Fox Corporation

September 18, 2019
01:15 PM EDT

Drew Borst: Okay. I think we'll get started with our next session. Thanks, everyone, for joining us. Please welcome to the stage John Nallen. He's the Chief Operating Officer of Fox Corporation and is a member of the Office of the Chairman. In that role he has a wide array of responsibilities across the entirety of FOX and is well-known to the investor community.

John is credited with being the architect of one of the industry's most significant transactions, the Disney-21CF merger, and the resulting spinoff of FOX.

Prior to that, the March 19 spinoff, John was the CFO of the predecessor 21st Century Fox and overall he's a 25-year veteran of some version of Fox and News Corp. So John, thank you for being here once again.

John Nallen: Thanks for having us, Drew.

Drew Borst: So the spin at FOX happened about six months ago. You had an investor day about four months ago. As you look back on the original thesis underlying the new FOX, is this thesis still intact? And given the rapidly changing environment and consolidating media market, tell us about FOX's strategy and how you plan to drive growth and value. It's a big question. It's a simple question.

John Nallen: Yeah. Nice way to start. But it's interesting, just as we approached here the rapidly changing element of that I think will be thematic as we go through this discussion. Because just in the last two weeks, the kinds of things that have happened are pretty significant in the industry.

But you know, coming back to the theme of the thesis of FOX, it was born back of the transaction a couple years ago, when Rupert had this famous quote which was that we were pivoting at a pivotal moment. I think that's still very much true. We held an investor day. We had 1,000 participants in it, spent five hours. Most of you were there. But the themes that come out of the thesis are, we're focused on appointment television for mass audiences led by big brands, FOX, FOX News, FOX Sports, FOX Stations. We're investing heavily in those brands. If I go back through that period of time and we extended our relationship with Major League Baseball out to 2028. In three weeks time we'll launch WWE on FOX, having it move over to the broadcast side. We continue to expand our local TV station news business. And we're getting behind a lot of our new entertainment assets, most notably investing in things like Masked Singer, on-air and off-air.

The investment really was -- continues to be two-fold. One, out of the thesis was continuing to drive growth, subscription and advertising revenue. Roughly our business is pretty simple, 50/50 right now generally between advertising and subscription. And then the second element, though, of the investment, is how do we expand our brands outside of just linear channels.

Things like FOX Nation, FOX Bet, Credible Labs, these are extensions that come out of the investments that we're making into it. And we're able to sustain these investments and grow the business and allocate our capital wisely, because we've got a hell of a balance sheet and a really strong cash flow generation. Our EBITDA to free cash flow conversion is very strong. We're not very capital-intensive and we've got a tax attribute that stays with us for 15 years, came out of the transaction to help reduce the tax burden of the company. So we've got a really healthy cash flow generation against our peers.

But I think the over-arching point of the theme, and we made it on the investor day, was against our peers and even for us given what we've gone through for the last decades, is it's a simple company, right. We're US-only. I don't wake up now at night thinking about Brexit and the Indian economy and yet another Italian government. These were issues that I would worry about in the old context. We've got very big partners on the advertising and distribution side, and very big partners on the programming side. And we've got just a super management team.

So yeah, going back to the original pivot, I'd say the thesis is intact. It will evolve. There's no question. Clearly we've made slight changes as we've gone through it but yeah, I'd say we're still right in the line of sight from where we were.

Drew Borst: Yeah. Let me jump off of that. You mentioned a couple of recent initiatives over the past couple of months. Scaling up FOX Nation is one. The launch of FOX Bet and the associated investment into The Stars Group. And the third one is the pending acquisition of Credible Labs. So maybe we can attack each of those and sort of turn and maybe let's start with FOX Nation, and sort of what's going on there in terms of scaling up that business.

John Nallen: So I think you can contrast the three of them to where they are in their life cycle but ultimately know that our objective is to reach a really at-scale business. We're not into any one of these to have a little bit of success. We're in here to create really big businesses out of them.

