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PRESENTATION

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

Okay, thanks, everyone. I am still Jeff, and I'm going to be here all day. I hope Anthony is listening on the webcast, but not right now. All right. Thanks for joining us for the 21st Century Fox session. We are happy to have Joe Marchese here and Joe is the President of Advertising Sales at 21st Century Fox, and it's, I think, a couple of years, 3 years, Joe, in that seat?

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

Yes, yes.

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

And many of you, although, fewer, sort of not me, will know Joe maybe from his TrueX days, which is how he entered the Fox Family. Also with us on the IR side is Mike Petrie, who is sitting in the front row. And then I should say from our Research Team, Andrew Chong, is here also in the front.

QUESTIONS AND ANSWERS

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

Okay, so let us get going. So Joe, I guess, first, congratulations. From what I'm told, from what I read, you've merged from a fractious process and took control of the advertising field. Tell us a little bit about what you are bringing to the role and what you'd like to get accomplished?

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

First of all, thank you. I was given a job, and I was told that consumers hate commercials. Advertisers think they cost too much, and our storytellers hate having their things interrupted, so congratulations, here's the job. It's really working out great, but...

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

And your -- the revenue that you generated is key to the franchise. Go solve that, right?

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

Exactly. A little bit -- it's funny. It's a funny thing because I think that, really, what Fox was looking at in moving in this role, but really, a shared philosophy is that the role of a modern revenue organization is to both maximize revenue and audience, right, maximizing revenue at the expense of audience is a problem. That's what you see when you see too many advertisements actually pushing people into their hands. If you think about where ad-supported media company sits, on one side, you have companies that have absolutely no advertising, and they make content, and then you have companies on the other side, Facebook and Google, who have the largest advertising companies in the history of time, and they make no content. So and in the middle, you have the advertising supported media companies that make content, and actually have more share of time out of people's days than Facebook or Google do, in total, and yet don't make the same. So the opportunity is actually, right now, to say, "Let's look at like what the actual resource we have is -- which is people's time." And I've actually been likening it to -- I'm sure some people in this room are familiar with crypto currencies, like the ICOs, the initial coin offerings. I like to point out that the original crypto currency is time. It's produced at a very even amount, everybody has the exact same amount to buy and trade, and advertising is supposed to be the pricing of that commodity. We kind of lost that. So the huge opportunity for someone like Fox is to say, "We have a mammoth amount of ads delivered to people. If we can take our -- the amount of time we have, because time is the key resource, and then optimize in a digital world for -- to deliver better ads the way Facebook and Google and others have the ability to, there's a huge upside.

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

Well, I mean, I guess, can you make progress in that regard? Can you make progress in reading those types of returns?

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

We already have. I mean like we're already -- and we announced this year at upfront -- at our upfront conversation in our presentation, which I stepped into this role 3 days -- 3 working days before the presentation. So I appreciated that too, but the -- that we would stop doing standard commercials on FX VOD, and we're actually going to increase the amount of NVOD as any video-on-demand, set-top box, online, fx.com, FXNOW, the app, and we're actually going to make more money for the new ad formats in FX on demand. Now it's only a portion of what you see in linear, but the potential to do that as it scales. So basically we're setting up the right infrastructure. So as consumer behavior continues to shift, we think of advertising, not only as a revenue source, but as a competitive advantage. If our ad experience is better than in other place, then you'd prefer to watch your program with us, and we give you more watching options. And then the last thing, and I joke about people not liking advertising, and I say that with advertising in my title, so it's ironic. But the truth is that advertisers' goals are actually aligned with storyteller's goals. Like when a show is made for Netflix, they don't care how many people watch it, all right. And they might, but it doesn't change their numbers at all. If Pepsi is integrated into Empire, we want everybody in the world to watch it, which is the same thing that Lee Daniels and Brian Grazer want is everybody in the world to watch it, and so this alignment of goal is kind of one of the first times that we're on the same side of the discussion to looking at what products scale.

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

How has that changed the nature of your conversation with your advertisers?

