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PRESENTATION

Jessica Jean Reif Cohen - *BofA Merrill Lynch, Research Division - MD in Equity Research*

Okay. Everybody, welcome back. We will get started with Eric Shanks. We're thrilled for you to join this conference, Eric is the President, COO and Executive Producer of FOX Sports. Obviously, a big driver of New Fox. So we're thrilled to have you, Eric. Thank you.

Eric Shanks - *Twenty-First Century Fox, Inc. - President, COO & Executive Producer of Fox Sports*

Thanks, Jess.

Jessica Jean Reif Cohen - *BofA Merrill Lynch, Research Division - MD in Equity Research*

Live sports content remains dominant in its ability to cut through the clutter. As your company approaches the sale of most of its entertainment and international businesses to Disney, can you talk about what the key priorities are at FOX Sports as New Fox emerges. So in the new entity, do your priorities change, and what are they?

Eric Shanks - *Twenty-First Century Fox, Inc. - President, COO & Executive Producer of Fox Sports*

Well, I guess, it would probably help to understand why we've set our priorities where they are. I think the media marketplace has been defined or the narrative has been for a while that it's a linear marketplace in a digital marketplace. I think that probably was right for a period of time as digital was emerging, especially in the video side. I think what we're seeing is that the consumers are clearly telling us that the distinct marketplaces now are on-demand and live. There is an on-demand marketplace for consumers that's a completely different mind-set than a live mind-set. And so New Fox with what you just talked about is pretty focused on live. It will be -- I think it's rare that a new company gets to start up and is already #1 in the category that it wants to compete in. #1 in news and #1 in sports. So we set our priorities clearly trying to figure out how to create more predictability and a basis for growth in New Fox. And so the priority has been extend what we can extend so that we have predictability on the Fox broadcast network and FS1 and FS2, and really set a base for growth. And that predictability, the on-demand marketplace is a bit chaotic at the moment, right? There's lot of new competition. The advertising marketplace in on-demand is shrinking. And sports in the live marketplace is more predictable in the sense that -- I think we were looking at it, almost 150 scripted or reality series last year have been canceled or not returning. And even if the Baltimore Orioles lose a 100 games, they're still going to play next year. So sports is predictable, and that's where we're putting most of our priority is figuring out how to get the best content to give us the most distribution with that content.

Jessica Jean Reif Cohen - *BofA Merrill Lynch, Research Division - MD in Equity Research*

The largest chunk of FOX Sports EBITDA comes from the RSN portfolio, which will be sold to Disney and, per the DOJ, subsequently sold to a new qualified owner or owners, plural. What does the future FOX Sports look like without the RSNs? What are the pros and cons of no longer being tied to that portfolio? And I guess, could the New Fox be an owner of RSNs again?

Eric Shanks - *Twenty-First Century Fox, Inc. - President, COO & Executive Producer of Fox Sports*

Well, I'll take the last one first, because it's the easiest in the sense that we're not in the marketplace, but we're helping Disney -- our focus is really kind of helping Disney create a marketplace to sell RSNs, and that's really our only focus at this time. What does New FOX, what does FOX Sports look like without the RSNs. You mentioned they were a really great part of the business, profitable, great cash flow, but we really ran the regional business and the national business pretty separately. On the buy side, we didn't buy rights together. We were the leader in NBA on the regional side, but we didn't have a national NBA contract. MLB rights are not sold together nationally and regionally. So the New Fox Sports looks a lot like it does today, really. It's the leader in live events. We still have our NFL package. We still have the crown jewel of baseball. We still have the best soccer package. We still have the broadest owned and operated station group in the market. And FS1 and FS2 are still showing growth. And really that would have all been happening with or without the RSNs. So I guess, in my view, even though a bit smaller on the bottom line, from a brand perspective, consumer perspective, a lot of it's the same.

Jessica Jean Reif Cohen - *BofA Merrill Lynch, Research Division - MD in Equity Research*

Direct-to-consumer is an evolving opportunity for everyone in television. And we have seen less activity on the sports side, but it seems to be changing as select sports teams and some of the leagues launch direct-to-consumer products. ESPN just rolled out ESPN Plus. In an era of cord cutting, how are you thinking about the direct-to-consumer potential of FOX Sports?

