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Twenty-First Century Fox, Inc. (FOX)

MoffettNathanson Media & Communications Summit

CORPORATE PARTICIPANTS

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

OTHER PARTICIPANTS

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

MANAGEMENT DISCUSSION SECTION

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Thank you for joining us for the second session today. I'm pleased to have Brian Sullivan next to me. He is the President and COO of the Digital Consumer Group at Fox Networks. So, thank you for being here. Thank you, Brian, for being here.

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

No problem, Mike.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

And the guys from Fox, thank you all for being here too. So, two years ago, Brian exited as the CEO of Sky Deutschland.

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

Not even two yet.

QUESTION AND ANSWER SECTION

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Not even two years ago.

Q

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

Of course.

A

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

We're not counting the days. And you joined Twenty-First Century Fox in a newly created role as President of Digital for Fox Networks Group. What does that role entail? What skills do you bring to that job? So, define your job and tell us what the description is and what do you do with it?

Q

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

I hate the word digital. I wish it wasn't in my title because it means kind of everything and nothing simultaneously. But in order to be able to do what I was being asked to do at Fox, it was kind of necessary to put it in. So, my role at Fox, my background for what it's worth is I've spent 20 years in the UK and Germany with Sky, 15 years in London, and 5 years at Sky Deutschland, very much on the consumer-facing side of the business.

A

And when we sold Sky Germany back to Sky UK and my family made the decision it was time to return to the homeland. James asked me if I come on in and join the team because of all of the pretty amazing amount of change and particularly consumer-driven change that was happening in the marketplace here. So, my day-to-day responsibility is organizing all the digital efforts across the Fox Networks Group, so across Fox FX, Nat Geo, FOX Sports, we coordinate with FOX News, but it's broadened pretty much as a separate organization. And those efforts grew up in silos within the networks really as secondary consumer touch points related to the existing MVPD universe and we wanted to bring them together, modernize them and turn them 100% consumer-facing.

The second part of the job is probably more important one, which is – our businesses are traditionally in the United States wholesale businesses that are not as consumer-focused or consumer-facing as a pay-TV company is, like Sky. It was pretty obvious that the power in this market has moved dramatically towards the consumer. And once that happens, it's never coming back. So we were going to have to go through changes in virtually every aspect of our organization in the way that we thought about the content we created as well as how we brought it to the consumer, everything from the rights that we acquire, maintain and utilize in the marketplace related to the content that we either purchase or that we make through to the way that we present that content either directly ourselves or indirectly through our distribution partners. And that hits virtually every part of the way that organizations work in the content business here in the United States. And my job is to be a fairly well-compensated coordinator, to be honest with you, working with all the people that run all the networks in all the other parts of the organization to move the model from where we used to be for the last 20 to 30 years to where it's going to have to be for the next 20 to 30 years.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

You had given your 20 years at Sky overseas. How is international marketplace different in direct-to-consumer there versus here?

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

Well, the consumers are same. Consumers are same everywhere in our space, which is all about entertainment content, whether it's fiction, sports, movies, live. That was a lesson that I think I probably most abruptly learned once I moved from the UK to Germany. Germany had a market that was perceived to be a failed pay-TV market. There it had been in existence for pay-TV for over 20 years under the brand name Primera before we took it over and renamed it Sky. Everybody assumed it couldn't work. We went in with an attitude that consumers are consumers and if you give them a good offering with the right value, you'll be able to be successful and it took us couple of years longer than I thought we didn't, but we did. It's a very successful thriving business now.

The difference is actually the markets. So, a lot of European markets, which is where my experience is, are primarily dominated by one or two public broadcasters and one or two very large, still very successful traditional free-to-air broadcasters and then one pay-TV operation, maybe two. And that by default gives you a different structure to the way that the companies go to market, the public broadcasters have certainty of funding and, therefore, approach their content creation very differently. And the pay-TV operations, because they're not just competing with another pay-TV operation, they're competing with these giant organizations that have been in existence for years and are a huge part of the culture, are forced to be 100% consumer-focused. If they're not delivering a really great service at really great value, they're never going to get up the ground in the first place and as a matter of fact, in a lot of markets, you only have 30% to 50% penetration as opposed to 80% penetration here in the United States.

I think that is a behavior that there's a lot of problems with the European markets, but there's a lot of great things. The great thing is that consumer focus and that's something that is happening here now. We're living right through it.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

How important is – let me ask a contractual question back to the U.S. is how important is localized content in European engagement of OTT? A big [indiscernible] (06:01) tell you having U.S. content drives engagement, but I wonder what have you experienced on the ground in the UK and Germany for localized content?

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

Sure. U.S. content is at the heart and soul of the entire entertainment industry. There's just no doubt about it. The quality and the quantity of what's created is unmatched versus anywhere else. On the other hand, by default, U.S. content comes in U.S. language. So if you're going to be putting it into a foreign language market, you're going to have to dub it or you're going to have to put subtitles on it. And it also comes culturally from a different perspective and that's probably increasingly become a point of differentiation over the last 5 or 10 years.

