June 29, 2015
Volume XLI, Issue VI

News Corporation

NASDAQ: NWS, NWSA

Dow Jones Indus:	**17,596.35**
S&P 500:	**2,057.64**
Russell 2000:	**1,246.75**
Index Component:	**NA**

Trigger: No
Type of Situation: Business Value

Price (NWS Class B):	**$**	**14.03**
Shares Outstanding (MM):		**Cl. A 383.6 / Cl. B 199.6**
Fully Diluted (MM) (% Increase):		**584.6 (0%)**
Average Daily Volume (MM):		**3.1(A) / 1.1(B)**
Market Cap (MM):	**$**	**8,286**
Enterprise Value (MM):	**$**	**6,259**
Percentage Closely Held:		**Murdoch Family: 14% economic, 39% voting**
52-Week High/Low (NWS):	**$**	**17.77/13.95**
<u>Trailing Twelve Months</u>		
Price/Earnings:		**34.2x**
Price/Stated Book Value:		**0.7x**
Long-Term Debt (MM):	**$**	**2,027**
Implied Upside to Estimate of Intrinsic Value:		**60%**
Dividend:		**$0.20**
Payout		**48%**
Yield		**1.4%**
Net Revenue Per Share:		
2014	**$**	**14.81**
2013	**$**	**15.38**
2012	**$**	**14.95**
Earnings Per Share:		
2014	**$**	**0.41**
2013	**$**	**0.57**
2012	**$**	**(3.58)**

Fiscal Year Ends:	**June 30**
Company Address:	**1211 Avenue of the Americas New York, NY 10036**
Telephone:	**Phone: 212-416-3400**
CEO:	**Robert J. Thomson**

Clients of Boyar Asset Management, Inc. do not own shares of News Corporation common stock.

Analysts employed by Boyar's Intrinsic Value Research LLC own shares of News Corporation common stock.

Introduction

News Corporation ("News Corp", "NWS", or the "Company") is a global diversified media and information services company that generated $8.6 billion in revenues in FY 2014. Since its separation from Fox two years ago, News Corp's Class B shares have declined by 8% vs. a 27% rise in the S&P 500 Index. In our view, the underperformance reflects a long list of mostly non-fundamental reasons including investor aversion to News Corp's heavy presence in the declining newspaper publishing industry and recent sale of a large voting stake (6.6%) by a large shareholder, among others. During FY 2014, a little over half of the Company's pre-Corporate/Digital Education EBITDA was derived from its newspaper publishing businesses. However, we would note that the Company's newspaper exposure includes a number of first rate properties (*The Wall Street Journal*, *The Sun*, *The Times*, *The Australian*, etc.) that are well positioned to navigate industry challenges. We would also point out that a meaningful amount of the Company's future growth and value will be derived from the NWS' non-newspaper assets, which are not fully appreciated by investors.

The Company's roster of underappreciated assets include a 50% stake in Foxtel, a dominant pay TV provider in Australia with 2.7 million subs or a 95% market share; Fox Sports Australia, a dominant provider of premium sports programming in Australia; a 62%

stake in REA Group, a leading provider of residential and commercial property websites in Australia; book publisher HarperCollins, which has leading market shares in children's and Christian titles; and Move.com, which operates realtor.com, the # 3 real estate listings website in the U.S. In our view, each of these business/investments offer significant growth potential that should more than offset ongoing declines in the Company's more mature newspaper publishing business.

News Corp boasts an extremely robust balance sheet with $2 billion in cash (24% of the Company's current market cap or ~$3.50 a share) and no debt. While the Company's excess capital to date has been deployed to drive growth outside of its newspaper business, we would not be surprised if a significant amount of capital was returned to investors going forward. In May 2015, News Corp announced that it had begun buying back shares under its $500 million share repurchase authorization for the first time since its separation. Shortly after the repurchase announcement, the Company announced in June that it would begin paying a $0.10 a share semi-annual dividend (1.4% yield). While the recent moves should go a long way towards unlocking shareholder value, we believe that they also signal management's confidence in future growth prospects and measures taken (digital investments, cost cutting, etc.) to stabilize the newspaper businesses have been successful.

Utilizing a sum-of-the-parts valuation, we estimate News Corps intrinsic value to be $22.41 a share or ~60% upside from current levels. It should be noted that even if we were to value the News and Information (newspaper publishing) and Digital Education segments as zeros, our valuation for the Company's other businesses plus net cash/assets still *greatly exceeds* News Corp's current market cap. While not without their controversies and fumbles, the Murdochs have a long and on the whole highly successful track record of creating long-term shareholder value across numerous entities. The News Corp spinoff also demonstrates a willingness to consider alternatives, and we would not dismiss the possibility that News Corp is further slimmed down at some point via divestitures or additional spinoffs. Separating the Australian businesses is one possibility, as is combining Foxtel and Fox Sports Australia into a separate entity. An eventual full combination of News Corp's majority stake in REA Group with the publicly traded stub could also help close the sum of the parts discount.

History & Recent Developments

The history of News Corp is tightly intertwined with Rupert Murdoch (executive chairman of News Corp, age 84) and his construction of a global media empire over the course of 7 decades and counting. In 1954 Mr. Murdoch inherited control of Australian publicly traded News Corporation, which then principally controlled Adelaide's number two newspaper, *Adelaide News*. Over the following years Mr. Murdoch would steadily build News Corp's portfolio of newspapers across Australia, eventually expanding to the UK in the late 1960s by purchasing *News of the World* and *The Sun*, and venturing into the U.S. in the 1970s. Mr. Murdoch had much success expanding circulation of his newspapers by reinventing the content, often focusing on "tabloid" journalism. His papers' ventures into political opinion would also become a frequent topic of conversation (whether positive or negative) and gain him much influence and publicity over the years.

News Corp would expand into satellite TV in the 1980s, taking control of the fledgling UK-based Sky Television which would eventually merge into British Satellite Broadcasting to form BSkyB (now Sky PLC; independent from News Corp). News Corp would also expand into television and digital assets globally, most notably purchasing film and television studio 20th Century Fox for $575 million in multiple transactions between 1984-1985 while simultaneously buying the Metromedia independent broadcast stations that would form Fox Broadcasting Corp. Fox would grow to become a massive media empire across film and television production, broadcast, and later cable TV programming. After navigating a debt crunch and restructuring in the early 1990s that would force Murdoch to dilute his equity stake, News Corp soon returned to growth. In 1998, News Corp raised $2.2 billion via the carve-out IPO of a 20% stake in Fox but later reacquired the minority stake for $6.6 billion in 2005. News Corp also expanded into the U.S. satellite industry with the purchase of 34% of DirecTV (then Hughes Electronics) from General Motors and other shareholders for $6.6 billion in 2003. News Corp would ultimately lose control of DirecTV after John Malone's Liberty Media outmaneuvered Murdoch by acquiring a large chunk of voting shares in News Corp, which were exchanged for News Corp's DirecTV stake in 2008. Other television deals included the sale of the Fox Family (now ABC Family) cable channel and production JV to Disney for $5.3 billion in 2001 and the acquisition of Chris-Craft (broadcast stations) for $5.4 billion in 2001.

Focusing back on the assets that are still part of today's News Corp, we would highlight News Corp's activities in Australia including forming a pay TV joint venture in 1995 (Foxtel) and expanding programming in Australia with Fox Sports. News Corp made one of its most successful Internet ventures in February 2001, when the Company invested A$10 million for a large stake in fledgling Australian digital real estate website realestate.com.au. Now named REA Group, the company is valued at A$5 billion. Fast forward to 2007, when News Corp agreed to purchase Dow Jones (including the trophy asset *The Wall Street Journal*) for $5.7 billion including $200 million in stock and $330 million net debt. The purchase price (which included $4.2 billion goodwill) would not turn out to be Murdoch's best as the entire industry continues to struggle with the transition into the digital era. In 2012, News Corp consolidated its TV assets in Australia by acquiring Consolidated Media Holdings (CMH) for A$1.9 billion. CMH and News Corp held equivalent stakes in Foxtel (25%) and Fox Sports (50%). A rival bid from major CMH shareholder (25% stake) Seven Group Holdings was blocked by the Australian Competition and Consumer Commission (ACCC) due to its cross-ownership of Seven West Media, the leading free-to-air (FTA) TV broadcaster in Australia. Around the same time, in July 2012, Foxtel cemented its stranglehold over the Australian pay TV industry with the acquisition of #2 provider Austar for A$2.5 billion.

Around this time the Murdoch empire became engulfed in scandal. In July 2011, now widely-documented allegation emerged that News Corp's UK publications, most prominently *News of the World* (once the best-selling English language newspaper in the world), had engaged in a much larger litany of abusive or illegal activity than originally believed (phone hacking, police bribery, etc.) in the pursuit of stories. The scandal has not directly implicated top News Corp executives but led to the closure of multiple UK papers and has cost hundreds of millions of dollars in legal and reputational costs. The UK newspaper scandal cost the Company $255 million in fees and costs between FY13-14 alone, net of indemnifications from Fox.

In June 2012, News Corp announced plans to separate its publishing and Australian properties from the parent company. The move was aimed at lifting News Corp's lagging share price in the wake of the scandal and highlighting the separate value of the Fox assets. The separation also facilitated a management/culture shake-up at the news businesses and ostensibly helped relieve pressure on Rupert's son and then-News Corp deputy COO and head of News Corp's UK newspaper business (recently named Fox CEO) James Murdoch by distancing him from the scandal-ridden businesses. On June 28, 2013, News Corp shareholders received one share in the new News Corp for every 4 shares of parent company shares held, and the parent was renamed Twenty-First Century Fox ("Fox"). As part of the separation, Fox paid News Corp a $2 billion cash dividend. The Company also agreed to sell its 44% stake in New Zealand pay TV operator Sky Network Television prior to the separation, generating close to $700 million to add to its cash hoard. As we detail, since the spinoff News Corp has focused on improving its core operations while spending some of its cash to acquire digital businesses.

Business Description

News Corporation is a global diversified media and information services company. News Corp reports in six business segments: News and Information Services (NIS); Cable Network Programming (Fox Sports Australia); Digital Real Estate Services; Book Publishing; Digital Education; and Other. The following table breaks down financial performance by segment in fiscal 2014 (News Corp's fiscal year ends June 30). News Corporation also holds a 50% stake in Foxtel that is reported under the equity method but may be the Company's most valuable business. From a geographical perspective, in FY 2014 News Corp generated 43% of revenue from North America, 33% from Australia and Asia/Pacific (principally Australia), and 24% from Europe (principally the UK). Inclusive of News Corp's Foxtel stake, Australia would account for approximately 40% of revenue. In the following sections we provide more detail on each of News Corp's businesses.