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

Well, we're trying to move from a kind of the historic relationship between advertisers or agency, let's say, and media companies is negotiation over rate of change and legacy pricing. And that's because, historically, commercials or impressions were a commodity, right? It was this entire screen. I mean, it would be very nice if it was that entire screen, but it's a giant screen on the wall that is non-fraudable. Audio is very likely on, and it takes up the whole screen, so now it's a commodity. And when you have a commodity, then you can start haggling over a price and create a market for it, right? In digital world, it could be 1/4 of the screen. It could be sound on, sound off. It could be running for 2 seconds or 6 seconds, and everything I just said counts as 1 impression. And so what happened was we took something that was commodity and we were just used to arguing over price and then we broke it into something that's not a commodity anymore. And if you look at it and I use this example, Facebook famously got on stage about 1 year ago, and said we have the Super Bowl on mobile everyday, right? And but if you look at it, it would take Facebook years to deliver the amount of video with sound on that Fox does in a day. I mean, that's a crazy thing to think about, but like that's the point, is that we're not measuring things that matter anymore, and the advantage for some agencies, to get back to where the relationship has changed, and yesterday, Shonda Rhimes announced -- or Netflix announced that Shonda Rhimes is going to Netflix. What I think about in my seat as an advertiser is that's one more person that's not making ad supported storytelling and moving over to that side. So the relationship between us and agencies is now, wait, if you want ad-supported storytelling, long-form storytelling to be good and quality, going forward, we can work together, and that's a totally different conversation.

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

One of the things that we were talking to -- we were talking about earlier with one of the other participants is that they have learned a lot more about their subscriber base than, thanks to over-the-top than they previously have. So this was -- it was actually the STAR CEO who's saying, "Well, look, we've able to alter our programming choices to enhance the amount of time that people watch." Where are you on that -- in that process?

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

I mean, I think we're all kind of in the same boat on that. It's just -- it's a question of time and platform. Now like we say all the time, there's more places to watch our stories than ever before. Certain segments of those, pockets of those, are what you would call IP delivered, and that's increasing, right, whether it's a smart connected TV or you're watching on fox.com or Fox Now. In those environments, we have new data, right? We have data that doesn't go through a set-top box first and then it's a household. Instead, it's a person. It's a user, and that can start to provide samples for us to like how people are viewing our content. That's something we haven't really had before, right? It's obviously a huge initiative, but I think that one thing I'd be pretty mindful and focused on is how do we set new industry standards, like you can't fix a market and you can't -- a market won't become liquid unless we all know what we're trading on and we start trading on a common currency, right? And everyone has their own different varying gripes about Nielsen here or there, but the truth is Nielsen was a currency that the whole market traded on, and then we posted on it after. Digital doesn't really have that, per se, and so the data, the rich data, that's going to come from these environments or viewing environments, we need to start setting standards for what's an impression, how do we define audience, et cetera.

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

How far into that process is the industry? I mean, obviously, not exactly my sweet spot, but I do hear people complain about well, sure, Google and Facebook have a lot of measurements, it's all their own measurement on its own stuff, right?

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

Right, exactly. Right.

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

So like how, if you are an agency or an advertiser, how do you sort through that now? What does that mean for the pricing environment?

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

Yes. Well that is, I believe, it's a fascinating question, because commonly, when I talk to a lot of agencies, the -- like where we could go. So let's just take an example in a hypothetical. So let's say that, and again, these are all not real numbers we're making up. Let's say 1 in 10 people in the U.S. could potentially drive a truck or would potentially be a buyer of a truck. And now they buy a $30 CPM on an 18 to 49 basis, but only 1 in ten of those people is a potential truck driver. They're actually paying $300 CPM for the potential truck driver, right? Now the spread between the $30 price that they're paying and the $300, so if we said to an advertiser, "I'll get you just potential truck drivers. Pay me $250." Right? Trough magic because I know exactly which ones are the potential truck drivers. Pay me $250 CPM. They should want to do that all day because they're actually paying less per reach. There's some arguments that, well, you want -- you actually want brand effects for everyone. You want people to know it, but so -- maybe it's $200, but that spread is huge, the upside. Now and you know that, that's huge because if you go to Facebook, and say, "I would like to buy people who like trucks." And they say, "Great, I can put you in front of them." But they can't make you watch the ad, right? Because Facebook doesn't have content. That's why there's no video viewing, per se, on trucks. That's why there's no video ad recall on Facebook. Like what happens is, I'll give an example. Let's say that everything on your Facebook data indicates that you would be someone who would want to buy a truck or might buy a truck. You've got a dog and a guitar and whatever else, and...

