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Twenty-First Century Fox, Inc. (FOX)

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CORPORATE PARTICIPANTS

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MANAGEMENT DISCUSSION SECTION

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Okay. Thank you for coming. Before I start, I want to say that [indiscernible] (00:00:08) actually just gave a pitch for why everyone should be in this room, not the AT&T room. He said that if you're really paying attention to this space, you really care about Advanced Advertising solutions, and it's real, it's growing, and people should be aware of it, so that's sure.

Yeah. So, with that said, Joe Marchese is the President of Advertising Revenue at Fox Networks Group. A year ago, [indiscernible] (00:00:33) before that he was the President of Advanced Advertising Products, and before that you actually created a business called true[X] that you sold to Fox – when, in 2014 or so?

Joe Marchese

President-Advertising Revenue, Fox Networks Group

Yeah. I think whatever.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Okay. Well, that's okay. So, exactly...

Joe Marchese

President-Advertising Revenue, Fox Networks Group

Three years and two months – three months.

Unidentified Participant

So, who's counting? So, yesterday, Joe presented for all of you that are not there at the Fox Upfront, second year in a row. So, thank you for being here after what was probably a long night for you...

Joe Marchese

President-Advertising Revenue, Fox Networks Group

Yeah.

Unidentified Participant

...paying for all the drinks.

QUESTION AND ANSWER SECTION

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

So, looking back on the past year, what surprised you most about: one, the job you have; and then secondly, the industry that you are dealing with?

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

All right. Most surprised me with the job, actually, I would say not a lot has surprised me about the job itself, because as you noted, before I got this role, I was doing the advanced portion of this role, which was the portion that we're trying to get more people into what advertising is going to be next. So, we saw what the difficulties are in kind of moving and changing, like the number of constituents that make it difficult to do what you want to do in the advertising world were all kind of known, right?

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Right.

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

There's a certain momentum there. So, that's – there really hasn't been a ton that surprised me. I guess, I have continued to be surprised at the way, despite everything that's happening in digital and kind of some of the emperor has no clothes moments, very little has changed in the way kind of ad investment has kind of flowed there. I'm kind of looking at when a breaking point for that is, but...

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Right. No. Why is that? So, it's funny, because you would have thought all the scandals you've seen in the past 12 months...

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

Yeah.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

...would have weighed on the investment – the buying investment community on the agency side.

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

Yeah. Well, because I think that all people care about is sales and making money, and all the scandals in the world don't matter if they think they're still making money by doing it. The problem is the two-fold. One is that I think that – and I had talked a little bit about this yesterday in my talk which is, there's just kind of this myth of attribution. So, what happened is digital has built a feedback loop that says, if you spend money here, we drive sales. And they've built models that are impossible for people to break down and get inside the black box.

And they say, here that you expose that many people forget, how many people actually saw, when they saw it, how they saw it, it drove sales. See, because look, this is your exposed group, this is the control we had of the exposed group more people bought stuff, so keep buying us, right. And that's what's kind of happened. People have said scandal this, inappropriate content ads, but they just kept saying with their models. The problem with that, and I – the joke we did yesterday, was I had just every hotel logo flash on the screen and I said I just want attribution credit for anyone here staying at a hotel.

Now, for this room, I can break that down a little more – get really in the weeds, because we know this room more like numbers. But the joke that was fun in the moment, but the truth is what I was doing is basically what digital modeling does, which is that room had a higher propensity to stay at a hotel than any other room, right? So, basically, you create a set of people who are more likely to be doing a thing. So, on Facebook, I might say I need a truck. So, this person is more likely to end up buying a truck at some point and you make sure you have exposures across the category.

When you check control exposed group from the outside, you can't check against just the high propensity buyers, right? So, all the models come back saying, yeah, it's moving product, right? So, that's problem number one, it's like we haven't really dispelled the attribution myth. Once you do that, I think that is actually the first chink in the armor.

The second problem that I see is that there might be some that drive sales short-term, right, but [indiscernible] (00:04:29) brand long-term and brand is the margin, right? Brand is like, if you look at Apple's media plan, it looks like that of the 1950s in a lot of places, right, and I mean that in a good way, because it can't be frauded, right, like you don't fraud billboards. If you ride the subway right now and you'll see nothing but digital companies like advertising there. Do you think these guys don't understand how digital works, do you think they're luddites, like they're entrepreneurs who are launching it and they're buying [ph] subway with that (00:04:53).

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

[ph] I watch Netflix as whole commentary (00:04:55).

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

Netflix wanted to buy a billboard company. Did that happen by the way, if anyone knows that?

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Yeah. Not yet.

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

All right. I mean, I just – there is literally nothing. I can't – no words.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Okay. So, it's funny. So, a year ago, when I was reading about the move you made on your career. So, we're going to see a new model of advertising, point of place around video content a year later. What was that new model and how the evolution gone in terms of where you're driving towards?

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

I mean it's going to be less, right? Less is more, but less is really more. I mean, the idea of – oh, sorry, there is one thing I left off on the attribution modeling that is – that I actually forgot. I do want to make sure we hit on it, although, we'll probably get to it later. But the last portion on the attribution myth that needs to be dispelled, and this is why the less is more, is that I can't understand how any digital player could go to everybody and show them attribution list, because sales are a pie, right? Toyota, Ford, GM make up a pie of car sales. They're going to grow or shrink by a certain percentage, but it's very – it doesn't move a whole lot. So, you're share shifting.

