Fox Corporation

September 10, 2024
10:50 AM PDT

Michael Ng: Thank you, everybody, for joining. Welcome to the FOX fireside chat at Goldman Sachs Communacopia + Technology Conference.

I have the privilege of introducing Lachlan Murdoch, who's the Executive Chairman and CEO at the Fox Corporation. In addition to serving as the CEO of FOX, Lachlan is also the Chair of News Corp.

My name is Mike Ng, and I cover FOX and media here at Goldman.

We have about 35 minutes for today's presentation. So, first, I want to extend a big thank you to Lachlan for being here today.

Lachlan Murdoch: Well, thank you, Mike, for having me, and thanks all of you for joining us.

Michael Ng: Wonderful. So, I guess to start out with a big-picture question, FOX has a streamlined portfolio of the broadcast network, TV stations, sports and news, and it's turned out to be a great strategy, with FOX's stock outperforming most peers over the last several years. Would you just talk a little bit about the strategy behind the structure of FOX's businesses and your vision over the next few years?

Lachlan Murdoch: Sure. I'd be very happy to. When you say we've outperformed most peers, if you go back to, like, 2019, when new FOX came out, I think we look at the traditional peers, I think we've outperformed all of them. And that's really by dint of not losing our heads and investing good money after bad in streaming businesses. So, we've really been able to stand outside of that and focus on live news and live sports.

And then when you expand the peer group to include Netflix and others – I think there's one other – you're probably right. There are a couple who have outperformed us, but overall, I think we've done incredibly well compared to our traditional media peers.

So, with the sale of our entertainment assets to Disney, that really allowed us to be incredibly focused. And we're not only focused just because we like live news and we like live sport, and that's where our audiences are, but clearly that's made our brands much more valuable in the cable ecosystem.

So, this year and if I look at the past year, we did about $14 billion in revenue. Our EBITDA was just below $3 billion. And this is a tremendous result in an off-year for us.

We didn't have the Super Bowl last year. It wasn't a political year. So, the growth that we were able to see was incredibly good to see, and I think it really shows off the value of our unique strategy, as opposed to when it's in a year when you have a Super Bowl or something like that.

So, it was a very, very good year for us, and I think going forward we'll continue to focus on live news and live sports.

Michael Ng: Suffice to say, all of the networks in FOX's portfolio is really a must-have network at this point.

Lachlan Murdoch: Yes, I think that's right. And it's funny – we haven't had a chance to talk about this before – if I look at the extreme example, like, obviously, cable entertainment channels today are really struggling. And that's natural. I'm sure all of you and all your families watch more and more entertainment streaming. And first and foremost, it's hurt cable entertainment.

And so, we divested ourselves of our entertainment channels, our cable entertainment channels, but we also divested ourselves of our regional sports networks when we sold those to Disney, and they on-sold them.

For the number of times after 2019 where very smart bankers came to us and said, "You have a great opportunity, you can buy back the regional sports networks at half of what you sold them for," and we stayed away, far away from that as possible. Because we knew that our core brands – FOX Sports, FOX News, and don't forget the power of our broadcast network and our local TV channels, which really drives tremendous amount of retransmission revenue for us – we knew the power of those brands. We could drive a best-in-industry rate increases over the cable operators. And we didn't want to leverage that power on carrying along with us channels that people didn't want anymore, like entertainment channels or the regional sports networks.

Michael Ng: Right. And one thing that's been particularly fascinating to me is that there is a history of bringing on along these other entertainment channels, and you don't have that anymore. And it obviously takes multiple years for all those carriage negotiations to reset. So, there's still a lot of leverage there.

Let's talk a little bit more about sports. FOX has several sports media rights: the NFL, college football and basketball, NASCAR, MLB, MLS, FIFA World Cup. What is FOX's sports rights strategy? What's FOX's appetite for adding more sports rights or even rationalizing some, which the company has done in the past?