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

You live on the Upper West side.

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

You live on the Upper West side, where they're redoing the word, but the -- but you're scrolling through. And so they can know. Ford knows that they want to give you like show you an ad, but there's no reason for you to stop and watch the ad, right? They want you, not you want them, right? You're watching Brooklyn Nine Nine and I can tell you, "Hey, before you go enough, I have that data matched with content." I say, hey, before you go in to watch Brooklyn Nine-Nine, Ford would be like to borrow your attention, and this is like -- this idea of, we have to make ads good enough that people want to watch them, I find hilarious, because it's like great, you can make very good advertising, but it's not going to be better than Atlanta. It's not going to be better than the Americans. Like it's this idea that...

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

Everyone's going to want to go back to the show, right?

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

Right. Yes, it's not the -- it's like maybe not every roll of paper towels, and here's a telenovela to tell its story, right, like, here's the price, buy the product and go. That's why we announced the 6-second ads, which I thought was rather hilarious in its own right. We partnered with YouTube, and said, "Hey, YouTube is going to have 6-second ads." They have done the work to do the research to say that 6 seconds, you can get up to 50% of the value that you could have gotten in a 30, right. And I just did the math in my head, and I was like, well, 6 is less than 15. So that's a good trade for us. And if they did, if they've done their research, and advertisers are going to buy it, and they're going to price it and sell to market, great, we'll take it. And everyone made a big deal that Fox is going to be the first broadcaster to do 6-second ads, which I thought was particularly funny because no one made it a big deal when Facebook adopted a 15-second ad -- like or YouTube adopts a 15-second ad. Like no one said, "Hey, YouTube's adopting TV's model." It's not just the length of time. And the interesting part, and we did it for Teen Choice Awards, we had 5 minutes less of advertising in the show. We booked 30% more revenue going into the program.

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

Interesting.

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

Now -- and here's -- think about why, and this gets really wonky and science of attention. But if you had a graph, the first 2 seconds, you'd be the most valuable, right, and then every second after, it starts to decrease in value that you should have to pay an increase in, call it, earned. First few seconds is the most disruptive to a human being because you've taken 2 seconds of their time, going back to thinking of time as a currency.

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

Maybe we'll change gears....

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

You've interrupted them. You've stolen their attention. Okay, enough time, 6 seconds, you've now had time to tell them some thing. Now if you like to keep their attention, and not have them look down at their phone or look away, then you make a good commercial, right? That's where good advertising does come into play. The theory should be how do we do the most with the least amount of time, right? How do we benefit consumers the most, return for advertisers, and then get back to the stories that they want to -- that they were there for in the first place and how do we make the trade fair? Because now, getting back to pricing, if you would like a truck driver on Facebook, and you want the video to be viewable and have the sound on for 10 seconds, it's going to be like an $80 CPM. But I mean, you're talking double, triple because it doesn't -- like those matching data with actually getting people to watch a story is incredibly valuable, and that's the upside.

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

You had mentioned upfronts earlier. That had to be a bit of a fire for you, Joe. But in general, it seems though they were more healthy than not. What can you tell us about where you think the reasonably healthy upfronts will take us in, well, obviously, the second half, but also the first half of next year. Do you feel like we're on a sustainable trend here?

