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EDITED TRANSCRIPT

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

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Andrew M. Borst *Goldman Sachs Group Inc., Research Division - VP*

PRESENTATION

Andrew M. Borst - *Goldman Sachs Group Inc., Research Division - VP*

People want to grab their seat. We'll get started with our next session. I'm very pleased to welcome to the stage Lachlan Murdoch. He's the Executive Chairman of 21st Century Fox. He's been on the Board of Directors at Fox since '96. He served in various executive leadership roles at the company, stretching back about 15 years. So thank you very much, Lachlan, for being here.

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

Drew, thank you very much for having me.

QUESTIONS AND ANSWERS

Andrew M. Borst - *Goldman Sachs Group Inc., Research Division - VP*

Why don't we start off with a big-picture question and maybe you could speak a little bit about what the top strategic priorities are for Fox over the next couple of years. Where are you spending your time these days?

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

Sure, Drew. Thanks for having me. In terms of -- for Fox, our top priorities -- and I think with priorities, narrow them down. We're busy -- very busy on a lot of different agendas. But if I can -- for the purposes of answering this question, I'll bullet down our top 3 priorities today. The first is absolutely completing and closing our transaction to acquire the 61% of BSkyB that we don't already own. We strongly feel we'll close that transaction by the middle of next year. Those of you in this room would all know that the Secretary of State in Britain has indicated that she will refer to the CMA, the Competition and Markets Authority, in Britain the transaction, but she needs a few more weeks to make that decision, whether she'll refer to the CMA or not on both plurality grounds and also on broadcast standards grounds. We're disappointed that it's taken 6 months to come to this point to be referred to the CMA, especially as the independent regulator media, Ofcom, has both agreed that we can get through the plurality arguments with certain concessions that we've made and that there's no grounds. And in fact, the Secretary of State, in her own words, said that the Ofcom, her regulator, was unequivocable in saying there were no grounds for referrals on broadcast standards. Having said that, as we're likely to be referred, we like to be referred really as soon as possible. And then we start a clock that starts to tick so we can close by the middle of next year. And then -- I'm sorry. And so that's our #1 priority. We're very confident weed get through the CMA process. So we're looking forward to working with them and to get through to close Sky. Next priority, which we're very confident of achieving, is to achieve our target of hitting $1 billion in EBITDA out of STAR TV. STAR TV is our greatest growth asset within Fox, and we're on track to hit $1 billion EBITDA, which we've flagged them for a few years by 2020 -- calendar year 2020. And the third priority, which is more of an operating priority, is to continue our strategy, which has been very successful, of focusing on our 5 core television brands: National Geographic; FX; Fox Sports; Fox News; and in Asia, STAR Television. Our entire strategy and -- both content strategy and distribution strategy is built around those brands and strengthening the brands and the television shows associated with them in a way that makes people deeply engaged and deeply want to engage with those brands across multiple platforms.

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Andrew M. Borst - *Goldman Sachs Group Inc., Research Division - VP*

Yes. So let's talk a little bit about the domestic market and the channels business, that third priority that you were just touching upon. And in the past, you've talked about some of the challenges of the shifting landscape. Audiences are fragmenting, pay TV subscribers are declining. And some of your peers, notably Disney, made announcements about going more direct-to-consumer with some of their properties. So I wanted to sort of see how you're thinking about going direct-to-the-consumer versus continuing to operate within kind of the confines of the MVPD universe. Like how do you think about that going forward?

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

So there are few elements to that question. But first of all, make no mistake, everyone will go direct-to-consumer, right? So I don't think there's any major media company on the planet that ultimately won't have a direct-to-consumer product launched in short to medium term. So make no mistake about that. However, if we come back in that, we need to make sure that we don't damage the current ecosystem, which is very profitable to all of us, in the process of growing direct-to-consumer. So the way we think about it is that we focused on these 5 core brands of ours. And we've invested -- and continue to increase, in many cases, for instance, in FX and the National Geographic, by hundreds of millions of dollars, invested in the programming around those brands that help inform those brands and create a huge amount of value. We'll continue to do that and for that reason, why our channels are on every single one of the new emerging digital MVPDs that exist out there. We have to have must-watch entertainment and sports associated with valuable brands.

