Alexia Quadrani: Good afternoon. Welcome back to J.P. Morgan's TMC conference. I'm Alexia Quadrani, the media analyst here. We're thrilled to have the COO of Fox, John Nallen here with us this afternoon.

Fox is a leader in delivering compelling news, sports and entertainment content through its iconic domestic brands, including the highest rated cable network, Fox News. John, thanks so much for being here with us this afternoon.

John Nallen: Thanks for having us, Alexia. I really appreciate it.

Alexia: I guess we have to start at the obvious place, which is given the recent announced plan consolidation that we've heard last week and there's another one today, how do you see this impacting your competitive position, if at all?

John: I think those transactions should be looked at in different ways. I looked at the first one, the WarnerMedia, Discovery, AT&T one as a transaction all about focus. I won't comment. For the players, they have their own views to do what they were, but clearly, to allow AT&T to focus and Discovery and Warner together to focus on their plans is a brilliant structural transaction as well to see it happen. Then the Amazon transaction I see is completely around supporting their content and streaming aspirations. They're a little different now.

Inside of that, those are areas we don't play in. You think about big SVOD aspirations that both of those, the enlarged WarnerMedia, Discovery, and that Amazon have. They're not places that we play. We're focused much more on live, sports, news, and event entertainment.

I don't think it changes at all the trajectory for Fox, but clearly I'm not sure the landscape is
finished shifting yet inside of media, because there's still a lot of chatter about other transactions to happen.

**Alexia:** Do you believe that you have the scale in what you focus on needed to go forward?

**John:** I think so. If you think about it, we’re the number one broadcast network across news, and across sports, and entertainment. We’ve got the number one news channel in total viewers. Sometimes it's the number one cable channel. For many times, it's the number one cable channel, not just news.

We've got leading AVOD play or in the form of Tubi that's got this path to near-term to a billion dollars of incremental revenue to the company. If I look at that collection of assets that we own, I'm not so sure that scale-for-scale sake matters, because of our positioning of those assets.

We're doing quite well. You would have seen our results through the nine months on ad and affiliate growth. We posted 10 percent affiliate growth alone in the quarter that we just put out.

Scale-for-scale sake, I know it's a common term, is not something that we're focused on. We're focused on how do we grow the enterprise for the long-term. We're in a great position to do that, given the strong financial profile of the company.

We've got a great balance sheet, just superb cash flow, we've got this these “hidden assets” that we wish we were given greater value for, and in wagering assets, tax asset, a lot. Even Tubi, I'm not sure we get the appropriate value for that. I think we've demonstrated a really good approach toward capital allocation in the short two years of the company.

Scale within what we do is not something that we're striving to look for other assets to do, but to branch out the company and to get involved in adjacent areas is what we're focused on.

**Alexia:** It sounds like from what you've said that the Warner, Discovery announced transaction doesn't change your view and the need to pivot or invest differently or whether in streaming your content.

**John:** No. Again, if I come back to the three real hallmarks of the company, live sports, live national, and local news, and there are primetime entertainment, we're not an SVOD. We don't have current aspirations to play there.
It's a high, multibillion dollar game that's being played there. There will be winners. It doesn't change our view that we ought to pivot and start focusing on an SVOD strategy.

**Alexia:** There are a lot of players and they won't all be winners. That's for sure. [laughs]

**John:** For sure, is right.

**Alexia:** COVID has accelerated the changes in the media ecosystem. How do you think you are positioned now versus before the pandemic?

**John:** I think we did, hopefully...Let's talk about it as if we're coming through it now, toward the end, because it at least provides some excitement and hope that we are.

As you would have seen through that period, we continue to innovate by putting sports on screen. The news cycle was just crazy from a national and local basis, from social issues to the election. We had a really disrupted calendar in entertainment that our team there was...just did great work on putting on, getting programming into production, and getting it onto the network.

Thanks to the 9,000 employees at Fox, I think we've come through the pandemic...We've shown resilience during it. We're as strong now as we were 18 months ago, if not stronger.

**Alexia:** News, obviously, thrived during the pandemic, as you had mentioned. Digging into Fox News a bit further, can you elaborate on what you believe have been the biggest drivers behind the success? How do you view the competitive landscape? Is it just cable news or do you look at it more broadly?

