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PRESENTATION

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

Great. Thank you, everyone. I'm pleased to welcome to the stage, John Nallen. He's the Senior Executive Vice President and Chief Financial Officer of Twenty-First Century Fox, a role which he has had since 2013. Mr. Nallen oversees all the company's financial aspects, including capital markets and M&A transactions. And he will also be the new Chief Operating Officer of the New Fox company. Thank you very much for being here, John.

John P. Nallen - *Twenty-First Century Fox, Inc. - Senior EVP & CFO*

Thanks for having us, Drew.

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

Maybe you can just start of and give us an update on the company's current priorities. What are you focused on right now?

John P. Nallen - *Twenty-First Century Fox, Inc. - Senior EVP & CFO*

It's a loaded question. We've got a lot going on, yes, we've got a lot going on. And all of it exciting and all of it -- we're anticipating the next phase for so many of our assets. But at the heart of it, fundamentally, when I think about everything that has to happen, it goes back to the long-term thinking that News Corp. and Fox have always had. These assets that have been built have been undervalued. And in many ways, it took a catalyst transaction, transformative transaction for the market to recognize the value. Because I remember sitting here in one-on-ones where people are arguing with me about the money we put into STAR, and the broadband initiative with Sky, putting money behind FX, et cetera, buying Nat Geo out of the park. And now when you look at the value that has come out of those investments, it's good to finally have a recognition of it. But importantly, I think where that value resides now is important to the Fox shareholders. Fox shareholders are getting roughly 19% of the enlarged Disney; 100% of New Fox, both are wonderful scale companies. We can talk about them as we go on. So I think the investment thesis that came out of it, migrating from 21CF into these 2 companies is just a fantastic opportunity for our current investors. But as far as status, what's keeping us busy, we're anticipating the Fox closing with Disney. Based on everything we know right now without focusing on 1 country or 1 jurisdiction, on the whole we have confidence that we'll close it in the first half of calendar '19. Some approvals have already been received.

The second even nearer-term event is the culmination of the Sky bidding process, which within the next month, the shareholders of Sky will take a view as to what they want to do there. We're working with Disney very aggressively around the RSNs transaction, coupled to the first one where they'll have to sell the RSNs as part of the consent decree. And then, of course, the launch of New Fox, where right now, we've got hundreds of people spending a lot of time and separating -- preparing to separate the 2 businesses, pieces that go to Disney and the launch of New Fox. We expect late fall or so that a Form 10, as they call it, would be filed with the SEC, which will outline all of the historical pro forma financials for New Fox. After that, we'll be able to talk a lot more about New Fox, metrics and strategy, and others we'll probably touch on some today. But until the SEC blesses that Form 10, we're somewhat limited in how much we can talk about New Fox. But I guess we're hopeful somewhere in the November range that we'll be able to have that transparency

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

Now let's talk a little bit about the recent media M&A. As you mentioned, it's been driven by the need for scale to drive efficiency, drive improved bargaining power with suppliers, distributors. And also scale the better compete with some of the new Internet-based platforms that are very global. I think some investors may look at -- and some people looked at old Fox and thought it was sufficiently scaled. Now New Fox is a smaller company, and so I think I will be curious to hear your perspective, is the New Fox company, do they have enough scale to be successful and compete in the evolving landscape?

John P. Nallen - *Twenty-First Century Fox, Inc. - Senior EVP & CFO*

Yes. Look, when I look back at 21CF, today, it certainly has substantial and sufficient scale. It just was completely undervalued. So in that context, the enlarged scale of Disney, I'll let them speak about their own business, providesa great platform for that global growth. I would have a lot of debate around scale of New Fox because here you are starting business, starting -- launching, in essence, an IPO of this company with the #1 brand in news in America. I'd argue the #1 sports platform in America. The biggest station group of Fox. Cash flow engine that's generating substantial not only free cash flow -- well, pretax cash flow because some of the benefits we get from the transaction, net-net cash flow. So I think it's a company that's got great opportunities. It's got scale. I mean, we can't go buy another news organization to make us #1. We are #1. So I'm not sure that inside of the verticals that New Fox operates, that scale is really the issue. It maybe adjacencies to the issue or the opportunity, but I'm quite comfortable that we launched that business with sufficient scale.

