

11 - 04 - 2024

Fox Corporation

FOX FY25 Q1 Earnings Call

Fox Corporation

FOX FY25 Q1 Earnings Call

CORPORATE SPEAKERS:

Gabrielle Brown

Fox Corporation; Chief Investor Relations Officer

Lachlan Murdoch

Fox Corporation; Executive Chair and Chief Executive Officer

Steven Tomsic

Fox Corporation; Chief Financial Officer

PARTICIPANTS:

Michael Morris

Guggenheim Partners; Analyst

Benjamin Swinburne

Morgan Stanley; Analyst

Robert Fishman

MoffettNathanson; Analyst

John Hodulik

UBS; Analyst

Jessica Reif Ehrlich

Bank of America Securities; Analyst

Michael Ng

Goldman Sachs; Analyst

PRESENTATION:

Operator: Ladies and gentlemen, thank you for standing by. Welcome to the Fox Corporation first quarter Fiscal Year 2025 Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. I'll now turn the conference over to Chief Investor Relations Officer, Ms. Gabrielle Brown. Please go ahead, Ms. Brown.

Gabrielle Brown: Thank you, Operator. We apologize for the technical difficulties. But good morning. Welcome to our fiscal 2025 first quarter earnings call.

Joining me on the call today are Lachlan Murdoch, Executive Chair and Chief Executive Officer; John Nallen, Chief Operating Officer; and Steve Tomsic, our Chief Financial Officer.

First, Lachlan and Steve will give some prepared remarks on the most recent quarter, and then we'll take questions from the investment community.

Please note that this call may include forward-looking statements regarding Fox Corporation's financial performance and operating results.

Fox Corporation

FOX FY25 Q1 Earnings Call

These statements are based on management's current expectations and actual results could differ from what is stated as a result of certain factors identified on today's call and in the company's SEC filings.

Additionally, this call will include certain non-GAAP financial measures including adjusted EBITDA or EBITDA, as we refer to it on this call.

Reconciliations of non-GAAP financial measures are included in our earnings release and our SEC filings, which are available in the Investor Relations section of our website.

And with that, I'm pleased to turn the call over to Lachlan.

Lachlan Murdoch: Thank you, Gaby.

Thank you, all for joining us this morning to discuss our fiscal first quarter earnings.

Today we again reported strong operating and financial results.

We've had a great quarter and a great start to our fiscal year.

Our EBITDA of over \$1 billion was up 21% on the back of sustained revenue growth, which this quarter reached 11%, demonstrating the power of our content and brands and the ability of our strategy to consistently deliver outstanding results.

In the month of October alone, FOX networks reached over 145 million people.

During this election cycle, Americans have turned to FOX News more than any other service to cover the key issues and events leading up to tomorrow's election. Among those events where FOX News hosted programming that in and of themselves, made news and clearly resonated with viewers.

For example, *Gutfeld* delivered its highest-rated telecasts in history with almost 5 million viewers tuning in on September 18 episode with President Trump joining the studio. This is followed by the Trump Town Hall hosted by Harris Faulkner, which also garnered exceptionally strong ratings.

But as notable as these were, it was Bret Baier's interview with Vice President Harris that set a new bar for political interviews generating over 9 million viewers on October 16.

And while the election is top of mind today, our news teams have done a brilliant job continuously reporting on events across the world for our audience.

Fox Corporation

FOX FY25 Q1 Earnings Call

Our dedication to news, fair and balanced, delivered almost 4 billion hours of FOX News media content consumed across linear and digital platforms during Q1.

During the quarter, News total audience grew more than 40% year-over-year and more than 60% in the key 25- to 54-year-old demo. With engagement like this, it's no surprise that the FOX News channel was the second most watched network in all of weekday television this past quarter, trailing only the Summer Olympics-enhanced NBC.

Once again FOX News ended the quarter as the most watched cable network in total day and in PrimeTime, while maintaining its lead over peers as the most-watched cable news network.

Additionally, during the quarter, FOX News was the number one cable news channel, number one, among all major political parties in the demo. That's right, the number one news channel with Republicans, the number one news channel with Democrats and the number one news channel with Independents.

We are number one in all the key swing states, and we are number one with Asian and Hispanic viewers.

Our audience is as diverse as it is valuable. It is as engaged as it is remarkably loyal. Loyal through news and election cycles.