**John:** Fox News, you can just say it, is one of the strongest brands in media because it just is. It's become much more than a cable channel, given all of the extensions that we have. In fact, we've dubbed the enterprise, Fox News and Fox Business, Fox News Media because of everything else that we're involved in.

At the heart of it, there's no question, is the Fox News Channel, which has an engaged...The key asset to it is its engaged, loyal, center-right audience who trust a 25 year old brand. They continue to trust it, even given the oscillations in ratings that we've had.

I think the strength there is going to continue to drive industry leading advertising and affiliate revenue growth coming out of Fox News. The ratings...Behind that question is also a question
about ratings and competition. We were completely transparent during the last six months about what we thought would happen post-election to the ratings. In fact, they did.

We also were transparent that we expected a normalization of the ratings after a period of time in the election.

If you look now, if you look at last week, total day we were 44 percent market share. Prime time, we were 47 percent market share, which is equal to where we were pre-pandemic. The audiences have migrated back to news and have migrated back to Fox News to levels that they were at before, which points to the strength of Fox News.

When we look at competition, we clearly look at the other news channels because that's the way we all measure share. As I said earlier, Fox News Channel, unto itself, is oftentimes the number one cable channel. We take a peek at the rest of cable when we look at the competition for Fox News.

**Alexia:** How do you think Fox News... You did mention the rebound in ratings as you had predicted to happen. How do you generally see Fox News as positioned during the Biden administration? Is it more favorably positioned? Less favorably versus Trump? Is it irrelevant?

**John:** I think it becomes irrelevant. It's not irrelevant right around the changes of administration. We've found that out before. Whether you go to Clinton, Bush, Obama, you go back to all of the administration changes that we've seen.

Right around the change of administration, things change. Then you come back to a much more normal share of strength coming out of Fox News Media. I don't think that the current administration is going to change, at all, the profile of Fox News Media.

**Alexia:** Can you frame for us the opportunity for Fox News in terms of affiliate growth?

**John:** I think, if you look at us overall in affiliate, we've had the strength that I referred to earlier. In the short term, obviously, the two toggles we'll probably talk about, the more volume and price. Everybody's got their view about volume. You have one. We have one, as well.

From a pricing standpoint, we have a year coming up, a fiscal year, where we don't have a lot of renewals. We've harvested real growth. We'll have more growth going into '22 coming off of renewals that we have already made. It's '23 when the next cycle turns up again for renewals on,
not only on Fox News, but across our platform.

Having said that, I think it also comes at the right time because of the strength of those assets, not only Fox News Media, but the Fox brand, such that there's no doubt in my mind that we will continue to have industry leading affiliate revenue growth going forward.

Alexia: When you think about Fox News, how do you think about its ability to capture the younger demographic? Both thinking about the existing channel the way it exists, but also new platforms.

John: I've joked with you about this before, that no one asks Nickelodeon how are they going to skew older. News just is an older demo. It always has been. It always will be. We innovate through things like Fox Nation. Some of the aspects of foxnews.com. Things on Fox Radio to attract the younger audience.

To be just fair about it, the news category will always have an older skewing audience, and therefore if you look at advertising, which is really robust, it has an older skewing product mix that's in there.

I'm not coming out to say we've got this detailed, strategic plan to attack the 18 to 23-year-old market because the reality is news just skews older.

Alexia: Can you talk or elaborate on the evolving Fox News into a multiplatform digital news outlet? For example, talk a bit about Fox Nation and the content strategy there.

John: Sure. As I said, the success of Fox News is not limited to the cable channel. It applies to the digital initiatives that are out there.

Surprisingly, foxnews.com, both as a site and an app is, not surprisingly...When you talk about a dot com, people yawn or roll their eyes. Foxnews.com is a powerful asset for Fox, and particularly for Fox News. Other extensions include Nation, Radio, podcasting.

We're going to launch this weather initiative that you would have seen us announce, Fox Weather, later in the year. If you look at the digital properties of Fox News holistically, they attract 100 million unique users a month. It's not a small business at all for us. Outside of the channel, it's 100 million unique users.
One of the extensions that people are particularly focused on, and we are, is Fox Nation, which is, just to remind everyone, it's a complimentary service to the linear feed for the news channel, which attracts the most avid fans of Fox News.

