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21st Century Fox, Inc. (FOX)

Bank of America Merrill Lynch Media, Communications & Entertainment Conference

CORPORATE PARTICIPANTS

Lachlan Keith Murdoch
Executive Chairman, 21st Century Fox, Inc.

OTHER PARTICIPANTS

Jessica Jean Reif Cohen
Analyst, Bank of America Merrill Lynch

MANAGEMENT DISCUSSION SECTION

Jessica Jean Reif Cohen
Analyst, Bank of America Merrill Lynch

We'll get started with our next company, 21st Century Fox. We are thrilled, really thrilled to have you Lachlan Murdoch, and welcome to your first Bank of America Merrill Lynch Media, Communications & Entertainment Conference as an Executive Chairman of 21st Century Fox.

QUESTION AND ANSWER SECTION

Jessica Jean Reif Cohen
Analyst, Bank of America Merrill Lynch

Q

So you've been in this role for, I guess, a little over a year, following various leadership positions throughout FOX, News Corp. predecessor, and as well as Ten Networks. I guess, the first thing is, both you and James, your brother have been outspoken on the needs to further strengthen FOXs brands, improve user experiences, and bring your advertising capabilities more fully into the digital age to drive long-term returns for shareholders. Where do you stand right now in all of these efforts, and can you talk about like top priorities over the next say one year to two years?

Lachlan Keith Murdoch
Executive Chairman, 21st Century Fox, Inc.

A

Sure. First of all, Jessica, thank you very much for having me. It's an honor to be here with you and with all of your guests, and hopefully over the next half-an-hour, 40 minutes or so, I can give you as little bit of an insight into how we think about the industry and our business, and it's a business that we are very optimistic about as we sit here today. So thank you for having me. Talking specifically, I think your question around where are we in our transition to digital world for distribution for our brands and our content. I think it's important to understand that, I think we're midway through the transition.

So you talked about what are our goals and plans for the next 12 months to 24 months, but also, what we've achieved over the past 12 months to 24 months. And so I think we're sort of midstream in this transition. Core to

the transition for us has been a focus on our core brands. We see a digital future really being based around high quality brands that really drive engagement with all of our consumers. So the FOX Broadcast Network, FOX Sports, FX, and when we talk about FX, we talk about the suite of FX channels, now with FX, the newly launched FXX and FX Movies, National Geographic Channel, and we can talk about – and FOX News. Obviously, another major brand in our portfolio with Star, but we can talk about that separately when we talk about international.

Jessica Jean Reif Cohen

Analyst, Bank of America Merrill Lynch

Q

And then...

Lachlan Keith Murdoch

Executive Chairman, 21st Century Fox, Inc.

A

So it's been very important for us to have the strongest content brands possible, and driving the strongest amount of content and really investing in that content. So I think this year alone we'll invest another an additional \$200 million just in the content in the FX brands and in National Geographic content. And why we think that's so important is that, we see as downstream distribution becomes more and more competitive, the value will flow upstream to the content owners. It's like salmon, value swims upstream, and we're very well positioned in that world.

So for last few years we've strengthened those brands, investing in that content, we think we have the best bouquet of channels out there in the market. And then, what we are now doing is actually building out a digital platform for Television Everywhere. So we say, how do we improve the television experience for consumers, how do we improve with one set of authentication where consumers can have all of our content with a very ease of access, shared data and monetize it much better from an advertising platform. And then from there, you move into direct-to-consumer opportunities down the road.

Jessica Jean Reif Cohen

Analyst, Bank of America Merrill Lynch

Q

All right. A big part of advancing these goals started with human capital, and since last summer you've been hard at work engineering the new face of FOX, streamlining the ranks across your divisions, promoting and hiring the next generation of leaders, can you talk about where you stand now in terms of optimizing your labor pool for the next stage of growth?

Lachlan Keith Murdoch

Executive Chairman, 21st Century Fox, Inc.

A

Sure. So well, I think, it's a constant process. I don't think you ever get to a point where you make changes and we're going to be happy and sit back. James and I, and also our father, we're very ambitious about the company. We have great opportunities in front of us, and we need to make sure our team is the right size and also has the right skill sets to drive those opportunities. And so this year, we didn't need to do it, but we did a voluntary buyout program for people across the company, it was very successful.

