Fox Corporation

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<<Robert Fishman, Analyst, MoffettNathanson LLC>>

Good morning, everyone. Robert Fishman here. Hopefully, you can hear me okay and we are very excited to have Fox Corporation here with Steve Tomsic. So, Steve, thank you for being here.

<<Steve Tomsic, Chief Financial Officer>>

Robert, Thanks. Appreciate you having us.

<<Robert Fishman, Analyst, MoffettNathanson LLC>>

All your support. So, let's start big picture, if we can, really high level and talk about the FOX share price, which has been mostly range-bound for some time now. And we at least continue to feel that it's undervalued. I asked the question on the earnings call, but I'm curious, just bigger picture. As you think about the valuation of the Fox Corporation, how does the stock price impact any decisions or actions? Clearly, we've seen the history of the 21st Century Fox, and how the Murdoch's approach that?

<<Steve Tomsic, Chief Financial Officer>>

So that's an interesting question, and you did ask it on the earnings call. So, I think big picture, we have enormous conviction in the quality of our assets and their long-term potential. The Sports business, the News business, emerging Tubi and a plethora of other assets that sit around those. We also have enormous frustration in the valuation. Like I think I could mount – I think you had us at just north of 4x. I could mount an argument that says we trade sub-4x. When you look at sort of asset value of things like Tubi where it's a deficit in the P&L, but has absolute asset value, you look at the value of the tax asset, which is like close to $2.5 billion, you look at the value of our betting assets that are kind of on the balance sheet but not through the P&L.

So, when we trade at sub-4x on an absolute basis, it's enormously frustrating and on a relative basis, it's also frustrating because our peers, who we think we've got a superior set of assets versus our peers in a very concentrated set of assets, we think we should trade equal or better. So it is frustrating. When we look at it though, you asked about actions that the company could take and I think the way we view it is we have – because of this enormous conviction we have in those assets, we're not the sort of company that – like when we look at our book of assets, like in monopoly parlance, we feel like we're sitting on Mayfair and Park Lane and we've got three hotels on each, right. And we feel as though the market is valuing us like we're the electric company and the waterworks. And so – but we're not going to sort of look at what other companies have done to chase share price and chase sort of the attractions from the market.

So, if you look at the past, some of our peers are guilty of this, but if you look at the broader market, debt-fueled buybacks, investing in literally billions of dollars in chasing subscriber-based multiples or revenue-based multiples which you look at where some of those companies are today, they're damaged from it, right? And they're vulnerable, and they're compromised as a result of it. And so, I think when investors like the investors are in this room, I think we expect these investors to expect us when they invest a dollar of their capital in us, to be responsible stewards of that capital. And so, when you think you've got fantastic assets, we're going to continue to build those assets for the long-term. So that's the matter of the management team as we go forward.

<<Robert Fishman, Analyst, MoffettNathanson LLC>>

So as part of all that, what I would argue also is a significant asset for the company is the balance sheet and the free cash flow that you continue to generate. So maybe just help us think about where you expect free cash flow to be roughly on 2024. But even as we think going forward like the sustainability of that free cash flow, we know 2025 is set to be another probably strong year, lots of positives that should help that, including Super Bowl, political. So just maybe help frame how you think about the sustainability of your overall free cash flow?

<<Steve Tomsic, Chief Financial Officer>>

Yes. I'll resist the temptation to start giving guidance given we don't put it out there. But I think from a free cash flow perspective for the balance of the year, I think the big swings that are not trained in terms of event or specific elements in the business for the last quarter. We've got both UEFA and Euros at the back end of this quarter. We've got Copa America back into the quarter. And then Tubi, we've been sort of trailing sort of the amount – year-to-date, where under the amount of EBITDA investment we've put into Tubi so far and we expect that to amp up a little bit in Q4. But then countervailing some of that will be the fact that we don't have USFL on the books in Q4.