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

Yes, I think as far as upfronts go, sure. I mean, I think, that I was with one of our largest clients, and there's like there's -- so first of all, there's a bit of a fire there, but not really. I mean, the team was still there, and I've been there were 2.5 years. It's just I only stepped into this role. But the sitting with a client, so you must want to -- you want to take the upfronts. You can't wait to load up, change the model, do things differently -- and I don't think that. As a matter fact, I go the other way -- I actually think we should be doing longer deals. We should be doing longer-term partnerships with clients, brands and agencies, and the reason being that there's a fiction of infinite supply, right? And if you believe the fiction of infinite supply, then you should sit and wait and buy whatever you want to buy because there's always going to be supply. But help me with the math here that there's more people who have DVRs. There's more people watching HBO. There's more people watching Netflix. There's more people watching Hulu. I'd say, how is there more supply out there? It doesn't exist. It's a fiction. This is the thing that I keep coming back to. So I think people that could beat the market like say, "Hey, I would like to secure ahead of time the highest quality attention that's out there in the market, and I'll make use of it, and I'll figure out ways to make use of it along the way, and that's what we have, and figuring out what the suite of products is. So because, while everything ties, right, like there's the same amount of consumers spending, give or take. The marketing budgets are about the same, give or take. They're just finding places to put it, right? And I think that the upfront is actually a huge opportunity for people to secure that, and then get into partnership differently. Because in digital, on an RFP basis, it's like a hamster wheel of like, okay, I'm pitching. I'm always selling, and then you can't get the best workout to the other side.

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

I guess, the corollary to that then is that the scatter market pricing is also going up?

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

Yes, I mean, we're seeing healthy -- look, it's interesting because television has a legacy pricing problem, right? And that is that, that an impression on a broadcast is x, and an impression on a cable network is usually x minus, right? It's usually lower. Why? I mean, seriously, like does anyone know?

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

You are asking the wrong person.

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

Because I will tell you it's because it's legacy. It used to be hard to stitch together a national audience, and so broadcast was very like very valuable to be able to do that. But now that you can stitch together national audience through cable and digital, like on YouTube, you don't buy -- your impression on 100,000 viewed video is in $15, and your impression on 1 million viewed video is $30. That makes no sense. They're both $30 because it's cost per thousand, right. Cost per thousand impressions, there's no reason for price differentiation. But this is why I go to your question, are you seeing healthy scatter healthier rate of change? It's actually the issue. It's like, great, like plus minus 6%, plus minus 9%, we'll get very good rates because of those limited supply. But what we need to be thinking about is what are the new products, why we do engagement based advertising, why we do 6-second spots, things that don't have legacy pricing models allows us to reach out to market for the value of people's time and attention and start setting a better one.

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

Can you help us with engagement advertising? Tell us a little bit about that, about that content and how you're applying it at Fox?

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

Yes. So engagement-based advertising, we used to have a billboard. I don't think they'd let us do it anymore. But when TrueX was an infant digital company, we had a billboard outside of one of the big areas where the agencies are, and it read, "Why do we call it cost per engagement?" And the answer was because we thought cost per real impression would be insulting to the rest of your media buys. And because in the digital ecosystem, I mean, it's a cesspool. I mean, it's basically like the digital ecosystem, I don't understand where there's billions of dollars of impressions that aren't on the majors, like, I mean, there's a fictional long-tail that we like to use to depress price in the market. And so we count the concept of engagement advertising, and it sounds complicated, but it's not. It means a person had to press play, so there has to be a human being there, and then they have to interact with anything. They don't care what it is, like there could just be a yes, no, slide this thing right, left, to prove that they're paying attention, those 2 things. It proves attentiveness. So now you've reduced waste by proving attentiveness, and it's increased message delivery. So drag the price of a Coke from left to right, right? That's why I don't do the creative at our shop, but recall goes up. So now you can reduce the need for frequency, right? So it was just a very good impression. Also, we charge on a cost per engagement rather than a cost per impression because a $300 CPM sounds high, but at $0.30 cost per engagement doesn't sound very high, and it is crazy, but language matters when it comes to this.

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

How much of your advertising spending is in that bucket now?

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

We don't break it out like that, but a very good portion of digital.

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

Okay, all right, that's a very good portion. All right. Well, so -- yes, all right, I'll settle for that. Mike's like, okay, I was looking away. All right, can we talk about what you see happening in broadcast, in advertising versus cable advertising and how that -- how the investor base should think about those trends there?