Eric Shanks - *Twenty-First Century Fox, Inc. - President, COO & Executive Producer of Fox Sports*

Well, the term cord cutting in general has probably, at least in my opinion, as it relates to FOX Sports has been, of all the people who come up with business buzzwords, it's probably to us been the least relevant and one of the more talked about things that is the least relevant. For us cord cutting impacts a percentage of the business in the marketplace, traditional MVPDs, but it doesn't really dictate how many consumers we can reach. We think about cords as connecting consumers to our content. The reality is today more consumers are paying for more content through more cords than ever before. It's just more customized. And so we're selling packages to people that don't even have cords. So cords don't really matter to us at all. And I think what we've been able to do is incubate some of the new DMVPDs, the Hulus, the YouTubes. We've been successful at really getting our entire portfolio in those base packages. So anywhere you can buy live television, cord or not, that's where we are. And direct-to-consumer, we think, is another tool in the toolkit. Direct-to-consumer, like you say, it's out there, whether it's in the on-demand or in the live space. And we think about direct-to-consumer really as one of the tools like in MVPD, DMVPD and some of the other distribution that is popping up. I think what we're looking at now is kind of the future beyond direct-to-consumer, because direct-to-consumer in the live space, even for as long as it's been around, it still has not grown to be a material impact in the relation to the entire pay TV ecosystem, I don't think. So we're kind of looking now at what is next after D2C, if that's one of the toolkits. And I think for us we just announced that boxing deal yesterday, of which we're now going to participate and sell pay-per-view boxing. We announced an investment in a social broadcasting platform that is really -- the monetization engine for that is digital goods. So what does the future look like of distribution if it's with digital goods, right? So I think that's kind of where we think the next thought process lies, now that direct-to-consumer is kind of out there and people are experimenting with it.

Jessica Jean Reif Cohen - *BofA Merrill Lynch, Research Division - MD in Equity Research*

And to do, whether it is this digital social platform or pay-per-view, do you have the -- or direct-to-consumer, whatever you wind up doing. Do you have the in-house resources to do this on your own or to fully address this opportunity or would you have to have -- bring a third party?

Eric Shanks - *Twenty-First Century Fox, Inc. - President, COO & Executive Producer of Fox Sports*

Well, I think for what direct-to-consumer looks like today, yes. We have a digital consumer group that has launched Fox Now and FX+ and Fox soccer match pass. So the idea of being able to have the tech and all the infrastructure around it for payments and retention, yes. I think what we don't know is, once you get beyond that into things like social broadcasting, digital goods, that's why we're doing investments in things like Caffeine.

Jessica Jean Reif Cohen - *BofA Merrill Lynch, Research Division - MD in Equity Research*

And your company has moved aggressively to secure marketing content, and you recently got the rights to Thursday Night NFL, WWE Smack Down for a reported combined commitment of over $4.2 billion over the next 5 years. Can you give us your perspective on why these acquisitions are important to FOX Sports? How do they fit into the model?

Eric Shanks - *Twenty-First Century Fox, Inc. - President, COO & Executive Producer of Fox Sports*

Well, it kind of goes back to that priority of we're kind of seeing the world land in 2 places, either on-demand or live. And all of that, that you mentioned is clearly live, right? It means that in the most important time of the year, which is that time of Labor day through Christmas, when U.S. consumers are spending significantly more than they do than the rest of the year, Fox is going to have a material amount of more attention of U.S. customers watching our platform than any other platform in the country, linear or digital. So we'll own the customer from Thursday through Sunday. And so that solidifies our place in live television. The rest of the week, there is not enough sports to go around to be able to fill every night of the week with sports. But I think where we are is a long-term view on that. I mean, on Thursday night for example, when they were selling that package in 2- and 3-year increments, we weren't super interested. So we did a 5-year deal for Thursday Night Football. And all of those properties you mentioned, I think 95% of their consumption is going to be on the broadcast network. And so taking a long-term view, putting that on the broadcast network, which is the most efficient way to generate ad revenue, but also we think gives us a real opportunity to make retrans a real growth area for us.

Jessica Jean Reif Cohen - *BofA Merrill Lynch, Research Division - MD in Equity Research*

Moving on, ever since the Supreme Court struck down the federal prohibition on sports betting, there has been a lot of talk about the potential benefits of legalized sports gambling and I guess, in a number of areas. But could you give us your thoughts on how legalized betting could impact your business?