What we have found out is we had a lot of library type content or factual type content that's on there. What we found out is that when we put on live event content like CPAC or exclusive content like the Tucker Carlson originals that are on there now, that the subscription rates go up dramatically.

In fact, on the heels of those two pieces of content, we saw subscriptions go up 40 percent in the last two months on Fox Nation. Because of this, we're looking to add more and more content to Fox Nation. Yesterday we announced that we're adding the next day, the prime time into Fox Nation.

The prime time that occurred the night before, whether it's Hannity, Ingraham, Tucker, you're going to now be able to see it on Fox Nation the following morning. Again, these are all subscription drivers to attract the avid fans for Fox News.

Yes, the channel, again, I come back to is at the heart of everything, but the ability with that loyal audience to extend the brand into these other areas is what we're really focused on.

**Alexia:** Moving over to Fox Sports, can you talk about your decision to back out of Thursday Night Football maybe a little bit early? Could there be an impact there to your affiliate agreements?

**John:** First, I wouldn't call it backing out, I'd call it a great transaction among three parties. But let me first deal with the renewal itself, the more macro point because we're thrilled for Fox to be the home of the NFC for the next 13 years as part of the overall NFL renewal.

It secures for us a key asset that was an overhang. Your commentary and others would comment, the investors, as well, as to continuously what the status was, what the length was going to be, what the issues were going to be on the contract.

Securing it for that period of time allows us to plan our business well into the next decade. It, obviously, adds to the rights we have of pro and college rights.

As part of that deal to secure Sunday, we had always planned to be out of Thursday. It wasn't
something we said publicly, but as the negotiations for the Sunday package came up, we made it clear that we were going to exit Thursday in the extension period because Sunday was always our priority.

We also wanted to be sure we could demonstrate financial discipline by not having both those packages from our perspective.

Getting out a year earlier was a bit of lightning striking where Fox, the NFL, and Amazon had a pretty unique opportunity to transfer over that last year of the existing contract to Amazon to allow them to start a year early on their...what will be a 12 year deal for them.

Importantly, for us, it frees up somewhere between $350 million and $400 million of EBITDA in that year. It was a really valuable piece of financial discipline for us to be able to get of that year.

**Alexia:** Does it impact your affiliate agreements at all?

**John:** No. What we'll look at is we basically get two hours of prime time back at that point. Even though the game would have lasted longer, we'll put two hours of prime time and the third hour traditionally goes back to the local news.

There are no real sports that are out there to program for a weekday. We did look at the NHL, but our view of value fell a bit short on that. We'll program those two hours through the entertainment division. We're in planning for it now. There's no expectation that it will have an impact on our relationships with affiliates.

**Alexia:** Not necessarily for a weekday, but in general, would you, would you look to expand into other sport properties if the opportunity arise?

**John:** We look at everything. My point on the NHL, we looked at even XFL, and that was up, all the sports properties. There just isn't anything that's coming up in the near term for us to look seriously at that. At the heart of what we are, we're a sports broadcaster and producer. Any of those that come up, we'll certainly be looking at.

**Alexia:** Looking at the new NFL deal for Sunday, what are you most excited by? Are there concerns about the ability to continue to capture viewership as consumers move to streaming?

**John:** I guess most excited by is our retaining Fox as the home of the NFC. It's not only the
number one package in football, it's the number one programming in American television. For us to retain that NFC package was very important to us. As you know, we built our station footprint around the NFC. We're in 14 of the 16 home markets of NFL NFC teams.

I'd say, number one, the fact that we were able to retain the NFC was clearly the top attribute of the renewal. A second one I'd say, which is surprising, is the length. It's the longest contract the NFL has ever done.

For us, that's good. It gives us the ability to look long-term now to our business and to plan. Importantly, as our business will evolve during that period, we have the flexibility in these rights to pivot to any new business model that might emerge during that period. We're not locked into the broadcast model.

Having said that, we still think that, that drives the biggest audience scale. It's the best business for us. It's a great arrangement we have with our station affiliates involved. If there is any new business model to eventually in the long-term nature of this contract to go to, we have the ability, just like everybody else to move into those business models.

**Alexia:** Why do you think it ended up being such a long contract? Is it because of the flexibility built into it for both parties or is there another reason?

