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FOXA - Twenty-First Century Fox Inc at Morgan Stanley Technology, Media & Telecom Conference

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CORPORATE PARTICIPANTS

Lachlan Murdoch *Twenty-First Century Fox, Inc. - Executive Chairman*

CONFERENCE CALL PARTICIPANTS

Ben Swinburne *Morgan Stanley - Analyst*

QUESTIONS AND ANSWERS

Ben Swinburne - *Morgan Stanley - Analyst*

Okay. We're going to get started. Good morning, everybody. I'm Ben Swinburne, Morgan Stanley's media analyst. And quickly, to set the mood, let me hit the disclosures. Please note that important disclosures, including my personal holdings disclosures and Morgan Stanley disclosures, all appear as a handout available in the registration area and on the Morgan Stanley public website.

We're really excited to welcome as our next keynote presenter, to my left, Lachlan Murdoch. He is the Executive Chairman of Twenty-First Century Fox. Prior to his current role he served as the Company's Co-Chairman, beginning in 2014; has been a member of the Board since 1996 and has had a number of senior executive roles from 1994 to 2005. Lachlan, thanks for coming to the conference.

Lachlan Murdoch - *Twenty-First Century Fox, Inc. - Executive Chairman*

Thank you, Ben.

Ben Swinburne - *Morgan Stanley - Analyst*

Great to have you. Why don't we just start off, maybe just to set the stage for everybody, Twenty-First Century Fox -- truly a global media Company; assets are all over the world, both in content and distribution. When you look at the portfolio that the Company holds today, what are the big growth drivers that you see ahead of yourselves, and why do you have confidence in those -- in the growth outlook?

Lachlan Murdoch - *Twenty-First Century Fox, Inc. - Executive Chairman*

Great. Well, thank you, Ben. And first of all, thank you very much for having me here this morning, and thank you all for joining us here as well. For the eighth year of the conference, to have, I think you told me, 1,000 investors here and over 240 companies represented, it's an honor for me and a privilege to be amongst one -- and for Fox to be amongst one of those 240. So, thank you very much for having me, and congratulations on the conference.

Ben Swinburne - *Morgan Stanley - Analyst*

Thank you.

Lachlan Murdoch - *Twenty-First Century Fox, Inc. - Executive Chairman*

So, it's interesting, because in media, and particularly in television and film production and distribution, the last decade, and really accelerating in the last four or five years, there's been an incredible, obviously, transformation, as we all execute upon strategies to transition to digital distribution as quickly and as profitably as possible. I would say though, today, sitting in front of you, we feel as confident as we ever have been that the strategies that we're executing on are succeeding. But we're still in the early days of putting those strategies -- or, executing on those strategies and moving forward. So, we feel very confident in the core elements of what we're doing.

And to remind people who don't know, some years ago, probably three or four years ago, we decided to really focus on our core television brands. In a world that's fragmenting as quickly as it is downstream at the distribution level, having the strongest brands and the strongest content possible is critically important. So, we've focused on the Fox brand; on the National Geographic brand; on Fox Sports; on Fox News; and on FX, as our core American brands. And we really said we're not going to invest in ancillary brands that won't matter ultimately to the consumer and to our viewers.

And this has been very important, as we've seen, as new digital platforms are emerging. So, whether it's DirecTV Now, whether it's on Sling TV, whether it's on rumored YouTube services, we've been able to incorporate those core brands of ours into every single one of those platforms.

Ben Swinburne - *Morgan Stanley - Analyst*

Great. You've mentioned that the business is in transition. Distribution models are obviously changing. Talk a little bit about the investments that you have around the world in the downstream part of the model, that really drive the strategy. And you mentioned on the earnings call more and more investment in direct-to-consumer services. Talk about how that all fits in with your strategy from an investment perspective.

