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# EDITED TRANSCRIPT

FOXA - Twenty-First Century Fox Inc at Goldman Sachs Communacopia Conference

EVENT DATE/TIME: SEPTEMBER 21, 2016 / 6:05PM GMT

## CORPORATE PARTICIPANTS

**James Murdoch** *Twenty-First Century Fox, Inc. - CEO*

## CONFERENCE CALL PARTICIPANTS

**Drew Borst** *Goldman Sachs - Analyst*

## PRESENTATION

**Drew Borst** - *Goldman Sachs - Analyst*

We will get started with our next session. I'm pleased to welcome to the stage James Murdoch, the CEO of Twenty-First Century Fox, a position he's held since July of 2015. Prior to that, he had a number of different positions within the Fox and News Corp. companies, including CEO of STAR, CEO of BSkyB for a period of time; co-COO. So we are very lucky to have him here today. Thanks for being here.

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**James Murdoch** - *Twenty-First Century Fox, Inc. - CEO*

Thank you very much for having me and thank you all for taking the time.

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**Drew Borst** - *Goldman Sachs - Analyst*

So, James, let's start out, maybe you can highlight for us your strategic priorities for Fox over the next couple of years. Where are you focusing your time and energy these days?

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**James Murdoch** - *Twenty-First Century Fox, Inc. - CEO*

Well, look, I think, first of all, for us, obviously, the marketplace -- and the market that we operate in is very much a global one, so there's a lot of different competitive dynamics and a lot going on. But I'm going to start with the basics and say the first thing we have to do, we really can't succeed without it, is maintaining and increasing the level of creative excellence in the business. Ultimately, we make entertainment and news and sports for customers and we need to make sure that we are doing that at a high enough level and really a great enough level to be really something that matters for customers and for our viewers out there.

So we are very, very focused on that and that's across the board from the way we are making scripted entertainment to the way we are approaching our filmed entertainment business and then how we are monetizing those things as well. So first and foremost, this is really a business about creative excellence and making sure the brands that we are operating, which by the way are much simplified from where they were many years ago.

We've really spent a lot of time over the last number of years simplifying our operating model; simplifying our approach; focusing on core brands that really matter for customers around the world, be it STAR, or National Geographic or Fox, or the Sky businesses, which we are a substantial minority in and focusing on those brands and making sure that that's what we are doing and we are not spending a lot of time doing other things so that we can really have a simpler operating model, simpler to understand, simpler to manage and more straightforward where we are making capital allocation decisions with respect to how to invest organically in those businesses and grow them. Fox Sports 1 and 2 being a good example where that's really been a good experience.

So first of all, it's about creative excellence. The second thing is really about operational and organizational excellence, and that's really about capability. It's around being able to approach the marketplace with real velocity and really set the pace in terms of how we are licensing things, how we are monetizing, how we are innovating with respect to advertising, for example and how we are creating new businesses like our hotstar platform India.

So how do we have the organizational excellence to be able to move quickly, to be lean and really have a different level of capability than maybe was necessary 10 years ago. We really think the shape of the business over the next 5, 10 years and beyond is different and requires a slightly different skill set and we are really building that. In the last year, we've made a lot of progress organizationally towards that goal and we feel pretty good about where we are.

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**Drew Borst** - *Goldman Sachs - Analyst*

Okay. In the past, you've talked about focusing on the consumer experience for video consumption, which can be kind of tricky because a lot of your existing businesses, it's a wholesale relationship where you don't have that direct connection with the consumer. So as you look to the future over the long run, do you expect to have more direct-to-consumer models inside Fox?

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**James Murdoch** - *Twenty-First Century Fox, Inc. - CEO*

I think there is a couple of elements to that. First of all, I'm more of a -- I guess in my background there's more of a product person, so I focus a lot on starting with the customer and working backwards from there. And what's working for the customer and what isn't. How does it relate to their life stage, the decisions they make, the ease of discoverability of content for example, how all of that works. And I find that simply outsourcing and washing your hands of the customer experience is a pretty dangerous place to be.

Now, that doesn't mean that we need to be direct-to-customer directly ourselves, but it certainly means we have to focus more on what are the behaviors in our business around licensing, for example, that create a bad user experience. So arbitrary holdbacks, windows that don't make sense. How do we tackle some of those commercial decisions working from the customer first and then backwards to our business?

I think also -- and this is what's so exciting about the streaming environment -- even on an authenticated basis, which is fundamentally still a commercial wholesale relationship, we can create a customer experience that's very rich and very powerful. We can actually license our programming in the right way. We can create series stacks, multiple season stacks, etc. We can make our product much more discoverable in those environments and that's why apps like Fox Now or FXNOW or FOX Sports GO, which are really in their infancy, we are doing a lot of work on. We've actually -- I mentioned organizational development before. We've actually created a whole group around pulling that together with some of the best experience from around the world in terms of customer user experience development to review all of those apps in that authenticated environment, which is ultimately available to 80 million to 90 million in the US.