We were generous with the buyouts, but we wanted to right size our team, not just through – from the top of the company all the way through all of our staff. That was a very successful program. We flattened the structure with FOX International Channels, we felt that was important that we could be more nimble in managing that business. And we've given succession changes in different areas of business, including the Studio, and slightly earlier than planned, obviously, at FOX News.

Jessica Jean Reif Cohen

Analyst, Bank of America Merrill Lynch

Q

We'll get to that. On the last earnings call, you discussed the need for greater flexibility and selectivity with respect to capital allocation. Naturally FOX seems like a good buy, we obviously have a Buy on it on the U.S. one, but your company has historically been opportunistic and strategic in your approach to M&A. So can you talk about where M&A fits in with your thinking right now? I know you focus more on upstreaming, you've mentioned upstream, but do you focus more on upstream content-centric opportunities, technology platforms, or downstream distribution-like investments?

Lachlan Keith Murdoch

Executive Chairman, 21st Century Fox, Inc.

A

Well, so you're right. We have historically been opportunistic around M&A, and we'll continue to be opportunistic around M&A. We don't see anything currently, or are not planning any M&A in the short to medium term. But we will be opportunistic as opportunities present themselves. But we are, particularly focus on today is driving the earnings of the business and value of the business. We are, I'm not sure frustrated is the right word, but we are focused on what we think is the value discrepancy between the FOX stock value versus some of our competitors.

I mean, if you take out our publicly-listed affiliates like BSkyB obviously being our biggest outside investment, I think the rest of FOX trades at a multiple that's at least two multiple points below our peer. And we're trading around a low-7s multiple when our peers are in the high 8s and 9s. And that simply, if you look at the value of our assets and the trajectory of our assets particularly for instance our U.S. cable assets that are growing very well, we don't understand why that discrepancy is there. So we're very focused on that, Jessica.

Jessica Jean Reif Cohen

Analyst, Bank of America Merrill Lynch

Q

All right. You and James have discussed your management structure as being a 50-50 partnership. What have been the main benefits of this structure, and how is your father involved in management at this point, and how do you anticipate the roles evolving over the next few years?

Lachlan Keith Murdoch

Executive Chairman, 21st Century Fox, Inc.

A

So James and I run the business completely together, and call 50-50 a joint at the hip, whichever however you want to describe it, if we talk. And I think that the key to that and the reason why it works is because we talk every day. We make sure we share all the information. We're sharing all the major decisions, and we're very close in that way. So also from a reporting point of view, everyone knows that they report to both of us. And the way that doesn't become cumbersome is that, James and I are sharing information all time. So people don't have to tell both of us, report twice, they can report to one of us and speak to Ben, and they're effectively speaking to us both. So everything is transparent, and we work very closely together. I think then of course with our father, he is in the office every day. I spoke to him actually this morning driving here, he was at FOX News. We have, as you know, he is also the Interim CEO of FOX News as we are transitioning that succession there, and he's got more energy and ideas than ever.

Jessica Jean Reif Cohen

Analyst, Bank of America Merrill Lynch

Q

Okay. And Hulu slated to launch its new live streaming service early next year, and there has been a lot of buzz around the potential value both to the owners and the affiliated TV networks. I guess, a couple of Hulu questions,

what can you tell us about the new Hulu service either in terms of the channel offering, its price points, the launch date, the look and feel to the consumer?

Lachlan Keith Murdoch

Executive Chairman, 21st Century Fox, Inc.

A

So a lot of these questions are more appropriate for Hulu, and we are one of four partners in Hulu. So without giving away too much, I think they've announced there will be a launch early next year, next calendar year. We are excited as much as being a partner at Hulu, but also as being a content and channel provider to Hulu. We see their concept of a core bundle as incredibly important as we see television evolving in a digital age. Our core bundle as different from a skinny bundle or a la carte means that, can you have the channels that the majority of viewing accrues to for hopefully the lowest possible price.

And again that's something that Hulu's strategy and they are negotiating with the other partners and with other content providers. But the concept of that is very effective to us. And for us, as a provider of our channels and our content to Hulu, it's important that we make sure that we receive roughly the same amount of value per subscriber from Hulu or from a third-party over-the-top digital MVPD as we do from traditional MVPDs. So as a cable bundle, a cable basic slowly declines where those consumers are going to get their viewing and to watch our content, we're made whole, we lose no value if someone's watching an MVPD or digital MVPD.