Lachlan Murdoch - *Twenty-First Century Fox, Inc. - Executive Chairman*

So, clearly, a direct-to-consumer service, and the opportunity for us to, really for the first time in our history, to have a large-scale and meaningful direct-to-consumer relationship with each of our viewers, is a huge opportunity. And if you -- to digress for a second, if you think three or four years ago, and particularly a couple of summers ago when I think Disney first had the earnings call, where it was clear that some ESPN subs were shrinking, there was a great deal of angst in the industry around the challenges of digital distribution, and what is happening to the traditional --

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Ben Swinburne - *Morgan Stanley - Analyst*

Yes. (Multiple speakers) --

Lachlan Murdoch - *Twenty-First Century Fox, Inc. - Executive Chairman*

(Inaudible). Existential angst at a large scale. And there was a lot of soul-searching in terms of, how are we as an industry keeping up with this rapidly-fragmenting distribution, and a shrinkage of the traditional pay television bundle? I think what we've seen is that, actually, this is a huge opportunity for the industry, in how we monetize our content, both in how we sell to third parties, but also how we put our product in front of consumers in a way that we understand the consumer more, and we have that direct relationship.

So, I think from our point of view, on one side we will sell non-exclusively to everyone. We'll sell to DirecTV; we'll sell to Sling; we'll sell to our YouTube. But at the same time, we want that relationship direct ourselves. So, with Hulu, which is a partnership we have and we'll be launching in the next couple of months an over-the-top service that will be a core bundle of channels. And we don't call it a skinny bundle, because nothing is left out that we don't believe the consumer really wants.

So, how do you get the maximum amount of viewing, right -- so, the brands; and many of them have presented here yesterday and today, the core television brands that people want to watch, and need to watch -- for the lowest possible price? And the research that we've done ourselves at Fox, but also I know that Hulu has done, all comes around to roughly around the $40 price point. So, if you get the maximum amount of channels and brands that you want for the lowest possible price, which seems to be around $40, we think actually the market will expand significantly.

And that brings me to some of our M&A activity that we've been so focused on this year, and certainly will be a big focus for the next -- certainly the next six to nine months. And that's our proposed acquisition of the 60% of Sky, or BSkyB, in Britain, that we don't already own.

And the way we see BSkyB -- it's a business very much like our own. It is not a purely distribution business -- solely distribution business. I think they spend about GBP1 billion a year in content production. And due to that investment, 50% of the viewership on the Sky platform is channels and content that they create and produce themselves. So, it's a tremendous creative company as much as it is a technology company. But on the technology side, they have 22 million direct-to-consumer relationships through their subscriptions, and also through their over-the-top streaming. And so, we see the acquisition of Sky as absolutely being something that both strengthens Sky but will strengthen our technology and creative platforms as well.

Ben Swinburne - *Morgan Stanley - Analyst*

Great. And as we've gotten more constructive on the media sector, we've faced a lot of skepticism that these new core bundles -- we don't call them skinny, but streaming bundles -- may expand the market. What's been the experience, when you look around the world at other data points, whether it's in Europe or maybe in Asia, that gives you confidence that, actually, the potential that's happened in those 20 million broadband-only homes is real here?

Lachlan Murdoch - *Twenty-First Century Fox, Inc. - Executive Chairman*

Well, I think there are examples around the world I can talk to, whether it's in India or in Europe, where the over-the-top core bundles have been very successful, on products that others have provided and that we've provided. But I'm not entirely sure all of those examples are relevant to the US market, really because of the penetration of traditional pay television in the US already.

But what I do want to say about the US market first, though, is that what we are seeing, and obviously we see the position as -- through our Twentieth Century Television, our television and production unit through, obviously, our own core cable brands and through the film company, where most -- all of the new platforms come to us for our content. And so, we have a very broad view of who's out there, both the ones that have been announced and the ones that are in the planning process.

And so, what we can see is that there are products or services out there that will replicate the traditional pay television experience, cable experience, at a cheaper price or at -- with somewhat sort of limited -- more limited channels. And those services are targeted for the traditional cable consumer. So, those services are therefore targeted at their cable -- effectively at cable cutters, right?

But I think, more interestingly, and much more exciting for us, is actually the new services that are much more innovative, have lower price points, and target millennials and people who are effectively cord-nevers, and people who would not be in the market -- have not been in the market for a $100-plus traditional cable package, but are in the market for something that's fresh, that's very technological, that offers them as a consumer an experience that is far improved. And I think it's that second group of new services that I think can really expand the marketplace.

Ben Swinburne - *Morgan Stanley - Analyst*

You've talked a lot about investment, and when I think of Twenty-First Century Fox I think about taking long-term investments, long-term bets. Deleveraging was a focus that you and the management team have articulated. But given the focus on video and the future of the bundle, are there any areas that you want to highlight that you think could benefit from increased investment in the Company, in its technology, or content, or all of the above?