So if you take FOX Nation, the market exists, right. We're not waiting for a market. It's now execution for us to develop more content for FOX Nation and to actively seek out that subscriber base and grow it. We're in the middle of that now. We're dialing up the marketing of FOX Nation to that audience. We're obviously using a lot of on-air at FOX News since that's the best audience. We'll move up that soon enough to get scale there. But the market is there.

If I go to -- you go to FOX Bet for example, we launched in just over the last couple weeks, two states, New Jersey and Pennsylvania. And that market will be very significant but it's not there yet, right. So we have an early entry into the market, great brand, and we think we've got with TSG a great position to grow that business.

And then in the middle is Credible, where you've got -- and you're right, the acquisition's pending, so I don't want to talk too much about where we are on it. But you've got a market for consumer digital finance that's growing. It's not nascent in the case of FOX Bet but it's not as mature as a FOX Nation audience is. And Credible has got a great name inside of that. So we're able to attach to the growth of Credible to begin with and secondarily our audience is growing, providing our audiences to help the business grow even faster.

So I think that three of them you have to look at different maturity cycles. They'll grow at different levels but ultimately they'll each be big businesses for us.

Drew Borst: Yeah. I think with the Credible acquisition, I think you know, some investors maybe didn't quite get it at first, just sort of the -- you know, what is this. This is a consumer loan platform. How does that exactly fit into what FOX is doing? Maybe you could just elaborate a little bit on how you see the -- what opportunity you see there.

John Nallen: Yeah. I've had, obviously, I've had a number of discussions with investors around the (inaudible). I have this internal visual, I refer to the investor day and I continue to have a Venn diagram around news, sports and entertainment. And if you look at us from a capital allocation standpoint, right in the center are the obvious. We made no bones about the fact that we'd like to expand our television station distribution footprint in this country. Bang, do that, everyone nods, got it. Right. So you move out into the sports adjacencies and you see something like FOX Bet, okay. Kind of a big blip on the radar screen for people to see. It makes sense. They did it once before with Sky, right, and there's a -- there's a market and an audience that's growing in America. Great.

And then Credible Labs is still inside the diagram. The blip may not be as heavy and deep as FOX Bet or some other things we're doing like Bento Box, some other acquisitions we made, but it's a business that's tied to our engaged audience. People too often look at our content, FOX Sports, and say okay, FOX Sports, FOX Bet. But one of the big assets we have are tremendous mass audiences. And for us to be able to optimize that through Credible is the opportunity for us.

Drew Borst: Yeah. It's funny. When you announced that acquisition I knew nothing about it, probably like a lot of investors. But it is public down in Australia. Took a look at the annual report and you look at their gross margin last year and it had plummeted. Why's that, that's kind of strange. And they have text. Oh, look at that. They decided to start amping up their marketing. They started using television advertising and subscriber acquisition is one of their biggest costs. Oh. I think I know somebody that has some ad inventory that might be able to help.

John Nallen: You'll see competitors, a lot of Credible advertising on competitors as well.

Drew Borst: Yeah. And I think it's a trend that we're starting to notice where I think companies that have big audiences, engaged audiences, and it's a tremendous asset, right. Especially as audiences in general are fragmenting so if you can still have one -- have that scale, it's even more valuable and more important. I think you're trying to think of other ways to monetize that as --

John Nallen: Absolutely.

Drew Borst: -- opposed to just driving price on the CPM.

John Nallen: Right. And there has to be some engagement -- some tangible engagement hook to the business you're requiring. And clearly the FOX News audience, our local station audience, and now that we're entering a revamping of FOX Business, there is a direct linkage between what Credible is doing and what we're doing around the company.

Drew Borst: Yeah. So I mean, I think is it the message to investors that you guys will continue to look for these types of adjacencies and these types of opportunities going forward? I mean, I think what people worry about a little bit is this is not that big of an acquisition relative to your balance sheet or your cash flow. I mean, it's probably less than 10% of your annual free cash flow. Will you be willing to scale up for the right opportunity? Or are there any sort of parameters that you can put around as you explore more of these adjacent opportunities?

