Communications Sector-Keynote Fox Corporation (FOXA)_Credit Suisse 23rd Communications_June 14 2021

Doug Mitchelson: Welcome to the next session of the 23rd annual Credit Suisse Communications Conference. I'm Doug Mitchelson, Credit Suisse analyst covering media and the cable satellite and telecom sectors. Very pleased to have with us, Steve Tomsic, CFO of Fox Corporation. The format's fireside chat. We've got questions that might run the full session, but feel free to email me at doug.mitchelson@credit-suisse.com if you have any questions and I'll try to work them in. Steve, thanks so much for being here today.

Steve Tomsic: Doug, thanks for having us. It's great to be here.

Doug Mitchelson: So let's start high-level with a big one. So there's been a lot of change in the media ecosystem lately, AT&T and Verizon exiting media, Amazon buying MGM, Discovery is scaling up. Effectively, one could argue that all around you are signs that scale is increasingly important in media, often global scale. So how do you read all of this news at Fox? What does it mean for you and how do these deals impact your strategic outlook. I'll throw it all in there right up front Steve, is Fox an independent pure play in five years, in 10 years?

Steve Tomsic: Thanks Doug, it's a nice easy one to open up with. I think you've got to look at Fox and in some respects it's the progeny of that thesis, right? Like if you look back at the history of this company and its various forms, we were one of the first to recognize the importance of global scale. So we tried to buy Time-Warner in 2014, and then that was the thesis that was behind the Disney transaction that closed a little over two years ago. So I think we've recognized that trend and we recognize that trend from a very early stage as the industry has been developing. I think, as you look at Fox today and you look at what's driving the trend in terms of scale and consolidation, it's largely around entertainment assets, as opposed to what sort of Fox's core is, which is live sports and news.

Steve Tomsic: And I think there's two things that distinguish live sports and news from a Fox perspective that doesn't lend itself to this push towards national and/or global scale, which one thing is both news and sports are fiercely parochial. So it doesn't lend itself at all to a sort of a global audience. People will watch U.S. news in the United States. People will watch U.S. sports in the United States, but there are very few sports that truly travel globally as being the number one sport. And so therefore, you really, with the content assets that we stewards are over, are very much about national scale. And then if you look at the output of all this consolidation, it really goes towards people really sizing up their D-to-C efforts and specifically with respect to producing big size streaming libraries.

Steve Tomsic: And live sports and news, if you go back to what the consumer actually wants, streaming actually doesn't deliver for live sports and news. It doesn't deliver anything special. Whereas from an entertainment perspective, the capacity to time shift, the capacity to binge watch, the capacity to watch whenever you want without the restrictions of a linear schedule, make a massive difference to the consumer experience. When you look at sports and news, it's consumed live, you sort of... It feels funny to watch sports and news on a delayed basis because you think that the world has passed you by as you're watching it.

Steve Tomsic: And so streaming doesn't solve a consumer problem when it comes to our core products. And so therefore we think Fox, sort of the constellation of assets that Fox represents now is pretty well sort of positioned as being kind of the 'zig' when everybody else is 'zagging'. So no, we think that our thesis is actually proving out from sort of management thinking from many, many years ago.

Doug Mitchelson: I take your point. I did watch the Bucs on a delayed basis yesterday and I'll take the win, even though I found out a little bit after the fact. You know, another big picture question. Since Fox has spun up, there's been a clear emphasis on investing for growth and organically [MBA 00:04:43] after the] acquisition. How would you articulate the adjacencies for Fox's businesses the Board's willing to invest in? How would you describe the idea flow? Is there lots of investors? Is it hard to pick and choose? Is the rule of cheap capital SPACs to utilize as IPO vehicles, maybe, that makes it difficult to find new growth opportunities?

