

FOX Corporation

JESSICA: Welcome back. We are thrilled to have Lachlan Murdoch, executive chairman and CEO of Fox, joining us today. Lachlan, I hope you're well. It's great to see you.

So, so much has happened since the emergence of new Fox in March of 2019. COVID has disrupted the market for anything live, as we all know. And the landscape has really evolved in the timeframe since you sold old Fox to Disney.

[INAUDIBLE] media companies building out larger and larger digital direct-to-consumer platforms. So not just Disney, but NBC, Viacom has announced a lot, recently AMC, et cetera. As all of these changes have taken shape, how has your strategy evolved?

LACHLAN MURDOCH: Well, first of all, Jessica, thank you very much for having me. It's an honor to be here at Virtually. I wish we were together in person not only with you, of course, but with all of your participants and guests today. It's been, for all of us, right, an incredible year.

And for new Fox, since our separation with the businesses that we sold to Disney, it's obviously been remarkable and remarkably hard in many ways. But luckily, I mean, fortune can go your way sometimes. And luckily, we've been able to get through this COVID period really incredibly well, mostly due to the mix of our assets.

Our assets that we kept from the Disney transaction, we kept very deliberately and with an intentional strategy and structure that it's as correct and robust today as it was 12 months ago or two years ago, when we put the strategy together. Now, obviously that strategy is all around live news, which has been-- we're in the middle of one of the most remarkable news cycles in our lifetimes; live sport-- we're very happy that live sports with NASCAR, with Major League Baseball, and this weekend, actually tonight, with the NFL it's coming back; and with [INAUDIBLE] products in our stations and Fox Entertainment.

So the strategy really remains the same. But through that we understand, and we bought, in the beginning of COVID-- and it was a big decision, because COVID was just hitting us-- we bought it for [INAUDIBLE] and Tubi Entertainment, an advertising, video on demand platform that has seen really incredible growth not only through the COVID-19 lockdowns, as you'd expect for an AVOD entertained product, but it's actually sustained that growth post the lockdowns. So the strategy is evolving, but we really like our core businesses, and we've seen them actually strengthened during the COVID-19 period.

JESSICA: So before we get into each of your individual businesses, I just want to ask a more general question or two. You're finishing fiscal 2020 with over a \$4.6 billion in cash on hand, and then receiving another almost \$500 million, \$490 million, post fiscal year end related to the tax prepayment paid to Disney at the time of the spend. How do you weigh uncertainty in the current environment against what's a very strong and liquid balance sheet? Can you talk about how you feel about that?

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LACHLAN MURDOCH: --out of interest, brings us to roughly-- since our investor day-- it feels like a decade ago, but our investor day, which was May of 2019-- a little over a little over a year ago since our investor day we've bought back \$850 million dollars worth of shares, and if you add that to our dividends paid, we've returned to shareholders about \$1.3 billion since that investor day just over a year ago. Out of interest, that's almost exactly the same, it's actually slightly more, than we've spent in strategic acquisitions during the same period.

So we think that's a good balance. I'm not sure that's going to be the balance always, but as we look at our balance sheet, we certainly are looking at ways to return capital to our investors as well.

JESSICA: That's great. So in the midst of COVID-19 and with your first full fiscal year behind you-- and I agree that analyst day seems like eons ago at this point. It's amazing what's happened since then. But how are you thinking about just the next six months?

LACHLAN MURDOCH: Look for us, as I just mentioned, we are now seeing a return of the advertising market that's rapid to pre-COVID levels with the return of sports. We just talked about major league baseball, NASCAR, football tonight, entertainment coming back into production this season on [INAUDIBLE]. And I give a huge credit to our [INAUDIBLE] staff-- Rob Wade, the head of our unscripted entertainment and Charlie Collier to get our unscripted entertainment back in production safely and quickly.