John Nallen: No. I think they're each opportunistic, you know. There's -- we spent a lot of time looking for an -- over the two-year period while we waited for FOX to come in looking for opportunities, the obvious ones I've talked about. The ones that aren't so obvious are pretty hard to find. So we -- it's not like on my desk or on Steve's desk there's a stack of things we're ready to jump on right now. We're going to be really disciplined about how we go forward here.

And I think -- look. That was the case with FOX Bet as well. Finding an opportunity where we could help drive that business in just so many ways, if you think about it. We have the opportunity to acquire an equity interest in FOX Bet over the next seven years at cost as that business scales. We estimate that the sports wagering business legalized in the country by 2023, 2024, be an $8 billion business, 70% of it digital. It's great for us to be involved in that. In the interim we get brand licensing fees. The place where this will explode, and it's true for all of our local station operators, is at the local level. There will just be massive advertising as there's competition for market share as the states roll out licensing there.

We've got the 4.9% interest in TSG so we get a ride at the upstairs company as growth in the market occurs. And I think, you know, it's sort of like Credible. But the play that people miss is as wagering increases in America, and we hope it's disciplined and you know, done well and that there aren't issues out of it. The engagement level that flows back to our linear programming is very significant. We put out an app, FOX Sports Super 6, that I even played last Sunday. You know, six games, you pick where you're going to be just like the old ones. Hey, all of a sudden I'm interested in a game that I wouldn't particularly be interested in. And the opportunity linked to FOX Sports out of wagering is not -- is not one -- it's not a one-legged opportunity. It's massive.

Drew Borst: Yeah. I mean, you would get this anecdotally but we had to consult and do some survey work around this. And when somebody's wagering on a game, 83% are likely to very likely to watch the game. Yeah. It makes perfect sense. Do you -- I know it just launched, I think New Jersey launched early September, September 1 or something like that and Pennsylvania maybe a couple days or a week later. Is there anything you can share with us about what you've seen so far? Again, it's a couple weeks, but --

John Nallen: Yeah, it's early days, only a couple of weeks with college and pro out. TSG put a press release out this morning saying that they were just over the moon about how well FOX Bet is doing in those two markets. They've got a better view of it than we ever would given their experience around the world. So I'd say early days from the expert's standpoint is that things are looking encouraging.

Drew Borst: Okay. Great. Let's shift gears a little bit and talk about affiliate revenue. Across both cable and broadcast it's half of your revenue. As you guys have disclosed 69% of that revenue is up for renewal over the next two fiscal years inclusive of this one that we're in. can you just talk about what you see as the near-term outlook for the affiliate revenue growth?

John Nallen: I'm glad you asked this.

Drew Borst: Yeah. You never get that question.

John Nallen: No. But actually there's just so much talk about this topic that it's worth going back to the simplification theme. It's worth it to just bifurcate two issues that exist inside of it. The first is, there are two inputs for our -- pretty simple for our affiliate revenue. Price and volume. And in the case of price, that's something we control. We control the decision. We decide do we want to move forward with the price that has been negotiated between the parties, or did we want to hold back and say for our shareholders, for our business, that's not the right price.

We have very quietly done a good number of deals against that 69% where we've clearly met our expectations on price. Because if we didn't there'd be noise about it, there'd be a blackout or something else. This summer has been filled with them, as we know. So I think on the price side, we're in the middle of other negotiations right now. They always start tense. Eventually there's a middle ground. But always achieving our expectations and obviously achieving the expectations of the counterparty.

The place we don't control is volume, the second thing. We're reliant entirely on distributors for volume, our 75, 80 million subs that we get paid for every month. But to be a bit more granular about it recently, I know in the last couple of weeks one distributor, AT&T, has commented about the erosion that they experienced and that they continue to experience in the quarter, maybe beyond. Now, if you look which of course we do month by month, AT&T accounts for 25% of our volume, yet over the last several quarters, trailing 12 months, they've accounted for 75% in the decline in our sales. So 25% market share accounting for 75% of the sub decline overall. So this picture gets painted of this massive erosion, massive cord cutting, when you really can localize it to some of the initiatives that AT&T is -- said differently, if I took AT&T out of the mix, the rest of our 75% is down 1.5% to 2%. Generally in line with most people's expectations.