Jessica Jean Reif Cohen

Analyst, Bank of America Merrill Lynch

Q

But on that topic, so the value per channel will be similar as everybody said, but will all your channels be included, and what about the local stations and the RSN, like the total package?

Lachlan Keith Murdoch

Executive Chairman, 21st Century Fox, Inc.

A

Yeah. So it's very important to us that all of our channels are included. But I think that's also core to their channel proposition or the core bundle proposition. If you left out sports, sport is one of the most popular highly viewed products on television, and so you can't by definition have a core bundle without having sports in the core bundle. If you look at our RSNs, our regional sports networks, I think in the first half of the baseball season, of our 15 RSNs, top RSNs, that we're in the top five view, when there's a baseball game on, we're in the top three viewed shows on the night. And I think nine of those were in the top two, and five of those were the number one networks on the night, including broadcast. So it's very important that the RSNs are in a core bundle because that's what consumers are watching.

Jessica Jean Reif Cohen

Analyst, Bank of America Merrill Lynch

Q

Okay. And beyond the four owners...

Lachlan Keith Murdoch

Executive Chairman, 21st Century Fox, Inc.

A

And I'm sorry, you also asked about the local stations, and the local stations will be in as well.

Jessica Jean Reif Cohen

Analyst, Bank of America Merrill Lynch

Q

And beyond the four owners of – obviously, you, Time Warner with 10% stake, Disney and Comcast, there were number of other channel groups both national and local that are optimistic, they sound optimistic that they'll actually get into the Hulu product. How is that possible? Who has rumored offering prices roughly \$40? How can they have that many channels or that many other channels and still make a profit or more than make a profit?

Lachlan Keith Murdoch

Executive Chairman, 21st Century Fox, Inc.

A

I think, so that's a question for Hulu. For us again, Hulu as a shareholder and a partner we're excited about the prospects, their prospects is they're describing them through us. We also are extremely excited about their prospects as a content provider to them. So there's dual benefit to us. But we are always very careful with Hulu that there is a wall between what we can see, we don't see their negotiations with either of the other partners, or with them, or with third-party content providers. So yeah, I'm sure they'll strike appropriate deals for their business plans. But we don't have transparency into their conversations with our competitors.

Jessica Jean Reif Cohen

Analyst, Bank of America Merrill Lynch

Q

So as an owner of networks and moving away from Hulu, what are you seeing right now in terms of other incremental distribution opportunities from virtual MVPDs both in the U.S. and outside the U.S.?

Lachlan Keith Murdoch

Executive Chairman, 21st Century Fox, Inc.

A

So there'll be more downstream and digital MVPD distributors, significantly more the next six months and 12 months. Today you have, with DISH you have Sling, you have Sony, you'll have Hulu, you'll have DIRECTV over-the-top, there's obviously rumors around YouTube, whether Amazon comes out. And this is in the next 12 months.

Jessica Jean Reif Cohen

Analyst, Bank of America Merrill Lynch

Q

Right.

Lachlan Keith Murdoch

Executive Chairman, 21st Century Fox, Inc.

A

So there'll be tremendous competition downstream. And as I said before, but due to that competition value is really swimming upstream.

Jessica Jean Reif Cohen

Analyst, Bank of America Merrill Lynch

Q

And some of the peers like CBS and Time Warner have already launched direct-to-consumer offerings, for their services. And Disney just bought in, or just exploring, they bought BAMTech, they are exploring their own direct-to-consumer offerings. What are your thoughts for FOX for DTC, for your more well-known brands?

Lachlan Keith Murdoch

Executive Chairman, 21st Century Fox, Inc.

A

Sure. Digital consumer, direct-to-consumer is in all of our future, there is no doubt about that, but we are preparing for that, I think we have the strongest brands that will allow us to succeed in the direct-to-consumer future. Having said that, it's important to note that today the MVPD is our, one of a partner to us. They drive our

business. The MVPDs drive our revenue, and so we have to be careful that we balance both preparing for digital, direct-to-consumer digital experience, but at the same time not increase the pace of decline in the traditional MVPD universe. And so our first step along this path is actually to make TV Everywhere work and then make a great experience for consumers. So we now, we are working on, we will launch in sort of next six months, an upgrade to all of our television network platforms.

