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MANAGEMENT DISCUSSION SECTION

Doug Mitchelson
Analyst, UBS Securities LLC

Our first company, keynote of the conference, very pleased to have with me today, James Murdoch, CEO of 21st Century Fox. James, thanks so much for coming again this year.

James Rupert Murdoch
Chief Executive Officer & Director, 21st Century Fox, Inc.

No. Doug, thanks very much for having me, and thank you all for being here. It's nice to be back.

QUESTION AND ANSWER SECTION

Doug Mitchelson
Analyst, UBS Securities LLC

Q

It's an exciting time. We have a lot to get through, and I usually start by asking how the year's gone versus expectations. And, as you know, I'd like to broaden the timeframe for you a little bit to 18 months when you first became Chief Executive Officer. I feel like there's been a lot of changes in management, obviously a period of disruption for television. Can you walk us through what you and Lachlan saw as you came into the new roles, the key leadership roles 18 months ago, and what's the notable on this early stretch?

James Rupert Murdoch
Chief Executive Officer & Director, 21st Century Fox, Inc.

A

First of all, I'd say, you're absolutely right. It's been an exciting time, and there's been a lot of change in the – or the continuation of the change in the industry has been really marked, and I feel like continues to accelerate. But also I think there are some really clear – there's some clarity to the trajectory of the overall business today that I think, maybe, there wasn't a couple of years ago.

So for us, a lot of it from an operational perspective has been a continuation of what we've been working on for a number of years, the continued simplification of our business, the investment in big upstream brands, upstream content, the simplification of the structure and the kind of operating model of the business. We restructured our International Networks Groups. We acquired a number of additional National Geographic assets to really kind of build out that business. We combined – just before this time period, you're talking about the three Sky's into one entity over there.

And we really focused our whole investment portfolio in – from a television content perspective, around five core brands in the U.S. plus the STAR TV business in India. And that's been something that has been a continued project. Clearly, within that, when you look at from the Nat Geo deal to the Fox Networks Group restructuring, et cetera, there's also a lot of change in terms of how you run the business, the people that are involved where the span of controls are.

So we've just really been focused on creating a business at the right shape. It's a little leaner. We wanted to create some oxygen in the business for people to grow, and for people to go and achieve new things. And so far, we're pretty excited about it. We've got a great team in the company, we've had – and I think we've successfully so far executed some transition as well particularly at the film studio and other places. So we feel really good about where the business is right now.

And I think, overall, that program of work over a number of years, and it really started, I think I would say probably just about when I came back from to what was then News Corp from running Sky in the UK was this program of simplifying the operating model, right? Getting rid of a lot of the minority interest, getting out of businesses that weren't going to change our lives, and is even in success, and try to really focus what we were doing, and that's everything from exiting.

You guys won't remember, the Eastern European free-to-air television business, the Russian outdoor business, really simplifying and selling most of our Chinese assets actually, and really doubling down in India. And we really executed that a little bit under the radar maybe for everyone, but it really emerged – what emerges is a much more focused, much more straightforward, and candidly, I think more fleet of foot business that can then go and invest in things that really matter for customers, which is ultimately the content and the customer experience that's going to drive the business going forward.

So right now, we feel pretty good about where we are. And I think the trajectory of the business as we move from sort of facilities-based distribution models that are largely kind of wholesale affiliate-based to really a streaming business where a huge amount of our audience today, particularly in scripted programming are on platforms that we can innovate with much, much better. So on the Hulu platform, for example, we can innovate in advertising. We can put new ad products, lower ad loads, better prices. We can really utilize data in a different way. And that's also the AdSmart business in the United Kingdom, for example, which is rolling out across Europe now, which provides the ability to really target ads and have a much better business.

So I feel the streaming environment is a better environment for consumers in terms of user experience for scripted programming, and also really a better business environment for us in terms of monetization. So we're very focused on the capability there. And we see that trajectory very, very clearly as we see much more connectivity around the world, higher speeds, even in India with the Hotstar business today, well over 100 million downloads, very, very high-dwell times. I think we did over 4 billion minutes viewed in the last month's measured of just scripted programming, that's excluding sports.

So we feel very, very good about how the streaming environment is developing. And as we see new entrants now coming into the marketplace, be it the DIRECTV NOW business, as an extension of DIRECT, with the Hulu DMVPD, which is set to launch in the New Year, potentially new players that are out there, we actually think the television consumption marketplace, the business is going to be growing. And we've been hand-wringing about these decline in domestic subs. But globally, it's still fundamentally underpenetrated and these new products are starting to drive growth in new ways, and we think that's really exciting.

