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Jessica: Good afternoon. I’m Jessica Reif Ehrlich, Senior Media and Entertainment Analyst at BofA Securities. And I couldn’t be more thrilled to end our conference, our 2021 Media Conference with Lachlan Murdoch who is the Executive Chair and Chief Executive Officer of Fox Corporation. So Lachlan, welcome back.

Lachlan: Thank you very much Jessica. It’s a pleasure to be here and thanks for having me.

Jessica: Thank you. So much has happened since the emergence of new Fox in 2019. It’s kind of incredible when you think about it. COVID has obviously significantly impacted our lives and the economies around the world. Most traditional media companies have pivoted to DTC just in that timeframe.

So the models have changed, media companies are trying to gain scale, as you know, through M&A. I mean couldn’t be more surprised at the Warner Discovery combination when that was announced. And then Amazon’s acquisition of MGM, which kind of makes wonder where the rest of the FAANGs are and what they’re thinking. And then, of course, the JV with Comcast and ViacomCBS. So given kind of like the change in the world, how is your core strategy evolving?

Lachlan: So I think it is amazing, you’re right. Think back sort of is it 2.5 years ago to the Investor Day and the creation and the launch of new Fox, post our sale of the assets to Disney. And remember, at the time, we talked a lot about the logic behind our strategy of core Fox was around the media segmentation. And really wanted doubling down and investing in the most engaging and the most powerful brands in media. And that was our strategy. And of course, that’s in live entertainment and live news and live sports.

Now what’s happened over the last couple of years and then COVID was potentially an accelerator of this, is that the media world and particularly the entertainment segment of the media world, has only become more fragmented. The fragmentation has only accelerated.

And what’s that meant is that that decision we made a few years ago to create new Fox and focus on these core brands has actually proven prescient and incredibly valuable. We’re seeing an environment where news is never more important and never more engaging. And our share of audience is incredibly strong and near peak highs.

And in sports, we’re seeing an audience return to sports; and importantly, advertisers and clients understanding the importance and the power of large aggregated audiences. And so we’re seeing a flow of revenue from our advertising clients into these sort of must-have properties.

So from a strategic point of view, I think we're seeing the strategy well executed and showing incredible signs of success and strength. But nonetheless, our investment in digital media and streaming continues apace and is also an extremely important leg of our strategy.

So the acquisition of Tubi, for one example, has been, proven to be very well timed, as audiences look for entertainment programming off linear broadcast networks and cable networks, and media streaming platform. And so Tubi is an AVOD platform offering streaming entertainment has been an incredible addition to the company.

Jessica: The timing on that was absolutely incredible. Just to maybe touch on kind of a scale question, do linear TV and virtual MVPD bundles in addition to Tubi, of course, and Fox Nation, is that enough scale in terms of distribution or will you consider partnering with other networks or streaming companies as a way to monetize these assets, Fox Nation or potentially pivot some of your traditional pay TV focused assets into more of a streaming environment? I mean you've kind of resisted losing all of that money that other people are doing. But where do you go from here?

Lachlan: First I want to answer the question on whether I think scale is obviously, scale or distribution is obviously very important, particularly if you're a subscription video on-demand service, to – it's becoming a more and more crowded marketplace. And to earn a share of the consumer's wallet, going to pay you on a monthly basis, whether it's $5 or $8 or $10 for your content, will become increasingly difficult.

And that's why you can see many media companies that have bet on a subscription video service continuing to invest in that and spend a tremendous amount of their capital on content and programming to feed those services.

We are in a very different business and a very different position, in that we have decided to go full bore and have a focus on winning the advertising video on-demand service. Which is a free service. So we don't really have to compete as much in terms of expensive headline content. But we need a breadth of licensed content. We need the best ad tech, which we have. And we need to be able to let people know about the 35,000 titles that are on Tubi.

So Tubi doesn't really need the scale that a subscription video on-demand service requires. And we're certainly seeing that in the performance of the business.

Our other streaming business, Fox Nation, which is doing very well, is a subscription video business, but it's very targeted to Fox News superfans. And we know that that market is watching us on linear like never before; and we have a tremendous platform to capture them and offer them an added service in Fox Nation. So Fox Nation doesn't need the scale either in the way that some of the other entertainment on-demand services require.

Jessica: Which is amazing, because you really do have – you zigged when everyone zagged and it seems to be working. But through some of your recent investments and some acquisitions, you've gone into new areas as well. I mean your timing on sports betting was phenomenal, but also consumer finance, blockchain, AVOD streaming as you just mentioned. How do you think about the Fox asset mix today and how M&A fits into your strategy going forward?

