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Twenty-First Century Fox, Inc. (FOX)

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MANAGEMENT DISCUSSION SECTION

Bryan Kraft

Analyst, Deutsche Bank Securities, Inc.

Okay. So if I could have everyone's attention up here please. I'm really pleased to introduce our – well, I'm going to wait maybe just get the decibels a little lower. Okay, great. Thank you.

So, I'm really happy to introduce our lunch keynote speaker today, John Nallen, who is the CFO of Twenty-First Century Fox. John, welcome.

John P. Nallen

Chief Financial Officer & Senior Executive Vice President, Twenty-First Century Fox, Inc.

Thank you, Bryan. Thanks for having.

Bryan Kraft

Analyst, Deutsche Bank Securities, Inc.

John, why don't maybe you start out by just talking about some of the strategic priorities and key areas of focus for management over the next year.

John P. Nallen

Chief Financial Officer & Senior Executive Vice President, Twenty-First Century Fox, Inc.

Well, I guess since we were here a year ago they've changed a little. But some are still the same. So the number item we're focused on is running the business according to the plan, heads down, focused on achieving the kind of growth that we've had lately leading, if not, number one or two affiliate fee growth, great international growth, content production engine that's working really well and all hands are focused on running a business. But we've also got a couple of other priorities that have been introduced. The Disney deal related to that New Fox and closing Sky and I'd just touch on them.

Disney, there's not much to report. We're in a process of getting ready on the regulatory side, both sides are working together to prepare responses or filings to various regulatory bodies and we're waiting on the SEC and a couple of others to give us guidance around when we could file a proxy. But right now, it's really a process regulatory mode that we're in nothing beyond that, there's not really an integration process. We've got gun-jumping issues and all that, so we're not dealing with that.

But on the stapled side of that transaction in us delivering superior value to the shareholders is the standing up of New Fox. The entity that will continue as a separate public company, a nimble, agile, innovative company, will have really superb free cash flow characteristics in it, because of a tax shield that it has and it has the opportunity to break some rules as a smaller company compared to 21CF and I mean that in a business sense compared to where the market is today and the interesting thing about that company we'll probably talk about is as we go forward is its emphasis on live product, particularly live sports, live news, it over indexes from a live standpoint and that in the world we're dealing with now that's a real attribute for a media company.

Then the other project we have going on is Sky. So from a regulatory standpoint, we've got a point where on May 1 we will hear from the Competition and Markets Authority in the UK, who will send their report to the Secretary of State, and we should be in a position by the end of June to launch the closing of the offer, the fully committed, fully financed recommended offer that we put out. But I've heard there's another interested party out there and we've been through this – we will have been through this process in the UK regulatory for 18 months. Being investigator going in front of four different agencies for a really thorough evaluation and we'd expect the company that has the characteristics of a global news organization, where influence and conduct need to be looked at, a company that's got the characteristics of violations of the broadcast standard code, including sanctions from Ofcom and a company that's got precedent in agreeing with governments on what remedies would be that they can be looked at and evaluated. The people at – the leadership of these agencies in the UK are very serious about their mandates and about the areas they govern. And we'd expect them to be equally serious and equally thorough as they look at any bidder that has relevancy to their areas and their mandates. So that's it on Sky.

So our focus right now, run the business the way we're running it, heads down on the Disney transaction to execute a closing, get ready for New Fox, we'll be announcing in months, I'm not sure how close with things like leadership, the capital structure, capital allocation policy related to New Fox, and then, prior to that transaction occurring close Sky, so inside of the Disney transaction, the acquisition of Sky will have been completed.

Bryan Kraft Q
Analyst, Deutsche Bank Securities, Inc.

Okay. All right. And I can't ask you any follow up on any of that...

John P. Nallen A
Chief Financial Officer & Senior Executive Vice President, Twenty-First Century Fox, Inc.

I know you can't. That's good.

Bryan Kraft Q
Analyst, Deutsche Bank Securities, Inc.

