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<<Brett Harriss>>

John, thank you very much for being here.

<<John Nallen, Chief Operating Officer>>

Thanks for having us, Brett.

<<Brett Harriss>>

You completed the sale of 21CF to Disney and spun off what is now Fox Corporation. As a prior shareholders of 21CF, first, let me say thank you very much. I think it's clear –fair to say that, that transaction created a lot of value for a lot of people. More than that, could you just walk through, give us an overview of Fox's assets today and what makes Fox different from other media companies?

<<John Nallen, Chief Operating Officer>>

Sure. Just to level set, for those who don't know, we spun out – we're the spinout of the Disney transaction, where most of the assets went over to Disney and I – Fox Corporation was formed 12 weeks ago when the spin to the 21CF shareholders happened.

So I think what separates us a bit from the pack is really two themes that we've been talking about since our Investor Day six weeks or so ago, which is the focus of this company and its utter simplicity.

The focus part is we are now just really three principal brands in the country, FOX Sports, FOX News and Fox that's buttressed by our FOX Television Station Group in 28 stations across America. The focus of all of those assets, principally, you know my entertainment colleagues would find issue with this, is on live television. Live sports, live news, and that even goes to the local station business where we do 1,000 hours of local news. People think about news, they automatically knee-jerk go to FOX News. We got a big, big news business on the local station side. So the focus of the company on a narrow set of brands and on live, the "Power of Now" we call it, live television, which is the least impacted by time shift and audiences in what we're dealing with now.

The second part is the simplicity. And just to level set a couple of stats on this, our revenues, call it roughly $10 billion. 50% of it is from affiliate fees, subscriptions. Of which, the overwhelming majority of that come from seven partners. That's how much consolidation has happened in the distribution side in America. The advertising side, the other half, roughly 75% of that is from live news and sports. Again, the least impacted, the most attractive to advertisers.

On our [expense] side three quarters of our [expense] is content cost. And of that, two-thirds is sports rights. And I heard the sports panel earlier. I’m sure we’ll talk about sports rights going through. And the last part of our simplicity is we overindex on converting EBITDA to cash flow. We’re a capital-light company. We don’t have a lot of CapEx. We’re not investing in film and television production like we used to. And we’ve got a very attractive tax attribute that emanated from the transaction for the next 15 years, which shelters a great deal of tax for us. So the conversion of our EBITDA to cash flow really outshines the rest of our peer group.

So coming back to what sets us apart, it’s really those two things, focus and simplicity.

<<Brett Harriss>>

Great. Now you mentioned FOX News, which is your largest asset. I think it accounts for something like two-thirds of your EBITDA roughly. Maybe you can talk about how FOX News is positioned today within the television ecosystem.

<<John Nallen, Chief Operating Officer>>

It’s positioned pretty well. It’s – for the last 17 years, FOX News has been the number one cable news brand in America, which I should have also stressed on the simplicity of the company. We are entirely U.S. I don’t have to worry about currencies anymore. I don’t have to worry about income flows and some rogue regimes around the world changing the rules on us anymore. It’s just a U.S. company.

FOX News, the number one cable news brand in America, right now number one cable channel in America. So the five top channels in America are the four networks and FOX News. We have two of the five. So it’s continued its strength. Right now, MS and CNN are the competition, but FOX News continues to outshine the competitors.

<<Brett Harriss>>

And then how can you build on the existing FOX News franchise outside of the television ecosystem? Because I think the business is more than just the linear cable channel.

<<John Nallen, Chief Operating Officer>>

Yes, it’s a great point Brett. People really don’t appreciate – and you would have seen it at the Investor Day where we called out that FOX News is much more than the linear channel. The audience with FOX News engages with what some people view has maybe 1.0 technology, which is FoxNews.com, at an incredibly high level, and we’re able to monetize that audience through digital advertising, Internet advertising. But the engagement level on FoxNews.com is incredibly significant.

The second place where we engage with the audience, we just launched in the last six months a new product called FOX Nation. A subscription product that's really for the FOX News super fan. This year and we're a fiscal June year, as we look to fiscal 2020, we're going to be putting a good deal, a fair amount of capital behind that to increase the growth of that business because we see a real direct-to-consumer opportunity there. And there are other areas where FOX News just continues to penetrate its audience.