Our cultures have diverged more than they've converged on a global basis in some aspects, which means when you put these big U.S. content products into the marketplace, they have an inbuilt market, but they also have a ceiling when it's a foreign language market. When it's not, when it's the UK, when it's Australia, when it's Canada,

you can see I think very similar successes to the services that – as they see here in the United States. But when you take another place like France, Germany, Latin America, you have a certain audience that is comfortable consuming content in native language and comfortable to see the content from a U.S. perspective and then you bump against that feeling and if you don't have localized content to supplement it, you're not going any further.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

Okay. Going back to your current job, before you got to this position, how did Fox go to market with their DTC products?

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

Fox has been in the direct-to-consumer space for two decades. People – I'm only back in the U.S. for 18 months and it's human nature, but everybody thinks about the world from their perspective of the market they are in. So everybody thinks about the media companies from the perspective of the United States – here in the United States. Fox is a global company. It has not just all its operations here and the Sky operations that everybody knows, but it has local channels in virtually every market across the world that are bringing U.S. content, locally created content, and local support from the local perspective. And, in many cases, doing it in what is traditionally called direct-to-consumer i.e., subscription, [ph] Hotstar over (08:22) in Asia, Sky in UK, Germany and Italy, and a lot of other operations and, in some cases, indirect-to-consumer, through our partner distributor. By default, it's had the consumer and particularly that direct-to-consume mindset in its DNA for as long as I've been part of it, and I've been part of it for 20 years.

The things that are changing here in the U.S. market are – we had a model. Do you want to bear with me for two minutes?

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

Yeah.

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

Or am I going to bore you? Here's a simple analogy.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

I'm not easily bored.

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

Here's a simple analogy. The market here in the United States was created for great reasons. Everybody likes the excuse my expression crap on the bundle, but the bundle was created for good reasons. Bundle was created for, number one, to provide additional consumer choice and, number two, to be able to create an ecosystem that could fund and support the diverse amount of content that consumers wanted while sharing the cost burden and providing certainty of economics for those content creators.

So it was a consumer-driven model and it's a business-driven model. Like every good model, it got distorted over time. Over the advent of digital, a single channel like Discovery and Viacom, and I was part of this in the UK, turns into seven Discovery channels and seven Viacom channels. And at a point in time, that's actually a good thing. But then it turns into competition for people's [ph] mind time (09:45) and all it is, is a battle for space on the [ph] EPJ (09:48). That's not a consumer benefit. Actually that's a business benefit only. And that market and that model just got stretched and stretched and stretched, a bit like if you used to like going into a 7-Eleven and getting a nice large drink for your long ride down to the beach or wherever you're going, it was a great thing. And then eventually they had the Big Gulp that was so big that couldn't fit in your little stand for your drink and that was just absurd. And I can give you more and more examples of where good things turned into bad things all the time.

And this model got stretched and stretched and stretched where there was too much content. The innovation wasn't there to keep the consumer experience great. There was really only two consumer choices: a cable operator and a satellite operator, which isn't a really vibrant model, which doesn't also encourage innovation, so there wasn't a lot of innovation and user experience.

Content companies worked their content up into a billion different windows because it was the only way they could monetize when they only had two people to sell to and the people they got left out of that original good model was the consumer. Prices got up over \$100. If you wanted to watch your show from the first episode in the first season to the last, you had to go all over the place and try and find it, and it lasted for two decades, which is quite amazing.

And then finally technology enabled people to watch the way they always wanted to watch. The content companies created one additional window, the SVOD window because that incremental revenue was always nice to have and boom, the pendulum gets cut, a bit like that game on your iPad, Cut the Rope, and it just goes, huh, way too far over to the other side.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

Right.

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

And you get an ecosystem that has a near perfect consumer experience. First episode, first season, the most current episode at a ridiculously low price.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

Right.

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

Fantastic for the consumer, really bad for the industry, but that's natural. When markets get distorted, when models get distorted and they lose the reason for existence from the consumer, they are eventually going to get broken, and they always overswing. And what we're seeing now is it's starting to swing back. It needs to have a balance of being right for the consumer, the consumer is always going to have the power, now it's never coming back to any company that thinks they're certainly going to create a new artificial model out of their money. But if

you're in the content business, that's what the consumer is consuming. You'll be able to find a new variant of your model that works good and, quite frankly, is probably 10 times more sustainable than the thing that we just broke.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

Right.

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

And it's swinging back. You've got the new DMVPDs or virtual MVPDs being created. You've got lots of new experiences coming, the price is becoming reasonable, but nowhere near the old distorted level. The consumer experience is finally getting the proper update and innovation. Everybody is kind of terrified of how you get from where we were, point A, to where we're supposed to be going, point B, and what the path is to get there. I don't have the answer as to what that is either. I know that we create content, which is ultimately what people want to watch, number one. And number two, any model that's built off of consumer behavior is ultimately better and I'm kind of excited about it.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

So, we don't know where we're going. What are we doing in the initial steps to position the company to where we think we're going?

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

Reconnecting the content. For whatever reason, we allow the content to get broken up. The type of content that we make now has far more continuing story lines and, therefore, its continuity is actually much more critical than it was even 5 or 10 years ago. So, first and foremost, it's about reconnecting the content, taking those old windows that we created and reconfiguring them so that whatever way the consumer engages with us, they're going to get the experience they want. This goes all the way back to syndication.