Lachlan Murdoch - *Twenty-First Century Fox, Inc. - Executive Chairman*

Sorry, within -- in the -- [what's] the last part of it?

Ben Swinburne - *Morgan Stanley - Analyst*

In the streaming world, and as you think about the future of video, where are you guys putting incremental dollars to work?

Lachlan Murdoch - *Twenty-First Century Fox, Inc. - Executive Chairman*

I think -- well, we're buying BSkyB, to start. But I think -- and we have, quietly, perhaps, been working for and been investing significantly on our own direct-to-consumer capabilities within the United States over the last couple of years. So, I don't think -- moving forward, there will not be a step up in incremental investment that we're not already spending as [parts in] our normal operating procedures and budgets today.

What we've done, for instance, and will be launching soon, is a single authenticated application that our cable companies will be able to authenticate with your cable subscription -- so, whether you're a Comcast subscriber or a DirecTV subscriber. Where you will enter into a Fox -- well, now, you might enter because you want to watch a National Geographic show, or you might enter because you want to watch FX, or you want to catch up on something that's on the network. But once you enter once, and you're authenticated by your cable provider once, you will be authenticated across all those channels and those experiences forever.

And there's a very seamless transition between, whether you're watching a show on any one of our networks. Which offers us a tremendous amount of marketing leverage which we've never had before, but also offers us a great deal of more data than we've ever had on our customers. And we're seeing -- it's obvious to everyone in this room that the more data we have on our customers, the more data we have on their viewing, the better we are to monetize; the better we're -- have the capability to monetize through advertising to those consumers.

So, I think this year alone -- and this is before we've launched this new service, but this year alone I think our monetization of our non-linear video views is up 35%, just by using the data better and by getting smarter about how we do it.

Ben Swinburne - *Morgan Stanley - Analyst*

Great. One more high-level question and then we'll dive into the segments. There's been a lot of changes in management at Fox, going back from the separation of the two businesses, but even more recently, film; Fox News; ad sales, we've talked about. Can you just talk about these changes holistically, and how are these businesses better positioned? How are you trying to better position them through the people you're putting in place?

Lachlan Murdoch - *Twenty-First Century Fox, Inc. - Executive Chairman*

Yes. Look, I think -- first of all, let me preface the answer with, I think we have a tremendous management team and an executive team. If you look across our businesses in the United States, but also globally (inaudible), we have, obviously, huge teams around the world in all the markets that we're in. I think we are in a good position from an executive and management talent that we have on board, as we've ever been. So, we feel very confident in that.

Having said that, I think both my brother and I are keen to drive the business as hard as we've ever driven it before. And so, where we see a need or an area where we can do better, we'll make some tough decisions to do better and change management.

For us, the fundamental challenge for this business -- and I'm sure we'll talk a little more about the digital transition -- but the fundamental thing for us is to remain amongst the best creative companies in the world and remain as entrepreneurial as we have been in the past. Our success is really founded on, or the foundation of our success is always, had the best relationships with the best creative talent, and have produced the best television shows and theatrical releases, that we can.

Ben Swinburne - *Morgan Stanley - Analyst*

Great. We're going to come to some of the creative stuff, but I wanted to dive into the cable segment first, which is the largest part and majority of your EBITDA. As you mentioned, a couple of years ago, Disney cutting guidance set off a lot of shockwaves around the sector, so there's a big focus on subscriber trends and domestic affiliate revenue growth. You've got a nice story at Twenty-First Century Fox on that front. Can you talk about why your subscriber trends seem to be doing better than the rest, and what's driving the accelerating revenue growth here, as we are in calendar 2017?

Lachlan Murdoch - *Twenty-First Century Fox, Inc. - Executive Chairman*

Sure. I think we -- I'm not sure that we're unique in this, but it's relatively rare that we are growing subscribers, which is something I think is relatively unique. And the reason for that is, a lot of our channels are not mature. There's a lot of natural growth left in them.

So, whether it's National Geographic, whether it's FXM, which is the FX movies channel, or Fox Business Channel, we have a lot of channels that actually -- Fox Sports 2, I shouldn't leave out -- so, we have a lot of channels that actually have natural growth left in them. So, our net subscriber numbers continue to grow, which is a great position to be in.