So I think it's about paying much more attention to that user experience just as a firm and making sure that it's top of mind at a senior level focused on. It's not necessarily all of our business has to go and be direct to consumer. Whether or not we choose one day to independently price a direct-to-consumer offering domestically here in the US is a decision that can be made at that time, but we are focused on building the capability that even in an authenticated environment we have the user experience right, we have the ability to monetize and innovate in terms of advertising experience and we have a data capability across the piece that really makes sense.

And it's similar -- when I look at for example what we've been able to do with the Sky businesses with Sky Go, which you know over half the customer base uses, but it started many, many years ago with licensing programming in the right way to make it available on a multi-platform basis. So while it may feel like you are trying to consume a, whatever, an elephant, right, that it's too complicated, the licensing deals are in place. If you start now, there's enough time to get it done and you just have to keep working through what those issues and barriers are in the business.

So fundamentally, I think direct-to-consumer is really important. The capability in our business is strong there, but we need to focus more particularly domestically in the US where the absence of a great customer experience amongst the existing MVPDs, with the exception probably of X1 right now, has led to a lack of competitiveness for them and those existing MVPDs not performing as well as they could in terms of total subscriber growth. I think this explosion of competition downstream, new entrants as barriers come down who can come in and bundle programming, so-called core bundles of programming with stuff that is great, is full of strong brands and great programming at reasonable price points I think will usher in a lot of innovation and ultimately a totally different perspective on the total universe growth that I think will come in that environment.

**Drew Borst** - *Goldman Sachs - Analyst*

Yes, maybe to your point, maybe one good example is what's happened I think just in the past year. A year ago when you were here, we had just gotten a shockingly bad decline in subs and the market was digesting that. There was a lot of criticism from investors about the SVOD strategy, licensing content to the SVOD providers and was that a good short-term decision, maybe a bad one in the long term. But since then, I think we've seen the media companies, including Fox, coalesce around a strategy of trying to get those VOD rights back into the MVPD system. I'm thinking of in-season stacking rights. And I guess that's the type of thing you are talking about where, again, you don't control the end consumer, but the way you license some of your content can influence the consumer experience.

**James Murdoch** - *Twenty-First Century Fox, Inc. - CEO*

Exactly. When I talked about an organization that can start to set the pace in some of these areas, I think it's really -- I think that's what we are trying to do and when we started -- we started that journey a while ago and we've been very clear about it now. Our interest is in making our programming more available, not less. It's certainly around resisting or not agreeing to arbitrary holdbacks and business rules that impact the customer experience and drive them to other places. It's about having the right kind of programming, but also then packaging it in the right way that it's discoverable and straightforward for people, to your point.

So we largely license on a nonexclusive basis. We want to encourage more competition. We think it's the best way to improve the customer experience and to get growth in the overall marketplace. Every time we've seen new entrants come into the MVPD marketplace, be it when the DBS guys properly with Ku band to -- which seems like ancient history; it wasn't that long ago -- to FiOS and U-verse at the time, it grew the overall marketplace, and I don't see the so-called virtual MVPD or true over-the-top MVPD being any different as long as it can deliver a customer experience that's great at a price point that's really attractive.

So we want to see more of those out there. We think that's great for upstream investors like us in content and brands and we also think it delivers a customer (inaudible). And that's why with Hulu we said we are not going to wait for lots of people to do this. We can provide some of that competition ourselves, but we also want to see a lot of it, so we licensed to Sling our full set of brands. We license to Sony Vue. We will license to others and we want to see more of that downstream competition to start -- I was asked just recently about are we looking at the 2% decline in the cable universe -- can that be -- when we say it's going to grow or the new competition is going to change things, is it going stay at 2%? Well, I think it's odd to define a whole industry as a fixed set of competitors and while there will certainly be losers and winners in terms of share within that universe, I think the overall universe can absolutely grow, and I think it will grow with the right products and services at the right price points because video programming that is compelling, that's immersive, that's emotional, that makes a connection with customers is more popular than ever. It's simply a question of some of the business rules that have come up over the last 20 years, they just need to be [knocked down]. I look at it as a huge opportunity for innovation across the piece.

**Drew Borst** - *Goldman Sachs - Analyst*

Yes. I guess Hulu seems like a vehicle to drive some of that change, right? When investors look at it, and we can see through the various disclosures, they are losing a lot of money right now, probably somewhere around $400 million. They are obviously in the process of working on a new product and so enhancing their existing products. And I think investors recognize that there's some strategic advantage to the investment, your stake in Hulu and the direction that it goes, but I wonder if you could talk about the outlook for getting a financial return on that, of Hulu? What's the timeline for Hulu to get to maybe a sustainable level of cash flow and what does that look like?

**James Murdoch** - *Twenty-First Century Fox, Inc. - CEO*

Well, I think, first of all, I would characterize it less as losing a lot of money and more the shareholders are super excited to invest in this new platform. I think the opportunity to create a platform for video distribution and video consumption, sort of on both sides of it, through Hulu and also to then maybe create a bit of a roadmap for others to come in from the standpoint of how they license, how they think about things is just enormous. I think it's enormous for the industry, enormous for all the partners and I think Hulu in and of itself is an enormously valuable asset and will continue to be valuable and grow. But certainly the opportunity now is to build that platform, expand that platform both in the Hulu Plus SVOD business, but also in the new emerging MVPD business to be launched early next year.