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

Look, I think there's -- the upside's in both in different reasons. One, cable, I think, is wow, they underprice, which means they think there's a lot of room for that, I mean, if you sold cable the way you sold digital, and just say, great, I'm going to sell on an impression basis, rather than like you don't buy day parts in YouTube, but day parts are priced differently all over cable. Like, there's a huge upside if we can start normalizing pricing, and this is the crazy thing to think about, but normalizing pricing to digital numbers, right? Because digital high-quality impressions. Like one of the things I couldn't figure out when I got started was if everyone watches VOD on their set-top box, right, like if you go and you press play, and there's usually never -- it's either the same ads over and over again or there's not ads in there, right, especially in cable programming on VOD right now, and I was -- as a digital person, I was just shocked. It was like a full screen, huge screen impression that's un-skippable and un-fraudable. You can complain about the measurement quality all you want, but there's not giant warehouses of TVs racking off fake impressions, right, which there is all over the Internet, and no one's buying it. And I was like, I would start an agent -- I would chew my arm off in digital to get a hold of that impression, right? Because try to go to anybody in a digital environment, say, "I would like full-screen, sound on 30-second impressions." I don't think anyone can sell you those, except for Hulu, YouTube on mobile, right, like places where you have full screen viewing experiences. They don't exist on the internet. So I couldn't figure out why people weren't buying them, and it's because, well, they're not tracked digitally, so the digital buyers don't buy them. And they're not tracked by Nielsen in that way, so they don't get bought by the TV buyers. So it's like a fly ball. The 2 outfielders run away from them, right? It's a shock. So making those ads smarter, and then being able to dynamically insert new ads into different parts of day parts for cable will actually allow us to start normalizing these high-quality impressions to digital pricing, which is where we should go.

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

One of the themes that, like I keep hearing you talking about is how the pricing mechanism for digital and the pricing mechanism for linear aren't necessarily in balance, as linear. It should be higher. Digital should be lower or what have you.

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

No, I think they should actually be -- I think we should unify. I mean I don't think one is right or wrong in the market. I'll set what the price should be.

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

Yes, this is the art, but the standard isn't...

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

Yes. The standard isn't there, and so what we need to get to is figure out -- look, as more television is delivered digitally, right, there's going to be linear feeds that are delivered over IP, which means we can do every thing you can do in digital, but at a linear feed. So as that starts to happen, if those impressions were traded on the way a digital market trades impressions at that level of high quality, at that level of brand safety, like it's going to naturally rise the prices.

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

Is that a 1-year citation, is it a 3-year, 5-year...

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

It's happening now. How long until it's the majority or are massive. It's hard to tell because like there's -- it's an uneven landscape right now. It's all accelerating. I mean, when you look at AT&T, Time Warner or Comcast, NBC, like there's an effort everywhere to start saying, "Okay, we need to make digital delivery better, right?" And the consumer behaviors' already getting there. So I think it's -- I mean it's happening fast. We did say like at Fox, we were over 30% year-over-year on digital growth. I mean, like it's happening pretty quickly. It's becoming a sizable portion.

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

How hard is it to get rejigger the plumbing, Joe, to make -- to be able to be more targeted in your ad insertion?

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

It's difficult in the fact that it's uneven, right? We work with many different distribution partners, and the work that we have to do is different. I think that in the -- the ideal is not to rejigger the plumbing. The idea was just to set in your pipes, and the new pipes are direct to consumer or working with IP or TV Everywhere apps, right, that are IP delivered, and in those environments, we can do very consistent things, so...

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

Okay, FOX NOW, tell us about the trajectory there and how you are using your learnings from that in the advertising business.