Andrew M. Borst - *Goldman Sachs Group Inc., Research Division - VP*

And how is the picture similar or different when you start to look overseas? Do you feel strongly that it's going to be -- everyone's going to go direct? Or do you think it's more relying on third parties?

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

So -- yes. So I think it comes then -- even in the United States, even domestically here, we're at the very beginning of the over-the-top distribution to the world. And the models that are evolving, there won't be one model that succeeds in itself. You don't want to say this is -- here's one winner and another loser in terms of the model. So as an example for our channels, we're obviously both distributed very significantly on many channels, fully distributed across all the cable and satellite universe. We have our own authenticated apps, where we put our brands and our own ecosystem on an app that if you were be it Comcast or an AT&T DIRECTV subscriber, you can authenticate yourself and get those channels in a fantastic service anywhere, right, if you're authenticated. Then you'll have the new SVOD and DMVPD services, and then plus you'll have direct-to-consumer for a bouquet of channels. And so I think there would be a tremendous amount of competition amongst all different players, amongst the different types of platforms and different sort of business models. And then ultimately, it's more choices for the consumer, and the consumer will whip one out. And if you produce great content, great channels, I think we'll do very well out of it as well.

Andrew M. Borst - *Goldman Sachs Group Inc., Research Division - VP*

Yes. Another aspect of the Disney announcement was the revelation that they're going to be more aggressively pulling back some of the content that they previously licensed to SVOD. Their output deal is coming back, and there's sort of a presumption that they're probably pulling back a lot of the catalog content. Maybe you could talk about what your philosophy, what your strategy is around leveraging SVOD and licensing to those third parties in particular.

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

Sure. So our fundamental belief is that the consumer, the viewer of our shows, should be -- they should be able to access our shows on our channels everywhere, that exclusivity makes a poor experience for the consumer. So actually, for a few years, we've been moving to a model that's nonexclusive.

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We're happy to have our product distributed on as many platforms as possible in a way that ultimately benefits the consumer first. Now in order to do that, it's important that we maintain at least the level of per subscriber monetization that we do in the traditional universe. And in every single case, in a digital or -- for now, the digital MVPD service, in every single case, we actually have maintained higher per subscription fees than we have in the traditional world. But it's important to note, in addition to that, the data that we can use in the digital world across all the DMVPDs, we are able to significantly upsell advertisers because of the data we have around the viewership with our shows and the demographics around our shows. So there's no instance where we're not doing better in a world where there's more digital subscribers than an analog world. And I'll just come back to your earlier question actually about international because internationally, the same trends are happening -- that are happening here, but we take a very much -- an internationals view, which is that we have to look in every single -- every market is different. Markets that have higher pay television penetration, some have lower, some have different speeds of broadband. And so we look at every market, and we're lucky to be a company that has significant businesses in almost every market, that we go very specifically into those markets and decide which models we'll push out first.

Andrew M. Borst - *Goldman Sachs Group Inc., Research Division - VP*

Yes. It's interesting because the exclusivity point, I wonder if you run into some resistance when you're talking to some of the SVOD providers, right, because in many cases, they want that exclusivity. And I wonder how challenging it is to sort of say that we're not going to do exclusive deals with you. And by the way, we want a certain level of monetization, so we're not sort of cannibalizing our existing models. I mean, I guess, you just have to be disciplined and be willing to walk away from deals if you can't get to terms.