Steve Tomsic: So I think to go back to your initial comment there, I think we absolutely have a bias towards investing in growth, but I think, and I think you'll probably get into this later on in the conference, which is around capital allocation, but I think we've been pretty balanced with the way we've deployed capital from both a return to shareholders perspective, as well as to investing organically and inorganically. When we've looked at the inorganic side and there's been like a handful of deals that we've done on an inorganic basis, and you can see that there's a pattern building there. You look at it and we've bought a number of assets that fit around our sort of core verticals. And so sports betting sort of attaches itself to our sports business, Tubi attaches itself to our entertainment business, we've done some station trading which obviously attaches to our TV stations business.

Steve Tomsic: And then there's kind of like what I'd say is a broader category that captures, that sort of crosses across many of those, which is our capacity to aggregate audiences at scale and being able to deliver that audience at scale to the benefit of adjacent assets. And so sports betting obviously, clearly is in that lens. And Credible also is in that lens. And so we've been pretty clear about how we see the capacity for us to be able to invest in growth. In terms of the competition for assets and our capacity to get deal flow particularly with the SPAC craze that's been about for the last 12 trading months, I think when you boil down

SPACs, it kind of provides two things. One is, it's an alternate form of IPO and so it gives the owner of that private asset access to liquidity for their own personal investment.

Steve Tomsic: And the other piece that SPACs deliver is they come with cash on balance sheet, which can go to investing in the acquired company for further growth. If that's the only thing that Fox brings to the table when we're talking to a potential acquiree, I don't think we should be involved in that conversation. So what we're trying to do with Fox is obviously we provide liquidity, we provide capital to grow their business because we've got a pretty strong balance sheet, but the real story when Fox talks to a potential acquisition target is what can Fox do to expand the art of the possible for that asset. And so that's what we've tried to do with things like betting and Tubi, which is about when that asset comes into the Fox portfolio, how can we really turbocharge that?

Steve Tomsic: And that's what the owner gets excited about when we talk to them. And so I don't think... Yes, there's a lot of competition for deals, but I think the deals that we really want, I think we speak a very specific language to the ownership to be able to get an unfair advantage for that deal flow.

Doug Mitchelson: How is deal flow looking?

Steve Tomsic: Deal flow? Listen, we look at... There's always assets on the market, we look at everything, but we're incredibly choosy. Things have to fit that kind of framework of surrounding our verticals and being able to benefit from the machine that is Fox, which is kind of this audience aggregation, this advertising sales mega tool, and sort of our distribution. And so, deal flow is fine. So if the right asset fits, we've always said, we're going to be opportunistic with capital deployment. We've got a reasonable amount of capital on the balance sheet that we can be flexible with. But as I said, we look at everything, but we're, we're fussy.

Doug Mitchelson: I want to talk through some of these growth initiatives. Why don't we start with Tubi? So an update on Tubi's momentum, distribution, strategy.

Steve Tomsic: So to start with strategy first, the strategy with Tubi was always about... We looked at how the ecosystem was evolving and it was clear that there was a pretty big segment of consumers that was going towards a streaming-only i.e. cord-cutter, cord-never kind of environment. And we saw Tubi as being the free, almost broadcast network alternative in the environment that is sort of streaming when people are increasingly up to their eyeballs with SVOD bills. We saw Tubi as a natural kind of attachment in that universe. And so we're pretty bullish and pretty excited about what we've achieved with Tubi and what's still to be achieved with Tubi. The momentum is in some respects, it's astonishing. It's both from a usership perspective. So in Q3, we had 800 million hours of total view time on the service, which was up more than 50% from the same quarter of the prior year.

Steve Tomsic: And the monetization has been truly astonishing. Like we bought the asset, it was run rating at a sort of $140-$150 million dollars of revenue. On the last earnings call that we had we said that we do sort of $350 million dollars plus, and it's going to be $350 million dollars with an emphasis on the plus. And so, listen, the momentum is significant there. I'm sure you're going to want to talk about advertising upfront. It is front and center, in those conversations and gives us another dimension to talk to advertisers about. It really stems from the fact that the strategy with Tubi is kind of having maximum library size and maximum distribution. So it's truly sort of ubiquity plus a huge content offering that's all powered with technology that is able to surface content that's relevant to the user. And so we couldn't be more pleased about how Tubi is traveling at the moment.