Lachlan: What we look for is businesses that can from a content or business model perspective, and plug into our multi-platforms, where we can help monetize then through entertainment, through news, through sports. And of course, always with digital first, our digital first aspect (inaudible). And Tubi is a great example of how the whole company has come together now with News on Tubi, we just launched Sport on Tubi. And we're promoting Tubi across all of our platforms. And of course, we have our franchise entertainment programs also on Tubi.

We just I think yesterday, and it wasn't this morning, it was yesterday announced the acquisition of TMZ, the celebrity and entertainment news business, which is both from a syndicated television programming and also very importantly, has a very strong digital presence.

When we look at TMZ, we see a business that we're not in, in terms of celebrity and entertainment news, but that can absolutely fit alongside all of our other brands and platforms; and we can really sort of help drive it across the board. It was a modest acquisition, but one that we are very excited about. And I think this goes to that model of where can we acquire businesses that within Fox are much more valuable and have a much higher growth profile as they would standalone or perhaps in another media company.

Jessica: That was a really interesting acquisition and one that we all know (inaudible). So let's go into some of the current business trends for your division, starting with maybe distribution. Pay TV sub declines seem to be moderated a bit. But you also have been a very heavy renewal cycle. Can you give us any insights to what the trajectory will look like in fiscal '22 and beyond for your affiliate fees?

Lachlan: First thing on affiliate that's important to note, but it does inform our results, is we have the strongest brands on cable television today. Since the Olympics, the summer Olympics finished to now, Fox News in primetime has been the number one network, including broadcast networks in the United States. And so when you look at the strength of that brand, and the engagement of that brand has with its audience, it really is a driver of value for our distribution partners.

And so we see that as we go through these renewal cycles for our networks. This year we have a relatively quieter year in terms of renewals. And then next year I think we have about 35% of our distribution coming up for renewal. And the following year about 33 or 34% coming up for renewals. So while this year is quieter, we have just completed a small distribution renewal; and one indicator which is important is that in that renewal we saw significant commercial improvements on pricing and other terms across the board, which speaks very positively toward what we'll be achieving or hope to achieve next year.

Jessica: And then on the other side, on distribution as well, but on retrans. Your retrans prices have really been like top end in the industry. I remember when Chase when he worked for you said a dollar a sub, a buck a sub and everybody thought he was insane. But from here is there still room for meaningful growth and given your focus on live, versus everyone else kind of putting their content not just on – on their video channels, but also on their streaming, which takes the differentiation away or the uniqueness in that programming.

Do you really differentiate yourself there and you're different than some of your peers. But so I guess on retrans. Is there still an opportunity to grow from here?

Lachlan: Absolutely. We talked about this before, but certainly when we go into these retransmission and affiliate renewals, when you have a large bouquet of channels and a lot of competing interests internally, I think in the past our route transmission has been used to help – and I know it's been used to help launch other services or perhaps flatter other brands. We're not in that position. We're very focused on our core brands and our network and our stations.

And as such we're really able to drive our retransmission revenue and increases very strongly and very healthily. So we see that continuing. Obviously those will be, they're renewal cycle with our distributors. But we see retransmission continuing to be a strong growth area for us.

I should mention two things. One is that I think all the way back into our first Investor Day, we talked about a billion dollars of incremental retransmission revenues that we would achieve from the birth of new Fox at that Investor Day, to I think to calendar '22. And we are well on track to achieve that target.

It's always a worry as a CEO, as a management team when you put out high targets and aggressive targets to the market. So it's really pleasing when the teams come together and work hard to be able to achieve those targets. So we're on track to achieve that.

The other thing on retransmission which is important that we haven't had a chance to talk about, but clearly the court loss for the rogue piracy business Locast, it was an important one for us. We will always vigorously defend our intellectual property and it's just pleasing to see that a threat out there of someone who thought they could steal our content for free, and subvert the business model of broadcast television in this country, it's pleasing to see that that threat has been averted.

Jessica: And then moving on to advertising. And by all accounts, I don't know if this is a stark upfront in everyone's lifetime – did you see that as well and what do you see on the national side? What's the outlook for national advertising for your properties for the next 6 to 12 months?

Lachlan: The upfront was historic. Everyone said it and I don't know which adjective you want to use. Everyone used a lot of adjectives, but they're all accurate. So I would endorse what our colleagues across the rest of the industry have said. And importantly, the scatter market since the upfront has remained tremendously strong.