At the same time, our affiliate fees also continue to grow, and that's because a lot of our deals are historical deals that are now sort of coming up for renewal. So, we renegotiated perhaps our most significant distribution affiliation agreement late last calendar year, at the end of the fiscal second quarter, and we'll start to see the benefits of that flowing through in really the second half of this fiscal year. And that'll start to accelerate our affiliation fee growth as well.

Ben Swinburne - *Morgan Stanley - Analyst*

And how do you feel, Lachlan, about the pricing power of your portfolio in the US today versus three or four years ago? The market would, I assume, have been diminished, but you guys seem to be driving a lot of strong affiliate fee growth.

Lachlan Murdoch - *Twenty-First Century Fox, Inc. - Executive Chairman*

I think it's two things. I think -- well, it's pricing power, yes; and it's the -- if I go back to the strategy, the strategy of having these core brands together. We are not trying to push channels on our distributors that they don't want. Right? We're not launching channels.

And by the way, I'm not saying we've always been pure on this. I think if you go back 10 years or 15 years, when there was a rush to launch new channels, new channels were created to get a few extra cents here and there from the distributors. We don't do that any more.

What we do is, we said, here are our core brands. They're valuable to the customers. Your customers want them. And we invest in them significantly. And this past year we invested $200 million in new FX programming and new National Geographic programming. And that was really to solidify and stand up those brands for them to remain -- to continue to remain as relevant as they are.

Ben Swinburne - *Morgan Stanley - Analyst*

Now, when you look at the growth you guys are delivering, it's sort of in that high-single-digit range. I know that renewals are staggered and could be lumpy, but do you feel good about the outlook and think those kind of growth rates can be maintained over the longer term?

Lachlan Murdoch - *Twenty-First Century Fox, Inc. - Executive Chairman*

Yes, absolutely. If you look at the results in terms of the programming and the ratings, Fox News today continues to be the number one channel on all of cable television. Not the number one news channel; the number one channel. So, the results have been terrific. And then there were a -- again, they're really a factor of great producers, and great journalists, and great storytellers throughout the Company.

Ben Swinburne - *Morgan Stanley - Analyst*

Yes. Just think, in another four years, it'll probably likely (inaudible).

Lachlan Murdoch - *Twenty-First Century Fox, Inc. - Executive Chairman*

Be a big news cycle. Yes.

Ben Swinburne - *Morgan Stanley - Analyst*

Let's go back to the new entrants in the market, if you can put your Hulu hat on, or your partial-Hulu-ownership hat on. I think the market's skeptical that new entrants are going to have a big impact, probably because they don't see the economic model for their business.

And I realize it's a tough question for you to answer from the Twenty-First Century Fox perspective, but do you feel confident that they have, whether it's Hulu or what we're going to see potentially out of YouTube this week, an economic model that can be sustained, and they can scale, and that if you look at that 20-million-home broadband-only footprint in the United States, that there's a real economic opportunity for them, and that this can have sustainability over time?

Lachlan Murdoch - *Twenty-First Century Fox, Inc. - Executive Chairman*

Absolutely. There's a lot of new entrants. So, whether they're all going to be sustainable, or -- but I think the -- obviously, the successful ones will be. From our point of view -- and I'm going to answer the question two different ways.

First of all, from our point of view, and the reason why we are so excited about Hulu's new digital MVPD service, is not just because we believe the fundamental consumer promise is important and will succeed, and it's because a $40 price point -- sub-$40 price point; all the channels that you would want to watch, including all sports that you want to watch, so ESPN and all of our original sports networks; but also, there's a far better consumer experience, really, which I'll come back to.

And so, we felt that being part of that service, and being part of the launch of that service, will actually help us influence what we think the future of television viewing should be. Right? We don't think it should be a la carte, where you ask the consumer to pick a sushi menu of every single channel they want. Which, by the way, by the end of the day, when you add up all the channels, it'll be more expensive, not less expensive. And so, being part of the development and the evolution of how television is watched, and what should be in that core bundle, and what price that core bundle should be, was very important to us. So, there's a strategic rationale beyond Hulu itself.

Now, we think Hulu will be very successful with this new service. And if you remember, this new service is only adding to the 12 million subscription video on demand subs that Hulu already has.