So I think all the shareholders are excited about the prospect for the business and I think it's really going to be a great product for customers, but I also think it's going to be something that can spur a lot of competition and innovation in the industry, generally. So for Hulu to be -- when I look at the Hulu business today, the Hulu Plus business today, when you take away the marketing and the overhead and all that stuff on a gross margin basis that is profitable and it's not so much that they are going to lose money forever, it's just that the opportunity now to grow and gain customers and have something new and special in the market at a low price point is just enormous and we don't think we should leave that opportunity on the table, and Hulu doesn't feel that way.

I'd also add that when I look at our nonlinear exploitation of entertainment rights, for example, Hulu is the most attractive place for us from a digital advertising perspective right now in terms of yields, pricing, low ad loads, the opportunity to innovate with new ad products and we think that's very exciting. So, in essence, the streaming business as a percentage of our total consumption and distribution can grow, and indeed grow share as well as just grow in absolute terms, so even if it takes customers away from what you call I think the traditional MVPDs, under the right circumstances that's a huge positive and from the standpoint of customer experience, from the standpoint of innovation, from the standpoint of yield and monetization as well. So we think that that's okay and we are very comfortable with having multiple competitors going through that and actually really changing this industry downstream.

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**Drew Borst** - *Goldman Sachs - Analyst*

Yes. On that last point about the monetization point, I think that gives investors a lot of nervousness to have a bunch of new virtual MVPDs coming out. Some are already in the market, right? Sling and Sony Vue, Hulu and there's probably some others that are rumored to maybe be contemplating. And what we generally know about these services, they have some characteristics that are similar. They are shooting for a lower retail price point, they are generally skinnier bundles.

So when you think about the monetization -- if a subscriber decides to go from the traditional MVPD over to one of these skinny bundles offered through a virtual provider, is the monetization comparable when you total it all up between maybe less channels, the price, the license fee price, the advertising? What are you seeing?

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**James Murdoch** - *Twenty-First Century Fox, Inc. - CEO*

For us, I can't -- I think the point is that the retailer has to make choices about what are the offerings they are going to take in from an input perspective and then how are they going to price it, and there are some things that, you are right, they are going to say I'm going to leave this out, or I'm going to leave that out and I want to get to a price point that's there.

Our strategy has been, as I mentioned before, to really focus on these core brands that really matter to viewers and customers and really invest in them and make them genuinely meaningful for customers and for our retailers. So, first of all, it's easier to license them because you know the rights that you are getting. It's pretty straightforward. There is five brands, for example, here in the US that we work with.

I think the good news is -- so on Sling, we are distributed with our RSNs in that product, on Sony Vue with our RSNs and all the channels in that product, on the Hulu MVPD, even though packaging hasn't been finally determined yet, obviously will be a key part of that offering and we continue to have confidence that if we invest in our programming in the right way and in those brands in the right way, we will be able to be distributed there.

So the goal -- and I think it's becoming a reality -- is that both on an affiliate income basis and an ad yield basis, certainly, on a per view per stream basis, it's a much more attractive place to be in a streaming environment like that, of the MVPD or whatever you want to call it. And I think that's the -- that's not to say that the downstream retail business itself is going to be as profitable as a cable MSO. It probably won't be. It will be a thinner margin business, but it will be a much lower cost business generally and it'll be a more fluid, frictionless business and managed in a very different way. And we have to think about there's a lot of different measurements and bits and pieces that need to change, but fundamentally we should be able to instrument our business in a streaming environment much more efficiently and monetize our views and our streams and every minute out there in a much more efficient way.

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**Drew Borst** - *Goldman Sachs - Analyst*

Okay. Let's talk about sports.

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**James Murdoch** - *Twenty-First Century Fox, Inc. - CEO*

And by the way, I should say it's already starting. So it's not theory. So already Hulu is much, much higher yields for us in terms of a per view, per stream basis than our broadcast network and we are looking at really exciting and interesting developments with respect to where we have our [O&O] apps, for example, where customers are using the FXNOW app in terms of usage behavior, in terms of volume of consumption and then how we monetize it with respect to advertising and that's where we are getting the [full-freight] affiliate fee from the existing MVPD as well. So it's already happening and we are seeing that grow as a percentage of our total revenue at a pretty good clip.

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**Drew Borst** - *Goldman Sachs - Analyst*

I was going to go to sports, but before I do that, just your last comment there. You guys made the acquisition of true[X] I guess more than a year ago maybe, almost two years ago. Can you talk about what you think the future of TV advertising looks like? I know that's maybe an unfair, very broad question, but you are doing some very innovative things with true[X] and how you monetize through advertising, so maybe you could talk a little bit about that?

