downstream, we actually think shifts substantially to the big brands that really matter upstream over time. And that's – and that's our strategy that's been clear. We may be right. We may be wrong. So far, we feel really good about that, and we feel good about what we've been able to put onscreen for customers. And the added benefit, you mentioned advertising as well, is in a streaming environment. You have much, much more flex ibility to innovate in terms of advertising. So, to the extent that we're able to capture customer's attention, and we can do that at a scale that even a lot of the Internet firms and social media, et cetera, really can't do because they measure impression s by seconds of viewing and all – we've all done that comparison.

We still have products that are really capturing the attention of large, large groups of customers, big affinity groups that are out there, sometimes the whole nation. And in a streaming environment, there's an opportunity for analytics and measurement as an opportunity for data in a new way and as an opportunity to introduce new kinds of advertising, so you can dramatically reduce the ad loads that are there or you can even have options, fo r example, with our Hulu ad-free subscription service where a customer can bid for his or her own time.

And so, you actually – if the ad sales company or Coca-Cola values my time at X pennies per minute or I value it higher than that, so I'll pay $5 extra a month and have it ad-free. We think that's an entirely great thing to do it actually. Trust the customer. Empower them. Given them easy tools to choose what sort of experiences they want. It's interesting. The ad-free option at Hulu has certainly cannibalized some of the advertising base there, but by no means all of it.

So, customers, when you offer them a choice, first of all, appreciate it. And, second of all, if you make it really easy, they come up with some surprising answers. And I think, for us, in every business we're in, the most important thing to do is not really – we like to say you should never overestimate the customer's satisfaction with the status quo. It's something that's super dangerous. Customers are pretty smart at the end of the day. So, we can provide those products that empower them to give them a better service and on an Internet streaming environment, it's much, much more straightforward to do that. We think that's really attractive.

So, I think, going forward, your question about incumbency is one where – first of all, firms that are successful generally don't overly protect their incumbency. You have to be able to move forward. You have to be able to actually have a real appetite for change not just react to it. And we see that is a core part of our culture. But I often say internally to my team, to our colleagues around the company that our single biggest risk, our single biggest competitive threat is our own incumbency, and we have to not be afraid to get out there and innovate new products into the marketplace.

Todd Juenger Q
Analyst, Sanford C. Bernstein & Co. LLC

So, I wasn't sure though when I wanted to inject to the conversation but now is the best time as ever. I mean, you mentioned who will you have this minority taken who will – so, I know you can't speak for Hulu, but I don't think anybody has denied the likelihood that Hulu will soon hope we think they launching a new type of service. Just relate that to the incumbency, right? So, as we understand how this new Hulu service might look. And, please, whatever you can correct here, we think it is a – it's smaller collection of what, I think, Hulu would argue with sort of the most important television products from brands, for a lower price point to consumers and what they're paying for the big bundle. I'm sure it has a bunch of on-demand elements that maybe you can elaborate on? I'm sure Fox is, I think, going to be part of it. So, please correct anything that described the product that isn't right but how is that not a problem for your incumbent businesses with your current distribution partners and now you're going right after their customers, right?

James Murdoch

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But we don't license our programming to Comcast or Time Warner Cable on exclusive basis. We license it to FiOXS, and we license to DIRECTV, we license it to DISH. So, we've always really succeeded when we have more competition downstream for our products. So, we see this is very much the same situation, so people got – long time ago but I'm sure people got upset when we started licensing to AT&T and to Verizon as they ruled out their services and they were overbuilding the cable guys, but actually it was a great spurt of growth. And, in fact, the telcos were really driving the growth over the last few years when the satellite guys kind of slow down.

And we see this is just another wave of distribution technology but this one is one work can be fundamentally better business for us. It's not just another distributor doing kind of the same thing. This is one where we you have all of these other capabilities in terms of ad innovation, on demand programming, et cetera. So, everything you said about the Hulu plan is true without having it fully formed at this point but we in Disney are the two, I guess, together majority shareholders and I think we both confirmed that these plans are sort of well under way and talks are progressing with everyone.