Syndication was created in order to be able to help some plays to rerun shows so people can catch them up. And then VCRs [indiscernible] (13:37) really is for people to record shows so they could watch them when they wanted to. And then DVD backsets and then DVRs and now digital. This is not anything new. We're all talking about it like it's some kind of dramatic new change that's happening here. All that's happening is – technology has caught up to what consumers have wanted for decades, and we've got to find a business model and I think we're finding them that monetizes appropriately and delivers that on that promise because if we don't, they'll go somewhere else.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

So, yeah, it's funny, because we always see John Landgraf. You got to talk to John.

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

I love John.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

Exactly. And...

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

John and I talk the same language, although he uses more numbers.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

Yeah. So the question is, can companies roll back the short-term economics of the SVOD money to do the [ph] right thing for consumers (14:23) because I would tell Reed, my boys are watching Fox products on Netflix all day long.

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

Yeah.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

He's always like they are loving shows [indiscernible] (14:29) or Family Guy.

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

And they're willing to wait a year because there is so much good content out there that, quite frankly, you don't always have to catch the newest show the second it comes out.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

Right. And if you want to get binged, watch Family Guy [indiscernible] (14:40). So walk me through the transition on rights because it's something you started kind of how [indiscernible] (14:46) changed?

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

Sure. So, here in the United States – actually this is one of the places in Europe that's actually never gotten as disconnected as it did here in the U.S. just because there weren't as many touch points to be able to sell into all these different windows. So Sky, my old company, we've delivered basically a linear on-demand and past season what we call [ph] boxhead (15:11) experience for almost 10 years now. That's what's happening here.

So the transition that's happening here, at least from a Fox perspective, listen, two years ago, if you went into any of our products, whether it was cable on-demand product or our own TV Everywhere product, we got this experience that – I have no idea why [indiscernible] (15:32) rolling five, the most five recent episodes. And by the way, if you happen to wait seven weeks before you start watching a show, you're screwed because two episodes were missing. And they didn't go somewhere else, they went dark for a year.

So we started reconfiguring the window so that we're bringing our rights back. So we originally had rolling five and we've sold everything off and then we got to a place where we had full season stack actually on our authenticated products in Fox right now. Three years ago, we had one show that had a full season stack. This year it was 23 out of 24 shows.

So these changes are happening. You might not see them as obvious as you think you will, but you're going to wake up in two or three years and the whole thing is going to reconfigure. Now, we're focused on the past seasons of live shows because when you think about where the value stacks it for the consumer and the thing that's probably the single biggest influence and [indiscernible] (16:23) everybody loves to talk about in cutting and shaving and levering, which is really just consumers reconfiguring themselves to where the best experience is.

The best value is with your current shows live, on-demand as connected with their past seasons. The next value is probably current and on-demand of just those current shows. The next value is those past seasons. Next value is library. Next value is originals that are being created by the growing SVOD universe. Those first two or three buckets are what traditionally people went to cable and satellite for in the big bundle and whatever way they get reconfigured, we have a responsibility to make sure that we're capturing the same revenue back into our business so that we can use that money to keep making great new shows.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

Right.

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

So, in some ways, we're taking those rights and we're trying to redeploy them with the existing cable and satellite operators and that's a two-way street. We need to find a model that works for both of us. In some ways, we're putting them into our authenticated products. In some ways, you're seeing new services like the new Doodle service in Google and DIRECTV NOW start to deliver things like that and they'll probably lean into it. But we can't enable those models to happen unless we reconfigure the way that we think of rights deployment, which everybody thinks is all about business models and the short-term revenue. But the reality is there wasn't another market to sell into 10 years ago when that SVOD window got created and personally I think it's the single best thing to happen. I praise god for Netflix despite the fact that they are so disruptive in the marketplace, not because I believe in their model, I think their model has got significant issues, but because they brought the completed content experience to the consumer in an easy fashion and that is the roadmap for the future for everybody.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

Right.

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

Not necessarily \$10 a month, though.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

Well, that's a segue into – and the first things you did is you created – you [indiscernible] (18:25) creation launch of FOX NOW Live. So, can you tell people who don't know what's that product and how has consumer adoption been on that Netflix product?

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

Sure. So, TV Everywhere is a weird, weird, weird market in the United States. I'm not sure why it ever existed, I wasn't here. I couldn't have influenced myself anyway [indiscernible] (18:43). But the reality is what I think should have developed here is a really good partnership between the content companies and the traditional MVPDs to deliver a completed on-demand experience either on the box or mobile. It didn't develop that way. I could give you chapter and verse on why I think it didn't. But it didn't.

So this TV Everywhere ecosystem got created. And it was marginal at best in terms of consumer engagement and usage. You have probably about 10% of the traditional MVPD universe that engages with all these apps that every programmer has, and there's hundreds of them.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

Right.

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

And two years ago, they had virtually no content in them. So, those 100, 150 different apps and you went into them, they probably had three, five shows at any given point in time. The ecosystem exists. The technology is really easy to manipulate and update in news, so why not actually make it useful. So we decided as we're going through all of this change, let's start with what we already have. Fox was one of the first companies to do TV Everywhere services, but they were about eight years old. So we were starting to get more content to put in them because we're changing the way that we're managing our rights, so we decided to update all of it. The first thing we did was in the FOX NOW app, which has all of the shows that are broadcasted on the Fox Network was just put a live stream in there.

