CS_Fox

DOUGLAS MITCHELSON: So welcome to our first company presentation at our 26th Annual Communications Conference, our first Virtual Communications Conference. We'll see-- hope and our last. I'm very pleased to have John Nallen, Chief Operating Officer of Fox corporation, with us this morning. John, thank you so much for being with us.

JOHN NALLEN: Thanks for having us, Dough. We appreciate it.

DOUGLAS MITCHELSON: So as you know, I want to start off with the split off of Fox Corp. just consummated last year. It's a new standalone company, 15 months old. It certainly faced a major test with the COVID crisis. I'm curious what did the board and management get right with design and operational structure of Fox Corp. You know, where's there still work to do in your view?

JOHN NALLEN: So look I think-- I think if you look now at what was put together, you can be pretty comfortable that it's the right business. We put together a very simplified portfolio of assets focused on live sports, live news, event program. So if you look at what's gone on, particularly in the media sector and most particularly in the entertainment sector, focusing on live was really the right strategy. We also, I think if you think about other attributes that we brought to Fox, the culture that we had at 21st Century Fox News Corp. before that of agile, an agile company, rapid decision making. We brought that over-- lean corporate structure.

The conservatism that we have toward our balance sheet and leverage is a hallmark of the company and always has been. But then, you know, I was reflecting on this before this conference, if you look at the year that we had, granted severely interrupted by what's going on right now, but leadership positions across the board-- Fox News stays number one, Fox Sports number one in live. The entertainment network goes from fourth to first. And the stations gain market share, a record Super Bowl, seven game world series, an unprecedented number of affiliate [INAUDIBLE] that we completed. Acquisitions, Bento, Tubi, Credible, Nexstar stations.

We then entered the sports wagering market. We authorized and executed on a buyback. So when you look at the last 15 months, there was a lot accomplished. And then as we look to '21, granted we pause, remember we're at June fiscal year end, we paused with the interruption and disruption and the uncertainty that comes out of COVID-19. Now with the news of whatever it was, 30 minutes ago, on retail sales, and the reaction of the market, hopefully that bodes well for what's to come.

But all in all, I think if you look at the establishment of the company, the execution and the forward looking opportunity, we're sitting in a pretty good place.

DOUGLAS MITCHELSON: So let's talk about that forward looking opportunity. How do you create the most value going forward. I know a subject near and dear to your heart.

JOHN NALLEN: [GIGGLES] Well, first you have to start with the existing businesses. So for us, to continue to focus on maintaining that leadership position that I commented on is vital, because it supports the top line pricing growth that we need to achieve to continue our growth. And in pricing growth, I mean both an affiliate revenue as well as advertising revenue, and I'm sure we'll talk about both. So first and foremost, it's just growing the existing business. Second, I think it's expanding into adjacencies. Like we've done with started to do with Fox Nation, FOX Bet stuffed with Tubi. It's how do we get into adjacent businesses that are naturally attached to that core growth businesses.

And look the third is kind of the beauty of the Fox Corporation as it exists right now is deploying our balance sheet and that cash flow that we generate for the best return. And look that return could be in the form of capital returns, it could be accretive M&A, organic investment. But over the last 15 months, I think we've demonstrated our ability to do all of those. But the balance sheet, I think is going to be a big driver of growth for the future. It's a unique attribute we have when you consider other companies in our space.

DOUGLAS MITCHELSON: And we'll certainly be talking about that in a few minutes. Is fiscal '21 a good growth year for Fox Corp.

JOHN NALLEN: It was hard to say for anyone if you look at what '21 has brought on. Our fiscal year ends in about 15 days, so we look forward to the next 12 months. And we were set up nicely pre-COVID for a good '21. We had some comparison items. We don't have a Super Bowl this year. We don't have a World Cup. We got a big election cycle. So those were going to be just natural oscillations of our business that you can predict well in advance.

But COVID-19 has put in a great deal of uncertainty and disruption into our business. And it really, I think it manifests itself for us in two big areas. First is the sports calendar. Right? And I've read everything in the last 48 hours about some of the leagues, but what happens with baseball, college football, the NFL, NASCAR is back, but those are big variables for us.