...so we're going to talk about the business. So as you mentioned, the core strategy of the company going forward is sports and news, that's really been the core of Fox historically, and it's the case now more than ever. So, while scripted content is seeing these dramatic changes in consumption behavior or expansion of available content, sports and news has been more or less insulated from it. What do you see as the moat for a sports and news focused company going forward and what's the confidence level that sports and news is going to remain insulated from some of the secular – negative secular trends?

John P. Nallen A
Chief Financial Officer & Senior Executive Vice President, Twenty-First Century Fox, Inc.

Well, yesterday one of my colleagues gave me a stat that kind of resonated with me that in 2017, and I'm – when I get to it, I'm not sure why, but we can we touch on it. In 2017, 83 of the top 100 shows on television including cable and broadcast were sports or news. And of the other 17, they were close to live, Grammies, Oscars, those kinds of shows. In 2007, 80 of the top 100 were scripted entertainment shows. Only 20 were sports shows at that point. So, it either means sports, live sports and news has now consumed the American public as such that they are really focused on that or more likely that the way we consume entertainment product has drastically changed, right, where we know that less than half our audience for a product like 911 on a given night is not watching that show live, they're watching it time shifted. So – but at the end of seven days, we have a 14 million audience that has watched 911, yet they're not watching it on the night.

So, in that world, sports and news over indexed. They over indexed retention, they over indexed for advertisers, they over indexed for the product that we have that we're distributing to MVPDs. And as a result, when you look at what New Fox will be, it clearly over indexes. If you take the Fox Network with Thursday Night in it, 75%, 80% of the GRP's they will have in a week come from sports. Only the balance comes from entertainment. So in many ways, the American consumer has spoken as to what they will watch live, what they will engage in, and time sensitive information or engaging product like sports and news is right now winning.

Bryan Kraft
Analyst, Deutsche Bank Securities, Inc. Q

75% to 80% sports and news or just sports?

John P. Nallen
Chief Financial Officer & Senior Executive Vice President, Twenty-First Century Fox, Inc. A

Well, the Network only has sports, it doesn't have...

Bryan Kraft
Analyst, Deutsche Bank Securities, Inc. Q

Oh, you're talking about the Network only...

John P. Nallen
Chief Financial Officer & Senior Executive Vice President, Twenty-First Century Fox, Inc. A

Fox Network only. The index is even higher if I included news on Fox News and then the stations' news as well.

Bryan Kraft
Analyst, Deutsche Bank Securities, Inc. Q

Okay. All right. So you alluded to Thursday Night Football, you've just been awarded that contract for the next five years, paid a pretty healthy premium to the previous rights fees that were being paid by CBS and Comcast. How are you going to earn a return on that investment considering the ratings declines for the NFL over the past two seasons? Can this asset provide you with more leverage in retrans or reverse discussions, and you already have with the Sunday package, how do you think about that?

John P. Nallen
Chief Financial Officer & Senior Executive Vice President, Twenty-First Century Fox, Inc. A

So we've been involved in sports auctions forever and almost always when, except for one I'll cover in a second, when we win an auction or are awarded the product the tongues wag about, hey, you guys overpaid for this. Now, we go into this with our eyes open, clearly focused on a return, and in this case, Thursday Night we have five years of the product, the 11 weeks, we're not sharing it with another broadcaster where they have to switch off and go somewhere else. We are the concentrated home of the NFL in America on broadcast television. We have more rating points and hours than anyone else will. And as a result, taking that concentrated audience, that live audience, our intent is clearly to respond to advertisers and give them a great product to put on [ph] there (9:57) and giving a great product to the distributors that we'd be compensated for that as well. The Thursday Night Football package is only one of many contracts that we've gone through recently. We were awarded the IPL. We were just awarded Sky the EPL. Serie A is up, BCCI is up in India. We do this as a matter of process. This is what we do for a living.

Bryan Kraft
Analyst, Deutsche Bank Securities, Inc.

Q

Right.

John P. Nallen
Chief Financial Officer & Senior Executive Vice President, Twenty-First Century Fox, Inc.