So, if you're a vendor and you're going to Toyota and saying, I'm going to help you sell cars. How can you also work with Ford and help them sell cars, right? What you're actually offering up an opportunity to sell a product, right. Now, this gets into the less is more point. Ford runs it like a 20 or 30 frequency, because Toyota is running at – and by the way, I'm making these numbers up, don't quote any other specifics for the brands, because Toyota is running at an 18 frequency, right? So, if we ran Ford at a two-frequency and Toyota at one-frequency, you'd be about the same as long as you deliver the message, right? So, these things are just built over time to naturally depress CPM prices. Everyone is like, okay, I can't have the price of an impression go up this high, so we'll just add more impressions that will turn down the effectiveness of it, but in aggregate you'll be in the place you need to be.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

How much of what you're describing is a failure on – I don't know, are we being webcast, Reed?

H. Reed Nolte

Executive Vice President, Investor Relations, Twenty-First Century Fox, Inc.

A

Yeah.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Okay. So, how much of a failure of this is due to the agency side or the client side?

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

I think the problem is that it's not a failure of a particular point, it's a systematic, right?

Michael Brian Nathanson
Analyst, MoffettNathanson LLC

Q

Right.

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

The client says drive savings to an agency. The problem is, savings is loosely defined, right, it's saying get me where you got me last year for less. That is an impossible task. It is like, do you think people's time is worth less this year than it was last year, because that's – technically what a CPM price is supposed to be is the price you pay for people's time.

Michael Brian Nathanson
Analyst, MoffettNathanson LLC

Q

Right.

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

So, how is it – I mean, it invites fraud when you do that. The agencies sit in the middle and say, I'm being RFP-ed and clients are doing bake-offs all the time. So, I need to get what I got last year for less. Well, the only place you can go for less is the infinite inventory of the Internet, right, which there [ph] isn't infinite inventory, because there isn't (00:07:54) infinite time, right?

Michael Brian Nathanson
Analyst, MoffettNathanson LLC

Q

A long-haul cable.

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

Yeah.

Michael Brian Nathanson
Analyst, MoffettNathanson LLC

Q

Keep buying long long-haul cable.

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

Well, and that's part of – and again, this is part of a huge problem, what difference does an impression on cable mean versus an impression on broadcast, it used to be that – well, I can't stitch together the reach and my duplications different, but now that's not a problem anymore. The reason cable is priced differently than broadcast is just legacy, and the only reason cable pricing can't get to what it should be. If you took any of the movie – any movie on FX, FXM, right, took any movie, CPM pricing is incredibly low. Take that exact same movie, put it on YouTube, have it be watched in a full episode player, right. Forget the targeting for a second, the CPM price on that on a brand safe, fully viewed, like full screen ad would be [ph] \$20, \$30, \$40, \$50 (00:08:42) who knows how high, right, because they just don't exist. Put that on Facebook, put a full length movie on Facebook and have those ads in there, right...

Michael Brian Nathanson
Analyst, MoffettNathanson LLC

Q

Right.

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

...they'd be incredibly valuable, that's the upside. The problem is cable was bought last year at this price, and if we try to get it to this price this year that looks like a 10% increase and the agency gets hammered for price increases, right. So, there has to be – there's got to be a giving point somewhere.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Right. So, then bring that back to less is more, what you talked about yesterday and how you see less is more evolving, which was an old radio slogan from 10 years ago. So, I hate to bring it up again.

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

Yeah.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

But the idea you have to reduce inventory, how does that sequence through the next couple years?

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

Well, I think the first thing you do is, you kind of look at and say, this is a shared problem for the industry and yet it's still a shared opportunity, I guess, is the best way to put it, which is if we can get out of this pricing structure of here's what we paid last year plus or minus 3%, which is to say, okay, what if we just make better ad products and then there is something different, you're not up 20%, you're buying a new ad product, right. So that's part of it, right, which is to say for the first time, it used to be – we can't have the ad price go up too much, okay, let's put more ads in the ad pod, right. Well, now that's kind of breaking, because viewers revolted, right. We had a two-party negotiation before, agencies and the TV networks. Now, we got a three-party negotiation, the agencies, the TV networks and the viewer. The viewer has an opt-out cost of \$10 to \$15 a month to go ad free...

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Right.

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

...which is, by the way, great for the TV business, [ph] look at FX plus (00:10:16) to say, here is \$5. Okay, advertisers, if you don't want to make a viewing experience that a consumer will like better than \$5, they've got that option. That release valve is actually good from the standpoint of – I mean, it makes my job slightly harder, but it's good from a standpoint of what the market should start to get into efficiency.

If we say, okay, we're truly going to have new ad products, right, you won't be in a – so, it's not just a five ad ad-pod. Here is – this is something that's just systemic of the whole industry kind of, like putting yourself in this place, which is when we decided that a 15 is worth half of a 30, right? If you had 15 seconds to talk to me, you're going to get me a lot of the information you would get me in 30, right? But it was fine for us, because in our two minutes, we still monetize the same. And it's great for agencies, because agencies are like, great, I'm getting like 60%, 70% of the value for half the price. The only person it was bad for was the viewer. But they didn't have an option at that time. So, here we are. Now, they do. And so, that's kind of reset the way we got there.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Right. And so, your view of bad actors in the ecosystem would be, they just kind of have less people watching their channel. Because what happened to radio was, Clear Channel made this move, less is more, and their competitors actually added inventory, right? But now, given the way we all are...

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

Yeah.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

...it will be obvious who the bad actors are?

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

Yes. Well, I think, it will be – it has to be dramatic in certain places, which is why we've done some things. Look, we're going to take smaller portions and do deeper cuts, and sort of the viewing experience has changed that drastically that they can actually notice. It's not like a minimal cut where, hey, we're going to reduce inventory by 5% across the board, because the viewer won't notice that.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Right.