For example, we are one of the top networks on SiriusXM. So and it's just a live feed of FOX News into your automobile or streamed, and it's one of the most listened to channels on SiriusXM. So the FOX News audience really extends well beyond the linear channel.

They're also the most engaged audience on television. People have heard the joke, you probably had it with your own household, your parents' household it goes on in the morning and doesn't go off until 10:00 o'clock news at night goes on. It just stays on and there are few channels in America that are like that.

<<Brett Harriss>>

Beginning with the departure of Roger Ailes, FOX News did see a substantial churn in on-air talent. How did that impact ratings?

<<John Nallen, Chief Operating Officer>>

It really hasn't. The number one – holding onto number one has continued through all the changes that we've had. In fact, in some of those time slots where we saw changes, we've not only maintained the ratings in many places we've increased ratings. And the thing about FOX News, it's a brand. It's not as old as Coca-Cola, but it's a brand. And it's one that you have to nurture. You have to ensure the quality of the brand is there, look there's an opinion side to the brand, and there's a news side to the brand. But through it all, you have to ensure the quality.

Once the audience sees that you are at all affecting the quality of the brand you're going to damage it and you're going to have an impact on viewership. Throughout all the changes we've had, we've insured that we continue the quality. We made changes throughout like launch The Five, gave Dana Perino a show in the afternoon. There's a lot of experimenting that goes on, but at the end of the day, we've still maintained the number one status.

<<Brett Harriss>>

And then just the last question about ratings. How does the political cycle, the switch between a Democratic versus Republican administration impact the ratings at FOX News? Does it matter?

<<John Nallen, Chief Operating Officer>>

It hasn’t. For the last three administrations, FOX News has continued to hold the number one position. We’re in an incredible news cycle right now with the current administration. I would argue, and they would appropriately argue, that the competition has probably seen a better lift coming out of the current administration than we have. It hasn’t impacted our number one position. But all boats have risen in news because of the current administration. There’s not a day that goes by that there’s not something to talk about in politics with this administration that just brings people to all of the news channels.

<<Brett Harriss>>

And then moving on to affiliate fees. Fox has outpaced peers for a while. Affiliate fee growth came in at 4%. What’s your outlook for affiliate fees going forward? And what’s the renewal cycle look like?

<<John Nallen, Chief Operating Officer>>

So the – I think the beauty of this transaction really resonates in the two revenue streams I described earlier. But if you look at affiliate fees –what happened before is we had these two big brands that I described, FOX News and FOX. And through the course of my tenure, I have been with the Fox Company now for 25 years, and through the course of that, as our businesses grew, we would have to lend the power of those brands to some initiative that we were – something we were building. Whether it was the FX channel and getting that launched, whether it was getting the RSNs originally started. I heard the panel talk about that.

And then lately, when we launched FS1 and FS2 and put FOX Business on, we were always lending the power of these core brands to build something else. Now the share – to your opening point, the shareholders were richly rewarded for what we built. But we are now in a position where we’re going into renewal cycles with the purity of these brands not tethered to anything else. So we’re not looking in these discussions about we also need you to increase the distribution of X or we need a channel position changed for FXX to tuck it right next to FX. It’s just pure number one and number – two of the top five networks in America is what we’re talking about. So the outlook for us in affiliate pricing is quite good. I’m sure we’ll talk about volume, but that’s anyone’s guess.

<<Brett Harriss>>

And talking about volume, could you just give us a brief overview of what your expectations are for the pay-TV ecosystem from a subscriber basis?

<<John Nallen, Chief Operating Officer>>

So as I said – I also said this at the Investor Day, probably 50 people in this room and there’s probably 20 different views of where subscribers are going and when they’re going, what the pace of change can go – will go to. First, on experience, what we found lately is that the net sub-decline is around 2%. The traditional distributors, cable and satellite, are higher than that. But the new digital entrants, led by YouTube TV and Hulu have captured and continue to capture great share in that.