As I look forward to fiscal 2025, the big things that are going to swing that around like is trend accretion in the business, but the big things from a free cash flow perspective is the Super Bowl where from a free cash flow to be very accretive for us, right, because you've got like a 10% increment in the cash rights fee and then you write a significant amount of incremental revenue around it. It won't be the case from an EBITDA perspective because in a Super Bowl year, we obviously burn off a ton of amortization through the P&L. The other big tailwind for us from a free cash flow perspective and a P&L perspective, next year will be the election and the political revenue that we expect to generate. So, we're really well positioned going, finishing off 2024 and going into 2025.

<<Robert Fishman, Analyst, MoffettNathanson LLC>>

So maybe just putting that all together, how do you think about being more aggressive on capital returns given where the share price is and the strong balance sheet and cash flow position?

<<Steve Tomsic, Chief Financial Officer>>

No, I'm going to be a bit boring here. Because like I think we've been balanced, if I look at – we did $2 billion of buybacks last fiscal, if I look at history of the company, we're now at $5.4 billion into the buybacks over a little over four years, which is close to more than a quarter of the share count as it was back then. And so, I think we've done a lot in terms of buybacks and should expect us to continue to sort of put money into the buyback, but we want to be balanced. If I look at that $5.4 billion that we have done in buybacks and compare that against sort of acquisition growth investments sort of – that sort of net-net is about $1.5 billion. So, so far in the life of FOX, we've been tilted towards returning capital to shareholders, and we'll continue to be balanced with it. But we also – we don't want – we like the flexibility and the strength of the balance sheet. And so, we'll continue to want to keep that flexibility, albeit that we have an enormously high bar with respect to inorganic investment.

<<Robert Fishman, Analyst, MoffettNathanson LLC>>

Got it. Okay. So maybe let's jump into some of the drivers of all this cash flow. Probably at the top of that list should be affiliate fees. And you've already made significant progress through the current renewal cycle. I'm just wondering if you can provide a little bit more color in terms of your approach and whether the negotiation strategy has changed at all given what you saw play out publicly through Disney-Charter and obviously the big announcement that you guys made earlier this year with the sports JV.

<<Steve Tomsic, Chief Financial Officer>>

So, I think the industry – the distribution landscape for media is evolving, right? I think there is no doubt that it feels like from a consumer perspective, I've said this at other conferences before. It feels like we're at peak frustration, right, because you've got choices around. You can either take the big bundle, which for what you pay has a lot of content that you don't watch or you're double paying for because you've taken the streaming products that sit alongside it, right.

From a FOX perspective, as part of doing the Disney transaction, we narrowed down our assets. And the narrowing down of the asset from a wholesale bundle that we offer to a multitude of distributors, we already offer a really narrowed down skinny concentrated bundle of must-have content. And so, I think the Charter outcome with Disney, I think is net positive for FOX because where I think we want to get to is the best of kind of distribution model, which takes the best of live sports, live news and the best of streaming and tries to bring that together at a price point and a user interface that's much more friendly to the consumer.

And I think the way we view that is as long as we continue to invest in Sports and News to make sure that our product is as good as it can be, it's always going to find carriage, because we just deal in the events, whether it be sports events or news events, that people are just glued to their TV in sort of big numbers for our content.

And so, we are encouraged by where the Charter-Disney negotiations went. And now the next step is for Charter to sort of take, sort of continue to run that model through other channel providers and be able to sort of ideally lead the industry in creating this sort of much more evolved bundle. But the proof will be in the pudding in terms of when that comes.

We don't – I think some people misinterpret what FOX is and sees FOX as being a linear business. We are not defined by the means of distribution of our content. We are defined by the content itself. And so, we think that wherever – it just so happens that for Sports and News, linear distribution is the most effective from a consumer perspective and the most monetizable from a FOX perspective. It's not the means of distribution. The digital distribution of FOX does nothing for the content, because the content is largely consumed live. And so, whether that's in a streaming forward environment or whether it's a traditional linear satellite, linear cable environment, doesn't matter, the content is the content. And the content remains as resonating with the consumer as it ever has.

<<Robert Fishman, Analyst, MoffettNathanson LLC>>

And that was the logic as far as the sports JV goes then?