Ben Swinburne - *Morgan Stanley - Analyst*

Right.

Lachlan Murdoch - *Twenty-First Century Fox, Inc. - Executive Chairman*

Now, just touching on that point about the consumer experience, why has Netflix been so successful over the last decade, and why is the traditional cable bundle -- basic bundle -- why is that declining? Well, it's not just because of the content that Netflix has on its program, because a lot of that content, or in fact a lot of better content, is also on cable. It's because of the consumer experience. It's because of the consumer interface. It's because of how they offer you, using their artificial intelligence, the shows that you want to watch next, before you know you want to watch them.

These are all factors and functions that are being built into the best of these new services. And again, it's why I feel so confident that, actually, the market will grow for these over-the-top digital MVPDs.

Ben Swinburne - *Morgan Stanley - Analyst*

Great. Just coming back to the channels, you mentioned a couple of investments -- Nat Geo; some incremental spending at FX. Can you just update us on how those investments are progressing, as you really need some big bets to push those networks forward, particularly National Geographic?

Lachlan Murdoch - *Twenty-First Century Fox, Inc. - Executive Chairman*

Yes. So, National Geographic -- we've had a partnership with the National Geographic Society, which is a not-for-profit society (inaudible) I think for 130 years or something, it's been around. And so, we've had the partnership [in them] for the cable channel for many years. What we did last year is, we bought the -- our partnership with the Society bought the magazine, the website, the social media sites, that wasn't already within that partnership. And so, now, we have roughly 70% of both the channel that we manage -- both the cable channel, and also the ancillary social media; digital services; any kind of over-the-top streaming we want to do. And what's been very important, to bring all of those brands under one umbrella.

Of course, to do that, we want to make sure we continue to -- and those brands have to be consistent. And to be honest, in the past, the television brand hasn't been as consistent to the core National Geographic values as it should have been. We were in a ratings war, sometimes a race to the bottom, with Discovery and other distributors. And we said, we have to come back to the core of National Geographic, and then there's the quality that is inherent in that National Geographic brand. So, it's one of the reasons why we invested another $100 million in the National Geographic programming this year.

And that's, today, been incredibly successful. MARS, which was one of the first shows we launched under this new programming initiative, was the most-watched National Geographic show ever, and the best launch. GENIUS, which launches in April, is an incredible show that was rated as the best television advertisement of the Super Bowl, which, we're very happy to have that accolade.

And so, these shows are high-quality and really fit those brands very well, so we think that's important. Also, it's important to remember, under National Geographic we have the National Geographic Kids business; National Geographic Wild. There are all these sub-brands there, that we feel very confident about.

Ben Swinburne - *Morgan Stanley - Analyst*

And how about on the FX side, in terms of putting more money to work there? Mr. Landgraf's portfolio.

Lachlan Murdoch - *Twenty-First Century Fox, Inc. - Executive Chairman*

FX -- I don't like talking about FX any more, because it's actually doing so well that you don't want to jinx it. John Landgraf and his team have been on an incredible creative tear. The awards -- and awards are less important than the ratings. Some people don't like when you say that, but they are. Ratings are important.

And their shows, whether it's Taboo, was launched to great success, with all of the Ryan Murphy shows. I think Feud is launching next week or the week after. His shows have been tremendous, and both critically acclaimed -- the O.J. Simpson series last year, American Crime Story, which will continue. It's been tremendous, FX. And it's a tremendous team that John Landgraf's put together. Again, the question for us really, internally, has been, how do we continue to monetize that? How do we use the strength of that brand, FX, both here and internationally, and both in a linear format and digitally?

Ben Swinburne - *Morgan Stanley - Analyst*

Yes. Well, let's move to sports, the other big part of this business in cable. I think I probably get more pushback on Fox around the RSNs than any other single business. I'm sure you're not surprised. Why is the RSN business such a good business, when you guys look out over the next several years? Why do you feel confident that the business can grow?

Lachlan Murdoch - *Twenty-First Century Fox, Inc. - Executive Chairman*

A number of reasons. I think the business will continue to grow. It's not -- we don't consider it one of our key growth drivers across our whole portfolio. We think it's a growing business. We think it's a healthy business. It's not a business that's going to grow in a double-digit sort of pace, right?