Doug Mitchelson
Analyst, UBS Securities LLC

Q

So I want to contrast sort of what you just laid out a little bit with investors' fears back in August, I think still persisting somewhat today. It's always a little bit disruptive when a company tells investors we're going to slow down or stop buying back stock, even though they have the capacity. And the national fears would be, you're either elephant hunting or have a confidence issue related to the business. Can you take us sort of back there and through your thoughts on capital allocation and overall confidence of the business at this point?

James Rupert Murdoch
Chief Executive Officer & Director, 21st Century Fox, Inc.

A

I'd say first of all, we have a lot of confidence in the business. And the work that I just outlined, and the shape of the business that emerges today, it's something that we have enormous confidence in. I do think that it's important to note that a number of years of ago, when we split the company and we split off the News Corp. assets to create 21st Century Fox, we did say that we had a target leverage ratio of about 2.5 times to 3 times, and we would work towards that.

And over the last number of years, I think we've returned over $16 billion or so to shareholders through buybacks and dividends. And we've really worked hard to do that, and we think about uses and sources of capital as obviously things that have to go together, but we are at about – we're about 2.5 times to 3 times today. We're in that range. We do have a new authority to buy back shares. We're still working through the old authority and we have been buying back shares.

But at the same time, I think we want to be cognizant of the fact that we're kind of at that range in terms of target, and we have to think about what the opportunities are that are out there. That's not to say that we're elephant hunting, it's not to say that we have this long shopping list of things to do, but it's just to say that we're going to be looking at that capital allocation piece in real time. And the company and the board is going to make those decisions on an annual basis and more frequently than that.

As we see what sort of opportunities might emerge, but it's certainly not to say that we're stopping buying back shares entirely because in fact, I think it was a little bit overplayed in August around our earnings. But in fact, we have been buying back shares in the period intervening as well. So it's just maybe a little bit more selective, maybe at different rates, but certainly been in the market and we have a lot of confidence in the shares.

Doug Mitchelson Q
Analyst, UBS Securities LLC

And since I started on capital allocation up front, probably a little bit early to throw away the Time Warner deal papers, but certainly no need to dust them off at this point. If you think about AT&T-Time Warner and you think about the potential for Viacom, CBS, does consolidation influence the strategy at all at Fox? Any sense of urgency to consider acquisitions as you see the industry consolidate? But in particular, I'm thinking you have to start thinking about competing with larger distribution companies than you were competing with before. Does any of that impact your thinking?

James Rupert Murdoch A
Chief Executive Officer & Director, 21st Century Fox, Inc.

First of all, I think there are a lot of different dynamics there. If you look at consolidation generally, you have a vertical consolidation, for example, in the AT&T-Time Warner deal. You have horizontal mergers. We've seen that in the downstream cable business a number of times, Time Warner Cable and Charter. And then in the content business, to have more scale in that content business, for example, CBS and Viacom if that happens.

I would say that we feel pretty good about the mix of assets and this work that we've done to simplify the business, to invest in these big brands has been really effective. So if I look at the Fox portfolio, the National Geographic business, the STAR TV business, and the Skys, of which we own almost 40% in Europe, I feel like those are big brands that are really making a difference for customers in their marketplace. We're able to innovate around them. And I think it's a really good set of brands and a good mix, and we don't feel the urge to go and acquire some other large piece that can fit into that mix.

I think that the dynamics here around scale are something that we recognized a number of years ago, and it's why we exited a lot of the smaller subscale businesses that we had around the world. It's why we really focused our investment in places that we thought in success could really change our lives and really be a great thing for the business. For example, the investment in India that we made and pivoted away from investing in the Chinese media business there, which was obviously, from a regulatory perspective, long term very, very challenged. And we feel really good about those decisions we made. And now we're really just executing against that plan.

So while certainly a number of years ago we did see an opportunity at a moment in time when the stars might have been aligned to combine with Time Warner, as we said when we walked away from that deal, when we think about capital allocation, it's really for us about what's the best thing for our Fox shareholders and for 21CF shareholders, and let's not get too concerned about empire building, let's not go and pay a big premium, let's not go out there and just grow for scale or get scale for scale's sake. That's something that we're not really that interested in.

And in fact, I would urge you as shareholders to also look at the things that we haven't done. So we've passed on a lot of opportunities that we felt were too expensive for our shareholders and for the company. That might have been a nice fit; certainly, weren't need-to-haves. And we want to be very, very disciplined when we think about capital allocation and we think about where are we investing shareholders' capital going forward in a way that's going to make the most difference for the business in terms of our capabilities, in terms of the way we serve our customers and our audience, and in the way that we ultimately grow the business at a greater velocity.