<<Steve Tomsic, Chief Financial Officer>>

Yes, 100%. It's like, can we offer – the logic of the sports JV is really around we're approaching a point where there are just as many people outside the bundle as there are inside the bundle and there is clearly frustration with what's inside of the bundle and the price point that that pays and that comes at. And so here is an opportunity to try and acquire more subs that are either cord-cutters or cord-nevers to take a more narrow, more competitively priced bundle.

<<Robert Fishman, Analyst, MoffettNathanson LLC>>

So, given all that, the slimmed down portfolio, the strategy of keeping exclusive to the Pay TV ecosystem, just curious, can you share with us your confidence level that FOX can continue to outrun the pressures on the cord cutting side on the linear world and how we think about overall sustainability of affiliate fee growth?

<<Steve Tomsic, Chief Financial Officer>>

So, affiliate – I think your guess – sorry, your crystal ball is as good as mine in terms of where subs go to. I think – from a traditional perspective, I think, we said on the quarter, it's sort of minus the mid eighths at the moment for us. That will change as distribution evolves. I think what – so I won't give a view about where I see growth in terms of whether it be cable affiliate or TV affiliate going in the future. I think what I can say with confidence is that our content, coupled with our distribution strategy, should mean that we get an increasing share of wallet because we think that we have invested in the content that counts. And our fatality towards the bundle should mean that we see that in terms of share of wallet from the distribution landscape.

<<Robert Fishman, Analyst, MoffettNathanson LLC>>

Okay. So maybe another share of wallet type of question on the advertising side. So again, we all know the pressure on the linear TV advertising ecosystem around you, but curious how FOX is positioned or how you would characterize FOX's position to capture that greater share of total ad budgets over the next few years? Right. As you think about where the focus on eyeballs is going to be, clearly Sports and News plays a big part of that. And as we saw in your upfront, Tubi plays a critical role there too. So as you think about the total portfolio of FOX, how should we think about capturing more of that ad budget?

<<Steve Tomsic, Chief Financial Officer>>

No, we think we are really well positioned, right. If you look at ultimately, ad dollars will go to where audience is. And I think our message to advertisers is really simple but really powerful, right, which is, it is increasingly difficult to access audience, mass audience, in a single moment in time. And we have that in spates with respect to our Sports business, particularly with properties like NFL, MLB, college sports. And then we have that in terms of News, with big events and News also comes with this incredibly engaged and committed audience, right.

And so, to be able to present that to advertisers as sort of our component of the portfolio is amazingly powerful. And when we go into, we're in the midst of the Upfront at the moment and you add the fact that this year will be an election year, this year is a FOX Super Bowl year, it becomes a really, really resounding message with advertisers.

You then position Tubi within that and Tubi is still sort of in its early days of development, right? But you have this mass audience platform with Sports and News, and then you have Tubi, which now is a significant player in the free-streaming category, right? Like the biggest in terms of free-streaming and significant in terms of all streaming, like 1% share of viewing in terms of Nielsen Gauge, which puts it neck and neck with Disney+, ahead of Paramount, ahead of Peacock, ahead of Roku, ahead of Max. And so, it becomes, as we talk to agencies and advertisers, where Tubi is still nascent in terms of a brand and what the service actually represents, it becomes a must buy in terms of their media mix.

And it's not just a must buy because of the 1.7%, but it's a must buy for two other reasons. One is you don't get access to that audience in the traditional world because 60% of Tubi users are cord-cutters or cord-nevers. And so, on the one hand, you've got Sports and News that kind of dominate within the court or on the cord, and then on the other hand, you've got Tubi that services those advertisers outside of that ecosystem. And the other piece of Tubi, which is really great, is that a lot of people confuse Tubi as being sort of this passive, FAST channel, sort of that just is on rotation in the background in a person's household. It's not. 90% of Tubi consumption is VOD, where it's a real lean forward experience, people have deliberately chosen the title and watched through it. And so, it becomes a bit of an irresistible buy for advertisers.