We are talking sort of a national advertising, Jessica, this NFL marketplace has never been stronger. We've never seen anything like it. And pleasingly, we are seeing new advertisers come into sport; and frankly, new advertisers come into news. And I think that goes to what I was saying earlier, which is that major brands and major clients are seeing news and sports and there's nothing like the NFL and Major League Baseball, in terms of where they can reach such a large audience. So we're seeing new clients and at tremendous volumes.

Jessica: Great. And it didn't hurt that NFL ratings started out very strongly.

Lachlan: The weekend was a great weekend. I think our aggregate on Sunday for us and CBS was about 20% up in ratings. I think for the whole weekend it was 16% up in ratings, which is great to see. I think that's a five-year high, so bodes well for the whole season and makes us even more pleased to be partners with the NFL for the long term, for the next 10 years.

I should also mention that sometimes it falls off people's radar, but college football also had a tremendous start. I think up over 40% in ratings. So the combination for us of both the NFL but also college bodes really well for the football season.

Jessica: That's incredible, because we haven't talked about ratings being up for quite a while.

Lachlan: It's nice.

Jessica: Yeah. And then just we talked earlier about COVID and with the rise of COVID, are there any headwinds that you're seeing in your advertising business? I mean one, it's COVID which may lead to like slower openings. But the second thing is just supply chain, like autos are obviously there's just no supply.

Lachlan: Yeah, so the auto sector, we have two segments that are down. Auto, which is because of the chip shortage, which will sort of – it's a supply issue not a demand issue. So we expect those clients and those partners to come back strongly once they have the supply of their cars to be able to sell. So all auto is down and telecom is down somewhat. Every other category is up, on average, 20% going into this Fall.

So from a COVID perspective, to answer your question, absolutely COVID has affected supply chains and thus the auto category for our national and our local auto advertising.

Having said that, the flipside of this is that throughout the past 18 months of the pandemic, we saw a tremendous amount of new clients coming into broadcast and cable television, that were sort of the digital clients such as Uber Eats and others, that came in for the first time at scale. Also obviously a lot of the streaming companies came in.

What we're now seeing is the pre-COVID clients, travel and retail and others, coming back strongly in the market in the Fall. But the COVID clients remain. And so you have more demand for our programs and our content and that's a positive trend to see.

Jessica: Right, great. What role does Tubi play in the upfront discussion this year?

Lachlan: Sorry, what was the Tubi…

Jessica: What role did they play in the upfront discussion this year?

Lachlan: They played a huge role, but I should make very clear, they're a part of every conversation; and I think the marketplace, not just with Fox, but streaming platforms and (inaudible) ones that withheld advertising was a focus for a lot of clients. For Fox, so Tubi was a part of every conversation we had and was a tremendous benefit of both the Tubi and the Fox.

But the key thing for Tubi, for us, and I can't talk for others, but for Tubi for us was that all the dollars were truly incremental. Tubi offers our advertisers a reach that they – that somebody can't get on broadcast and on Fox alone. So the combination of Fox and Tubi has worked tremendously well.

Jessica: And then just to go back to sports for a second. And I'll come back to Tubi in a second. But on sports, you mentioned the ratings you've given me ratings for college football and NFL, you mentioned MLB. But we're going to have a normal schedule as well. So is demand overall up versus like a normal year, like 2019 is that what you're saying?

Lachlan: Yeah, absolutely. It's an incredibly strong sports market. Demand is very high. We are having I think it was reported the other day we've had inbound calls on Super Bowl advertising for next year. And so it's a very robust market and one that's importantly I think for us, we also made sure in our upfronts that we kept enough availability in our back pocket for the scatter market going forward – you always make these judgments and how much – how many avails do you keep to sell into the scatter market going forward?

And so far our decision to hold back enough time to be actively in sale as scatter pricing is strong, is proving a good decision.

Jessica: Just to clarify what you just said. You mean Super Bowl '23? Because – so they're calling you now in '21 for – that's amazing to me.

Lachlan: It's a very strong market.

Jessica: And then on local, what are you seeing – what kind of trends are you seeing at the local O&O broadcast station level? You don't have political and then you have a big new category in sports betting, so it's a lot of puts and takes. Can you give us some color?

Lachlan: Sure. So local, again, the same local issues as national ad in terms of in auto being the soft category. But all other categories, with the exception of telco, up very strongly. And, of course, the standout is, as you mentioned, is the gaming category. So I think I'm counting was it the first quarter, the number I saw was up 650%. And we're only in – it's only a third of our footprint, of our markets or the markets that we touch. And where sports betting is legal. So this is a tremendous category for us. It's growing incredibly fast. And it's on track to be in the top two or three advertising categories for our local stations.