Doug Mitchelson: So one thing that's sort of interesting is just trying to figure out how big these services can get, how big this space is, what the competition for these viewers are going to be, how you acquire them. You're leading [inaudible 00:11:22 – audio cuts] indicated last week, it'd be substantially above a billion dollars of advertising in 2022. I think you've got, you guys have said a billion dollars for Tubi in a few years. How would you describe the level of competition in the fast or connect to TV marketplace and roll this forward? You know, for Tubi. How important is scale for these services, and how many services can win in the end?

Steve Tomsic: So I think that our progression with the asset and hearing what Pluto is saying about sort of their trajectory from a revenue perspective, absolutely validates the category and its relevance. There's no doubt about that. What the industry looks like in terms of number of players, and how that share splits, I'm not sure. But, I think the unfair advantage we think Tubi has is, it is truly the Switzerland of AVOD services. And so it is truly platform agnostic. It doesn't have any sort of bias towards platform, because it doesn't sell devices, and so it is truly available on every platform available, whether it be TV devices, the dongles, over the web, all the rest of it. And so we've got absolute distribution capability, and we've got a really, really large library. And so when you then couple with that the advantage of having what we think is a particularly strong technology advance, which goes towards... It's easy to have the big libraries because you can go and access those.

Steve Tomsic: But being able to surface the content with the technology and having a true AVOD service that surfaces that relevant content and the next one and the next one, so you stay within the system is important, around driving engagement. Or otherwise you're left in a more curated part of the world, which is not where Tubi actually wants to play. It's a true AVOD service where discovery is really important. So we think this category is going to grow for the long, long-term. We see it as being sort of, as I said, at the outset, it is for us the entertainment network of the future, and it's not going to be in the not too distant future, the ad revenues that we get out of Tubi are going to eclipse the ad revenues we get out of the linear entertainment business for us. And so we see this as having ... if you take a five or 10 year view, I think this grows for a long, long time to come.

Doug Mitchelson: Yeah. I was going to ask you what you hear that happens, but [crosstalk 00:14:02] I'll hold back.

Steve Tomsic: I think it's going to be surprisingly quick, given the trajectory with Tubi. I think that's [crosstalk 00:14:10] our pacing.

Doug Mitchelson: Not withstanding your comment, that it's great to be Switzerland, I still want to sort of hit back on the theme we have right now, which is everyone bringing their library back in house and using it for their own direct to consumer services, whether it's FAST or SVOD or hybrids or what have you. And so Tubi, as you said, has this fantastic library. How sustainable is that not being attached to a big studio?

Steve Tomsic: So, we think it's very sustainable. When you look at the library in ... even in the kind of ... the torrent of consolidation that we're seeing at the moment, we're having very little access to the library, that Tubi, wants to get its hands on. So that hasn't been an issue. And when you look at the supply, a portfolio that we have that feeds the content, it is a real broad church in terms of content suppliers. And no, there's no one particular supplier where we think, goodness, we hope we don't lose those guys because they want to hold their library for their own services.

Steve Tomsic: And so, no, I think from an access to content perspective, we feel pretty confident about where we're at. And we also feel confident that when you look at the SVOD and AVOD services of the competitors, many of them still see the interest in being able to continue to license content to the Tubis of this world as part of their broader content monetization strategy, because sort of monetizing it strictly through SVOD works for really the brand new shiny titles, but the deep library that sort of Tubi finds greatest value out of is still a pretty open marketplace.

Doug Mitchelson: So, I was going to ask you what you're the most [inaudible 00:15:51] excited about with Tubi in the next three to five years. And at the risk of you saying everything, can you just talk about the international opportunity in particular and what the strategy and the go-to market and timing of all that is?