Lachlan Murdoch: So, we look at our sports rights very diligently, very, very carefully, and we see that it is a portfolio. And you look at it through two different lenses. The first lens is for broadcast television. We also – we're big believers in the reach of broadcast. And so, if you look at our NFL contract, for instance, what will rate the best, which packages will rate the best, how do we drive the most amount of advertising revenue through those packages. But also – and this goes to the second lens – what's most valuable when we come up for our renewals with our distributors.

So, *America's Game of the Week,* Sunday afternoons, is the #1-rated sports broadcast in this country. That's important to have, and it's incredibly important for our distributors to be able to broadcast that, whether it's on DirecTV or Comcast or others.

So, there's a filter of reach in advertising and value to our audiences, but then also what can distributors, what do they need as well and what are they going to be willing to pay us when those renewals come up. And our renewals come up about a third, roughly a third, every year.

Michael Ng: Okay. It's hard to talk about the TV...

Lachlan Murdoch: I should say, because you mentioned rationalization, when we look at that, we do – we had WWE. That didn't work as well as we had hoped. We'd planned on broadcast. We moved on from the WWE. Thursday Night Football, as well. We didn't need – after having the best marquee event on a Sunday, we didn't need the Thursday night as well. So, we were willing to move on from that.

And then you replace that with other sports. So, this summer – it's not huge, but it was very successful – we had the FOX Summer of Soccer, where we had the Copa America and the UEFA Euro Cup, and that worked incredibly well and fit nicely before the Olympics.

So, we do – we're constantly adjusting and working, but we think we're pretty diligent and careful how we do it.

Michael Ng: And I'm of the view that things like rationalizing the rights costs for the WWE might actually end up being accretive for the company because it hadn't worked out as well.

Lachlan Murdoch: That's right.

Michael Ng: It's hard to talk about the TV ecosystem without talking about what's happening with pay-TV, subscriber trends, cord-cutting. Do we reach a point in time where everybody who has cut the cord has done it and the subscribers who are left are more durable, more sustainable, and we might see cord-cutting decelerate? I guess, what's your view of what's happening with pay-TV subscribers? And should we see any change in cord-cutting?

Lachlan Murdoch: Look, I think there is a floor. There is a point where your core channels that people watch is most efficient and most affordable for people within a bouquet or a bundle through cable or traditional, whether it's cable or YouTube TV or Hulu Live. And so, I think there is a floor.

And the reason for that is that if you go back – and you don't have to think back many years – the traditional big cable bundle was fantastic for consumers. You got everything, right, a few years ago, for not a tremendous price. It was incredibly convenient, very good for consumers. And unfortunately, that's changed now.

So, we look at it as one of the reasons, again, why we just focused on those core brands. Because the brands that we have, whether it's the local TV stations held together by the network, FOX Sports and FOX News, those are – two of those are in the top five rated channels on cable. So, they're must-haves for any skinny or any sort of central bundle.

Michael Ng: And maybe you can talk a little bit more about your outlook on skinny bundles. Obviously, a lot of attention paid to skinny bundles in the market right now. Lots of moving pieces, to say the least. But I'd just love your view on that.

Lachlan Murdoch: So, I think what happened is – so, people are moving more and more on an entertainment side, obviously, to streaming. And therefore, how will they get the rest of sort of their content? Because entertainment is incredibly important, incredibly. There's a huge amount of time spent watching dramas and comedies and entertainment, but news and sport is still predominantly within the bundle.

And we as a company, I think, have been probably the most robust in our support of that bundle. We haven't taken, for instance, sports rights out of the traditional bundle and traditional distribution and into streaming. And the reason for that is that we don't need to support kind of an anemic entertainment streaming service. So, if you look at how sports has moved into streaming, whether it's on Peacock last week or on ESPN+ or on Warner Bros., we haven't needed to support a streaming service by adding sport to it.

So, we're completely committed to the bundle, and we think that makes us the most valuable partner of our distribution partners.

Michael Ng: Okay. And I can appreciate there might not be much to say here, but I was just wondering if you could talk about how investors should think about Venu.

Lachlan Murdoch: There's a lot to say about Venu. We can talk about Venu all day.