Eric Shanks - *Twenty-First Century Fox, Inc. - President, COO & Executive Producer of Fox Sports*

Well, the interesting thing is, whether it's legal or not, there has been a tremendous amounts of sports gambling already impacting our business. And we see it -- I mean, you see it every week when you're producing sports is that you see viewership for games, late in the game, that you probably shouldn't see. So whether it's legal or illegal, it has been impacting for a while. I think the legalization of it is just really super interesting. And we've been pretty active at figuring out what our role can be in the sports wagering marketplace beyond just taking advertising. And I think the way its -- the way that sports wagering is going to rollout as everybody knows, is, at least right now it's state by state. And I think there are 4 states now that take -- that have sports book, legal sports books. So the advertising -- the access has to probably hit a tipping point before you start to see national advertising. We do take sports wagering ads on the Yes Network for New Jersey right now. So that's actually been a benefit to some of our RSNs. But I think it will take a little while for that tipping point to happen before you start to see a material amount of advertising revenue come through. And how long will it last? We've got experience on the 21CF side of having been in the sports wagering in sports wagering markets that are really mature. So we're in business in Australia with a sports wagering site called Punters. We have SkyBet in the U.K. So we've seen how markets can mature and how long the advertising lasts. So in Austria for example, it started -- the advertising started with a boom. Everybody got their customers. And then it kind of really cooled off. It actually boomed so much in Australia that there had to be kind of some regulatory oversight of how much sports wagering ads could be on the air in Australia. You certainly don't want that to happen here. But I think the state-by-state rollout will kind of throttle that a little bit, so it won't be a boom all at once. So I think there'll clearly be a benefit on the advertising side, but there is also going to be, I think, opportunities in this market for things like we've done in other countries, whether it's with Punters or SkyBet for us to kind of maybe even get into the pick-and-shovel side of sports wagering. And then on the viewership side, we debate this all the time whether is it the chicken or the egg. Do gamblers watch more television because they are gamblers or do people actually gamble because they're bigger sports fans and have been watching more television? So I think we are unsure of exactly how much more sports wagering will impact television viewership. But it probably will impact it a little bit.

Jessica Jean Reif Cohen - *BofA Merrill Lynch, Research Division - MD in Equity Research*

Do you think there'll be new categories coming in because of new...?

Eric Shanks - *Twenty-First Century Fox, Inc. - President, COO & Executive Producer of Fox Sports*

Yes, definitely. Look, the leagues are talking about official data. I think data and information and content around sports wagering will end up being another category that launches. It will probably follow the same trajectory as the states opening up. There'll definitely be offshoots. Like I mentioned, the Punters site in Australia is really like the Expedia of sports wagering. You can go on and see the best deals for your bet you want to place on all these sites. And it's like booking a trip. You want to find the best deal and that's what you do with Punters. And it's also a forum for people to exchange tips and sell tips and things like that. So there'll definitely be a lot of really clever people figuring out how to capitalize on the legalization.

Jessica Jean Reif Cohen - *BofA Merrill Lynch, Research Division - MD in Equity Research*

I guess, kind of like similar, but not exactly, just another category, but e-sports has gained so much traction the last years with fans and various investors and stakeholders in the industry. How does this affect Fox? How do you play and how do you participant in this market? What ways can you do it and participate?

Eric Shanks - *Twenty-First Century Fox, Inc. - President, COO & Executive Producer of Fox Sports*