And second is, which I'm sure is true for everyone, but for us more, more so is the pace of the economic recovery. And what the impact of that pace is on advertising, national and local, and on subscribers. And look where it manifested itself most for us, the economic issues is in our local station business. That's a business that turns off and on rapidly. And it continues to be impacted less severely than a month ago. We can talk about that by auto and retail, basically consumer spending. Again I'm encouraged by the retail numbers from this morning. But it, but it does.

It is looking forward to what should be a pretty sizable election period, but we have planned that anyway. Right, so I, that's not positive nor negative. We had planned for a big election period. I think the overhang is how quickly advertising returns in the local markets. And as I'm sure, we'll talk about, it's going to vary state by state, market by market.

DOUGLAS MITCHELSON: So let's talk about that. You know beyond television advertising, any other COVID updates impacts on trends? But certainly very interesting to hear our television advertising is doing both locally and nationally. And where you do see variances based on whether markets have opened up or not?

JOHN NALLEN: So when we last spoke to you, and you were one of the questioners, and everyone else during the earnings call, we estimated the major impact to our Q4 was going to be out of, a. Out of advertising, and b. Out of local. And we gave you a range of $200 million to $240 million impact. We're now looking at the lower end of that range, because we've seen some key categories in local markets return. So the pacing that we told you then was down 50% for Q4. It has improved to basically the low 40% range, with June itself basically down 30%.

So the trend is in the right direction. Where we're seeing that? Remember, our station group is a major market station group. So when you think about the cities that got hit the hardest, that's where we are. But certain of our middle market cities like Atlanta, Detroit, Houston, Phoenix, they were turning on quicker than those big city markets. And we've seen advertising return a bit quicker, hence the down 30 in June.

What it means for Q1? You know, we can see out to about July, and still see that kind of trend occurring. Beyond that, I'm really not going to guess.

DOUGLAS MITCHELSON: So before we, oh! Certainly encouraging. Before we delve into some of the revenue streams, oddly I wanted to start a little bit with OpEx. I mean, Fox has been relatively unique as not having had to address its cost structure as aggressively as some of the others that were more directly impacted by the crisis. And I'm just curious from your standpoint, whether you do see permanent changes, whether it's distributed workforce or what have you that would have some cost benefits for Fox Corp? And and what kind of efficiencies you are pushing through in this environment?

JOHN NALLEN: Well, I think, it goes back to your first question which was the establishment of Fox 15 months ago. We had the-- it's rare you get the opportunity to stand up a public company and plan for it inside of a public company. And we had that opportunity pre the 21 CF sale, and the spin out of Fox. So as a result, we were able then to design a really efficient organization. We just had that luxury. We had that ability. But having said that, we did take some cost initiatives with COVID management team. We're forgoing salaries. We reduced other salaries for an extended period. We've got a hiring freeze on. We announced that there'll be no merit increases for the next year.

So that's on the one side from a cost standpoint. On the other side, we recognized the importance of our colleagues across the country to making Fox tick. So we signed up to pay for all our medical benefits, free telemedicine, and we've made some pretty big contributions into the communities we're in. But I think like every company, we've learned a lot during this three months. And my sense of this is, it's going to play out over a year.

People will start to return. They're going to try to figure out what the level water is, and how they can operate their business differently. Test a few things, and then probably a year from now, we'll know permanently how we're going to work. I don't think there's any sense on a phase one return, where people are going to say, this is the way we're going to work going forward. It's just-- it's going to be trial and error and then eventually people figure out a different way.

DOUGLAS MITCHELSON: So let's shift over to distribution revenue. So that's another area that tends to set Fox apart given the amount of growth you have in distribution. Can you talk about the price value of your networks at this point? You know, again you're putting up the fastest affiliate growth in the industry by far. What's the outlook for retrans and cable network affiliate growth going forward.

JOHN NALLEN: Look, as a whole, it's 50% of our revenue. Right? If I come back to a simple company, roughly 50:50 between sub affiliate fees, and advertising revenue. For us, and I go back to the Investor Day, where we talked about how simple is this. Right? We offer a unique proposition to the distribution partners. It's basically six channels built around three brands, sports, news, and the network and entertainment with exclusive and highly engaging program. It's not much more difficult than that.