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

Oh, I don't think there's anything specific to FOX NOW that's not that I haven't kind of already touched on. It's a consumer app that allows people -- it's just our version of any other networks. app. We have FX NOW as well. Like basically, any IP delivered, any app install that our consumer is watching our programming on, whether they have to authenticate it or watching on Hulu, right, we have new types of data from. The question isn't what can we deliver. The question is, can we get the industry to trade on the currencies different. Going back to the truck driver example, would they be willing to say, "Great, I'll pay $200 CPM if you can put me in front of someone who's a potential truck driver and guarantee me that they also watch the spot." Right? That should be there. The industry mechanisms are much more -- the industry is changing a currency to trade on is much more important than any particular delivery vehicle, because like we can get there technologically in the next year easily, and we already can on certain platforms.

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

Who is making the -- how does the agreement on the currency come together?

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

Well, the thing, you can't -- there is no agreement, like it's...

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

I mean, it's not -- I'm not asking about who's going to write it down, per se.

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

No, no, no, but it is the...

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

The industry coalesce around...

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

Well, look, it's an admission that no one is buying 18 to 49-year-olds, right? And in the Nielsen ratings, they're transacting on 18 -- that's a currency, not a target, right? And the fact is you can't take it and have it both be a currency on the target and the measurement system, and then go to other places and say, "Now I want to trade on different addressable audiences." So one initiative that we're looking at is Open AP, we announced Viacom, Turner and Fox working together on. Just -- it's a nonprofit consortium, right, set up to say, "Great, if you want to define a truck driver and you want to define audience and delivery like in a premium setting, and by the way, someone -- I'm stealing this, and I don't know if I can attribute it to him yet. So I'll steal it and not give him credit. We said, we really have to redefine premium video. Because here's the problem, it's like, when you hear the word premium, you think high end, right? So you think, "Oh, I want us to buy a car, buy premium cars, okay, Mercedes or something." Right? But this isn't premium videos. It's like effective video, right? Like this is video that actually delivers, like video that has sight, sound, motion and a human being on the other side of it. I don't know, but we call that premium and then we were okay with the other stuff somehow, right? The other stuff is normal and it's not. So I want to redefine it as effective video, or actually-watched video. And I'll get to the point on the other one, put one more detail here, which was television somehow lost the high ground on efficiency. Right? Like you go to a marketer, and you'll say, "Yes, we get that you're very effective, but it's not really efficient, right?" Efficiency is -- and the agencies and whoever, will balance efficiency as cheap, right? I get a lot of cheap impressions over here, cheap reach. And I was like, they're not effective, right? How can you be efficient if you're not effective, right? It will be like saying, "Can you please wash my car?" The person walks over, spits on it. And you say, "That wasn't very effective." He was like, "Yes, but that was efficient." So my car is still dirty. Like we lost the language battle, right? And we lost the language battle because what the internet had and what digital had was trillions of potentially seen, maybe seen, not really seen, kind of seen impressions. And so that's where they set the standard, right? So back to Open AP, we said, "Look, let's set a higher standard. Anyone is welcome to join, literally, anyone, but we're going to set at standard at whole screen 30 seconds." That will count that as a 30-second impression, whole screen, 15 seconds. That's a 15-second impression, right? We're just not going to allow. We're going to set a standard that's over here, and then we'll just have addressable audiences be the same. So if someone wants to define truck driver, and they want to buy it from Fox and Turner and Viacom, it will be the same. It will be posted and validated by a third-party. We have Accenture doing the build on that, but honestly, we can use any third-party in terms of validation. So how do we get to an industry standard? We just start kind of showing how it's going to happen.

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

Yes. Two of the companies that we do cover, well, in particular, Comcast and also AT&T, what challenges do you think that these guys have as a -- I mean, how do you successfully compete against them where you do, given that they are larger conglomerates?

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

Well, I mean, don't forget, we don't compete, like we're both partners, and they buy content and products from us. We sell advertising. So there's a lot. Actually, I would go the other way. I would say, the biggest challenge is how hard it is to collaborate because there's these legacy -- I mean, remember, 2 of the largest companies on planet earth sell nothing but advertising, and don't really make content, like that's -- like if you think about that, like the hardest thing is we can't -- they're at some point, they're the only acceptable platforms, unless like the ones that you're talking about, can find common ground in terms of like where the standard should be. Because as each is walled off to each other, Facebook and Google become the common ground, and that's, I mean I joke with agencies. I was like, look if you want, if we don't figure out how it's going to trade differently, I'll take Facebook's rate card tomorrow and you can just buy it from them, because do you think Facebook negotiates on price or tell us -- it's a crazy kind of irony that, that would be the worst possible outcome for the agency world and for the technology partners, and yet, like we still kind of -- so I think it's that -- that's one of the hopes of Open AP is kind of signaling, look, like, we have to start a common ground, but we're going to complete all day over who makes the best shows and who gets the audience and what sports are better. But competing on what the currency is and what the ad format is, is not the right way to compete, like it will just -- it's a joke to the other big guys.