Michael Ng: That's great.

Lachlan Murdoch: So, how will I start this? So, Venu was designed – and we were ready to launch Venu a few weeks ago until we were injuncted and not allowed to. It's a tremendous service. It's designed entirely for the cord-cutters and cord-nevers. It doesn't look like – and this is, I think, a misunderstanding of people who haven't seen it and haven't been able to actually use it and touch it – it doesn't look like a cable service. It doesn't look like a bundle of channels.

And in fact, in the marketing of Venu, you wouldn't even use the channel brands to market it. So, you're not going to say it's FOX Sports 1 or 2 and ESPN. You'd much rather you'd say this is your home of NFL or NBA. And the consumer actually inside the service can search – it's organized by sport and by what the consumer wants, not by trying to manage what channel is my game on tonight.

So, it's a very innovative, very good service, and we're excited to launch it. We've been granted an expedited hearing appeal on the injunction. So, we're very excited to launch it.

But again, the important thing is we think it's pro-consumer. It's pro-sports fan. It's at an affordable cost. And it really cleans up a lot of what, I think, what’s become complicated or broken in the sports rights environment in the United States.

There's an interesting aside. When we had Thursday Night Football – it was, like, three years ago, right? – when we had Thursday Night Football, only three years ago, you could get all of the national games, national football games – the NFL we're talking about – national NFL games, and the local, the in-market local games. So, your San Francisco 49ers games, if you're in San Francisco. You could get all of that within the cable bundle. And I think that Hulu Live was $64, right? So, on Hulu Live, $64, you got everything you really cared about, all the big national games and your local team.

Fast forward to today, three years, right? You have to have cable, your basic cable, or Hulu Live, and you have to have four streaming services: Peacock, ESPN+, Netflix, and Amazon. You have to have four of them. The price you're going to pay for the same games you paid $64 for three years ago, you have to pay $114, and you have to have, effectively, five different devices, five different subscriptions. That's nuts.

And so, what we like to do with Venu, what we'd like to do as a company is try to solve problems for the consumer, and Venu is a way of solving that, at least to a large extent solving that, by having as many rights for the sports fan in one package.

Michael Ng: That makes a lot of sense, and it's really about delivering content and how consumers want to consume it, not really thinking about networks, but thinking about sports.

I think we saw a little bit about that in the Olympics with Peacock. I think they did a great job with the Gold Zone. Is Venu the answer for FOX in terms of, like, how to deliver a more consumer-oriented experience around sports through...?

Lachlan Murdoch: Well, I think, look, FOX, we want to have our content in front of as many people and in as many places as possible. That goes for all of our channels. But primarily, we are committed to the cable bundle, and that's where we have the greatest reach. I think this past weekend, our Cowboys-Cleveland game did 23.9 million average viewers, which was 70% higher than the Peacock game on Friday, 70%. And so, that reach is incredibly important, both for our advertisers, but also, frankly, for the leagues. And so, we're committed to the bundle.

What Venu did for us, though, was put our content in front of people that aren't watching it now, that are not in the cable ecosystem. And it's important that we targeted them. Because if we lose a cable subscriber to Venu, we lose money in that transaction, because we lose the subscriber to FOX News, primarily. The local station retransmission is built within Venu, but we lose the FOX News subscriber.

So, we don't want to have a like-to-like swap of cable to Venu. We want to target Venu very much just at the cord-cutters who have already cut the cord or never in the system to begin with.

Michael Ng: Great. And maybe just to round out the discussion on sports, I was curious if you would talk to us about whether FOX was ever interested in the NBA. Did that ever make sense for the sports right portfolio? Or was it just not going to be additive?

Lachlan Murdoch: This time around – who knows in the future – we decided it wouldn't be additive. So, we weren't in the negotiations at all.

Michael Ng: Okay. Great. Let's pivot over to FOX News. FOX News has undergone some very meaningful personnel and programming changes over the last couple of years. The viewership at the network certainly saw a little bit of a normalization, but the viewership in the last couple of months has been fantastic, to say the least. Could you talk about the performance of FOX News, your outlook for the network, how has ratings performance, advertiser demand kind of played out relative to your expectations when these programming and personnel changes were initially made.