Now we need to do more work with respect to Tubi to get it front and center with agencies and advertisers. And so, the Upfront is a pretty meaningful step in that direction. But we feel very, very strongly about those three assets being able to flourish in sort of the advertising world in fiscal 2025 and beyond.

<<Robert Fishman, Analyst, MoffettNathanson LLC>>

I will come back to Tubi in one second, but just to finish up the point on advertising, clearly elections is a nice tailwind for the overall company. I am just curious how you think about the political advertising landscape. Obviously, primaries have been a little bit slower, but as we start to ramp up, getting closer to the end of the year, and then both from a TV Station perspective, FOX News perspective and maybe even bring in FOX Nation as part of that, maybe less so on the advertising side, but how that plays into the election cycle?

<<Steve Tomsic, Chief Financial Officer>>

So, to try and give you some sort of dimensioning of it, I think, the high water mark was the fiscal 2021, our fiscal 2021, that presidential election. And I think we're on record as saying that was 350 plus. A chunk of that was national. And national can fluctuate quite a lot, and national is as much substitutional for what we would have placed in non-political as truly incremental right. So where the true incrementality comes through is in local, which is sort of around the give or take, around the 250 mark. Right.

As we look forward to the presidential election, which for us is a July to sort of November event from our fiscal year perspective, current primaries are a bit of a non-event. Presidential election shapes up as going to be an enormous event. And we would expect from a Presidential race perspective for there to be pretty significant sums of money invested in advertising. We feel very bullish about local's capacity to continue to collect on that. Then you look at our Station footprint and how that sits against sort of Senate races and so got great positions in our – in places like Arizona, Michigan, Pennsylvania, Wisconsin, even Maryland with our DC station. So we won’t have Georgia, and we won’t have a Georgia runoff, which is a bit of a sort of a headwind versus 2021, but they will be amazing races for us in those markets.

And then you look at it at another way or below that, you look at where issue spend is going to happen and places like Arizona and Florida are going to be enormous for that. And so, we feel really bullish about where we're positioned for this upcoming election from a local TV perspective.

News can and will get a certain amount of political spend, but the biggest uplift for News is not necessarily the direct political spend, but the viewership growth that we're almost certain to see going into the election and our coverage of it, which just dominates all other sort of competitors in terms of election coverage.

And so, we'd expect that audience to convert into ad revenue, irrespective of whether that ad revenue is direct political or just audience related. So we feel very bullish about where we sit. I'm not sure if we get to the levels we saw in fiscal 2021 because of certain sort of that Georgia factor but we're really well positioned.

<<Robert Fishman, Analyst, MoffettNathanson LLC>>

And so on the FOX Nation piece of that, like in terms of investing behind it. And so where are we in the life cycle of FOX Nation?

<<Steve Tomsic, Chief Financial Officer>>

Nation is part of – I think you're going to see Nation as part of a broader FOX digital strategy and a broader FOX News Media strategy, right? So where – the investment in Nation year-on-year-on-year has been relatively stable. And in the grand scheme of FOX sort of roughly $3 billion of EBITDA in any given year is incredibly modest and for the option value, it gives us right.

And so, we have a very strong, I hate to say this word, but we have the strong linear asset in terms of FOX News, FOX Business. We have an incredibly strong and underestimated FOX digital business, which is the website and the apps. And you'll see us expand that, right? Because at the moment, those website and apps are heavily focused – heavily news focused, and we want to expand that to sort of encompass lifestyle – more lifestyle, because we think that we have license from our viewers to be able to expand and have a legitimate voice in those.

And then Nation is just another subcomponent of that, where it's – at the moment, it's more towards the FOX News super fan as another add-on. But as we think about sort of future D2C aspirations for the News and how that builds, it gives us a ton of optionality there. So I think you should expect the investment to remain similar to where we are now to drive sort of incremental growth and incremental engagement for that FOX News brand.

<<Robert Fishman, Analyst, MoffettNathanson LLC>>

Okay. So, shifting back to the more scaled digital player Tubi. You already hit on how it's been rising in the ranks in terms of viewership and engagement and advertising, which naturally obviously comes with that.