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

I suppose a lot of those verticals are -- all those businesses tend to be very domestic. U.S. sort of focused...

John P. Nallen - *Twenty-First Century Fox, Inc. - Senior EVP & CFO*

It's the only bittersweet part for me. I mean, I've been in the News Corp. Fox family for 25 years now. The international element of the business was always a hallmark of what we did. I could go anywhere on the planet and I could find a colleague, sort of like Goldman Sachs. But you're right. At the outset, New Fox would be a wholly domestic U.S.-focused company.

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

Let's talk a little bit about sports, which is a key part of the new business, and let's start with a topic that's controversial right now, with NFL and the viewership has been declining for 2 consecutive seasons. We've only got opening weekend, had mixed results, I think, across the various packages. Sunday afternoon, which you guys compete in, I think was actually out, you might have more specific numbers. But in general, when you look at sort of the 2-year trend, it has been discernibly down. What do you think is going on there? And what are the drivers?

John P. Nallen - *Twenty-First Century Fox, Inc. - Senior EVP & CFO*

I don't have the isolated item where people put their finger on, but I know the controversies written about the NFL. I know back when you had some of the major teams, last year in particular, the Cowboys, the Giants, the Packers, the Bears, they were all miserable. There was no competition going on last year. But really, my own view, and it is my own view. There's just a lot of football. There's a lot of football windows. And when you start on -- I mean on some weeks you can start on Wednesday night. But certainly Thursday Night Football, Fridays and Saturdays college. Sunday and then again Monday is pro. And some Sundays, it starts with the London game at 9 in the morning and doesn't end until 11:00at night, Eastern. So there's just a lot of windows of football that may have some impact on the ratings. But having said that, we always have, up until now, focused on the negatives on where ratings are. First week was up for us, for the Sunday packages, for CBS and us. Thursday was a late, I mean, everyone's got an excuse and I'm not making one. But Thursday had a storm, game was delayed. Monday was, incredibly, a blowout by the Jets. But it was Sunday, it looked up, and hopefully, when we look at the competition for the next -- the rest of the season, we'll be flat to up.

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

So you guys, earlier this year you signed a new deal for Thursday Night Football, 5-year deal reportedly $660 million per season on average, which is up about 50% from the prior contract that NBC and CBS held. It's a pretty unique contract because you're sharing it with the NFL Network, simulcast and the NFL Network as well as Amazon on the digital side. I guess, how, in broad strokes, how are you thinking about the return potential on that contract?

John P. Nallen - *Twenty-First Century Fox, Inc. - Senior EVP & CFO*

I think, first, you have to think in the context of New Fox, which is how we acquired that asset, that the NFL is an important asset of New Fox. The NFL last year accounted for 70 of the top 100 programs in the United States. With Thursday Night, New Fox will have half of those. So there's a scarcity value to Thursday Night Football. So for us to have really the windows I just described, Thursday, we now we'll have, beginning next year, full Friday with WWE; Saturday, college; Sunday, pro. For us, it's just a great flow of product and a great series of products to be able to offer to advertisers. Now the acquisition of Thursday Night was also fortuitous from a timing standpoint in that a very substantial number of our retrans deals come up in the next 3 and 4 years. So you talk about return, you're not going to get, at least initially, full return on an advertising-only basis out of Thursday Night, and you'll look to the second revenue source for all of our television products, which is affiliate fees. We think we're undervalued to begin with at Fox. But with the addition of Thursday Night, the addition of WWE, some of the college football products that we added, we think we're wholly undervalued.

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

And any observations you could provide about the demand for live sports advertising, particularly the NFL? Is it still as robust as ever? Are you still able to get healthy increases on that type of programming to help with the return on units?