Lachlan Murdoch: FOX News has had an incredibly successful – another successful year. I think it's, like, eight years in a row we've been the number one cable channel, period. And that's done – after every election cycle – we try to keep our programming and our hosts consistent through election cycles, which are very high viewing times. And after every election cycle, that's when we tend to make adjustments.

But the benefit we have at FOX News, we have a very deep – it's a huge business, and we have a very deep bench of talent that we're able to develop and grow and be ready literally for prime time.

But beneath that though – and I think this year this is really important – you can't forget the value of news. Because it's one thing seeing your hosts and how you present it, but the value of news and news reporting. FOX News this year has done a tremendous job reporting on the conflicts in the Middle East, and particularly in Israel and in Gaza, and also in the Ukraine. And the reporting from these war zones has been heroic and excellent.

I was lucky enough to visit Jerusalem, Europe and Jerusalem, in January of this year, and late last year I went to Kiev and visited some of our team, brought some of our team into Kiev. And just to see the work that these journalists do on the ground, bring those stories and the footage back into our living rooms.

So, when we talk about the hosts and adjustment and programming, there's a ton of hard work that goes along with that, but then there's the day-to-day news gathering and news broadcasting, which is hard, but it's important as well. And it pays great dividends to the business.

So, what that means, though, is that we've had a tremendous year. I think in August it was a sort of soft month. We were up, I think, in the demo – overall, 22%; in the demo, 32%, in the 25-54 demo, which is the most important demo we sell our advertising by.

What you don't know – I keep telling people – is that we are – in the demo – again, the important demo is 25-54 – we're the number one channel for Democrats and we're the number one channel for independents. Also in the demo, we're the number one channel for Hispanics.

And so, the breadth of that brand and the engagement that we drive to FOX News is tremendous and growing very well.

From an advertising point of view, the only dark cloud last year was the softness in direct response. That was really because of a competitor who sort of had a lot of direct response supply in the market. And so, direct response pricing was down. In news, direct response is a much bigger percentage of advertising revenue than in other categories of television.

And direct response is now back up to about 20% pricing increases. So, the dark – if there were any dark clouds, direct response was one in the news industry, and that's now lifted, which is very positive.

Michael Ng: That's great to hear. Let's talk a little bit about political ad spending on the local TV stations. We're hearing a lot about political advertising strength not only for the presidential election, but certainly down ballot. Are you expecting to see record political advertising spend this year? I think you guys have said record, excluding the Georgia runoffs. But maybe you can talk about how FOX's TV stations, the O&Os, are positioned to benefit from this.

Lachlan Murdoch: So, we are expecting, excluding the Georgia runoffs, which is a huge amount of revenue – we have a television station in Atlanta. And so, excluding the Georgia runoff, we are expecting record political revenues this year for a presidential cycle.

Four years ago, we did overall in all of our channels – national, local – we did, including Georgia, about $350 million in political advertising. The local TV stations were $230 million of that. And we think we'll certainly exceed that for the TV stations. And then we're seeing more and more political advertising on a national level as well.

Michael Ng: And a lot of that national is probably accruing to FOX News, I guess?

Lachlan Murdoch: At FOX News. Tubi gets political advertising now. FOX News. There's some in sports. Political advertising has become – it's still primarily local. Absolutely. But certainly, they're spending more nationally as well.

But you have to look at our local footprint. So, like Phoenix and Arizona. These are also – and don't forget, it's presidential money, but it's the local issue money. It's Senate. There's a lot of tight Senate races. So, it's Arizona, Michigan, Wisconsin, Atlanta, Georgia, Pennsylvania. And our D.C. station gets a lot of Maryland money, because their signal overlaps with Maryland.

So, we're well positioned. We're in very close, all close races around the country. And we think that bodes well to suggest we'll break certainly the local record.