A lot of people do this, this wasn't anything revolutionary, but it was the single biggest thing that have been asked for five years and it had never been done, because no one was investing in these things because they were really kind of an afterthought.

We then took it a step further and have now completely updated that entire environment for our active consumers, where the new FOX NOW which is only available in tvOS but it's rolling out to all of the platforms over the next four weeks. Actually, has all the content from Fox FX and Nat Geo simultaneously and we'll increasingly have more content, Fox Sports will get in there before the start of the NFL season for example. So that we can have – if a consumer is going to go to that extra effort to engage in our app to watch our content and they are not always going to do that, they are going to go million different other places, I want to make sure we've got as much content possible and complete experience as possible and a TV-like experience, so it's all full screen moving video and use that as one of many growth points going forward.

So to give you an example, I was talking to, Reed, about this earlier. I've got a lot of respect for what CBS do with CBS All Access. They kind of took a really difficult single-pillar opportunity and really maximized it for themselves.

I don't know what their numbers are but what's reported by you guys and other people, it's about a 1.5 million customers paying \$599 a month.

In my TV Everywhere services, right now, which are Fox FX and Nat Geo, we deliver more annualized revenue just from that on a DAI perspective, than CBS was getting from all of CBS All Access. And that doesn't count what we're getting from on-demand and cable and all of these other places. So there's a lot happening and it's a lot coming from a very much a consumer focus basis and it is generating good significant revenue, and it'll grow massively over time, but it will grow in many, many different ways.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

Okay. Can we just, let's stick on FOX NOW for a second.

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

Sure.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

What type of content is not available, so...

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

No international, yet. So it's all domestic.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

Right.

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

No live sport yet, but as I said that's coming over the course of next couple of months.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

So you have live and full stream down on the FOX NOW?

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

I'm sure we will. Yeah, we're working towards that right now, we'll have MLB, we'll have NASCAR, we'll have Fox Sport 1, Fox Sport 2, even the regional sports network. We're trying to make it as complete experience as possible and to make it really entertaining and fully engaging. What else is not on there, there's really no original for digital content yet, we haven't leaned into that space yet, but I'm sure we will. You kind of have to have an audience before you actually start investing, at least I think you do. And we've got an audience that's you know eight digits plus on a monthly basis into our [indiscernible] (22:49) environment. So it's a good place to start, but

there's nothing that can't go in there, it's been structured so that we can literally put anything that we think our customers actually want to watch.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

Okay. And what relationship do you have with local affiliates. What relation do they have in that process, that something – seem to be a sticking point to the speed in which we get national roll out?

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

Yeah. We got ahead of the game on that one, with the thing you mentioned first. So when we originally put the live stream in, we worked with the affiliates as opposed to against them, which meant even though we were only putting the Primetime live feed in, they get two minutes for every hour in local advertising, so we enabled localized advertising insertion into that product. And that opened the door for us to eventually be able to get all the local affiliates in. So we will have the owned and operated affiliates in there when we start sport in the autumn and I would guess by Christmas, we will have the majority, if not all of the local markets in there.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

Okay. And some are the measurement challenges, because you know, because you came back from Europe...

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

Yeah, I loved that.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

...into the U.S. and it's been a 5-year, 10-year story on how difficult it is to measure all of this [ph] communication (23:55).

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

Here's an interesting point, everybody wants to talk about the shrinking marketplace for traditional media companies, it's not shrinking, it's growing, it's just shifting and it's shifting to places where the measurement has not kept up with. And again, this is something that from a very pragmatic perspective, I know everybody is stressing right now, but we're not going to be stressing it in two years to three years. Whenever you go through a big change in the way the consumption happens, the way that we measure it and the way that we monetize it, always [ph] trails (24:26), it just does, it's never ahead of the game.

And even if you think about outside of our business and think about the companies that everybody love, the Facebooks of the world, the Googles of the world, yeah, they shifted where advertising went and they move the eyeballs well before the money moved over there, that's exactly what's happening in our marketplace.

Measurement right now is, I would say three or four years behind where it should be, in order to be able to capture every place where everybody is consuming our content. But I know, when I take it all the individualized sources that we have and I add them together and I account for duplication and I account for over-counting, the

consumption of our content is significantly up where it was five years ago, even though if you look at the linear ratings, it looks like everything is down.

We need to get the measurement, up the speed and it will happen, it's painful, but it will happen and then the monetization will follow massively. And everybody is panicking right now, I can understand it, change is scary as hell. I tried to change a market that was 20 years, not working in Germany and we figured out a way to do it without any rocket science. We just delivered a good consumer experience and stuck with it. We are going to end-up with a better marketplace when they get through this, because it is going to be driven from the consumer perspective on up and about 100% confident of that.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

To the winners? For the...

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

Yeah, that's true, that's true. The ecosystem – like we talked about at the beginning, good models eventually get distorted. Big gulp, giant trucks and then the Japanese came in with small cars, anyway there is a million examples, too many channels got created.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

Right.

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

And then they were created originally for good reasons, because that was the only way you could give consumers multiple options to be able to consume your content, but you just don't need that any.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

Right, right. We mentioned faces in Google, one of things clearly have in your favor is they have got very good user level data. So they are – so what are you doing to...