A

So we didn't enter into the Thursday Night package with solely a strategic goal in mind and no financial goal. This is – you make decisions, you make choices about what you will have going forward and for this five-year period you have the two contracts now, Thursday and Sunday coterminous such that the expiration of our Sunday package ends with the Super Bowl in 2023, we think is a really valuable position to be in, in an era that we just talked about where live sports and news seem to be where the eyeballs are. So we're thrilled in having a Thursday package. We would have been upset if we lost it. But it's a great package to be in.

Bryan Kraft
Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. What do you think of the NFL ratings declines? And do you think that they're temporary or are they more indicative of declining sentiment in league?

John P. Nallen
Chief Financial Officer & Senior Executive Vice President, Twenty-First Century Fox, Inc.

A

I don't know. If I polled the room I think I would get a whole different group of views on what's causing the decline. This issue about time-shifted audiences and your ability to watch at any point your entertainment program is that interfering. Let's be clear, the last season you had the Giants, the Bears, the Packers and the Cowboys all underperforming who attract the national audience. So, it's not just your home team. When those four teams are underperforming, your audience is going to decline and that's what we had last year. People have raised the political issue as being one, I'm not sure, that's for individuals to decide, but it is still a powerful package. I mean it goes through ebbs and flows to have not only regular season, but post season where you take the Philadelphia-Minnesota game, we had 44 million people watching that game. I mean that's a massive audience to deliver to an advertiser and a great product to deliver to the MVPDs.

So, I'm not saying it's temporary, I don't know, I don't have that kind of crystal ball, but I know that the NFL is really focused on its game. We make the kind of investments we make in order to be supportive and make sure that they put on a great product. And we don't have any indication that this is a permanent decline in viewing, but people will take a view as to whether they think that or not.

Bryan Kraft
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Sticking with sports, your most recent quarter was impacted by a high volume of sporting events, including the inaugural seasons of Big Ten on Fox and also the Argentine Soccer League in Latin America. How these new rights performed from a ratings perspective, how did those compare to your expectations going into it?

John P. Nallen
Chief Financial Officer & Senior Executive Vice President, Twenty-First Century Fox, Inc.
A

I think it's a broader point and that we went in last year into the up fronts having our entire suite of sports products available. We had the U.S. Open, we had World Cup coming up, we had Big Ten, Big East, Pac-10, all of these conferences that we had and we went in with a mantra of own the fall, right, deliver more ratings through football principally than anybody else and with college and NFL combined. And we did. It was just a marvelous work by our sports group by; A, getting those rights and then producing what were really big games throughout this. So at this point, I think you have to look at those domestic sports at least in the round, and that we have all the rights that we need and all the rights that are available. There are no other rights that have expired and that are up in the near term. So this was the first year that we were able to monetize and promote all of the product that we have on Fox, between Fox Sports, FS1, FS2.

Internationally, Argentina is doing far better than we ever expected. We're nearing 2 million subs on the Argentine football product, that's way in excess of anything we had contemplated for that, and it continues to grow. We're about a month away from launching the – our inaugural season of the IPL in India, the equivalent of the NFL here. And it's similar where people were questioning how much we paid for the IPL, yet we are monetizing that exactly the way we contemplated as against where Sony was in the last year of their deal. So the fact that we're focused on sports, the fact we know how to monetize this is really part of the fabric of 21CF, and then separately will be part of New Fox.

Bryan Kraft
Analyst, Deutsche Bank Securities, Inc.
Q

You mentioned that there are no major sports rights available right now, but do you envision continuing to grow the portfolio of sports rights beyond where it currently stands? And also are you concerned about the potential for the large global Internet companies to come in and become competitive and bidding against you in some of these rights?

John P. Nallen
Chief Financial Officer & Senior Executive Vice President, Twenty-First Century Fox, Inc.
A

On the first part, as I said, it's hard to jump in and unseat rights. The first set of big rights that become available nationally in the U.S. aren't until 2022, 2023. So everyone's pretty locked in – pretty well locked in place up until that point in time. At that point baseball starts to expire, football starts to expire, hockey expires, there's a number of deals that come up there. So I don't see, as I said before, I don't see a lot of movement on anyone's portfolio on the national sports side.