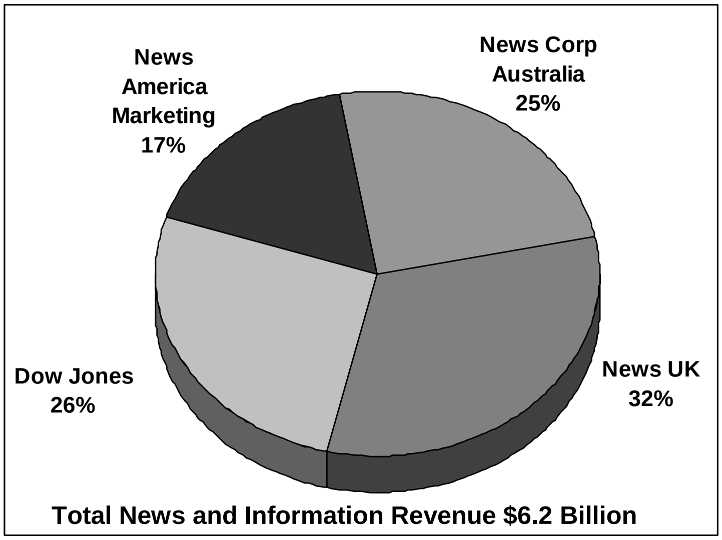
Financial Performance by Reporting Segment, FY 2014 ($MM)

	Revenue	Segment EBITDA
News & Information Services	$ 6,153	$ 665
Cable Network Programming	$ 491	$ 128
Digital Real Estate Services	$ 408	$ 214
Book Publishing	$ 1,434	$ 197
Digital Education	$ 88	$ (193)
Other	–	$ (241)
Total	$ 8,574	$ 770

News & Information Services

The Company's News and Information Services segment consists of Dow Jones, News Corp Australia, News UK, the *New York Post* and News America Marketing. The News and Information Services segment generates revenue primarily through print and digital advertising sales and through circulation and subscriptions to its print and digital products. Although News Corp does not breakdown revenue within the News & Information segment by business, the following provides a rough breakdown based on information contained within Company filings and other publicly available sources and Boyar Research estimates.

News and Information – Revenue by Business (%)



Source: Company Filings and Boyar Estimates (note: New York Post is not included as it represents an insignificant amount of segment revenue).

- <u>Dow Jones</u> – Operations include the global print and digital product offerings of *The Wall Street Journal* and *Barron's* publications, Marketwatch.com, and the Company's suite of professional information products (Factiva, Dow Jones Risk & Compliance, Dow Jones Newswires, Dow Jones Private Markets, etc). In April 2013, the Company launched DJX, which is a bundled offering of its professional products as well as access to WSJ.com and Barrons.com. Below are highlights of the Dow Jones business:
  - *The Wall Street Journal* had a total average paid and print and digital circulation of ~2.3 million Monday to Saturday for the six months ended March 31, 2014. Notably, the *Wall Street Journal* is the largest daily newspaper in the U.S. based on circulation with *USA Today* second at a circulation of ~1.7 million.
  - WSJ.com, which offers both free and premium content, averaged over 70 million visits per month for the 12 months ended June 30, 2014 while Marketwatch.com averaged more than 41 million visits per month.
  - There were 1.1 million activated Factiva users (individual and institutional) as of June 30, 2014.
- <u>News Corp Australia</u> – News Corp Australia owns over 120 papers covering a national regional and suburban footprint. As of March 31, 2014, News Corp Australia's daily, Sunday, weekly and bi-weekly papers accounted for more than 59% of the total circulation of newspapers in Australia with its Sunday newspaper network read by ~4.7 million Australians on average each week. Key properties included the *Australian* (only nationally distributed paper with an unduplicated print and digital audience of ~3.2 million), the biggest selling weekday newspaper (Melbourne's *Herald Sun*) and the biggest selling newspaper of all (Sydney's *Sunday Telegraph*).

- News UK - The Company publishes leading newspapers in the UK including *The Sun*, *The Sun on Sunday*, the *Times* and the *Sunday Times*. As of June 30, 2014, the sales of these four titles accounted for approximately one-third of all national newspaper sales in the UK. Of particular note, *The Sun* is the most read national paper in the UK (readership: 5.5 million Monday to Saturday; 4.4 million for *The Sun on Sunday*), while the *Times* and the *Sunday Times* boasted readership of 1.1 million and 2.2 million, respectively.

- News America Marketing – Leading provider of coupon promotions, advertising programs, special offers and other direct to consumer marketing solutions through a network of more than 1,800 publications, 58,000 retail stores and 450 partner sites, including smartsource.com.

Foxtel

News Corp and Telstra (#1 telecom operator in Australia) each own a 50% equity stake in Foxtel. News Corp records Foxtel as an equity investment for financial reporting purposes, with a $1.5 billion equity valuation as of 3Q FY15. As detailed later, Foxtel's intrinsic value is by any reasonable account far in excess of reported value. Foxtel is the dominant pay TV provider in Australia, with 2.7 million subscribers or a ~95% market share. Foxtel offers a wide range of programming across hundreds of channels. This includes a variety of themed packages covering general entertainment, drama, movies, sports, 36 HD channels, etc. Foxtel's programming lineup also features a mix of advertising-supported and ad-free channels. Revenue is principally generated from subscriptions but also includes advertising on some channels, and ARPU (average revenue per user) exceeds A$100/month.

Foxtel's pay TV business is not quite directly comparable to any in the U.S. cable ecosystem; Foxtel is neither a cable systems operator nor a pure play programming network. Foxtel's leading external distributor or network access provider is its 50% owner Telstra, which operates a broadband network with 3 million subscribers. At 1H FY15, Telstra reported 750k total Foxtel subscribers split between Foxtel Premium (560k) and Paylite (190k) products. Much of Foxtel's programming is also distributed by #2 broadband provider Optus via its Optus TV IPTV service. While Foxtel does not have carriage agreements with other Internet providers in Australia, since 2013 it also offers a standalone IPTV subscription that can deliver most programming over any Internet connection (Foxtel Play). A majority (we estimate) of Foxtel programming reaches subscribers via satellite and Foxtel secured set top boxes, especially subscribers formerly managed by the Austar business that Foxtel acquired in May 2012. At the time, Austar had ~750,000 subscribers in mostly rural areas that were not covered by Foxtel's existing footprint. Austar principally managed satellite delivered pay TV services (in partnership with Optus and other satellite network providers), as well as one cable network in Darwin. The content included Foxtel programming as well its 50%-owned stake (alongside Foxtel) in XYZnetworks. By the end of 2013, the Austar brands and programming were fully transitioned to Foxtel programming.

Foxtel is not a pure play cable programmer in the traditional sense in that it does not directly own and manage all the channels it offers in its service packages. For example, Foxtel distributes the Fox Sports Australia (wholly owned by News Corp.) channels and numerous external networks like BBC, Discovery Channel, CNN, ESPN, etc. Foxtel directly owns ~30 of the channels it distributes. In other cases, Foxtel manages channels but acquires content from other studios/distributors. Foxtel also funds and produces much original content, contributing a leading portion of the A$700 million spent annually on Australian-produced content. In recent years, NWS/Foxtel have made efforts to more closely own and manage the TV networks on its platform. In addition to the Austar/XYZ transaction and News Corp's consolidation of Fox Sports Australia, Foxtel purchased the Showtime movie channel multiplex from its 5 studio owners in late 2012. Soon after, Foxtel decided not to renegotiate carriage for the Movie Network channels controlled by another partnership of 3 studios. Foxtel renegotiated movie rights directly with the studios, effectively combining the two formerly independent movie multiplexes into its own wholly controlled Foxtel Movies channels.

Cable Network Programming (Fox Sports Australia)

News Corp's Cable Network Programming segment encompasses the Fox Sports Australia networks. Since acquiring Consolidated Media's share in 2012, News Corp has held a 100% interest in Fox Sports Australia. Established in 1995, Fox Sports Australia runs 7 subscription TV channels in both standard and high definition: five Fox Sports channels, Fox Sports News, and the Fox Footy channel dedicated to the Australian Football League (AFL). Fox Sports Australia also operates the popular website foxpsports.com.au. Fox Sports Australia is principally distributed by satellite and cable through long-term carriage arrangements with Foxtel.

Fox Sports Australia is also offered by Optus and available over the Internet via Foxtel Play. With 2.5 million subscribers and over 10,000 hours of live sports programming annually, much of which is exclusive, Fox Sports is the dominant provider of sports programming in the Australian cable industry. Total Cable Network Programming revenue was $491 million in FY14, and segment EBITDA totaled $128 million (26% margin). Fox Sports commands a premium subscription price, and subscription revenue accounted for 82% of revenue in FY14. The remainder principally consisted of advertising. This roughly translates to ARPU in excess of A$15/month for the Fox Sports lineup.

Digital Real Estate Services

News Corp's Digital Real Estate Services division principally consists of its 61.6% equity stake in REA Group Limited. Half of REA Group's 8 directors are News Corp appointees. REA owns and operates Australia's leading residential real estate (realestate.com.au) and commercial property (realcommercial.com.au) websites. REA's sites received 55.4 million average monthly visits in 1H FY15 while paying agents stood at 22,130 and property listings totaled 1.4 million at year-end 2014. REA also acquired a 17.2% stake in iProperty Group (ASX:IPP) for $100 million in July 2014 and increased its stake to 19.9% via the sale of its Hong Kong business to iProperty in December 2014. iProperty runs Malaysia's leading real estate web portal and operates in Indonesia, Hong Kong, Macau, and Singapore.

REA Group principally derives revenues from selling online advertising subscription packages to real estate agents/brokers (subscription revenue) as well as providing them with individual property listing upgrades and other digital advertising solutions (collectively referred to as "depth revenue"). The Australian residential business contributed 59% of segment revenue in 1H FY15, while Australian commercial business accounted for 8%. REA also operates a media and developer business that services the property developer and display media markets (23% of revenue). REA generates 90% of revenue in Australia but also operates the leading property site in Italy (casa.it) and property websites and apps in France, Luxembourg, Germany and Hong Kong.

REA Group Revenue Sources – 1H 2015 (A$MM)

Australia - Residential	154.4
Australia - Media & Developer	60.6
Australia - Commercial	21.4
Europe	22.3
Asia	2.8
REA Group	261.5

News Corp. recently expanded its digital real estate portfolio with the acquisition of Move, Inc. for $952 million ($21/share) in an all cash deal completed in November 2014. In conjunction, REA Group purchased a 20% minority interest in Move while News Corp retained 80%. Move's properties include realtor.com, the #3 real estate listings website in the U.S. with over 28 million users. Realtor.com has an exclusive, perpetual partnership with National Association of Realtors (NAR) that provides it with comprehensive, up-to-date data from over 800 multiple listing services (MLS) across the country covering virtually the entire market. Move also owns move.com and ListHub, a digital database that sells aggregated MLS data to over 130 publishers.