Steve Tomsic: So, I'm not ... I'm excited about international, but I don't think it doesn't sort of pique our sort of immediate interests. We're in a handful of international markets right now. And we'll be measured about how we sort of deploy Tubi internationally. But if I look at the top three or four priorities of Tubi, to say the next 12 months, this aggressive international expansion is not, it's not in that realm because when we look about what excites us about Tubi, we don't even think we're at base camp in terms of usage and monetization in its core market, which is the United States. And so our capacity to continue to sort of exploit that opportunity, provide more content, plugin in a more joined up way with the broader FOX ecosystem, from a content perspective, the Tubi originals that will come online over the course of this year, really is where the management focus is. And yes, international will be an opportunity for us, but we don't see it as being an imperative in the next sort of six or 12 months, Doug.

Doug Mitchelson: So let's get to the question that your investors are interested in regarding Tubi. How much incremental investment, I guess if you think about how much Tubi made or lost last year versus next year, given you're trying to drive growth to the business, given you're talking about original content for Tubi, so what's the fiscal ‘22 investment level, and Tubi, and longer term, take us out five years, what kind of margin can that kind of business get to?

Steve Tomsic: Yeah. So, listen, I think on investment, if I look at the nine month year to date numbers and the Tubi impact to net EBITDA, it's a push, right? You can toggle these businesses to get to profitability really quickly, which is not where we want to go with this. The opportunity is too big for us to squander in terms of trying to meet sort of EBITDA thresholds for Tubi. And so you're going to see us over the course of ‘22, ‘23 sort of leaning on Tubi in terms of investment. I won't give you a quantum, but we absolutely want to invest because I think Lachlan said it either the most recent earnings call or the one before it, which is we absolutely want to win in AVOD. And so winning means investing in the opportunity and seeing the opportunity from a five or 10 year view.

Steve Tomsic: And so we're going to invest in content. We're going to invest in marketing, we're going to invest in user acquisition, and we're going to invest in technology. And so they're all important things for sort of immediate growth in Tubi but also positioning it so it is the winner in five years', 10 years' time. When you look at margin, I think the key factors that go into sort of driving Tubi margin, where can you get revenue trajectory to? And I think you can see where the revenue trajectory has gone, even in the short space of time that we've owned the asset. The two other things that really drive content apart from margin is you've got a base layer of costs around marketing and technology. And then you've got more variability in the cost base around user acquisition.

Steve Tomsic: And that may or may not go up on a unit basis based on sort of the intensity of the competition over the next couple of years. I suspect that that goes up in the next couple of years, as we all fight for getting that next marginal user. But the other piece where you really drive margin efficiencies is the consumption of content and the consumption of that content in terms of whether it's licensed content, revenue shared content or original content. And so the more that we can price licensed content and original content and get, not efficiency from the production of it or the sourcing of it, but efficiency from the capacity of knowing that that type of content is going to appeal to our users and therefore not have to pay away sort of 50 cents in a dollar at a revenue share, but make it more efficient from our perspective in terms of ROI, will be a really important driver of margin over 3, 4, 5 years’ time.

Doug Mitchelson: So the FOX Bet arbitration's under way with Flutter, that limits what you can say obviously, but let's focus on the sports betting opportunity for FOX sort of separate from pricing of any one option contract with Flutter. How is the sports betting market progressing from your point of view? What's FOX doing operationally to drive more value for sports betting asset and where are you seeing proof points that you're having success?

Steve Tomsic: So I ... Listen, to the people who are new to the story, I think you've got to delineate between where we are directly in betting and where we are from a portfolio perspective in betting. So we have options over assets in betting, but we don't actually ... we don't operate those betting assets. And those options are particularly attractive up to us from an asset value perspective. So we have a 50% option over FOX Bet, and then we have an 18.6% option over FanDuel. And that latter point is to your point, Doug, the subject of arbitration. From an operational perspective, where we do get very involved is in our capacity to drive funnel into FOX Bet itself. And so our biggest funnel from a betting perspective is a user experience in app called FOX Bet Super Six, which is a free to play game.