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**James Murdoch** - *Twenty-First Century Fox, Inc. - CEO*

Sure. It's a huge topic. It's really interesting though, the development of advertising and how people are thinking about it right now is I think really exciting. And with true[X], we really saw the ability there to partner -- to acquire a business that both had a number of customers outside of us and the industry generally, but was doing some real innovative thinking about models for advertising and the value of attention. And fundamentally, if we are in a competition for attention, then what we have to think about is, first of all, how do we keep it and how do we make sure, number one, that we are not interrupting -- we invest millions of dollars in creating the suspension of disbelief and we have these cinematic experiences now that we put on TV and then we interrupt that experience at a fixed rate and take people out of the experience into something completely different. And that's not a great user experience. I always go back to the customer.

So what true[X] does, it's really interesting, is they think about how do we reduce the ad loads dramatically, or remove the ad loads entirely and still provide real value in terms of selling the attention of that customer to a brand or a marketer. So engagement units, for example, are where we go in we say, listen, you can choose. You can have a full ad load or you can spend two minutes with a marketer, with a brand, and then you will get the whole streaming session free of ads. And huge percentages choose that. They spend the two minutes. They have a highly engaged experience with the advertiser and you do the research afterwards and the user is basically saying thank you to that brand for giving me an ad-free experience, even though they've spent two minutes or more with the brand saying I like black hubcaps, or this, or whatever it is. So you learn a lot; you have a ton of data; you get 8, 9, 10X CPMs on that in some instances and the customer is super happy.

So we think that introduction of a third buyer, if you will, the customer himself or herself, is hugely powerful. If they value their time more than Coca-Cola does, let them buy it, or if somebody values two minutes upfront more than interrupting you all these times over there, let that trade happen. Customers are hugely smart and they are hugely sophisticated when it comes to doing this.

We see it in the mobile games business. If you look at like -- I don't know if -- I don't play a lot of mobile games, but sometimes I watch my kids play them. They know immediately -- because my kids don't have any money, so they don't have an iTunes account, so they download a game and to get from level to level or whatever it is, they can either pay money or they can watch ads. Super simple and they are completely familiar with it. No instructions necessary.

And that's just the way people are now. We are just much more at ease and fluid with being empowered around those decisions and I think the television business, but only in a streaming environment, can really deliver that and that's what's so exciting about streaming. And that's why we think for all the doom and gloom, to your point about last year's, whatever, subscriber numbers, for all of that, I think we are really just in the early innings of a phase of extraordinary innovation and growth coming from it.

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**Drew Borst** - *Goldman Sachs - Analyst*

And so the true[X] experience that you described, is that being utilized today on some of your platforms?

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**James Murdoch** - *Twenty-First Century Fox, Inc. - CEO*

Yes. We sell those engagement units on Hulu and on our O&O apps.

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**Drew Borst** - *Goldman Sachs - Analyst*

Okay. What sort of response have you received from the advertisers themselves? Has it been positive?

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**James Murdoch** - *Twenty-First Century Fox, Inc. - CEO*

Pretty enthusiastic. We have a bunch of different advertisers who use them. It's early days. It's been a year since we've been doing this and trying to get it right, and you do a lot of AB testing, what language works, how many clicks through to get to this and that, but the response has been pretty enthusiastic. One of the challenges with it is currency, is how do you -- just the language and the currency of the advertising marketplace, and ratings, and views and all that stuff is not ideal today, both on the broadcast side and in terms of capturing all the viewing that's really happening.

But even worse, the apples-to-apples comparison with online video views. When you are in a digital environment, what side are you on, and when you look at Facebook, video impressions at one second or two seconds, or scrolling past, all of that stuff is really confusing for advertisers. And I think fundamentally it is devaluing the attention that our platforms deliver and we need to fix that. And that's something that the whole industry needs to fix, but we are certainly not waiting. We are trying to develop these products and just get our sales shoes on and go out and sell them.

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**Drew Borst** - *Goldman Sachs - Analyst*

Yes, I imagine there's some resistance, some friction because you are selling engagement units and they are like, well, what is that, how do I compare that, but I guess the idea is for true[X] to (multiple speakers).

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**James Murdoch** - *Twenty-First Century Fox, Inc. - CEO*

We measure it in terms of views and data and it's auditable, etc., but I think the real question becomes what are the real measures of attention that are there and how can you get that to be reliable. On an extreme basis, you have box-consuming ads and it's like a fraud online and in other cases, you just have video that's playing in the background and people say it's great; they didn't click off the ad. Well, because nobody was sitting in front of the computer watching it, so in the case of music videos online. And then you have this immersive experience that's full-screen that generally is what we sell and it's one that has a much higher level of engagement and attention. So we need to price that better.

**Drew Borst** - *Goldman Sachs - Analyst*

So what can you do to push the industry forward? true[X], do they wholesale their product or their technology to others?

**James Murdoch** - *Twenty-First Century Fox, Inc. - CEO*

Yes. We work with some of their firms as well, Viacom and others, but it's early days, and I think you want to see a lot of new ad products out there because if somebody has better ideas, we want to adopt those as well. I think the fundamental point is the interruptive nature of the existing model is one that is okay for some customers, but only if they are empowered to make the choice. So we have an ad-free product with Hulu. Not 100% of the customers choose it. They price their own time. They say actually those extra few dollars is a lot. I don't mind the ads because it's a limited ad load anyway and when they are given that choice, they are actually much more satisfied with the ad-supported product because they've been empowered. And it's a simple question of just not shoving stuff down their throat.