So, I'm curious, as you think about it, I mean, again, what was a central part of the Upfront, how do you balance investing behind it versus that focus on obviously reaching profitability and scaling from there?

<<Steve Tomsic, Chief Financial Officer>>

No, I think a quarter three years ago, I think it was – Tubi was profitable, right? But as Tubi continues to exceed our expectations in terms of like 80 million monthly active users, engagement growing 35% last quarter. We don't want to stunt its growth by pulling back investment too soon.

So, while those top line metrics continue to drive forward and you look at it in that landscape, that's sort of 1 point – most people wouldn't have even heard of Tubi as a brand 12 months ago, right? So, we think that there's enormous continued upside for Tubi, and we're going to continue to invest in that.

Now having said that, it's the investment again from the – if I look at it relative to all of FOX, it's relatively modest. And if I look at that investment versus what some of our peers have spent on driving their streaming business, it's tiny, right? So I think it's incumbent on us to continue to invest in it, but we understand also that eventually we want that investment to convert into positive EBITDA and become a meaningful profit driver for us, and it will. But in the immediate term, we continue to see upside in and we're going to continue to invest in that growth.

<<Robert Fishman, Analyst, MoffettNathanson LLC>>

So a question we get a lot from investors. I'm sure you've heard this one before is given the new competition, focusing specifically on ad budgets, Netflix, Amazon, clearly, fighting for these connected TV ad dollars. How does that impact the value proposition that Tubi can offer advertisers?

<<Steve Tomsic, Chief Financial Officer>>

Yes. So – Robert, I think there's a short-term and then there's a long-term to this. So, I think the short-term from a sort of connected TV dedicated ad budget, there is more inventory in the market. And so, as we sit here in Q4, we look at Tubi, it will get its fair share, but we've got that headwind in terms of much more inventory, and then we're also coming off a quarter where this time 12 months ago, we delivered an enormous quarter. So 47% growth. So I'd expect in the short-term, that's going to have some impact. I look at it, if you look sort of anywhere beyond the short-term, I think you've got to look at – I'm sitting as an advertiser or an agency, I'm going to want my dollars to follow where the eyeballs are going and look at where they're coming from and where they're going.

And so, if I look at the portfolio, they're not really leaving – the audiences aren't leaving sports. The audiences aren't leaving live news, where they are leaving is linear-delivered entertainment. And I think over the – sort of beyond the short-term, you're going to see a transition of dollars away from those kind of assets, and they're going to shift in towards streaming assets. And we think Tubi is incredibly well-positioned to get it – it's not getting its fair share now. So I think it's incredibly well-positioned to pick those dollars up.

<<Robert Fishman, Analyst, MoffettNathanson LLC>>

Okay. So given those pressures on the ecosystem in terms of whether your eyeballs are going. Shifting over to content spending for a second. I think if I remember correctly, you made an interesting comment on the last earnings call in that the focus is to lean in even more on the non-sports to make it more efficient on the non-sports content spend.

So maybe just talk about how you allocate content spending. Again, the schedule is now out there. I think you're bringing back a few scripted shows. But just big picture, how do you make sure that, that balance is in the right spot between sports and non-sports on the programming side?

<<Steve Tomsic, Chief Financial Officer>>

That's less. We're well spent on Sports, and we think we've got a fantastic portfolio of sports rights. And then from a scheduling perspective, that gets us from like Friday night through to Sunday night, right? And so, then we're still believers in a balanced broadcast network schedule. And so, if you look at the remaining – and we have a tighter schedule versus some of the broadcast networks of our peers, right?

So we're already efficient because a lot of our non sort of network programming is local, which is extremely cost efficient. But when I look at that prime time block that we have, there's way – there are different ways to skin that cat. And so we're going to continue to have a balanced schedule, which is some scripted, we dominate in terms of animation domination. It's a real asset for us, and we'll continue to build that.