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

We have participants in every deal we have. So we have a very real obligation that we take very seriously, that we have to monetize to the maximum amount we can each one of our piece of content. But we are finding that nonexclusive deals, in many cases -- or most cases, we can do that very successfully. And I'll give you a real-world example. So FX, this past week, has just launched Comcast FX+, which is a premium service for $5.99 to customers who can -- will have the FX channel, ad free and with the entire FX -- almost -- and this is my fault, almost the entire FX Library. The -- I think there's this -- it's over 1,200 shows on the service, which represent something like 36 series over the entire lifespan of the FX channel. So terrific service. The -- what shows aren't on there, though, are American Crime Story, which we sold to Netflix because they -- Netflix came and offered us a very high price for both the first American Crime Story, O.J. Simpson, and for the future life of the series. And so that show was to appear on FX, but we will have the library rights. And that's ultimately not a great thing for the consumer, and it's disappointing that, that won't -- that show won't be on FX+ available. It's not sold to all Comcast subscribers. But the fact that Netflix was able to come and offer really an extraordinary price for that show, we had a commitment to our participants to take that offer. And -- but that goes also to the point why we don't want -- why we are better off selling our shows nonexclusively as we did, for instance, with This Is Us, which is not on the Fox network. But we produced This Is Us. We were able to sell it nonexclusively to NBC because NBC aired the show for their digital services, I think the Amazon and Hulu. And that's a much better service and proposition for our customers.

Andrew M. Borst - *Goldman Sachs Group Inc., Research Division - VP*

Yes. I guess it seems like it's very case-by-case, and it's sort of you have to look at the individual circumstances and come up with sort of the profit-maximizing decision, I guess.

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

I think that's right. But strategically -- and you're 100% right. But strategically, if you have -- we value our brands. We value the National Geographic brand and the FX brand, to name just a couple. We should have -- when a viewer customer is watching that channel in an increasingly nonlinear world, right, and increasingly sort of video on demand or SVODs of the world, the shows that have informed that brand and built that brand should be within that -- should be stacked within that service. And so if you don't have -- if people think of American Crime Story, American Horror Story,

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all the different shows on FX, Taboo, if they're trying to find that show, it's FX is where ultimately they should go first to try to find the show, not a third-party provider that happened to buy some stage along its life cycle.

Andrew M. Borst - *Goldman Sachs Group Inc., Research Division - VP*

Let's talk a little bit about some of the trends in traditional pay television. This year, we've seen a little bit of a negative inflection, where the rate of decline is picking up. Historically, we've been kind of declining about 1% and now maybe returning closer to 2%. Fox, for its part, is actually doing much better than that. You've talked about how you've been flat in your subscriber base for the past couple of quarters. Maybe you could speak sort of broadly about what your outlook is for pay TV subs for the industry, and then also specifically for your company.

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

So we see -- if we look at the industry, we haven't seen an acceleration in sub declines. So if we look at our fully distributed channels, I think 1.5% to maybe close to 2% for the fully distributed channels is the rate of decline. When we add in our younger -- our younger channels, we have a lot of channels that are not fully distributed that are still growing. That's where we get to a flat number for our subscriber numbers. It's important to know that within that, as we've renegotiated our output agreements, I think we've said for the next -- certainly, for the next 3 or 4 quarters and beyond, we expect a high single-digit growth in subscriber fees revenue that we're getting from a flat -- from a basically flat subscriber universe. But what's not included in these numbers is really the dramatic growth that we expect for the DMVPD subscribers. I think you've got to build that. The market has become incredibly more competitive, which, again, is ultimately better for the consumer. It's the first minutes of sort of the lifespan of view. I think YouTube TV is very good. And they can both get better, but I think the -- everyone will start to compete harder. Hulu, the Hulu announced service, is really just -- Hulu Live is just not effectively launched yet. I think next month is when they fully launch. But they've had one of their best -- both in their DMVPD service and in their SVOD service, I think August was one of their best months -- or their best month ever in terms of new subscribers. So it's a growing competitive world. It's great for consumers. It's greater if you're in -- if you're one of the DMVPDs, but it's also great for content providers.

Andrew M. Borst - *Goldman Sachs Group Inc., Research Division - VP*

It's -- so I think it launched in May, if I'm not mistaken, the Hulu Live service. What sort of prevented it from coming out of the gate a little bit stronger?

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

I think we need to make sure we're on as many devices and platforms as possible, operating systems as possible. I think we're at about 80% of the operating systems out there, which means that wily be able to launch, I think, in the next month.

Andrew M. Borst - *Goldman Sachs Group Inc., Research Division - VP*

And I guess the other component was having broadcast network coverage as well.