John P. Nallen - *Twenty-First Century Fox, Inc. - Senior EVP & CFO*

Yes. Maybe I'll just comment on national advertising generally. I think specifically on sports because it's healthy. I mean we had a good upfront. I think the rest of the companies that spoke here probably have told you the same. Healthy pricing increases, good volume for us. And particularly, now that we have all the Thursday Night inventory that we're adding to packages that we have. So on a national side, advertising remains not only -- it wasn't just healthy for the upfront. It remains healthy. Scatter pricing is up mid-teens for us, above recent upfront, which is not so far -- not so far in the rearview mirror. So it continues to be. And sports continues to be -- live product continues to be where the demand is. Just -- it's the benefit of New Fox in that its focus is to be a leader in live programming. And when you come back to the dayparts I just mentioned, you're going to get to a point in some weeks when Thursday Night Football is on for the season where FOX Broadcast Network only has the program 6 hours a week on entertainment programming, Monday, Tuesday, Wednesday, assuming Sunday is covered by the animation block. So New Fox really pivots hard into live programming, both on the news side and then on the sports side.

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

On the healthy ad demand. Obviously, the U.S. economy is quite strong right now. And I assume that's a big driver of the demand environments. Do you have any sense for whether some of the demand increase, increase in demand for TV is driven by marketers reconsidering their allocation to some of the digital platforms, which should add a little bit of a tumultuous stretch?

John P. Nallen - *Twenty-First Century Fox, Inc. - Senior EVP & CFO*

I think fundamentally that happened a year ago. When we were here with you a year ago, we saw in the upfront that marketers were shifting a bit back into television. So I'm not saying that we sense a bigger shift, the trend is still there. But I think, again, to get an audience the size that we can deliver, that's what a lot -- particularly, brand marketers are after. I would add, and we'll probably talk about the stations at some point, it's a very healthy environment on the local side. The political races -- I mean, you only have to be here in New York, put on evening television to know how healthy the advertising is. But we have -- 16 of our 17 markets have House or Senate races up. Similar number have gubernatorial races. And not only this cycle, when we get in nationally into the next cycle, 2 years from now, those local businesses are really popping from a revenue standpoint. And to your point, when the economy is good, you've got local retailers that are spending, you've got local auto dealers that are spending because people are out on the weekends buying products, so it's great for the local business.

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

I want to go back to the Thursday Night and when you look at that sort of acquisition of those rights and you think about that Sunday afternoon package, which you have through, actually, 2021-'22 season but still a little bit off in the distance in terms of rebidding the renewal for that. I mean, do you think what the NFL is doing with Thursday Night Football, whether sort of slicing and dicing the rights between linear TV and digital, I mean, is your expectation that's how they're going to treat some of the other TV packages in the auction?

John P. Nallen - *Twenty-First Century Fox, Inc. - Senior EVP & CFO*

So this is a personal view not informed by discussion. I think that the Sunday package is sacrosanct for the NFL from a broadcast standpoint. That for the NFL to reach its audience, principally middle America and many of those football teams, broadcast television is the platform that they'll be on. Whether they slice up some digital pieces of it, I think they probably can experiment with that like what they're doing on Thursday. But I don't see personally, a world where the Sunday packages are not on broadcast television. Now we've got to be competitive to be sure that once again, we renew it. By the time our contract expires in -- with the '23 Super Bowl, we will have been a 30-year partner of the NFL. But I don't see the Sunday package really coming off broadcast. Thursday and Monday, that's a jump ball as to where it goes after our 5-year deal, Thursday and then the expiration of ESPN deal on Monday. I'm not sure where those packages head. But I think Sunday afternoons and likely Sunday night, the NBC package on Sunday night continue to be broadcast television.

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

For what it's worth, it's pretty consistent with what -- we had the NFL here yesterday and they made the observation that when you look at the national Sunday afternoon telecasts, 25 million concurrent users, there's not, in their estimation an Internet platform hasn't really proven out that they can reliably deliver that many concurrent streams in HD quality.

John P. Nallen - *Twenty-First Century Fox, Inc. - Senior EVP & CFO*

Actually, the only platform to have done that in history is Hotstar in India with the IPL.

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

Oh really? It's interesting. Maybe the NFL should give them a call. Well, let's move onto another major sports rights deal that you did recently, you mentioned earlier was the WWE for their SmackDown package. That's also a 5-year deal. That's roughly $200 million per year. It starts next year, I believe. It's the first time that WWE has been on Fox broadcast. I believe it's the first time that they have ever been on a big 4 broadcast network. Can you talk about what attracted you to this set of rights?