We're hopeful that the AT&T sub-base stabilizes. We're really hopeful that some of that churn finds its way to other products in AT&T or other platforms. But for the moment, and you'll see it this quarter from everybody, and hopefully not as much next quarter, we're all focused on this one issue with this one provider.

So I think the macro point is for the outlook I feel real good about price. I just am looking for some stability around volume.

Drew Borst: Yeah. That's -- appreciate all those data points. It's very helpful to understand it a little bit better. I mean, the other thing that we'd noticed, and tell me if you're seeing something differently, is that the virtual MVPDs as a collective group, at least in the second quarter, seemed to slow fairly significantly. Still positive, still growing. It's good to see. But more like 100,000 versus say, 500 in prior quarters, trailing.

I'd be interested to understand what you think is happening there. Do you think it's the recent price increases? Is it a lull in the sports calendar, is it some combination of the two? Or you know, how are you guys thinking about it?

John Nallen: I think there's two categories. One, I come back to DIRECTV NOW, now turned into AT&T Now, with some changes in the packaging, the pricing there. That's clearly -- was an issue with their rate of change in the period. And I do believe a lot of it relates to the pricing increase that happened during the period. That'll settle. Subscribers will determine, will they pay $45 for the skinny bundle for example that YouTube has. But I think a lot of it is that the price points in the offering had changed during that period. Hopefully we see again, more rapid increase of the subs going forward.

Drew Borst: Okay. You've said that apart from FOX Nation you don't see a near-term meaningful opportunity for a FOX-only DTC service. Relative to your peers, that's a little bit of a different point of view and strategy. Can you talk a little bit about how you're looking at DTC?

John Nallen: Yeah. I don't want you to take away from this that we're luddites as it relates to digital, in that we've got FOX Nation, we've talked about FOX Bet, Credible, pay-per-view, FOX Sports Go. FoxNews.com, one of the biggest-engaged audiences in the country. So from a digital standpoint we're very active. What I have said in the past, and I believe in the near term still, that our channels will primarily be distributed in a bundled fashion. The bundle won't be the same as it's traditionally been. It will be smaller. Much like what the -- what the over-the-top guys are providing. But for the near term, the 75 to 80 million subs that we get paid for every month are still going to consume in a bundle.

Now, it's not that we then have our head in the sand and say hey, oh, god, I hope this doesn't change. One of the things se acquired or kept in the Disney deal was all of the technology around direct-to-consumer because we had been building it for a more complete suite of products and library that we had in the 21CF days. All right. What we don't have in the FOX world is a library. Our shareholders got paid richly for selling that library over to Disney.

So if in fact consumer behavior changes more rapidly, where they want to buy every single product direct or even more so, which I'm not sure this will happen dramatically quickly, if providers, distributors, de-emphasize video, all right. We're ready. We're ready to deploy. We've kept that technology current and to move forward. I just don't see today deploying that capital to get the kind of return when I have 80 million subscribers in a bundled universe.

And the risk of breaking that universe for me, the risks, are very significant.

Drew Borst: Yeah. It's an interesting point because I think investors are quite concerned about this de-emphasis of video point that you alluded to. I mean, you mentioned AT&T. It seems clear that that's what they're doing at the moment. It could change, maybe. I think to many people's ears, Comcast as well was talking about broadband first. The announcement that we chatted about with Flex being offered. You know, but as you look at your various partnerships with distributors, you firstly do kind of agree with that in a broad sense? Do you think we're hitting some type of inflection where they really are pulling back? They seem more focused on profit -- or even better, profit per relationship and video seems to kind of be falling back, and they're not offering as much promotions and to retain subs which I think they've kind of learned the hard way those promotions don't necessarily pan out. Do you broadly agree with that?