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

Yes.

Andrew M. Borst - *Goldman Sachs Group Inc., Research Division - VP*

And has that sort of gotten to a point where it's sort of fully scaled so far?

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

Yes. And with our affiliates that are not owned and operated, (inaudible) bringing them on board, and that's been successful.

Andrew M. Borst - *Goldman Sachs Group Inc., Research Division - VP*

Just going back to domestic affiliates and subscribers. You guys had given some guidance for, at least, high single-digit domestic affiliate revenue growth every quarter in this fiscal year. I guess, I was just curious if you could clarify what sort of the subscriber growth assumption embedded within that. Does that assume that you kind of stay at this flat...

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

The flat, yes.

Andrew M. Borst - *Goldman Sachs Group Inc., Research Division - VP*

Okay. Let's dig in a little bit...

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

And we see no indication at all. We're obviously -- we're being build around -- we're building for our subscribers, so we have a pretty good indication across the industry. We don't see an acceleration of -- across the board of traditional subscriber numbers. So there's no reason to believe that we shouldn't be flat going forward.

Andrew M. Borst - *Goldman Sachs Group Inc., Research Division - VP*

Let's talk a little bit more about the digital MVPDs. As you mentioned, some of them are just kind of getting scaled. So it's a little bit early days, but I wish you could speak about sort of the monetization that you're seeing on -- for your channels on these services. I think of it on kind of an annual basis, right? I think the one of the questions we often get is that the churn levels on these services, which are obviously a month-to-month kind of proposition, the churn levels might be a lot higher. And therefore, that would -- it's sort of not as good a model, not strong as a model that we see with the traditional. But how do you think about the monetization, the fees that you're getting?

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

So as I mentioned before, in every instance, we're getting a higher per subscriber subscription fee in every case. We've kept, in every case, our bundle together, all the DMVPDs, which is very important. So sports, it being such a driver of viewership, is important, we believe, certainly, in what we label a core bundle. By core bundle, this goes a little bit to the point I made. There will be different models out there and different services that look very different. But the ones that will be the most successful, in our view, are the core bundle services, which is -- the way I define it is the highest possible viewership and whose -- can you get 90% of -- or 95% of what people actually want to watch on a daily basis? And can you get that for under $40 in the Hulu instance or under $35 in the YouTube TV instance? And so for -- a relatively low price compared to a traditional cable bundle, but the highest possible viewership that can be achieved for that low price. And so those are the bundles, we think, will ultimately be the most successful. Now I think it's too early to say what -- we don't know yet. No one knows what churn is going to look like. It's also very hard to say what -- where are the consumer and how many services they take? Do they take 2 services in some cases? Today, for instance, there's an assumption that a lot of people who are taking the new DMVPD services, many of them still have the traditional service as well. And they're waiting to see to judge whether they get enough out of their DMVPD to make any kind of consumption decisions.

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Andrew M. Borst - *Goldman Sachs Group Inc., Research Division - VP*

And I'm curious what you think about the economic model of these DMVPDs. Because to kind of your earlier point, you mentioned you're getting slightly higher fees, and that's pretty similar to what we hear from your peers. Everybody seems to be kind of getting slightly higher fees. The bundles are...

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

And sorry, much more data, too, which is very important for us and for our advertising business.

Andrew M. Borst - *Goldman Sachs Group Inc., Research Division - VP*

Yes. I guess that's where I'm going because, I guess, everybody has done some version of the bottoms up. You look at the bundles, we have a rough approximation of what we think the wholesale rates are. It doesn't look like these -- the business model, the digital MVPD has any profit. They're sort of breakeven maybe at best or maybe even losing a little bit of money after you factor in operating costs and sort of staff costs. And so it doesn't seem sustainable, I think, and the investors are wondering if this is -- what's sort of the long term play here. It doesn't seem like it'll have legs. Now I think one of the things that gets brought up is advertising. And so what are you guys seeing in terms of the business model in terms of advertising? Is there enough of an advertising uplift to make those businesses profitable so that they can stick around?