We think it's a great new service but we also think that it's something that is important because it should be able to combine that live television experience, sports, news, relevant in-season programming with also those other windows and sort of multiple season facts, et cetera, so people can consume. It's interesting I think people consume particularly scripted television today a little bit like we consume books, right.

So, we had this bad word binging, right, but I don't think so. You don't – if you fall in love with a book and you read it sequentially chapter by chapter and you might stay up late going chapter by chapter, you didn't binge on the book. You had a great experience loving this book, right. Internally, we call it marathoning, which at least gives you a sense of accomplishment after 15 hours of 24. But we think that's an incredible customer experience. It's really straightforward. People consume what they want to consume in the sequence and in the time that they want to do it. So, putting all that together in one service as opposed to having to go to your HDMI port and saying, I've got my cable box here and sort of, I don't like that if I don't like the EPG but then I go to my Netflix or Hulu, I'm looking for everything. Those things are customer experience that's driven by a set of business rules that customers totally don't care about. So, what we have to do is simplify those business rules, make that customer experience better and that's largely driven by our own licensing and some of the issues commercially that we have traditionally with the MVPDs with MFNs and all that stuff.

New competition can solve a lot of that. So, we look at this Hulu idea and hopefully others, or Sling, et cetera, as stuff that can actually spur more innovation downstream. We wanted traditional MVPDs to license this way as well. We want them to launch these new services. We want them to grow. Fundamentally, you have all of these broadband-only households out there that they're not reaching. So, rather than us sit back and say, well, that's just too bad. There's this macro trend, we can't do anything about it. We look at it and say, okay, what can we do to innovate there, to actually get growth in the pay television market overall. And I think the pay television market, I would define much more broadly as people paying for video entertainment at home. And we think there's a huge amount of growth to play for there because there's this set of customers who, for whatever reason that, that cost for that customer experience in the traditional MVPDs just has been too high.

So, let's go and create products that are out there that are more relevant to them, that are more concentrated in terms of investment and the brands that they care about and can be delivered at a lower price to them with a better business for us given that it's IP streaming and you have all those advantages and on demand and data.

Todd Juenger
Analyst, Sanford C. Bernstein & Co. LLC

Q

When you think about, when I think about proliferation of new options for consumers and you – I'm sure you've thought about this. Whatever networks end up being in this Hulu product and there are certain networks that are in Sling and not in Sling, how worried are you about – especially the non-sports types of groups of networks and the creation of competitive packages that might look kind of like Hulu but not have sports in it, and there fore have the ability to, perhaps, have much lower price point maybe to consumers and serve those customers in a way that takes customers away from people who are currently paying for the Fox Network? You know what I mean? Like, Hulu is not going to be the only thing that does this, right? And there's going to be some networks in and some networks out.

James Murdoch

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And look, and that's why – a couple of things there. That's why first of all, our goal has been to simplify that group of brands to make them relevant so that they are attractive for customers and they are attractive for any new entrant coming into the space.

I think there's been a lot of focus, just to address your concern about sports, there's been a lot of focus on sports or the cost of sports et cetera. And we worry about the cost of sports because we have to buy the rights. And the teams have to – they, at least, have to pay their players. And for some reason, the players need Maseratis. And it's really difficult, actually, when you have this kind of inflation, some of this sports rights. And we have to make tough choices about what are the sports and what are the games, what are the sort of packages that really matter and what are the ones that we can actually do without? I think we've been really successful in creating Fox Sports 1 a national sports brand which is still in its very early days, but is very much on track in terms of how we think about it. But also, the regional sports networks are super important part of the mix.

And I guess, it's important to remember that the sports business – the sports broadcast business is not just about the cost of the RSNs versus the overall [indiscernible] (21:31) In a lot of markets, an RSN will be the number-one-rated network of all networks including broadcast when there's a big ball game on for example in St. Louis. So, in places where there's real appetite and loyalty to those teams, it can be a very, very attractive thing for customers. So, I don't think the RSNs are really the issue here. Although, clearly, the way that it's packaged and all its stuff is going to continue to evolve.