John P. Nallen - *Twenty-First Century Fox, Inc. - Senior EVP & CFO*

Well, the difference between WWE and any other sport that we have is, it's a 50- to 52-week a year sport with no repeats. It's a new novella every week going on. New event. So for us to have that kind of appointment programming for that audience, every week of the year is really a unique opportunity for us at the broadcast network. But in addition, what it provides is an opportunity for us to do adjacent programming off of WWE on FOX Sports 1 and 2 to provide programming there as well. And whether that's just commentary programming or highlight programming, nonetheless, will staple itself to the broadcast network for what's going on there every Friday. But to lock up Friday night and just not have to focus on programming it from an entertainment programming standpoint, I think, any programmer that is sitting on this desk will tell you that's heaven: not to have to worry about that particular day part. Much of same now for us like Sunday night with the animation block. The Simpsons, Family Guy is locked and loaded for us. So therefore, we get to focus on other nights in programming. But I think at the heart of it was the unique opportunity to have programming that resonates with a great range of consumers to be inside of us and to be able once again, as we go to affiliates over this 3 year-period to talk about the portfolio that Fox has.

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

I want to ask about e-sports. Obviously, it's still emerging part of the sports ecosystem but growing very quickly, especially on digital platforms. I want to get your view on e-sports and maybe tell us about the investment that you made in Caffeine, which you just announced earlier this week. What's sort of your view on that opportunity?

John P. Nallen - *Twenty-First Century Fox, Inc. - Senior EVP & CFO*

So right now for -- when I look at New Fox, we're focused on the live, major national product sports that we have: baseball, NASCAR, football, WWE. E-sports is an adjacency, one that I referred to earlier. It's a place, because we're so big in national sports, that we just have to understand and have to participate in somehow. But the depth of how we participate is still to be determined. So the partnership, the investment in the first part in Caffeine and the partnership in the programming studio is just a step towards that. It's not a major investment in the context of 21CF or New Fox. But it's a recognition that e-sports are a very important part of the sports ecosystem, and increasingly, sports betting is an important part of the sports ecosystem as legalization flows its way through the states here. So we'll dabble in it for now. I don't see anything -- there's nothing on the horizon where we got a target on e-sports and say that's some place we're focused on to make an acquisition. But at the moment, it's just getting real smart about what's going on in the e-sports area.

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

I wanted to ask you about the RSNs, which you're divesting -- where you divested to Disney, and Disney, as a condition of closing the deal, will in turn sell them. You obviously know this business incredibly well. On the surface there would appear to be some good natural synergies between the New Fox assets and the RSNs. So could you talk about whether that makes sense to you. Is that something that interests you in terms of New Fox?

John P. Nallen - *Twenty-First Century Fox, Inc. - Senior EVP & CFO*

I'd say the focus right now is we're helping Disney sell the RSNs. That's the focus. From a synergy standpoint, there's a synergy in offering the RSNs along with Fox News and FOX Sports. But I'm not sure that New Fox gets real revenue kick for having bolted the RSNs with those other assets. I think those other assets, unto themselves, do just fine in the affiliate world. And from a cost synergy standpoint, there's very little overlap between Fox today and the RSNs. The RSN game is a complete local game. You deal with the teams, you're dealing with advertisers locally for the most part. The only national piece of it is we centrally manage the affiliate negotiations on behalf of the RSNs and we centrally broadcast that in the operation in Houston that we have. But it's not -- our deals with baseball at the national level has nothing to do with our deals with individual teams. In fact, we're the #1 broadcaster of basketball and hockey but we don't have a national package because of the RSNs. It's a great business. We founded that business. We love that business. It's not -- we've said this in many calls, many conference calls that it's not a business with a huge growth trajectory under our ownership, because the rights pretty well toggle to about where the revenue toggles year in year out. But it's a consistent cash flow generator. Almost no working capital invested into the business. And it's a really healthy business for us. So right now, our focus is to help Disney in their process. You may know they're required within 90 days of the closing to dispose of the RSNs. So in anticipation of a closing, they said first half of the calendar '19 they're revving up the process of looking for suitors for it.