**Drew Borst** - *Goldman Sachs - Analyst*

Let's move over to the sports marketplace and you guys are obviously a big player in sports, your RSNs, Fox Sports 1 and 2, still relatively new networks. I think investors are concerned about the ability to monetize sports rights because we see the never-ending escalation and the cost to license sports rights and we've seen -- are seeing the growth in skinny bundles. In a lot of cases, sports networks are getting left out. So how are you thinking about the next couple of years with your sports portfolio and the ability to really monetize it effectively?

**James Murdoch** - *Twenty-First Century Fox, Inc. - CEO*

Well, look, I think one of the things about sports rights that I think you have to keep in mind is, A, not all of those rights or packages are the same. So something may be a great sport that is popular, but it gets too expensive and broadcasters and (inaudible), we need to be able to make those choices to say we are just not going to have that. So, for example, like the English Premier League here in the US got to too high a price and we just said Fox had had it before and we just said, listen, we just don't need it and at that price, it wasn't worth it to us. So you have to make those choices or you walk away from certain things in the RSN markets and say that market doesn't work for us, but another one might.

So I think, first of all, there's not a blanket equivalency across the sports rights marketplace. Number two, I think you have to be mindful of not just how you are investing in the sports, but also do you have a model and a brand that can actually get out there and get in front of customers in the right way. Our investment in Fox Sports 1 and 2, creating that out of specialized channels like Speed and Fuel and stuff, has been a great experience. I think the peak investment was -- and this is a good example of organically investing in the business. The peak investment was $250 million, $300 million and just three years later, it's now producing -- this year coming up, it will be over $100 million of profit, profit now and we see a huge amount of room to grow because it's fundamentally underpriced relative to what it delivers for customers with baseball, NASCAR performing less well and a lot of other -- the Open and other things like that.

So it's really -- we think that's a great example of how you can take that, you can be measured about how you are investing in the rights and then go forward. But it's also -- let's take the big one, the NFL. There's a lot of talk right now around NFL audience on Thursday night and all that sort of stuff, so we ended up not competing aggressively for Thursday night largely because we thought that the digital package being nonexclusive, sharing it with another broadcaster and sharing it with the NFL Network fundamentally diluted the unique value of those rights and it's not surprising that that fragmentation in one package has caused some issues.

We've had two great weekends on Sundays with the start of the season in the NFL. We've got the Super Bowl this year. Pricing is up over 15% in terms of the pacing on ad sales for the NFL. It's an incredible property. It's a premier property. The way it sold, the way it's packaged and the way you go out and bring it to customers is all important to try to make sense of it.

With respect to the so-called skinny bundles -- and again, I would say our RSNs, which are really strong, which we are excited about, are in the Sling package, are on the Sony Vue package, will be in the Hulu package. We think they are very relevant to customers because we pick the markets and we invest in them in what we think is the right way, and many of our -- for example, in like a St. Louis, we can be the number one broadcast network of all broadcast networks on our RSN when the baseball is on and there's a lot of baseball on. So it's actually a really relevant thing for that close market there. As long as you price it fairly and you continue to invest and you don't take those customers for granted, be it your MVPD customer, your wholesaler, or the end-user then you can put something great together for them.

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**Drew Borst** - *Goldman Sachs - Analyst*

So John Landgraf, who runs FX Networks for you guys, he's been out in public talking for a year now or longer about the bubble in scripted television, or peak TV I think it's been labeled. It's very competitive out there and there's a lot of new entrants coming into the space and sometimes their return expectations are lower than what some of the incumbents have enjoyed historically.

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**James Murdoch** - *Twenty-First Century Fox, Inc. - CEO*

Or nil.

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**Drew Borst** - *Goldman Sachs - Analyst*

Or zero. So, yes, I guess that is the question. So what's the strategy to compete in that type of environment?

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**James Murdoch** - *Twenty-First Century Fox, Inc. - CEO*

So John has been pretty outspoken about this peak TV thing. He says we are not quite there yet, but 400 something original series in production, scripted series here in the US, it does feel like a lot. And look, it does make things a little bit difficult. I don't think it's as acutely a price inflationary issue more than -- rather it's really about quality. It's just harder when you have that much in production, how you are casting things; how much time you have; how you are pulling the whole team together; how you get the concept together, etc. All that stuff is very difficult.

Now that said, John talks about this a lot. At the same time, FX is probably more prolific than ever, more successful creatively than ever. The business, even though we are investing in an increase in volume over the next year, is a very profitable business. The brands are stronger than they've ever been. We won 18 Emmys the other night on basic cable and would have had more, but all of our shows were competing against each other in the same categories (inaudible). But the quality there is enormous and John is a proponent of, for the right idea, making more.