Now in all of the auctions I mentioned earlier, the rights holders were open for business for anybody that wanted to come and acquire those rights. And there was only one case where any of the "fan" company showed up, which was the IPL in India for Facebook came into look to acquire the digital rights. And we actually got everything as part of a bid that encompassed everything. And it's the only place that we actually saw one of the fan company show up, so they didn't show up at Thursday. They haven't shown up at the EPL, they did not show up in Serie A. So I think the question becomes more for them...

Bryan Kraft
Analyst, Deutsche Bank Securities, Inc.
Q

Yeah.

John P. Nallen
Chief Financial Officer & Senior Executive Vice President, Twenty-First Century Fox, Inc.
A

...than for us. I still maybe it's a personal belief, but I still firmly believe that the NFL Sunday package, major league baseball postseason package, even in the next renewal will continue to be on broadcast television that maybe the NFL experiments with Monday and Thursday in the renewals, but that the Sunday packages for the NFL, the CBS package and our package will continue to be there, we'll be active bidders for it, but it will continue to be on broadcast. And that the package we have for baseball's postseason including the World Series for every year will also be a broadcast product. I don't see those moving to digital and I don't see those moving to cable.

Bryan Kraft
Analyst, Deutsche Bank Securities, Inc.
Q

Okay. How about the longer tail sports rights? I mean, do you see an opportunity to grow through second and third tier rights, whether it's through Fox Sports net or and even on the streaming side?

John P. Nallen
Chief Financial Officer & Senior Executive Vice President, Twenty-First Century Fox, Inc.
A

Yeah. I wouldn't want to suggest that any of our sports rights are second or third tier. All right. But we've got a heck of a collection when you consider domestically all the football conferences, FIFA World Cup, the U.S. Open, some MLS, there is a big portfolio there. So, I'm not sure that we would go – in the near-term that we would go beyond that, we got NASCAR as well. So I think, we're – as I said earlier, pretty comfortable with those suite that we hold. If anything else came up, I know there are rights expiring and some other conferences like UFC is expiring, WWE is expiring, those are the things we look at, but we make choices.

When we went after Thursday night, we made a choice to go after Thursday night and that choice means that you are making a choice as against something else. So these are all very important as we look at the strategy of New Fox in particular and the returns to New Fox because at the end of the day that's what we have to do is drive a return.

Bryan Kraft
Analyst, Deutsche Bank Securities, Inc.
Q

Okay. And you just announced the complementary streaming product for Fox news called Fox Nation, which I think is the first direct-to-consumer products in the U.S. for 21st Century. Can you talk about the strategy behind the launch and how your direct-to-consumer strategy is going to evolve over the next few years, particularly with this greater focus on sports and news? Do you expect to have a direct-to-consumer service featuring your brands and content?

John P. Nallen
Chief Financial Officer & Senior Executive Vice President, Twenty-First Century Fox, Inc.
A

I think I've been clear at almost every one of these conferences with you that everyone will have a direct-to-consumer product. Every media company will offer a basket of their product direct-to-consumer that is not where the money is. The money is in a bundle and still the product that we sell out to the market, will continue to monetize it best through a bundle, consumption goes up, prices go down when a bundle is put together. It's true for a Happy Meal, it's true for a cable bundle, it's the same exact reference. And you take – I missed Joe's comments this morning, but CBS, which has put a fantastic product out in all access a direct-to-consumer product. The last number I heard is they have 2 million subs, fantastic, but they have what 85 million subs in a bundle.

Bryan Kraft
Analyst, Deutsche Bank Securities, Inc.

Q

Right.

John P. Nallen
Chief Financial Officer & Senior Executive Vice President, Twenty-First Century Fox, Inc.

A

I mean that's where the money is, that's where the product is, and with the introduction, I'm sure we'll talk about of the VMVPDs and the product they're offering we're getting more and more people excited about bundled product. So, we'll all offer D2C and we're in the throes of getting our launch ready on D2C as a concept, but I just don't see it at a place where two years, three years from now, we're going to be saying our business is entirely shift to the fact that consumers will now have a one-to-one relationship with New Fox or 21CF or whoever it is as against the big, big relationships we have with 80 million subs over in the MVPD world.