And with that, we're very happy that we'll have "The Masked Singer," the number one TV show in America, back on air and in a couple of weeks. So we're very happy with that. And then, of course, News We are in the middle of an election cycle which is driving incredible ratings. Unfortunately, through November, probably past November 3rd, it's going to continue to be an incredible news cycle, and also with that news cycle there's a tremendous amount, probably a record amount, of political advertising that we're seeing both at our local stations and really for the first time nationally as well. So I think the next six months will be very strong.

JESSICA: That's actually incredible, because there's never really been national polticals. That's an amazing thing. So let's go into the--

LACHLAN MURDOCH: Jessica, I'm sorry to interrupt, but it's national political both on Fox News, but also-- and just as just as importantly and probably just a significant significantly-- also in sports. So you'll see this Sunday as we launch our NFL season, you'll see the Biden campaign spending quite substantially.

JESSICA: Wow, that is definitely different. So let's dive into the current your current trends for businesses. But let's start with distribution. At the time of the spin, that was one of the strongest areas in between affiliate fee growth, retrans growth. But since then, again it seems like so long ago, but PTB stock declines are accelerating. Last quarter the industry was down 6.5%, it just fell off a cliff. And that was, of course, partially offset by the price increases that you've had, so you actually grew affiliate revenue by 8% in the fiscal fourth quarter. Can you give us any insight into the trajectory for affiliate fee growth in fiscal 20201 and beyond?

LACHLAN MURDOCH: So, yes, absolutely. So as you know, we completed about 70% of our distribution, renewed 70% of our distribution agreements in this past year. So just by the nature of the cycle, we have less to renew over the next year or two. I think we closed with Frontier, which is a mid-sized distributor, in the last couple of weeks. And again at pricing increases that are in line with our other agreements' increases.

So we're very comfortable and very confident in our ability to continue to drive pricing. Really for the number one news network-- we'll come back to News later-- but News was the number one network of all networks throughout the summer. But the number one entertainment network and obviously with all the tremendous sport that we have on. So we are very confident we'll be able to continue to drive pricing offsetting those subscriber declines.

JESSICA: How much can-- you know, the virtual MVPDs offset some of the traditional [INAUDIBLE] declines. Are you seeing any growth? Is it enough to offset these declines? It's highly doubtful, but how much can it offset?

LACHLAN MURDOCH: I think substantially offset the declines. We had-- of the larger vMVPDs this past year, I think they grew by about 2 million subscribers this past year. I think that brings us to roughly 9 million vMVPD-- about 9 million subscribers. And look, anyone who has used those services, they are a tremendous service.

I'd like to state, we talked a couple of years ago about so that the core bundle, keeping the bundle in the vMVPD--

JESSICA: I can't say it either.

LACHLAN MURDOCH: I'm drinking a lemon tea, and it's making it harder. We talk about keeping that core bundle pricing as low as possible where you could have the lowest possible price for the largest possible ratings, and viewership, and audience. I think the digital players, the bundles have gotten a little bit big and started to look a little bit too much like cable bundles, but I'm sure there'll be people who are looking to disrupt that as well.

JESSICA: Right, and what do you see in regard to retrans, on the retrans side? So that was cable affiliate fee growth. What about retrans?

LACHLAN MURDOCH: So retrans, we grew retrans about-- I think 19% last year in pricing. Obviously when you look at retrans for us we can talk about the strength of the Fox network and our stations. The two parts of that are obviously being the number one network, having the number one show in Masked Singer, having a tremendous force. But also when you look at the local stations, the 1,000 hours of news that we produce each week across local news across the country also comes in that retrans negotiation or balance.

Having said that, we obviously don't negotiate retrans with stations on their own. We negotiate retrans with our cable affiliate distribution deals. And the strength of Fox News obviously just continues to get more and more significant. So with those factors all combined together, we're very confident that we'll continue to push for retrans pricing in the years ahead.

JESSICA: You've recently launched Fox International at a premium price point of \$7 per month, I think that was in August, which is higher than Fox Nation's \$6 per month price. Can you talk about how you think about price or fair value for competitors and the demand that you're seeing for these two offerings?