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

So, we're actually looking at doing concentrated reduction, whether it's Sunday Night or particular programming, we just announced that the new show, The Weekly, that FX is doing with The New York Times will only have about 1-minute ad-pods and there'll only be two ads per pod. They can't be divided into anything else, and we're calling them JAZ, because Just the A and Z positions. My team hated that name too, but I like to name things for what they are.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Right. Got it. So, you've been, as we mentioned, early advocate for Advanced Advertising Solutions. What do you think has to fall into place for the marketplace to really scale?

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

Well, I mean, OpenAP is I think the core to it. Like, TV needs to be thought of as a platform. If you bought TV the way you buy Facebook and Google, the prices would be – I mean, like I was pointing out before on the movie side, if you take that same movie had it played on a digital player, the price would be astoundingly high and we get smarter about targeting, right. I do think that OpenAP is the start of TV as a platform, right. We should – like we're competing over the shows and the audience, and – but like when we're competing over format and data, and there's like 13 different types of data that people will use, it doesn't get there.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Right. So, you standardize the data and what about the architecture of getting more addressable advertising into the marketplace?

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

Yes. Look, I think for that, that will happen on its own and there'll be a I think – I haven't done economics since college, but there used to – you have your supply/demand, price shift, and then – but then when there's a technological shift that can go like this, but it doesn't have to go up the curve, that's moving from where we're today in linear delivery to IP delivered. So, Hulu Live, YouTube TV, like DirecTV Now, like IP delivered live streaming services will kind of – I think that shift will happen – it will happen very, very slowly than all at once.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Right. So, what you just said was interesting to me is that, for years, we waited for the traditional MVPDs...

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

Yeah.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

...to be the partner on the addressable side, but you just mentioned three virtual MVPDs.

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

Well, the DirecTV Now is part of it, [indiscernible] (00:14:02).

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Yeah. But is that what's been the gaining factor? Is that you need a different platform?

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

Yeah. I think there's no doubt. You needed IP delivered. I mean, you could do Comcast with XFINITY, you could do – you do a lot of the digital delivery, right. But again, the market has to also want it. Okay, we can do it more addressable now. You can do more addressable, but is the agency-client relationship and pricing structure – basically, they're compensated on savings, would they invite better, right?

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Right.

Q

Joe Marchese

President-Advertising Revenue, Fox Networks Group

That's what you have to start to show and change. And the problem is, again, now you have this attribution myth, I just feel like you could take someone outside of the advertising world altogether and say, here's your ad shown to a person for the full time, this one's not, which one is more valuable and by how much. But then, you give someone an attribution [indiscernible] (00:14:59) drove sales and it's like, okay, well, I don't understand how, but I guess if it drives sales.

A

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Right.

Q

Joe Marchese

President-Advertising Revenue, Fox Networks Group

So, the problem is like you constantly have this counter lever that is acting as a release valve not allowing the market to correct fully.

A

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Okay. So, if [ph] Craig (00:15:12) was here with us, he would interject this part of the presentation and say, TV is long garnered a premium, because it offers efficient reach, unlike any other product. As you move away from that efficient reach of [indiscernible] (00:15:27) mass impression to a more addressable world, is that going to be an accretive shift for network companies and why?

Q

Joe Marchese

President-Advertising Revenue, Fox Networks Group

Of course. I mean, one, I don't really understand the efficient versus effective argument, this one of the ones that drives me crazy, because I don't understand how you could be efficient if you're not effective. There are these two buckets of ads that people buy, well, okay, this one wasn't – it wasn't super effective, but it was very efficient, that's why we bought it. And it's – well, that's like saying, I washed my car and someone spits on it, and then, well, my car is still dirty. Well, yeah, but I was really efficient, right? It doesn't...

A

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

[indiscernible] (00:16:04)

Q

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

...I don't understand like how those two things ever got uncoupled that said. And I hate keep using the digital, but like use it as a proxy for where things are at. If you buy an impression on a YouTube video that has 1 million views and you buy an impression on YouTube video that has 100,000 views, but the price is about the same, right...

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Right.

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

...as long as it is brand safe. So, the problem is there is no reason why it's not accretive. Back to what I was saying, the reason broadcast was more, because it was actually a lot easier when you had a large reach vehicle. But now you have the ability to not duplicate across multiple channels, so you can do large reach in a different way.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Right. So, the question I had interesting to your answer is [indiscernible] (00:16:48) agencies, how do people wrap their heads around, okay, this was the CPM I was paying before versus whatever new CPM is. So, how do you deal with that differential? How large that differential?

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

There's going to have to be an emperor has no clothes moment or it's like that wasn't actually my CPM. My CPM was actually 10x that, but we all figured a better pricing structure was to keep – keep the market, keep it – it's like taking the currency and making sure we don't want rapid inflation in the currency. I think the other thing, like I've already said, The New York Times digital's biggest competitor is not other digital, it's New York Times' print. New York Times print can walk in and say, here's your ad, it's half page, your CPM rate is \$50. It's beautiful, here it is.