As it relates to Fox Nation, it will be the first product that we will offer D2C, but it's not the linear broadcast, linear broadcast is protected by the MVPDs, because they own those rights. This will be an adjunct, ancillary product to Fox News, it's made for the real Fox News fan, will provide other product opinion, further commentary, some library product, but it's targeted toward that really special audience of Fox News that just wants more, continues to want more.

So you'll see announcements from us once Fox Nation comes out, you'll see announcements from us announcing a wider package of Fox product in D2C, but I wouldn't update your model too significantly for the revenue stream for any of us coming off of those given that the expectation is, we'll continue to earn most of our revenue through a bundled product.

Bryan Kraft
Analyst, Deutsche Bank Securities, Inc.

Q

You mentioned the MVPDs, your company has been one of the driving forces really behind that, particularly with Hulu's live TV service. What are you seeing in the virtual MVPD part of your business as far as subscriber growth and do you look at virtual MVPDs, how do you look at virtual MVPDs with respect to the long-term outlook for Fox?

John P. Nallen
Chief Financial Officer & Senior Executive Vice President, Twenty-First Century Fox, Inc.

A

We've been talking about these for a while. I'm excited, you're right in that we were very supportive of the VMVPDs entering the market, starting way back when Apple thought about coming into the market. It's exciting, it's innovative, it requires – it's circular and that it requires the traditional MVPDs to up their game, to change their product to offer us more data. It really is a wonderful time to be in the channel business, selling your product. MVPD, DMVPDs now are in excess of 4 million subs. But there's a piece of research we do internally, it's proprietary that when I just looked out in the last few days, it's interesting in that, in the last quarter of – last calendar quarter, the new entrants into the DMVPD world were, majority were cutters that had been gone for more than six months or nevers.

So, the early days were transitioners, people that were experimenting, that were moving from big bundle over to the DMVPD bundle. But now to see people that had left the market come back into the market through the DMVPDs because they're responding to what it was that cause them to leave the market in the first place is really encouraging. And if you look at the growth of this business to get 4 million subs, I mean YouTube TV used the

World Series really to promote their business, that's only October. And you think about the growth that this entire segment of the industry has had, it's really encouraging for a channel provider.

Bryan Kraft
Analyst, Deutsche Bank Securities, Inc.

Q

So it definitely supports the case that people don't get Pay TV because it's priced, it's not because they don't have an interest in or care about, right?

John P. Nallen
Chief Financial Officer & Senior Executive Vice President, Twenty-First Century Fox, Inc.

A

Yeah. I think that over indexing now of cutters and nevers would indicate price was an issue for them.

Bryan Kraft
Analyst, Deutsche Bank Securities, Inc.

Q

Can you talk about the affiliate pricing for your virtual MVPD deals, I mean, presumably it's higher than traditional, just wondering if you could address that?

John P. Nallen
Chief Financial Officer & Senior Executive Vice President, Twenty-First Century Fox, Inc.

A

The revenue that we yield from the MVPD is higher than traditional in two ways. First, the affiliate fee is at or higher.

Bryan Kraft
Analyst, Deutsche Bank Securities, Inc.

Q

Okay.

John P. Nallen
Chief Financial Officer & Senior Executive Vice President, Twenty-First Century Fox, Inc.

A

But second the advertising yield is better because we get data as part of the contract with the VMVPDs, we get data, it's anonymized but we get data on who their subscribers are and we can work with advertisers on targeting their advertisement based on that data. I probably talked about it last year so forgive me, but Sky has a technology for advertising where they have – I think it's 142 different cohorts. So it's a family of four in West London, it's a family in Birmingham that owns a BMW, and they provide that grid to advertisers and say, okay, where do you want to play? And of course the yield on that since it's so targeted, right, to the set-top box of those homes is enormous because it's – there's no waste. They're going right to where it is. Likewise, when we're able to tell an advertiser in the VMVPD world that we're showing your advertisement in this set of homes with this profile, the yield is up so. So our ARPU from the MVPDs is higher than it is from the traditionals, where we're generally sending broadcast ads.

Bryan Kraft
Analyst, Deutsche Bank Securities, Inc.

Q

Yeah.

John P. Nallen
Chief Financial Officer & Senior Executive Vice President, Twenty-First Century Fox, Inc.