So in the last year, we completed, sort of really an unprecedented number of affiliate renewals. We only had one, where we had a bit of a back and forth. And we were off for a little bit of time, but both sides determined the right value mix there. Having said that, [INAUDIBLE] now from a pricing standpoint. I'll talk about volume whenever you want, but from a pricing standpoint, we're locked and loaded for all of next year, most of the following year. And we don't have any major renewals until 2023.

So we've, we've set the groundwork for pricing of our product in the market. And now, we're really pretty much volume dependent where our revenue is going to move. And it's nice to have the kinds of number one positions we've had, because when you think about the offering that distributors have to their customers, it's these kinds of products that they must have inside there Pay-TV property.

DOUGLAS MITCHELSON: So you mentioned volume, and I'm sure investors are curious what you're seeing on the Pay-TV subscriber side?

JOHN NALLEN: You know some, I took a look at your report as well where you were looking at. I think you called down 6 for around the trailing 12. You see it tempering to around 5.5. That's about what we're seeing, down 6 from a trailing 12. I know that a few major distributors expressed a bearish tone toward where they think volumes go. On the other side, we know there's a lot of TV viewing. There's strong pent up demand for sports. I don't know, the wildcard to me is I don't know what impact the stimulus has had on subs being retained inside.

I think, look the bias to me is negative. It's pressure on subscriber volumes. But I don't think we're going to really know until the fall, until stimulus shakes out, until employment comes back, and then people making semi-final decisions about what they want for their video in home. Do they want to pay TV bundle; they just want AVOD service; they want to staple together a few SVOD services? I think that's still shaking out. And we probably won't know the conclusions on that until later in the year.

DOUGLAS MITCHELSON: And I'm not sure how you approach this, but certainly you're making some big programming decisions on some of these long-term sports contracts. You might talk about one of those a little bit. Do you have a perspective as to where the bundle shakes out in the longer term? Is there sort of a ceiling for penetration based on your view of the use of sports and news, the importance of sports and news in the future? Or is that something that's just too difficult to predict at this point in time?

JOHN NALLEN: Well, I'll give you a prediction. I don't know whether it's too difficult, but look my view has been that the bundle continues to contract. But there will be a bundle. Putting together a set of products to offer them cheaper than if someone acquire them individually, products that a customer wants. It's the heart of retailing, all right. And I think the bundle centers around-- for us, centers around broadcast, sports, news, and lifestyle. It doesn't center around entertainment. There are just too many other choices now in the market to a consumer to get different entertainment.

I mean, you look at the quality of the product that's being offered in the various SVOD markets and maybe even some of the AVOD products, I should say. I'm not sure entertainment is as core to the bundle and the Pay-TV universe as it has been through it's, through its lifetime. And I think what will happen is you'll get, you'll get distributors squeezing down to a core product, maybe led by digital MBPVs, and then people just bringing their own entertainment to their household.

Just like the connectivity companies, we used to call them cable companies, but the connectivity companies are more-- you know Bring Your Own, bring your own video, bring your own audio, bring your own security. There will be more Bring Your Owns. It could be Pay-TV, certainly on entertainment SVOD, it will be Bring Your Own.

And so I think it comes back to a core bundle being in those genres I described, and there's a market there that still creates for us a very healthy business. That supports the kind of programming investment we make in sports and supports the investments we're making in news and entertainment. And I think it's a very healthy business at that level.

DOUGLAS MITCHELSON: You know, it puts you in a very interesting position relative to the lot of the other companies as you approach OTT strategy, which sort of naturally what I wanted to talk about next. I think one of the things that we all think about is, when is it advantageous for each media company to look at the cord-cutters and cord-nevers, and say, I need to offer my product more directly to those people and try to monetize that audience, though that also risks my core pay-TV bundle. Since you're so central to the pay-TV bundle, how do you think about-- what would you, how do you articulate your OTT strategy at this point? How do you think of that crossover? At what point do you more aggressively go after a la carte business model?