Well, what's your circulation? It's – I'm again making up numbers – 1 million. Okay, great. So, now I'm going to pay for that. But we know that not everyone sees every ad, we know that not everyone [indiscernible] (00:17:48). Your effective CPM rate was probably \$500 to \$700. But digital New York Times comes around and says, okay, we know when someone sees your ad when they scroll to that part of the page. We need \$500 [indiscernible] (00:17:59) you're not getting – why would I pay digital New York Times \$500 CPM when I've been paying \$50 the whole time, that's basically what's happening in the shift from television to digital which is the biggest – digital's biggest competitor is actually doing – is saying, no, I've always been paying \$30 CPM on television. Okay, we all need to have a conversation about what the real price of an impression is, because the market should be able to clear this. We should be able to say, how much does it cost to buy someone's time for X amount, and then we should have those categories by how much people value their time.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

So, back to your [indiscernible] (00:18:30) do you foresee other – so, this year, you had NBCU joined.

Joe Marchese

President-Advertising Revenue, Fox Networks Group

Yeah.

A

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Do you see a day when all the networks pretty much participate?

Q

Joe Marchese

President-Advertising Revenue, Fox Networks Group

I mean it's a consortium. It's a nonprofit consortium that just standardizes data and format, so that we can make TV a better platform, right. We had – Nielsen is obviously a partner. I mean, Nielsen is a currency that we all trade on, right. But we need something that's kind of a not-for-profit organization that is kind of an organizing principle for, okay, we're moving into this kind of new area where, if we don't kind of have a more unified view of – like Facebook and Google are one platform, you buy it one way and there's really no choice about it, right.

A

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Right. And it's easy.

Q

Joe Marchese

President-Advertising Revenue, Fox Networks Group

And it's easy.

A

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

So, when [indiscernible] (00:19:16) into a marketplace, did you see that ahead?

Q

Joe Marchese

President-Advertising Revenue, Fox Networks Group

I don't know. That's a harder leap, because of how hard it is to get anything done.

A

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Right.

Q

Joe Marchese

President-Advertising Revenue, Fox Networks Group

But I will definitely take this first step of the standardization.

A

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Okay. And does it become de facto currency at some point?

Q

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

That is dependent of – becoming a currency is wholly dependent on, like, the buyers believing it. Why is cryptocurrency worth anything is beyond me, but it is because people believe it is, right. So, we'd have to get a currency that people buy into.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Okay. And I kind of jumped this question earlier is that, for years we would look to VOD as the addressable. So, what – you guys have been very early to navigate to VOD. So, what's your experience on the advertiser appetite for VOD and how do you think VOD is rolled out at this point?

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

It's again one of these things that has a legacy kind of stain on it, but like it is probably the most valuable inventory period. If all advertising is supposed to be bought based on the likelihood that someone is watching, right, that should be how you decide whether something is valuable or not, on VOD, when someone presses play, it's guaranteed that there is a human being sitting there. I would say it's probably the most valuable inventory, period. It's [ph] halfway (00:20:38) to what we would call an engagement ad, where someone has to click to watch the ad and [indiscernible] (00:20:43). So, we did with FX, we just eliminated all normal commercial breaks in VOD, entirely. FX ad load was down 70% in VOD and our revenue in FX is up – I forget the exact number in digital, but it's up.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Right.

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

And so, that 70% commercial reduction will actually go up, we just basically reclassified VOD.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Right.

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

Right. So, we see that it's huge. Now, again, the problem you have is you have an unevenness of the tech, right, you have set-top box VOD, digital VOD, so you have your DVR, so all of that stuff needs to start to even itself out. And so, when some of the stuff advertising is waiting on that we get ourselves set up for is waiting for the platforms to kind of unify as to where it's watched.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Right. And that's why Hulu and YouTube TV are so exciting for people like you, because you see that product being built today.

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

Yeah.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Right. And was that whole attritional MVPDs to be more accountable for what they need to do?

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

I mean, I think they know they need to get there and I think they are. That's why I keep referencing DirecTV Now. I mean they were first, right, first of that scale to go national. So, I think they know that. I think the more interesting question is, when do you start unifying buying in a way with the agencies and clients to realize, okay, this really is holistic. I don't have one thing that drives sales and then one other thing that drives brand.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Okay. So, something – when people hear the reduction in inventory and the JAZ idea, analysts like ourselves are thinking, okay, how you balance the need to drive quarterly earnings for the people in New Fox one day or old Fox today with improving the consumer experience for all the users that they've been trying to – try to avoid commercials. So, how are you balancing that?

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

Because I've a budget I have to hit. Would you like to cut the edge, great, you still got to deliver the number.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Right.

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

So, basically – no, I do look at it from, okay, how could I possibly do what we did in FX VOD, [indiscernible] (00:22:45) either budget neutral or creative while doing ad reductions. So, pretty much everything we look at is that.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Okay. And the decisions you've made. So, let me segue to the embrace of live sports, right. So, do you want to talk a little bit about ad on the network, the Fox Networks side, how meaningful live sports will be to your next 12 months?

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

Well, it's huge and it's a massive upside I mean for advertising. Think about this, if we do everything right, so FX, VOD, small number total in our volume, but increasing revenue on a significantly decreased ad load because of targeting and addressability and everything else we're doing. Now imagine, sports which actually holds full ad load, doesn't have to hold as many as it has now, but it's going to hold a lot of ad load. And now you apply like, where would you get a 10%, 15%, 20% increase in potential ad revenue volume, it's in sports if you can take everything that – think of entertainment is the tip of the spear of, okay, we have to figure out this, because consumers have other optionality that we have to – it's like almost a necessity forcing invention. And then, that system applied to sports.