In fact, our top four distributors right now are cable and satellite companies. I'd say it three years' time, one of them will drop and be replaced by a digital distributor. And it will either be Hulu, Hulu Live or it will be YouTube TV. As we plan our business, we continue to plan for net subscriber erosion, not major, but look you'll have your own view. Everybody's got their own view as to where it's headed. But we think the entrance of the digital players into this market is just a fabulous opportunity for consumers now to buy product more tailored to what they want as opposed to the massive bundles that they've been provided – or the only thing that they be offered by cable and satellite companies for a long time.

<<Brett Harriss>>

One last question on cable network segment before I move to television. You do have – other than FOX News, you have a number of other cable channels. How are those positioned? And how do those contribute to the portfolio of Fox's cable channels?

<<John Nallen, Chief Operating Officer>>

Yes. Well, the biggest part of them are related to sports. FOX Sports 1, FOX Sports 2 and Big Ten Network. And quite honestly, on FS1 and FS2 when we buy product – buy rights, we're thinking about it holistically interacting with the broadcast network. So we can take college product and put it on a broadcast network and put some on FS1 or FS2, Big East basketball. We can move between the two. So you really have to look at sports as a single business. It's hard to separate.

The one initiative we do have coming up in the current year is to dial up, because it's been successful, is to dial up FOX Business and to put more investment into the channel, more marketing. It's now beating its competitor through total day, but it serves an audience that's completely different than its competitors. The other competitors are much more technical. This room would be much more focused on the competitors than FOX Business is much more a middle of the country market, and we just have to dial up some investment in it.

<<Brett Harriss>>

Let's switch to the television stations. Or the television network and the stations. You expect something like $1 billion of additional retransmission revenue over the next three years. What gives you confidence in that outlook?

<<John Nallen, Chief Operating Officer>>

Well, first, we’re putting a lot of money into it. On the one side, from a content standpoint, what we are delivering to our partners and, therefore, their consumers over that period of time is a lot more. So Thursday Night Football, this will be our second season of it. WWE will launch with us on the 4th of October. We continue to invest in college sports, and we are investing, beginning an investment cycle next year, into more originality on the network. Realize that we are the smallest primetime player of the four – the top four. We do two hours a night. And in the fall, we only do four nights.

Because if you think about our calendar in the fall: Thursday night, football; Friday night, WWE, college football. Sunday NFL followed by a locked and loaded block of animation. So really, what you’re worried about are two hours on Monday, Tuesday, Wednesday.

The issue that we have is when any network goes into repeats, you might as well go dark. Because people have left repeats and they’ve gone to alternative places to watch product. So we recognizing that, we need to – we’re putting more originality into the schedule. So the second part – so therefore, investment is one that gives me confidence.

The second is just the pure timing of our renewals. In the next two years, 80% of our television renewals come up, and that’s both with the cable operators and with our station groups on the reverse comp. So if there’s any point that we’re going to capture that kind of growth, investment and timing, this is the zone that we’re in right now.

<<Brett Harriss>>

You recently completed or in the process of completing your upfronts. If you could just give us an update on how the advertising market is shaking out for the upcoming season.

<<John Nallen, Chief Operating Officer>>

You had the other networks here, right? So I’m not sure what they said. But I can tell you for us, it’s a really buoyant upfront. There’s two things people – I guess, three things people focus on, on the upfront, price, volume and pace, right? So from a price standpoint, it’s very healthy from a seller’s standpoint right now. From a volume standpoint, that generally means that sellers are interested in capturing more value as opposed to taking the risk later on. That flipped on the buyers last year coming now because the scatter prices are just so high compared to where upfront was a year ago. So that price and volume kind of interact.

And then people always wonder how quick things are going to happen in the upfront. And my sense is at least from the discussion we’ve had internally is there’s a lot of momentum there now that the advertising community’s looking to lock down deals with the networks and lock up as much inventory as they can for the coming broadcast season so that we can move on to scatter.

<<Brett Harriss>>

So at this point, I'll open up the floor to questions. Any questions?