I think that the bigger issue is actually just the amount of stuff that's out there that just nobody watches. And the sort of plus one channels and the other bits and pieces, all of the incremental spin-offs that have come up since the late 1980s. And that's sort going to be a real hard question for the MVPDs to say why don't we just decide not to have. And that's fine because it's not – because no one's going to – I'm not going to – I don't want to name names, but if there's one channel over there, that's not going to be enough for them to completely displace this core bundle here. And maybe those are the ones that maybe more niche, more a la cartes, have to figure out a different future in a streaming environment.

So, our bet is that actually the attraction to the customers not driven by the input costs, it might be the opposite actually is actually you look a lot of the sort of cheaper incremental tenants in which there are hundreds. And some of those may just have to find their way, find a different way to customers and the core brands, the big national brands that it really matter are the ones that are going to drive this new growth.

Todd Juenger
Analyst, Sanford C. Bernstein & Co. LLC

Q

And so, is it your point of view in this process is simplifying the Fox arsenal of brands and networks domestically here in the states for now? We'll talk about the rest of the world in a second. You think you're there? You got rid of all these sort of stuff – you sort of simplified your or do you know where to know?

James Murdoch

A

We've certainly simplified the portfolio of brands. I think there's a ways to go in an on-demand environment. It's interesting. A National Geographic brand for example and on-demand environment includes a lot of other stuff. It includes the one brand. It will include Nat Geo Wild, Nat Geo Kids potentially. It's a big thing. We have the biggest kids magazine right now in the world with National Geographic. And we think there's real opportunity in kids programming there. It's family friendly programming. But all of that is within one brand. And on-demand environment it's not 3 brands or 4 brands, it's just 1. The same with FX being FX, [indiscernible] (23:57). So, the [ph] thing simplifies (23:59) as a product as well.

The core, kind of the work that we have to do that we're definitely never going to be done with is, we want to be as good as we possibly can be creative like. So, are we there yet with National Geographic? No. We are investing a lot in National Geographic. We think there's a huge opportunity there for families to have that brand on TV really be as great as it can be and it's not there yet. I think, – at FX, we want to actually make more programs over the next few years and increase the volumes so there's investment there.

I think, at the network, it's always a work in progress if feels, and we feel really good about this slate going forward right now. So, I feel like some of the brands are really firing in all cylinders right now creatively. But always, you can do better and that's fundamentally our challenge, right? How do we – I mean, it sounds like a ridiculous things to say, but how do we have more hits? And that comes down to how do we have a culture where we can attract the best creators to come and work with us? How can we articulate a vision for those brands where creators want to come and do work there and do the best work that they've ever done?

And that's the endless challenge in a creative business, but it's one that we feel we are making a lot of progress every day around moving the ball forward.

Todd Juenger
Analyst, Sanford C. Bernstein & Co. LLC

Q

I want to tick off just a couple more on sports if you don't mind, because it is such a popular topic of conversation when I talk to investors, and then I want to tip some international stuff and keep going and questions from the audience, please don't forget [ph] cinema (25:30). You mentioned in St. Louis where I grew up, by the way, I don't think you knew that. A Cardinals game might have the highest rating, but even on those nights, right, that rating might be what? 5%, 10% of the households on a super good night. So, that means 90% of people aren't watching that game. Do you have a sense, in the States or globally, what percent of households – how many people actually do care about sports? I get asked that question all the time. So, I wonder if you will?

James Murdoch

A

Well, first of all, I think households – it's a difficult question to answer in terms of household because most households – I would say most households have a sports fan in it, right? And the question becomes who's making the purchasing decision and how influential is that sports fan? And how they do it? It's interesting. When we have premium sports – because in Europe, we have both sports in basic as well as sports as premium products there. And we see pretty high penetration, right? So, it's probably 50% of our base will pay a large premium for sports in the UK for example. But they also have sports in basic. So, you don't really know if it's a pure decision there because there's other people watching the other sports in basic there.

So, I think actually it's a pretty powerful – I think it does depend a little bit on some of the local markets. And I think it also depends when you look at the pricing – I mean, the RSN business is complicated because first of all, not each RSN is created equal. Some are single-team RSNs or some where you have big cities with lots of teams and they all want to have their own RSN then it can get quite expensive. If we look at Los Angeles, which is in a bit of a mess. So, you have to be mindful of that.