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

It's near perfect.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

Yeah. Near perfect, exactly. Whether you know it or not, they have good data on you. So...

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

[indiscernible] (26:31) careful of that.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

But, yeah, so how do you capture user level data?

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

So that's may be one of the few things that I brought to the team that maybe which didn't exist before which was at Sky we were -- we lived and died by our consumer insight and data, much of which was quantitative, but significant amount was qualitative as well. I think because the content industry here has been traditionally a wholesale industry, it's not kept up with the speed and pace of what you can learn from the consumer and how you can utilize that to be able to inform virtually every aspect of your business.

So, part of what we are doing with the new authenticated service is is we basically build an entire new platform and we've instrumented it from the ground up. I have in my briefcase, out in the car, a stack of data of what consumers are doing on our services that is probably at 1,000 times deeper than anything that existed a year ago, which is just the start. We got a big issue with the connection of data on user experience when we're providing our content to the MVPDs, and they are the ones who are providing it ultimately on to the consumer, that's commercial, it's not technological.

And the industry here is built up and competition is great. Competition eventually drives innovation, for some reason, it took a long time for it to do it here, but now it is. But the industry is a bit too adversarial from my perspective here. There is a attitude of partnership that allow distributors and content creators over in Europe to maybe be more consumer-focused. And I think, it's going to come here as well. So we'll farm those things because they're really not technological.

And then there is the qualitative consumer inside. We have -- every company, -- every MVPD has this, but they don't share it, because that's their competitive position. But the content companies, they line on you guys -- for -- to [ph] pare (28:40) information of what's happening in the marketplace. When you do all of these big one-off studies and what's happening here, what's happening there, and as good as that information is, we shouldn't be relying on you. So you should be talking to consumers every month. Those people that are using traditional services, those people who are using new services, people who switch from one service to another, those people that are casual users, active users, young users, older users.

So we put in place a market mapping process, about nine months ago, at FOX and its consisted every month the same thing is being measured and is being measured from the same level of detail that I measured everything over at Sky. And the beauty of it is, I'm now being able to not only understand what's happening in the marketplace, but I can also see the trends and where they're moving and be able to predict them with some level of certainly 6 to 12 months out, maximum. Anybody tells you they know what's going to happen 3 to 5 years, kick them out of the room, they're full of shit, excuse my language.

And that's now informing everywhere we're going as well and it's my entire career and the companies I worked with, their success has been built off of instrumentation, data analysis and execution, all from the consumer perspective and Fox is very much building that into its DNA now.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

Okay. How is advertising sales, so you referenced the monetization.

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

Yeah.

A

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

How are you monetizing your daily active users?

Q

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

As I said earlier, a lot better than people realize, but not nearly as much as we want to yet and this goes back to your point that you were making earlier which is we created this revenue [ph] model (30:10) with the SVOD window that we created and we need to replace it and then grow off of the back of it.

So in the TV Everywhere world, we are in the nine digits on advertising revenue and that's just in TV Everywhere, that's not in cable VOD, that's not in all the other touch points that we have. It's all very customized and targeted, but probably the most important thing to talk about is, it's being created not just from, say, how do we make more money perspective, it's also being created from how do we improve the experience perspective.

So, one of the very quiet things that Joe Marchese announced over at our [ph] upfront (30:54) the other day was we're now going to be selling sponsorship positions in our digital space with FX with brand partners that will literally have them buying out virtually every ad break.

Now, economically, that works well for us. For the advertiser, it actually gives them a better positioning because it's just more specific and more noticeable. But for the consumer, it means they're not going to have to live through six ads in a break, which – why, it's kind of [ph] sacrosanct (31:24) to say it during upfront week, but who the hell wants to sit through six ads in a break. By the way, consumers [indiscernible] (31:32) a huge amount of work on this are very polarized on whether they want advertising or not. About 50% of them don't, it probably never did by the way, but it's certainly something that's been trained in by the Netflixes of the world and those people that don't want advertising are completely price insensitive. So the value of that ad-free experience is far bigger than we ever realized when we sold our content off to the companies like Netflix.

But the other 50%, just want the best price they can get and the best content, and they are happy to live through the ad experience. We want to make that experience as good as we possibly can and in digital, you can just make it much more consumer focused.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Let me take that answer and all up for this. Do you envision a time when FOX NOW will be sold as standalone service like CBS All Access or [ph] antenna (32:18) with others?

Q

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

Well we already sell direct-to-consumer products, not just all across the world, but even here in the United States. We've got two sport products that we don't spend a lot of time talking about, Fox Soccer to go and on our Fox Sports Extra, that together already garner eight digits per annum in direct-to-consumer revenue.

A

Do I see a place where we're going to be selling more services direct-to-consumer, I'm sure. Yeah and I can dance around and say, no, no, maybe not. I'm sure it's going to happen, but I don't know whether it's going to be six months from now, technologically we will be ready as a company, or six years from now or whatever.

Listen we have – this market is unbelievably lucky that has such a deep penetration of consumer touch points into households. Europe is lucky that they have 30% pay TV penetration. We have 80% traditional pay TV penetration and then probably another 10% through all of the other services that are developed, some of which are in the same home and some of which is unique. But you only have about 10% of households that really can't afford anything, maybe even 5%. We need to spend a lot of our time and the reconfiguring in this rights, trying to help those people that have funded the creation of all those content, which is the traditional cable and satellite operators, to be able to deliver the best service possible. But if that's all we did, we would not be serving our business and our consumers best. So we will, over time, make more capabilities and more options for consumers to be able to absorb our content. There is 20 million homes in the United States right now, who can't get our access to the new season of John's shows on FX.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

Right.