JOHN NALLEN: So I think taking those in a couple of different ways. Our OTT strategy is different than others. At this point, it is defined by basically two words, Rational Investment. We are looking to invest in where we can see a return. And we are not going to compete at the, what I just described, the big entertainment genre of SVOD area. It's just not what we're going to do. If you take Tubi aside for the moment, our philosophy has been how do we deepen engagement with our existing audience.

So in sports, it's Fox Bet, and in news it's Fox Nation and the digital products that come out of the Fox News, and then from entertainment what we've done now is make a big investment by acquiring Tubi. Having said that, the Tubi investment is one that is rational. We're not spending big money into original programming. We added 800 titles last month to Tubi's library. And you know, you didn't hear about a big market deal with one of the third party producers to do that. It's that's the kind of pace that Tubi operates on.

So from an OTT strategy standpoint, you shouldn't expect us to compete with those that are looking to create a long-term big business out of SVOD. It's just not, it's not where we're going to play. And--

DOUGLAS MITCHELSON: So

JOHN NALLEN: [INAUDIBLE] your second question though about, when is it that you go after that group of cord-cutters? I don't think, I don't think we're at that moment. I don't see it in the near term for us to be offering a Fox bundle a la carte outside. I mean, we've got a massive business in the pay-TV world. We have fantastic partners in there. We're not about to go compete with them on different terms altogether.

DOUGLAS MITCHELSON: I guess I'd be remiss if I didn't try to pin you down. I think there was a mention of 7% affiliate revenue growth for fiscal '20. Do you, you know, it's almost over. Any willingness to comment on that goal at this point?

JOHN NALLEN: No. I'll wait until we deliver our earnings release in 60 days, whatever. [LAUGHS]

DOUGLAS MITCHELSON: [LAUGHS] OK. Why don't we switch over to the other half of the revenue advertising side, you know, what's your outlook for the upfront at this point? How does the rest of the calendar year play out for Fox?

JOHN NALLEN: Look, I think the upfront is in-- we're all using the term The Upfront, I'm not sure, I'm not sure what The Upfront means in the market that we're at it. It looks very different than prior years. We've got some clients, not all, but some, making some minimum long-term commitments. I think you see that in areas where they're looking to secure inventory that they are sure they're going to need. Retail is a great example of that. Tech is an example of that.

Other clients are just going to shift to scatter and buy on an as needed basis when the economic picture becomes, becomes known. But one thing we do know is there's going to be a flight to quality. And in this area from a national advertising standpoint, there's going to be a flight to quality. And sports is going to play a big, big role in that. Original entertainment across broadcast cable will play a big role in that. And national news is going to play a big role for that.

For us, we're remaining flexible for the advertising partners. We're ready to transact when they feel good about ready to lean in and make some commitments, but I think the shape of the sports calendar is what everyone's just waiting to see how it's going to last. And one thing I would say is that we are mindful around pricing since any reset on pricing is lasting. So we're really focused on establishing the appropriate price in the market. Recognize that's a multi-year benchmark once you've established.

DOUGLAS MITCHELSON: Yeah, it's an interesting environment. The ad buyers are talking about a bit of improvement in scattered months to month, April to May to, to June. I'm not sure if Fox is also seen that same improvement in ad. There was a lot of excitement about the cancellations for the September quarter for national upfront buys, where you could cancel upwards of about 50%, and whether that would actually suggest for the media network company's third quarter that could be sort of even in some ways more challenging than the second quarter that might have been held up by the upfront. I don't know if there's any comments you're willing to make on sort of the pace of scatter and how that's evolving in any dynamics around the September quarter cancellation options for the upfront?

JOHN NALLEN: September cancellations for us were manageable. They were not out, out. They were, sure they were out of the ordinary. But they weren't told so, you know, we were, we were alarmed by. We are, we are seeing return, returning demand in the marketplace for scatter. The pricing is clearly softer than where it was. And recognize that we had a scatter market that was the best. We as an industry had a scatter market, it was the best in a decade. But we're still seeing pricing that was, that's above upfront even with a softer market.

We're seeing categories that are leading this like tech, telco, finance, those are ones that are active in the scatter market. The laggards are the ones, you'd expect, quick service restaurant, retail, studios, auto. But there's a market, but the pricing I would say is much softer, still above upfront, but much softer than we had pre-COVID.