Steve Tomsic: As the name suggests, there's six questions you have to guess the correct answer to six questions, whether ... and we've sort of broadened that. It started off being really directly associated with just sports and picking the results of six outcomes from a sporting perspective. And then we've more fed into sort of more playful things around news, to the extent you can be playful around news, as well as some of our Entertainment assets, and in particular, The Masked Singer [inaudible 00:22:36]. And so, we didn't provide the greatest level of focus on FOX Bet Super Six in the initial months that we had it. And then when the most recent NFL season started, basically, we said, let's put ourselves to the test and see how much, when you bring the constellation of FOX portfolio assets in the audience, how much can we drive Super Six?

Steve Tomsic: And we basically got it from a standing start. So almost 5 million users today, which makes it one of the most ... one of the largest free to play sports betting games in the market. And so that's an incredibly important piece of the funnel and filter. A free to play bet is into a real money wagering. When we look at that, that will only grow in importance for us because when I look at FOX Bet as sort of the beneficiary of that funnel, FOX Bet is only in four markets; whereas, FOX Bet Super Six is a truly national free to play game. And so as more and more states legalize sports betting, as FOX Bet marches into more and more states, then the relevance of that funnel will only increase in importance. The other thing that will only increase in importance is as betting gets to national scale, is the broader might of the FOX Bet ... no, sorry, not the FOX Bet, the broader might of the Fox promo platform, the true linear platform, being able to drive usage at FOX Bet. And so we've made pretty important strides on the betting side of things. And you'll continue to see us do things imaginatively on that, and we're going to continue to lean on. So our most recent look in the betting landscape was Outkick, which is an important affiliate driver. So we bought the Clay Travis business there. And so that will, again, fit into our capacity to be this enormous funnel into the betting landscape.

Doug Mitchelson: So the thing on the sports betting assets that's super interesting is the debate that we all have as to what the value is. And anything Fox Corp can do, do you think, that can help investors understand the value of those sports betting assets? I don't know if it's just…are there 're clarifying catalysts that are coming up, is there a different structure? Any data points that you would offer to help everybody come around the right dollar amount from your perspective?

Steve Tomsic: From our perspective, as a media company we've been the most front foot from a sports betting perspective versus any other one of our peers. And so there's no doubt that we see value in asset value. Right now I can't do the usual thing, which is to point to the EBITDA in the P&L and point to KPIs that say, "This is what FOX Bet is doing today." And so therefore there's a read across into earnings and multiples and all the rest of it. And it's incumbent on us to illustrate, but we're going to illustrate the asset value that is in these options, which is always a tricky thing to do because it's not only asset value that sits below the line... Not even below the line, it sits outside of our P&L completely, but it's option value in the asset.

Steve Tomsic: And so I think we probably have to do a better job, but I think a lot of the street is coming around to actually recognizing our position here. I think some of it gets clarified once we get to a decision on arbitration around the FanDuel stake and what value that is. I think that's one pointer that we can draw a stake in the ground and say, "Okay, that's what that number is." And that's going to be an important part of our sports betting portfolio. And the other piece is as Fox... Remember FOX Bet started from nothing 18 months to two years ago. And so as that develops into a more asset, more important operator within the Fox betting, just generally, landscape, I think that people will be able to get a pretty clear feel as to how important the betting assets that we have are in the portfolio.

Doug Mitchelson: All right, got it. So another investment area has been Fox Nation. Do you want to give us an update on strategy level of success so far, and how should investors think about the need to invest in that business?

Steve Tomsic: So Nation started as an ancillary service or a supplementary service for the Fox News super fan, right? And so in the first 12 to 18 months the content was geared towards that Fox News super fan. Over the last, I would say, six months it proved that it serves that community. But what we've also done in parallel with that is I think we've become much more conscious of Fox News having a capacity to have influence, not just from a news perspective, but on a much more broader portfolio of programming because the audience is incredibly loyal and incredibly willing to consume content that Fox News, the brand, the overall Fox News Media landscape serves up. And so with those two things coming together we think that there's a much broader type of programming that Fox Nation can get involved in and serve its audience and drive subscriber growth and drive that continued loyalty, that Fox News Media portfolio of assets.