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

Yes, 100%. But it's not just advertising. So in addition to advertising, these services, they get the scale. They'll start to offer add-on services. They'll start to offer premium services, whether they're premium bundles, premium channels, the number of streams you could watch in a household. There will be add-on premium services at a price to the consumer that these services will be able to add. And when they add them in scale, I think you'll see a tremendous uplift in the amount of revenue they can derive. On an advertising point of view, if I look at how we monetize a traditional video on demand -- so I'll stay in the nonlinear digital world, right? But a video-on-demand stream of any one of our shows. We'll take an FX show, so FX video-on-demand on Comcast. And then I look at what -- how we monetize that today. And while we're not very good at it, yes, right, these are early days. And if I look at how we monetize that today within our own authenticated apps, so the apps that we control that's authenticated by Comcast, it might be the same Comcast subscriber, it might be the same person, right? We are monetizing. Within our universe, we get the data 8 times more than we are on the Comcast video-on-demand stream. Same show, same pair of eyeballs, same viewer, same demographics, we are 8 times better than when we have that data to be able to use to segment of that viewer. And that's tremendous. And I think there's a tremendous amount of growth still within that as well.

Andrew M. Borst - *Goldman Sachs Group Inc., Research Division - VP*

And is that -- what's driving that significant -- is it just your ability to charge a higher price per impression because of the data? Is that simply what's going on?

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

I think it's 2 things. It's absolutely the data around who's watching -- how we segment it. This comes into what -- we've launched a service called Open AP, which is with Viacom, and so Bob was here earlier, which sort of standardizes our segmentation across all of our channels and our platforms. But also, working with Viacom and others across there as well. And so if you can segment very deeply, then it's very -- that's very valuable to our agencies and clients. But to be able to do that, you need very rich data to do that. And if we're not getting the data from the MVPDs, we have to have environments where we can gather that data ourselves.

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Andrew M. Borst - *Goldman Sachs Group Inc., Research Division - VP*

Let's shift over -- we've been talking about advertising. Let's talk about what's happening in linear advertising. It's been an interesting couple of months because we've seen a number of initiatives come forward, some of whom may even call it experiments where, I mean, you guys are experimenting with 6-second ad spots. We're seeing some of the sports programming, where you're doing split screen, where the game is still being shown and there's simultaneously an ad being shown. Other companies are reducing ad load in the hopes of kind of improving ad recall and viewer engagement. I guess I'd kind of just broadly like to get your temperature on what do you think of some of these initiatives. Do you think that they work? Is it something that can stimulate growth in sort of linear advertising?

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

Absolutely. More than 50% of our viewership today is nonlinear, right? So 50%, or actually slightly more, of people watching any one of our shows are not watching it in a live linear format. They're watching it on some digital platform. They're often watching it delayed. And so the more we can engage with those viewers, understand who they are, be able to understand the segments that they're in, what their interests are, we can absolutely drive that digital revenue even further. Now part of this, what you can do -- and we started this a few years ago. I think we're quickly becoming known as one of the most innovative platforms across all of Fox to advertise because of the 6-second ads, because of what we do with TrueX with high engagement ads. So an engagement ad, if you're watching on one of -- on our Fox NOW app, you're watching one of our shows, you can choose. In many instances, if a client bought this service, well, you can choose to have a normal ad load or engage with one ad, and then the ad-free for the rest of the show. But you have to engage with that ad, which means you have to choose the color of the car. In all of these instances, they're on a digital device, so you can open the car door, you can choose the color, you can pick the leather seats. And if you do that and you stay engaged with the ad for 30 seconds, well then you don't have to watch another ad for the next half hour. And this is becoming extremely successful with advertisers. Once you get that viewer to engage, they often stay longer than 30 seconds. In many cases, if the ad's designed well, they'll stay for 2 or 3 minutes, and that's incredibly valuable to our clients. So high engagement advertisement, lower ad loads, absolutely. Ad loads are going to come down across the board not just for us, but the industry. And then new ad formats, like the 7-second or 6-second ad.