DOUGLAS MITCHELSON: Any upfront CPM increase prediction for us? I know you said, the upfront wasn't going to be a normal upfront. But at some point, we'll still be talking about some sort of average price increase.

JOHN NALLEN: Yeah I think, look for us-- of course, I can only speak for us, but for us, it is so dependent on the sports calendar. But I can't, I can't really speculate. I need to know, what's the shape of baseball? What's college football going to be like? We've got two golf opens coming this fiscal year, one in September, one in June. And of course, the expectation that NFL is returning, but until and the announcement that NFL is returning, but until there's a lock. Until it's all locked down, I don't think you're going to see a lot of robust activity for us in that market.

DOUGLAS MITCHELSON: Any, you know, what's the update on college football returning? I'm not sure what factors are looking at or what the Big Ten and other commissioners might be telling you. And what's the backup plan if there is no college football this year?

JOHN NALLEN: Well, look, I don't think that's the case. I think, if you take three, if you take three major fall sports, we're on, baseball, you read this morning as to what's going on there, so we'll, we'll wait to hear from them as to what the conclusion is. College football, the issue there is that there are just so many, so many teams involved, so many universities involved, so many administrators that have to make decisions, not only about football, but about their own universities. Are they, when are they returning? How are they returning? And some of them have said, if kids don't come back to school, they will not play football. So you may end up with certain conferences playing different schedules, maybe certain teams within a conference not playing because of the way their schools have decided to come back.

But I think in the next, clearly in the next month, mainly because you've got to get hundreds of thousands of kids moving around the country back to universities. There will be announcements as to what the shape of the college-- what the shape of the university's year will be, semester, and therefore what the shape of the college football season will be like.

I think, what, we're saying is that before it is right over there, ready to play, we're ready to produce. The case in point was NASCAR. The pent-up demand for NASCAR was, you know, it was incredible. I think you saw it on golf this past weekend. The pent-up demand for that. We're sold out of NASCAR. We've got no more units. It was, you know, people were just clamoring to get in there. So at the moment, we're just waiting and ready to produce.

DOUGLAS MITCHELSON: So why don't we switch over to some of the networks. Fox News, how's that performing. I think one question I often get is how directly the ratings at Fox News translate to ad revenue. And just any thoughts from Fox News as you look forward?

JOHN NALLEN: Let me, before I jump, but I should have, I should have at least said, if we return to sport, just to finish that. If you look at the schedule we have, it's when they're playing, it will be a significant schedule. Best Thursday nights schedule we've ever had. Sunday, game of the week is fantastic. And the first time ever we've got a, the NFL has, and we have a Christmas day game. So that should be a pretty impressive schedule coming up.

But Fox News is just doing fantastic. It's the number one news provider. There's been some discussion about advertising. Fox News hasn't missed a beat. Advertising has held up strong. Throughout the ratings have been superb. It's on pace to have its highest viewership year in its history. And we're going to 27 years. The ratings, the way advertising works inside of news, is it's more about your share of voice and news.

But not so much your absolute ratings, but how you perform against your competitors. Fox News being number one, therefore permits it from a pricing standpoint who command premium pricing. Because of where it positions itself. As we look forward, there's a big news cycle currently, but there'll be an equally big one probably coming off of what we're going through currently for the election cycle. And when we look at the election coverage back in history, it's a really big year for Fox News-- will be a big fiscal year for Fox News on a national basis.

And then of course our local stations will have, who enjoy the benefits of that election spending and election coverage on a local basis. But it's more of Fox News having its audience is so significant compared to the competitors that's where the premium for advertising comes in.

DOUGLAS MITCHELSON: Anything notable on Fox Nation?

JOHN NALLEN: Interesting, you know. Like any news service, and I think all of the SVOD have found this to be the case. You pivot as you learn more. What we've learned is that the subscribers look to Fox Nation not primarily, but more than we expect as an adjacency on entertainment and lifestyle content. So documentaries, some of the movies that we put on, some of the entertainment, less so the news or opinion side, just just less so. But what surprises is how much more some of this other product is seen as an adjacency for the Fox News audience.