Book Publishing

News Corp's HarperCollins is one of the five leading global book publishers. HarperCollins has particular strengths in general fiction, nonfiction, children's (#1 children's book publisher based on the number of bestsellers charted each year) and religious publishing (#1 publisher of religious books based on revenues), and is an industry leader in digital publishing. HarperCollins includes over 60 branded publishing imprints, including Avon, Harper, HarperCollins Children's Publishers, William Morrow and Christian publishers Zondervan and Thomas Nelson, and publishes works by well-known authors such as Mitch Albom, Veronica Roth, Rick Warren and Agatha Christie and popular titles such as *The Hobbit*, *Goodnight Moon*, *To Kill a Mockingbird* and the *Divergent* series. HarperCollins' active print and digital global catalog includes approximately 50,000 publications and over 100,000 SKUs, including various print and digital editions of the same title. During fiscal 2014, HarperCollins U.S. had 158 titles on the *New York Times* bestseller list, with 17 titles hitting number one. In August 2014, News Corp acquired leading women's fiction publisher Harlequin for $414 million.

Digital Education

In FY 2011, News Corp acquired Wireless Generation (subsequently rebranded Amplify), a provider of software that enables teachers to track student progress and customize instruction, for $380 million. Wireless Generation was founded in 2000 and had a reputation as a cutting edge education tech innovator. The investment was made with the intention that it would provide a platform for the Company's broader digital education initiatives. The Amplify business, since it was acquired by News Corp, has operated under the direction of Joel Klein who had served as the Chancellor of New York City Schools under the Bloomberg administration. To date, the Company has cumulatively invested nearly $1 billion (includes purchase price) in a variety of digital education areas for the K-12 market including analytics (Amplify Insight), curriculum (Amplify Learning) and tablet based distribution (Amplify Access). The largest portion of News Corp's education investment has been targeted towards Amplify Learning in order to develop digital curriculum in English Language Arts, Science and Math that incorporates the new Common Core State Standards that were implemented in 45 states beginning with the 2014-2015 school year.

Management, Corporate Governance and Share Ownership

As part of the Company's 2013 separation, Robert Thomson, who had served as editor in chief of *Dow Jones* and editor in chief of *The Wall Street Journal* between 2008 and 2012, was named CEO of the News Corporation spinoff. Mr. Thomson is a veteran of the newspaper industry having served as the editor of *The Times* between 2002 and 2007. Prior to *The Times*, Mr. Thomson enjoyed a successful career at the *Financial Times*, joining that company as a correspondent in the early 1980s and ultimately becoming the editor of the U.S. edition of the *Financial Times*. During Mr. Thomson's tenure at *The Times*, he presided over a significant expansion of its readership in print and on the Web – the audience of *The Times Online* grew from less than 1 million monthly to almost 13 million during his editorship. While at the *FT*, Mr. Thomson was responsible for the *FT*'s aggressive and successful expansion into the U.S. and orchestrated the redesign of the weekend edition of the *FT* in late 1996 – that edition became the fastest-growing newspaper in the UK market during 1997. In addition to Mr. Thomson, News Corp's business units are led by seasoned executives with significant industry and/or Company experience.

Rupert Murdoch Maintains Control of News Corp – Poison Pill Renewed

News Corp maintains two classes of common stock including voting Class A shares and non-voting Class B shares. The following summarizes share amount totals of the two classes of common stock as of April 30, 2015:

News Corp's Share Class Summary - April 2015

Common Class	Voting Rights	Ticker	Amount (MM)
Class A	No	NWSA	383.6
Class B	Yes	NWS	199.6
		Total:	583.2

Rupert Murdoch, who serves as News Corp's Executive Chairman, beneficially owns 78.7 million shares of News Corp's Class B common stock and 2.2 million shares of Class A common stock. By virtue of his ownership of class B shares, Mr. Murdoch maintains a 39% voting interest in the Company. News Corp recently extended its poison pill (through June 2018), that goes into effect following the acquisition of more than 15% of the Company's voting shares. In March 2014, Mr. Murdoch promoted his oldest son Lachlan to non-executive co-Chairman of News Crop. Lachlan initially joined News Corp in the mid-1990s and ultimately became deputy chief operating officer. In 2005, Lachlan left News Corp and moved to Sydney and formed an investment firm (Illyria Pty.). Prior to becoming non-executive co-Chairman Lachlan was serving as Chairman of Ten Network Holdings, an Australian broadcaster that he had made an investment in during 2010.

While there has been the occasional capital allocation blemish on Rupert Murdoch's resume including the Company's disastrous $580 million acquisition of Myspace in 2005, Mr. Murdoch has generally been viewed as a visionary. His foresight to diversify his empire away from publishing proved astute and created a tremendous amount of shareholder value over the years. In our view, the jury is still out on the younger Murdochs and this is a key consideration worth monitoring as the elder Murdoch begins taking a less active role in his media empire. Rupert recently announced that he would be stepping down as CEO of Twenty-First Century Fox with his son James set to assume the CEO role beginning in July 2015 (note: Rupert is staying on as executive co-Chairman of Fox along with Lachlan).

Foxtel: Changing Landscape, But a Net Positive?

Foxtel is virtually the monopoly pay TV operator in Australia. Other Australian telecom/cable operators as well as content studios/international cable networks have made efforts to build their own exclusive pay TV networks in Australia over the years—most notably #2 telecom Internet provider Optus. Optus attempted to build its own exclusive pay TV bundle during the 1990s-2000s, but never gained critical scale (max subs ~250k) and eventually reached content sharing agreements with Foxtel in 2002. Today Optus principally distributes Foxtel's set top boxes and Foxtel holds ~95% pay TV market share. As such, Foxtel's principal competition for subscribership and viewership is Australia's three private and two government-funded national free-to-air (FTA) broadcast networks.

Despite its market position, Foxtel (and thus pay TV overall in Australia) remains very underpenetrated by international standards. Foxtel reported 2.7 million subscribers at March 31, 2015, or approximately 30% of Australian households. By comparison, pay TV is at least 85% penetrated in the U.S. and well over 50% penetrated in most of Europe. On the other hand, Foxtel has been posting steady gains in subscribership and revenue/EBITDA in recent years. Subscribers were up 4.6% Y/Y in 1H15 following 5.6% growth in FY2014 and 3.4% growth in FY13. Foxtel has also seen its churn steadily decline from 16.2% to 11.4% and EBITDA margins expand by nearly 400 bps since FY12 around the time of the Austar acquisition.

Foxtel Historical Financial Performance (A$MM)

Financials:	**FY12**	**FY13**	**FY14**	**1H14**	**1H15**
Revenue	2,955	3,094	3,138	1,556	1,574
EBITDA	771	924	970	468	470
margin	*26.1%*	*29.9%*	*30.9%*	*30.1%*	*29.9%*
EBIT	363	497	576	273	278
margin	*12.3%*	*16.1%*	*18.4%*	*17.5%*	*17.7%*
Subscribers:					
Subs (ending, M)	2,399	2,481	2,620	2,549	2,667
Churn	16.2%	14.2%	12.5%	12.4%	11.4%

Given the current penetration levels, it appears Foxtel still has plenty of room to run. High speed broadband Internet availability and penetration in Australia may be a major factor for Foxtel's under-penetration, and a vehicle for continued growth. High speed broadband Internet (defined as >24 Mbps advertised download speeds) subscribers totaled only 2.0 million or just 16% of wireless or wired Internet subscribers (est. ~20-25% of households) in Australia at June 2014, according to the Australian Bureau of Statistics. Excluding 6 million mobile wireless subscribers, cable/fiber (high speed Internet) subscribers totaled only 1.3 million at year-end 2014, or only ~15% of Australian households. Most households still receive slower DSL Internet. The Australian government is attempting an ambitious national broadband network project and although the ultimate path for expanding high speed Internet access remains unclear, the aim is to cover nearly all Australians. Foxtel partner Telstra in particular is due major compensation under the plan (valued at A$11 billion) and will continue to manage a growing number of residential customers. Telstra is currently the dominant #1 Internet provider with 3 million residential customers, with fixed data revenue up 7.8% in 1H FY15 and subscriber numbers growing at close to the same rate. Notably, Telstra only resumed marketing a triple play service featuring Foxtel in early 2015. Bundled Foxtel penetration is currently only ~25% within Telstra broadband subscribers. The Company is still in the early stages of converting subscribers to triple play (or quadruple play) subscribers, but Telstra CEO David Thodey believes pay TV/SVOD penetration will eventually reach 70% of households. Triple play bundling should also help to reduce subscriber churn at Foxtel.

Internet Subscribers by Advertised Download Speed*, for ISPs with more than 1,000 subscribers

	Jun-13	Dec-13	Jun-14
	'000	'000	'000
Less than 256kbps	232	210	186
Broadband			
256kbps to less than 1.5Mbps	394	332	256
1.5Mbps to less than 8Mbps	4 971	4 159	3 758
8Mbps to less than 24Mbps	4 976	5 608	6 252
24Mbps or greater	1 785	2 088	2 030
Total Broadband (256kbps or greater)	12 126	12 187	12 296
Total number of subscribers	**12 358**	**12 397**	**12 483**

* Dial-up and broadband figures by sector are collected by advertised download speeds, therefore these data may not equal figures reported for type of access connection, due to some broadband connections being reported as less than 256kbps.

It should be emphasized that expansion of high speed Internet presents risks as well as rewards for Foxtel. Growth at other Internet service providers (ISPs) outside of Telstra opens the door for alternative IPTV-delivered pay TV services as well as “over the top” (OTT; detailed in the following section) competitors to more easily gain access to households. As noted, in addition to Telstra the Company is also a supplier of pay TV services to #2 Internet provider Optus (1.0 million Internet subscribers). For historical competitive reasons (especially given Telstra’s stake in Foxtel) and in some cases technological reasons, Australia’s remaining ISPs do not market Foxtel services. These competing ISPs such as iiNet (close to 1 million subs), Dodo (owned by M2, with 437k), and TPG Telecom (786k) principally offer slower DSL-based Internet services but are still upgrading their broadband speed and growing Internet subscribership. Many of these ISPs have recently begun exploring alternative pay TV models. In 2010, a partnership led by Malaysian pay TV provider Astro All Asia Networks launched a white-label TV product called Fetch TV. Fetch TV’s basic “entertainment pack” features over 35 channels such as BBC, MTV, ESPN, and Nickelodeon. The Fetch box also enables VOD purchases and DVR capability as well as app streaming to the TV. Fetch TV is currently available at telecom/ISPs including Optus, iiNet, and Dodo/M2 Telecom, among others. TPG Telecom was rumored to be exploring a pay TV option featuring a limited number of Foxtel channels, but this has yet to be introduced. It is also worth noting that a proposed acquisition of iiNet by TPG Telecom is pending.