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

Because they don't have a traditional and cable and satellite and they'd have to wait a year to be able to get it on SVOD. Now to me, the beauty of what's happening is we don't have to take that and put it in some standalone \$5 product today, just to be able to get those people access to that content, we can now take advantage of the new virtual DMVPD that are being created and give those households access. If that doesn't work, we'll come up with other models. The important thing is, you have to have the right [indiscernible] (34:37) in your control and we've been working on that for three years, you don't see it in many places yet, but it's what's going to enable everything that goes forward.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

And the other point is, if you know that half the market does not want advertising, so maybe you come with the rules then which is three bucks more you just skip the ad...

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

Which I think we would all love to do and not just us, but the guys at Disney who were on earlier, all of the other organizations that are creating all this incredible content that's available. And I would be amazed if we don't wake up sometime in the future and that's an option for those people who want it, but there is lot of old deals and a lot of old commercial structures that have to be unwound and reconfigured to enable it to happen.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

To put a fine point on this, my question really was going to be, you've sold a lot of content to SVOD, your prior roadmap sounds like you are willingness to keep selling is now pretty much diminished to...

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

You know what...

A

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

...you have one-offs.

Q

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

I think that's one thing that's misunderstood. It's not our willingness to sell to other distributors, we will sell to any distributor. We are not creating some hard and fast rule that we're only going to keep on [indiscernible] (35:50), use them ourselves going forward. We're happy to work with anybody that's out there. We are a shareholder and who will, but we have done virtually the exact same deals from a content and an economic perspective with DIRECTV NOW, with Sling, with Sony and with Google.

A

I think what has changed, besides all of the other things we've talked about is, we have realized that the windows that we – the way we were selling before was not capturing the value for what we were selling. So the best way to put this, when we sold in that first SVOD windows that got created, that went to the Netflixes and the Amazons and even the Hulu of the world. I don't think we had any realization as to what the value of the connectivity of past seasons with current season was and how much consumers were desiring that and thus willing to pay for it, and second, the ad free experience.

If one of those companies came along and said, they would be willing to pay us, what we traditionally get from the traditional ecosystem as opposed to one-tenth or one-twentieth, which is what we were selling it for, we thought was incremental. I am not sure we wouldn't sell to them. Because ultimately, we just want to make our content available to consumers in a connected fashion, in a way that allows the economics to work for us so we can keep creating great content, that's what we do. Distribution is – I've spend all of my time, all of my career on the consumer distribution side and you would think I would be the person that say, oh, you have to control everything and distribute it yourself, you don't. If you think you're the only person that can innovate better than anybody else in the marketplace, you're out of your mind. Our job is to work with everybody. I think we can do a great job at it, but we will work with anybody that's willing to work in a model with economics that make sense.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Okay. Taking your last point about you're in the border of Hulu, your border rates of a Hulu.

Q

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

Yeah.

A

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Is there is a possible share of those in the early learnings from Hulu in service, it's been what, a couple of weeks.

Q

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

Yes. I think it's been less than two weeks

A

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Yeah.

Q

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

...or maybe two weeks to that.

A

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

So [ph] over to Dana here (37:53), how is it going?

Q

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

So, probably not, because that would be totally unfair to my conscience.

A

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Right.

Q

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

But, I will say as a consumer, as opposed to a board member and being a board member of Hulu is actually one of the more fun experiences I have. I get to work in a really great service. I get to work with a really great team, I get to work across the table from the guys of Disney, who quite frankly, I admire a lot. It's off to a good start, it's off to, I think, quite a good start and I'm not talking numbers, I'm talking experience. Listen, no disrespect to the services that got out there first, because quite frankly, they get a lot of credit for kick starting this next swing of the pendulum. But they probably went a little too early and they probably didn't fine tune their consumer experience as well as they would – even, they would have liked to, I mean, in the initial days.

A

To the point where it just, they kind of felt a bit like cable over digital, which really isn't what you should be trying to do and I'm sure not what they want to do. The Hulu experience has really leaned into the SVOD navigational paradigm, even though it has live [indiscernible] (39:07) as well as past season seem to me that's the case. That's my phone telling me, my flight is happening in two hours and I've got to get downstairs to my car.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

That means we've 10 more minutes, so questions will be handed in [indiscernible] (39:23) and we will pick them up in the next three to four minutes.

Q

Brian Sullivan*President & COO, Digital Consumer Group, Fox Networks Group, Inc.*

A

I can't believe I did that, I'm so sorry. Everybody is trying to find what their unique position is in this new marketplace. And I think, Hulu has carved out one of the better ones, because they haven't just delivered a new digital experience, everybody has carved the number of channels down to probably a more sustainable combination.

Everybody is delivering live and on-demand of the current shows. Hulu has taken their legacy product, which they've built 12 million subscribers on top of SVOD service and they've bundled it in, not just in the same user experience, but also in the same pricing and packaging. And to me, that's what consumers – when we were talking about where [ph] is the value sits (40:12), the biggest value to a consumer to me is live, current and the associated past seasons. And that's exactly what Hulu has done. All the other services right now are just live and current.