Q&A

<Q>: John, are you precluded from any aspect of creativity with your spin off from Disney either from a tax point of view or from any logistical reasons – like how much the – can you buy a TV production studio as an example?

<A – John Nallen>: Yes, we can do anything. There's no non-compete. There's no restrictions. We can buy a film studio. In fact, just one point to make about originality on the network, we are not putting a show on our network unless we have a piece of it. So we're not renting anything anymore. Anything brand new, we will have a piece of it.

<Q>: So from an XYZ base incrementally cash into production, you got a number that you can share with anyone?

<A – John Nallen>: No. But I think we said as we look at three things in – three investments we're making through the P&L in 2020, which is WWE, FOX Nation and originality, we're in like a $200 million, $220 million.

<A>: $200 million to $250 million.

<A – John Nallen>: $200 million to $250 million incremental investment into the P&L.

<Q>: As long as we're smacking things down…

<A – John Nallen>: I got it.

<Q>: Are you got it, you like the rule – you got about $15 billion of cash flow over the next five years coming in and then you're spending it on CapEx, which is like you said $1.5 billion in dividends. You're going to – assuming you keep it constant. That's a long runway. So can you share with us anything else that other than – what do we do with the money?

<A – John Nallen>: Yes. Capital allocation has been top discussion that we've had. And there are three textbook places that you play, right? Organic investment, M&A and capital returns. At this – and I believe, and I've seen enough, that there's a cycle and an emphasis to each of those inside of a cycle. They're not all balanced at the same time. You're doing – you're emphasizing one of them in a cycle more than anything else.

At the current point, we're emphasizing growth in our business in the enterprise of Fox Corp. So therefore, the two first ones I mentioned, organic investment like FOX Nation, like originality, like programming, sports and others. And acquisitions are where we're emphasizing to grow the enterprise, to grow the business, to have a durable set of businesses.

Having said that, capital returns are not – are part of the toolkit, and you can measure us by our history. In the four years to 2017, we gave back $15 billion, $16 billion in buybacks, reducing the share count by 21%, which was a great return when the Disney transaction finally came through for that 80% of the investors that were left. So yes, we have a "high-class problem." But in doing it, our initial emphasis three months into this is to grow the enterprise.

<Q>: My last question. Reverse comp, you talked about revisiting that. You talked about your cable getting more pay from the cable networks. Reverse comp, define it for everyone, share it with them, us, and tell us what you're getting now and what the other networks are doing and what you think you'll be doing?

<A – John Nallen>: So what we're – I'm not sure how the other networks do it, but what everyone of our reverse comp feels now is fixed fee, fixed monthly fee. So when we negotiate with – there's three big station providers to us covering 60% probably of the non-O&O area, we agree a monthly rate for them to have Fox on all of their stations. And wherever the subs go, we've got risk or they've got risk. Now that will reset itself when you redo the affiliation deal X years after. But given the investment I described to Brett earlier on, we, of course, believe that we are doing an incredible service for our affiliates. Realize too that if you look inside of the big station groups, Sinclair, Tegna, Nexstar, their most profitable stations are FOX stations because they have so many local hours that they can program. We don't have a morning block. We don't have late night. We're not putting syndicated product into them in the afternoon. Therefore, they can capture more of the dayparts and particularly like our strategy, capture the news, which is highly profitable.

<Q>: Great.

<Q>: You signed a deal or FOX Sports did with The Stars Group, which is a online sports book early last month. I was wondering how did that deal come together? What are the expectations? And through that deal, you took a little under a 5% stake in the company. Would you look to increase that? And what would be the impediments to doing that?

<A – John Nallen>: So we can't – on a technical basis, we can't go above 4.99% without getting licensed in the states in America. So we took the max that we could, so roughly a $230 million investment in the top-co TSG. And we find this incredibly exciting, the opportunity here. In fact, we were talking on the way over the branding of – what the brand name is, is Fox Bet. Now you won't be surprised by that if you know our history because we built an enormous business in the UK called Sky Bet with TSG. So we have a history with this company. We have a history with the brand. What will happen now is TSG will set up on a state-by-state basis where permitted, wagering.