Michael Ng: Right. And that's a great point around Tubi. I mean, I think we all understand political tends to be highly local, and Tubi does not only have the benefit of very targeted on a geography basis, but from a demo basis I'm assuming you can get more sophisticated viewer profiles, right?

Lachlan Murdoch: It's a fully digital business, very data driven. You can be very specific in who you're targeting. But I think, importantly, with Tubi is the reach it gives you. These people are – it's very high skewed cord-cutters or cord-nevers. It's obviously much younger. And it's people who are not watching traditional television. So, the added reach – if we look at how we sell political when they come to us, obviously, the local TV stations is critically important, but if they can add that reach in those local markets with Tubi, it works tremendously well. And that's true, by the way, not just for political, but for all advertising. The reach that Tubi gives you is huge.

Michael Ng: And it was encouraging to hear that the DR market has certainly gotten better relative to a year ago. How would you just characterize the overall advertising market: linear, national?

Lachlan Murdoch: It's much stronger than we expected. So, going into this year, I think it was, like, a couple of quarters ago I said the market was nuanced because there was positive areas and less positive areas. It's now, for us, it's pretty strong across the board.

And so, if I look at our four key verticals, if I start with sport, sport is incredibly strong. And we have the Super Bowl this year. So, I think that obviously helps if you have the Super Bowl and you're selling the Super Bowl. We're practically sold out. We have a few units left. It gives you a lot of strength in your sports revenue. But not just the NFL. Also, Major League Baseball is strong. So, we feel very, very strong in sport.

News, we've talked about. The ratings help tremendously. The direct response increase in rates by 20% and yield by 20% helps. So, news is also very strong. In news, when you have these high news cycles, you have – you take some spots out for live news. And so, we've – but that's minor compared with the strength of the revenue coming in and the strength of the ratings.

The TV stations – we talked about – are going to do very well with political and are doing very well.

And Tubi has gone from strength to strength. In fact, in this quarter we're in, I think July was up in the mid-teens revenue and August was up in the high-teens. So, revenue growth is reaccelerating at Tubi, which is very pleasing to see.

So, those are the four key categories. The category I left out was the TV network. So, entertainment, if you look purely at the entertainment side of the TV network, that money as an industry is moving to places like Tubi. So, TV entertainment, broadcast entertainment, is an area that's softer, but those other four categories are incredibly strong.

Michael Ng: Great. Let's talk a little bit more about Tubi. Could you just talk about the state of the, I'll call it, connected TV advertising market? Obviously, there's been some concern around increased supply coming from Amazon Prime and things like that. Is that much of a concern as it relates to Tubi pricing? Or has Tubi been able to navigate through that competitive supply well?

Lachlan Murdoch: Sure. So, what happened or what Mike's sort of alluding to or talking about is that last year when Amazon came into the market and went with advertising-supported programming, they had a huge amount of inventory came into the market. And what that did was that depressed – there was an oversupply of inventory. And so, everyone in the ad-supported streaming business felt downward pressure in pricing.

The good news or the bad news, depending on how you look at it, is that Tubi's pricing is already incredibly efficient. It was already sort of low compared to the Disney's, the Netflix's who had priced themselves very high. And so, we were insulated from this effect. We certainly had the slowdown in growth; you could see that while the market absorbed this oversupply. But from a yield and from what we were charging with CPM point of view, it didn't affect us like it affected everyone else. Now, the market seems to have absorbed that, and that's why we believe we're back at sort of a very kind of solid growth in revenue back at Tubi.

I think the important thing with Tubi to realize is the breadth of the business now. I think marketers have now come to understand this. We had a very successful upfront for Tubi, because marketers now see it in the same category as they see the Disney's. We're actually rating as well as Disney. On the Nielsen gauge, we had 2.1% of the television market.

Michael Ng: It's been incredible to see.