So as you know, it's FOX Go, and it's FOX Sports, FOX News, Nat Geo TV, all those digital platforms will have one point of authentication, they will be able to share programming and data amongst themselves. Obviously, there will be one point of marketing, it will be a terrific platform. All of our RSNs will be able to stream live on those digital platforms with all of our local sports rights. So it's a huge advancement in terms of where we have been in the past. So that's the first step. But from that step you've really built a digital platform where then you can extend that to a direct-to-consumer offering down the road, and for us that would most likely be a bundle of our channels as opposed to a la carte offering. But that's probably a couple of years away.

Jessica Jean Reif Cohen

Analyst, Bank of America Merrill Lynch

Q

Okay. Let's focus on one of your great launch pads for new content, the FOX Broadcast Network, and it's part of your business has been turnaround mode, and you've got really talented leadership at the top, with Dana and Gary. Where are you in terms of the network's turnaround, and what are your near to medium-term goals for this part of your business?

Lachlan Keith Murdoch

Executive Chairman, 21st Century Fox, Inc.

A

So I think the key strategic point with the FOX Broadcast Network, is when you put the leadership of the network together with the television studio leadership with Dana and Gary, and this has proven so far to be very successful. Both on the sides in terms of working with scheduling the network, and being able to really develop the right shows for the schedule, and where they can think long-term out ahead 12 months and 24 months in terms of how they want to schedule and what they need.

But also in terms of recurring value in the IP of the shows. So when they were bifurcated, if you really believe we had a great show in the television studio, but you didn't have the right time slot, you couldn't make it work on the TV network, there was a disconnect. Now, I think together as working for the TV studio, getting the right shows, the right pilots picked up and made and it's working for the scheduling network. And frankly this year, by the way, this week before any of your shows premier in the next couple of weeks, all our shows are great. But we'll know in next couple of weeks, but we have an exciting slate of shows both for the fall season and also for mid-season. And I know you are a big fan of Empire, and I've got the first three episodes at home, and it's the best season of Empire ever.

Jessica Jean Reif Cohen

Analyst, Bank of America Merrill Lynch

Q

I'm like in the fanatic category, but okay. Moving on to your cable networks, you've invested significantly over the years at your marquee sports and entertainment brand, including FX, FXX, FOX Sports 1, FOX Sports 2. Can you talk about, will you see yourself in terms of overall competitive footing of these assets, is there more work to be done, you're happy with where you are?

Lachlan Keith Murdoch

Executive Chairman, 21st Century Fox, Inc.

A

Sorry, you're saying in sports or in – across all the channels?

Jessica Jean Reif Cohen

Analyst, Bank of America Merrill Lynch

Q

Those key brands.

Lachlan Keith Murdoch

Executive Chairman, 21st Century Fox, Inc.

A

Okay. So the FX brand led by John Landgraf, he's done an incredible job over last few years. I think it's widely viewed as the best channel – entertainment cable channel that exists today, I think that's right, Vanity Fair had an article on FX on Landgraf early this week, I think on Monday they said it was the greatest entertainment channel that exists. So he's done a tremendous job. The successful launch of FXX and FXM as part of that bouquet, I think it has sort of broadened out that sort of mini-bouquet which I think is very important. So that's done well. And we're continuing to invest in new shows. So I think this year we're planning, if we like the shows, to increase from I think 15 new series to 18 new series per year on the channel.

And we've always viewed, and we're surprised when sometimes our competitors don't do this, but we're always viewed investing in people and talent in the actual on air, the value that goes on air of the shows is important, as we continue to drive these brands and improve them. We never see ourselves sitting back and saying FX is a great brand or another business is a great brand, and we're willing to sit back and not invest in it. You'll always have to keep refreshing and investing in the brand and in the content. So FX has done incredibly well. FOX Sports, with the launch of FOX Sports 1 and FOX Sports 2 and both are net profitable, the aggregation of our national cable sports business with our broadcast sports business has been important in terms of how we manage rights.

And if you look at those businesses, all of our national sports, particularly while on FOX Sports 1 and on the Broadcast Network, all of our sports rights are quite – there's not a major sport that comes up within five years. So the NFL is 2022, Major League Baseball's 2021, so we have, I think NASCAR's 2025, and I think U.S. Open Golf is also in that range, sort of 10 years out. So we have a tremendous sort of long tails, sort of a high quality sports content that's locked in at that sort of existing values, our contractual values, and the businesses are really starting to work very well. FOX News, I think August, what we were the number one cable channel, not just news channel, but cable channel in both primetime and across the whole day. FOX News is having its best year ever, and also in August, it was the 176 months of being the number one cable [indiscernible] .