Well, we've been big believers in e-sports for a long time. When we owned DIRECTV, we actually started, I think, the first televised e-sports league here in this country called the Championship Gaming Series. We just happened to launch in 2 years before YouTube launched. And so luckily we only lost $30 million. But we've also been big believers in it. And it's only gained momentum. And it's real. It's here to stay. It's not going anywhere. The consumption is real. The attention is real. The money is real. So we've been trying to figure out what role can FOX Sports play. I mean, you got the intellectual property on one side, which is Epic and Activision and EA. And you have the platforms on the other side, which is Twitch, YouTube. And for us, looking at that middle part and trying to figure out how do you make a living in e-sports just in media, we thought it would be really difficult. Games do kind of come and go in popularity. So hitching your wagon on the media side to any 1 property is going to be tough. The consumption on television is not huge. It's of a global nature depending on the title. So we were having a hard time convincing ourselves that we should go buy rights and treat it like the NFL or Major League Baseball. We figured we couldn't get into the intellectual property side because we're not going to become game publishers. So we found this start-up called Caffeine, which we're really excited about. We announced I think the investment yesterday, which -- we lead the round, the latest round in Caffeine, which is a social broadcasting platform, which will primarily focus at least initially on e-sports, but I think the platform has huge promise beyond e-sports. And you'll see us as their partner test out a lot of new types of content besides e-sports. So with our investment, we formed also a JV with Caffeine called Caffeine Studios. And so FOX Sports and Caffeine will use that studio to acquire rights, incubate creators and try new things, mainly to funnel content to that platform. And as of right now it's a platform that is focused on monetization through digital goods. And those digital goods can be either directly to creators. They can be digital goods that are redeemed for things to get you more benefit in a game like Call of Duty or Fortnight. So we're pretty excited about it. It's really new. The platform is not even actually out of beta yet. So we're here at the right time. And we thought it was the right play for us, getting in on the platform side so that we didn't have to -- we didn't really have to keep wondering how we're going to make a living with e-sports on the pure media side.

Jessica Jean Reif Cohen - *BofA Merrill Lynch, Research Division - MD in Equity Research*

Going back to sports advertising, what do you see in marketplace now as we kind of launch the new season? How healthy or unhealthy is it? What are you seeing in terms of price inflation or just general, how does it compare to last year and what's the outlook?

Eric Shanks - *Twenty-First Century Fox, Inc. - President, COO & Executive Producer of Fox Sports*

Well, I think that same marketplace dynamics of an on-demand marketplace and a live marketplace is really evident in ad sales as well. The on-demand marketplace, changing a lot. It's actually -- the ad-supported volume of GRPs on the scripted side, they keep shrinking. If you look at the Emmy nominations that just came out, of the 15 nominations in best comedy and best drama, you can only buy ads in 4 of those shows. So 70% of the best of television is not even ad-supported anymore on the scripted side. So with the shrinking amount of inventory that you can actually buy to reach the prime time audience that you want to buy, you can't. So the pricing power for the shrinking GRPs is actually pretty high right now. I think people in the scatter market are probably getting in the teens of increase, but the GRPs are lower. So what's that's having the effect in sports is, it used to be for an NFL game for example, it used to be pretty inefficient. So even though our AMERICA'S GAME OF THE WEEK, our [4 25] game, that was Carolina on Sunday, everybody watch. It used to be -- it still is the #1 show on television for women. We reach more women with that show than any prime time show on television. The issue is, it's not very efficient from a pricing standpoint because you reach so many other people. What's happening now because of the shrinking GRPs, that delta inefficiency is starting to close. So people are now starting to look at our big sporting events that maybe have 40%, 45% women. They're starting to look at us as being an efficient vehicle. So we're actually starting to do some business with brands that can no longer buy over here. So in sports, the NFL season is kicking off. We're kind of starting to figure out of what we sold in the upfronts, how much do we have left to sell? It's always that to-go number. We actually have less to go this year than we did last year. So it was a more successful upfront for us. And we're happy with the pricing. I would say you're not getting the pricing increases that entertainment is getting, but we're getting healthy increases. And now we just kind of wait and see how much can you earn. You've sold this much, what are the NFL ratings going to be. I think we have, knock on quasi-wood, the fact that there is real interest in the NFL and going into Thursday Night seems to be kind of calm going into an NFL season.

Jessica Jean Reif Cohen - *BofA Merrill Lynch, Research Division - MD in Equity Research*

Any, like, question on this whole Nike, kneeling, et cetera?

Eric Shanks - *Twenty-First Century Fox, Inc. - President, COO & Executive Producer of Fox Sports*

No. I think that people on both sides of an issue, they want to take over the narrative. So there were people that were outraged, and then there were people that will completely in support. And gosh, all we want to do is have people watch football games. Like we don't -- it's just like... So at least from what we've seen, it fizzled out pretty quickly. Neither side could get big traction on this thing. I think that the ad, which already released on YouTube and is going to run tonight in NBC's game. The ad is really good. It is not provocative. So I think once people do see the ad, it will even kind of further let this thing fizzle out. And I'm not sure what anybody was trying to accomplish with it. But good for us is the fact that nobody seems to have been too outraged on either side.