Ratings momentum at FOX News continued through October, with second quarter to-date total day viewing to total day ratings of 20% and prime ratings up over 30% over prior year.

Obviously, this election is not limited to the presidential race.

We have also seen highly contested down ballot and issue propositions across our strategic local station footprint.

From a revenue perspective, it's the local stations that are our election heroes, but it's not just our stations that are benefiting from strong political spend. This cycle we have seen Tubi become a material recipient of political advertising.

Tubi's large but hard to reach audience, coupled with its advanced targeting and geo-targeting capabilities have clearly differentiated Tubi as campaigns look to maximize reach and efficiency.

Now, I'm happy to report that company-wide we have achieved record political revenue for both the first quarter and the full fiscal year, inclusive of the very substantial and dramatic impact of the 2020 Georgia Senate runoff.

Fox Corporation

FOX FY25 Q1 Earnings Call

Strong engagement coupled with healthy direct response growth resulted in 19% revenue growth at Tubi during the quarter, which has accelerated in Q2 thus far. Based on the current revenue run rate, we're looking for Tubi to cross the \$1 billion revenue mark this fiscal year.

Turning to FOX Sports. We're having a strong fall season across our renowned portfolio of rights.

For example, just last week, our sports roster featured Green Bay Detroit and *America's Game of the Week*, Ohio State and Penn State and our Big Noon College football window and a Yankees/Dodgers World Series. The MLB co-season has been both impressive and dramatic.

FOX had the highest rated divisional series ever on FOX Sports 1, the most watched League championship series in the past five years and the best Major League Baseball postseason on FOX since 2017.

And of course, the World Series dream matchup of the Yankees versus the Dodgers, featuring two iconic franchises and some of Major League Baseball's biggest stars.

We saw an average of 16 million viewers tune in each night of the 5-game series across our networks with almost 19 million viewers watching Game 5, making this the most-watched World Series in Game five in seven years.

Moving on to football. The NFL on FOX is off to its best start in five years, with the *America's Game of the Week*, the number one program on all of television, averaging almost 26 million viewers including a strong 28% increase in viewership in younger demos versus last season.

Additionally, we successfully launched our FOX College Football Fridays in September, which is averaging nearly 3 million viewers each week, handily outrating our prior Friday night programming by over 40% in its first month.

We still have a pretty robust football calendar yet to come, culminating with our broadcast of Super Bowl LIX, where I'm sorry to say we are already sold out and at record pricing.

The excitement continues at FOX Entertainment. The fall premiere of *Universal Basic Guys* was TV most-watched animation debut of the past decade and the season's number 1 comedy among adults 18 to 49 while *Rescue: HI-Surf* was TV's highest-rated fall drama debut in four years.

FOX's first quarter results once again highlight the strength of our leadership brands and demonstrate the merits of our differentiated strategy.

Our momentum is supported by outstanding content across our platforms and an advertising market that is healthy for us across the board. This operating effectiveness coupled with the

Fox Corporation

FOX FY25 Q1 Earnings Call

strength of our balance sheet to support our commitment to delivering long-term shareholder value, whether that be through growing our existing business, thoughtful M&A or returning capital to our shareholders.

With that, let me now turn it over to Steve for some further details.

Steven Tomsic: Thanks, Lachlan. And good morning, everyone.

As Lachlan just described, FOX is off to a strong start to fiscal 2025.

Financially, this is highlighted by broad-based top line growth where total company revenues grew 11% to \$3.56 billion. This revenue growth converted to a 21% increase in EBITDA, which reached \$1.05 billion. Total company advertising revenues were up 11% year-over-year, boosted by political advertising at the Stations, continued momentum at Tubi and strong audience growth at FOX News Media.

Total company affiliate fee revenues grew 6% over the prior year quarter, with 10% growth at our Television segment and 3% growth at Cable. This industry-leading affiliate revenue growth underscores the strength of our brands and focused portfolio of content.

Total company other revenues grew 47%, a result of higher sports sublicensing revenues at our Cable segment. This growth in revenue was largely offset by a corresponding increase in rights cost with no material impact on year-on-year overall EBITDA growth.