Doug Mitchelson
Analyst, UBS Securities LLC
Q

So let's wrap up capital allocation. I have to get Sky out of the way. It is important to assure Fox shareholders, because they feel it's undervalued within the stock. And I know you're asked about it a lot, so I'm going to try it this way. What are the factors by which you judge the relevance and value of owning the stake in Sky? What would cause you to sell the stake or buy it in?

James Rupert Murdoch
Chief Executive Officer & Director, 21st Century Fox, Inc.
A

Look, I think first of all, as you would expect, Doug, I'm not going to say anything new here today that I haven't said before. And I think – sorry, look, we think the Sky business is a great business. We're very happy with the way that business is being run right now. I think it's growing well. The combination of the three Skys is great for 21CF shareholders and great for Sky shareholders as well and has really created a world-leading content and distribution business together in that business in Europe. So at this point, we haven't made any decision. But we've said before that long term the 39% holding is really not a natural end state for us. But again, we haven't made any decision, and there's no new news on that.

Doug Mitchelson
Analyst, UBS Securities LLC
Q

I guess I sensed from your earlier comments that you're at the point where you've got a pretty good line of sight on how you think digital could influence your businesses. And I'm curious if you could let us know how you think television is going to evolve and how best to position Fox for that.

James Rupert Murdoch
Chief Executive Officer & Director, 21st Century Fox, Inc.
A

It's a big question. I think TV – the evolution of TV or audio-visual entertainment consumption, anyway, because TV and movies, I think, surely from – there's the exhibitor window in movies, but otherwise the only difference is sort of duration of the story, right? Ultimately, it's all ones and zeroes. So when we look at the proliferation of high-speed access, we look at the proliferation of devices from streaming sticks and streaming boxes like a Roku player or Chromecast to what everyone has in their pockets with their smartphones, we think that there's just an enormous amount of consumption still to come in terms of how this works.

And actually, the streaming environment, and when I say streaming environment, it's not just SVOD, or the DMVPDs that are emerging, or free video that's out there on YouTube, it's the overall picture of video consumption you have to think about. And in a streaming world as opposed to the kind of facilities-based sort of cable distribution that has been so much of the business here in the U.S. in particular, the streaming business is much, much better. It's much more fluid. There's an opportunity to understand your customer better. Even our wholesale bases, if you have a distributor in between you there, there is still a lot more that you can do in terms of product experience, data usage and following the customer in a different way. So we think that's really exciting. I think that the consumption is going to continue to grow.

And for us, when we look at the marketplace today, we have a really tremendous business selling television channels and shows to cable operators and satellite operators in the U.S., for example. And we could talk about other places in the world, but let's just focus on the U.S. for a minute. Increasingly, a lot more of the consumption, particularly in scripted entertainment is coming on a time-shifted basis. That can be on the cable operator's own on-demand services that we supply to as well, in fact, at FX, where we've invested a lot in programming and content over the last number of years, is one of the most successful brands in that VOD environment within that cable universe.

Now, within that universe, we monetize that cable VOD stream, for example, right, much, much lower rates than we monetize one on Hulu, for example. So what you're seeing is different distributors emerging that we have very, very different economics around in terms of not so much the headline rates, because the headline affiliate rates are largely comparable. It's actually how you monetize the streams as you go along, and it's largely around advertising or the ability to innovate around advertising, for example, charging a premium for an ad-free product and letting the customer buy out his or her own time.

So there's a lot going on there where we're starting to understand that from just an instrumentation basis where we want the business to be cannibalized, and how we shift audiences from one thing to another. So if we have a bad month in cable VOD, for example, on the X1 Platform, frankly, that's not necessarily bad, because if we lose, I'm giving you an example, we could lose 3X of viewing there and gain 1X on Hulu, and it's a much better trade for us. So we have to think very differently about the audience, about how we measure it, how we instrument it, and then how we manage the business and how we market to which platform there.

So I think it's actually a pretty good time to be, first of all, investing in the upstream programming that's driving the viewing. I think that's really important, yeah, fundamentally have to. That's the necessary ingredient is to have the program and its people that's going to really matter. But then, the whole platform of how you monetize content in this environment is completely different going forward than it has been in the past. And that's a massive opportunity for innovation, and one that we're very excited about.