Lachlan Murdoch: It's incredible. That's because we have 260,000 hours of content, TV and movies, on Tubi. But importantly, 90% of it is not FAST channel. So, people think of Pluto, which was the CBS free streaming service. That was FAST channels. Tubi has FAST channels. But 90% of our viewing is on-demand. So, it's video on-demand. It's a highly engaged audience, where the viewer is choosing to watch that content and is sitting in front of their television and watching that content. It's not something that's on in the background.

And so, what we've been successfully able to do this year is shift the impressions of Tubi as being a FAST channel or something that's free and out there, sort of that's in a crowded, FAST channel market, to actually know it's a premium service that really sits alongside Netflix and Disney and Amazon.

Michael Ng: Great. And we started this conversation talking about FOX's portfolio of must-have channels. And maybe you can talk about what that means when you go into carriage negotiations. Affiliate fees for FOX increased 4% year over year last fiscal year; 9%

growth in TV; flat in cable. Is there a capacity for fee rate growth to potentially outpace cord-cutting at some point?

Lachlan Murdoch: Yes. But with cord-cutting declining around 8% a year...

Michael Ng: It's hard.

Lachlan Murdoch: ...you're like a gerbil running on one of those spinning wheels. But we're running very fast. We're very fast gerbils.

And so, you have to – so, to make up that 8% is hard. And what you're going to see, though, is that there's cyclicality in it. So, we believe with the value of our channels, the value of our content – we are not taking content outside of the bundle, we're leaving it in the bundle – that we'll be able to achieve over the long term, certainly, make up for these sub-declines at this level. But it might be cyclical depending on the quarter. So, depending on which renewals come in, how they – when they take effect.

But we're very confident that we have the premium brands and we're able to drive premium pricing at sort of industry-leading sort of level.

Michael Ng: I wanted to ask about sports betting. FOX has an 18.6% option to acquire – sorry, an option to acquire 18.6% of FanDuel. And obviously, there's been a history with FOX Bet and things like that. And it feels like a feature that could be really additive to a video product. Could you just talk about how you're evaluating and assessing the opportunity in sports betting?

Lachlan Murdoch: We're still tremendous believers in sports betting. We think it's growing into a great business. It also drives engagement with sports, engagement with whether it's football or Major League Baseball or any of the sports that we proudly broadcast. So, we like it both from a television point of view and also, obviously, as an opportunity to further engage with our viewers.

I think Goldman Sachs has valued FanDuel as a sort of standalone business at $35 billion, which imputes a value of our option at about $2.2 billion. But this is an option that expires in 2030. So, we have six years to exercise that option, but we will exercise it. We're not going to leave $2 billion on the table. We think that, by the way, that option grows with value over the next six years.

And so, we've begun the process with state regulators around licensing. To fully monetize the option, we need to be licensed as a gaming operator, even with only 18.6%. And so, we've started that process with state regulators to begin the gaming licensing approvals.

Michael Ng: In the last minute we have, I was wondering if you could just talk about key priorities, strategic goals. What does FOX look like in three to four years from now?

Lachlan Murdoch: So, we like our strategy. We like being very focused. So, we'll continue to do that. We'll continue to engage with our audiences, be it in news and sports, around live content. You won't see us pivoting to entertainment, for example.

But we do have the best – if not one of the best, I'd say the best – balance sheets in the business. So, while we'll invest organically in things like Tubi, the Tubi investment is coming down every year, it's a modest investment compared to what others have spent in streaming. But we'll continue to invest organically in businesses like that, which we think have tremendous future. But we'll also use our balance sheet increasingly, I think, for M&A as we go forward.

I should also say that this year, one of the tools that we like to utilize out of the balance sheet is share buybacks. It's a great way to return capital to our investors. We bought back about $1 billion worth of shares this past year, and we'd expect to do the same this coming year, to be at the same pace.

So, it's continue to drive Tubi, continue to be in live news, live sport. This year, we have the Super Bowl, which will be tremendous. This year, we obviously have the presidential elections, which will be great for the station. So, it should be a great year.

Michael Ng: That's an excellent way to cap it off. Lachlan, thank you so much for being here. It's been a privilege.

Lachlan Murdoch: Mike, thank you. Thanks, everyone.