So, we have it with – Thanksgiving, we had nine, which is probably too many, like these [ph] in-action sixes (00:23:59), right, which mean the play went dead, we would squeeze down go to commercial. One of the most valuable pieces of inventory an advertiser could have, we got a price that was closer to a [ph] \$15 (00:24:09) or higher, right, which probably you can get into. But the point was that, because it's worth way more than that, but we didn't know what it was going to be worth. But what we did is we took after those nine [ph] in-action sixes (00:24:21), we eliminated one whole commercial break, and we were revenue neutral on the game and we cut an entire break out of the game. So, the TV time now start to go away. So, that type of thinking is that applies to sports are huge.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Right. And what percentage you think your view range point of network will be live sports next year?

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

I don't know what that – I mean it's a lot. I mean, NFL – I mean, I think we're probably going – we're 40% of the NFL impressions, it's the most valuable real estate you can have. And so, we like having valuable real estate.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Right. And then news as well, so when you think about what will remain at New Fox as [indiscernible] (00:24:56) we're now?

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

Well, that's outside of my remit.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Yeah. You're not the news guy. Okay. That's fine. So, going back to my measurement question...

[indiscernible] (00:25:07)

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

...and how is the quarter looking? So, basically, sticking with my measurement question before, how much of what do you think has hurt the marketplace or the perception of the marketplace is a function of Nielsen not being capable of tracking this great diaspora of viewing that's happening?

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

It's not a lack of capability, it's a lack of will, and it's not Nielsen in particular, it's the market in total, right? Back to what I was saying, no one wants to know how much pressure. The fiction, the myth of the long tail is hilarious. Where do we think people are watching billions of dollars' worth of advertising video online, if it's not on Hulu, in YouTube and the big guys, but yet it exists, right? Nielsen could track everything, but it wouldn't be apples-to-apples, because every digital player wants a different definition and TV has to live on a minute by minute rating basis.

So, in order for us to say, hey, let's track everything, we'd be like great, so let's track FOX NOW plays the same way we track clip plays in banners across. And so, digital players won't participate if the standard is held higher. And TV players, there's just no point like the numbers wouldn't even make sense to participate with – so, what we would call a full episode player, there's no reason to ever mash that up with the way like digital measures right now. Digital has set the rules, and I will do the same thing in the way that best possibly advantages what they have for inventory. We don't have that. We have like long form stories – I would be against the strategy of saying, hey, we need both to have these high volume solutions which really just feed the platforms, right?

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Right. For two second news feeding views is now where we want it to be.

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

Because there's no point, you don't [ph] out Google, Google or out (00:26:54) Facebook, Facebook. We do long form storytelling which is a great place for advertisers today, which is a great place for brand building. And the problem then becomes the second admission, which is building – selling a product in a quarter is part of the job and the other part is to have a brand, because that's your margin going forward, right, but you can't measure that in the short term. So, therefore, every media buyer, who's getting pressure on all the prices going up, I'm just going to buy more of this stuff that says it drives sales. Even if it does, which I still would argue the point on that, but even if it does, it certainly doesn't build brand over long term.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Right.

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

You're not telling the same story. And at some point, then when you say, Alexa, get me toothpaste, instead of Alexa, get me [ph] crest (00:27:33), right, that's a big problem for [ph] crest (00:27:35). That's a huge problem. Amazon – basically, the platforms can accrue all the value in the margin if the brands don't matter. If the brands matter, then you could go to any platform with your brand, and that's kind of been the whole theme.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Right. So, a pitch later for lunch, we have Scott Galloway, who's a professor. And he'll talk about Alexa's impact on digital marketplace. But going to [indiscernible] (00:27:55) for a second, what we learned from analyzing Facebook and Google is, they've really benefited from long tail, small and medium enterprises, right? Whereas TV is really leverage unfortunately to the biggest clients who – so, do you see the opening up of more of your digital inventory as a way to pretty much get some people who have been priced out of the ecosystem back to television or on TV?

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

For sure. I mean, you just considered video-based advertising, yes, right. There is a little bit of a higher hurdle for creation of video-based advertising, which is probably why you see more in the small businesses. I would just encourage everyone to read, there's a Bloomberg article that really talks about, I forgot – well, I kind of know the name of it, but [indiscernible] (00:28:36) saying it. But I'll send you after a Bloomberg article that I'd really – it said something like scammers need suckers and Facebook helps you find them, like it's Bloomberg – it's in Bloomberg, I'm just reading that headline. But it is astounding article that talks about what real small business kind of churn kind of goes through.

I think the bigger problem TV has now you have a two-fold problem, right. You have, okay, digital is measured differently, but it's also held to account differently. If we advertise something that's not an FDA approved vitamins, we're in trouble, right. FTC, there's guidelines. Platforms have kind of washed their hands with that and that has scaled the heck out of revenue. There's another one like, Brian Wieser, found a wildly interesting just fact that something like billions of dollars is flowing in from China into U.S.-based targeted ads like for new products, but like the products aren't really selling. So, there's still something else to come.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

That's been a big source of Twitter's revenue growth actually. They've called it out in their earnings call...

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

Right.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

...Chinese-based export advertising.

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

Yeah. And they're smart enough to understand it.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Okay. And then, before I ask you about the current marketplace, there has been in the past couple months the ability [indiscernible] (00:29:57) to gather data and limitations on their sharing of that data, how is OpenAP gathering data?

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

It doesn't. I mean that's the whole point. It's an open platform, so it doesn't actually gather, right, nothing lives there. People use their own data with there's third-party data [indiscernible] (00:30:13) used. I actually would love if everyone got held to a standard to be as simple as what we have for OpenAP, that'd be great, because that would level the playing field. My worry on some of the data and privacy things are, it's kind of like, you wonder if there's enough of an understanding of – could this get used to make the walled gardens even more walled. Well, you can't use your data anywhere else, so you have to be inside of here, and that's I think data portability will be a bigger...