As I mentioned, quarterly EBITDA was \$1.05 billion, up 21% over the prior year, with our revenue growth partially offset by an 8% increase in expenses due to higher sports programming rights amortization and increased cost of Tubi. Net income attributable to stockholders of \$827 million or \$1.78 per share compared to the \$407 million or \$0.82 per share reported in the prior year period. This increase is underpinned by our EBITDA growth, coupled with the change in fair value of the company's investment in Flutter recognized in Non-operating, other net.

Excluding non-core items, adjusted net income was \$672 million and adjusted EPS was \$1.45, equating to a year-over-year increase of 33%.

Now turning to our Operating segments, where in our Cable Networks, revenue grew 15% year-over-year. This was led by advertising revenue growth, which was up 11%, predominantly driven by FOX News Media where we saw higher ratings, direct response pricing and digital advertising revenue, partially offset by higher preemptions associated with breaking news coverage. Cable affiliate fee revenues grew 3% in the quarter with growth in pricing from our affiliate renewals, outpacing the impact from industry subscriber declines, running at a touch under 8%, a slight improvement from last quarter.

Fox Corporation

FOX FY25 Q1 Earnings Call

Cable other revenues increased \$147 million due to the higher sports sublicensing revenues I mentioned earlier. Cable expenses increased 9%, primarily due to higher sports programming rights amortization and increased news gathering costs at FOX News Media including coverage of the U.S. presidential election cycle. All in, EBITDA at our Cable segment grew 23% over the prior year quarter to reach \$748 million.

Turning now to our Television segment where we delivered 10% growth in revenues. Television advertising revenues were up 11%, led by the strong political cycle at our local stations, continued growth at Tubi, a benefit of higher NFL ratings and NFL scheduling with Week 4 of the season sliding back into the September quarter. The benefit of the UEFA Euros and Copa America in the current year quarter were more than offset by the absence of the FIFA Women's World Cup.

Television affiliate fee revenues 10% year-over-year with healthy growth in fees across FOX-owned and affiliated stations more than offset the impact from industry subscriber declines. Television other revenues increased 3%, primarily a result of higher third-party content revenues tied to our entertainment production studios.

Expenses at the Television segment grew 11% over the prior year quarter driven by higher programming rights amortization at FOX Sports and increased costs at Tubi. Collectively, these revenue and expense movements resulted in quarterly EBITDA at our Television segment increasing 6% to \$372 million.

Now turning to Cash Flow.

Free Cash Flow, which we define as net cash provided by operating activities less Cap Ex was positive \$94 million in the quarter. This is consistent with the seasonality of our working capital cycle where the first half of our fiscal year is characterized by a concentration of payments for sports rights and the buildup of advertising-related receivables, both of which reversed in the second half of our fiscal year.

We remain active with our share buyback program, where we have repurchased a further \$300 million so far this fiscal year.

We have now cumulatively repurchased \$5.9 billion, representing approximately 29% of our total shares outstanding since the launch of the buyback program in 2019 and we remain committed to utilizing our full buyback authorization of \$7 billion. This is supported by the strength of our balance sheet, where we ended the quarter with approximately \$4.1 billion in cash and \$7.2 billion in debt.

And with that, I'll turn the call over to Gaby.

Fox Corporation

FOX FY25 Q1 Earnings Call

Gabrielle Brown: Thank you, Steve. And now we will be happy to take questions from the investment community.

Operator: (Operator Instructions) And we have a question from Michael Morris from Guggenheim Partners.

Michael Morris: Thank you. Good morning, guys. Comcast said last week that they are considering separating their cable network business from the rest of the company. And so broadly, it'd be great to get your thoughts on how that may impact you or the industry at large? FOX clearly has been a consistent supporter of the video bundle so I'm curious if this seems like one of your major partners is maybe a little less committed?

And if I could, just one other topic. You have seen this modest acceleration in affiliate revenue growth, Cable and TV for two quarters in a row now. Steve, you mentioned the slight improvement in underlying subscriber trends. Do you feel any more comfortable maybe that we are getting closer to a bottom in the rate of bundled subscriber declines?

Lachlan Murdoch: Thanks, Michael.

So, look, I don't want to comment specifically on what Comcast's plans may or may not be. I've only read in the press and heard what they said on their call.

But I don't think it affects us in any way at all.

I think what -- from our perspective, at FOX and we could drive tremendous amount of synergy across all of our platforms.