LACHLAN MURDOCH: So they're very different offerings, and so Fox Nation is for Fox News fans who want more of our content, more from our stars, and our hosts, and our orders. And I'll call it sort of shoulder programming to Fox News. It's doing tremendously well. Consistently over the last year the trial conversion rate remains above 80%, so that's terrific. It was a big beneficiary of COVID-19 as people in came to it and it had some of its best growth weeks and months through the COVID-19 lockdowns. So that business is doing very well and growing.

Fox News International you have to think of a different way. None of us have had to be able to travel like we used to, but when you go overseas, the number of times people have asked me-- I still get emails about this all the time-- about if they have Fox News that they love it. That they love seeing what Americans are watching. I think globally people appreciate that Fox News is the number one news network by a long way in America, and they want to see what Americans are watching.

And so we get requests all the time for Fox News in the markets where it isn't. And so Fox News International is really the linear feed of the channel that we watch today. Plus, you can have some of shows on demand. So if you're in London or you're somewhere where prime time is in the middle of the night, you can catch up later. So it's a very different service from Fox Nation. And we see it as a service to someone is supporting our viewers who want to watch the channel in markets where they otherwise wouldn't be able to.

JESSICA: Are there are other opportunities to expand internationally?

LACHLAN MURDOCH: I think probably, but at the moment we are really a domestic, American focused company. And so that's not to say that there won't be opportunities that emerge, but we're focused on America, and we're focused, to be honest, on the America between New York and Los Angeles. Our brands, we think, are really about the middle of America.

JESSICA: So let's move on to advertising. How has the advertising market embraced the return of sports? You mentioned NASCAR, MLB, NFL starts tonight. And what are the differences that you're seeing between broadcast and cable?

LACHLAN MURDOCH: So on sports, advertisers have really, don't want to say flocked, to sport, but they've embraced the return of sport very strongly. This is partially also, to be honest, because until the fall season starts-- and a lot of networks, I don't think ours, but we'll have thinner fall season particularly in scripted shows than they have otherwise-- so I think advertisers are obviously very savvy. And they understand that the live sport is the broadest, has the most reach, the highest quality programming that they can associate with advertising and use this fall.

So it's specifically NASCAR, when NASCAR came back, NASCAR did a tremendous job being the first sport in America to be back. NASCAR sold out within a few weeks. Major League

Baseball has been selling very well, obviously with baseball, the postseason and World Series, we're still selling now. But I think we're well ahead of plan. And the same with NFL football. With football, we are pacing ahead of where we were last year. So in every essence in every sport, we're doing very well.

JESSICA: So this is the most unusual, I think, ever upfront advertising market that we've seen in our careers. Could you just give us an update on where you are in the upfront selling process and what you're seeing in the scattered market?

LACHLAN MURDOCH: Sure, it has been a unique upfront marketplace. We took the view that we have to work very closely with each of our clients and each of the agencies that, in many cases, represent them to be as understanding and as flexible as possible to meet their needs. Some industries were ready to come back and advertise quickly. Other ones-- it's the obvious ones, travel, retail-- were harder hit by COVID-19 and the COVID-19 lockdowns.

And so we're really very careful to work closely with our advertisers to let them be flexible in terms of their spend and in the lockdown to being able to move their commitments around. And then that led us to the upfront. And the upfront, we continued that kind of philosophy of working closely, individually, and trying to meet our advertisers individual needs.

Now, what that's meant at the end the day, and you combine that with the strength of the mix of our platforms, is that in all of our key categories-- in entertainment, in sports, and in news-- we've achieved, depending on the client, low to mid-single digit price increases across the board. And so I think we might be the only media company to have positive price increases across all of our platforms. So that's a tremendous result.

While we've done that, scatter has been incredibly strong. Particularly in news, but it's been in double digits and more, or significant double digits, across our business as well. And so we've probably sold about 5% less volume than we would otherwise have done say last year. And we're really comfortable doing that because of the strengthening scatter market.

JESSICA: So let's just parse that out into a couple of other pieces for advertising. So what's going on at the local level? Local obviously hit a lot more by small and medium sized businesses. What are you seeing currently, and how is that tracking?