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

Yes, it seems kind of backwards in many respects.

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

Yes.

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

We've got 10 minutes left. Any questions from the audience, please? Yes? We've got a mic on its way.

Unidentified Analyst

(inaudible)

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

Sorry to say, I'm not going to answer the first question.

Unidentified Analyst

Well, I was wondering because Sky does have an advanced ad targeting platform. Maybe you can talk a little bit about the Fox versus the Sky technology?

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

No, I can't, not even. Is that going to kill the second question too?

Unidentified Analyst

Mostly. The second question, your colleague, John Landgraf was at the TCA talking about [monoxony] risk that Facebook and Google become so big that that's where all the content moves to. You said something about Facebook and Google today, but how do you think about using them as an ad platform to monetize Fox content?

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

Yes, and let me be clear, like I say things about them in terms of the things that are uneven and unfair in terms of the ad platform. But at the same time, like we partner with them, on Teen Choice, and the one that we actually monetized better, we partnered on the ad format with YouTube and we streamed Teen fast online, so people could jump back and forth between watching the stream and watching the television broadcast. And I don't know if -- I won't make news here on that, but like the actual viewership was up, which is not normal for an age demo of that range, right, in a broadcast program. So like they're partners, and we would absolutely like consider almost any portion of the ad serving platform that makes sense for us, that doesn't put us at risk. And when I say put us at risk, or at least from my perspective, Facebook's at -- well, I don't even know what the market cap is now, a $350 billion public company, something like that? If we invest in a particular manner of doing business with our stories, and then next month, they say, "You know what? That's not really working for us." Not that they're going to do anything bad by us. But they're like, "This just isn't good for Facebook. We need to go do this." Like we're left holding our bags, right? We know on Comcast where our channel is going to be like for 7 years because we have affiliation agreements, right? They paid for the content. So there's a difference in the relationships between those 2. We don't think Facebook would do anything other than what's in its own self interest, right, and that doesn't necessarily align with our goals, where they do align, we will definitely work together.

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

Can I sort of tack on to that question?

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

The second one, right, because I didn't do so well on the first one.

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

No, I was going to go back into the Sky (inaudible). I thought we were going to do a very interesting discussion on that one. Well, Facebook and Google, I mean, you people talk about how 80% of the incremental digital advertising goes to those 2. Why is it so concentrated? And what is the likelihood that over an x number of years, things are going to spread out a little bit? Or is it good or bad for the industry? How do you think about that, Joe?

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

Well, it's definitely -- I mean, look, I personally think it's terrible for the industry, and because it's terrible for storytellers, right? Like, we -- like, the idea that most of the advertising dollars are going to places that don't create the content, that don't pay storytellers, writers, actors, directors, newspapers, journalists, right? That's hard to see how that is good for the ecosystem as a whole, right? Now YouTube does pay out more to creators on YouTube, but we've seen what happen to MCMs over the years, right, like it's not as sustainable. It's a great business model for a single camera and a kid, but it's not really a business model at larger scales, like a lot of that comes into the television ecosystem. Television ecosystem has both subscribers and advertising as a dual stream revenue. It's a great business model, right. Now we need to fix the user experience, so that we don't push people away from it. But if we could get that right, the business model makes sense. The Facebook, Google 80% thing, the other problem is, part of that is because it's -- I'd liken many, many times that the most ad networks are kind of like the trading desks in the sub-prime crisis, like I mean...

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

(inaudible)

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

What's that?

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

Well, nothing, nothing. Then you'll really love this example.