While it is still early, to date there is little evidence that Fetch TV is gaining traction. Fetch TV only reported 100k subscribers in December 2013 and reportedly has ~170k subscribers today. We believe the breadth of Foxtel’s content and subscriber base and its relationship with dominant provider Telstra should limit any threat, as they have in the past. Virtually all stations available on the Fetch package are also available through Foxtel, while Foxtel has exclusive access to a large amount of premium content. On the other hand, if Foxtel eventually changes strategy and establishes partnerships or marketing arrangements with these alternative ISPs, it could provide extensive upside. Additionally, aside from the satellite option, Foxtel can now be accessed over any connection via the Foxtel Play Internet delivered subscription. The viability of a Foxtel Play subscription is questionable under many current DSL Internet speeds, and some subscriptions contain data caps that further limit Foxtel Play’s viability. Over the long term, as Australian Internet speeds catch up to other markets, this should greatly enhance the viability of Foxtel Play adoption in households subscribing to other ISPs than Telstra and/or lead Foxtel and these ISPs to co-market and sell bundled services. Foxtel is also exploring selling Foxtel-branded triple play bundles over the proposed national broadband network. This could present meaningful subscriber upside for Foxtel.

Price is also likely a factor in Foxtel’s relative under-penetration as well as the launch of Fetch TV. Foxtel’s high ARPU (in excess of A$100/month) and its historical minimum package cost of A$50/month, while an attractive economic feature, was likely keeping away many subscribers and leaving some room open for low-priced competition like Fetch TV (which starts at A$25-$30/month for 39 channels, depending on the provider). To address this, in November 2014, Foxtel introduced a new pricing scheme including a new basic programming bundle priced at A$25/month, or 50% below the price of the prior lowest tier offering. The slimmed down "entertainment pack" includes 45 channels. Foxtel CEO Richard Freudenstein described the change,

> *"We are confident that these strategies will initiate a new era of growth. We want Foxtel to be part of the daily lives of millions more Australian households."*

Foxtel's subsequent 1H FY15 results, with revenue up 4.6% and churn down 100 bps, do not suggest any major disruptiveve impact from Fetch TV or consumer down-trading to date. While it is still too early to judge the impact, there is certainly a big opportunity for Foxtel to pick up more price-conscious subscribers.

OTT/SVOD Threat

Perhaps a more formidable long-term threat to Foxtel is rapidly developing in the form of Internet delivered or "over the top" (OTT) and similar Internet-delivered subscription video on demand (SVOD) offerings. Quickflix was an early SVOD entrant in Australia and currently boasts ~124k paying subscribers. Another SVOD service called Stan launched in early 2015. Stan is being developed by StreamCo, a joint venture between broadcaster Nine Network and newspaper/digital media company Fairfax Media, each of whom plans to contribute ~A$50 million to the JV over a number of years. Stan includes content from Nine as well as a variety of current programming and a library of film and television content and is priced at A$10/month. Most notably, Netflix launched in Australia in March 2015, priced starting at A$9/month with one free trial month offered. Although the service has only ~1/6 the content of the U.S. version, it still holds a major library and powerful brand recognition. Netflix partnered with ISPs Optus and iiNet to market Netflix (including 6 free months to new broadband or mobile subscribers at Optus) and to exclude the service from their data caps (a policy Netflix subsequently distanced itself from). Netflix is also being backed by Fetch TV, whose set top boxes enable Netflix streaming over the television.

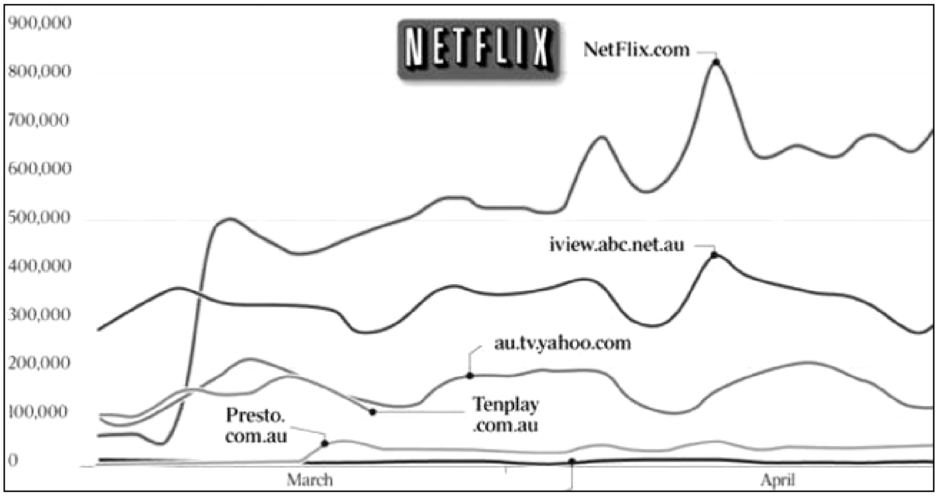
In our view, OTT/SVOD competition is real but hardly a game changer for Foxtel. Foxtel is aggressively developing and promoting a multitude of new SVOD and Internet-delivered services itself to directly compete. This includes its Foxtel Play Internet-delivered subscription and mobile/tablet access via Foxtel Go as well as the recently launched IQ3 next-generation set top box. In addition, Foxtel also launched an SVOD service called Presto in partnership with broadcaster Seven Network. The service includes access to complete seasons of many popular shows, including access to most HBO programming, plus a separate service for movies. Presto is priced at A$10/month each for access to television shows or movies or A$15 for both.

While subscriber counts are not yet available for most services to date, we have some early indications. Quickflix has seen its subscriber count plateau and is facing a financing crunch (current market cap: A$4MM). Quickflix also recently reached an agreement to resell and integrate Presto into its streaming service. Before launching, Netflix reportedly already had roughly 200,000 Australian subscribers who were accessing the U.S. product via IP address-masking VPNs. Although official subscriber counts have not been released, according to early Internet viewership data released by Hitwise, Netflix was recording close to 700,000 daily visits by May.[1] More recent estimates from Roy Morgan Research claim Netflix has reached 1 million users covering over 400,000 households (i.e. subscribers, but presumably including many free trials), versus closer to 100,000 subscribers each for Stan and Presto.[2]

[1] http://www.news.com.au/technology/home-entertainment/new-numbers-show-netflix-followed-by-presto-leading-svod-battle/story-fn8tnfhb-1227350550043

[2] http://www.gizmodo.com.au/2015/06/netflix-has-over-ten-times-more-aussie-customers-than-foxtel-stan-or-quickflix/

Streaming Video Site Visits in Australia since Netflix Launch



Source: Supplied via news.com.au, May 2015

In the U.S., as *Asset Analysis Focus* has discussed, underpenetrated premium pay TV networks like Time Warner's HBO have not seen their growth trajectories impeded by the rise of OTT competition like Netflix. In fact, HBO's growth has accelerated in recent years and its Internet delivered platforms (HBO Go and HBO NOW) appear to be important factors in increasing adoption, particularly with younger generations. While the comparison to HBO is inexact given its much larger bundle and higher price point, Foxtel's commanding control over premium content, its primarily subscription-driven (minimal advertising) revenue model, and its under-penetration are more akin to a U.S. premium network than a traditional cable company. While low-priced SVOD options from Netflix and others could capture some "cord nevers" (who do not subscribe to Foxtel) and even some less committed Foxtel subscribers to leave, it is not a realistic replacement option for most subscribers. Foxtel offers irreplaceable sports and movie content, exclusive access to all first run HBO and BBC series, and even some original series that are exclusive to Netflix in the U.S. such as Orange is the New Black.

<u>Fox Sports Australia Outlook</u>

Fox Sports Australia has a dominant position in premium sports programming in Australia. Fox Footy consistently garners the highest ratings among cable networks, and live events on other Fox Sports channels frequently dominate TV ratings in Australia. The network's premium content includes complete coverage of the Australian Football League, National Rugby League (NRL), cricket, golf, Australian and international soccer, Formula One, etc.

As *Asset Analysis Focus* has detailed in prior issues, sports rights are increasingly valuable for networks in a rapidly changing TV ecosystem given the relatively predictable, DVR-proof (live) audience that major sporting events attract. The downside for sports programmers like Fox Sports is that this also means these rights are increasingly costly, and may draw interest from well-funded Internet-based new entrants. Historically, this risk has been somewhat limited as there are large network effects (literally) and incumbent premium pay TV networks that are well monetized have deeper pockets to bid for programming than new entrants. Broadly, we have yet to see sports rights cost inflation slow the outsized profit growth being achieved by well-established sports networks globally.

In Australia, Fox Sports is in a unique position as it faces some regulated competition of sorts from FTA broadcasters but minimal pay TV competition. Australia has "anti-siphoning" laws that restrict pay TV networks from acquiring exclusive rights to certain major sporting events such as the Olympics and key national Australian rules football and cricket matches. As a result, Foxtel has historically partnered with broadcast networks to jointly bid for major sports rights, or otherwise split the rights. For example, the current AFL deal that began in 2012 and was reportedly worth A$1.25 billion over 5 years was split between broadcaster Seven West, Foxtel and Telstra, expiring at the end of next year. In 2012, an A$1.2 billion, 5-year deal for NRL rights was split between Nine Entertainment, Fox Sports, Telstra (mobile), and Sky Sports (New Zealand) and expires in

2017. Under the deal, Nine was entitled to rights including live broadcast of two top games per week and delayed broadcast of a third, while Fox retained more expansive rights.

The upcoming AFL and NRL contracts are reportedly likely to garner up to A$1.5-$2 billion for new 5-year contracts, which likely translates to a meaningful but manageable low-double digit rate step-up from the expiring contracts. Given Foxtel's deep pockets, any attempts by broadcasters to hold exclusive rights to major programming such as AFL and NRL have failed in the past and are unlikely to materialize in this next round of contracts. Within the pay TV field, ESPN Australia (distributed by Telsat among others) and beIN Sports (marketed by Optus as an A$15/month add-on package) both provide sports programming but have failed to build anything resembling a truly rival sports network or win top sports rights. On the other hand, according to some reports, new entrants such as Google, Fetch TV, and Netflix are reportedly looking at bidding on AFL and/or NRL rights. Singtel-Optus reportedly may also bid. However, such companies have not made any major inroads into top sports programming despite frequent rumors over the years. According to AFL commissioner Kim Williams (and former Foxtel CEO), this round of rights is unlikely to move from the traditional broadcast/pay TV providers.[3] Fox is also reportedly considering developing an exclusive NRL channel along the lines of Fox Footy, and Fox appears to have a major edge in the upcoming auction.

Longer term, given a household penetration rate of only ~30%, Fox Sports Australia is well positioned to benefit from continued penetration gains of pay TV in Australia. The dominant position of Foxtel also provides long-term subscription revenue visibility and virtually eliminates any risk of carriage disruption.