Jessica Jean Reif Cohen

Analyst, Bank of America Merrill Lynch

Q

So let's talk about FOX News for a second. FOX News is just – like talk about the kind of some of the issues that are going on. Obviously, we don't expect you to talk about pending litigation, but can you talk about what you're doing as a management team to address the allegations that have been flying?

Lachlan Keith Murdoch

Executive Chairman, 21st Century Fox, Inc.

A

Yep. Well, I think we have – we've done a pretty – we pretty aggressively addressed those allegations. I think on July 6 was when Gretchen Carlson sued Mr. Ailes and the lawsuit landed. And I think Roger resigned within two weeks, right? Within a couple of days, we launched an internal investigation, and I think we've moved with a great deal of alacrity and speed, and protected the business and the employees of the business in every way we could as fast as you can. And I really – it's hard to imagine another organization that could have moved sort of that, that

quickly. And so, moving forward, we have promoted a number of people within the organization to work with our father as the interim CEO. And if you think about that, he's actually been – he's probably been the one executive who's spent the most time at FOX News the last several years in the newsroom talking to the journalists and the producers, and it's going from strength to strength.

Jessica Jean Reif Cohen

Analyst, Bank of America Merrill Lynch

Q

But given the ongoing leadership changes, because as you said your dad's the interim head of the network, should we expect any shift in strategy, talent retention, programming?

Lachlan Keith Murdoch

Executive Chairman, 21st Century Fox, Inc.

A

Yeah. I think, look it would be foolish of us, if you think about the success of FOX News both in its positioning, and the voice that it has. And then you think about where our competitors sit, whether its CNN or MSNBC or others, it would be foolish of us to copy a failed strategy as opposed to stick with the win strategy. So we don't foresee any changes at all in the positioning of FOX News or the voice that it projects.

Jessica Jean Reif Cohen

Analyst, Bank of America Merrill Lynch

Q

One last FOX News question, but aside from the leadership changes at FOX News, you've experienced significant rating strength, and as you said on your fourth quarter call, you're on track to have your highest rated your ever. How do you – post elections how do you carry that into 2017 and beyond?

Lachlan Keith Murdoch

Executive Chairman, 21st Century Fox, Inc.

A

Yeah. I think look election years are always good rating years, right?

Jessica Jean Reif Cohen

Analyst, Bank of America Merrill Lynch

Q

And this one especially.

Lachlan Keith Murdoch

Executive Chairman, 21st Century Fox, Inc.

A

And this one especially. So – yeah, I think – it's hard to have a crystal ball but it will be difficult for all of the news channels, right, to maintain the ratings that they've achieved next year or this year next year. So, I think it's a – we can expect – we'd expect relatively to maintain our substantial lead over our competitors, but presumably the ratings will come down year-on-year.

Jessica Jean Reif Cohen

Analyst, Bank of America Merrill Lynch

Q

So let's switch gears and move over to India.

Lachlan Keith Murdoch

Executive Chairman, 21st Century Fox, Inc.

A

It also depends on who wins, right, so because I think there still will be a lot of news going into at least the beginning of the next term.

Jessica Jean Reif Cohen

Analyst, Bank of America Merrill Lynch

Q

Right. Sure. So, you've invested significantly in Star...

Lachlan Keith Murdoch

Executive Chairman, 21st Century Fox, Inc.

A

Yeah.

Jessica Jean Reif Cohen

Analyst, Bank of America Merrill Lynch

Q

...and you've finally begun recognizing profits from the asset. It's a long period of investment. Can you just talk about the strategic significance of Star within the FOX portfolio over the next few years?

Lachlan Keith Murdoch

Executive Chairman, 21st Century Fox, Inc.

A

It's very strategic and very important to us. And I think it's an underappreciated asset and I urge, I know you've made the trip out there and visited and I hope you do so again and also invitation to everyone to visit Star is open because it's not until you're actually in the market and you're sitting with their executives that you appreciate the value and the opportunity that's there. So, I hope you'll do that.

Jessica Jean Reif Cohen

Analyst, Bank of America Merrill Lynch

Q

[indiscernible] .

Lachlan Keith Murdoch

Executive Chairman, 21st Century Fox, Inc.