But I think that sports, broadly speaking, from a reach perspective, does reach on a monthly and an annual basis the vast majority, in the 80s percent, 90s percent of U.S. television watchers. And that's really attractive. So, any given night you can use as a proof point to say, look, this is something that's more popular than X, Y, or Z, but also you have to look at it and think, okay, over time, do people want to miss that out on those events, right? Because one of the beautiful things about bundle of services in any kind of businesses that the switching cost between the individual components of that bundle is very, very low. So, you have more promiscuity in terms of consumption because it's easier to change channels rather than to log in to a new subscription or go and buy something different.

So, the more friction you put in to those little choices that customers make the harder it is for them to make and the less likely it is that they will make them. Truly interesting, you see this historically in recent history in the magazine, in newspaper business, right? There's no bundling online, yet customers online are much more promiscuous than they are in the real world in terms of consumption. And I think it's really hurt penetration of those paid-for services because if you could just taken over-the-top sort of bundling strategy which fundamentally in the bundling those two things, to drive prices down and it drives consumption up, but you have to get the size and the packaging and everything just right. And I think that's probably where for the traditional U.S. MVPD business, that packaging has gone a little out of whack.

Todd Juenger
Analyst, Sanford C. Bernstein & Co. LLC

Q

Promiscuity of consumption. That's going to have to make its way into the title of one of my reports at some point, I like that grade. One more on sports and then I want to get to India and Sky and a couple of things and get to audience questions.

The promiscuity on online, so people now consuming things more in the digital IP delivered protocol. That's some of the big sports rights holders here in the States are flirting with streaming games. You've paid a lot of money for rights to exhibit games on you television networks. What does that mean for the future of the sports television business? The cost of the rights over time, the potential evolution of fragmentation of audience or not. How does that factor into the future of the way you built your businesses?

James Murdoch

A

Well, I think your characterization of it as flirting is the right one. I think on both sides, both the leagues and some of those online services – if you look at the amount of investment actually. If what we read is correct on the NFL Thursday deal with Twitter, it's really low investment by their online service actually have a bunch of live games. It's not a huge investment by the networks that brought it, it's too rich for our blood, it turned out because of some of these online issues that we're rounded in the uncertainty around how that works. So, I think both sides are kind of flirting. Fundamentally, we've always thought that the live rights, the right to broadcast that thing live is one right. And once it starts getting sliced up by platform, that's going to impact the value. It's going to impact the value that each one piece is going to pay for that.

So, the non-exclusive nature of that if that introduces is something that will impact the value of the core right to broadcast it live. Because I would include streaming over the Internet as broadcasting. That's what it is. It's making the live game available. So, I think it will impact the value of those things, and therefore, probably the leagues will over time realize and this has happened in other market as well where people have done it by platform and sliced it that way and it has impacted the value, and the leagues have generally come back in most cases to say we're going to make this one of the most successful in terms of getting money out of the marketplace.

League in the world, I think on a pound-for-pound basis probably English Premier League and they have been believers in this for a long time. That is one piece and if you want stream it on the Internet and that's your business model, you go for it. But if you're paying – we're auctioning this in this way. And I think that's better for customers. It's simpler for them to understand that, but it's also better for the leagues because fundamentally, it's going to maximize the value of that live right.

So, while this [ph] quotation (31:36) is going on, I think one way or another, the streaming businesses will have to decide, are they really competing for those rights or are they just trying to say, no, it's incremental. It will be over here. Don't worry about it, because that doesn't make any sense. Everything is ones and zeros at the end of the day. And when you're in an environment with ubiquitous IP connectivity, then there is no point in distinguishing by, really transmission technology, which is, it seems crazy to me.

Todd Juenger
Analyst, Sanford C. Bernstein & Co. LLC

Q

Shifting gears sort of entirely, but we'll keep this forward, connecting to it. I just want to make sure we hit India quickly. So, speaking of a market where stocks has made a sizeable investment in a couple of very important sports. India, a huge market. You have a promising premise there. It's hard for us, a lot of us including myself to see what's going on in India? I think you've even talked different times about financial growth and put some numbers on stuff coming out of STAR India another time. So, what's the update on that full effort?