Michael B. Nathanson*Senior Research Analyst, MoffettNathanson LLC*

Q

Right.

Brian Sullivan*President & COO, Digital Consumer Group, Fox Networks Group, Inc.*

A

Of those, I think Google's developed probably the most interesting user interface other than Hulu. It's very mobile-centric, not necessarily as connector-centric, but they're counting on testing to be able to solve that. We're going to wake up in two years and all these services are going to be slightly different. Personally, I think they will all have that connection between current and past seasons because I love the Google service, but I stopped watching it a few weeks ago because most of the shows I wanted to watch were over a year old, [indiscernible] (40:52) the past seasons.

Michael B. Nathanson*Senior Research Analyst, MoffettNathanson LLC*

Q

Right.

Brian Sullivan*President & COO, Digital Consumer Group, Fox Networks Group, Inc.*

A

But they'll be able to get them, because everybody is willing to sell them. And in digital, you can – one of the beauties of it is, you can iterate and innovate super, super quickly. So, I'm really excited about that category. I love what Google is doing.

Michael B. Nathanson*Senior Research Analyst, MoffettNathanson LLC*

Q

Do you worry, Brian, that there is a cannibalization risk for someone like me, I have – my kids are out of the house, I'll spend out or you think you guys deliver the consumer what they want or...

Brian Sullivan*President & COO, Digital Consumer Group, Fox Networks Group, Inc.*

A

Well, I can take this from a couple perspectives, but I would come to the same conclusion, which is no, I don't worry about that. Number one, just with my Fox add-on, economically, we are the same, if not better, if you go to

one of these new services than we are with one of the traditional MVPDs. Number two, right now, you'd be actually getting a better content experience with the new services than in traditional.

And number three, I think the traditional guys are going to lean into this space themselves, whether it's for own services, like DIRECTV has done or whether it's like Comcast, which is putting a huge amount of innovation into their traditional system and making it a really great experience. And when they do that, what are they going to need, the content and the past seasons and then, we're going to have a new partner to work with and the one thing that I really hope is different at this time is that it does become a partnership because the programmers love to blame their cable and satellite customers for the overstretch of the old system. The cable and satellite operators love to blame the programmers.

I'm relatively agnostic having come into it from the outside and it's pretty 50-50, whatever blame needs to be apportioned. But blaming for the past is just kind of a wasted amount of time. There is a huge opportunity to be able to innovate even in the traditional system and in this new system. And ultimately, what matters is the consumer and it sounds a bit like a textbook statement, that I've said it so many times. But my career has proven that I believe in it. The consumer is going to get what they've wanted for 30 years and they're going to get it at a good value, maybe not as great value as they originally got it when that first pendulum swing happened. And it's going to drive a whole new wave of innovation and new models that will allow us to keep creating great content, it's just not going to be a straight line from A to B, maybe not everybody is going to survive the turmoil. It's going to scare the living daylights out of people that have worked in a model that was there for 30 years and they should be scared because you need to change. But this is also the period when – if you think about every industry that goes through massive change, it's where all the great innovation happens and that the innovation is being created from a consumer's perspective, if you're in the content business, you're going to end up in a better place.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

Let me ask you one last from my end and we have a couple from the audience.

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

Sure.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

One of the complaints, rightly so is awareness. Families try to figure out, we're going to find out that show, right, so how or what are you doing differently around consumer marketing...

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

It's a nightmare.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

...on your Fox app and also on Hulu because we've been underwhelmed by the marketing from Hulu and actually YouTube from the first couple of weeks, we are...

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

You know why you've been underwhelmed by the marketing?

A

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Why?

Q

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

They haven't done it yet.

A

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Right.

Q

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

Which I can explain in a second. So I think everybody expects when new things happen that they instantaneously become huge and successful and that's just not how the real world works. Let me take the second part of your question first. Hulu is not going to start marketing till this summer. Right now, they're not only available tvOS, iOS, Android and Xbox.

A

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Right.

Q

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

They're not available on the Web yet, which is 30% or something of their traditional viewing, they're not available on Roku, which is another big old chunk, because everybody likes to talk about Apple TV, but boxes like Roku are the ones that real consumer can actually afford. They're not going to be on most of the devices until this summer. Secondly, already talked about this earlier, getting the local affiliate feeds in is a technological nightmare, because working with old broadcast infrastructures and trying to turn them into digital infrastructures. So you really only have the major markets present for the major broadcasters, most of those local markets will be onboard by the end of this summer. Why would you spend tens of millions of dollars marketing a service right now when most people can't actually get it?

A

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Right.

Q

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

So, you're going to see the spend come in to the start of the premiere season and – the fall premiere season and the NFL season and the playoffs for baseball and by the way when somebody [ph] gets shot (45:34) people watching more TV. I'm sure, I don't know the guys at Google as well, but I am starting – that's exactly what they're thinking. I don't think I've seen one ad for Google TV yet, there is some reason. It's not that – the guys at Google aren't stupid, they're probably some of the smartest people in the world. So be patient of it. Use the services, play around with them, you will realize and they are a dramatic change from what you used before.