A

But...

Jessica Jean Reif Cohen

Analyst, Bank of America Merrill Lynch

Q

So let's go back.

Lachlan Keith Murdoch

Executive Chairman, 21st Century Fox, Inc.

A

Well, it's an open invitation. Look Star is an incredible asset and it's – I think the important thing I know, look, it's important for us too because we will see a lot of growth from Star over the next couple of years. We've talked about that openly. I think it's a – we should see \$1 billion EBITDA in 2020 so – and we are on track for that growth. The only caveat you put to that is obviously the Indian economy. You want the Indian economy to stay healthy and stay strong but we think sitting here today that that'll happen.

So, we're very, very positive about Star and it's important for our growth prospects. But little bit specifically about Star, for instance, Star is not a – it's not simply a distribution platform. A lot of people think of it as a distribution platform but Star is really a content owner and program producer and brand, it's a channel owner in a way that are sort of FOX Network Group here is in the United States.

I think Star produces 17,000 hours of local content per year – fresh local content per year in eight different languages. It's obviously number one in sports and it's by far the number one broadcaster media company in India. We've launched a digital service called hotstar, which had 70 million downloads. It was the fastest downloaded app in the Indian history. Between July and August the minutes streamed at hotstar went from 750 minutes streamed to 2.5 billion minutes streamed on hotstar, and this will grow actually significantly with the launch of Reliance Jio mobile 4G service, which hotstar is the exclusive program provider for. So on the Reliance Jio phones, which they are – it's the biggest launch of a consumer product in many, many years. hotstar is the exclusive television provider on the platform. And so we think – and where every single consumer will have access to hotstar premium which is a \$3 service. And they'll have that offering provided by Reliance for free.

So it's a very exciting time in India for us. Just have this in perspective, those streaming numbers for hotstar is about, if you compare with a Netflix in India, Netflix is about 6% the size of hotstar, so we're very bullish on the Indian market and the prospects of Star.

Jessica Jean Reif Cohen

Analyst, Bank of America Merrill Lynch

Q

Let's move over to the film studio. Can you talk a little bit about how the leadership transition at the studio has progressed so far?

Lachlan Keith Murdoch

Executive Chairman, 21st Century Fox, Inc.

A

Sure. It's very early days for those of you who don't know, Jim Gianopulos who's led this studio extremely well over very many years, he had a year to go in his contract, but agreed to transition to his deputy, Stacey Snider early – earlier than he would otherwise – sort of 12 months early. And that's really led to a very smooth, I think transition, what we're trying to do, James and I and our father is actually, as we sort of see generational successional changes in these businesses, be transparent about them, work on them ahead of time, and have both sides of the succession. Jim is still working with us as a consultant. He's still a great friend and he's been a great executive for us. He's been involved in Stacey's transition, and it's going very well.

Stacey's now been there for less than a month, right, as a boss, but she's been in the business for over a year, learning, not learned the business because she knows it, but understanding what we need to improve, where we can do things differently. And she's really hit the ground running, and has already started to bring in some new executives. For instance, she's brought in a woman, Pam Levine as head of marketing for the studio, who came from, I think from HBO, who'll be a great addition to the team. So, she's hit the ground running and things are going very well.

Jessica Jean Reif Cohen

Analyst, Bank of America Merrill Lynch

Q

But you've had like a few unusual, like unusually weak box office results, what can you do to make the business a little bit more consistent?

Lachlan Keith Murdoch

Executive Chairman, 21st Century Fox, Inc.

A

So, yeah. So, and I think this is important also, and maybe contrasts us with some of the other studios, not all the other studios, is that you have to look at the studio business over a period of years. You can't look at the studio business over, necessarily one summer or one six months, or 12 month period of time. You want to look it over a couple of years or few years to really see how the trend of your movie releases has gone.

We felt in the studio that we have some great hits. We had, I think Deadpool earlier this year, which was a crazy film and a brilliant film. We're really proud to make us also in the number one R-rated – the box office grossing R-rated film of all time. We made it up for a great price, which was – we look at box office, but we also look at profitability. It doesn't matter if you've got a great box office, if you've spent too much on the film. So, but we've also had movies that just didn't quite get there, that had good scripts and good directors and great talent associated with it, but just didn't quite achieve what we wanted them to achieve. And so, when we look at that over a couple of years, we thought it was time to shake things up a little bit in the studio.