So, between the entertainment network, obviously FOX Sports, FOX Sports 1 and 2 share rights with the entertainment network, the football, for instance, and baseball that's on broadcast, the local television stations that underpin that.

There are relationship and promotional capabilities and synergies with FOX News.

And now obviously with the incredible growth of Tubi, which is really assisted and driven by the strength and the reach of our kind of marketing platform across broadcast, cable and sports.

So, from my perspective, I don't see how we could ever do that.

I think breaking apart part of the business would be very difficult, both from a cost point of view and from a revenue and a promotional synergy point of view.

In terms of the sub-declines, I don't know if Steve wants to add to this. But obviously sub-declines have declined, the rate has declined somewhat in this quarter, it's pleasing to see.

Fox Corporation

FOX FY25 Q1 Earnings Call

We do believe that there is a subfloor. We just don't know where it is, but we do believe there is a subfloor and there will always be consumers and subscribers who will want a core package and a core package that includes all of our brands. When you're number one in news, you're number one in sports, you have an incredible base of local television stations retransmitted in that core package, it's a package of people will always want and it's very valuable to that consumer base.

Steven Tomsic: Yes. And Mike, listen, I think we're very pleased with where the revenue growth got to in the quarter, like Cable ticking up to plus 3% and TV at plus 10% have brought excellent results for us. Most of that, I think really driven by the pricing increases we've got, but as Lachlan said, the moderation in subscriber declines is obviously helpful. There's more seasonality, obviously intra-year nowadays.

But no, we're very pleased with the trends, both revenue and subsides.

Operator: We have a question from Ben Swinburne from Morgan Stanley.

Benjamin Swinburne: I want to ask you guys about political advertising. I don't know if you would agree, it feels like the sort of connected TV streaming market is really participating in this cycle in a way, at least that I haven't noticed in the past, and Tubi is clearly gaining share in the political advertising market. So, what are you guys seeing in terms of advertiser demand? Like how do they look at local Station buys versus Tubi? Are there -- are you solving sort of different equations for campaigns and candidates?

And do you think there's any cannibalization? In other words, is Tubi taking money out of the Station group? And I don't know if, Steve, if you want to sort of quantify kind of holistically the political dollars you're seeing in the quarter or for the cycle. That would be helpful, too.

Lachlan Murdoch: So just by way of background, like the political spend this cycle is different in some significant ways from four years ago.

Four years ago, there was more sort of national dollar spend. There was a somewhat of a shift, not a majority, but some shift four years ago towards national from local.

We -- for the first time, I think we talked about in those quarterly calls back then, for the first time, seeing national political dollar spend was unique four years ago. This year, the cycle sort of reverted to form and the campaigns on both sides or all sides of politics have shifted back to being more local and targeted spends.

That has assisted us both in the Station group, which will have a record political revenues, but also in -- as I mentioned in my earlier comments, also in Tubi that can target very efficiently and specifically geo-target its advertisers as well.

Fox Corporation

FOX FY25 Q1 Earnings Call

So, in fact, we haven't seen any evidence of a cannibalization from stations into digital or into Tubi. In fact, it's quite the reverse. Tubi was able to capture money that, frankly, we couldn't take entirely in the Station. There was such a tidal wave of political dollars to have much of that captured by Tubi as well is really pleasing to see.

I think it also shows the -- obviously the strength of Tubi. It's obviously -- it's not just the geo-targeting that was valuable, but this is a very hard demographic to reach. Most of them are cord-nevers. They're younger, they're very diverse and it's a very valuable audience.

And it shows now that Tubi has the scale and has the marketplace on sort of awareness to be -- to have sort of graduated into a tier of advertisers that's a must buy for people who wanted to reach some -- reach this audience. So it's very pleasing to see.

Steven Tomsic: Yes. And Ben, just to put some numbers around it. If I look at just the quarter, local, like it really is more in terms of -- it's not cannibalistic at all between Tubi and the Stations. The Stations were up in Q1 by sort of tens of millions of dollars.

Then if I look at the half, remember that the Stations benefit from the Georgia runoff post the election, they've already done more than what they did that last half in -- sorry, Q1 and Q2 of fiscal '21.

So, we sort of -- we did just north of \$260 million in that half in four years ago and we're north of that already in this current fiscal year. So, the Stations have had an unbelievable first half in terms of political.