Jessica: Great. I'll come back to sports betting in two seconds, I just want to finish up on advertising. You said before that Fox News ratings are, I guess it's the share versus others' has climbed. So do you feel like you're finally monetizing it well or is there still room to go (inaudible)…

Lachlan: Absolutely still room to go. The share is tremendous. We're over 50% share in the news category. I think 52 and 55% depending on the demographic. So the share has been tremendous. The news cycle is exhausting, but our producers and journalists are doing a tremendous job on keeping up pace with the news cycle and continue to inform our viewers. And that's really what's led to I think the share and then led to tremendous ratings.

The ratings aren't what they were for anyone in an election cycle. There's also a lot of intent and viewing, but we're incredibly happy with the share. And from a ratings point of view, as I said, being the number one network, including broadcast network in late August or September, which is really wonderful to see.

From an advertising point of view, we're seeing new advertisers come into news, just as we are into sport. We're seeing advertisers building on vehicles for them to advertise, whether it can be in non-opinion programming or lifestyle programming, or now with the launch next month of Fox Weather. We're seeing tremendous interest in brands who would not be traditional news advertisers coming to show tremendous interest in Fox Weather.

So as we look at our Fox News media brand and you see primetime and news programming, opinion program, but now lifestyle programming and weather and other adjacencies, which are important for advertisers.

Jessica: Is Fox Weather going to be a cable channel or digital only?

Lachlan: It's our FAST channel. So it will be – start with a digital channel free across multiple platforms.

Jessica: And then let's move on to sports betting because it's really exciting right now. So as more states legalized sports bettering – did you approach change and how should we think about the potential exercise of your Fox Bet and FanDuel options?

Lachlan: So you don't need me or any of your guests on the broadcast this afternoon to tell you that the market is booming. It's growing incredibly fast. As I said, there's only – we touch six markets and it's already, it's one of our top advertising categories. And the reason for that is, it's very competitive and there's a big prize to play for.

We are in a good position and we put ourselves in a good position in that we have both the option for 18.6% into FanDuel, which is incredibly valuable. They're our partner and clearly they would be one of the winners in the space. And we have our joint venture with them in FoxBet.

If you look at the FoxBet joint venture, if you remember, we have a pre-play game that sits on top called Fox Bet Super 6, which is now also a partner as one of the sort of official waging partners with the NFL. And Fox Bet Super 6 this weekend did three times the number of active players, people who participated in the first weekend's competition, three times number of active players that were playing in the first weekend last year.

So the market is growing exponentially. I think our brands are very well positioned and we're in a good position in that we actually participate across the marketplace.

Jessica: I mean it seems like there's really potential intersection between media properties and the sports betting where you're obviously well positioned with Fox Sports. It's an amazing brand. Could you talk about some of the opportunities you have or they have to integrate Fox Sports brand with sports betting?

Lachlan: Sure. And again, it goes to our strategy in other parts of the business as well, where you can take the brand, the Fox Sports brand and look at how you monetize it in different ways. You can monetize it through advertising, you can monetize it through affiliate revenue, but what's a third revenue stream that we can garner from such highly engaged audience, and having invested so much in truly the world's best sports programming? And sports wagering is clearly the great opportunity today in that way.

So what you see us doing is you'll see us, again, integrate say odds into our Fox Sports app. You'll see us pushing Super 6 across platforms. And not only sports platforms, but where it's a fun, it's a free-to-play game and where the content is compelling enough, a lot of people want to play that game over a weekend. So there's lots of different, across the company, opportunities to really drive our wagering business. And Fox Sports is obviously a key one, but in other areas as well.

And in fact, it's something that's worth noting that with the new company, we purposely designed an organizational structure and a management team that was small enough and nimble enough and could work quickly enough to be able to execute on a number of these initiatives. And so with Fox Bet and the overall relationship entirely with Flutter, you see sort of weekly and fortnightly the senior management's engagement on how to drive those businesses and how to outperform what we did even in great success last year.

Jessica: Great. And then on just growth investments in general. You guys have talked about the $2 to $300 million in net EBITDA losses in fiscal '22 associated with some of these newer businesses. So I guess Tubi, Fox Nation, Fox Weather. How should we think about the allocation of these estimates across each of these assets; and what's the path to break even?