LACHLAN MURDOCH: So if I go back to-- I think we talked about this a little bit, I can't remember exactly what I said in the last earnings call-- if we go back to late March, April, the beginning COVID-19 lockdowns, we were seeing a 50% declines in local advertising. Pretty much across the board. And what happened was the smaller markets, or markets that came out of a COVID-19 lockdown and opened up their economies earlier, their advertising started to come back relatively quickly.

The larger markets-- New York, Los Angeles, San Francisco, Seattle and perhaps Chicago-- the larger markets were slower to return, and they were the markets that continue to have lockdown and business shut. And that's still the case, but what we're seeing from a 50% decline only some months ago in advertising, the larger markets are now down only about 23% in pace. And the

second half, our smaller markets, are pacing up about 12%. And that includes-- just to be super transparent-- that includes political.

So political-- particularly in the big markets of Arizona, Phoenix, Georgia with Atlanta, Detroit, and Florida-- those markets are pacing very significantly above this time last year.

JESSICA: Well, that's good news. And then one other piece on advertising news-- your ratings have been phenomenal, but news as always historically been under monetized. What are you seeing in terms of demand for news on the advertising side?

LACHLAN MURDOCH: It's very strong. By way of context, Fox News has been the number one network of all networks-- including ABC, CBS, Fox, NBC-- all summer. So from Memorial Day to Labor Day, in all people, Fox News has been the number one watched network in the country. And obviously what that's done, as our ratings have increased, our demographics, we have larger cohorts of different demographics. Our younger-- News skews older, which is not something I'm particularly worried about. It's logical. But now we have new viewers who advertisers are searching for.

So we have new categories of advertisers who have never advertised on news before, are now advertising on Fox News. So advertising demand has been very strong.

JESSICA: Great, so let's move on to sports. You recently sold off the rights to US Open Golf to NBC, and you took a big write-down last quarter. Can you talk about the logic or what was the reason behind that action? And then more generally, what sports-- what is a must have versus nice to have?

LACHLAN MURDOCH: So with what the USGA, with the COVID delay in the tournament, we had, when we started to look at it, some significant scheduling challenges with our commitments to NFL major league baseball postseason. And I think also there were some challenges to how you move around with college football at the time. And so we start to look at it and started to think, well, it's going to be difficult to broadcast the tournament with the new schedule.

As we began to think about it, we realized that actually it would be a win-win-win by taking the write-down, having USGA move to NBC, where they have the other major golf fixtures, and also it would be positive for the USGA. So we think it was a positive transaction. I think it will help in our operating results going forward. We weren't not broadcasting USGA at a profit, but it meant taking a write-down up front.

And then sports that are must haves-- we like our portfolio now. We have great hardships with [INAUDIBLE], Major League Baseball, football, and WWE.

JESSICA: So on football, which is the big kahuna, can you talk about how your negotiations with the NFL are progressing, and how are you thinking about the rights for both Sunday and Thursday night and the exclusivity of those rights?

LACHLAN MURDOCH: Sure. So the negotiations are progressing in a number of meetings. I'm sure not just with us-- I'm sure with our competitors. I'll still say it's a-- the commissioner in the league have been you are rightly focused on getting the season up and running, and now tonight's a major milestone. I give them a huge amount of credit for that. And so the conversations are still at a relatively early stage, but are moving along nicely.

So in terms of our packages, I'm not going to negotiate publicly, but our packages Sunday and Thursday have served us well. The NFL has asked I think all the broadcasters to think about every package and to think how would we monetize packages that we currently have or other packages differently. So we're looking at all sorts of options.

JESSICA: And college football is supposed to start later in the fall. How much uncertainty is there regarding college football? And how much visibility do you have on an ad dollars related to that at this point?

LACHLAN MURDOCH: So some college football is starting this fall, and our two conferences, the Big Ten and Pac-12, have current plans to start in the spring, to postpone the season. And our communications with them and the same with our other sports partners has been, we are ready to broadcast when they are ready to play. So if they were to move their seasons earlier, we're ready to broadcast them earlier as well. In terms of advertising dollars, at the moment everyone's expecting to play at some point in the year, and so there's no impact.