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

When you saw Facebook drop Acxiom, their third-party markers, did you...

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

I don't have enough reason as to why, but the part of my belief on like third-party and the long tail is still what I am saying, like off platform advertising is a scary place to get into and it's just probably – I wouldn't want to be in that business.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Okay. So, [indiscernible] (00:31:10) talk about this. This is the Upfront. We made it through a bunch of questions in 30 minutes, I ask about the Upfront, which is a deviation from [indiscernible] (00:31:19). Can you share with us your expectation of how the marketplace will evolve this year and what are you seeing so far and scatter heading into the Upfront?

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

Scatter is incredibly strong, because there isn't a lot of the inventory.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Right.

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

I think the Upfront will be very strong. It's just a question of can it be as strong as it should be, right, given – look, I hear the same thing [indiscernible] (00:31:41) everyone is like, why am I paying less for more – oh, I'm sorry, why am I paying more for less, right? And you sit there and go with it, but it's a CPM rate, you're not paying – you're paying more for the same number per 1,000, right. That's the key. And the point is in any supply/demand market,

if supply shrinks and demand remains constant, it should go up. I would argue that supply is shrinking and demand is actually increasing, because there are tons of brands.

Look at the number of competitor brands that have emerged to the [ph] Procter & Gamble (00:32:08) and they're based on advertising. Dollar Shave Club was based on – half of it was television. It's like television is demand creation, at best the digital is demand capture, right, which is fine and there's probably a role for that, but like the attribution has all been sitting there. So, the real thing will be, okay, demand is high for television, but is the pricing structure possible between the agency and the client to say, okay, I want to get as much as I can at the top of this, because this is the best form of advertising. So, I think it will be a very strong market. My hope is that it gets close to how strong it should be.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Do you have any view on the change in yesterday's Supreme Court ruling on sports betting and legalization?

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

No.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

No.

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

I think, look, there's all sorts of interesting applications that make TV more engaging when you can play along, but [indiscernible] (00:32:59)

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

Sky had their Sky Bet business which is the national business that drove a lot of engagement. Can I ask a question?

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

You have been.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Thank you. That's kind of my job. By the way, with that said, the room has a chance to ask question. So, in about 5 minutes, I'll turn it over to the questions and you guys could either pass up cards to be anonymous or Joe is a very successful person, you can ask him anything, he is a fearless...

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

Yeah. This is the Tusken Raider and this is young Obi-Wan, just every day is a different version for those questions.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

He's voting for the Disney deal, obviously, with [indiscernible] (00:33:32)

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

[indiscernible] (00:33:33) a great emerging brand.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

I don't think Comcast has as good [indiscernible] (00:33:37), just saying. I'm just saying making that point. Okay, so...

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

You guys would love my – the opening joke that I cancelled for the Upfront.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Oh, really? Okay.

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

[ph] Reed, love to laugh (00:33:51).

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Yeah. Are we being webcast, Reed? [indiscernible] (00:33:53) So, what it is your – not the Fox view, but what's your view probably of the erosion of impressions in the ecosystem? So, when you look at the next year or so, how are you going into think about the decline in supply for [indiscernible] (00:34:11) in the next 12 months?

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

Well, I think the problem is ratings point...

[indiscernible] (00:34:15)

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

Yeah. Gross rating points are just such a crazy concept. If you think about, I mean like – for gross ratings points, you're basically saying what percentage of my audience that I get an exposure for, right, times how many exposures. So, if I got 30% of my audience exposed 10 times, right, I've got a 300, right? But it doesn't make any

sense. All exposures are equal, they're not, right? So, the truth is the better way to look at it is look at reach, right, and then share of reach. So, TV still reaches, right, 90 million households, right? If you count the virtual MVPDs, it's flat to up, right, in terms of the household that reaches.

Now, if the total number of impressions – this is what I was saying about frequency before – is going down, then your share of them is just more valuable already, right? So, we're comparing ratings points before to ratings points' today, right. Again, everything should have the same supply/demand movement, but if people are smart and I think that there are some out there, that are really arbitraging for, okay, I don't need as many exposures [indiscernible] (00:35:19) quality, but there's no such thing as quality gross rating point, right.

So, I think that there's – part of the problem will be looking at in terms of GRP instead of looking at as, okay, what's my total reach and there's probably different segments, right, in terms of sports fans and what's in Q4. I mean one of the things in the conference you missed that it was – it's just baffling, I highly recommend everybody watch the presentation. Actually, I think we can probably show the video to the group of like of this guy, Michael Tiffany, who has founded this company called White Ops, right. And White Ops is a security firm and they originally – he's the hacker and he originally was going to protect banks from getting their money stolen, realizing that no one was stealing money from banks, but they were putting lots of bots on computers that were doing nothing. And those bots on the computers [indiscernible] (00:36:04) why are they doing nothing, it's because they're going to look at ads, like on real people's computers and real people end up buying things.

So, he was tracing it back and he found out he's like every Q4 the number of impressions goes up like this in digital, right. TV stays like what it is, because we can't make fake impressions, complain about Nielsen all day long, but they don't have TVs in a warehouse racking off impressions, right? It's just not possible. So, [indiscernible] (00:36:29) so the problem is, there's this unnatural release valve that's keeping the price depressed of something that's real. Now, that's a problem for us in the short term, but it's an opportunity for buyers, right? That should be the – like everyone looks around natural pricing. So, I think the people who are smart will kind of get off of the idea of gross ratings went as has historically been considered or they'll take it and say, it's shrunk down to a new level and re-price it internally and be able to buy.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Right. But implicitly and what you're thinking is because you invest in Fox, mainly in Sports, do you see sports as a stick your source of...