Andrew M. Borst - *Goldman Sachs Group Inc., Research Division - VP*

With the exception of live sports and news, I mean, we are seeing consumption of entertainment programming continuing to shift to an on-demand basis. And the consumer, thanks to the SVOD platforms, in some cases, is getting conditioned to expect 0 ads, which, even if you reduce your own ad loads, it's kind of tough to compete with 0 sort of environment. What do you think -- is the industry going to be able to offset the reduction in ad loads with pricing? Because if I think about it from the advertiser's point of view, it sort of implies like a pretty significant increase in their ad spend and their budget, and their businesses are under a lot of pressure. It feels like you're trying to find ways to save money. But I guess I sort of wrestle with how this sort of all sorts -- how this all kind of plays out. Because it doesn't seem like advertisers are willing to massively increase the amount of money that they spend.

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

You're right. So what -- you have to be offering something new and something in addition and different. And this is where -- if we look at the examples I just used with our high-engagement ads, it's a very different kind of environment for an advertiser, much more deeply engaged and knowledge they get out of that consumer. And the 7-second ad is -- we're not selling any 7-second ads in isolation, right? Your buy as an advertiser is saying, I'm buying these new formats. They don't -- if I were to have ads next, right, they stand alone, which is highly valuable. And they're buying them in conjunction with traditional advertising, highly engaged ads, nonlinear advertising. So the buying -- bundle that gets the best engagement and the best reach for their client. And layer on top of that the data, which is now available to us, becomes a tremendous opportunity for them.

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Andrew M. Borst - *Goldman Sachs Group Inc., Research Division - VP*

I'm wondering if you could comment on what you're seeing in the present TV marketplace. How is the management pacing? How has pricing been pacing recently?

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

Yes. Actually, can I -- I'll do that. We had a -- have a strong upfront. We're very happy with it. Scatter pricing remains significantly above the upfront pricing, which is always a positive. The one -- so the one area that, whether there's clouds are -- the local markets are soft. So local advertising is soft. Now we all know what happened in the retail market and sort of local markets across America. That's having an impact on our local stations. But we feel very confident in the year going forward in terms of our advertising pacing and trends. One of the things I should mention that come onto this question with the last one is that when if you look at our -- we are very long in sports, right, and news, right, which are the 2 television sort of areas that people watch live, right, and are -- and don't record, right? So people -- so all the trends we're seeing digitally, and sports and then news were where the most resilient to those trends. Our domestic advertising revenue in entertainment channels, right, which is entertainment, so nonsport, nonnews. Our domestic entertainment advertising is only 9% of our group revenue. So it's something we're very focused on. We're very focused on investing in our digital capabilities and being the most innovative advertising sort of platform that's there. But we're talking about really a relatively small amount of our global revenue.

Andrew M. Borst - *Goldman Sachs Group Inc., Research Division - VP*

That's a good segue. I wanted to ask about the sports TV business. Obviously, as you alluded to, you are a major player between your national sports networks and your regional sports networks and sports coverage you had on Fox broadcast. A common question that comes up is, as we look forward, investors wonder about the sustainability of the profitability of the business because there are some trends that seem to be working against that business, namely skinny bundles are becoming more prevalent. It feels like the subscriber counts on some of the sports networks may be more vulnerable in that shift. There's obviously cost pressures on the horizon potentially because as these contracts start to come up, there could be some new entrants into the bidding, the technology type companies. So maybe you could speak about sort of your outlook for the sports TV business and the ability to sustain profit.

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

Yes. We are very confident we'll be able to sustain our profits in our sports business. We don't see the sports business as one of our key profit growth engines. But we think we can maintain sort of steady -- this sort of modest growth in the sports business. Most of our sports contracts have multiyear extensions on them. And in fact, with some of our local sports, the RSNs, we've been able to negotiate recently either flat or modest price escalation (inaudible) for various sports teams and their rights. So we feel very confident about the sports business. In fact, I think Fox Sports won over the summer, was the only sports cable channel in the United States to have a ratings growth over the summer. So if you look -- and if you look at the network, the Game 7 of the World Series was the highest-rated baseball game in decades. The Super Bowl reached, I think, 170 million people. And so it's a tremendous business. It's where people want to watch sports, and it's why all of our sports channels and our RSNs are built into every DMVPD that's launched.