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

Like, if I went to my mother who knows nothing about mortgages, and said, "Here's a mortgage. Here's how much the person makes, and here's the picture of the home." That -- I can't -- that person can't pay that. That's not worth anything. But you bundle them up in the billion, and then you trade them, right? And you trade them insurance because you never look at one individual thing. The same exact thing with impressions in advertising. My mother knows even less about advertising. If I said, hey, the ad shows up here for about 0.5 second. The sound's not on or 2 seconds or 5 seconds. She would say, "That's worth nothing." Not worth a little, not worth a fraction of something else. It's literally worth nothing. But we bundled them up and we trade them programmatically and we're trading them for billions of dollars. And I think, slowly, it's starting to get wise to the fact that, wait a second, if I just look at just one, right, that's my favorite part of the moving picture is when they drive out to it and they say, the line is, we did something no one else did. We just went and looked. Like, let's look at one expression, just take one, and then tell me where someone is actually watching it, and tell me how they know that there's even brakes on the car. Like my favorite is like the math lies so much in digital because we've allowed it to because we wanted to. And when I say we, the market wants to keep pricing cheap on impressions. Human attention is at an all-time high in value. The value of people's time has never been higher because you have so many more things you could be doing with your time, and yet, the price of impressions is not at an all-time high because we have a fictional flood of garbage impressions, right? But if you think about it, math would say that 10 2-second ads is the same thing as 1 20-second ad, right? Like that's math that I just did in my head up here, right, but when you see the first...

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

Yes, we got this -- you got that right.

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

Yes -- but even worse, if you see the first 2 seconds of the same commercial 10 times, can you tell me where to go? Like you can't tell me what happens in seconds 3 through 10, 3 through 20. So because of that, map says, well, I got you 20 seconds of viewing. But that's not the same thing, it's not even close. It's not even a proportional. It's infinitely more valuable, right? And because we can't get those concepts because we used to be trading, everything was a full 30 seconds, everything was full screen, every thing was...

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

An impression was an impression.

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

An impression was an impression, and because we allowed the market to flood the stuff that wasn't, intentionally to keep pricing down, not intentionally from the publisher side, we -- our mistake, and I will say our, on the television side, we're just allowing things to be called the same thing. We had -- there was a language problem. If we could fix some of that. We could actually start extracting more value.

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

I would be remiss if I didn't talk a little bit about how some of these rules are different for live content, right? So obviously, Fox, very big in sports, in particular, large content.

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

Yes.

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

How do we -- how is the value of an ad shifting or ...

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

Well, you can apply the same rules in VOD. VOD is special, like on-demand video is special, because the content is paused. You can do a lot of variable time commercials nice and easy. But you'll see a lot of innovation in what we're doing. Sports is well, taking shorter ad formats. Like in soccer, when the guy falls down because it looks like his leg is broken, and he's writhing in pain for 15 minutes, and he just hops up and runs around, we're going to figure out how to squeeze down and find the right ad time that doesn't disrupt the user experience, but also more sports is being delivered streaming, right? So even though it's live, if it is being delivered over like our FS Go app. We can do dynamic ad insertion. So I could still show you a different ad than I would see, right, which still allows us upside. I mean, sports, I think, the upside in sports is massive because the ad load will hold about where it is. You got to fix the experience a little bit, and you'll see us experimenting with some stuff to make it better. But if the ad load holds, and we can do 20%, 30%, 40% better targeting, I mean, that's huge upside in the business. So I'd keep an eye on, as people watch live over IP delivered, right, where do you see the innovation? Because I think, that's, I mean, massive.

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

All right. Well, I look forward to that. I'm a bit of a budding soccer too myself so...

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

All right. Watch it on Fox we have the World Cup. Keep an eye. I should go to sales. All right. Thank you.

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

Thank you very much, Joe.

Joe Marchese - *Fox Networks Group, Inc. - President of Advertising Revenue*

I appreciate it.

Jeffrey Thomas Kvaal - *Nomura Securities Co. Ltd., Research Division - MD*

Mike, thanks for your time.