Jessica Jean Reif Cohen

Analyst, Bank of America Merrill Lynch

Q

And just one more question before we open it up.

Lachlan Keith Murdoch

Executive Chairman, 21st Century Fox, Inc.

A

But it's important to also note that the studio is not – we haven't had – while we've had films that have underperformed, we haven't – the studio is profitable right, it's doing fine, but it should be doing much better and be more consistent.

Jessica Jean Reif Cohen

Analyst, Bank of America Merrill Lynch

Q

Absolutely, you're one of the most profitable studios, that goes without saying. So, one more question and we'll open up for a few questions. You own pieces of substantially underappreciated assets from your stakes in Hulu as well as Sky to smaller investments such as Tata Sky, which is in India and was really impressive. Is the status quo ownership structure for these stakes accessible and if not, are you a net consolidator or you a seller of these assets?

Lachlan Keith Murdoch

Executive Chairman, 21st Century Fox, Inc.

A

Well, we're happy where we're on that. And, obviously, the big ones like Sky, we see great growth in Sky. We see – we sold our Sky Deutschland and Sky Italia into Sky. We, obviously, were able to take a bunch of cash that which we used for buybacks. We're through that cycle almost completely now. But then obviously we maintained our share of ownership in Sky, BSkyB and so we see great upside in terms as they implement all of the synergies. And by the way, the synergies they found are greater than BSkyB thought buying those businesses. And there are synergies both in cost, but also in technology and innovation and programming ideas and so that, that has really gone very well.

I think they're having a Investor Day by the way October 22, I think it is, which will be a great opportunity for people to see how well they're doing. So we're very happy with our position as we are, with the other associates you've mentioned, but we have no plans currently to either consolidate them or to sell them at this stage.

Jessica Jean Reif Cohen

Analyst, Bank of America Merrill Lynch

Q

Okay. And any questions from the audience? Dennis.

Q

Just curious, if you're so frustrated with the valuation difference, why are you reducing the amount of share repurchases?

Lachlan Keith Murdoch

Executive Chairman, 21st Century Fox, Inc.

A

So I'll answer that in two ways, one, we see – so we're very optimistic about the future in our business, and in the general sort of media business programming and content and channel brands as we go forward. So we want to make sure that, with our capital, we're going to use it in a way that is the most accretive to shareholders. And so, we're taking a pause. We said, we actually have approval for another \$3 billion worth of buybacks from our board. We don't expect to use that for authorization, and we want to see what other opportunities are out there to strengthen our balance sheet.

It's important to note though that we did at the same time announce that we are – once we still have to complete our current share buyback – the \$5 billion share buyback, we have a little bit left of, we expect to complete that. We don't expect to use the authorization of the next \$3 billion, but at the same time we did increase our dividends by 20%. We thought this was important for our shareholders, so we went from a \$0.24 dividend to a \$0.30 dividend. So it was a big jump in one go, but we wanted to make sure that we're in line with our peers and that wasn't a drag at all on our share price.

Q

Yeah. I had a question on advertising, but before I ask that question, I just wanted to thank you Jessica and your team and the people at Merrill for putting on another year conference so...

Jessica Jean Reif Cohen

Analyst, Bank of America Merrill Lynch

Q

Thank you.

Lachlan Keith Murdoch

Executive Chairman, 21st Century Fox, Inc.

A

Yeah, thanks.

Q

You've been pretty specific and you've rather been pretty specific about the lift that FOX Broadcast has been getting from Nielsen to the audience in 30 day ratings, but you haven't been very specific about the incremental dollars that you could get if all that audience was counted and/or the timeframe to that. So would you, please?

Lachlan Keith Murdoch

Executive Chairman, 21st Century Fox, Inc.

A

So, on nonlinear advertising, it's – when you look at both, when you go from 3 day to 7 day to a 30 day viewing and you also look multi-platform, right. So you have to look across Hulu inventory, FOX NOW inventory, some of

what we've been discussing this morning around our authenticated apps being on a much more sophisticated platform.

A big part of that platform is actually building in the ability for dynamic advertising, altering the ad load. We are strong believers in creating an advertising load that might get easier to view. So less advertising, but much more engaging, and obviously the acquisition of TrueX has allowed us to gain a benefit from all that technology where a viewer can choose not to have any advertising bar one to start with, but they have to engage with the ad, right, and that's been incredibly successful for the brand, the major brands that are using it.