If seasons were shortened or if there was no season, the savings in rights fees would offset the loss in advertising. So not a significant financial impact.

JESSICA: And is there a risk that an abundance of sports inventory, with NBA, NHL, MLB playoffs, along with NFL and maybe college football, overlapping? Do you think that there will be any cannibalization of advertising inventory? Or is the demand there?

LACHLAN MURDOCH: That the demand is absolutely there today. It's something we've thought about-- would there be cannibalization? There has been zero sign of it in fact, probably the opposite.

JESSICA: So on news, we've already talked about has strong news ratings and advertising are, but how sustainable do you think your ratings are post-election? I know the last election they remained strong, but what if there is a change in administration? How do you think that affects you?

LACHLAN MURDOCH: Look, I don't think it does. If you look at Fox News, we've not only been strong, but we've grown ratings in multiple administrations from both political parties. So Clinton, Bush, Obama-- we've continually grown ratings. I think the other thing when you think about news which is important, and it's hard to hard to appreciate from the outside, but the news ecosystem that we've built around Fox News-- and we've recently changed the name to Fox News Media-- Susan Scott does a tremendous job not just running a linear news channel.

You have Fox News, you have Fox Business, you have their digital businesses. We talked a bit about Fox Nation and Fox News International. But Fox News Digital in August did almost four billion page views which was up 30% year on year. I think the engagement was double I think a year ago, and it's the number one internet competitor set, which is a-- number one news brand, social media, on Instagram, and Facebook, and so forth. It's a tremendous business, and it's not just around one linear channel. It's how we keep our viewers and fans within that ecosystem.

JESSICA: So let's move on to some of do newer businesses, one of them is sports betting. How much of an appetite has there been for sports betting on Fox Bet? And can you talk about your view of-- you have an 18.5% ownership in FanDuel. You've increased your stake in Flutter Entertainment to 3%. Just the outlook at how could they be co-promoted or co-branded? It's an amazing area.

LACHLAN MURDOCH: Absolutely, and in fact right before right before we got on this call someone sent me an article that said—it was from a research company-- that said more than 33 million Americans this year will bet-- in some form. Not all online. Some in person, and some with their friends informally-- 33 million Americans this year will bet on the NFL. Which is which is a huge number, so there's definitely a tremendous demand for sports betting product.

We're targeting Fox Bet to be more fun, and social, and a very approachable brand. It's not for the high end, sophisticated gambler, it's for someone who wants to watch the game and put \$5 or \$10 on the next play or on a result. And so we think it's a very broad brand and a big opportunity for us.

It's important, though, to know that the way we see the market-- and it's legalized state by state, and every state is different-- and it's complex in terms of states that are allowing sports wagering alone. Other are allowing sports wagering, and so the Casino type games and poker type games which can work quite well with the wagering business. And so you have to look at each market quite separately. But our partnership with Flutter is for 50% of Fox Bet, but we also have this 18.5% option. We don't own 18.5% of FanDuel yet, but we have an option to buy 18.5%. And then we have the 3% of Flutter which today is worth about \$600 million which is roughly double what we purchased it for.

And so we feel we have multiple options and multiple ways to monetize this sports wagering opportunity that's emerging in the United States. But we're very excited about it.

JESSICA: We could talk about this area for a long time, but I'm looking at the clock, and have to move on to hidden value. Because in addition to sports betting assets, there are so many other hidden assets in the Fox portfolio including Tubi which you brought up earlier-- Credible, you have a minority investment in Caffeine which is a social broadcasting platform for gaming and entertainment. You still have the Fox studio lot in LA, a cash tax asset resulting from this spin. What can you do to highlight the value of all of these hidden assets?