James Murdoch

A

So, the Indian business is doing great. It's our largest business in Asia. It's probably outside of, I'm trying to think of that. It's probably – on a wholly-owned basis, it's probably our largest single market outside of, I want to say the U.S. right? I think so. So, it's a big investment for us and it's been very successful. It's – the business there has two real components, three, I guess. Now, there's an entertainment business which is entertainment channels, entertainment programming and brands across the country in multiple languages, regional languages, in Hindi and in Bengali, in Merathi, et cetera.

It is – we have about a 20% audience share on the entertainment business which is very attractive. We are number one in the market and the business is actually really firing on all cylinders. It's really exciting. We've been at it for a long, long time, and it's one that we think that we can maintain some of that advantage. It's very competitive. It's local competitors, [indiscernible] (33:35) in particular, there's – that Sony has an investment there which has a big IPL to sports rights there that are pretty attractive. But we think we've had now a good run creatively. We have a good run with our advertisers and marketers. We've really been able to drive that business forward well. And that business overall – so the first is the entertainment business.

Second business is sports business, which we bought. In one of our efforts to simplify our whole operating model, one of the things we did was try to buy out some of our partners and some of our businesses that we thought were long-term kind of strategic, and that was Fox and American sports in Latin America and ESPN Star Sports in Asia, across Asia. We have particular focus on India as well.

So, that sports business has been a heavy investment. We've essentially invested all of our profits for the last two years in the entertainment business into building that sports business. And it's been driven by domestic and national team, India cricket matches. So, there are cricket – the national team when they play in India which is the BCCI licenses, and it's been driven more recently by sports like kabaddi which is a thousand, multi-thousand-year-old sport in India that we've really, in the last two years, professionalized, glamorized, put it on TV, made it a bigger thing. It's been very, very successful, and we have a partner in that. But we control the league there as well, so it's actually really an upstream business for us and a lot of different components.

The sports business has been – it actually has reached its peak investment phase at this point barring any new rights or other things coming up. But we feel pretty good about where we are. And, overall, that business in India will make – we have put some targets out there. We think it should make about $1 billion by the end of the decade in EBITDA. And we feel pretty good and we feel pretty good about that. We're on track. The marketplace there is competitive, but it's usually dynamic. It's an entrepreneurial marketplace. There's a huge amount of activity from our advertisers. A lot of innovation downstream. We launched this business called hotstar, which is in its very early days and we're investing in that now, which is an online – mobile online streaming business with all of the content that we produce, which is some 15,000 hours a year of content that we have there that's very attractive in all of those different regions.

And in just over a year, I think we went to 65 million downloads of the app just last month and it's growing really fast. And average session time is very high 30, 40 minutes and growing. So, we – there's issues with data tariffs and people have to use it on Wi-Fi because they are to pay per minute for their data and stuff, but that'll get sorted out as you have more rationalization in the mobile telephone business there.

But India is something that we just believe. We looked at it when we started to simplify this business really in 2007 when we got rid of a lot of stuff in like Eastern Europe in Russia and we sold down our Chinese joint ventures, and started to simplify these brands, we looked at markets that we thought could in success really change our lives and we though India in Asia was really that place with scale, with opportunity that it could be a huge business, it could really drive growth. It's one of the reasons that at the same time we launched Sky Deutschland. We needed to be in Germany, the largest market in Europe and we could bring a real fantastic 21st Century digital television business there under the Sky brand, and we're able to do that.

So, we looked at those markets and say how do we concentrate our investment. Concentrate our investment of also just human enterprise talents to actually go and say how can we really focus on something and make it deep, and vague, and durable, and that's what we've done. And I think in India, [ph] touch wood (37:10) we've been – it's going pretty well.

Todd Juenger
Analyst, Sanford C. Bernstein & Co. LLC

Q

I think this is self-evident what you said. I really just want to drive it home. So, roughly $1 billion of EBITDA contributions perhaps by the end of the decade. Okay. It's now the middle of 2016. I know you won't – I don't think you disclose so exactly where you are today but there's not that many years between now and the end of the decade and I don't think it's a big number right now.

So, if we're going to get to something like $1 billion at the end of the decade from India, that must mean we're going to see hundreds of millions of incremental EBITDA flow through on average per year between now and 2020, correct?