It provides tremendous amount of cash flow for all of our operations. And the costs in the business are relatively capped. I think we have -- 80% of our sports team renewals and sports rights are not up until after 2021. So, another four to five years. We have the vast bulk of our content locked in and at locked-in prices. So, we feel very confident both in [both] Fox Sports, [looking at] RSNs, and also the national channels. The -- and as you know, I think they presented here last year, and they're very confident about that business.

If you look on the -- as the sports (inaudible) just on the network, I mean, this past year we've had the best sports seasons I think we've ever had. We had seven -- the World Series go to seven games, which we hadn't budgeted for. I think we only budgeted for five, pessimistically.

Ben Swinburne - *Morgan Stanley - Analyst*

(Inaudible)

Lachlan Murdoch - *Twenty-First Century Fox, Inc. - Executive Chairman*

And then obviously, we had the Super Bowl going into overtime, which was an incredible Super Bowl, with an average rating of 114 million, 115 million people, but an average reach, or our reach, of over 170 million Americans watching the Super Bowl. Which provided, for us, our first $500-million-revenue day. Which I think just goes to the power of sport and the power of live sport.

Ben Swinburne - *Morgan Stanley - Analyst*

Yes. Lastly, just wanted to make sure we hit advertising. Any update on how the ad market's been trending so far in first quarter? How are you feeling about the TV market in the United States?

Lachlan Murdoch - *Twenty-First Century Fox, Inc. - Executive Chairman*

So, the ad market's strong. Pacings for our -- well, our scatter pricing is up double digits -- healthy double-digits -- to what we were in the upfront. So, we feel very good about advertising, particularly national advertising, both in broadcast and in cable. Our local advertising is softer. It was softer during the election, which was replaced -- more than replaced, really, with political advertising locally. But with the -- post the election, without that political advertising, the local market -- local advertising is not as strong as national.

Ben Swinburne - *Morgan Stanley - Analyst*

Okay. Moving over to the international side, I want to make sure we hit India. You guys have actually some out-year targets in 2018 and 2020 around EBITDA. You've also got an exciting OTT SVOD service called hotstar. But you've had some bumps in the road, mainly on the macro side (inaudible) so, can you just update us on what's going on in the Indian market? Do you still feel confident in those 2018 and 2020 targets? And tell us a little bit about the hotstar story.

Lachlan Murdoch - *Twenty-First Century Fox, Inc. - Executive Chairman*

Yes. So, we -- I'm going to talk about the market first. And so, for those of you who haven't followed India, they had a demonetization policy where they took out of the market and effectively made illegal tender for INR500 and INR1,000 notes. Which effectively meant that -- and you have to remember, India as a market is a very cash-focused market. People use cash for the great majority of their transactions.

And so, overnight, the government said, every INR500 and INR1,000 note you have, whether it's in your pocket or stored under your bed, is no longer legal tender. And there had to be a process for them to print new notes, new currency, and then for you to go to the bank and get this new currency. That all took some months, which is now working its way through now.

But what that meant is that advertisers -- people couldn't go spend their money. I mean, they couldn't even -- they couldn't get a taxi, or go to a dinner, but they certainly couldn't go buy a television or consumer package that they've been wanting to buy. And so, the consumer market really stopped for a couple of months.

That's beginning to come back, as currency is now coming back into the marketplace. But we feel there is still a lag effect in terms of, once people haven't spent -- haven't bought something for a couple of months, the marketers don't need to market that new TV or that new product for -- until you get through the built-up demand. And so, we think it's affected us by roughly $30 million in the last quarter, and we think probably will affect us by around the same revenue number in this quarter. And then it should start to work its way through.

Having said that, we feel our long-term targets for Star -- we're still confident in them. We will be continuing to invest, however, in hotstar. And let me tell you about hotstar and give you an update on hotstar for a couple of minutes. Hotstar is our over-the-top streaming service for Star TV. India has a television household number of about 180 million television households. So, it's an incredible market.

But those households are primarily one-television households. Households generally don't have two televisions, and they certainly don't have three. And so, what that means is, a robust and a respected over-the-top streaming service really becomes, very quickly, the second screen in the home. So, if your mother or your father, or your brother or sister, is watching the primary screen, your only choice to watch another show is through the streaming service today.