Steve Tomsic: And so you will have seen, over the last couple of months, we've sort of expanded our relationship with Tucker Carlson. So he produces daily and then every so often... Tucker Carlson Daily and Tucker Carlson Originals. And so that content has had an amazing resonance with the Fox Nation subscriber base. Things like Dan Bongino has come on board. And again, that's had great relevance, but then we look at... If you stretch the kind of genres and categories of content that's in Nation, we're seeing that that's also having a really strong impact on users and viewership. And so things like crime and justice and even lifestyle are gaining resonance because people who come to Fox News and people who come to Fox Nation trust the brand, and they want to sample what that brand has to offer.

Steve Tomsic: And so we think that taking the strength of that brand and then giving Fox Nation a broader set of content assets to be able to drive subscriber-ship is going to be really important. So you'll see us over the course of the next at least 12 to 24 months continue to invest in content, whether it be newly acquired content or taking content... Not so much taking content from the linear channel and putting it into Nation, but being able to get more value out of the linear channel and putting it. So you've got Primetime Anytime as a great example, right? We put last night's Primetime on Nation the next morning and people will devour it.

Steve Tomsic: And so we've seen a nice little uptick in subscriber growth since we've made these content initiatives. And so we're going to continue to lean on that open door and continue to provide subscribers with a lot more content and marketing so that people actually know about the service to continue to drive growth there. So I think the short story there is we want to go from it being just a way to super serve the already Fox faithful to a much broader content environment and much broader subscriber-ship.

Doug Mitchelson: Okay. That's interesting. And then I wanted to continue on streaming because I know you're asked every quarter and every conference about streaming and going to a consumer so I wanted to try it this way. So do you have everything already lined up to launch a Fox broadcast sports and/or news Overthe-Top streaming service? Is there more you have to do, whether it's Fox affiliate contracts or sports deals? We just wonder how fast can you pivot to streaming if you decide to do so for the broad Fox portfolio?

Steve Tomsic: Yeah. So we do get asked a lot, right? And so I think it goes back to your initial question which is... So you've got a whole industry that's going towards streaming, and as a result of the streaming they're going towards consolidating and all the rest of it. And I go back to the same point I made at the start which is what are we actually solving for from a consumer perspective? Not much in the case of sports and news in terms of delivering that on a streaming basis as opposed to the traditional model.

Steve Tomsic: I go back to sort of when I look at if, when we launch a new sports entertainment streaming service, I think it goes back to distribution strategy where it's distribution writ large. And so right now we feel as though the consumer is being really well served from our perspective, from serving up news and sports and our entertainment service, or news and sports in the traditional bundle. As more and more services try and have a foot in both camps by having a set of channels in the linear bundle and taking a lot of that same content and effectively simulcasting it on their own SVOD/AVOD services. We think that if we're going to stay relatively exclusive to the bundle then we should, from a distribution perspective, get outsized share of wallet in that environment.

Steve Tomsic: And so to the extent to which we would make the decision to move is the extent to which we either think that there's a big extension of reach or an extension of monetization by switching over from being linear traditional dominant versus being streaming plus linear, plus linear. And so I think that's our decision point.

Steve Tomsic: To go to your question around do we have everything in place to be able to switch over? The short answer is yes. Like the most recent NFL deal we had, which is the most important contract that we have in the company, gave us all the flexibility in the world in terms of being able to take that Sunday NFC package and be able to do it on a linear basis, on a digital basis. All the things that our peers are talking about we have the capacity to do.

Steve Tomsic: And so we have the technology stacks to make that happen because we've got various forms of streaming services: paid for, free... So really it is about the realization of what that product would look like in terms of flicking the switch, but all the raw ingredients to making that product happen are readily available. And so we can make that happen. But from our perspective it goes back to distribution strategy and how we can serve the consumer as opposed to everybody else is doing it so therefore we should do it.