And even though, kind of, you mentioned before, people worried about the cable universe and people last August worried about, or I think it was the August before in particular where it started with ESPN's numbers, and everybody getting worried. But we've never defined the U.S. MVPD universe with a fixed set of competitors. When the satellite guys entered with Ku bands, small dishes, et cetera, and whom we license to them, people were worried about that, but it really grew the overall universe. I think you're going to see – and you saw the same thing when AT&T, U-verse and Verizon really started to push in as well.

And I think you're going to see something even more dramatic, because it's fundamentally more frictionless with digital MVPDs. The packages might look different, the user-experience is going to better, it's going to be difficult, it's not going to be the same kind of all-in big bundle, but there's going to be this core bundles that have content that people really care about. And I think you're going to see another wave of growth actually in video consumption at high monetization rates in the U.S. for sure, as well as places around the world.

Doug Mitchelson
Analyst, UBS Securities LLC Q

Investors have a lot of questions on those, because – I call them virtual MVPDs, you guys are on the digital MVPD side. You need a better acronym, James.

James Rupert Murdoch
Chief Executive Officer & Director, 21st Century Fox, Inc.

A

Right. We did need – fewer acronyms is what we need, yes.

Doug Mitchelson
Analyst, UBS Securities LLC

Q

I was just hoping for an update on how Fox's position with the virtual MVPDs. I think people ask a lot about the economics, they ask about the distributionary channels, there's a lot of focus on the RSNs and how those are distributed. I noticed DIRECTV now didn't have them in the low end tier, but nor are they in the low and DIRECTV tiers. How does that all shake out for Fox?

James Rupert Murdoch
Chief Executive Officer & Director, 21st Century Fox, Inc.

A

First of all, we feel pretty good about it. I think the investment – I think if we were where we were five years ago, I'd be more worried. If we didn't have FOX Sports 1 and 2 and we were still selling fuel and speed and the soccer channel and things like that, I'd be more concerned. If we weren't investing in National Geographic the way we are with series like MARS or Genius coming up, or The Story of God, or Before the Flood, shows and products that really cut through for people, I will be more nervous than I am.

And actually, I feel really good, and it sort of played itself out when I look at the DIRECTV NOW piece, it's the one that's sort of have been announced and is out there. So we can talk about it. It's very similar to the way we've kind of cheered and approached distribution models generally, but with a lot more flexibility for customers and economics that are potentially much more attractive for us. Both from an ad monetization point of view, as well as an affiliate rate point of view.

The RSN question is fundamentally a question of price. So we have in all our MVPD agreements with the RSNs certain penetration or reach guarantees that we're paid on. So even if the reach does fall below a certain thing in a tier, the price effectively rises, because you're paid on a certain number of subscribers that are there. So that's just a feature of the negotiation with RSNs and we want to give our MVPD partners, or our distribution partners generally as much flexibility as possible for them to grow their business. But we also have to protect ourselves to make sure that we have the widest reach we can, or if we have a narrow or a premium business, that we're going to get a fair price for that, because of the margin that the downstream distributor is making on it.

So we feel really good about where we are with this. I think the Sling product, almost all of our products are there with Sling, the Sony View products, all of our things are there. DIRECTV NOW, very much – pretty much everything is in the product, the Hulu MVPD product details will be coming in the next few months. So I think that is, and there are other distributors coming through as well. So I think this proliferation of downstream competition which is something that I've been talking about with you guys and there are anyone who listened for a number of years, as the barriers to entry downstream lower and more entrants and new entrants come in and compete, you get a better customer experience, you have price competition, and you have competition for content upstream. And that's a real positive when you have big brands that are great in that matter for customers that move the dial meaningfully from an audience perspective, or from a motivation and a purchase intent perspective.

Doug Mitchelson
Analyst, UBS Securities LLC

Q

And I think when you think about your last comment, having brands that consumers want, when investors are trying to figure out what they should value media companies at, I think one of the struggles is the mid-term, the idea that – I think it really gets at the bundle is framed a lot slower than people were worried about a year or two ago. There's always this concern that at some point, some companies are going to go direct-to-consumer like CBS has with All Access, HBO and Showtime have even though the other premium à la carte already. Do you see a point where Fox says, it's time to go direct-to-consumer? We've got strength of brands. We've got pricing power. We can do this.

James Rupert Murdoch
Chief Executive Officer & Director, 21st Century Fox, Inc.

A

First of all, I think we can do it. I think we have a great product and a marketplace from a story-telling point of view. I think it's little – let me back up, I'm not sure I would focus so much on direct independently priced bundles by Fox, for example, versus the rest of the stream. That's not the only part of the streaming business. The rest of it is authenticated apps. How you've brought access to your products like with FOX Sports Go for example, or FXNOW, which are tremendously strong and actually gaining traction in a big way.