James Murdoch

A

Yeah.

Todd Juenger
Analyst, Sanford C. Bernstein & Co. LLC

Q

Yeah. All right. I want to make that sure.

James Murdoch

A

Yeah. So, it's certainly -that's the math. Yeah. It's not – it's kind of hockey stick, right? It's hockey stick right now because of the sports investments but basically because that peak we're kind of in the steep part of the hockey stick pretty much starting in 2017. So, we feel – no. We feel good about it. Look, the marketplace – if the ad market falls out of bed completely or there are some geopolitical issue. These are – emerging markets are challenging, right? There's obviously currency risks. That is always an issue there. But by and large, right now, we feel pretty good and pretty much on track.

Todd Juenger
Analyst, Sanford C. Bernstein & Co. LLC

Q

Yeah. Just wanted to drive that home. You've mentioned a couple – a lot of times Sky. I'm really curious. So, you've resumed the role as [ph] chair (38:35) I think, right, so you should know a lot on what's going on at Sky, so, in fact some of the big stakes. So, I guess, first, just how's the business going quickly and what – how that means for FOX? Secondly, I've got to ask any new thinking on FOX's passive participation in the equity ownership of Sky and path to either owning more or less of it that you can share?

James Murdoch

A

Well, first of all, I'd say – I think, we've been an active and supportive major shareholder. I wouldn't characterize that as passively – it's not a passive investment that sort of out there and we see how it goes. It's something that we obviously care a lot of about. And FOX or, at the time, News Corp, we founded the business in the UK and then founded the Sky Italia business and Sky Deutschland more recently. We recently were able to pull all those together and make one big really wonderful company across Europe which is the largest digital television company in that market. And it's one that is, we think really, really attractive. We think it's a business that has a culture of rapid innovation. It's really been growing over the last couple of years since our investment in programming and content. I think the content brands there are super strong.

The broadband and telephone business in the UK has been very successful. We're able to take advantage of some regulatory changes there a number of years ago to really from scratch bought a little – we bought an enterprise fiber network that gave us a lot of connectivity. The big backbone around the whole country and we've really been able to now compete with BT and compete with all the other telcos there and provide a set of services at a super attractive price for customers much, much less than what the broadband players were charging before.

So, that's been successful. I think our Sky business is one, first of all, we're super focused on how do we make it better, right? How do we make sure that it can grow as well as it can? We believe in the business very much. But I would say – and right now, we're pretty comfortable where we are. We have almost 40% of the business. It's been a fantastic investment for us. The combination of the companies is good for all the Sky shareholders as well as good for the Fox shareholders in terms of being able to crystallize a lot of the investment in Italy and Germany there.

And so, we don't have any immediate plans to change the status in terms of our shareholding. And we're focus ed on that business growing. It's been a real innovator in terms of things that we talk about here in the U.S. as the future of TV Everywhere, on-demand platform all that stuff. [indiscernible] (41:08) consume which is the on-demand. Mobile and tablet-based and PC-based platforms for – I think we launched it eight years ago and half the customers use it actively and across all those devices. We've been – we think with Sky Q, which is a new product, we think we're a generation or two ahead of Xfinity here in terms of the fixed space, probably one of our last set-top box platform as we move more into a streaming environment. And Now TV, which is the lower price over the top service there which is a lot of innovative things in terms of it priced sports for examp le, per match, and all of those sorts of things has really driven a good amount of growth as well, and we look forward to launching that in new markets. So, I think the business is strong. I mean, they should speak for themselves, but it's one that we find – it's been a great investment for us, and at Fox, we just think that's it – we just want it to be as successful as it can be.

Todd Juenger
Analyst, Sanford C. Bernstein & Co. LLC

Q

Right. Given the fact that you have this such good visibility in all these, and here in the States, the most highly penetrated traditional pay-TV linear service market in the world, which is starting to see some subscriber decline, and you've talked about how you think about taking advantage of that change. Compare that to like a Europe on a continent or on UK, less penetrated, clearly you have still have ambition – a belief that at least Sky can grow subscribers as opposed to lose subscribers. And you only got India where you're sort of starting really small [ph] a little bit (42:39). Why should we believe pay TV in Europe will grow as opposed from where it is today as opposed to when you look at the States, and we say, well, it looks like the old model is being changed? How does that -

James Murdoch

A

Well, first of all, I don't think in parts of Europe you'd have the same – I don't think it's in the same model, right? Because you have different packaging structures, different pricing, and some firms that have really been more innovative frankly, right? So, I think there is growth there. I think, market-by-market, it's different, right? So, each component – I don't know if – how long can I say member states for. So, I'll find out on June 23.