And so, we've downloaded -- every time we check, the number goes up, but it's over 130 million downloads for hotstar in the market. It was the fastest-downloaded app in the history of India. Our monthly users -- unique monthly users come back, so regular users of the service -- is now over 60 million monthly users, and they're streaming number over 8 billion minutes of video a month.

And I think these numbers are -- the 60 million's up 3 1/2 times up, in terms of monthly users from this time last year. And the streaming number is up over 5 times from last year. So, the business is really burgeoning. Now, you might ask what the economics are behind the service. Well, at this stage it is an investment phase, and we've built in the service payment mechanisms. But the service today, as we get distribution, is a free service.

Ben Swinburne - *Morgan Stanley - Analyst*

There is advertising revenue.

Lachlan Murdoch - *Twenty-First Century Fox, Inc. - Executive Chairman*

There is advertising revenue.

Ben Swinburne - *Morgan Stanley - Analyst*

And from a cost perspective, are you largely -- are you investing a lot of incremental programming in hotstar? Is it a lot of the stuff Star has already been doing?

Lachlan Murdoch - *Twenty-First Century Fox, Inc. - Executive Chairman*

So, it's what Star's already doing, and we allocate, I think, appropriately to the programming cost, but it is -- Star produces -- in the last year it produced 17,000 hours of its own content. And again, it's similar to the story around BSkyB, and why we think BSkyB is also relatively unique. These are not distribution, whether it's satellite or cable distribution businesses alone; they are really content creators and content hubs. And so, there's 17,000 hours of Indian content and local content, I think in seven different languages. We have the rights for all those, both in a linear format, also in a streaming format.

Ben Swinburne - *Morgan Stanley - Analyst*

Great. Let's wrap up on the film and TV production side, because it is Oscar week, and you guys have also one of the --

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Lachlan Murdoch - *Twenty-First Century Fox, Inc. - Executive Chairman*

Zero wins.

Ben Swinburne - *Morgan Stanley - Analyst*

(Multiple speakers)

Lachlan Murdoch - *Twenty-First Century Fox, Inc. - Executive Chairman*

We struck out last night. But -- because I had my fingers crossed for Hidden Figures on Sunday.

Ben Swinburne - *Morgan Stanley - Analyst*

Unfortunately, something else stole the story --

Lachlan Murdoch - *Twenty-First Century Fox, Inc. - Executive Chairman*

Yes. Right.

Ben Swinburne - *Morgan Stanley - Analyst*

Of the Oscars. But I wanted to ask you, on the television side, about your production business. And it's sort of hidden inside your film results, but what is the size and scope of your TV production business, and how does it drive the network and earnings for the Company?

Lachlan Murdoch - *Twenty-First Century Fox, Inc. - Executive Chairman*

Yes. Let me touch on the film business very quickly first. So, we replaced our head of the film company last year. And Stacy Snider, who's gone in, has hit the ground running. She's a tremendous executive. I think we're one of the more successful film companies. There's nothing wrong with

Twenty-First Century Fox in terms of its general output. But we just felt we could do better and we felt we could be more consistent with our releases, and more consistent with our marketing.

In the film business, where you obviously have your tentpole hits -- blockbusters -- Logan, which is the new Wolverine movie, comes out this weekend, which is one of those expensive blockbusters. But all the little singles and doubles you want to hit, you really have to strike the right way. You don't want to spend -- you don't want to build -- make a mid-market movie for $60 million or $70 million, expecting a double or triple, and get a single. So, you have to be very consistent and very careful with every single one of those films, both creatively and how you market and distribute those films. So, we think Stacy is doing a great job there.

On the television production group, it's been a tremendous business. Gary and Dana Walden have done an incredible job. I think today we have the top show on six different networks, which is a tremendous result. We'd like to have all the top shows on Fox, but we sell to third parties, so we have the top-rating show on six networks, which is a tremendous result for them.

Ben Swinburne - *Morgan Stanley - Analyst*

And how are you and the team at Twenty-First Century Fox (inaudible) thinking about SVOD monetization in this new world?

Lachlan Murdoch - *Twenty-First Century Fox, Inc. - Executive Chairman*

(multiple speakers) it's really interesting. Because what we've seen is, there's a lot of talk about peak TV. Right?

Ben Swinburne - *Morgan Stanley - Analyst*

Too much TV.