So as a result, we're looking to acquire again rational investment, product that fits in entertainment and lifestyle to supplement what we have there and provide a more robust library to those subscribers. And as we do that, we'll promote it more, in more market, Fox Nation more and more. So we're learning as we go along. We're only roughly a year into this. And we're pleased that we're Fox Nation.

DOUGLAS MITCHELSON: Why don't we shift over to Fox Broadcast, as that was the first year as an independent broadcast network?

JOHN NALLEN: Well, as I said in your first question, going from last to first is a pretty good place to be. This only happened one other time in broadcast history. So we couldn't be more pleased with what's gone on both on the sports and the entertainment side of the house. Masked Singer, 9-1-1-- Lone Star, LEGO Masters, Prodigal Son, all of these. These shows didn't exist a year earlier or maybe two years earlier, and through the marketing platforms that we've had, and of course the content, Charlie and his group just put together a great schedule. Granted it has been interrupted by what's going on with COVID, but look in the first year, you couldn't ask for, to go from last to first. It's a pretty good outcome.

DOUGLAS MITCHELSON: I'm not sure if I should ask about the NFL first or the margins at the Broadcast Network first because, I think, we think there are some link to those over time. But why don't we just start with the margin structure of the Fox Network. Now you've gone from last to first, but we compare profitability for that network over a long period of time to peers. The margins tend to be a lot lower or in some years, negative. Is there anything structural there or should investors think about a path to a much higher level of margin over time for the Fox Broadcast Network?

JOHN NALLEN: First, you know, I have seen this. We've had this discussion before, and I'm not sure when you compare our pure network with others. If that's the comparison network, we've got apples to apples, and whether the same profit pools are reported inside of one versus another? That said, we're always focused on improving the television segment margins.

And the key is, it goes back to one of your earlier questions, which is the strengthen and the trajectory of affiliate revenue. Our ability to hold cost in place with the kind of programming that I described, yet achieve outsized growth in affiliate revenue is what will continue to improve the television margin. And I think as we look out on a multiyear basis, that's exactly the trajectory we're on. The cost being held pretty well, yet revenue and pricing growing well above that pace of cost growth. So that, that's the trajectory that we're on.

DOUGLAS MITCHELSON: So then we'll switch to the NFL side where I think there's some concern that that's one cost area that might grow in the future. I was trying to think about how can I ask you about the NFL in a way that we're actually sort of entice a relatively open response? It is a very difficult time for you to talk about, but--

JOHN NALLEN: Good luck! Good luck.

DOUGLAS MITCHELSON: Yeah.

[LAUGHTER]

DOUGLAS MITCHELSON: So I decided to do it. You know they're listening in. Have discussions begun in earnest with the NFL yet regarding renewal of broadcast contracts? And what should investors be focused on for Fox regarding that key contract.

JOHN NALLEN: So I think, so from a discussion standpoint, all I would say is that we, and I like to believe others who are in, it's very, very early stage discussions on renewal, very early stage. So and that's, that's really as much as I'd say, because there's not much more to say except early stages. The thing you should focus on, that investors ought to focus on, is to get away from the press headlines of AAV growth, Average Annual Value growth. It's absurd. When people look at up blank page writes, taking a nine-year contract and putting an average over that period against a following contract.

Let me give you an example. Our last contract, the one that we're in right now had an AAV increase of 54%. Right? Big headlines, Fox pays 54! I think some of the other networks were up 70 of the same thing, yet the last year of our contract to the first year of the new one was up high single digits. You know, give me the NFL the ability to have that kind of programming and be up just those steps. That's where the focus should be, which is what did you charge yourself last year? What's the cost of the product going into the next year? The AAV is a press headline that just makes it right on the sports page, but it really has no relevance to the business.

If I did the AAV of my affiliate revenues, compared to another year, you'd say wow! That's fantastic. But no, you always measure me on how did I do last quarter, never mind last year. How did I do last quarter compared to this quarter? So I think getting away from this AAV concept is a place investors ought to be focused and say, when you look at the totality of the contract. The rights they got, how the rights differ from what they had before, that's where investors ought to be focused on.