But each of the member states in Europe have different characteristics to them, different regulatory environments, different customer characteristics, et cetera. But fundamentally, customers like to have a service that's easy to use, that's at a fair price that delivers great programming and content for them and that makes is available widely. And that's a belief we've had in every market. And in every market we've entered with the Sky businesses, people have said that it won't work.

So, in the UK, years and years ago, people said why would you ever do this, this could never happen and it's been very successful. And now, you're getting to reasonably high penetrations or higher – much higher than people thought responsible in the UK.

In Germany, we had the same, I should say, sequentially. Italy, first, people said the same thing. There is – Italian TV is different, Rai and [indiscernible] (44:05) are so strong and how could this work. And once we've managed to get the Stream and Telepiù merger put together and really launch the Sky brand there properly, it really took off and it's been very successful.

And in Germany, the largest market with the lowest penetration of pay television. But again with really unique characteristics, cable connectivity there is essentially utility at a few euros a month. And then we bundle services and brands on top of cable as well as with their direct-to-home satellite. And we do think there's a long way to go there.

It's a large market. It's a wealthy market. But the onus is on us to create products for those customers that are going to be great, that they're going to be better than what else is out there. But I think one of the key things I mentioned before which is about this definition of pay-TV kind of broadening and thus you're going to have this concept where it's not the pay-TV business, the industry defined by a fixed set of competitors because that's sort of the way it's been looked at here.

There's a fixed set of competitors that are the pay-TV industry. And new competitors who ask customers to pay for TV confusingly are somehow not part of that industry. It is the same industry. The customers, they are giving their credit card to a company that's delivering video service to their house. And I think what we've seen for example in Europe with the growth of streaming services like Sky Go or Now TV in dependent that growing the overall Pay TV business and we think the same thing will happen here, but you have to kind of loosen up your definition of it.

But I don't think there's any industry I could have thought in the past where you would fix the definition of what they do by the number of people doing it and that's not the way it is and that's not the way it will, and we'll see product innovation go forward and none of these products are [ph] sad (45:43). I mean people used to ask me until a couple months ago about Hulu, why do you this at Hulu, it's too cheap, it's this and that, why is it, can be – and I would always say listen, the products will evolve and now we can see how the products are likely to evolve and what we're seeing there and I think that's going to happen across the piece. You'll see evolution and innovation from the traditional MVPDs and you'll see evolution and innovation from new entrance and there will be many new entrance.

Todd Juenger
Analyst, Sanford C. Bernstein & Co. LLC
Q

So, I got some questions from the – the audience has a wonderful way of crystallizing and just getting the point. So, I'm actually going to read some of these and a lot of these are actually very similar. So, how about this one, the question is how will – this is domestically speaking I think, how affiliate see negotiations be affected by Hulu, Sling, et cetera? Let me add two addendums. There all be quick. So, first addendum is you said in your last earnings call that traditional linear affiliate fees you hope to reaccelerate next year, which is in high-single range. So, you've got that coexisting with Hulu and Sling. And do you expect annual price increases from a partner like Hulu, or you're willing to give Hulu a deal where the price is fixed for a while?

James Murdoch
A

Well, first of all, I shouldn't comment on individual affiliate agreements, right. First of all, the way we would look at affiliate income would include income we get on an affiliate basis from Hulu or Sling or whatever it is, right, because we define that universe as the people paying for those rents, right? So, as new ones come in just like the satellite guys did and then telcos did. That's all part of the same mix. But second of all, I think, first of all, the Hulu economics for us or other new entrants will be in line or more attractive around the same as we charge anyone. We don't think it would be fair to go to one customer and say, you're paying X for this and another customer and say, you're going to pay X minus 5, right? So, there's always differentials there in terms of when those deals are done. There's other dynamics of value in there around data, around advertising, around other things that you can do. But by and large, you kind of have to be in an apples-to-apples basis sort of within the range. And that's the fair thing to do for our customers. So, that's number one.