Lachlan Murdoch - *Twenty-First Century Fox, Inc. - Executive Chairman*

And peak TV that is over 400 hours. It's -- of new -- sorry, over 400 series -- new, scripted series, have been produced in Hollywood today. And what we know is -- and it's so exponentially larger than the historical number of new series that are being produced, that there's just not the -- not even the creative talent, because I don't want to pick on people; but it's just the new ideas. Right? They -- are there that many ideas for new shows and new scripts and new storylines that are out there? It's incredibly difficult to produce.

And so, what that's meant is that the most valuable shows and the highest-quality content has become ever more valuable. And so -- and downstream, at the distribution level, whether it's on Netflix or on Hulu, and whether it's the subscription video on demand services or whether it's on -- frankly, whether it's on cable, whether it's on Showtime, whom we sell to, or others, high-quality content has become more in demand and more valuable.

So, that's been really driving that. There's nothing -- we feel that we're well-positioned, both in terms of our channel brands but also in our content, to really profit in this environment, effectively better than anyone else.

Ben Swinburne - *Morgan Stanley - Analyst*

And how do you manage the tension of, say, a Hulu strategy, where you're trying to include everything on demand, full-season stacking across your networks, with, you take a deal like the O.J. sale to Netflix is incredibly lucrative for the Company, and there's potentially some conflict in those two strategies. Or maybe there isn't. I don't know. How do you see that?

Lachlan Murdoch - *Twenty-First Century Fox, Inc. - Executive Chairman*

I mean, there is. There is. And we would like to be nonexclusive, wherever we can, providing we can -- we still get the value for the shows. I should always say (inaudible), we have participants in almost all of our content. And so, what that means is that we have a fiduciary responsibility to maximize the profits for those participants as well as for us, in those shows.

But that doesn't mean that we can't also take a long-term view of what's the best way to maximize the value of that content for everyone, over the medium and the long term. And there's always a little bit of a balance. So, where a Netflix will come, and if they desperately want a show like the O.J. Simpson American Crime Story, we will sell them if they put a big enough number on the table, which we have. But we also do our best to make sure that the downstream ecosystem is viable and we sell to others as well.

Ben Swinburne - *Morgan Stanley - Analyst*

And then, just lastly, back on the film business, as you mentioned, that sort of mid-budget film -- the market for that's gotten tougher, not just for Fox; I'd say for the entire -- all of Hollywood. Is compressing the window a real opportunity to maybe drive the economics of the business? This whole idea of early-window video on demand? I mean, you've talked a little bit about it, but how big of an opportunity is this? Is this something you think could happen?

Lachlan Murdoch - *Twenty-First Century Fox, Inc. - Executive Chairman*

Look, I think it's important for the industry for it to happen. The theatrical windows are what they are for historical reasons, and that they worked in a different time, with different technology. They don't work any more. As of today, when our films go into a theater, they're in a theater for a period of time -- up to 88 days -- and then they go dark, and they're not anywhere until they enter a video-on-demand window.

And it's in that dark window where you have a lot of piracy and other issues happen, where consumers -- we're not providing our consumers with what they want. And so, we are working with the theater companies and others, to work out how we can better maximize the windows, which is in some form condense them; and also, which ultimately will better maximize our marketing dollars throughout those windows.

Ben Swinburne - *Morgan Stanley - Analyst*

But how are the exhibitors feeling about those (inaudible)?

Lachlan Murdoch - *Twenty-First Century Fox, Inc. - Executive Chairman*

(Inaudible) I should say, we feel very strongly that the exhibitor business is a business that should remain strong; that there should be a special -- when we open Avatar, it's going to be an experience that people will want to experience in a theater. And that's very important to us. So, we don't want and we have no desire to hurt or damage the distributors' business. Having said that, we can do a much better job for our consumers in making the windows more rational and more logical going forward.

Ben Swinburne - *Morgan Stanley - Analyst*

Great. A lot of exciting stuff going on at the Company and in the industry. Thank you so much for coming. Appreciate it.

Lachlan Murdoch - *Twenty-First Century Fox, Inc. - Executive Chairman*

Ben, thank you very much, and thank you for having me here this morning, so thank you all. Thank you.

Ben Swinburne - *Morgan Stanley - Analyst*

Thanks, everybody.