A

Whether that's cable or that's broadcast TV, we're sending a mass broadcast ad out.

Bryan Kraft
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Maybe as a follow up to that, I think there's always been a question at least among investors and analysts who aren't as close to it as you are, but the efficiency of actually deploying targeting for a network, do you end up – if the CPMs are 4x let's just say and pick a number, but does that really mean you get 4x the revenue out of a particular show from advertising. What's the offset from the waste because you're not selling a big chunk of your impressions to anyone who is buying targeted, if that makes sense?

John P. Nallen
Chief Financial Officer & Senior Executive Vice President, Twenty-First Century Fox, Inc.

A

Yeah. So, there's two elements to it. One is first you're really only dealing with this with the digital players. Right, so it's a smaller – today it's a smaller subset of the audience that you're hitting because they're the only ones that have the ability with you to interact and for you to deploy a targeted ad. And if you measure that same hour against traditional, you're getting more, you're not getting 4x more, whether maybe you're getting 2x more and I'm using this as kind of a range. There's actually a plumbing issue you have dealing with the rest of the traditional world in that the systems and technologies among all of the MVPDs have grown up over time and none of them are the same. So for us to say well why can't you put in that baseball game a targeted ad like I just described for Sky to those households, the technology doesn't exist for you to go between the channel provider and 80 million homes. It's almost like somebody has to be put in business in between us to provide the spaghetti that will move this all around. So right now it's in digital, it's expermentive, a lot of people are really getting into it and we – the yield we get over there is in fact higher, but it's had a smaller piece of our business.

Bryan Kraft
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. That's a good explanation. Let's go back to broadcasting segment, how are you managing the ratings challenges associated with the primetime scripted ratings at the Fox Network and do you see a shift in programming strategy for the network to coalesce around this high volume of NFL content aside from putting the NFL on Thursday Night...

John P. Nallen
Chief Financial Officer & Senior Executive Vice President, Twenty-First Century Fox, Inc.

A

[indiscernible] (30:03) Thursday Night for 11 weeks, so I think one thing to reflect on for our company to is the entertainment network is dynamic, it's been groundbreaking, it's a fantastic showroom for our product. But it's a relatively small piece of our business, it's 10 hours a week, we get two hours a night, a couple of hours on Sunday on top of that with animation. And a number of those nights are locked and loaded, particularly Sunday with animation product. So there's always a lot of talk about the broadcast network and what are ratings like, we have to put in perspective where it lands inside of our company.

With that said, recent signs have been really encouraging, product like 911, Resident, Orville, [ph] Corky's it is done (30:59) great, comedy ghost that we had or have, so recent product that's on there has really responded well, and particularly 911. We just conducted a sale you might have read about, sell it overseas, it's our product as well with Brian Murphy that this product really resonates around the world. Now in the New Fox world, will we somehow change the programming to come off-scripted and balance ourselves more toward live or other product, I'm not sure.

And anyway, that's an evolution. If you were to do it, you don't do it in one upfront and say, all right, all of that product that was on Monday to Friday or Monday to Thursday principally has now gone and here's the brand new line-up, because we've got great brand equity in a lot of that product coming year after year. So if there is a programming change, if there is that will come over years and over time. But we will use, I should say, going back to my earlier point when 77% of your GRP's are in the NFL, you really want to use it to get programming that's aligned with that audience. So the worst thing we could do is not use that air to bring people back to the entertainment network for programming that's completely disengaged from that audience.

Bryan Kraft
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Makes sense. Is there any – you mentioned that you only program two hours of primetime a night, is there any consideration being given to expanding day parts into maybe late night, because that's consumed live, so it seems like it could be a natural opportunity or is that not something it's even in consideration...

John P. Nallen
Chief Financial Officer & Senior Executive Vice President, Twenty-First Century Fox, Inc.

A

That's something we talk about it periodically, we haven't talked about it lately. Haven't covered it in considerations around New Fox of expanding into a late night day part. We are mindful of our stations as well who use some of that time for their own syndicated product.

Bryan Kraft
Analyst, Deutsche Bank Securities, Inc.