Andrew M. Borst - *Goldman Sachs Group Inc., Research Division - VP*

Let's shift to your broadcast station group, owned and operated stations. Over the past couple of months, there's been a lot of new stories flying around about Fox potentially forming JVs with various partners. And sort of the -- first, there was a potential partnership with Blackstone to bid for Tribune that never came to pass. More recently, there's been some news about maybe partnering up with ION. I guess you probably don't want to discuss any of the rumors, but I guess just maybe stepping back and thinking broadly about your owned and operated stations. Sort of what -- how do they sit into your portfolio? What's sort of your vision for them over the next couple of years?

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

We've always liked the station business. Obviously, retransmission that we get through the station group is important and is a growing part of that revenue stream. It's currently challenged locally with advertising. As I mentioned, the local advertising market is softer than the national advertising market. And we are committed to that business. We will -- and without talking to specifics, we will always look at ways that we can responsibly grow our distribution. But it's not something that we would commit a lot of capital to. But if we can do that in other manners or something, we'll be able to look at that. And sorry for the obtuse answer, but...

Andrew M. Borst - *Goldman Sachs Group Inc., Research Division - VP*

And maybe I'll try one more. You may shut me down, which is fine. But I guess one theory that this is sort of a means to an end, that you're trying to sort of extract maybe higher reverse payments and drive that part of your revenue stream, right, got your retrans in your owned and operated. That's fully within your control. There's obviously reverse payments that come from the other affiliates. I mean, is that a significant part of the strategy of what you're trying to achieve?

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

I think retrans will continue to be a critical part for both the revenue stream, but sort of moving forward, leverage with distributors. And I think that the broader our platform can be, and if that means more stations that we control within the right sort of regulatory sort of framework, it's something that we'd be open to looking at. But once again, it's not something that we see. If we look across the opportunities that we have globally, it's not something that we will commit a significant amount of act -- of capital to.

Andrew M. Borst - *Goldman Sachs Group Inc., Research Division - VP*

So I think earlier in the year, you guys sort of indicated that you had no interest in getting more stations, but maybe if you're a little bit more open to it these days.

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

I think we said we're finished with buying more stations. So if you can achieve something and then win another structure, that's different.

Andrew M. Borst - *Goldman Sachs Group Inc., Research Division - VP*

Small, but important point. Okay, let's move on. Let's move to Film. It's interesting. Your Film segment, you have a pretty prolific television studio that I think sometimes gets overshadowed just in terms of what -- with everything else that's going on in Film. But I think you got a pretty successful run over the past year. You've had the #1 series on 5 different networks. You mentioned one of them, This Is Us, which is on NBC. Can you talk a little bit about the growth drivers you see for that business over the next few years? And how big is this business, say, in last fiscal year? How much is it contributing to your growth?

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

Film and television...

Andrew M. Borst - *Goldman Sachs Group Inc., Research Division - VP*

(inaudible) just in the television piece.

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

The television piece continues to grow. So if you look in our film entertainment, we split within that bucket, let's say, the theatrical films and then the television production. Both are, within that segment, for us are about 50%, 50-50, in terms of on an average year, in terms of the EBITDA you're driving out of film, in the theatrical. And theatrical will be lumpier, right? You can have the big box office hits. And another year, you're less successful. But the television company continues to grow year after year, continues -- and we talked earlier about SVOD and selling nonexclusively as opposed to exclusively, in many cases, to Netflix. And despite some of our shift in strategy, our SVOD revenue continues to increase pretty significantly for us year-over-year, and certainly will again this year. Now how that's achieved is really through having the best-in-class creative executives at both the television company and at the theatrical film company. And the relationship that they then have in terms of their creative communities is critically important.

Andrew M. Borst - *Goldman Sachs Group Inc., Research Division - VP*

Before I open it up to the audience for questions, maybe I'll try to get another one in. I think one of the big topics of discussion on the Film business is sort of the weakness we've seen in the summer box office. And I think there's a debate. Some people wonder if this is maybe the beginning of a secular shift in terms of consumers wanting to sort of consume more content in the home and don't want to go out. Some people, such as ourselves, think it's maybe more of a cyclical, just not a great slates and misses. I mean, what's your take on this?