We're very focused on creating more capability around that user experience in a similar way that we did with the Skys, with Sky Go, where over half of Sky's customers actively use the over-the-top streaming product to consume the video, and that's sports, movies, TV series, et cetera, and it's a very different user experience.

So I think whether or not we independently price our products doesn't necessarily rule out that – or rather shouldn't imply that we're not investing and creating capability to create a much better user experience anyway for the 90 million or 87 million households who can authenticate our products and actually consume them directly. The point I made earlier about taking, watching American Horror Story: Roanoke on demand on X1, that's a less good outcome for us than if they watch it on FXNOW by far.

So now that we can instrument that and now that we understand those differences, which we really didn't understand a few years ago because none of these things were out there, that gives us a huge amount of flexibility in terms of how we market those services, what our incentives are to do that, how we work with our MVPDs to make those authentication pathways better, to make the customer experience better for their customers. So there's a lot in there.

So whether or not we independently price something, which is a decision we haven't made, I think the streaming business is still one that we're leaning into very hard because we think it's a better business than the passive linear queue of products that we've put down the classic channel model, which I don't think really makes a lot of sense for customers. And clearly, from a viewing perspective, customers are telling us that, other than in sports, which is very much a news, very much live, very immediate, bigger platforms for live consumption. On the scripted and movies side, it seems to make a lot of sense to really move heavier into the streaming environment.

I would say it's interesting when you look at – I'm curious to see. We watch all the time what the CBS All Access numbers are and HBO, et cetera, because it feels like these guys – they'll get to 1 million and change subscribers or something like that. And then, as we know, we have a lot of experience in the direct-to-consumer business. It's super-hard. It's super-hard managing churn. It's super-hard managing your customer base. Your customer has different expectations of you at some point when they've given you their credit card and all that stuff. So I think we have to be a little bit careful that we don't fragment the business too much. But certainly at some point, I think customers might have the option to do that.

Right now, we're very focused on the capability, the advanced ad capability, and growing the business through third-party MVPDs, including Hulu or DIRECTV NOW and others that we think are going to make a big impact.

Doug Mitchelson
Analyst, UBS Securities LLC

Q

So I've got a couple more big picture questions, but I think we're going to delve into operations first. We can always come back if we have more time. And specifically about Fox operations, how would you articulate the operational strategy at 21st Century Fox now? What do you see as the major growth drivers and impediments the next few years?

James Rupert Murdoch
Chief Executive Officer & Director, 21st Century Fox, Inc.

A

I think for us, the growth over the next couple of years comes from a couple of different places. It's a few of our – if we take the macro piece of growing video consumption that we talked about earlier, I think that's number one. How do we monetize that as well as we can? And how do we have the capabilities to really be a leader in that and really set the pace in terms of how this new distribution environment is going to emerge and how it's really going to land? But specifically, we have a number of assets that have an enormous amount to grow.

So from Fox Sports 1 and Fox Sports 2, which we only just launched a few years ago and have been really successful, to continuing to grow the Fox News business, which is performing really well post-election as well, down much, much less than most of its competitors, so growing share. Our business in Latin America is very strong and we think has a lot of room to grow. We've taken a lot of lumps on currency over the last few years there, but operationally and the health of that business is very good, particularly in Brazil and in the Fox Sports business across Latin America. And then in India, we really are proud of our Indian business at STAR TV, and we think it can grow to be a substantial profit contributor in the overall group. So when I just look at the velocity of growth from a top line and a bottom line perspective over the next three to five years, those are the chunks of the business that I'm very, very excited about.

And look, I also think the film business has an incredible pipeline coming up. The film business, which you have to measure or think about less on an annual basis but more over a longer arc of time, we think we have a lot of excitement coming through. We obviously have new Avatar pictures coming up in a few years. We have a great slate over the next 12 months even that we're excited about. So I think there's quite a lot going on in the business that relative to last year and the year before will really make a big difference over the next number of years. But those are the major chunks, I would say, are most exciting for us and actually that we really – we spend a huge amount of time on all of those things.

Doug Mitchelson
Analyst, UBS Securities LLC

Q

So I'm going to jump into a few of those more specifically. First, why don't we go through advertising? Any commentary you're willing to make on scatter markets in the United States or overseas? The U.S. around the election was a little bit light in terms of volume, but has picked back up in the first quarter of calendar. It seems to be selling pretty well. How are you seeing that?

James Rupert Murdoch
Chief Executive Officer & Director, 21st Century Fox, Inc.