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

It will hold the higher ad revenue and it doesn't have an alternative – it will hold the higher ad load and it doesn't have the same alternative, and the breaks are more natural. So, yes, in terms of advertising, for sure, it's going to be great [indiscernible] (00:37:21) for that. I would say that it doesn't – it isn't any more sticky than great long-term storytelling, but great long-form storytelling has these alternatives. So, until we fix the product, which is the viewer experience, it is just great to have. And like I said, that's the upside when we apply some of the new products to those formats.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Okay. So, let me turn it to – I've a lot more, but anyone in the room have any questions for Joe? Yeah. [ph] Jason (00:37:45)?

Q

[indiscernible] (00:37:46-00:38:02)

Joe Marchese

President-Advertising Revenue, Fox Networks Group

I'm not much of a pessimist. I'm kind of an optimist, but no...

A

Q

[indiscernible] (00:38:11-00:38:16)

Joe Marchese

President-Advertising Revenue, Fox Networks Group

Okay. I got it.

A

Q

[indiscernible] (00:38:18)

Joe Marchese

President-Advertising Revenue, Fox Networks Group

So, I think the long-term transition is people like smart buyers will start hedging, right, and saying no, no, we know what we were always paying for impressions and they'll get clients on board, so – not every client. Remember, we think of the market as an efficient market and I think we all know most markets aren't actually efficient. This one in particular is not efficient, because you have – you're dealing with agency in the middle, right, and they play a valuable role in the process. But even the agency, all of their clients are different. Some clients say, we need this savings, some clients say they need this, and because of – so I don't see – so, the market won't get totally efficient fast.

I think what you might see, if you're saying it's a little bit of a longer term is some people kind of scoring a little differently, kind of like the same way you'd have an investment thesis for hedge fund. I think you can get some agencies that get some clients on board with a different investment thesis and it plays out over a year or two. That's one of the bigger problems is, it's not a quarterly, like it's going to turn that fast. Taking your job and calling up people.

Q

[indiscernible] (00:39:23-00:39:32)

Joe Marchese

President-Advertising Revenue, Fox Networks Group

So, some of the creative work, some they had. I think that as we introduced yesterday a ton of new ad formats, we know that there's a risk that people don't have all the ad format, so we have to help them create. I think it's a

A

short-term business that you want to help them create the ad formats for New. It is a nice upside and it is interesting, because like we want better ads. So, shorter ad loads is great, but better ads is also great. So, like – and you won't see that in the numbers, because you're like the better ads still paid the same price, but it holds a viewer better, too.

So, there is a reason why we want to help with that. But I think it's just like priming the pump for an entire cottage industry, because like one will never be as good as everybody, right. So, it really is about showing how good it can be to get agencies and creatives all over kind of building, because I do think that's a big upside on the agency side of the world, media buying can be squeezed, but the creative work kind of the factories people who can make the stuff isn't.

Q

[indiscernible] (00:40:32-00:40:50)

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

I can't speak for – I mean XFINITY is a fantastic product. So, they can definitely build the product. That's just up to [indiscernible] (00:40:56) in terms of when they want to focus on that. And again, way outside of my understanding of the engineering side, but WiMAX would change all of it, right. It would change like 5G delivery to fixed-wireless, right, and they would change all of it in terms of, okay, now we can deliver to home without the pipes. So, I think that there's a will, it's very possible, because some of the stuff is becoming table stakes in terms of how you build the platform, right.

And before having content delivery networks and making sure the stream worked and it didn't buffer, that's going to be really, really hard, right. And then five years now that might be really, really easy. And if that's really, really easy, then all of a sudden my belief on my content is so valuable right now, why you see all the buying up of content is because [indiscernible] (00:41:42) the real fight is to be the operating system for people's lives.

If you want to be the operating system for people's lives, there is where you're going to make all your money. We've Google as an operating system for the Internet, Facebook for your social graph and contact, Microsoft for computers, right. People want to be the operating system for your life. Everyone wants to be it, everyone down the stack, right. But humans choose what operating system based on what content sometimes, right. Apple famously – they had the music, so they chose the Apple iPod and then they built an ecosystem around it. So, while it is the least valuable portion of an EBITDA line and some of these like incredibly profitable cash-rich companies, it could end up being the most important part of their business in terms of keeping people in their ecosystem and being the operating system.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

And quietly [indiscernible] (00:42:28)

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

Yeah. There is lots of [indiscernible] (00:42:34)

Michael Brian Nathanson
Analyst, MoffettNathanson LLC

Q

Yeah. But the ad platform is underappreciated I think by almost all of us.

Joe Marchese
President-Advertising Revenue, Fox Networks Group

A

Yes. I mean, look, it has every feature that I just talked about is possible there, right, virtual delivery, digital on-demand, Advance Ad products. I think that as it scales, it will become that. Yeah.

Michael Brian Nathanson
Analyst, MoffettNathanson LLC

Q

Okay. So, I've some of the mundane before I go back to the audience. Part of your hiring, Fox reorganized how they sold their inventory across their networks. So, what changes the company to make and why was that the optimal strategy?

Joe Marchese
President-Advertising Revenue, Fox Networks Group

A

I don't know if it was part of mine or they kind of had it in place of sorts [indiscernible] (00:43:16) you deal with the same agencies, you need specialization on the parts that are special, right, which is integrations and custom content. But then you want to make sure that you have kind of the right, like, sports and broadcast together just makes a ton of sense for the same audience, [indiscernible] (00:43:32) during broadcast, right? It makes all the sense in the world to leverage the two things together. So – [ph] but, it isn't really (00:43:42) part of my – it was kind of a thing that was coming together as I kind of came in three years ago.