Then, as Lachlan mentioned, Tubi went from virtually nothing four years ago to a meaningful number for us, what you call that sort of absolutely local or national is sort of your core.

Lachlan Murdoch: Then just finally, it's the sports, right?

The strength of our Sports programming over the last few weeks as we have driven -- that's where the national political dollars have come in. I apologize to anyone who's enjoying their football over the weekend and were bombarded by political ads. But yes, Sports has really been the beneficiary of national political advertising.

Operator: We have a question from Robert Fishman of MoffettNathanson.

Robert Fishman: Maybe just a follow-up on Tubi more broadly.

Now that it's on track to reach \$1 billion in revenue, can you just help us or investors think about like what the future of this asset really looks like and how big it can get with its current momentum?

Fox Corporation

FOX FY25 Q1 Earnings Call

Then maybe just secondly, any updates you can provide on the future of Venu? If it doesn't launch, do you have a willingness to license FOX Sports content to other potential partners?

Lachlan Murdoch: Thanks, Robert.

First, on Tubi. Look, the growth is -- continues to be very impressive. We're very pleased with the growth. I won't give you the October revenue number because Gaby will kick me under the table. Obviously, it's a beneficiary of a tremendous amount of political money. So, it would be misleading although staggering statistic.

Yet ex-political, we continue to see growth in the second quarter and we think beyond. This is driven -- I think we're now seeing a very sustainable model of the largest AVOD library. 95% of the library is revenue share, although only 65% of the viewing is revenue share of the 5% that we spend in our sort of direct content -- purchase content drives about 30% of the viewing.

So, the business continues to grow. It's a fantastic platform, and then when we see it growing from strength to strength. And really, will increasingly be the way Americans watch free television. That's absolutely the case.

Of course, the fact that it's video on demand and not a FAST channel platform also adds to the value of that audience that's choosing -- proactively choosing to watch our content at increasingly high levels.

On Venu, obviously we are awaiting our appeal of the injunction, and we'll see where we go from there. We continue to believe Venu is a tremendous pro-consumer, pro-competition platform. We're very excited to launch it when we have the ability to do so.

Then in licensing content, we are in the business of building brands, we are producing programming, and we're not a sublicensee or licensor of sports rights in any sort of substantial or significant way.

Operator: We have a question from John Hodulik from UBS.

John Hodulik: Great. Thanks, too, if I could.

First, can you guys comment on sort of how you see the ad environment shaping up post-election? And maybe what you're seeing now in terms of pricing from a direct response standpoint?

Then obviously ratings has been very strong. It looks like you guys have some easier, maybe not quite as easy, but easier comps over the next couple of quarters at FOX News. How should we think about the outcome of the election? And maybe historically, do you expect to keep the

Fox Corporation

FOX FY25 Q1 Earnings Call

same momentum we have -- we've seen recently regardless of the outcome?

Just any perspective you have there would be great.

Lachlan Murdoch: Thanks a lot for the question, John. That's helpful. What's going to happen tomorrow? I don't know.

So, from a -- look, our advertising revenues and the advertising marketplace that we participate in is very healthy, right? It helps that we're not overly exposed to general entertainment, general entertainment cable inventory and programming.

So, in all of the markets that we participate in, we're seeing very healthy growth, and we're seeing healthy growth, obviously not in the quarter that we've just reported but going forward.

I mentioned, like if you look at Sports, we had a -- just a tremendous World Series. I think it's probably -- I haven't checked this, but I'm pretty sure, even for five Game World Series, it's probably a record amount of revenue within five games. It outperformed our budget and our expectations.

We have the Super Bowl coming up. Football has sold very well regular season and of course, we're sold out for the Super Bowl at record -- what we believe are record pricing.

News ratings - we've talked about how strong News ratings are, particularly in the key 25-54 demographics.

That's also helped at a significant sort of multiplier effect by direct pricing being up very significantly in the first quarter and almost double significantly in the second quarter.

So, it's a very strong for our pricing for direct response. Entertainment scatter is strong, and we've talked about the local political spend already.

Obviously one thing that happens there if you point anything out. Local political pushes out some local-based market advertising. You only have so much inventory. So, if you look at the local base markets, you have auto is soft, retail is soft. Betting now is one category that's pretty strong. So, betting has sort of returned to grow.