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

Let's switch over to news, Fox News. It's been a tremendous asset. I want to ask about the affiliate fees, which are about 60% of the revenue of Fox News is the affiliate fees. And you've demonstrated tremendous pricing power over long periods of time. But when you look at where Fox News stacks up in terms of cost, wholesale costs to the cable operators, it's pretty high up there. I think among the basic networks probably just ESPN is above. So can you talk about the outlook for continuing to drive the affiliate growth of Fox News?

John P. Nallen - *Twenty-First Century Fox, Inc. - Senior EVP & CFO*

Yes. We don't see a limitation, let's say, structural limitation to increases in affiliate fees at Fox News. We have been fair during cycles that we've had, that have generally been 3, 4 year cycles, where we come back and then have a renegotiation after. I think the same discussions will happen next time. The beauty of Fox News as a business is that, different than the sports business that anybody has, including us, is the cost base of that business doesn't move all that much. It moves a bit, breaking news; you've got new talent deals, it moves. But not like when you sign a new Thursday Night deal or you sign a renewal of a Sunday package. So therefore, the revenue increase converts really well into EBITDA and into free cash flow. And so it's just -- it's the engine, it's the cash flow engine of New Fox. There's no secret about that. And I will correct you and say substantially more than 60% of the revenue is from affiliate fees. Advertising, they're far less dependent on them -- they are on them, than we are on affiliate fees. But it is a great business. The brand is, whether you like it or not, the brand is out there. The brand itself is in the news many times. And we know once on, particularly on the new, which is a bit surprising, on the new DMVPD packages, the level of engagement when they measure engagement, how long a consumer engages with the channel. Fox News ranks if not 1 or 2 on engagement level. So it's an important part of those packages when being offered to consumers.

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

Your intention is to launch a direct-to-consumer streaming service called Fox Nation. And I was wondering if you could talk about the opportunity you see here and how the content on that channel will be similar or different than what people can get on, on Fox News Channel.

John P. Nallen - *Twenty-First Century Fox, Inc. - Senior EVP & CFO*

Yes. It's still in development. There's some announcements, I think, even in today's paper about some of the primetime line up from Fox News being active on Fox Nation. It will be an over-the-top streaming product, independent and adjacent to the linear channel. So you're not going to get a simultaneous broadcast on Fox Nation of what you're watching on any one of the cable or satellite operators. It's an independent, really focused initially for the true big Fox News fan. We know there's a market for that. And its product will be different than what's being offered on the linear channel. More in-depth, interviews that couldn't go within the segments on the primetime show they'll lengthen and deal with there. It'll be a different lineup entirely on Fox Nation than what's on Fox News currently. So I see that it's just a completely adjacent package. It's not one that we're competing with the cable and satellite operator partners that we have to offer our product at the same time they're offering our product. It's an adjacency, and hopefully, with us they -- we'll promote that product through them as well. But fall, we're thinking late fall, pre-election that Fox Nation will launch and be available.

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

And just to be clear, we'll have live streaming so live news coverage?

John P. Nallen - *Twenty-First Century Fox, Inc. - Senior EVP & CFO*

There will be live programming but it won't be the live programming that is concurrently on the Fox News linear channel.

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

I guess the idea is just for the super fan, if you will, the Fox News super fan.

John P. Nallen - *Twenty-First Century Fox, Inc. - Senior EVP & CFO*

That's the initial market for it. And we know there's a market for it. And different than -- you may talk about other over-the-top services where you're trying to determine if there is a market. We think here, we know there's a market for this product.

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

Do you anticipate -- could the launch create any additional friction with current distribution partners? I mean, I don't know if you received any feedback? Or do you feel like because you're defining it, it's different, it's adjacent, that you're kind of [overweighed].

John P. Nallen - *Twenty-First Century Fox, Inc. - Senior EVP & CFO*

No. I think it's the latter. Because it is adjacent. It's more of -- the ticket to it is not from a financial standpoint but is through Fox News. You're a big fan of the brand. This just provides you more of it. So I don't at all see -- and we're not dialing down any of our investment or brand activity on Fox News. That will continue because that's still the biggest asset we have.