So these are early days with all of this, but 50% of our viewing to go to your question is now non-linear right. It's not on broadcast TV within three days. And so, in theory, you could argue, if you're monetizing the engagement, exactly, equally, all right, and at the moment there's a discount for digital, but if it was equal, you'd be, you have double the advertising. Now that's not going to happen, not going to happen any time soon. But certainly, this year in the current pacing, our non-linear advertising is pacing 50% ahead of last year. So but it's multiple strategies and multiple technologies that you have to use to garner that.

Q

And could you share with the basis for that 50% growth?

Lachlan Keith Murdoch

Executive Chairman, 21st Century Fox, Inc.

A

It's across the board. It's across all of those technologies and whether it's Hulu, whether it's for FOX NOW, apps, TV Everywhere, so it's across the board. We're also seeing, which is important, is that there is a – this happened in the upfront, and obviously, the upfront for all the networks was, I think very strong, was certainly very strong for us. But there is a shift in mood away from pure digital platforms to highly engaged video viewing on whether it's on a broadcast network, but also on are around the digital platforms that carry our shows.

Q

You mentioned earlier that you think that the downstream area, I think of cable networks is getting more and more competitive. So I guess two follow-up questions to that, one relates to Viacom, would FOX have any interest in those assets? And two, is there an opportunity for FOX or one or more other parties to consolidate or restructure those networks, to maybe have fewer networks at the end of the day, and maybe reduce some of that downstream competition?

Lachlan Keith Murdoch

Executive Chairman, 21st Century Fox, Inc.

A

I think on the second question, let me start with first. First of all, you've got to be sort of – your focus on or think about what we have – what we have not done as much as what we've done, right. And this is something that James, James has made this point a couple of times, that we've been very disciplined not to either overpay for assets or buy assets that we don't believe we need. And I think so when it comes to the some of the Viacom assets, we think our cable bundle is actually across sport, news and general entertainment. We think we have the best brands and the best content in those and sort of documentary if you think about National Geographic, in all those key pillars we think we have incredibly strong brand and we're very well positioned. And we think are

focusing add-on fixer-uppers into that bundle, would not be beneficial, and we don't need them and we wouldn't be interested in them. The second part of the question I think is on sort of downstream...

Q

[indiscernible] .

Lachlan Keith Murdoch

Executive Chairman, 21st Century Fox, Inc.

A

Yeah. Look I think downstream, like we're seeing more and more competition downstream. It's technology is allowing that to really burgeon. It's an incredibly – it's going to be an incredibly competitive and exciting world. We're playing it a little way with Hulu with our other partners and we're excited to be helping shape the downstream ecosystem in some way from a little bit of a distance, but we're happy to be there. But we see, as I said before, the value like salmon swimming upstream and there'll be a great deal of value coming to all of our networks and our content.

Jessica Jean Reif Cohen

Analyst, Bank of America Merrill Lynch

Q

Just one last question.

Lachlan Keith Murdoch

Executive Chairman, 21st Century Fox, Inc.

A

Yeah.

Jessica Jean Reif Cohen

Analyst, Bank of America Merrill Lynch

Q

And then we'll wrap it up.

Q

A quick question on kind of the window of releasing movies. Do you see that changing anytime? Do you think you can monetize your films better if you went direct-to-consumer sooner?

Lachlan Keith Murdoch

Executive Chairman, 21st Century Fox, Inc.

A

Okay. Obviously, there's a lot of talk about this and there is technologies like Screening Room that are in active discussions with other studios around a changing windowing to bring a consumer window either all the way forward or partially forward for the theatrical release. It's something that you have to be very careful of and the economics of how that works, not just for us, but for obviously theatre owners and our profit participants and you've got to be very cautious about. So I think windowing will change. There'll be more consumer voice – consumer choice. Consumers are demanding it, so absolutely that that will happen, but we have to be careful about how fast it happens and that make sure that we have the same economics or better economics with a windowing change rather than worse economics, so. Thanks.

Jessica Jean Reif Cohen

Analyst, Bank of America Merrill Lynch

With that we're out of time, but thank you so much Lachlan Murdoch for joining us today.

Lachlan Keith Murdoch

Executive Chairman, 21st Century Fox, Inc.

Thank you very much. Thank you. Great, thanks.

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