A

Look, I think the U.S. market, the national ad market is pretty good. I think we've had – clearly pricing is pretty strong. I think volume probably a little softer than – less strong, I guess, but certainly feels okay at this point. And we have a Super Bowl coming up and other things, so we have a good sense of where demand is, et cetera. I think we feel pretty good about the ad market right now.

In Latin America, we're tracking just as planned, and we feel good about the ad market there in terms of our channels and our businesses down there. India has been very, very strong. I think a little less strong than some outside commentators had thought from a total TV ad market. And this demonetization thing that's going on right now, which is where they took out the INR 500 and INR 1,000 notes, that's definitely going to have an impact on a short term. So we look at that for, like, December, maybe January.

There's clearly been an impact particularly for a lot of the fast-moving consumer goods where those clients just aren't moving inventory downstream because so much of the economy – 90% of the economy is cash-based and has gotten – run into a brick wall. So I think that washes out. It's really interesting. The sports business in India has not been affected by it all so far. And it's largely because it's bigger ticket item, so the category of advertisers there selling scooters and small cars and things like that, and it's a very different advertiser. So that looks sound, but our core entertainment business that will definitely – I think the ad market there is clearly going to take a hit over the next month or so. But I think it will come back to the underlying – the fundamentals are so strong. That's sort of how I would look at it.

I think Europe is in – goodness knows, who knows what's going on over there. So between Brexit and the Italian referendum and stuff, it's tricky. The nice thing about the ad business for us in Europe both at the Fox Networks Group but also at Sky, and I know Andrew Griffith is going to be talking to this conference this afternoon, is there's just an enormous amount of share to grow in terms of that because in none of our businesses, at the Networks Group or the Sky, et cetera, we're the incumbent national broadcaster. So we can continue to grow share even in down markets.

Doug Mitchelson
Analyst, UBS Securities LLC

Q

Anything incremental on ad tech that you want to sort of share to this audience? You've been talking about it more and more. And I think your earlier comments suggested it's obviously quite important to the company. And I guess what I'm wondering for this audience is just how impactful is it today and how big is the opportunity over the next couple of years?

James Rupert Murdoch
Chief Executive Officer & Director, 21st Century Fox, Inc.

A

I think it's an enormous opportunity. I think you have to look at it both as – I guess I'd put it this way. If over 50% of our viewing for primetime entertainments is on streaming platforms, right, it's on multiplatform basis over – after the live plus three-day window. So you're in a month here and two months, et cetera, and all of this volume accumulates there. Today, our ability to monetize that varies greatly by platform. As we start to standardize that and can monetize that at higher rates and candidly much higher rates than we monetize on a per-view basis on the broadcast network, for example, then in theory – and I'm not making a prediction. In theory, you should be at least doubling your business.

Now, the reality is you're cannibalizing some of the other viewing there, et cetera. But I do think that from a consumption basis, there's no logical reason why a live viewer viewing something five years old, I mean if you're watching something older than that, you might be watching Seinfeld episodes on Hulu, there's absolutely no reason why that stream on a targeted basis shouldn't be more valuable than if somebody else who's maybe less attractive, whatever customer for a particular product is watching something live. So this temporal connection, this notion of recency within the – because of the ad insertion there is absolutely going to go away because all the ads will be current irrespective of the content that the customer is watching and the focus is obviously on the audience and the customer, not necessarily just being in the show.

Now, on top of that, you have really exciting things that you can do in ad integration and branded content and things like that that are more about the brands of that content. For example, we did with Pepsi and Empire last year and other things like that. But I think that the opportunity for innovation and advertising beyond just filling up these breaks with a 30-second unit is enormous and I think is net-net a big positive for the business, and it all comes down to how you instrument the business, what capabilities you have. We've acquired a small business to help enhance our capabilities there. We continue to recruit people from various walks of the advertising and technology space to really build up our advanced ad products group to start to innovate in this area much, much better and it's already really paying dividends. So we're excited about it. And I think it's going to be a more important part of the story going forward for all media consumption as we can create new ad products that are better.

We can empower our new platforms' customers to price their own time and value their own time in new ways and become sort of a third bidder in the environment. If you value your time more than Coca-Cola does, why wouldn't you buy it out and have ad-free experiences. So there's a lot of capability there that can be done in an easy way, that's very exciting. I see it all the time with my kids and I don't know how many you play like mobile games on your phones. But a teenager today knows exactly – understands the equation between advertising and money very clearly, right? Because my kids don't have any – they don't have any money to spend playing a game, right?