John Nallen: I have two observations, one current and then longer-term. Currently our relationships with providers are as robust as they have always been, so they continue to acquire our product. I haven't seen a real de-emphasis of video by all of them, although I did note some comments that were given to you during the conference. But yeah, I can see a world in the future -- not -- not the near term but in the future -- where cable operators don't provide video, all right. They're your utility providing broadband. And they've left it to another bundle, it goes DMVPDs that have emerged, make all the sense in the world to me where the provider can say look, I'm providing you broadband telephony. Get your video somewhere else but I've got the pipe that will support anything you want to buy.

The real question for me is in an American household. Like, what the wallet difference is before and after. Because you get a quad play offer out of a cable operator, you pull out the video, get it somewhere else. I don't know where that price goes. And yet you're paying a new price for your video. So I'm not sure the household ends up in a better place. But I'm sure the cable operator feels that they are in a better place. So long term, yeah. I could see a world where cable operators are not providing video directly.

Drew Borst: Yeah. And relative to the assets that you guys have, I mean, it's probably an easier pivot or transition, evolution, revolution, whatever it ends up being given your strong presence in live news, live sports, entertainment, (inaudible).

John Nallen: Yeah. I think so because I do believe, again, not as a luddite, but I do believe that there will be bundlers who will take the best programming in the country, which will of course include all the networks, has to include most of the new services, some of the sport services and that product's going to be a bundled product. The rest will be -- there will be a lot of D2C happening, a lot of sampling where people will go. But there will still be a core, smaller bundle that likely will be offered over the top.

Drew Borst: Yeah. I want to get a question in about reverse comp, reverse re-trans. We've seen the independent broadcasters, they've been consolidating for several years now. It looks like the Nexstar-Tribune's basically a done deal at this point. Part of the reason they're doing this is to get greater scale when they're negotiating with you for the reverse comp. Can you talk about how you're thinking about reverse comp growth over the next couple of years, and where you see those revenue splits if you will, headed over the next couple of years?

John Nallen: So untethered from the assets we had with 21CF, probably the biggest growth opportunity in our asset mix is coming out of the pot of broadcast television revenue, affiliate revenue, broken down between what we own, O&O and then our reverse comp as you refer to it.

I think there's plenty of -- there's significant room for growth directly and through reverse comp. You take Nextstar-Tribune as an example, in connection with their announcement earlier this week, I guess of FCC approval, we also announced a long-term affiliate deal covering their 39 FOX stations which is 15% of the country.

So we like to think, and if people like Nextstar, Sinclair, others, were reporting their station group by affiliate, the FOX stations would be their most profitable by far. It just -- being an owner of a FOX station is always more profitable. First we deliver an incredible amount of sports to them as a promotional tool, basically now Thursday through Sunday. And only two hours of really-focused primetime. The rest of the time is theirs, and so we don't have a morning block, we don't have a late-night block that the network takes and only gives them a bit. It's entirely theirs and it's mostly, most of the programming around that is news. Cheaper product but great advertising that comes out of it.

So in discussions that we have around reverse comp, these -- you know, our partners know the value of the FOX Network versus the other ones they have. So I'm -- you know, I feel real good about both what we'll get from direct retrans and our share of reverse comp growing over time.

Drew Borst: And it sounds like you feel like there's a price umbrella of sorts for your reverse relative to maybe some of the other networks, it means that kind --

John Nallen: Meaning a ceiling?

Drew Borst: No, no. That you -- the other networks are sort of higher-priced to the affiliates and you guys are riding beneath that. There's plenty of room for you to grow.

John Nallen: Yeah. I think there's plenty of room to grow because of my earlier comment which is we're now -- FOX is now on its own. We're not -- we don't have the RSNs. We don't -- we're not launching other networks like FXX or FS2 and other, NatGeo Wild. We're on our own. And as a result we really just want full value for what we have now.