But when we look at sort of at the margin, when we look at a scripted show and the cost per hour of that scripted show versus an unscripted show, and the reduced cost per hour for that and the relative rating revenue differential, oftentimes, it's better to go unscripted. And we are working down that cost per hour in prime time. We're also looking at ways where we do go for scripted or animation at more expansive monetization.

So, if we believe in a scripted show or an animation show, then we'll often take sort of producer economics in that because we think we can light it up against the sports schedule and really drive downstream revenue, whether it be sales to SVOD, which is an important part of the animation strategy or having a carrier in the show. But that's going to continue to be sort of, I think, more narrow in our schedule versus our peers. But I think cost per hour definitely comes down across the schedule, and then we think about more expansive monetization as sort of having ownership of the shows with the capacity to license those through to SVOD plays international downstream window.

<<Robert Fishman, Analyst, MoffettNathanson LLC>>

Okay. So clearly, a differentiated asset and you just hit on it for the overall company is how big sports plays within this overall ecosystem and specifically for you guys, given the narrowed down portfolio. So, I guess the big picture question first on sports is, as you think about all of the challenges happening around you on the linear TV ecosystem. How do you think FOX can remain positioned today to ensure that sports can continue to be the key asset that it is for the company?

<<Steve Tomsic, Chief Financial Officer>>

I think we've got an amazing runway of rights. We have an amazing portfolio of rights and amazing runway of rights. So if you look at – we got long-term deals for all the key ones, NFL, MLB, college football, NASCAR. So we feel as though that the core of the offering is locked away for a long time to come. So that's step one. We think from a monetization perspective, the viewership of those assets continues to be as strong as ever, right. So from a direct monetization perspective, we're still driving the ad revenue. That is the most robust part of the ad market, and we're one of the most significant players in that ad market.

And then we look at it and we think, well, the other component of monetization is distribution. And distribution, we've continued to drive outsized cable affiliate growth and absolutely outsized TV affiliate growth, right? And so that's been the biggest driver of return on investment for those sports rights, particularly what we put on broadcast network. And so, we feel really, really well positioned with that monetization model.

And then we look at it and you think about more expansive ways to think about return on investment for sports rights. And so, our sports franchise is second to none. And so, the capacity for us to take that sports franchise and develop something like UFL, which will develop into something of real asset value. The capacity to take that sports franchise and get ourselves a carry in sports betting is enormous for us, right? Like, I don't know if you want to ask about sports betting down the track, but we've got investment in Flutter and really, really important option over FanDuel.

So when you look at it more expansively, the sports business is a really, really valuable business for us. And then if you look at the sort of the related effects through the portfolio in terms of cross-promotion value into our News assets, cross-promotion value into Tubi, it is still a significant part of our business and significant economic driver for us.

<<Robert Fishman, Analyst, MoffettNathanson LLC>>

So, you mentioned all the rights that you have locked up. But as part of focusing on the return on investment of some of these sports rights, you've also made the decision to move away from some rights and actually reuse rights in different ways, you mentioned Friday night. So maybe just help us think about those economic decisions that you were forced to make moving away from WWE and leaning in on Big 10 or other college football rights?

<<Steve Tomsic, Chief Financial Officer>>

Yes. So as a portfolio and as an overall spend, we feel like we've got the right investment. Now within that portfolio, every something comes up, and we trade in and out of assets. And we've been – we've had enormous amounts of financial discipline as we've thought about the true value of rights. So I don't think anyone sort of has a more hard-nosed view about true value of rights.

And so, we've looked at – if you look at it, we exited early out of Thursday night football because it didn't pencil out for us when you look at the cost of the rights, the direct ad revenue we wrote for it and then the impact on affiliates. So we trade out of that early. We did the same – people often forget about the fact we did the same thing with our U.S. GA rights.

WWE is similar. It was great for our Friday nights. It was consistent ratings and engagement. But when we looked at cost versus direct revenue and really put hand on heart about how much it drove the retrans, it didn't pencil out for us, and we think we've got a Friday night model that will be – that will drive just as much engagement with sports and be economically accretive for us. And so we feel good about that.