DOUGLAS MITCHELSON: I can't wait to see how you write that next press release with the NFL contract. So just quickly on the entertainment side for Fox Broadcast. Obviously, a big investment last year. You talked about the new shows that were put on the air, some of which were renewed. My understanding-- so two aspects of the question.

My understanding is, those investments were reporting a cash basis. So to the extent that a show [INAUDIBLE] in the second season, ends up having SVOD revenue and syndication revenue, that there could be some profits that come your way at some point. And I'm trying to figure out, does the level of investment in entertainment programming step up in year two, maybe year three? Or do you just replace the shows that didn't work with new shows, and the level of investment is similar? And then separately is there profits coming from that first year that could offset any investment you're making in entertainment book?

JOHN NALLEN: Look, there are remember, you know, one of the assets that our shareholders got a lot of value for was the sale of a studio in the Disney transaction. So we no longer own the studio and don't have that kind of library value that we used to have in the 20th Century Fox days. So what we're doing is increasingly, on new shows, taking an ownership stake in these investments, not 100%. We own a piece of the show, so that if there is a tail to the back end of it, we'll earn out. There's not a carrying cost that's left, meaning that to your earlier point whatever the cash was for a show, that's been burned off as part of that season's airing of the show. But look, we hope a few of these shows will have some kind of life. Syndication is a term of art now.

I'm not sure whether it's syndication on cable or syndication in SVOD or syndication in AVOD, but you know, still a primary part of our schedule, if you look at it, like Sunday night, the big shows that air are owned by third parties, not by us-- Simpsons, Bob's, Family Guy. But increasingly if you look at new animation product, we are an owner of those. Where if the first three I mentioned are any indication of the kind of value opportunity we have, then we're making pretty good investment.

DOUGLAS MITCHELSON: Makes sense. When we switch over to Fox Sports, curious if any comments on the outlook for Fox Sports, but also there's a lot of investor interest in sports betting. And you have a complicated investment. If you want to touch on the outlook for the sports bet side, and how, what kind of value you think that might create for Fox that could be helpful.

JOHN NALLEN: Well, I think and, many have been writing about it that sports wagering is going to be accelerated across the states now given the likely fiscal issues that the states are going to have, and looking for opportunities to raise rates. But in our case, like I said, it was one of the initiatives that we took out of the blocks, we started with a relationship with the Stars Group, where we took roughly a 5% stake in the top company. We then formed a company called Fox Bet side of that.

We get a brand license fee and advertising commitment. We get some incentive on driving traffic there. And we have an option down the road for a long period of time to acquire 50% of that Fox Bet [INAUDIBLE]. Now that whole structure got flipped into the merger that the Stars group had with Flutter. Now our interests in that combined company is around just above 2.5%. We took a little piece of the equity raised. This happened a couple of weeks ago. All of the structures around Fox Bet stayed in place. So the advertising, the brand, and our ability to buy a piece. But in addition, we now have the option to acquire 18.5% of one of their companies, which is FanDuel.

So that collection of assets, I think is a nice start for us, and a nice platform for us to participate in what is going to be a really massive growth engine coming out of wagering the stock in four or five years for this to be an $18 billion business from a standing start five years ago, a very,

very small business. So we're really excited. We've got great great partners in this. And as this sports season comes on, you'll see us leaning in more and more on the wagering side.

DOUGLAS MITCHELSON: And do you mind people on the 18 plus percent option to invest in FanDuel. Is that at fair market value? Is that at predetermined price point?

JOHN NALLEN: It's at fair market mean.

DOUGLAS MITCHELSON: So let's switch over to M&A, even though in a way we just, we just touched on one of the early ones, you have several more. Any updates you want to give us on some of the recent acquisitions?

JOHN NALLEN: I think a couple that aren't talked about it enough is we bought this business called Bento Box with an animation studio. It's a studio that produces content for us and for third parties. Right now they've got 16 shows, 16 animated shows in production. So it's a nice bolt on to the entertainment business to feed kind of aspirations we have an animation, along, you know, Bless The Harts, and some of the other shows that we put out there.