So they know that in order to get to the next level or unlock something, they have to watch an ad. And it's a simple calculation there and if they had a nickel in their iTunes' account or whatever it is, they just buy it out. So it's a question of finding those prices. It was really interesting when we launched a Hulu ad-free product to see what customers took it, how they valued their time, do people want to do that on a monthly basis, maybe they want to do it on a nightly basis. So I think that sort of fluidity in the marketplace or that kind or lack of friction in terms of making those transactions happen, I think, is something that we're really just at the very, very beginning of and it's going to change quite a lot in the ad business.

Doug Mitchelson Q
Analyst, UBS Securities LLC

So my kids will be asking me for more money. Thank you. I appreciate...

James Rupert Murdoch A
Chief Executive Officer & Director, 21st Century Fox, Inc.

Don't give in to them. They can watch the ad.

Doug Mitchelson Q
Analyst, UBS Securities LLC

They value their time more than my money. Look, I did want to hit on a specific question on the cable network side, moving over to affiliate fee revenue. Comcast has posted on its website several of the Fox networks are up for renewal at the end of the calendar year, some important ones. I think you have another major cable deal up in early 2017. As you get factors like those, maybe AT&T DIRECTV is annualizing in terms of the rate harmonization, do you think affiliate revenue for cable networks can reaccelerate? I know in our model where I think it gets back double digits over the next couple of quarters. So am I thinking about that properly, and any change in the relationship between content and distribution that you would note for Fox? Is it getting harder to get deals done? Is it getting harder to get price as they consolidate, or is this business as usual for you?

James Rupert Murdoch A
Chief Executive Officer & Director, 21st Century Fox, Inc.

I think for us we're maybe in a different place than some of our competitors because we have a lot young networks and we have networks that either are not necessary fully distributed today, and we're still able to grow their distribution and rolling down in different packages or find new distributors who can help increase the reach. But also we're much cheaper, frankly. Fox Sports 1 and Fox Sports 2 are very, very affordable, drive big audiences. We've invested a lot in the programming and content. We've really done a good job competing against ESPN. So I think getting rate increases for us on those kinds of networks is more straightforward than if you're really fully distributed and very expensive, for example. I shouldn't say very expensive, but just fully priced, let's say. So we feel good about our ability to grow that. I think in the next 6 months to 12 months, we do think that some of that from new deals that we've been doing and as they annualize and also with some new renewals, we'll be able to grow and accelerate our affiliate income.

Are the deals harder to do? They're a lot more complicated because there's a lot more flexibility that people want on both sides. So the distributors want flexibility to create a whole bunch of new packages, new customer experiences, et cetera. And we need to be mindful of how our brands live in that, what are the things, the expectations that our viewers have from us, and we want more flexibility in terms of creating authenticated experiences, rebundling our product with other things. So they're much more complicated agreements candidly. The price pieces, while always difficult because it's commerce, generally have been getting sorted out, and we've certainly had that experience over the last number of recent renewals.

And we expect that as we continue to invest in these products, our ability to get a fair price for them will continue to be there. The key thing for us is to make sure that we really are investing in them, that we really are showing the value to our partners and to our viewers and putting that investment on screen. That's really the best way to get that top line continuing to grow.

Doug Mitchelson
Analyst, UBS Securities LLC

Q

So let's turn to a couple of your specific growth drivers. First, Fox News just because it had a great calendar year 2016 with the elections, should investors consider that calendar 2017 might have difficult comparisons for Fox News? And what grade would you give Rupert for running the network?

James Rupert Murdoch
Chief Executive Officer & Director, 21st Century Fox, Inc.

A

A-plus, simple. Look, I think that first of all, I think that Fox News prospects for 2017 are really strong. Certainly, we expect after a national election year the ratings to be down. Frankly, they're a lot less down right now than we were expecting, and let's let long that continue. So I think we're growing share in the news category as we go along because I think CNN and MSNBC actually – we were already leading by a long way and they came up quite a lot in this election cycle. And I think they dropped down quite a bit more than we have in the aftermath, so I think we'll have to see how that goes.

The fundamental thing there is how do we make sure that the network is as lively as it can be, is really delivering for its customers, and continuing to be relevant. I think the news coverage has been very strong through the election and I think America has been introduced to a bunch of new news talent that some of them might not have seen before from a news gathering and reporting point of view, from Bret Baier and Chris Wallace, for example, and these guys out there who are doing a great job. So we feel very good about it. The comps from a ratings perspective are likely to be harder next year. But I think financially and from a revenue and profit perspective, we feel very, very good about where it is.