Drew Borst: Let's move to advertising which is the other half of your revenue as you mentioned earlier. US TV advertising demand has been strong all year long. It goes back to a pretty strong upfront from last year. Scatter this past upfront, it was also fairly strong for you and others. There's a lot going on in the global economy. Even here in the US we've got a slow in manufacturing but the consumer has been quite strong. Can you just give us an update on what you're seeing in the current advertising market?

John Nallen: Yeah. I don't think there's a but or a however in advertising right now. It's just very strong. And that's both on a national and local level. We had a great upfront. I think the industry did. I know we did in particular, both pricing and volume. Volume was up from the traditional players, pharma, finance, beverage, all the big categories. Retail is always a bit iffy as to where they're headed. But overall price and volume up strong. What we've seen, and one of the benefits in the upfront, was emerging categories led by digital coming to the upfront. So you've got tech companies using broadcast television to really promote their new in-home products, speakers, thermostats, these security cameras. All of these are now new products, big spending that's entering the market, and they're using broadcast television to promote those products.

For us entertainment was up solid double digits. News and sports up mid-to-high single. So both of those, you know, really worked out well. And on the local side what we've seen is continued to see strength coming out of finance and domestic auto. Now, the GM strike on, we haven't seen an effect of it yet. It's something probably all of us are watching. But there continues to be strength there. And scatter, on a national basis, is up yet again from this upfront. Forget about from the prior upfront, but from this upfront. So it's a -- you probably heard this throughout but it's a really healthy advertising market for broadcast, television, and for us at FOX News.

Drew Borst: You're right. It's been -- it's been pretty consistent across the board, the U.S. ad market, television, even other parts -- billboards, outdoor, yeah, it seems quite strong. I think the thing investors are asking is we've also heard that places out -- like China, UK, you know, Latin America, so there's sort of this picture of weakness everywhere but here.

John Nallen: I don't care anymore.

Drew Borst: Yeah, you don't care, that's right. But as of that, the question, can this persist, right. Can the US ad market sort of continue?

John Nallen: I know if you look at -- it's a question of what indicators you look at. Generally US economy's in great health. There are some pockets that are at issue, retail in particular, some issues. But throughout if we look at the categories that support us, they're feeling pretty good about the US economy.

Drew Borst: Yeah. I tend to think if the US consumer remains healthy that's probably the --

John Nallen: Exactly right.

Drew Borst: Yeah. Slightly different topic but still on advertising, you guys recently disclosed that you actually have $500 million in digital advertising. That's 10% of the total. Maybe you could give us a -- break that down a little bit for us and help us understand where's that coming from, and what are sort of the drivers in the outlook for growth?

John Nallen: So the -- obviously it's the digital services off of our core linear brands. It would be led by FOX News, and the FOX News Media digital suite of assets attract a highly engaged audience. It's not uncommon to have a FOX News viewer have the linear channel and the digital going at the same time. So a substantial amount of digital advertising is driven by FOX News digital apps. FOX Sports Go, FOX Now, are other places. And of course digital revenue that we get from the digital MVPDs led by Hulu would be another category. And they all -- they all continue to grow.

Drew Borst: Is there -- you know, one of the artifacts of the separation is you no longer have a stake in Hulu. I wasn't sure if inside that 500 which was the number for the last fiscal year, were there any sort of big component coming from Hulu that changes because maybe there's some change in the relationship with Hulu? Or is that not a significant factor?

John Nallen: No, Hulu -- the relationship with Hulu obviously as an equity owner changes -- changed. We have renewals with Hulu consistent with renewals we have with everyone else. The difference with Hulu is we license content to them next day and there was an artifact coming out of the old deal that continues. And then we'll renew it when that expires.

Drew Borst: So it sounds like that deal's still in place for the -- basically the catch-up TV viewing. And is that a fixed license or is there some sort of revenue, ad revenue sharing?

John Nallen: I don't want to go into all the details of it.

Drew Borst: You can just print out the contract. Very good.