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

Let's talk about FOX Broadcast Network and with the DTC strategy might be for the Fox network right up to this point, the strategy has really revolved around Hulu. That stake in Hulu will be divested off to Disney. CBS as a counterpoint has never participated in Hulu, They have their all access product. They have kind of gone it alone strategy. What do you think happens with the DTC strategy in New Fox for the network?

John P. Nallen - *Twenty-First Century Fox, Inc. - Senior EVP & CFO*

So I'd say this is where I'm a bit of a contrarian to, and have been, to most everyone. And that putting together a D2C product, it's kind of the point I just covered with Fox News. It's -- you have to ask yourself the question, it's in search of what? What market problem are you trying to solve by investing substantial amount of money in the technology and then in the billing systems and everything else that goes along with it. I'm not sure there's a big problem right now. That's unsolved at the moment. And I think what underscores that is, what, 1.5 years ago, maybe max we had a launch of 6 VMVPDs; ramped up to 6 million subs, one of the fastest consumer product lifts that happened; and inside of virtually every one of those bundles is our product. And our own research would indicate that more than half of the subscribers come into those DMVPDs are cord nevers or cord cutters. So if that was the market we were trying to get to with a direct D2C product, looks like they're being served, right? There's a product out there that seems to cater to whatever they didn't like about the big bundle. So in the New Fox world, yes, I'll come back to a point I've always made. We will all offer at some point direct-to-consumer, our products direct-to-consumer. But hopefully, you and I can sit on this day out 5 years from now, and I will tell you at that point that we're still getting the majority, overwhelming majority of our revenue, for our channels, through bundles. And the bundles will be different. The DMVPDs may change. They'll be new competitors out there. But still the American consumer will be buying its television product through a bundle, not through 7 different individual offerings with 7 different passwords and remotes and bills and everything else.

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

I imagine there's probably contractual relationship with Hulu in terms of the Fox programming, the catch-up TV aspect of Hulu. I assume those contracts, they port over, right? They will continue for some period of time after.

John P. Nallen - *Twenty-First Century Fox, Inc. - Senior EVP & CFO*

That's right.

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

Another question that people, investors wonder about is on the production side, the TV production side. As part of this deal, the TV studio is going over to Disney. The trend in the industry has obviously been kind of a vertical integration. Have your own studio, put it on your network and it's been going that direction for some time. What's sort of a long-term plan for New Fox?

John P. Nallen - *Twenty-First Century Fox, Inc. - Senior EVP & CFO*

So you're right. Let me just come back to it. Our strategy at 21CF had always been to bolt, or has been over the last 10 years or so to bolt the production studio and the network together. In essence, the networks, the show room, the initial show room for the studio's product, and then the studio monetizes in its various windows after. And therefore, the networks being was focused on delivering, for the most part, 80% of its programming was TCFTV product, in-house product. You're correct in the New Fox world that, that won't be the case. We won't have a studio stapled to us. We have no intent initially to go acquire a television studio. There's a countervailing view that it's liberating, that New Fox now has the opportunity to acquire a product to hear from everybody to come and knock on our door for the 6 or 8 hours a week that we are open for programming. And even today, we have hit programming that's not ours. The entire Gordon Ramsay suite of products that we have are owned by Endemol Shine and they're not owned by 21CF. Some the competition shows we have: So You Think You Can Dance, Beat Shazam is third-party product. So Fox will be open for business and the market already knows that, because we've been the recipients of a lot of pitches already, from third-party producers on how they can partner with us at the network. So the paradigm completely shifts in New Fox, where you're focused on the broadcaster, and the profitability of the broadcaster. Whereas in the 21CF world, we were focused on the producer and the profitability long-term of the assets generated by the producer. So this will be a complete mind shift from where we've been for decades.

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

Let's ask a few questions about the station group. You were set to acquire 7 stations from Sinclair as part of the Tribune acquisition that ultimately didn't get approved. It seems to suggest you have an interest in scaling up the station footprint. Can you talk about your criteria for evaluating potential acquisitions of stations?