And I think the transition there, obviously it was something that we had to do quickly. I think the company did a – I think we did a good job frankly being decisive and doing what we needed to do in terms of affecting that transition with a matter of urgency has been very smooth. And the reason is there's a good bench of people. You have a Chairman – the Executive Chairman of the company stepping in and doing it who was uniquely credible and authentic and a founder of that business to be able to step back in and roll his sleeves up I think was a great thing to just keep the show on the road. And I think it's going really well. We're very pleased with it. Even some of the scheduling changes and talent changes in primetime have actually proved to be – we've actually grown the primetime audience in those slots with Tucker Carlson and before that Brit Hume. So I think that is – we feel pretty good.

Ultimately, all of these businesses depend on continuing to execute creatively, more journalistically, and continue to do a good job there, so you can have creative failure. We certainly have that, but sometimes in a movie studio or in the networks, et cetera, and that happens in the news business as well. But by and large, when you look it at over a bit of time, is it working okay? Yes, we think it's working pretty well. I'm pretty happy about where the business just overall creatively is right now. We think we're in the best shape that we've been in for a long time both at the studio – the film studio, the TV studio, at the FX Networks in particular, at the network which has been challenging with a lot of great – I think a good fall season, but actually a really exciting mid-season lineup coming through. And that's true around the world as well.

Doug Mitchelson
Analyst, UBS Securities LLC

Q

So in the short amount of time we have left, I wanted to hit on STAR, maybe film. For STAR, you have long-term guidance that's been out there of $0.5 billion EBITDA in fiscal 2018, I think $1 billion by fiscal 2020. I know you mentioned advertising might have a tougher couple quarters. Are you still willing to sign up for that level of profitability, and any specifics on what's driving the growth in STAR to help people understand India even better?

James Rupert Murdoch
Chief Executive Officer & Director, 21st Century Fox, Inc.

A

Sure. Look, that's still what we're signed up for. And so far, we're exactly on plan, believe it or not. I n a volatile market and in an emerging market, investing is always hard, but actually we're where we wanted to be. Now, a lot of the growth in that is – I guess the growth is twofold. One is the continued growth of our entertainment business both in the big STAR Plus, the largest channel there in Hindi, but more importantly a lot of the acquisitions we've made over the last number of years in regional language networks and really integrating that into the STAR network and really improving the quality and keeping the creativity, the creative excellence really high there. That business, so the Asianet business, the MAA TV business, the old Vijay TV business and Tamil Movie, et cetera, that business has been tremendous.

So from an entertainment perspective, you're really seeing this incredible growth because it's not just focused on the big Hindi market, it's really the whole of India. So if you're – and it's very, very different economic situations in the South versus the North. There's different states that have very, very different profiles in terms of their advertisers, their filmic history, how they think about content. So being able to really spread that business and be truly national has been a big driver of growth and we think will continue to be.

Second piece is the sports business. We acquired ESPN's interest in STAR Sports ESPN on a regional basis, really embedded that, the Indian piece, into STAR India. And while the peak investment – we made a lot of – a big investment in sports there. But as that investment starts to come good and we're already through it and the trajectory there, you just get that compounding growth. So the profitability of the sports business within this period of time sort of layers onto that growth as well as just the total profit.

And then the third one is the digital business there. The Hotstar platform has emerged as something truly exciting. And I mentioned some of the numbers before, and maybe in the future, we'll have to sort of break that out a little bit differently and show you, but what's really happened as well is the growth in high-speed connectivity on mobile networks in India has really just exploded with Jio's launch there. And we expect flat rate data to become really the norm for a lot of these guys to be able to compete in the marketplace. And that really opens up huge opportunities for Hotstar because it really frees people from having to connect to the Wi-Fi at an Internet café or at home, et cetera, and really consume more data on the move. It's very data-sensitive marketplace obviously because the data rates have been high. People set their caps. They managed it very carefully.

The emergence of Jio in that new dimension of competition around flat rate data plans is something that I think is going to – means that even Hotstar today, which is, as I mentioned, over 100,000 downloads, 4 unchanged billion minutes, the last time it was up 80% month-on-month, is really just at the very, very beginning of what it's capable of doing. And that's really about using content to create a platform that you can then monetize in a variety of ways. So we're focused very much on volume there right now, but I think as you see the business grow over the next three or four years, the monetization of that digital platform will be very high.

Doug Mitchelson
Analyst, UBS Securities LLC

I think that's the perfect place to stop. Thanks so much, James.

James Rupert Murdoch
Chief Executive Officer & Director, 21st Century Fox, Inc.

Thank you so much for having me, and thank you all for being here. Have a good couple of days. I hope it goes well.