Doug Mitchelson: All right. That's helpful. And you mentioned earlier that I might ask you about the Upfront. So it's that time, let's talk about the Upfront. So NBC was on earlier, and so they've pretty much wrapped up. We had a panel this morning that said, "Well, there's still a few weeks negotiation to last." So how did Fox do, and are you done?

Steve Tomsic: We're not quite done, but... Listen, I think the short answer is ... And I think it's been well reported over the last days and weeks, I think the Upfront has been one for the ages. Our guys are saying they haven't seen this kind of strength for close to two decades. And so it's been a great time to have big advertising assets and big advertising platforms to be able to benefit from that kind of industry environment. And we're seeing it across all three verticals. And we saw it happening actually over the last couple of months because our scatter pricing, particularly with respect to entertainment, because most of our sport is done through the fall, but as we looked at scatter going February, March, April, it was off-the-charts strong. And so we saw this coming. And so we've seen it across entertainment, sports, news and Tubi.

Steve Tomsic: It's across multiple categories, obviously tech and sort of derivative tech. The extent to which auto manufacturers, traditional auto manufacturers want to market EVs, then they've been strong in the market. Financials have been strong. The streamers have been strong. We're seeing the return to normalcy kind of industries, all being strong, whether it be food and beverage, travel, theatrical. And so it's been a huge tailwind. And so we're close to done. I think when it's all said and done, we will have solved a pretty similar amount of volume to what we did in prior years. So we haven't overindulged, so to speak, because we think that this strength is going to continue.

Steve Tomsic: And I think it goes to, from our perspective, when you look at, the assets that we have and being able to deliver mass audience with the broadcast network or real loyal audience with respect to news, really augurs well for us to be able to continue to drive advertising pricing. And so it's been manna from heaven for us. So it's been great.

Doug Mitchelson: Why don't we switch over to the other big revenue stream, affiliate revenue? I think it's been at least a decade now, in my experience, distributors saying they're going to hold the line on rate increases for linear networks and it hasn't really happened yet. But the latest is retrans coming into focus. Is there a ceiling to what broadcasters can get for retrans fees? And can you walk us through what investors should expect for affiliate revenue growth in fiscal '22 and beyond?

Steve Tomsic: Yeah. So on affiliate, I go back to what I said earlier, which is, when you look at Fox and then you look at our peers, it's important to differentiate that Fox has been sort of a friend to the bundle, has been a friend to our affiliate distributors of the network. And so, when you look at outlook for us, so for fiscal '22, remember we're a junior end, we're actually incredibly light from a renewal perspective. So less than 5% of our overall affiliate revenue comes due for renewal the fiscal year we're about to walk into. And so our kind of affiliate revenue growth is going to be much more driven by where you think subscriber growth or attrition is going to land over the course of the next 12 to 15 months.

Steve Tomsic: We have kind of the in-contract increases, but they're relatively modest in comparison to being able to drive reprice on a renewal. And so fiscal '22 should be pretty quiet from an affiliate growth perspective.

Steve Tomsic: We're still absolutely on track to deliver the [$]2.65 billion of retrans and reverse comp that we set out at our investor day, all those quarters ago. And so, that's not an issue for us. But as we front up to the renewals that will take place in fiscal '23 and beyond, we now do that from a position of certainty with respect to virtually the whole portfolio of sports asset we have. Charlie's done a fantastic job with the network so that the broadcast network is number one. And then you look at news, which has just been a juggernaut, and we're going into a midterm in a year and a bit's time.

Steve Tomsic: And so that's going to be an amazingly relevant asset for us as we go into these big renewals in ‘23, ‘24 and beyond. And so, we would expect that just with the strength of those assets, we should have really healthy pricing growth. And then relative to competitors who want to have a bet each way on linear versus digital, we think that if we're going to stay sort of attached to the linear bundle, then we need to get better share of wallet and that is what the objective will be.