**John:** I don't know. I don't want to speculate on the motivation by the NFL as to why, but when they asked us if we would consider that length, we jumped at it. It was something that we could see.

You and I wouldn't have to deal with this in six years' time and have an overhang yet again as to where does Fox and maybe the other companies stand on the NFL renewal. I think to secure that period of time was pretty important to us.

**Alexia:** Makes a lot of sense. Shifting to sports betting I guess what is the opportunity in sports betting for Fox longer-term? Maybe you could provide a bit more color on the puts and takes or what you would look to to take the option to step up your ownership down the road.

**John:** If you look at wagering overall, just as a reminder to everyone, we believe we're the most leaned in media company on wagering. Our principal assets are the just over two percent ownership we have in the top co, Flutter. Then the options we have in two of their subsidiaries, the FOX Bet subsidiary, which houses not only FOX Bet, but PokerStars. We have a 50 percent option
over that.

Second is the 18.6 percent ownership option we have in FanDuel. While that's subject to an arbitration, and as we've said on our Q3 call, we're not going to comment on it. The 18.6 is not the subject of the arbitration. It's a question of value.

On top of that, we've got this free to play games, FOX Bet SuperSix that has upwards of five million entrants that play the game. We're leaned into these investments. The ability of us to exercise these options, some, they're long-term in nature.

We have a lot of runway to decide when we want to execute on these. It also somewhat depends on licensing and what degree of licensing Fox wants to get in certain of these jurisdictions. Overall, we are, as I said, "leaned in on wagering." We think it's a big, big growth area for the company. We've got optionality as the states open up.

The other piece I would mention though, what comes out of these wagering assets to our traditional business, are the benefits of advertising. As you see, if you just turn on your local, a lot of it is played at the local level. If you turn on your local channel, you're going to see a great deal of wagering advertising.

We benefit not only through the investments, but as a business, we benefit through the advertising that's coming out of the wagering.

**Alexia:** Can we talk about advertising in general? You just came out of the upfront, how strong is the appetite for your portfolio and the comments on the ad market and the demand there?

**John:** I assume others have commented on the upfront, but I can only say that there is great optimism in this upfront market. What we see is a lack of uncertainty. A year ago, it was all uncertainty. This year, it's a complete lack of uncertainty by advertisers. Compared to where they were last year, there's a feeling, as we said, in the opening up of return to normalcy.

We have great visibility towards sports calendar, great visibility to our primetime schedule, which we announced both of those last week. Consumer confidence, GDP outlook is strong. The result of that is a quite buoyant and very strong demand for both linear and digital in the upfront.

Advertisers, for example, that sat out last year's upfront are back. Advertisers that decided they wanted to have more money and scatter last year have moved more money into the upfront. The
demand is very significant. For us, not only news, sports, and entertainment, but recall Tubi is a really important part of every conversation we have in the upfront.

As an example, compared to where we were a year ago, we've doubled the number of advertisers that are coming into Tubi through the upfront and we're only started in the upfront. What you can take away from me and probably you've taken away from others are we’ve got a healthy upfront right now.

**Alexia:** Well, let's talk about Tubi for a minute, because we've just seen such incredible growth under your ownership there. Maybe you can talk about the long-term strategy for that asset. How important is original content? What about sports and news?

**John:** I think, going back if you talk about pandemic early on, there were two things we accomplished in the pandemic. One was the closing of the NFL deal that we said. The second was just before it all hit we acquired two. It was literally...

[crosstalk]

**John:** days before...

**Alexia:** Right at the start.

**John:** Right at the start of all of this. We clearly have, during the pandemic, taken that platform, that Tubi AVOD platform and grown it even more significantly than our initial expectations were a year and 14 months ago, wherever it was. It was a thoughtful, a disciplined acquisition and we acquired a great platform.

As far as growth, we've called out and I don't see any reason why not, but in the near-term, there will be a billion dollars of revenue coming to Fox out of that. Importantly, that is incremental revenue. It's not revenue that shifting from one part of our organization to another. This is pure digital revenue coming from the market.

We've said it will be bigger than our broadcast entertainment division when it hits that number. The benefit of Tubi, to us, at least, is it's the only -- again, I'll use “independent” platform -- in that it's independent of any studio, of vertical integration at scale. It has had and continues to have unencumbered access to production. We deal with everybody in acquiring library product for it.
Importantly, we don’t have any competing priorities at Tubi. We’re not using it as a funnel to move users someplace else, into a paid service or an upper tier, to something else. You come to Tubi and you know exactly what you’re getting, which is a pure AVOD service.