LACHLAN MURDOCH: More conversations like this. We should do this every week. That'd be great. [CHUCKLING]

We just have to talk about them a lot more. We have a culture here of building our businesses, operating the businesses, driving them hard, and looking for a long term shareholder return on the businesses we built. Probably because of that, we don't spend enough time talking about these daily and weekly and sort of [INAUDIBLE]. But I can tell you, if you go through your list, Tubi is a tremendous business, great executives there. One of my biggest regrets about this COVID-19 period is not being able to get to San Francisco and visit that team in person since we did the acquisition.

But they're hitting goals, they're doing incredibly well, and then they're significantly above our acquisition business case, our investment case. The same can be said for Credible. Credible is well ahead of our investment base, they've now rolled out their mortgage refinance product, and it's not quite in every state but in 47 or 48 states, and they're doing tremendously well. We've also learned and this this is a longer answer than you want-- with Credible, because Credible's audience fits perfectly with Fox News, and we really just rolled it out with foxbusiness.com and Credible.

And what we've learned over the last several months is really how to engage that audience and where the synergies are between the Fox Business viewers, and users online, and how to introduce them to Credible if they need that introduction, or want that introduction. It's the same skill set actually that we're now beginning to apply and learn to apply to Fox Bet, because it's the same audience correlation between our sports viewers and our wagering customers. And so how you integrate your programming, and how you integrate what you do online in a respectable, proper manner is very important. And the way you tweak things have out-sized outcomes in terms of driving traffic to those businesses to monetize.

And the last question, I missed a couple, for the last one was on the tax asset. And I'm told, and this is amazing, because if people don't know, if you just do a simple EBITDA multiple on our business, you give the tax assets zero value. But if you net present value the cash which goes from 13 to 14 years back to today, that assets worth about \$3.6 billion. I'm not sure that's evident in our in our stock price today.

JESSICA: No, of course not. On Tubi, it's just such an interesting asset. Like AVOD, the whole area of AVOD, you're zigging when everyone except you and Peacock are zagging. It's just such an interesting area to me. But you've added some Fox content to Tubi, like The Masked Singer. How much more of an opportunity is there to add Fox Entertainment to that platform? And in what ways is Tubi complementary versus more of a brand new vertical?

LACHLAN MURDOCH: Well, those aren't mutually exclusive. But we've added The Masked Singer, we've added Gordon Ramsay's shows, the next season of Masked Singer will come on. I'm trying to think of the other shows. And they've been incredibly successful at driving people to Tubi, but the great thing about Tubi is the depth of their content and the breadth of their library. And so where they are really geniuses is using AI to surface content deep within their library that people will watch and will continue to watch. And they'll be serving advertising against that.

So we don't see the growth of Tubi as being something where we need to spend a huge amount of money producing exclusive shows for Tubi. That's actually does not how Tubi monetizes content, they're really good at monetizing this deep, deep library. What we can do is put the shiny shows, right, into Tubi, repurposing shows across entertainment, across sports, using, in some cases, our news brands, local stations. We're really interested to see what we can do with local stations and Tubi really to continue to make it more unique and to drive product awareness.

But it's not about buying huge libraries or spending tens of millions of dollars on producing exclusive content. That's not the strategy.

JESSICA: Even though we're out of time, I'm going to ask you one last question. It's too obligatory, but how are you thinking about your asset mix today? And how do you think about M&A fitting into your strategy going forward? What are we missing?

LACHLAN MURDOCH: What are we missing? I think we're in a unique position, because, as I mentioned in your first question half an hour or so ago, that only a year ago we were very deliberate in how we set up Fox and the assets that we brought in to Fox that we separated from the Disney acquisition. And so we feel that we're a new company, we we've come through this COVID-19 period very well. The next six months we look incredibly strong.

We will keep our eyes open for acquisitions, absolutely, but we are also comfortable with the mix of our assets today.

JESSICA: Great, well, with that, thank you so much for joining us. It's great to see you.

LACHLAN MURDOCH: Jessica, great to see you as well.

JESSICA: Thanks.

LACHLAN MURDOCH: All the best. Thank you for having me.

JESSICA: Thank you.

LACHLAN MURDOCH: All the best, thank you.