Doug Mitchelson: So what are the big sort of growth and margin swing factors as you look at fiscal ‘22? And I'll give you some room to work with, I'll throw up a couple of things in there. I think that certainly redone, you've done some sports contracts and political ad revenue comes in and out. And maybe you could also look beyond fiscal ‘22. But what are the big swing factors for Fox that we should all be focused on?

Steve Tomsic: Yeah, so I think if you look at ‘22, we're obviously coming out of the political year. And political for us actually means two things, one is the direct political ad revenue that we ride at the TV stations which was a record year for us and a record year by a margin. And so therefore that's just not going to be there for us in fiscal ‘22. The other piece to political for us is that it's an enormous driver of audience, particularly at Fox News. And it's not just Fox News, the linear channel, but it's Fox News, the digital service, the internet site. And so there's no doubt we've called it, God knows how many times through earnings calls, that we're going to have a lull in audience. Our share is going to be fantastic, but the absolute level of audience is going to be lighter in fiscal ‘22.

Steve Tomsic: So that comes out. You've got the natural sort of growth in the business, whether it be from continued growth in affiliate revenue, we've talked about just the outright strength of ad markets. And we would expect audiences, particularly in sports, to come back versus the levels that we've seen last year where you had sort of weird schedules. You had schedules collapsing on top of one another between different competing sports. And so, we'd expect with crowds in stadiums, normalcy to schedule, we'd expect to see ratings improvement there.

Steve Tomsic: But then, so that goes towards the negative of the political headwind offset by sort of natural organic growth in the business. And then you're going to see us invest in the business, right? We're going to talk about investment in Tubi, we’re going to invest in Nation. We're going to invest in FOXdigital. We're going to invest in... Sorry, Fox News digital, and we're going to invest in our weather service. So I think they are the puts and takes through fiscal ‘22. As then you look into fiscal ‘23, I think the biggest factors to be aware of is, from a fiscal perspective, we move into the midterms. And so with kind of a delicate balance in the House and the Senate, you could expect that midterm political advertising is going to be pretty strong. And so that should be a tailwind for us. We have a tailwind of about $350 to $400 million dollars from an early transition out of Thursday Night Football, which is going to be helpful to us.

Steve Tomsic: And then you go in and we're still not into the new contract of the NFL. And so if I look even further out in terms of just the fiscal ‘24 is then you don't have the free comp of Thursday Night Football being a good guy for us. Then you move into fiscal ‘24 where the new Sunday NFL contract kicks into gear.

Steve Tomsic: So, I think they're the big puts and takes. You've got other bits and pieces around that, whether it be a men's or women's World Cup year, but they're the big swing factors.

Doug Mitchelson: And last question for you, $5 billion, $6 billion in cash, excuse me, sit on the balance sheet. A couple of billion dollars a year, give or take, getting generated. We talked about M&A earlier, and I'm sure your priorities in capital allocation haven't changed. I probably just enticed you to repeat them for us. But what's the right amount of walking around money for the board and the management team?

Steve Tomsic: Listen, there's no doubt that the balance sheet at the moment, in terms of the amount of cash we've got sitting there, is a bit of a legacy from us taking some protection at the start of COVID. So we raised a billion two of debt. In January, we got a $750 million dollar maturity, which we'll pay down from the cash on the balance sheet. And we're going to be balanced about the balance between using capital to return money to shareholders versus organically investing in the business and inorganically investing in growth. And I think we've shown that balance over the course of the last couple of years.

Steve Tomsic: So by the end of this current fiscal year, we will have sent back a billion six in buybacks to shareholders. We'll have done $700 million dollars of dividends. So that's $2.3 billion of return of capital to shareholders. Meanwhile, on net M&A spend over since inception of the company has been about a billion one. And so, I think we've been pretty balanced. There's no doubt that we've probably got an excess of cash and we'll look to take that down over the course of next year or two.

Doug Mitchelson: All right. Well with that, I think we've covered the gamut. Steve, thanks so much for doing this and taking your time today. Really great conversation. And I look forward to doing this in person next time we get together. But again, thanks so much for your time.

Steve Tomsic: You bet, Doug. Thanks for the opportunity.