John P. Nallen - *Twenty-First Century Fox, Inc. - Senior EVP & CFO*

We've made no secret of the fact that we like the local TV business, particularly given some of the hallmarks I mentioned earlier, now what's going on. Yes, we would like to increase the footprint of the Fox station group to a maximum level. We like getting further distribution, creating a bigger platform of our own distribution across the nation. It helps us with retrans discussions, helps us with advertising. As far as looking at our filters for looking at stations are pretty clear in that we've always looked first for NFC markets. And that's been an important part. Now with Thursday Night, maybe that relaxes a bit because we're less NFC-centric. But still with our Sunday package being NFC, that's the first lens. College football cities are pretty important to us too, given the amount of college football that we put on. And to a lesser extent, how baseball-centric the city is. But sports, to say it differently, sports become really the filter, 1, 2, and 3 filter for our acquisition of local stations. And part of the reason when you look at sports and news on a local basis, 60% of the advertising that our stations generate are from those 2 categories. Local news and sports. So both of those are vitally important. And on the sport side, those filters become really important as we focus on the stations. And the market knows it. We've heard in several of these transactions that have been rumored, and all of a sudden, I find that the local broadcast business is a hot business, which it's never been for 10 or 15 years. But everyone knocking on our doors interested to know what we would want to acquire.

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

It's been about a decade since you started collecting retrans and probably starting to move into probably approaching third-generation contracts. I was wondering if you could talk about the outlook over the next couple of years in your ability to continue driving those fees higher?

John P. Nallen - *Twenty-First Century Fox, Inc. - Senior EVP & CFO*

Well, I touched on it a bit earlier that even in today's environment, x product we just put on that we thought -- we think were undervalued. So with the addition of the products I mentioned earlier, we expect that we're going to get a return on those products through one of our 2 revenue sources: advertising or affiliate. I said most of our retrans deals are up in the next 3 and 4 years. So if there's anytime to now mobilize the step and then talk about the true value of Fox, that's going be the time to do it. But we're not -- we're in this business for the long term. And it goes to my first comment, right, we're building businesses over the long term. That's been a hallmark of News Corp. and Fox. So the affiliates have been fantastic partners of ours for a long time. We know they have to make money to stay in business as well. Inevitably, you have skirmishes along the way. You read about this with everyone of them but at the end you up at a fair place and that's all we're asking to do, is end up in a fair place.

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

I wanted to ask about the balance sheet and capital allocation for New Fox. How are you going to think about dividends and buybacks and acquisitions and also what leverage you think is right for this business?

John P. Nallen - *Twenty-First Century Fox, Inc. - Senior EVP & CFO*

So out-of-the-box, New Fox will be levered a touch above 3x. Because we have, you may know the mechanics of this, but we have a tax bill that has to be paid on the spin. And in fact, Disney pays, so we agreed to reimburse them for that tax bill, and that's what creates the leverage inside of New Fox. But having paid that tax, the benefit that New Fox gets is the value of that in future tax deductions over 15 years. So in essence, it gets the shelter, a substantial amount of its income from tax over the 15 years. Hence, the turbocharge of the free cash flow that comes out of the New Fox business. New Fox has the opportunity to delever really quickly, barring any other use of the capital. We've managed 21CF for the longest time in a 2.5 to 3x zone. My expectation is that's the same target zone to be a strong BBB credit in New Fox. Dividend yield will be consistent with what 21CF was on a normalized basis, initially. But of course, we'll look continuously at that dividend yield. But there will be substantial cash flow to then determine what's the best use of it, right? Is it organic? Is it to acquire businesses? Is it to provide capital returns? But we'll do it in the framework of knowing that we're not -- we're operating the balance sheet prudently that we can make the investments that all of you yelled at me about making over time and be comfortable that we can make those investments for long-term return because the balance sheet is in a great position. And that's really been the hallmark of the way Fox has been run for decades now.

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

We are out of time. John Nallen, thanks so much for being here.

John P. Nallen - *Twenty-First Century Fox, Inc. - Senior EVP & CFO*

Thank you. I appreciate it.