So you're going to get jarred to start with, but you will realize they are fantastic watch – viewing experiences and these will all be successful. If we have 10 million, 20 million, 30 million customers in this new access system, that will be great. If we have 2 million and the traditional access system has up to – gained so much that it's kept all those people, that's great too.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

Okay. And then the question on awareness on the app...

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

Sure. So..

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

That's been a question for everybody.

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

Yeah. So, in the authenticated app space, number one, there's too many of them. So we're narrowing ours down really to kind of one core experience where we put all the content into it, that gives us a lot of benefits. Number one, I can market into one app instead of into five apps. I can point all of my on-air, cross-promo experience into it.

I can keep – and we're already seeing this in the first numbers with the first version of this app. I keep consumers far longer, they actually watch more shows while they're in that session and they monetize a heck of a lot better. So we will – once I finish rolling out on devices, which I already talked about, again, you don't market until you've got your experience where you want it to get to, we'll be finished that probably by the middle of July. We'll start marketing into it dramatically. By the way, just to give you a one-off point example, we've had a service called FOX Sports Go for three, four years. We never put it on connected TVs until about nine months ago. Usage this year is up 280% only because we made it more accessible and we started talking about it to consumers. There's actually a really big untapped opportunity in this TV Everywhere experience, and as we get that better, eventually when direct-to-consumer comes about, we will have learned everything we needed to learn.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

Okay.

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

And you just pivoted across.

A

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Okay. Three quick questions. How important is it for Fox to produce its own content in-house?

Q

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

Critical.

A

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Critical.

Q

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

For a simple reason, two simple reasons. Number one, we think we've got kind of the world-class in terms of content creators, both in terms of executives and the partners we work with. I'm not an awards person, but we try to – I try to stay purely low profile, but particularly since I came back to the United States. But the reality is if you look at all the awards that our content gets, it gets them for a reason: we create great stuff. We think we get the best execs on it and therefore we want our guys creating our content. But the second reason is as, if not more important is, if you create it yourself, you control the rights better.

A

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Okay.

Q

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

And if you control the rights better, you control the experience.

A

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Okay. As we touched this before, as Netflix, Amazon, Hulu actually buy less and less older library content...

Q

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

Yeah.

A

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Are you considering launching a catalogue service or that catalogue product gets rolled into like, let's say, a MASH, which is highly considered show in Netflix.

Q

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

Yeah. So we're looking at virtually every variant of this you could possibly think of. We're talking to the traditional cable and satellite operators, whether they want to be able to work with us on past seasons and library product, again, we've done all this research now. We know there's huge untapped potential and value that we were kind of passing it since on the dollar over to the SVOD guys. So we now want to find new ways of being able to do it. I think we'll actually have success working with the traditional guys. We also, by the way, could do this through our existing TV Everywhere services, where we already have an in-built audience in the tens of millions. And then eventually it could also become a proper standalone direct-to-consumer service. So yes, we're not bringing this rights back in to put them in our back pocket and sit on them. We're going to make them available to consumers and we're going to find the way for monetizing that are more appropriate to the value to the consumer.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

Last question, I don't know if it's for you or for Joe who is not here. The OpenAP announcement...

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

Yes.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

...how does that – what's your aspirations from that partnership you have with Viacom and Turner, and how is it being received by the advertising community? Maybe how it fits into what you're doing right now?

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

A

So the reception has been great so far. Listen, just more versatile on this, 10 times more versatile on this than I ever will be. I come from more of a subscription background than an advertising background. But it's been received really well, it's one of about three or four new things that we're presenting to the marketplace, in terms of being able to engage with our consumers and to be able to monetize on digital, whilst still delivering a better viewer experience, which I think is a critical point. If you know Joe at all, Joe would – in an appropriate world, Joe would put himself out of business because he would love to deliver the best consumer experience possible and have one advertiser who basically delivers a perfect viewing experience with no more interruptions.

That said, we actually think we deliver value back to the marketplace which something like Netflix doesn't or – but Hulu does like, for example, that we have – we're giving you an opportunity to put your brands in front of consumers with great content. We just want to make the experience better. OpenAP will go through a number of iterations because really what we're talking about as a marketplace that for the most part, right now sells on a show basis, and really what you want to do is sell on an audience basis.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Q

Right.

A

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

In order to sell on an audience basis, you need to have aggregated viewing and you need depth of data. And as we talked about, depth of data is about two years behind where the viewership's actually happened and this is kind of our next step to be able to do it. I'm sure there will be more innovations and more iterations of what that product is, but the initial reception has been great, actually. Listen, we don't talk these kind of numbers because there are sub-segments with sub-segments, but our advertising revenue, just in our TV Everywhere space, besides being larger than what I think the CBS All Access annualized subscription revenue is, has grown in the double-digits and I mean big double-digits for the last two years and I expect that to continue as the audience grows and the – our ability to be able to quantify and therefore monetize grows over the course of the next few years.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Okay. Brian, thank you so much.

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

No problem.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Enjoy your big [indiscernible] (51:55).

Brian Sullivan

President & COO, Digital Consumer Group, Fox Networks Group, Inc.

Thanks, everybody.

Michael B. Nathanson

Senior Research Analyst, MoffettNathanson LLC

Great. Thank you.

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