And what's exciting about it, when we look at how you monetize this, it is both making those brands matter more for MVPDs; having the volume of product there particularly as you get into an on-demand environment where you have these series stacks and all this stuff. For example, in the cable VOD environment, largely driven primarily by XFINITY, which is the furthest ahead, the FX output is some of the strongest. In some months earlier this year, it was 7 out of 10 of the top VOD consumed programming in the states. That's something that we think is really powerful. So when we go into those negotiations to renew those things, etc., they become very, very relevant because the time spent by those customers is there and clear and you can measure it.

So we believe there is a great return to be made, and then you have the downstream licensing windows, and if you can get it right without the opportunity holdbacks and all those things, we are comfortable licensing in there like we did with the OJ Simpson show, American Crime Story. So I think there are lots of opportunities if you are creating quality. The volume of production means that quality is hard to come by and you just have to have great people and you have to be a place where people can come and do great work, the best work they've ever done, and you have a culture that really enables that across the board, and that's -- you asked me before what I was focused on. It all comes back to are you a place where people are doing the best creative work they've ever done and can you make a home for those folks who can come and do that at a diversity of output and a volume of output that's sustainable. And that's our focus. That's what we are trying to do.

**Drew Borst** - *Goldman Sachs - Analyst*

Yes. I think the track record at FX in particular speaks for itself on that regard.

**James Murdoch** - *Twenty-First Century Fox, Inc. - CEO*

I'm glad you like it.

**Drew Borst** - *Goldman Sachs - Analyst*

So you mentioned the incremental investment because, on the last call, you said you are going to take $200 million of incremental and put it to work in two areas. One is FX, which you just discussed, but the other is Nat Geo and there's been a lot of change at Nat Geo. You brought it in. You are stepping up the investments. Can you talk a little bit about the strategy at that network?

**James Murdoch** - *Twenty-First Century Fox, Inc. - CEO*

Well, National Geographic -- first of all, I would say, the strategy from a business perspective and then we can talk about the TV network -- from a business perspective, the National Geographic opportunity we think is actually pretty straightforward. We think it's just a global super brand. We think it's under -- exploited is the wrong word because they say we shouldn't say that, but it's just undercooked and I think it's a brand that has deep authenticity, real authenticity around the world and the opportunity across licensing and merchandising, location-based entertainment, travel, all of the things that we actually brought in when we put the National Geographic partnership together are very, very large. And we think having the synchronicity of having it all in one place is that you can manage the business from one of the largest Instagram feeds in the world, to the largest kids magazine in the world, to an incredible natural history documentary franchise. All of these things actually come together really powerfully and we think it's a very attractive business.

One of the things that doesn't live up to the brand in terms of what it's capable of has been the channel, and it's been largely in a -- really competing I think for ratings. It's been a low affiliate fee business focused on audience share, vis-a-vis Discovery. I think we have a much bigger opportunity there to make it something that's really relevant that can drive higher affiliate fees, that can be part of an overall franchise reaching customers in the millions through all of its different businesses. And that means we need to invest more in programming. So we've taken our programming budget. We've increased it, but we are also focusing greater investment in fewer hours and really having tentpole global entertainment and global -- I shouldn't say entertainment -- global factual series, some scripted that are great.

We have the first proper one coming this fall called Mars, which looks great and it's about people on Mars, obviously. And we have a show from Ron Howard called Genius, which will be an anthology of the biopic coming forward, the first one is Albert Einstein. How could you start anywhere else? The output looks incredible. It's totally different than what you've seen on National Geographic before, but it's going to take a little time.

So we have to flow that through the numbers. It's a stepup. I don't think it's a continual increase. It sort of a stepup to a level of investment that's more appropriate to the brand and we think it's going to drive a huge amount of value there as we get away from low CPM chasing audience -- and an audience that is not very loyal to a much more engaged customer-focused premium experience with National Geographic that we think can be very, very powerful.

**Drew Borst** - *Goldman Sachs - Analyst*

Yes. And staying on the theme of your cable networks, perhaps you could just talk about Fox News. There's obviously been a change in leadership. You guys have actually moved pretty swiftly to address the issues there. Do you feel like that you have the right team in place now and that the network can continue to grow? It's been a tremendous success story since it was launched back in the mid-1990s, but can you just talk a little bit about what's going on at Fox News?

**James Murdoch** - *Twenty-First Century Fox, Inc. - CEO*

Yes. Obviously, there's a leadership transition that's underway and I would say that, first of all, all organizations continue to evolve, but I would say with Jack and Bill stepping up as co-Presidents there, Jack from the Fox television station side outside of Fox news for a while and Bill who was from within Fox, Bill Shine. Look, I think the business with Jay Wallace, who was elevated to run news last year, the business is actually doing really great. So I don't think that -- when you have a difficult situation like that, a personnel situation that was really troubling, the important thing is to be totally transparent. The important thing is to move quickly and to make sure that the team understands that they are not to skip a beat and the business is going to be bigger than any one person, and I think the Fox News business continues to be very strong. And even with some of the primetime changes actually ratings are up since we made those changes with Britt Hume taking on that primetime hour.

So I think the business looks very strong. It actually, from a ratings perspective, has been stronger than ever, and you'll see ups and downs, but we feel like it's really got a very good franchise and one that we are keen to continue with.