The primary game first will be a free-to-play game. And, of course, through free-to-play, some percentage of that will move on to actual wagering using the Fox Bet brand. We have an option over a seven-year period to take up to 50% of each of those partnerships at cost. So whatever it costs them to build that business in each of the states, we can buy in at 50% – up to 50%. Now it depends on whether we get licensed in the state or not licensed. There's a lot of arcane rules that govern all of this. To Fox, what we get is a brand license fee for using the Fox Bet license. In addition, a significant media spend generally on our local stations and through our sports broadcasts.

<Q>: Great. Thank you.

<Brett Harriss>: Any other questions from the floor?

<Q>: Yes, I was just curious if you could comment – you commented about the national ad market. Maybe just comment on the local ad market, what you're seeing there and what you expect going forward?

<A – John Nallen>: So local continues to be strong, and I think it just – it's primarily to do with the health of the economy. And the problem is we – many of you live in New York or Boston or Philadelphia. I was just in Wyoming and I had the FOX affiliate on and it's the local retailer. It's the local tractor manufacturer that's on there, and that's where there's a tremendous amount of money being spent and when the economy is healthy they're spending money on advertising. Now realize the other part of that is the investment that the network makes in sports, which, of course, drives local advertising in the period of time they have and the shoulder programming. But more important than that are the cycles of political ads. We just left this past fall an epic cycle of political advertising. We generated on a gross basis nearly $200 million in the stations. We're coming up in 2020 to a cycle that not only presidential, which is where most of the money is spent is local, not national, but also some heated races in markets that we operate in. So currently I'd say national and local advertising is very strong.

<Brett Harriss>: Any other questions from the floor? I've got one more, the NFL Sunday contract expires following the 2023 season – or 2022-2023 season. You're paying something like north of $1 billion for that per year. The NFL is obviously a huge driver of affiliate fees. As that renewal process comes up, what's the advantage or potential advantage that you have as Fox in bidding for that? And do you think we'll see new entrants perhaps in Silicon Valley bid for the Sunday, the Sunday NFL package?

<A – John Nallen>: So second to capital allocation the NFL contract is the second question we get. I'd break it down, I won't spend a lot of time on it, into process, platform and price that those are three.

Process, we don't know when the NFL will come out with discussions around it clearly before the 2022 season, which will be the last season. The question is do they get the CBA done first and then go on. I heard the prior panel make some comments on that. We just don't know. And we don't know what the packages will be. Will they be the NFC and the AFC? Will they mix? We just don't know.

But what we do know from a platform standpoint is that the NFL views broadcast television as its primary platform for its Sunday programming. No question. Flat out. Sunday will be on broadcast television and it'll be on broadcast television in the afternoon and at night. I don't know that from the media committee, media committee. But if you are at our investor day and saw both Commissioner Goodell and Commissioner Manfred, they both indicated that broadcast television is where they will be for a long time. In fact, we signed just recently a 10-year deal with Major League Baseball for the World Series and All-Star Game to be on broadcast television on FOX for that period of time. So I'm comfortable that broadcast is where it will be, I'm comfortable that our 25-year relationship will mean something.

So the last piece is price. Yes it's going to be more expensive but the one thing that as investors you would know this but the sports pages just don't. The sports pages look at average to average. We pay $1.1 billion on Sunday. Right? That price was 56% more average than we paid for the prior nine-year contract. And that's the headline, right, 50% more. But when I ask my kids when their lease comes up, I don't ask them what their average was over the last seven years. What are you paying this year? What are you paying next year? And that's the way we look at it because we're not paying average, we're paying a certain amount in the first year and a much higher amount in the ninth year. So we look at last year to first year, last year of existing contract to first year. And that headline number is moderated significantly and the slope matches the way our business models. How much we'll get in affiliate growth? How much we'll get in advertising growth? So those are the three places that we're focused. Process, platform. We feel great about broadcast, and part of the winning strategy is going to be price.

<<Brett Harriss>>

Well, I think with that on behalf of G-Research, thank you very much for being here.

<<John Nallen, Chief Operating Officer>>

Thanks for having us, Brett. Appreciate it.