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

So let me answer that in 2 ways. First, yes, we saw the summer's box office was done I think 15% or so. It's really interesting, though, because if you look at it closely -- and the short answer is the movies weren't compelling enough to go to. There weren't enough movies that people felt that they have to go see, certainly had to go see in a theater as opposed to waiting for it to come out on another platform. But if you take the top, I think 4, animated or not -- basically, the top 4 movies of last summer are the 4 family animated films. And you to look at the family animation from this summer, right, there's a difference of -- this summer, the gross was $488 million, which is down 50% with the same sort of 4 top animated family films, gross the summer before. And that actually makes up for about 90% of the drop in box office from last summer to this summer just if you look at the family animation center. So I guess what that means is that, fundamentally, the films weren't good enough as an industry this summer. I think next summer, from what I understand this year, a huge lineup of films that -- from us, we've got Deadpool 2. We've got Han Solo from Disney. You've got -- there's about 6 or 7 huge films coming out. I think Jurassic World next summer. There's -- it'll be a big summer next year. And when you compare year-on-year if we look at this year, which is down, I think you'll see -- you can mark my words, you'll see a tremendous uplift. Now coming back to the next thing, which is about distribution, which is another question we've been talking about for a few years. The way we sell our films into theatrical is that there's roughly a 45-day window. So you spend tens of millions of -- first, you spend way too much making the film in the first place, and then you spend tens and tens of millions of dollars marketing that film. You go into a 45-day theatrical window, and then there's a blackout for another 45 days, where the consumer can't access that content anywhere no matter what they're willing to pay or do until you come into a video-on-demand window after that 45 days. So it's 90 days from a box office opening, 45 days that they can't it get anywhere. A lot of piracy happens in that 45 days, and then you start to be available on video-on-demand. That's a highly inefficient system, particularly the blackout period, where you're not monetizing the film at all and where pirates are able to -- are the only way people are able to access that content. And so that system has to change, and I think it will change sooner rather than later.

Andrew M. Borst - *Goldman Sachs Group Inc., Research Division - VP*

Would you care to put some specifics in terms of what type of price point it might be? Or what the window might be? And when it might happen? Like, when you guys might do this?

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

From -- I can only speak from a Fox perspective and some of the -- I think the industry sort of evolve towards. But I think you'll start to see the later part of that window, the blackout period, is -- doesn't make sense for anyone, for people not to be able to access our content during thatperiod. And I think Stacey Snider, who runs our studio really well brilliantly, I think she said originally that you'll see these windows start to change over the next 12 months.

Andrew M. Borst - *Goldman Sachs Group Inc., Research Division - VP*

Okay. We'll see if there are any questions from the audience. Okay. Maybe get a question back here, please.

Unidentified Analyst

Lachlan, in terms of STAR India, can you step through a bit more color the -- that $1 billion target just in terms of how you see revenues and operating expenses tracking out over the period?

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

So in terms of which? In terms of STAR?

Unidentified Analyst

Yes. Just in terms of $1 billion target, the -- how are your assumptions looking around the revenue line and the cost line in order to sort of build out to that number.

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

I don't think I can give specifics. But obviously, one of the data points in the last -- the news in the last few weeks, obviously, are winning the auction for the IPO for the next 5 years. We paid $2.5 billion for the IPO. We strongly believe and we would not have bid for the IPO at that price without being absolutely confident that we can still hit our $1 billion EBITDA target by calendar 2020. Now there's lots of assumptions, which I'm not going to share, you understand why, within that in terms of how we monetize the IPO and also obviously the growth that we've already seen in the Indian sort of advertising market. But we're very confident we're still going to hit that target.

Andrew M. Borst - *Goldman Sachs Group Inc., Research Division - VP*

Okay. Well, we actually are out of time at this point. I want to thank Lachlan for being here.

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

Drew, thank you very much. Thank you.

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