Jessica Jean Reif Cohen - *BofA Merrill Lynch, Research Division - MD in Equity Research*

You haven't seen any cancellations or anything like that?

Eric Shanks - *Twenty-First Century Fox, Inc. - President, COO & Executive Producer of Fox Sports*

No. No. Actually what it's done, Nike traditionally spends no money on television. They pay athletes. They do print ads. They do digital. What's actually happened is, I think they like this campaign so much that they're actually buying television ads. So if there's been any upshot it's that Nike wants people to see this campaign.

Jessica Jean Reif Cohen - *BofA Merrill Lynch, Research Division - MD in Equity Research*

Let me ask one more question and then we'll open up to the audience. Shifting over a little bit to the core of the business. On your last earnings call, the Fox's overall cable network subs grew in the period and the industry continues to decline 2% to 3%. What has been enabling your outperformance in this metric? I mean you just kind of lead off with that, that the sub declines doesn't really affect you. Fox is unique in that respect. So one thing you have outperformed maybe because you had some of your networks [are younger], but I'll let you answer, and then how do you sustain that?

Eric Shanks - *Twenty-First Century Fox, Inc. - President, COO & Executive Producer of Fox Sports*

Yes, I guess, on the total cable portfolio, we've had a couple of good quarters compared to our peers. I think it does speak to the portfolio. I mean, we have again, the best live portfolio in the business. And what we did 5 or 6 years ago, whether it was a luck or -- I do think we saw something coming, at least I think Chase and Rupert. I think, at the time they did see something coming that made us kind of really change our strategy 5 or 6 years ago. And it was just at the perfect time. We had all of these brands in the marketplace, in the pay TV marketplace. We had Fox Movies. We had [Fuel]. We had Speed. We had, I don't know, 8 or 9 brands, Fox reality channel at one point. They saw a world coming that -- we knew that we needed to have fewer brands that gave more of a value proposition to the consumer and more of a value proposition to our distributors. And so we pared down on those brands, into like 4 key brands. And so now what we're doing again with the Disney transaction is, you're actually paring that even further into a real set of core assets, the broadcast network, sports and news and the stations. And I think how it's sustainable is kind of what we talked about earlier, which is the properties that we have, combined with the really strong asset of Fox News, is going to continue to be must have. No matter what bundle there is, no matter what type of distribution there is, if there is a package that has live TV content in it, I really think Fox is must have. And I think that is what is not only going to continue to help us outperform the market, our market peers in distribution, but also I think give us real pricing power in retrans in the next cycle.

Jessica Jean Reif Cohen - *BofA Merrill Lynch, Research Division - MD in Equity Research*

Okay, let's see if there are questions from the audience?

Unidentified Analyst

I guess, I'd be curious how you see your pricing power in the retrans opportunity broadly? And how you see that without the RSNs? Or were the RSNs some sort of enabler of pricing power, or do you think you have more pricing power without them?

Eric Shanks - *Twenty-First Century Fox, Inc. - President, COO & Executive Producer of Fox Sports*

I don't think it's more or less. I think that the portfolio was getting a marketplace fair value. That portfolio looks a little bit different today. And I think that certain pieces within that portfolio, once pare you it down, you may be able to see that some of those core assets might be undervalued compared to the peers. I wouldn't say underpriced today, but I do think clearly undervalued once you have a pared down number of assets. I mean, I can't get into exact -- I can't sit here today and say in our next such and such deals there's going to be this percentage of pricing power, but I think, we go in with a really strong story. Especially with the deals that we've done as far out as they go, and even though the WWE doesn't come on board until October next year, we know we have it for 7 years coming in October. And it's going to win the night. It's going to win maybe 52 nights of Fridays. Who knows, right? But that's going to be real pricing power because that audience has to have that programming. So I think the combination of, again, kind of paring down the brands elevates the core value of each of those assets.