The business, also, is focused on one key metric, which is total viewing time. That is the metric that, at the end of the day, determines the ad revenue. First, get users in. Second, provide a compelling program that will keep them on the platform.

What you’re going to see us do in the coming year is expand in two ways. One is some original content. The investment in original content will be manageable. You are not going to see the kind of investments that you’re hearing about over on the SVOD world on what they’re putting together there.

The second is we will add some sports content, mainly an NFL themed channel that was part of a deal that we just finished with the NFL, onto Tubi. In addition to library product that is the heart and soul, 30,000 library titles that are on Tubi, we’ll be adding originals in a measured way. We’ll be adding sports.

There is a very significant news service that's already on Tubi. It's rounding out into a much more complete service than when we originally bought it.

**Alexia:** It's not actual NFL games at this point. It's more NFL content.

**John:** That's right. It's a themed channel with various forms of content you'll see, beginning this coming season. We're continuing to focus that the games are exclusively on broadcast because of the value that provides not only to us, but to our advertisers, as well as to our affiliates.

**Alexia:** There seems to be a lot of interest in Tubi because all of a sudden I got a bunch of questions that came in. One of them is how much of Tubi’s -- I guess they mean to say advertising -- is sold direct, so those are linear ad deals, versus programmatic?

**John:** We haven’t given out that. I’m not about to, but there’s a good blend of direct and programmatic. Probably the way to underscore that, in my comments earlier, in that Tubi is a healthy part of the upfront for us now, which is not programmatic selling. That's direct selling.

**Alexia:** How do you see Tubi positioned versus over AVOD competitors?
John: Lachlan used the phrase before that we're AVOD to win. We know we're a leading AVOD player. At the end of the day, our intent is to be the leading AVOD player for a very long period of time.

Tubi is a big focus of this company. It's not a side investment by any means. We put a good deal of capital to work in it. We'll invest in Tubi, in particular we will invest during fiscal '22. In those kinds of areas, in content, and marketing, and acquiring viewers. Long term, it's going to be a great ROI coming out of it.

Alexia: Just speaking of investment in general or investing in content, is there any concern about navigating the content landscape when other networks are increasingly vertically integrated? Are you able to find the content you need? Would you consider buying a studio, acquiring more IP? Any thoughts there?

John: I don’t think we’re at a disadvantage. If you go back and picture the room we were all in on the investor day, we made it pretty clear then that being independent of a studio was not a disadvantage for the company. It has proved to still be the case.

If you look at, for example, the fall schedule that the entertainment division announced last week, we're in partnership with Disney, with Warner, with Lionsgate, Banijay, and others to name a few. It's not like firms that are dealing with their own vertically integrated products and platforms are not doing business with us.

Remember, we're the home to two hours of primetime a night. Sundays filled up with animation. Thursday and Friday right now are booked with sports. It's Monday, Tuesday, and Wednesday that we're filling calendar for.

We're finding a lot of people coming to Fox trying to get that shelf space in front of a large, large broadcast audience.

It's fair to say we do own IP. One of the smaller studios we have, although very active in animation, is Bento Box. They're doing a number of projects where we have an ownership interest and the assets coming out of them.

The punchline is we still believe we're not at a disadvantage for not owning a studio. You shouldn't take away that we're looking to own a sizable production studio as a priority.
Alexia: I think we've got a minute left. I wanted to ask you about your digital revenues. I think they're over $1.2 billion annually, if I have that number correctly. How do you see that growing over time? What can you do to accelerate it?

John: I think the two...We talked about them briefly, the two big levers for that will be Tubi -- there's no question about that. The second will be Fox News Media's digital extensions. Sports will be important. Entertainment will be important.

When I look at the two big levers in digital...I would include that the $1.2 billion you referred to does not have our digital MVPD revenue in that. It's principally advertising revenue and content revenue coming out of it.

The main levers will be Tubi and Fox News Media.

Alexia: We're out of time. Thank you so much, John. I really appreciate it. This has been fantastic.

John: Lexi, always great to see you. Congratulations on the conference. Thanks.

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