Q

Yeah.

John P. Nallen
Chief Financial Officer & Senior Executive Vice President, Twenty-First Century Fox, Inc.

A

Late night is expensive. It's an expensive proposition to launch, late night is incredibly competitive. So to stand out in late night is a challenge, but it's not something that I can – I'd be surprised if I sit here with you a year from now telling you we're ready to launch X like we did our [ph] Arsenio Hall (33:31) years ago on late night.

Bryan Kraft
Analyst, Deutsche Bank Securities, Inc.

Q

All right. Speaking of stations given the deregulation of broadcast ownership rules, how are you thinking about your station portfolio, do you have any interest in acquiring additional stations?

John P. Nallen
Chief Financial Officer & Senior Executive Vice President, Twenty-First Century Fox, Inc.

A

We like the station business. We've been in it a long time, it's attached to the network, it's really important to the network. You will recall probably a year ago that we were considering a structured transaction to get more distribution through adding stations with our own into a vehicle with a private equity firm. We abandoned that principally when the Disney transaction came on because New Fox on its own has the ability and should increase its distribution up to the cap limits. Clearly, our focus has been in the past on distribution a concentration on NFC markets attached to the Sunday package, but now with Thursday night we may not have to be as focused on NFC markets as we consider the expansion. Station is significantly a live business. They produce 900 hours of news a week. The morning blocks and evening blocks have expanded, even some of the syndicated product is near live TMZ, Page6, they're day-in-day products. So the amount of syndicated product that we're putting on in the station has lessened and lessened over time and the amount of "live" product has expanded. So we like the business, if an opportunity in some key markets came available to us, we would certainly look at it.

Bryan Kraft
Analyst, Deutsche Bank Securities, Inc.

Q

But given your ability to capture so much of the economics of retrains, so your affiliates, the reverse compensation and a secularly challenged advertising line at the stations, why is it attractive? Is it the free cash flow characteristics, I mean, it doesn't seem like there is – it seems like you can capture the retrans growth through reverse, so I'm just curious on that.

John P. Nallen
Chief Financial Officer & Senior Executive Vice President, Twenty-First Century Fox, Inc.

A

Well, I'm not so sure. If you own the network or the channel – well take the network, having more concentration of distribution across the country is really relevant in discussing retrans, because remember retrans by the affiliates is discussed with the MVPDs principally by the affiliates, not the case in the DMVPDs where we have their proxy and we do it on behalf of everyone.

Bryan Kraft
Analyst, Deutsche Bank Securities, Inc.

Q

Right.

John P. Nallen
Chief Financial Officer & Senior Executive Vice President, Twenty-First Century Fox, Inc.

A

But in the traditionals, we outsource that discussion of retrans to the affiliates. We'd like to have more of that discussion in our backyard as part of the distribution than having affiliates do it. But it's – yes, it is a great free cash flow business. Yes, it is secularly challenge, but it comes in wave. If you take January and February were tough local months, there is no question. In February, there was a lot, there was a big sucking sound coming out for the Olympics as NBC hovered up a lot of the inventory in the ad sales. But as we look forward in our markets, we've got – the next nine months are going to be really exciting. We've got 16 – sorry, 15 of 17 of our markets will have a congressional and Senate race, 16 of 17 will have a gubernatorial race, and this is great because it's a great fight and it's cash with order, which is what I like as part of the business, because they've to prepay the advertising. But it's a cycle business and in election years, election cycles, it generally has been a pretty lucrative business.

Bryan Kraft
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Staying on the ad market for a moment, you addressed local, what are you seeing in the ad market nationally [ph] and (37:49) scatter? And maybe you could talk a little bit about your expectations for the upfront this year?

John P. Nallen
Chief Financial Officer & Senior Executive Vice President, Twenty-First Century Fox, Inc.