**Drew Borst** - *Goldman Sachs - Analyst*

Another business where there's been some changes recently is at the film studio. Coming off a disappointing fiscal 2016 in terms of the slate, but can you talk about the changes in your outlook at the film studio?

**James Murdoch** - *Twenty-First Century Fox, Inc. - CEO*

Sure. So, first of all, yes, I acknowledge the failures where they are. It was a -- we have not been as consistent as we wanted to be at the film studio, and as we had been historically. We really had a couple of years where we had had some really great things and we go, oh, great, we are not in pain anymore. And then the next thing -- we waste those great things by then having something bad like an Ice Age, or whatever, Independence Day, things that underperformed our expectation.

Now, I would say what we've avoided, which some other studios have not, are massive losses in certain pictures and all of that sort of stuff. And I am proud of the fact that we've been able to do that by managing the cost base in the right way, by having a distribution machine that is very, very efficient and by being sensible about the choices that we are making. But fundamentally we have to make better movies. We have to do it more consistently. We need to focus on the creative process I think maybe more consistently. And to that end, that's what the business is focused on.

We are really excited about the future slate coming up and if I look at the film business -- and I think it's really important for all of us, we shouldn't look at it on a quarterly basis or a yearly basis. You have to look at it as sort of a multi-year cycle because it is -- you have ups and downs, but when I look going further out, at the end in -- I hesitate to put a date on it -- you have the Avatar movies and right now you are starting with Hidden Figures, which looks fantastic. You've got Wolverine: Logan, the last one of that, which looks amazing. You have a Kingsman movie coming up from Matthew Vaughn. We have another Planet of the Apes movie, which looks great. There's quite a lot -- I feel better creatively today than we have for a while and I feel like it's more consistent creatively now.

Some things will work, some things won't, but that's the direction we need to go in. And we also need to be innovative. We need to think about, in an environment that is as competitive as it is for customers' attention, they have great TV at home to your point before about peak TV. It's hard to get a family off the couch and go to the theater and do all that stuff. So, first of all, you have to be releasing movies that are genuinely great, or distinctive, or have a point of view and are really there and special.

But also we have to think about and do something about windowing. We need to think about premium electronic sellthrough more aggressively. We have to think about these crazy holdbacks that the theater owners put in place in terms of these blackout periods that really make a lot of problems for movies. But, again, they are like an arbitrary holdback that we have in the TV industry where a customer really doesn't care -- if I sit down and say, well, there's this thing, the National Association of Theater Owners and I need to rest the movie and then I'm going to go into DVD. The customer just tunes out. Our business rules are of no interest to families who just want to see the movie.

So we need to make things more available. We need to price them in a smart way. Again, with broadband connectivity everywhere, you have the opportunity to do that in a really clever and innovative way, but we need to move forward on that. So there's a lot of changes I think over the next number of years that are going to be exciting for the film business.

Because the creative business, when you think about it, whether you are making 23 episodes a year for 10 years of a sitcom or you are making a three-hour movie or a two-hour or a 90-minute movie, hopefully, like a Dead Pool and we are releasing it now, the space in between those is all filled up now, right? So it's a continuum of things. You can make a 10-hour movie and call it a limited series. You can make a one-off series. Just because somebody had an idea, you can do five years at six episodes. All of those things are there, but all of it fundamentally is mostly home entertainment, be it that you are paying for it at home. And we need to fix some of the issues in the movie business around that beyond just the way we are making the movies.

The first point is let's make them better, but then there is a business model around movies that I think are going to start to evolve much more rapidly as certainly we are keen to move forward on trying to really experiment faster. It's been too stuck for too long.

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**Drew Borst** - *Goldman Sachs - Analyst*

Yes. And in terms of maybe outdated business rules, 20th Century Fox was one of the first studios to back away from this clearance issue, which has outlived its usefulness. Before I open it up to the audience, I want to ask about capital allocation because I think there's been a little bit of a perceived shift maybe you can -- maybe you can clarify for people, but it does seem like you are backing off from share repurchases a little bit, maybe focusing -- potentially going to focus more on M&A. [Locklin] last week made some comments about being frustrated about the share price, which I think some investors are a little confused. If you are frustrated about your share price going down, you are backing off of buybacks, there's a disconnect there. But maybe you could talk a little bit about what you guys are thinking.

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**James Murdoch** - *Twenty-First Century Fox, Inc. - CEO*

Well, first of all, I want to be super clear on these points because I know there is a little bit -- I've talked to a bunch of investors and they will say is it X or Y and how do we think about it. I want to be clear to you guys how we think about capital allocation. First and foremost, we are interested -- this business is a growth business and we feel that there are periods of growth coming that are very, very exciting. All the things we've been talking about around the industry changing, around our Company, the assets we have, the mix that we have, which we like a lot and we don't have -- we don't think there's a big gaping hole there that we want to go acquire something to fill, but we like to be able to invest organically. We'd like to be able to take the opportunity to create a Fox Sports 1 or 2. We like the ability to acquire some things on a bolt-on more basis, a MachTv in India, the S-Network, which is bigger, but really fit in with our RSN a number of years ago, a true[X], which really changes our capability and enhances that capability.