Credible has had continued success. It doubled its own volume last quarter, and continues a great path of growth. The Nexstar stations, I think people don't focus enough on our station group. Wherein if you go back to the NFL, that group now, after the Nexstar acquisition of both Seattle and Milwaukee, we're in 14 of the 16 NFC markets, team markets. So it was great to fill out that footprint. And of course, Tubi. I commented on Tubi, but we see that as a real significant growth engine for the company over the long term.

DOUGLAS MITCHELSON: OK, the--

JOHN NALLEN: As far as M&A overall, I think, look we were, given the uncertainty, most of us and Fox in particular were mindful that there may be opportunities there, but we're not very active right now.

DOUGLAS MITCHELSON: The, of course, Milwaukee has to be smart given that the Packers are the best team in football,

JOHN NALLEN: [GIGGLES].

DOUGLAS MITCHELSON: But the, anything notable on Tubi since you acquired? I know it was very recent, but it's the pace of growth that you're known for.

JOHN NALLEN: Yeah. Like, I saw, I saw a report last night that AVOD service is pre-COVID were viewed, 1.5 AVOD services were viewed by a household. That number is up to 3.2. And post the beauty of that is the amount of sampling that goes on in introduction of those service that is too, what is now double than what was there beforehand.

And the expectation is that that number hovers around 2.8 per household after COVID, because of the introduction of people to these platforms and the fact that they are engaging and will continue to so. So that's only good for Tubi. And most specifically in April and May, Tubi had 150% increase in total viewing time. As I said earlier, it continues to add library product. So it just unfortunate that it's the pandemic that caused this, but viewing for all AVOD services, and certainly for Tubi are enjoying a real benefit from it.

DOUGLAS MITCHELSON: So for the last question, sort of ask it in two parts, but one of the things that I think is notable about Fox is, pretty strong balance sheet, lot of liquidity. You mentioned that early on in your remarks. You mentioned that it should be a great source of value going forward. So I guess, you know, two parts. One, are you comfortable deploying that excess liquidity at this point? If not, sort of what are the factors you were looking at?

And then separately, we've had a lot of discussions over the years on buybacks versus M&A, I get the sense for Fox Corp, you know, under your and Lachlan's leadership, that there's a real desire to invest in growth. There is a preference for, I would say, growth M&A over returning capital to shareholders, though as you said, you've done both. And I'm just curious if my sort of perception is right. And any thoughts that you have, especially given how the crisis has impacted equity values?

JOHN NALLEN: So let me make a few comments around that. First, in connection with the pandemic. We went to the market to get what I referred to as break the glass cash. Right? In case, the world fell apart? We raised $1.2 billion in a very active successful debt raise. I view that debt and that cash as locked away. And the cash as being used in essence free fund some debt maturities that we have coming up. So it's not available.

You know, I've always in the past, when I look at leverage, I always look at gross leverage. I do not look at net leverage, because the cash is there to be, to create a return. In this case, I will take off that $1.2 billion off of that debt to determine what my gross leverage is because of how I'm going to use that cash, how I'm going to use that cash.

With that said, if we go back to the Investor Day discussions we've had since, yes we look at capital allocation in the round. Right? M&A, organic investment and returns, either dividends or buybacks. But at any point in a cycle, you're going to emphasize one versus another. But I'd say your, kind of your inference that over the long term us looking to build our business and build the enterprise would need a bias that we have as opposed to a bias, just a bias toward shrinking a denominator.

What our focus is? It goes back to your very first question, how do we deliver? Or second question, how do we deliver value? By delivering value, we're just creating growth in the enterprise. We'll get growth out of, as I said earlier, the existing businesses will big growth out of adjacencies, but will also get growth out of, out of acquiring businesses and holding them in real value generators.

DOUGLAS MITCHELSON: Any closing comments that you want to offer, John?

JOHN NALLEN: No, look, it's a difficult time for us all. I'm actually pleased to have the opportunity to [INAUDIBLE] everyone virtually, but for you hosting this, and I looked at the agenda. And it's a pretty significant agenda. I'm glad you could attract everyone to get together. And I'm looking forward to what's going to be covered.

DOUGLAS MITCHELSON: John, thanks so much for your time this morning. Thanks, everyone, for listening in. And we look forward to that update on the next earnings call. Thanks so much, John.

JOHN NALLEN: Thank you.