Digital Real Estate Services Outlook

REA has consistently posted outsized growth and shown market share gains in recent years. REA grew revenue at a 22% CAGR between FY08-FY14, while EBITDA increased at an even higher 30% CAGR over the six year period. Notably, REA's growth has yet to show signs of meaningful deceleration. In FY14, online traffic increased 23% while revenue and EBITDA grew even faster. Overall revenue increased 30% to A$437.5 million while EBITDA expanded 37% to A$225.1 million. Growth continued apace in 1H15 with revenue up 25% to A$261.5 million in 1H FY15, while EBITDA grew an even faster 35% to A$144.5 million as EBITDA margins expanded over 420 bps to 55.3%.

REA Group Historical Performance (FY ended June; A$ MM)

	2008	2009	2010	2011	2012	2013	2014	1H14	1H15
Revenue	133.6	167.8	194.3	238.4	277.6	336.5	437.5	209.4	261.5
EBITDA	46.1	62.5	78.0	103.2	126.0	163.9	225.1	106.8	144.5
Margin	34.5%	37.2%	40.1%	43.3%	45.4%	48.7%	51.5%	51.0%	55.3%

In Australia, REA Group holds a dominant lead over its principal competitors. According to Nielsen data, versus its closest competitors (domain.com.au in the residential segment and commercialrealestate.com.au) REA held an 82% share of total website visit time for the year ended June 30, 2014. Despite the slowdown in the Australian property markets recently, REA continues to post outsized growth reflecting both continued migration of real estate agent activity online as well as share gains. More recently the Company has focused on reducing the basic cost of subscriptions and simplifying its subscription pricing structure, with the goal of expanding the agent base and capturing more of the variable revenue opportunity from up-selling listing depth products. This strategic transition appears to be proceeding without a hitch. In 1H15, a 60% gain in Australian listing depth revenue to A$159.8 million fueled an overall Australian revenue increase of 26% to A$236.4 million. Agent customers increased 5% to 9,664 and site visits increased 12%. This all came despite a 4% decline in new residential listings. Overall listings were down 9% Y/Y in December 2014 in Australia to 648k due to the weak real estate environment. REA increased its lead over domain.com.au by double digits across various traffic metrics in 1H15.

[3] http://www.smh.com.au/business/media-and-marketing/footy-codes-talk-to-netflix-fetch-tv-and-others-as-rights-bonanza-beckons-20150621-ghq212.html

REA also shows long term promise with other international properties. Europe is still only 8.5% of revenue but is growing at double digits despite a weak macro environment. The Italian site posted a 15% growth in audience in FY14 and a new mobile site launch helped carry this momentum into 2015 with 16% traffic growth on 11% growth in listings. The upstart sites in Luxembourg and France are making progress, with 23% revenue growth (constant currency) and 29% EBITDA growth in FY14. Europe EBITDA nearly doubled to A$5.1 million in 1H15.

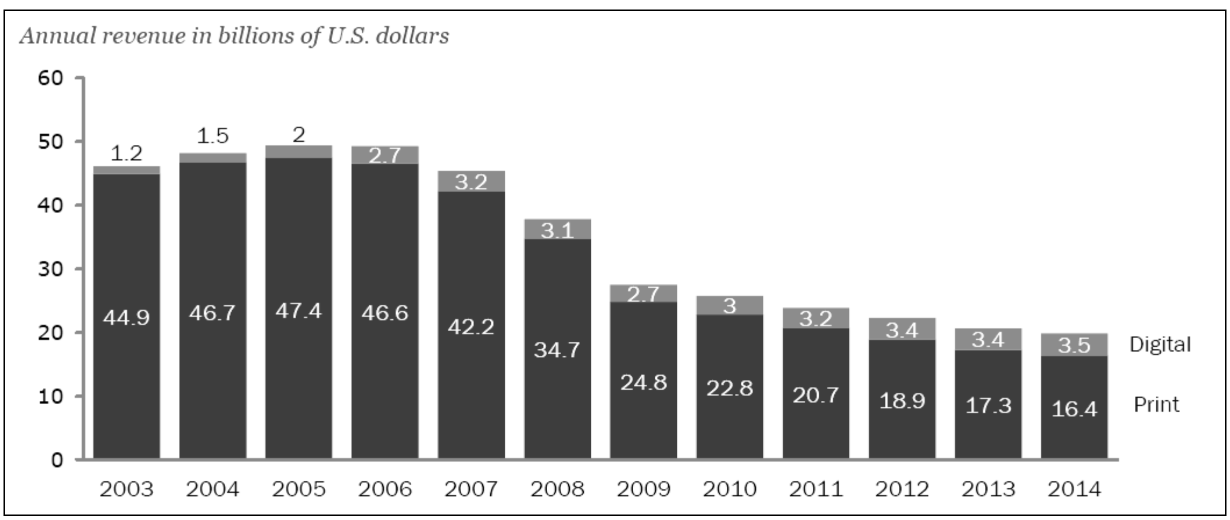
Asia is another region where REA currently generates minimal contribution but represents a huge addressable market over the long term. In January 2014, REA launched the myfun.com portal for Chinese property buyers in Australia, and total Hong Kong and China revenue increased 12% in a challenging macro environment in FY14. Asia revenue was still only A$2.8 million in 1H15 but was a positive contributor to EBITDA.

The establishment of common ties between Move, Inc., News Corp's media assets including *The Wall Street Journal*, and REA Group could also prove highly synergistic. Realtor.com is third in the U.S. behind the recently merged Zillow and Trulia, but all three sites continue to rapidly increase their share of advertising spending. With only ~$1 billion of $14 billion that agents/brokers spend on real estate marketing annually captured by these sites, there appears to be plenty of room for growth. REA and News Corp expect they can help leverage their product development and consumer engagement expertise to promote Move's properties. Move's relationship with the National Association of Realtors and up-to-date MLS data should also help protect its long term competitive position.

News and Information – Navigating Challenges of a Digital Environment

The ongoing decline in print circulation has had an adverse impact on newspaper industry advertising revenues, which has weighted on the profitability of many newspaper companies. As illustrated in the chart below, newspaper industry advertising revenues in the U.S. have declined by approximately 60% from peak 2006 levels.

Annual U.S. Newspaper Industry Ad Revenue from Digital and Print



Source: Newspaper Association of America (through 2013), BIA/Kelsey (2014) via Pew Research Center, April 2015

Recent Results and Outlook – News and Information Services

Arguably, News Corp's newspaper businesses have been able to navigate industry challenges better than many of its peers due to its primarily high quality content. However, this has not exactly translated into growth. In FY14, News and Information Services segment revenues declined by 9%, or $409 million, primarily reflecting the 10% decline in advertising revenues. The majority of the decline ($314 million) was due to lower print ad revenues at the Australian newspapers and the adverse impact of FX. The News and Information segment's revenue decline moderated slightly to 6% YTD 9 Mos. FY15 primarily reflecting lower advertising revenues (-9%) throughout the segment and lower revenue at the Australian newspapers primarily due to FX movements. Segment EBITDA declined by $100 million or 19%. Included in the EBITDA decline were a number of one-time items including dual rent and facilities costs of $18 million at the UK operations and increased legal expenses of $20 million at the News America Marketing division. In addition, the prior period included an $8 million favorable legal settlement as well as the results of Dow Jones Local through its sale in September 2013.

News and Information - Selected Financial Data ($MM)

	2010	2011	2012	2013	2014	9 Months FY 2014	9 Months FY 2015
Revenues:							
Advertising	$4,452	$4,694	$4,388	$3,938	$3,529	$2,639	$2,391
Circulation and Subscription	$2,467	$2,522	$2,326	$2,370	$2,245	$1,681	$1,626
Other	$323	$360	$344	$423	$379	$275	$310
Total Revenues	$7,242	$7,576	$7,058	$6,731	$6,153	$4,595	$4,327
% Change	–	*4.6%*	*-6.8%*	*-4.6%*	*-8.6%*	–	*-5.8%*
Operating expenses	($4,003)	($4,294)	($4,195)	($4,099)	($3,706)	($2,789)	($2,624)
SG&A	($2,505)	($2,129)	($1,924)	($1,837)	($1,782)	($1,272)	($1,269)
Total Expenses	($6,508)	($6,423)	($6,119)	($5,936)	($5,488)	($4,061)	($3,893)
% of Total Revenues	*89.9%*	*84.8%*	*86.7%*	*88.2%*	*89.2%*	*88.4%*	*90.0%*
EBITDA	$1,234	$1,278	$939	$795	$665	$534	$434
Margin (%)	*17.0%*	*16.9%*	*13.3%*	*11.8%*	*10.8%*	*11.6%*	*10.0%*

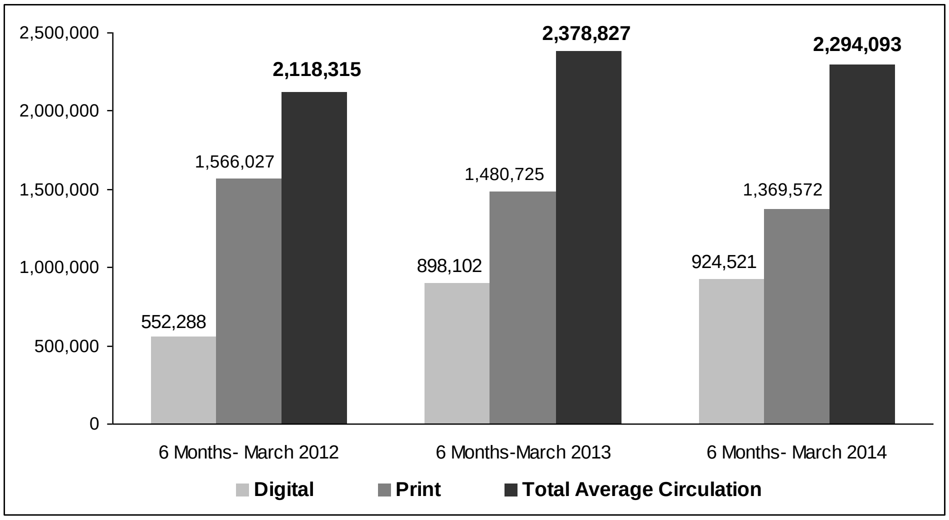
Note: Segment EBITDA excludes losses related to News America Marketing litigation of $500 million in 2010 and $125 million in 2011.

Dow Jones – The Wall Street Journal is Crown Jewel; Professional Business is Stabilizing

The *Wall Street Journal* has been one of the few newspapers to prosper in a digital environment. In contrast to many newspapers, the WSJ's successful transition has been aided by the fact that it was not heavily reliant on classified advertising, which has proved to be the downfall of many newspapers. The *Wall Street Journal* was an early adopter of charging subscribers for digital access to its content, which has helped drive circulation growth in the face of declining print subscriptions. The *Wall Street Journal* currently has ~925k paid digital subscribers, trailing only the *New York Times* (~1 million paid digital subs) in the number of paid online subscribers. During News Corp's 4Q FY 2014 earnings call CEO Robert Thomson stated, "... and over the period since the News Corp acquisition, we've been seeing strong year-after-year growth in circulation revenue, and there's no reason for that not to continue."