Number two. The reaction from the MVPDis, look, I'm hoping and I think it's already starting is that they come to the table and say, can we license some of this other stuff in this way as well, right? Because we want to be able to provide that service. We think that's great. Nothing we've done with Hulu precludes us from actually going out and say, okay, these are set of business rules that we would really like to have proliferate across the industry and do that.

So, hopefully that's something that we can achieve, and I think that they get that even though they might not have realized that right away, but I think they get that and I think they know that they have to innovate. And our message to them is that, as it has been for a while before we did the Hulu is that we're open for business and actually making a product experience that works better for customers. And that's fundamentally the licensing strategy that we have. We can make content more available not less, easier use, easier to discover and within these brands, it really matter for customers that they can discover them in a right way. That's something that makes a lot of sense for both sides.

And then on the overall affiliate acceleration, it's simply a function of the cycle of renewals that we have. So, we had a bunch of anniversaries in the last year so you had – it didn't accelerate. But in calendar 2017, we have a few more. And over the next few years, there is a good – a reasonable percentage each year of renewals and what we're trying to do is level those things up to the fair price that the current price. That's all d dependent on our ability to deliver a product that's created.

But our anticipation is that rather all the work we do is about trying to deliver that product and I think, I feel pretty good about that. So, like we're – there's a couple of lumpy deals to get done, but we have a little bit of time and we've got a product that is improving every day.

Todd Juenger
Analyst, Sanford C. Bernstein & Co. LLC

Q

We're technically down to one second, I'm going to squeeze in one final question. These are some great questions here. If I didn't to your question, I'm sorry and I'm sure I'll get that feedback, I should've got this earlier. But the whole Fox team is here, so please ask them, they're available. And so, if I didn't ask your question, please get it answered.

I just want to ask you this because it's summed up about four or five of these different cards, in a world where you've got more of these consumer platforms like the SVOD services as an example. The question is doesn't that decrease the value in a way of the network brands? And what does that mean in basically put it down to a show level isn't that bad for companies that have drive a lot of value from network brands?

James Murdoch

A

Well, I certainly think one of the key things we have to think about when we license our programming is how the programming leaves within those brands and If you notice I haven't talk a lot about channels. I haven't talked a lot shows. Those brands are important to us, right? So, one of the key things we want to do from a licensing perspective is make sure that those brands are strong that they are a key components of discovery for customers.

And we see that's actually good for customers because those brands do mean something. So, a customer who watches – funny, I meet a lot of people who watch shows on FX and if it's Archer or The Americans or Always Sunny, they say I love FX. And it has a strong brand and it's fearless, it's bold, people kind of know what they're going to get there in a broad sense they're going to get something a little bit different, a little innovative, maybe a little bit edgier.

And we think that's super important. And then I look at something like National Geographic and I say, that's – I'm a parent. I have a bunch of kids and as a parent, I want to go – don't want to go and put something at Netflix Kids and have them consuming god know what, right? But if I had a National Geographic button there, then I could just say, that I know is going to be okay, right? That's got the good housekeeping seal of approval. It's going to be fascinating. It's going to be super high quality. It's going to be fun for people. I think those brands are important.

I think, actually, the Nat Geo piece is going to be one of the most under exploited, undervalued sort of things. It's just a huge opportunity for us. We didn't talk about it much, but we're enormously excited about what we've just done it with the society and what we're going to be able to do growing that brand.

Todd Juenger
Analyst, Sanford C. Bernstein & Co. LLC

So, of course, we didn't talk about it enough. There's never nearly enough time, but I'm already over my welcome. So, thank you. If you didn't get your questions answered, seriously, direct it on Reed and James, they'll be happy to entertain it.

James Rupert Murdoch

Thank you very much, everybody. Thanks for coming.

Todd Juenger
Analyst, Sanford C. Bernstein & Co. LLC

Thank you all for your attention. Thank you so much.

James Rupert Murdoch

Thanks, Todd.