Unidentified Analyst

Could you comment on how you think about long-term value of sports, especially as price for the cost of rights increases and players with much bigger sort of ticket size and much bigger budgets like Facebook and Amazon have tried to encroach on this turf? How do you think about the long-term franchise value of a sports-based network?

Eric Shanks - *Twenty-First Century Fox, Inc. - President, COO & Executive Producer of Fox Sports*

Every time I see Khalil Mack contract or an Aaron Donald contract, I go, I'm going to pay for that one later. But yes, there is no question right now, it's a healthy ecosystem all the way up and down in sports, especially at the high-end of sports. When you talk about the NFL or Major League Baseball or those sports that really can garner the nation's attention for an extended period of time. And that makes people want to have to subscribe or pay you in some fashion for getting that content over an extended period of time. I've been doing this interviews for a long time, and people always say how can it continue to go? How can it continue to increase? And people always say, I don't know, but it does. I'm not sure if it will continue to do that all the way up and down the line. I think at some point, the Amazons, the Facebooks, the Twitters that are all over the world kind of nibbling at live content right now, and it is interesting how there is such competition for live content. I mean, you look at the PGA championship right? It wasn't on television in the U.K. It was only on Amazon. It crashed. But it was only on Amazon. So I think that -- at some point I think that those kind of new players, they will -- we will all figure out what their strategy is at some point. And once you know what somebody's strategy and how deep they are going to go, you know what the market -- how the marketplace is going to behave. We just don't know that yet. We don't know how the marketplace is going to be have probably in the next few years. But I highly doubt that sports rights are going to go down in the next 5 years. I think that everybody is going to figure out how you're going to be able to get value for the price that you paid over a period of time. So it's probably a long-winded answer of saying, we'll answer it the same way we have probably for the last 15 years, prices are going to continue to up. It's up to us to figure it out.

Unidentified Analyst

Eric, I have a question. I understand it's early days, but in your longer-range thinking for New Fox Sports, is there an international opportunity or is it purely domestic?

Eric Shanks - *Twenty-First Century Fox, Inc. - President, COO & Executive Producer of Fox Sports*

That's probably one of, just personally, emotionally, it is one of the bigger bummers is the interaction and the best practices that we would get from a content, marketing, graphics perspective from the Fox family kind of all around the world. So I think at some point you might take a look at it. I think right now, New Fox from Lachlan and Rupert, we're very focused on the U.S. I mean, we don't sit around saying that there's an immediate international opportunity. I think clearly we have the people and the experience that if we wanted to we probably could. But at this moment, I mean, all of the things that Jessica just asked about, that's a lot to do just in the U.S. alone to stand up this new company.

Jessica Jean Reif Cohen - *BofA Merrill Lynch, Research Division - MD in Equity Research*

How do you decide -- we'll still poll for questions. But how to you decide what goes on FOX Sports 1 and FOX Sports 2 versus FOX Sports or FOX Broadcasting?

Eric Shanks - *Twenty-First Century Fox, Inc. - President, COO & Executive Producer of Fox Sports*

No. There are certain things that are -- so you start with contractual, right? The World Series is always going to be broadcast television. The Super Bowl is always going to be on [broadcast]. So you start with contractual, and then you get into either maximizing affiliate distribution revenue, maximizing ad sales or building a new property. So with college football for example, we have a lot of leeway in where games go. And when we were just recently in conversations with a distributor over BTN and Big Ten content on FS1, you notice that through our scheduling -- the schedule we put out, we had a lot of Michigan, a lot of Michigan state games on FS1 and BTN. So we maximized affiliate distribution there. So once you get past contractual, you just kind of figure out where is the best place to put things. On the other side, we've been partners with a new league called the Big3, which is 3 on 3 basketball that Ice Cube started. We wanted to put a fair amount of that on broadcast television in order to get that launched and get that going and see if we could actually make a go of it. And then as they expand their season and expand teams, the vast majority of that will go on FS1.

Jessica Jean Reif Cohen - *BofA Merrill Lynch, Research Division - MD in Equity Research*

Any last questions? Okay. Great. Thank you so much.

Eric Shanks - *Twenty-First Century Fox, Inc. - President, COO & Executive Producer of Fox Sports*

Thanks, Jess.

Jessica Jean Reif Cohen - *BofA Merrill Lynch, Research Division - MD in Equity Research*

Thank you.