With the *Wall Street Journal's* digital subscriber growth beginning to moderate, future gains in circulation revenue will likely have to come via pricing increases rather than subscriber gains. After increasing by 63% to 898k for the period ending March 2013, digital subscribers increased just 3% for the period ending March 2014 to ~925k. The *Wall Street Journal* recently increased its cover price of the *Journal* to $3 from $2 and management noted that there was minimal impact on newsstand sales. Despite price increases for new customers implemented earlier this year that saw the print/digital bundle increase to $32.99 from $28.99 per month and the digital only offering increasing to $28.99 from $24.99, we believe there is significant room for further increases. It should be noted that *New York Times'* subscribers (print/digital) are paying over $60 per month for their subscription.

Total Average Circulation



Source: Alliance for Audited Media, Boyar Research Estimates

In addition to the prospect for higher circulation revenues owing to the *Journal's* pricing power, we detail a few of the other opportunities at *The Wall Street Journal* to drive growth and improve profitability:

- Further Monetization of Valuable WSJ.com Demographic – *The Wall Street Journal* offers advertisers extremely attractive demographics and its growing online reach offers the ability to target a wider audience. While WSJ.com boasts ~925k paid subscribers, the website reaches a global audience of 20.9 million unique visitors each month (not all of its content is behind the paywall) that generate 143 million page views. Based on data from comScore Media Metrix, the average household income and networth of the average WSJ.com reader is $249k and $1.3 million, respectively with total household expenditures of its user base of $132 billion. In order to better monetize its valuable user base, the Company introduced an updated website in April 2015, which was the first major website upgrade since 2008.

- Programmatic Advertising Exchange – During the fourth quarter of FY 2014, News Corp launched its global programmatic advertising exchange, which has cut out third party networks and enables the Company to work directly with advertisers. The new advertising exchange should allow News Corp to realize higher CPMs, especially for its valuable WSJ.com inventory.

- Cost Reduction/Reallocation of Resources – Cost cutting will likely continue to be a recurring theme for newspaper companies given the ongoing migration from print to digital. In June 2015, The *Wall Street Journal* announced that it would be implementing a major reorganization that will result in substantial job cuts. As part of the move, the Company will be shifting resources toward more promising growth opportunities including digital capabilities (mobile, social media, etc.).

Dow Jones' professional business is starting to show signs of stabilization. There had been a great deal of optimism for the business at the time of News Corp's 2013 separation. In February 2012, News Corp hired Lex Fenwick, who had served as CEO of Bloomberg from 2001 to 2007 and was CEO of Bloomberg Ventures from 2008 to 2012 prior to his arrival as Dow Jones. However, Fenwick left in early 2014 after his initiative to aggregate Dow Jones' professional products and charge premium prices was met with resistance from customers. During FY14, revenues in the professional business declined by $65 million. However, the business has experienced stabilization in recent quarters with revenues declining by just $6 million in 3Q FY15 compared with the sequential quarter (2Q FY15). Management remains encouraged by the underlying trends (especially in large products such as Factiva and Risk & Compliance) and pipeline and is hopeful the business will return to growth in FY16.

Advertising Declines Impacting UK and Australian Operations – Subscription Offerings Developing

News Corp's newspaper businesses in the UK and Australia have been more severely impacted by declines in advertising revenues than the Wall Street Journal. The underperformance in these markets reflects the fact that operations in both countries have not had a strong subscription business to fall back on. To counter this weakness, management has implemented a number of cost reduction measures and become more aggressive in building online audiences.

In June 2014, the Company began relocating its UK operations to a single operation (including overseas operations of Dow Jones and HarperCollins). While there are still expected to be ~$25 million of dual facility costs in FY 2015, News Corp is expected to realize full benefits associated with the relocation in FY 2016. Meanwhile, the Australian operations are benefiting from the recent closure of a printing facility on the Gold Coast. There will likely continue to be opportunities to further streamline operations in both geographies over time though management notes that there are probably more opportunities to reduce costs at the Australian unit.

Both the UK and Australia are taking steps to drive growth of their online subscription-based offerings. In 2013, the Company introduced a paywall at *The Sun* and early results have been successful with the Company attracting ~225k subscribers in a little over a year. Considering *The Sun's* print franchise reaches approximately 7 million readers per day and 12 million unique readers each week, there is still plenty of room for future growth. A key feature of *The Sun's* online offering is its ability to offer exclusive online web and mobile video clips of the English Premier League (rights through 2016). Meanwhile, management recently noted that online sales now account for one third of paid sales at *The Times* (management noted during 1Q 2015 conference call that digital was increasing at a double-digit rate). At a June 2015 investor conference, management noted that as a result of circulation gains (both print and digital) *The Times* is now profitable.

Digital subscriptions are also showing good growth in Australia, though management has acknowledged that it is still in the early days of digital development. During the 2Q 2015, News Corp noted that it had 250k digital subscriptions in its Australian operations, up by 30% on a YoY basis. With the Company publishing over 17 million print copies of over 120 national, regional and community newspapers each week, there would appear to be ample runway for digital growth. It is also interesting to note that one of the News Corp's rationale for keeping its Australian print and cable properties together was that the businesses were tightly integrated. In our view, this could present an opportunity to build strong subscription offerings around the Company's sports content (similar to the UK offerings) and could likely be achieved in a cost efficient manner given its sports rights ownership.

<u>HarperCollins Publishers – Digitization and International Expansion Provide Opportunities</u>

Following the 2013 combination of the book publishing divisions of Pearson (Penguin) and Bertlesman (Random House) to create Penguin Random House, the top 5 book publishers currently control approximately two-thirds of the U.S. book publishing market. Leader Penguin Random House is nearly 3x the size of News Corp's book publishing segment. In our view, the ongoing consolidation wave is being prompted by changing industry conditions, most notably the increased dominance of Amazon as a book distributor. Amazon has a roughly 41% share of all new book purchases and a 67% share of the e-book market, giving the retailer significant bargaining power. While ongoing disputes with Amazon continue to roil the industry, in our view the increased consolidation bodes well for maintaining profitability in the digitization transition.

While digitization trends are transforming the industry (which we discuss in greater detail below), print still generates a disproportionate amount of segment revenue (~80%) and will likely remain that way for some time. It should be noted that the Company has a strong presence in children's and religious publishing, which have been less impacted by the transition to digital consumption. Although this may prevent the Company from realizing the full benefits of digital distribution that we discuss below, it does help insulate the Company from emerging competitive threats such as self publishing that have been facilitated by digital delivery. As we discuss in further detail below, HarperCollin's 2014 acquisition of Harlequin presents an opportunity to benefit from international growth due to Harlequin's strong presence outside of the U.S. and tap into Harlequin's digital expertise through the addition of subscription-based revenue streams.

Consumers Have Embraced Digital Distribution – Opportunities for Publishers

News Corp's book publishing segment has experienced strong sales of e-books in recent years with digital books representing approximately 22% of its book publishing segment revenue in FY 2014 up from 10% in FY 2011. In our view, the Company's digital book penetration should continue to increase due to the strong industry sales growth expected for e-books. According to book industry researcher ReportsnReports, global sales of e-books are expected to increase at a 17.5% CAGR between 2014 to 2019 with global e-books expected to account for 27.8% of the global publishing market up from 12.6% in 2014. We believe HarperCollins is well positioned to benefit from this anticipated digital growth as the Company was an early adopter of the digital distribution model and currently has approximately 35k book titles available for digital consumption.

In addition to the opportunity from e-books, the digital transition has also enabled the development of subscription-based book services (think Netflix for books). The major providers of subscription-based book services include Scribd and Oyster and allow a way for publishers to efficiently monetize their older titles. Furthermore, the market could prove very lucrative as both Scribd and Oyster are believed to pay 80% of a digital book's cover price to the publisher once the book is deemed to have been read. In 2013, HarperCollins reached an agreement with Scribd (expanded in 2014 to include Harlequin titles) to include its backlist titles on Scribd's subscription-based service and in 2014 reached a similar agreement with Oyster.

Digital Book Publishing Boasts Attractive Unit Economics and Other Profitability Benefits

The transition to digital in the book industry has pressured revenue growth due to the lower price of e-books vs. printed copies. However, profitability has been favorably impacted given the strong margins commanded by digital books. As illustrated in the graphic below, digital books command strong contribution margins with e-books boasting 75% margins compared with 41% margin on traditional hardcover books.

e-Book Contribution Margins

HARDCOVER TITLE	HARDCOVER	E-BOOK AGENCY
Retail price	$27.99	$14.99
Publisher's Share	49.0%	70.0%
Publisher's Revenue	$13.72	$10.49
Manufacturing Costs	(1.92)	-
Cost of Returns	(1.17)	-
Royalty[1]	(4.20)	(2.62)
Distribution / Freight	(0.76)	-
Contribution Profit	**$5.67**	**$7.87**
Contribution Margin	**41.4%**	**75.0%**

[1] Assumed books earned out

Source: Company presentation, June 2013

In addition to their favorable margin profile, digital books offer a number of other operating benefits including improved working capital requirements and opportunity for cost reductions as their adoption increases. With e-books becoming a meaningful component of a publishers' business, free cash flow has been bolstered due to lower inventory requirements and faster payments. Furthermore, publishers such as HarperCollins have been able to rationalize their manufacturing/production footprint as e-books have increased in popularity. The improved economics have had a dramatic impact on HarperCollins' results. Over the past 5 years, segment EBITDA margins have increased by nearly 1,000 bps to 15.4% (first 9 months of FY 2015) from 5.8% in FY 2010.

Book Publishing - Selected Financial Data ($MM)

	2010	2011	2012	2013	2014	9 Mos. FY 2014	9 Mos. FY 2015
Revenues	$1,234	$1,195	$1,189	1369	$1,434	$1,030	$1,223
Adj. EBITDA	$71	$93	$111	$142	$197	$164	$188
Margin	5.8%	7.8%	9.3%	10.4%	13.7%	15.9%	15.4%

Note: FY 2010 revenue and EBITDA excludes $35 million gain related to licensing fees from a litigation settlement; FY 2012 excludes $25 million loss related to Book Publishing litigation

Harlequin Acquisition Provides International Growth Platform

In August 2014, NWS acquired Harlequin, a Canadian-based book publisher, from Torstar Corporation for approximately $420 million representing an EV/EBITDA multiple of ~8.1x. Harlequin is one of the world's leading publishers of women's fiction with titles issued worldwide in 34 languages and sold in over 100 international markets. Harlequin is expected to contribute approximately $320 to $420 million of revenues on an annual basis. The acquisition of Harlequin should go a long way towards expanding HarperCollins' global platform, particularly in Europe and Asia Pacific. In contrast to HarperCollins, which publishes 99% of its books in English, 40% of Harlequin's revenues are derived from books that are published in languages other than English. The economics of publishing vs. licensing a title in international markets could provide a nice growth opportunity for the Company with management recently noting that it receives $1 per title under a license model vs. $4 if it is the publisher. Harlequin's established presence in India, where it already has relationships with key authors and translators, should allow the Company to capitalize on the growth of the book publishing industry in that market (note: HarperCollins has small presence in India and would note that it bought out its JV partner in the country in 2012). According to recent data contained in PWC's *Outlook insights: an analysis of the global entertainment and media outlook 2015 – 2019*, India became the 10th largest book market in 2014 and is expected to experience the fastest growth globally in total book revenue.