And then there are some packages, particularly with respect to college sports, we just got too much product, right? And so there, it's a conscious decision for us to sort of sublicense that product. We are not in the business of rights trading, right? We're not here sort of trying to arb against we buy the rights from the rights holder and then sell it a vig to somebody else. That's just not our business. But where there are certain situations when you buy more rights and you've got the capacity to handle, and we're happy to sublicense those at appropriate rights.

<<Robert Fishman, Analyst, MoffettNathanson LLC>>

Got it. So, I think, as you know, we've been long proponents about a sports-led skinny bundle, we hit on it a little bit earlier. But just given that big announcement that you made at the beginning of the year and to expect to launch it by the end of the year, do you see other MVPDs or virtual MVPDs trying to carve out similar types of bundles?

<<Steve Tomsic, Chief Financial Officer>>

I think let's – as we think about sort of monetization of sports rights and our ROI going forward, I think the $64 question is can distribution fix itself so that it's sort of – it cauterizes the loss in subs and begins to grow them again, right? Because at the moment, people are put off by the fact the high cost of the bundle.

I think the joint venture that we announced will address part of that because it will be – it has a significant amount of sports between us, ESPN and Warner Bros, Turner. And so we think that at the likely price point that to get to help address some of that – either subscriber decline or getting people to go from being cord-nevers and cord-cutters back into the system. We'll see what happens with Charter with the rights that they have. And we'll see what other distributors are able to do because they have to disentangle themselves from the encumbrances they have with these big channel providers.

In terms of being able to get down to a bundle that is much more, call it skinny, I think it's focused and much more consumer friendly. And we think that whatever composition of that bundle, our Sports and News service should be front and center because our Sports service is second to none in our News service is. When you look at it, it's almost like the fifth network – fifth broadcast network. We sort of – we're less inclined to compare our sports cable with other – certainly with other cable news nets and the cable universe because it just sits head and shoulders above those. And so we feel super well positioned as the composition of distribution bundles changes.

<<Robert Fishman, Analyst, MoffettNathanson LLC>>

That's what I was going to ask you as it relates to the sports JV and clearly, the natural question that comes out of that is, does the importance of FOX News diminish to the overall company as part of that. But I guess…

<<Steve Tomsic, Chief Financial Officer>>

No, absolutely not. We think that the News franchise is so significant to us, but so significant to the community at large and the fabric of sort of what is provided by distributors. That we think as long as we continue to invest in that service and as long as we make it relevant it's never been more relevant, that's going to continue to find out.

<<Robert Fishman, Analyst, MoffettNathanson LLC>>

Okay. One last one on Sports. You mentioned the UFL, the inaugural season well underway. So just maybe help us understand because, again, as now a joint venture partnership rather than just the prior owning all of it. Just maybe talk about the expectations or opportunities as you see monetization possibilities selling teams or full ownership? How should we think about what the long-term business plan is for this April?

<<Steve Tomsic, Chief Financial Officer>>

So, taking a step back, we had USFL and there was XFL. And realistically, there wasn't a place for two competing Spring leagues. So the obvious decision was to merge the two leagues. And if I look at season-to-date performance, the gains we have on the broadcast network are currently averaging about – in terms of total audience is about 840,000 which is 40% – close to 40% up on where we were last year with USFL and would be the envy of many other sports leagues.

So, if you look at the growth of UFL as a business, I think step one is the organic growth in the business in terms of – a double-edged sword for us, but driving broadcast rights higher, ticketing, sponsorship and growing revenue base of the existing entity. And if you look at it, if we can get – we're currently, it's an eight team's competition. If those eight teams – all the signs are pointing towards those eight teams as being a pretty successful sort of foundation layer, and then we look at should we add more teams in more cities?

And then from a monetization of the asset value, I think a long way down the track and there's no immediate plan for this is the – as owners of – as partial owners of the whole entity. Do we look – do we either sell team franchises and monetize it in that way? Do we sell a component of the equity in the league? But first and foremost, we need to build the asset value in order for those to be options for us. And we think it's off to a fantastic start, and we feel really encouraged about where that's going.