A

It's – pricing is up. I'd say pricing is stronger in cable for us against upfront pricing than it is in broadcast, yet broadcast pricing is up probably in the – we find low teens in broadcast pricing, but substantially higher than that in cable pricing. And the real high end of that is Fox News pricing, given the dominance of their ratings. So – but our job is to not just get pricing, it's to deliver ratings. And I think that's where the challenge really has been for everybody. And I just read this morning, where the Oscars were down 16%, 17% from a year ago, clearly football was up as we talked about, so while CPMs continue to rise, it gets eked away by the ratings decline. And that's a place we have to spend a lot of time. As far as the upfront, I think our strategy is the same as it was last year, focus on owning a fall again, focus on returning shows, we will have many more returning shows than we had a year ago. We've got 10 shows in development, five each on drama and comedy. Some of which will emerge that make their way to the upfront, but we're excited about the upfront coming up. I don't sense a – at least at the moment, I don't sense a market where the advertisers are pulling back. I sense a market where the advertisers are looking for innovation.

Bryan Kraft Q
Analyst, Deutsche Bank Securities, Inc.

Yeah.

John P. Nallen A
Chief Financial Officer & Senior Executive Vice President, Twenty-First Century Fox, Inc.

They're just saying, help us out, we had a conference in L.A. last week where we had a number of advertisers and agencies and it was all about innovation and getting attention of consumers, things like 6-second ads, other innovations that we have, how do we work with them as partners in our product as opposed to just being order takers.

Bryan Kraft Q
Analyst, Deutsche Bank Securities, Inc.

Yeah. Okay. And maybe I'll finish up on – also on advertising, you've been experimenting with 6-second ad spots this past fall in your NFL programming. How has the advertising market received this innovation? And how did the economics compare to 30-second spots?

John P. Nallen A
Chief Financial Officer & Senior Executive Vice President, Twenty-First Century Fox, Inc.

This goes to this whole discussion of attention where we're finding clearly 30-second ads are way too interruptive to consumers. 15 seconds seem to be okay, and then 6 seconds have become a sweet spot. And it goes to this point of innovation. I think about when we going way back and we had newspapers, we changed the trim size of a paper down, some reason advertisers thought that they should pay proportionately less for this trim size of the paper, and we said no, no, a full page is a full page. The fact that it's a little shorter doesn't mean it's not a full page.

And likely – and likewise if we're getting as much attention in a 6-second ad as we're getting in a 15-second ad there really should be no difference in the pricing. And these are the discussions that we're having with advertisers and it's part of breaking some new business rules. Now 6 seconds must be working because NBC has picked it up, a couple of other – I think CBS is now experimenting with 6-second ads and it's one layer of innovation that's got to be part of a bigger innovation layer. I heard – and actually, it impacts when you make these changes it actually impacts your product. I heard Ryan Murphy last week speaking that he joined [ph] in Netflix, we're shame (41:41) that we're losing him. But for his life he created product that in an hour had six arcs – six acts to them, they would pause at the end of an act, he would hope to hold you at the end of the act, and you'd go to a commercial so that you would come back, right?

Now, if we got to 6-second ad that changes the creative, whether you do 6 or 12 that changes how you actually create product, so it doesn't just impact the advertiser, it impacts the production going way back. So it's great to be involved in innovation on advertising at the same time you're involved on in innovation and distribution.

Bryan Kraft
Analyst, Deutsche Bank Securities, Inc.

Q

Are there any other new formats or innovations in linear or non-linear advertising that you think can improve monetization without compromising the user experience?

John P. Nallen
Chief Financial Officer & Senior Executive Vice President, Twenty-First Century Fox, Inc.

A

Well, the one that we've talked about this for a while this engagement product that we have particularly on Hulu where you make a trade, you decide, do you want to engage with an ad upfront for a minute or do you want us to interrupt you along the way and you can decide, but if you engage with the ad you have to engage with the ad, you can't put it on and walk away, get a cup of coffee and come back and hope that the minute is over, you actually have to interact with the ad as part of the trade for your attention. And look all of these are going to be innovations that will come out, most of which I can't even imagine at the moment.

Bryan Kraft
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. All right. It's a good place to stop. Thanks, John.

John P. Nallen
Chief Financial Officer & Senior Executive Vice President, Twenty-First Century Fox, Inc.

A

Thank you. I appreciate it.

Bryan Kraft
Analyst, Deutsche Bank Securities, Inc.

Q

Thanks, everyone.