Coming out of the analyst day -- let's move to a sort of different topic and sort of -- sort of some of the cost components of the company, and coming out of analyst day I think some investors were surprised by the level of incremental investment and entertainment programming at the FOX Network for this year. Because you know, at the analyst day you did highlight some of the structural challenges that exist with ad-supported entertainment programming. This investment is weighing on EBITDA in the television segment a bit this year. You could talk about sort of how you're thinking about the investment and what's going on and you also may speak to the longer-term of what you think margins can look like for this television segment.

John Nallen: So if you reflect on just content, right, the entertainment side of our network, and what it competes against, today's front page of the Wall Street Journal has content being sold for $2 billion to providers. Apple announces a streaming service last week where one series is going to cost them $300 million. We take heat for putting $100 million or so into the entertainment network. It doesn't make any sense to me.

We are focused on dialing up the level of originality in the entertainment network because that's what we're competing against. When you look at Peacock coming out and Apple streaming and what Netflix is talking about, that's what our entertainment division is competing against. So for us not to invest in originality comes back to the two legs I described earlier. It's going to impact our advertising revenue. It's going to impact our affiliate revenue because the viewership is going to get impacted.

Our network is a holistic network. It's not a sports network. It's a sports and entertainment network and we're going to invest in the brand and invest in originality with some of that really coming online already. But look -- you just look at the dollars we're competing against. If we're able to create the kinds of returns that we expect out of this investment, we should all be cheering.

Drew Borst: And in terms of like, the longer-term outlook for the margins, I mean, I think this year we're -- according to our estimates, anyway, we'll have a mid-single-digit margin. This is down from mid-teens or low double digits a couple years ago. I mean, do you think that there's the opportunity to get back to that level and how long might that take?

John Nallen: What's weighing the margins last year and this year are not the entertainment division, not these investments. It's our sports product. Thursday Night Football last year, first time. This year, WWE gets launched. Expansion of college football. So that will find probably its level by '21 when some of these retrans and clearly our advertising growth kicks in as well.

Drew Borst: Right. That makes sense. The deal's kind of a high cost, a multi-year deal kind of takes time to lag into the revenues.

John Nallen: Right.

Drew Borst: Okay. Well on that note of sports, I did want to ask about the NFL renewal, you know, recognizing that your existing contracts do run through the '22 season. But I think there's a pretty high expectation that the negotiation is likely to take place probably next year as far as we understand it, assuming the CBA gets done. You know, how are you thinking about it? And I guess do you think that the NFL is going to break the linear TV rights from the digital rights? And if you do, how do you position your bidding for that type of structure?

John Nallen: So at the outset I'd say we have had no discussions with the NFL around renewal. So therefore, I don't know what they're thinking. You'll have Brian Rolapp here tomorrow, so --

Drew Borst: I'll ask him.

John Nallen: You can ask him.

Drew Borst: I'll report back.

John Nallen: Ask him what he's thinking, okay? But what I do know is those of you that attended the investor day would have heard Commissioner Goodell and separately Commissioner Manfred indicate that broadcast television is really important to them from a reach standpoint. And secondarily that FOX has been an amazing partner for them. In the case of the NFL it's been for 25 years that we've been the NFL on FOX.

So our hope, our expectation, is that after the '23 Super Bowl which is ours, we'll have an extended deal and we'll begin that conversation whenever the NFL approaches the media partners. We assume they're going to approach all of us at once around what the deal is.

If you look at digital, the NFL has also said publicly that they're focused on reach, and have referenced digital in the reach. The only data point I have is the existing partnership we have, which is Thursday Night Football. Amazon is the digital partner and distributes our production on Thursday night to its audience.

If you take last year as a benchmark, 95%, 96% of the viewing of a Thursday night game was on television. The other 4% to 5% was on Amazon.

So the NFL will decide the extent of its partnership with digital companies, but clearly exclusivity which is what we have on Sunday, I guess all of us have on Sunday, is a very valuable asset to us. So we'll engage with the NFL once it's time for them to have that discussion.