Michael Brian Nathanson
Analyst, MoffettNathanson LLC

Q

NBCU had moved in that direction, right?

Joe Marchese
President-Advertising Revenue, Fox Networks Group

A

Yeah.

Michael Brian Nathanson
Analyst, MoffettNathanson LLC

Q

And Disney ABC – ABC Disney is quite there yet with [indiscernible] (00:43:52)

Joe Marchese
President-Advertising Revenue, Fox Networks Group

A

I don't know anything about Disney.

Michael Brian Nathanson
Analyst, MoffettNathanson LLC

Q

[indiscernible] (00:43:54)

Q

[indiscernible] (00:43:56-00:44:15)

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

Probably. I don't know. I can't speak to other players what they're going to be negotiating it and what they're going to – and what the market will hold them accountable for the viewer experience and the value. But, yeah, I would imagine it would.

Q

[indiscernible] (00:44:28)

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

I don't. I mean, I don't really have the sense. I mean, you could say – you could just do the math on what we represent of the market, and then take back and you do that with what Linda has also announced at NBCU in terms of some supply reductions. But again, you'd have to assume in a rational market to say price correction will be like fit to that.

Q

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

But also the gambit is that your rate – your measurable impressions will go up, because the experience will be best, right?

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

Yes.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Whereas the people you compete with will...

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

But that's what's fascinating about TV is like impressions versus units, right. So, even when the football season start off, the hurricanes and the rating suppression for the first couple of weeks, Fox – they're in the [ph] Sunday games (00:45:14) were about the same, right. But as a whole, right, the impressions were down. But the number of units available in market was exactly the same as it was the year before. And by the way, the number of units available in market this year are going to be exactly the same as it was the year before, because the number of units is different. The way TV sold by units versus selling on a pure CPM, the digital gets to sell on. So, that's one of the problems of seeing how this all shakes out.

Michael Brian Nathanson
Analyst, MoffettNathanson LLC

Q

Right. Which is why we track unit growth not [indiscernible] (00:45:42)

Joe Marchese
President-Advertising Revenue, Fox Networks Group

A

And so, [indiscernible] (00:45:42) much more units.

Michael Brian Nathanson
Analyst, MoffettNathanson LLC

Q

Okay. Any more in the room? Yeah.

Q

[indiscernible] (00:45:49-00:46:11)

Joe Marchese
President-Advertising Revenue, Fox Networks Group

A

FX makes things better, Nat Geo make things better, because they're -Nat Geo, you have the social impact advertising, FX you have the incredible award winning dramas. But I think that the reality is the bulk of our ad sales business is sports, right, sports and broadcast. So, I don't think it has – and so then you get more focused group on that particular effort. So, you can see – I can see both ways on that. And plus you'd have – you'd be able to focus kind of more in on the sports and broadcast live, and then taking applications of technology to live versus just the VOD.

Michael Brian Nathanson
Analyst, MoffettNathanson LLC

Q

One of the things that's obvious when you watch, let's say, golf tournament is that, there's just a redundancy of commercial messages [indiscernible] (00:46:50). So, do you think that gets fixed any time soon or by the third or fourth...

Joe Marchese
President-Advertising Revenue, Fox Networks Group

A

No.

Michael Brian Nathanson
Analyst, MoffettNathanson LLC

Q

No?

Joe Marchese
President-Advertising Revenue, Fox Networks Group

A

No.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

But that has negative – don't you think that creates negative?

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

Probably.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Right.

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

The problem is though – like, what no one likes admitting is that that's not a mistake and it's not bad, it's just that like that's how we pay each other. And that's just crazy is like, someone will say, oh, wow, that frequency was high. Well, it's like, okay, but I can't – you can't pay me client X the \$20 million who wants to run in that frequency. Okay, well, then why don't we just cap the frequency? Well, then you can only pay me \$5 million, I'm not going to give you the sponsorship of this. Okay, well, I want to give you \$20 million. Okay, well, here's how you do it, we have to run you in every ad break. That's the – you would have been just as good just taking the sponsorship of the thing and giving me the \$20 million, right, but it would distort the perceived pricing of the impressions, right? So, that's the problem, it's not a mistake.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

So, my last question would be, you're an optimistic person. We come back a year from now, what are the things when you look back in the past year that you like to point to as things that were accomplished over the past 12 months that moved both your company and the industry forward?

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

Well, Deadpool 2 definitely, it's bigger than Titanic.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

Q

Right.

Joe Marchese

President-Advertising Revenue, Fox Networks Group

A

Yeah. I love the Celine Dion song as a choice, because it was really funny. Let's see. What is really happening? Look, I think like I said, the continued kind of not a word, the platform, the digitization of television, this idea of – if the market would get more efficient, if we started buying TV and digital in the same way in a single view of what's valuable, right, because then you'd see, okay, well, that is way underpriced over here [indiscernible] (00:48:35) So, I think between OpenAP, the reduced ad loads that we're rolling out this year in kind of a more limited

selection, but meaningful for the market kind of begins to show what the value differential is [indiscernible] (00:48:52).

Michael Brian Nathanson

Analyst, MoffettNathanson LLC



Okay, great.

Michael Brian Nathanson

Analyst, MoffettNathanson LLC

So, any more questions from the room? If not, Joe, thank you so much. Look forward to seeing next year. Thank you.

Joe Marchese

President-Advertising Revenue, Fox Networks Group

Okay. Thank you.

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