Lachlan: I think we call them $2 to $300 million of investment in those businesses. And they are true investments in what we see as the strategic future of our business. And you can look at them, each one is obviously very different, they're very different businesses, Tubi with what drives Tubi with total viewing time, bringing new users in with the marketing cost behind that. Also the ability to acquire or produce low-cost but highly-engaging content is very important for the success of Tubi.

And that's what we're allocating our costs towards Tubi because they're really important levers in the success of that business, which is as we talked about, have grown so strongly.

Fox Weather another big initiative, it was tremendous to see in New York last week the Fox Weather team join the Fox family. So welcome everyone from Fox Weather. And weather is something that all of our audiences cares about and it's going to be a tremendous business, really driven by the source of advertising interest that we're already seeing coming onto that platform.

And Fox Nation continues to grow. It's important that we have a direct one-on-one relationship with our most engaged superfans. So we think that's an important and a strategic investment as well.

Jessica: There's a bunch of questions from investors. I'll just take one since it's on Fox Nation. It says Fox is starting to buy content for Fox Nation with COPS. So is this the start of deploying more capital into this growth sector?

Lachlan: Well, we've always bought content for Fox Nation. Some of it's licensed for shorter periods of time. Others is produced and others we've purchased. We've seen in this last year the success of Fox Nation and the subscriber acquisition really take off, in great part to the content that we now have on the platform.

I think we may have talked about this before, Jessica, I'm not sure, but you have to build up a library. It's great to have key sort of programming throughout the week and we've gotten live programming, the live program, in fact, from Fox

Nation has done incredibly well this year. But it's also important to have that library sufficient being an on-demand service.

So we've started to carefully license and purchase other programming, but we're doing it in a careful way hopefully just deigned for driving those subscriber acquisitions and engagement.

Jessica: Great. And then I guess just one more thing on Fox Nation, but you've had some, a couple of really good quarters for customer acquisitions. I don't know that you've ever talked about this, but what are your long-term goals for this asset? Like how big can it get?

Lachlan: It can get pretty big, but you have to remember, it's today and we just talked about acquisition of a new series of COPS. Because as a pure news and documentary unscripted service, there's a superfan market for that. But in order to grow beyond that, you'll see us getting into other lifestyle and entertainment categories that resonate well with our audience.

So we've been strategic about the growth of Fox Nation. We'll continue to be strategic about it. We really see it as a tremendous opportunity, as I said, to have that one-on-one relationship with our superfans that are, frankly, already watching our menu of programs.

Jessica: We're kind of running out of time I just want to get into the mandatory capital allocation questions. You finished last year, fiscal '21 with almost $5.9 billion of cash on hand. You recently approved, or your board approved $2 billion in buyback authorization. You have such a strong balance sheet. What are your capital allocation priorities this year? And then one last question after that.

Lachlan: Well, I think we have the whole kind of quiver of tools, to mix metaphors. But like a toolchest of tools to allocate our capital. And ultimately to return capital to our shareholders. So as you said, the board has just approved and increased an extension of our buyback program. You'll see us continue to buy back shares. I think we have over $2 billion capacity still to use and allocate towards buying back shares. And you'll see us – our expectation is that we'll continue to do that.

We also this year at the full year earnings, increased our dividend. And so those are two levers that we feel are important, particularly when we have, in a great position to have – not only have a lot of cash, but to have very strongly cash-generating businesses, it's important that we have those tools where we can have the cash – return cash capital to our shareholders.

Having said that, M&A is important to us as well. We'll look at what we do look at a lot of M&A opportunities. But we're careful to search for businesses that I said that complement the whole and that we can really drive across news and sports and entertainment.

Jessica: I mean I guess the last thing is because your balance sheet is so strong, would you consider levering up any of the things you just – maybe not dividends, but buyback or M&A?

Lachlan: There's no need for us to lever up now. Because of the strength of the balance sheet, we've a tremendous amount of fire power. If we were to go looking for any larger assets, we haven't seen anything that's of interest to us at the moment, today. But we certainly have a lot of flexibility to be strategic as we go forward.

Our strategy has worked over the last 2.5 years. It's accelerating, the media fragmentation on top of that is actually just helping our assets. And we're in a great position going forward. So we will be strategic and we've got a great balance sheet and we'll certainly put it to good use.

Jessica: That's great. Thank you so much. So with that, we're finished with the conference. And I can't thank you enough Lachlan for coming and closing it out for us.

Lachlan: Jessica, thank you very much for having me. It's lovely to see you and thanks for everyone for listening and joining today.

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