Another attractive feature of Harlequin is that its women's fiction genre tends to generate higher than industry level sales from e-books. According to The Romance Writer's of America, 53% of romance novels purchased in the U.S. during the fourth quarter of 2013 were digital copies, up from 37% in the fourth quarter of 2011 and well above the ~20% overall penetration of e-books according to recent Nielsen data. While most publishers still rely on retailers for distribution, Harlequin has built a direct to consumer business that generates revenues from the sale of digital titles and through subscriptions. In our view, Harlequin's direct to consumer expertise could provide HarperCollins with an attractive growth opportunity if it can leverage Harlequin's expertise across other genres.

Recent Results and Outlook – Book Publishing

During FY 2014, News Corp's book publishing unit reported a 5% increase in revenues and a 39% increase in segment EBITDA. Revenue growth was due, in large part, to sales of the *Divergent* series by Veronica Roth following the launch of *Allegiant* in October 2013. The Company sold more than 19 million net units of the *Divergent* series during FY 2014, approximately 75% of which were e-book sales. The Company experienced a 35% increase in the sale of e-books during FY 2014 with e-books representing ~22% of segment revenues up from 17% in FY 2013. Growth in EBITDA for the full year was primarily due to sales growth, the benefit from ongoing cost reduction initiatives, and the increase in higher margin e-book sales, which were partially offset by dual rent and other facilities costs. For the nine months ended March 31, 2015, segment revenues increased by 19% while EBITDA increased by 15%. Excluding the Harlequin acquisition, segment revenues declined slightly vs. the comparable year ago period while segment EBITDA was up about 2%. Increased backlist sales in the general and Children's category, notably *American Sniper*, helped offset ~$61 million of lower revenues in the *Divergent* series. Segment EBITDA for the nine months ended March 2015 was aided by strong backlist sales in the general and Children's book categories and lower expenses at HarperCollins' other divisions, partially offset by lower EBITDA contribution from the *Divergent* series.

With the difficult *Divergent* comp coming to an end, we would highlight a few items that should favorably impact the Book Publishing's upcoming results. In July 2015, the prequel to *To Kill a Mockingbird* entitled *Go Set a Watchman* by Harper Lee is set for release. Management recently noted that *Go Set a Watchman* is the most pre-ordered book in the history of HarperCollins and that the upcoming launch is also driving strong orders of *To Kill a Mockingbird*. In addition, HarperCollins is also publishing the title in Spanish with management noting that this would not have been possible without Harlequin's capabilities. During NWS' 3Q 2015 earnings call, management noted that it remains on track for approximately $20 million of cost synergies associated with the Harlequin transaction, with the vast majority expected to be realized in FY 2016.

Digital Education: Nearly $1 Billion Invested, but Payoff Remains Uncertain

News Corp hoped that the adoption of new curriculum standards coupled with its digital curriculum would enable Amplify to take share from established textbook publishers such as Houghton Mifflin Harcout, but the uptake of digital materials has yet to gain traction. One of the items preventing adoption of digital materials is the lack of enough broadband capacity in schools. According to a recent study Education Superhighway, only 37% of students in grades K-12 are in schools that have enough capacity to support digital education.[4] Nevertheless, management is still very optimistic on the business with CEO Thomson stating on News Corp's most recent earnings call, "What we have at Amplify is a world-class digital curriculum. What we are seeing now out in the field is a great deal of acceptance in classrooms in school districts in states and we're very pleased by that." The Company expects it will invest total cash of approximately $230 million for the year ending June 30, 2015, including approximately $50 million in deferred compensation paid in the quarter ended March 31, 2015 related to the acquisition of Wireless Generation. While the level of investment in Amplify has been elevated, future spending is expected to decline. During the Company's 2Q FY 2015 earnings call, CEO Thomson noted, "Our focus is to drive both scalability and profitability and we expect a meaningful reduction in investment spend next year."

Balance Sheet, Cash Flows, and Capital Allocation

News Corp was established with a strong balance sheet following its 2013 separation with ~$2.4 billion of cash and no long term debt. The robust financial position at News Corp was intentional so that the Company could pursue growth opportunities outside of its traditional newspaper business. While there had been concerns that newspaper acquisitions would be a component of the Company's acquisition strategy, there have been no such acquisitions to date. Although the Company has deployed $1.2 billion towards acquisitions and invested heavily (~$400 million to $500 million) in its digital education business, News Corp maintains a strong financial position with ~$2 billion of cash (vast majority is in U.S.) as of March 2015.

Free Cash Flow Available to News Corporation ($MM)

	FY 2011	FY 2012	FY 2013	FY 2014
Net Cash Provided by Operating Activities	$1,331	$851	$501	$854
Less: Capital Expenditures	($549)	($375)	($332)	($379)
	$782	$476	$169	$475
Less: REA Group FCF	($55)	($79)	($127)	($145)
Plus: Cash Dividends received from REA Group	–	$11	$30	$35
Free Cash Flow Available to News Corp.	**$727**	**$408**	**$72**	**$365**

While News Corp's FCF for the first 9 months of FY 2015 is ~$100 million below year ago levels ($391 million vs. $496 million), the decline primarily reflects two one-time items. These items include $73 million of net receipts related to foreign tax refund received last year and $45 million of compensation payments related to the acquisition of Wireless Generation. We believe that News Corp's future free cash flow generation will likely be aided by lower levels of capital expenditures going forward. Capital expenditures in recent years have included expenses to rationalize its footprint of operations in the UK and its HarperCollins business in New York City. For example, capital expenditures in FY 2014 included $100 million of spending for the aforementioned initiatives. During FY 2015, News Corp expects that its total capex will be ~$400 million including $70 million to complete the streamlining of its operations in the UK. Clearly, free cash flow generation will be adversely impacted due to the ongoing decline within the News and Information business, but we expect that this weakness will be more

[4] "News Corp.'s $1 Billion Plan to Overhaul Education Is Riddled With Failures", Laura Colby, Bloomberg http://www.bloomberg.com/news/features/2015-04-07/news-corp-s-1-billion-plan-to-overhaul-education-is-riddled-with-failures

than offset by growth in the Company's other business units. We would also note that free cash flow should be aided by more moderate spending at the digital education unit. News Corp also acquired $940 million in federal NOLs (gross, subject to annual limitation) from the Move acquisition that should help limit U.S. cash taxes.

News Corp Recently Commences Dividend and Share Repurchase Activity

News Corp's strong financial position and cash generating abilities position the Company well to return a meaningful amount of excess cash to shareholders. While News Corp established a $500 million share repurchase authorization prior to its 2013 separation and indicated its intent to pay a dividend, the Company had not implemented either of these shareholder friendly initiatives to date through its 3Q FY 2015. Management's rationale for putting off such decisions reflected its desire to pursue growth opportunities and stabilize its newspaper operations. In May 2015, News Corp announced that it begun to repurchase shares under its buyback program, marking the first repurchases since the separation in 2013. Shortly after the buyback announcement, NWS announced in June 2015 that it would begin paying a $0.10 a share semi-annual dividend (1.4% dividend yield)

Pension and Legal Liabilities

While News Corp currently remains well capitalized, and we expect future shareholder returns to be robust, it is worth highlighting a few of the Company's potential liabilities. As of March 2015, the Company's pension plans were underfunded by $266 million, though management does not expect to make any meaningful contributions for these plans. The Company continues to incur costs associated with the *News of the World* phone hacking scandal. Between FY 2010 and FY 2014, the Company incurred $470 million of costs (net of costs that have been or will be indemnified by 21st Century Fox) related to the scandal. As of March 31, 2015, the Company has accrued approximately $111 million (estimate of future costs), of which approximately $52 million will be indemnified by 21st Century Fox. There could be additional future costs associated with the matter. In addition to the *News of the World* Matter, the Company is currently defending anti-trust suits, one brought by a group of packaged goods companies and the other by a competitor. The business has a recent history of legal issues including a hefty $625 million of settlement payments between FY 2010 and FY 2011 related to a previous anti-competitive matter. The Company's recent filings noted that EBITDA in the News and Information segment was adversely impacted due to "increased legal expenses of $20 million" at the News America Marketing segment.

Valuation and Conclusion

Unlike a significant majority of spinoffs, News Corp has markedly underperformed since the separation from Fox two years ago. NWSA shares have declined 5% and NWS (Class B) declined 8% versus a 27% rise in the S&P 500 Index. We suspect News Corp's underperformance reflects a long list of mostly non-fundamental reasons including the Company's much smaller size than Fox ($67 billion market cap) leading to shareholder turnover post-spin; selling pressure from Saudi Prince Alwaleed's decision to substantially liquidate his 6.6% voting stake in 2015; investor aversion to the Company's heavy presence in a declining publishing industry; understated reported earnings due to equity method accounting at Foxtel, non-cash charges, and temporarily elevated losses at Amplify and corporate expenses; the presence of a somewhat unpredictable/often reviled controlling family with News Corp in particular viewed as Rupert Murdoch's "baby" given his history in the publishing business; continued overhang from the UK news scandal; recent Australian dollar/economic weakness and general aversion to a company concentrated in Australia.

The publishing business is not exactly a favorite of ours either, but as we discussed News Corp has a mix of higher quality assets amongst some more secularly challenged publications. The News & Information segment is still highly profitable and lots of excess costs could be removed or underperforming newspapers divested such as the *NY Post (*press reports have placed the *NY Post's* annual losses at $50 to $100 million per year*)*. More importantly, we believe the Company's remaining collection of assets includes several high quality businesses with dominant market positions and much more favorable long-term visibility. In fact, as we highlight below, even writing off the News & Information and Digital Education businesses as a collective zero, we estimate the intrinsic value of these businesses plus the Company's net cash/assets still *greatly exceed* the Company's current market cap. Below we detail our assumptions as well as potential areas of additional upside.