<<Robert Fishman, Analyst, MoffettNathanson LLC>>

Cool. So, let's just switch over to sports betting. You touched on it a little bit before. But clearly, there's been a rationalization in the overall industry in terms of following a big rush and maybe unrealistic expectations in terms of a lot of the smaller guys getting to scale. So I'm curious, as you think about the overall sports betting landscape, what do you feel FOX's position is from a media partnership perspective? Clearly, FOX Bet is still an option for you, but I'm wondering, how you approach that as it relates to the partnership that you do have with Flutter?

<<Steve Tomsic, Chief Financial Officer>>

So, we were – we've been long-term believers in sports betting, like we've seen it in markets that we used to be and whether it be Australia, the U.K., and seeing how these businesses flourish. And so I think even before the formation of FOX, we'd already made plans at the time with the Stars Group, which then became Flutter that we wanted to be very front foot in terms of sports betting. And you've seen us – when you look at what that's resulted in, in terms of being in at the ground floor of this sort of movement. We were able – we were quick to invest in Flutter and that direct equity stake upstairs is worth somewhere between $850 million and $900 million, which I don't think get a lot of credit for in some of the parts.

And then we have an 18.6% call option over FanDuel, which – who knows how the industry develops. But to me, there's no doubt the industry is going to continue to grow. Market composition, is it – does it become two gorillas and then a bunch of also brands? Or is market share a little bit more spread we'll see. But at the moment, we feel really good that we've got either number one or number two player, and we've got 18.6%.

We've also got, and you know it yourself, Robert, I'm trying not to call you, Roger, because [indiscernible] (0:40:58) you'll always be Roger to us. But if you look at that 18.6%, you've got it down as $1 billion, we think that might be light in terms of option value. We get zero credit for that but the beauty of it is, is we've gotten until December 2030 to make a decision on it. So we will see how the industry develops, we will see how FanDuel develops our starting hypothesis is that this is going to be an incredibly valuable asset for us.

And our position is that at a certain point between now and December 2030, our intention will be to get licensed and convert that into sort of a more hard asset than just option value. But right now, there's no incumbency on us deploying I think the strike price at the moment would be $4.3 billion, $4.4 billion. And so why put that capital into that asset now when you've got the benefit of the better part of six years to be able to make that decision. So we're very satisfied with that sort of – our sports franchise being able to get us these sort of really preferential positions in sort of adjacent assets.

<<Robert Fishman, Analyst, MoffettNathanson LLC>>

That makes a lot of sense. I like the two gorillas what we call it a two-horse race that clearly – that the lead continues to expand. So, as I think we're wrapping up on time here. I guess one last big question for you. Anything you want to leave us with highlight to investors that you still think, I mean, we've talked on a few of them, not well understood. We didn't talk about the Studio Lot. I don't know if you want to talk about that, but just really any last message that you want to leave us with.

<<Steve Tomsic, Chief Financial Officer>>

No. I think as the last message, when we – we're three blocks down the street from here. And when we look internally, we definitely feel like we have got a fantastic set of assets. We think they are underappreciated externally. But we also think that focus from a portfolio perspective is also focus from a management perspective. And we just continue to – our focus is just to continue to deliver. So quarter-on-quarter, we continue to sort of deliver EBITDA, deliver free cash flow. We've got the best balance sheet in the industry by the length of the trade.

So we – a lot of uncertainty – there's a lot of uncertainty in every industry, whenever you look forward. But we think that we've got with that position of core assets and assets that sit around those core businesses. We think that we're super well positioned to take advantage of whatever presents itself in the future.

<<Robert Fishman, Analyst, MoffettNathanson LLC>>

With that, thank you, Steve. Thank you, Roger, and everyone.

<<Steve Tomsic, Chief Financial Officer>>

Thanks a lot.

<<Robert Fishman, Analyst, MoffettNathanson LLC>>

Appreciate you guys.

<<Steve Tomsic, Chief Financial Officer>>

Thanks.