But fundamentally the way we look at it is if we have excess capital -- and I think we've shown this to you by our actions -- we've returned it to shareholders. So when we did the Sky transaction to pull them all together and it created this excess of capital in the business, which was a great thing for Sky, a great thing for us, made a lot of sense. That was part and parcel of $15.5 billion of capital returns over the last three to four years, which is a big number. So I think -- I'd like to think that we are showing you that when we say when we have excess and we don't have a use, but we have sources, capital returns are a big part and even on an ongoing basis by increasing our dividend by 20% this year, which we announced at the earnings the other day.

So capital allocation and capital returns to shareholders are important to us. Now, while what we did say in our last earnings call, number one, we have an authority in addition to the $5 billion of buybacks for an additional $3 billion over the next period of time, but rather than go from autopilot, we are just going to run through all of that. We are going to be more selective. So to be very clear, I think I can (inaudible) we are buying back shares now. So we are in a quiet period. We are on autopilot and we are buying back shares because we have some more of the $5 billion authority that we are running through. And we will approach the $3 billion authority probably in a similar way to be opportunistic but be selective.

And I would point out that our balance sheet today is basically at the target we set a number of years ago, 2.5 to 3 times on a gross debt basis and that's a historic low in terms of flexibility for us. Now it doesn't mean we have a big shopping list; we want to do stuff. As I said before, we feel comfortable with the assets we have. We really like them. We like investing in them. We want to grow them, but, at the same time, we do think having a period where we have a little bit more flexibility, may be great for shareholders if there are opportunities out there to go and look at.

But there's no -- it's not like we have this list of stuff. And as I said on the shareholder call, our earnings call the other day, or the other month -- time flies this summer particularly -- pay attention to what we don't do. So when I look at our track record over the last almost 10 years in terms of M&A, it's actually been disciplined. We've shown you that we are willing to sell things. We've shown you that we are willing to organize our business, simplify our business, etc. And the things that we've passed on from -- that are all rumored out there and everyone gets worried about -- AOL, Yahoo!, UFC, DreamWorks, Time Warner -- there are prices that become too high that don't benefit our shareholders and we are very mindful of that.

So I want to be clear with you, we are very, very mindful of capital allocation and being good stewards of capital is something we are super focused on and when we make a decision to say we want to go from 16 to 18 shows at FX, it doesn't sound like much, right? That's a big decision for us. There's an investment hurdle there. We want to understand how it changes the business. We want to understand how that enhances the business over time. We are very serious about that.

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**Drew Borst** - *Goldman Sachs - Analyst*

Okay. I think that's very clear. Thank you. Are there any questions from the audience?

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**Unidentified Audience Member**

Over the last year in terms of the Fox Network, you've been fairly candid about the amount of audience you have that's beyond C3 or -- so you've talked about a doubling of your audience, if you include everything. That obviously includes Hulu. And then you also mentioned that you've sold some of your advertising in Nielsen total audience for this last upfront. When do we get to the point where the VOD or the total audience is $100 million in ad revenue, or something that's a material number?

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**James Murdoch** - *Twenty-First Century Fox, Inc. - CEO*

Non-linear ad revenue?

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**Unidentified Audience Member**

Yes. Not including Hulu, but --?

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**James Murdoch** - *Twenty-First Century Fox, Inc. - CEO*

Well, the Hulu thing, I think it would improve because Hulu is our shows and our inventory. So the way that it's structured as a platform is that we sell that inventory ourselves and we count it as part of the total audience. So if I didn't include Hulu, I wouldn't include cable VOD, or I wouldn't include other things. So I think the question is what's the inventory in the audience that we sell ourselves as opposed to having out there. But, today, I'll put it this way, if I take our US entertainment advertising business, which is like a third of a third of our advertising business because you are taking news out, you are taking sports out, you are taking international out, so it's not that big. But it's our network, basically, outside of the NFL.

Today, almost 20% would be nonlinear and we think that will be almost 25% within 18 months and growing from there. So it's getting substantial now, and that's only the tip of the iceberg because we are really not monetizing the volume of views and attention that are in there because it's really only C3, C7 when theoretically we had viewers yesterday that were watching season one of Empire on Hulu and we didn't -- we are monetizing that in a much lower way. So our total audience is much larger, and the promise, the excitement about a streaming environment is that you can actually look at that total audience, value live viewers because all viewers are alive to be viewing it irrespective of how they are timeshifting even over long periods of time as long as you have visibility into the platform.

And what I was talking about before about instrumenting the business, that's what I'm talking about. How can you really see through the business to the actual consumption that's happening, both library, current season and live and monetize that on an advertising basis, which you can do and it's actually straightforward from a process point of view. It's nontrivial from a technology and currency point of view.

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**Drew Borst** - *Goldman Sachs - Analyst*

Okay. Well, we are out of time, James. Thank you so much for being here. Appreciate it.

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**James Murdoch** - *Twenty-First Century Fox, Inc. - CEO*

Thank you so much. Thank you all for taking the time and for having me.

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