And I think we've talked about Tubi already being up 19% and accelerating in the second quarter.

So, what happens this week with the election and how that would impact? I don't think it would impact us. I think again in the markets that we're seeing, we're seeing a tremendous amount of growth and health.

Fox Corporation

FOX FY25 Q1 Earnings Call

Operator: We have a question from Jessica Reif Ehrlich of Bank of America Securities.

Jessica Reif Ehrlich: Maybe switching gears a little bit to Flutter and FanDuel.

Can you talk about how long it will take you to get through the approval process. Once you do, what would make you exercise earlier or later? And ultimately, what do you think you do with this asset?

Then one last thing, if we could just go back to Tubi, which is so phenomenal. And you said it's accelerating, Lachlan, you walked through all the characteristics, but you had that before. So why is it accelerating? Are you selling differently or using different advertising tools?

Lachlan Murdoch: So, on Flutter and FanDuel. So, we have six years, I think in our options so there's no immediate need to rush the process. But we have now engaged, and I just checked it, it's like in 26 states. We have to get licensed in every state that FanDuel operates in. And so, it is an in-depth process. It will take some time. I don't think it will take an exorbitant amount of time, but we expect that process to go relatively smoothly, and we'd be able to complete that process within a year.

And Jessica, sorry, what was the second question?

Steven Tomsic: Tubi.

Lachlan Murdoch: So, this year -- well this quarter that we were seeing, Jessica, we've talked before about the fill rate in Tubi and what we've really being able to do is actually reduce -- it depends what you look at it, improve the fill rate very, very significantly.

So, we've been in a very competitive market, we've been able to hold pricing, but we've really been able to drive our fill rate to accelerate that revenue growth.

Gabrielle Brown: Operator, we have time for one more question.

Operator: Your final question comes from the line of Michael Ng from Goldman Sachs.

Michael Ng: Just was wondering if you could talk about some of the EBITDA bridge components at TV for fiscal '25, Steve? Specifically, I know you talked about digital losses going to the high \$200 million this year, given the Tubi outperformance. Is that number better?

Then anything else that you would flag for us as we think about the build for TV?

Steven Tomsic: Yes.

So, if I look at -- Mike, thanks for the questions.

Fox Corporation

FOX FY25 Q1 Earnings Call

If I look at the balance of the year for the company, and a lot of it is TV. But if you look at -- we've obviously got an enormous cyclical tailwind with political where those FTS numbers and including the Tubi revenue plus the sport political revenue that Lachlan mentioned is all going to be beneficial to the TV segment.

From a trading momentum perspective, obviously FOX News is benefiting in the Cable segment from top line growth, Tubi underlying momentum and then you've had an amazing MLB postseason which is going to be an uplift for us, both from a revenue and margin perspective.

If I look at Q2 specifically, from a football perspective, NFL scheduling will be a headwind from an advertising revenue perspective because we're down the Christmas game, which we had last year.

Then college is a whole sort of the reorientation of sports rights is a big shift for us in Q2, particularly in Q2. Big Ten Expansion, which will be cost up for us in the quarter. You got increased rights fees across the board, but then to partially offset that, we've got no WWE for the remainder of the year and then we've also obviously discontinued with Pac-12.

If I look further out, we've got Super Bowl in Q3, which will be a big driver, be very, very cash flow accretive for the company but will not be from an EBITDA perspective for us.

Then we also have the impact of the Q3 entertainment schedule coming back versus where we were last year.

Generally speaking, we feel very -- we think TV is going to have a really, really strong sort of second, third and fourth quarter.

Obviously in Q4, when we look at it from a soccer perspective, which can knock us around, we don't have either UEFA, Copa or FIFA. So that's going to be helpful in that final quarter.

So hopefully, that gives you enough break to try and model that out. But no, there's a really nice tailwind with our TV segment across all of those verticals.

Gabrielle Brown: At this point, we are out of time.

But if you have any further questions, please give me or Charlie Costanzo a call.

Thanks so much for joining us on today's call.

Lachlan Murdoch: Thanks, everyone.

Steven Tomic: Thank you.

Fox Corporation

FOX FY25 Q1 Earnings Call

Operator: Ladies and gentlemen, that does conclude your conference call for today. Thank you for joining us. You may now disconnect.