Drew Borst: Yeah. And there are some other sports rights deals that are currently up for bid, notably the PGA Tour and NHL. But you may not want to talk specifically about either one of those, though you're welcome to. But just in a general sense, what's sort of your appetite to add more sports to your portfolio considering not just FOX Network but FOX Sports 1 and 2 lest we forget those networks?

John Nallen: Yeah, because I don't -- you can't forget those because that's where the emphasis would be. Think on the network side, given baseball, football, college football, NASCAR, FIFA rights, we have US Open. WWE, the addition on Fridays. We've got a pretty full schedule on the network side. FS1, you know, we had UFC. We don't anymore. We've added some basketball conferences like the Big East there. We were involved in the discussion to add NXT to FS1 but given some of our commitments to college basketball we couldn't accommodate the date that WWE wanted for it. So we'd be -- we continue to be interested in expanding product on FS1 and FS2 but not so much the network.

Drew Borst: Okay. Let's talk a little bit about capital allocation, balance sheet, cash flow, those sorts of things. At the end of the last quarter you had $3.2 billion of cash on your balance sheet, net leverage 1.3 times, annual free cash flow 1.8. It's a lot of firepower, enviable position to be in. How are you thinking about sort of when do you deploy it, and how do you deploy it?

John Nallen: You know, the point I've made about this probably in meetings even since the investor day is -- and really I go back to the very first thing we talked about, is the dramatic change going on in the industry -- is you deploy capital over cycles depending upon what's going on in that cycle, right. In a really dormant cycle capital returns should be your emphasis. Capital returns to shareholders. In a really active cycle where you're trying to grow the business and your emphasis is more organic or M&A, and we'll just continue to watch the right way to deploy capital in a disciplined manner over those cycles.

I know we talked about it briefly sidebar, there's been a lot of attention around the buyback authorization which reminded me of my kids in a car, long hour, two-hour drive, you say it'll take two hours. And then nine minutes into it, well, when are we going to get there? You say, well it's going to take two hours.

The point we made at the investor day was by the AGM, no later than the AGM, the buyback authorization will be in place. But yet, it's when are you going to, when are you going to get it, when are you going to get it. By the AGM, no later, the buyback authorization will be in place.

And what takes so long is first the reality of a board operating in corporate America and particularly a new board. And second, for us, this buyback authorization sets the ground rules. If you ever change it the question becomes why, why are you changing it from what you established. So therefore, a lot of thought and emphasis has to go into what you establish.

But you should not -- you should not take away that the three legs of capital allocation for us, that there's one that's more important to another. They're important at different legs of a cycle, right. And therefore, capital returns -- 21CF we returned $16 billion of capital to the shareholders. Bought that stock. Remaining shareholders made a hell of a return in the Disney deal and the remaining FOX side. So capital returns in the form of buybacks and dividends are very important to us.

Drew Borst: Yeah. One follow-up I have, you know, you guys at the analyst day talked about a minimum cash balance of $1.5 billion which, and you referenced this earlier, your capital needs, capital intensity, working capital, are fairly low. I guess that number struck me as a bit high and I don't know -- maybe you can explain why? I don't know if this is just out of maybe you want to run a bit more of a conservative balance sheet. Maybe it has something to do with where we are in the cycle. I don't know if you could just explain that a little bit?

John Nallen: I don't think it's in the cycle. I think it points to what has historically been the conservative nature, the way we run our balance sheet. I mean, we're really focused on maintaining an investment grade, and all these other elements of capital allocation feed into that. Organic M&A, capital return, you need to ensure your credit rating is at a place where you can access capital if you want to. We're very focused on that.

A billion and a half has been about the level we've used for the last six, seven years. We have cycles with a year of capital where first half we're making all these sports payments, second half we harvest cash. So you should expect that will be the level that we'll maintain as minimum cash.

Drew Borst: Okay. We're out of time, John. Thanks so much for being here. Great discussion.

John Nallen: Thanks. Appreciate it, Drew.