REA Group shares are publicly listed in Australia (ASX:REA, A$39.19/share) with a current market cap of A$5.2 billion, implying a ~$2.4 billion value for News Corp's equity stake at current market valuations. REA holds A$42 million in cash and no debt on its balance sheet. Despite declining ~15% from recent highs, at the current valuation, REA shares still trade at close to 10x revenue and ~17x FY 2015E (ended June 2015) EV/EBITDA. While REA Group's valuation appears lofty based on current multiples, REA continues to grow revenue at 20%-plus rates and steadily increase margins in a tepid operating environment. With a dominant market position in Australia and long-term opportunities in Asia and Europe yet to be meaningfully monetized, it does not look unreasonable for REA Group to grow into its valuation over time. Furthermore, we would remind News Corp investors that exposure to REA Group can be hedged out. As such we value News Corp's stake at public market value.

In comparing REA Group to the Move, Inc. properties, we would highlight the vast gap in EBITDA margins between REA Group (55%) and Move (13% prior to the acquisition). While Move is not materially profitable, in large part this reflects the conscious decision not to maximize revenue from its agent/broker base—at least partially due to the long-standing relationship with NAR. We do not expect this strategy to change drastically anytime soon, but realtor.com's large visitor base and direct link with MLS data offer a unique real estate platform with long term value and monetization could improve over time. As noted, the establishment of common ties between Move, Inc. and REA Group could also prove highly synergistic. Nonetheless, we conservatively project revenue growth at the historic Move business slows from 24% in the latest quarter to 10% going forward, and EBITDA margins only reach 20% by FY17. At 12x 2017E EV/EBITDA, we estimate Move's intrinsic value will reach approximately $800 million by the close of FY14. This represents a discount to the price paid by News Corp and REA Group last year (prior to accounting for the present value of tax benefits).

In estimating the intrinsic value of the Australian pay TV properties, we would reference that News Corp paid 9.4x FY12 EV/EBITDA (per CMH estimate) to acquire CMH's stakes in the businesses in late 2012, and ~10x EV/EBITDA to acquire Austar in 2011 (completed in 2012). While these are not external comps and CMH claimed they received a favorable price at the time, we would note that (1) Australian broadcaster Seven Group attempted a rival bid that was quashed by the Australian competition authorities, (2) Foxtel EBITDA advanced 26% over the two years following acquisition from CMH and integration with Austar, and (3) Fox Sports Australia has likely achieved similar results (comparable results in constant currency not available). Pay TV networks in the U.S. and Europe have been valued at double-digit EBITDA multiples historically, and a dominant sports network like Fox Sports Australia typically commands an above-average multiple. While the Australian market is unique in multiple ways, we believe the extreme under-penetration of pay TV in Australia bodes well for continued ~5% average annual subscriber growth for many years to come. We conservatively project Foxtel ARPU remains below FY13 levels through FY17 to support subscriber expansion, holding EBITDA margins roughly flat at 31%. At a discounted 9x FY17E EV/EBITDA and the current AUD/USD exchange rate, this implies an intrinsic value of approximately $3.1 billion for News Corp's 50% equity stake (including NWS' pro rata share of shareholder loans receivable from Foxtel) in Foxtel. We project Fox Sports growth slows from double digits (constant currency) in FY15 to 7.5% per annum going forward as continued subscriber gains on the back of Foxtel come alongside more modest ARPU growth and EBITDA margins of 30%. At 10x FY17E EBITDA, we estimate Fox Sports Australia's intrinsic value could exceed $1.7 billion looking out two years.

At the Publishing business, annual sales can fluctuate given the hit-driven nature of the business. But operational efficiencies and the shift to higher margin digital book sales have boosted margins, and this trend should continue going forward. Nonetheless we assume EBITDA declines modestly between 2015-2017 as revenue declines outweigh margin improvements from the digital transition and the $20 million in projected synergies from the Harlequin acquisition. An increased rate of digital adoption, including monetization of library backlists via digital services, could provide additional upside. At 7x 2017E EBITDA (a discount to peers such as Lagardere SA and Pearson PLC), we value the segment at $1.5 billion. It should also be noted the digital shift will have a favorable impact on working capital/free cash flow, which should support a higher EBITDA multiple.

Combining all these aforementioned businesses and adding net cash and other investments, we estimate News Corp's higher quality assets ("Good News Corp") collectively have an intrinsic value of $11.5 billion or nearly $20 per share. This represents 37% and 41% upside to intrinsic value from the current share price of NWSA and NWS shares, respectively.

“Good News Corp” Sum-of-the-Parts Intrinsic Value ($ millions)		
REA Group (61.6%) @ current market value	$	2,439
Other Digital Real Estate (80% of Move, Inc.) @ 8x FY17 EBITDA	$	650
Foxtel @ 9x FY17E EV/EBITDA	$	7,741
less Foxtel external debt	$	(1,638)
less Telstra 50% equity interest	$	(3,051)
Fox Sports Australia @ 10x FY17E EBITDA	$	1,753
Publishing @ 7x FY17E EBITDA	$	1,520
"Good News Corp" Enterprise Value	$	9,415
Net cash	$	2,011
Retirement benefit obligation	$	(266)
Other Investments @ book value	$	323
"Good News Corp" Equity Value	**$**	**11,483**
per share	**$**	**19.64**

Putting together the remaining pieces offers additional upside to intrinsic value. We value the loss-generating Digital Education segment at zero. By eliminating most ongoing investment spending combined with further cost cutting, we would expect the Company to more or less eliminate this segment’s cash burn in the near to medium term. K-12 education publishing remains a very large addressable market, and there could still be upside if Amplify can break in. Otherwise, a full wind-down of the division is possible in time, and some pieces may even be of value if put on the auction block.

At the News and Information Services segment, we project more of the same going forward. This means double digital annual advertising revenue declines and more modest declines in circulation, subscription, and other revenue. Assuming EBITDA margins erode further to 7.5% in FY17 from 11% in FY14, and applying a highly discounted 5x EV/EBITDA multiple, we estimate the publishing business is still worth close to $2 billion. While it has proven difficult to fully replace advertising revenues as readers have migrated online, we believe that newspapers that have appropriate cost structures and the ability to monetize digital audiences via advertising and subscriptions can continue to generate robust levels of cash flows. There are multiple avenues of potential upside to our estimate including further price increases and/or cost cutting at *The Wall Street Journal*, a return to growth at the Dow Jones Professional business, and benefits from further cost reduction and real estate rationalization initiatives in the UK and Australia.

News Corp Estimate of Intrinsic Value, FY 2017E ($ millions)		
"Good News Corp" Equity Value	**$**	**11,483**
per share	**$**	**19.64**
plus Digital Education	$	-
plus News & Information @ 5x FY17 EBITDA	$	1,851
less Corporate @ 7x FY17E EBITDA	$	(1,120)
plus cash generation, FY16-FY17E	$	1,021
New Corp Intrinsic Value, FY17E	**$**	**13,235**
diluted shares, FY17E		591
per share	**$**	**22.41**
Current Share price:		
NWSA (non-voting)	$	14.45
NWS (Class B)	$	14.03
Implied upside:		
NWSA (non-voting)		55%
NWS (Class B)		60%

Adding these underperforming businesses plus cash generation over the next two years, and subtracting corporate expense (which should benefit from the runoff of expenses from the *News of the World* scandal) at 7x FY17E EBITDA, we estimate News Corp's intrinsic value could exceed $13 billion or close to $22.50 per share. This represents 55% upside from the current non-voting NWSA share price and an even more attractive 60% upside for the Class B, voting NWS shares. This discount appears excessive compared to the B shares' modestly lower liquidity, and the voting shares have actually traded at a premium at some points in time (e.g. during Liberty Media's attempt to build a large voting stake in News Corp around a decade ago). In terms of closing this gap to intrinsic value, there are plenty of potential catalysts. Given the outsized cash balance, large-scale return of capital to shareholders is the simplest and most obvious. News Corporation recently initiated share repurchases under its $500 million authorization and also initiated a regular dividend (1.4% yield on NWS shares), but there remains plenty of room for more aggressive action. The ultimate course of action will depend on Rupert Murdoch's desires, and M&A is likely to continue to play a major role. While not without their controversies and fumbles, the Murdochs have a long and on the whole highly successful track record of creating long-term shareholder value across numerous entities. The News Corp spinoff also demonstrates a willingness to consider alternatives, and we would not dismiss the possibility that News Corp is further slimmed down at some point via divestitures or additional spinoffs. Separating the Australian businesses is one possibility, as is combining Foxtel and Fox Sports Australia into a separate entity. An eventual full combination of News Corp's majority stake in REA Group with the publicly traded stub could also help close the sum of the parts discount.

Risks

Risks that News Corp may not achieve our estimate of the Company's intrinsic value include, but are not limited to, failure to halt declines in the news businesses; continued losses in the education business; inability to successfully transition the publishing business from print to digital while maintaining economic value; competitive pressures from new entrants in the Australian pay TV and digital real estate businesses; general economic weakness and/or currency depreciation in Australia; failure to monetize the Move properties; continued sub-optimal capital structure and/or value destroying capital deployment; corporate governance issues due to the dual class structure and Murdoch family de facto control; and loss of key management personnel.

Analyst Certification

Asset Analysis Focus certifies that the views expressed in this report accurately reflect the personal views of our analysts about the subject securities and issuers mentioned. We also certify that no part of our analysts' compensation was, is, or will be, directly or indirectly, related to the specific views expressed in this report.

NEWS CORPORATION
CONSOLIDATED BALANCE SHEETS
(Millions)

ASSETS	March 31, 2015 (unaudited)	June 30, 2014 (audited)
Current assets:		
Cash and cash equivalents	$ 2,027	$ 3,145
Amounts due from 21st Century Fox	52	66
Receivables, net	1,308	1,388
Other current assets	701	671
Total current assets	4,088	5,270
Non-current assets:		
Investments	2,382	2,609
Property, plant and equipment, net	2,699	3,009
Intangible assets, net	2,313	2,137
Goodwill	3,510	2,782
Other non-current assets	694	682
TOTAL ASSETS	**$15,686**	**$16,489**

LIABILITIES AND EQUITY		
Current liabilities:		
Accounts payable	$ 225	$ 276
Accrued expenses	1,121	1,188
Deferred revenue	399	369
Other current liabilities	528	431
Total current liabilities	2,273	2,264
Non-current liabilities:		
Retirement benefit obligations	266	272
Deferred income taxes	295	224
Other non-current liabilities	306	310
Redeemable preferred stock	20	20
Class A common stock, $0.01 par value per share	4	4
Class B common stock, $0.01 par value per share	2	2
Additional paid-in capital	12,450	12,390
Retained earnings	467	237
Accumulated other comprehensive (loss) income	(554)	610
Total News Corporation stockholders' equity	12,369	13,243
Noncontrolling interests	157	156
TOTAL EQUITY	12,526	13,399
TOTAL LIABILITIES AND EQUITY	**$15,686**	**$16,489**

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