

ASTRA Keynote – Foxtel, 10:30 – 11:00am, 4/9/2014

SPEAKER:

We have been promised a big announcement, so for the Foxtel sponsored platform address please welcome the Foxtel CEO Richard Freudenstein.

RICHARD FREUDENSTEIN:

Morning everyone. Before I start I wanted to just say a big thank you to Gerhard for coming out to Australia to speak to us today. When I moved to the UK in '99 Gerhard was already a legend in the UK, well, in the European television business, and since then he's just gone from strength to strength. And I think it says a lot about where our industry is going that we can get very senior world executives to come to Australia and talk to us. And the great thing is how consistent his view of the world is with what a lot of us are thinking in this market. So Gerhard, thank you very much.

Right. It's hard to believe it's been 18 months since the last ASTRA conference. So much has happened in our industry, the media and the world. Netflix has been just about to announce its Australian launch at least a dozen times. In a shock announcement, 'Selling Houses Australia' won this year's ASTRA award for most popular program.

Most notably, it's been almost a year almost to the day since we had an election, which saw Kevin Rudd defeated and Tony Shepherd sweep into power.

(Laughter)

It certainly feels that way, anyway. Tony's been everywhere, and it's great to have Tony as the Chair of ASTRA. He's hugely talented, enormous energy and very well respected throughout the business and political community. So thanks, Tony.

He's sort of living proof of the old saying, if you want to get something done, give it to a busy person. As a business and as an industry we have been very busy. 18 months ago, when you think back to the last conference, we were caught up in the integration of Austar and Foxtel, we were planning the launch of more of our refine IP products, we were doing content deals, we were ramping up our Australian production slate.

At the time, I didn't think it was possible to be any busier. I couldn't have been more wrong.

Today I'll take a little time to reflect on how far we've come in what I would now characterise as the evolution of the Foxtel business to meet the challenges of the changing media and audience landscape.

But my main purpose today is to tell you about the next phase in the life of Foxtel. And you'll see this is not a phase about evolution, but about revolution. Many of you have already been heavily engaged in the process of change and, like me, you've been infected with the revolutionary zeal, driving us to grow our business and become even more successful than we are today. The driving force

behind the revolution is pretty simple, it's about creating exceptional value for our customers.

Value for our existing, loyal customers, who will get more and better content at no additional cost. Value for those Australians who want Foxtel, but who to date have felt the proposition was not right for them. Value delivered by the technology and functionality of the amazing IQ 3. Value from experience of a fabulous broadband service, the convenience of one bill and competitively priced bundles when we launch our triple play service.

And from all that flows value to our staff because they will know beyond doubt they are working for Australia's most vibrant media business. Value to our channel partners as their business grows in line with ours. And value for our shareholders as their investment support is rewarded with more subscriber growth and improved long-term financial performance.

But before I get to all that, let me briefly recap the remarkable journey we've been on to get to this point. When I joined Foxtel in December 2011, plans were well under way for the merger with Austar, even though it didn't come to fruition for another six months or so. From the merger we created a national brand, we standardised pricing across the country, we brought the staff together as one team and we merged the back office systems. These were hugely complex tasks, and even though we had a few anxious moments they were achieved incredibly smoothly.

I think I've said before that many mergers look great on paper but fail when it comes to the implementation phase. The Foxtel-Austar merger is a stand-out exception to that rule, and the benefits to customers, staff and shareholders are still being felt. For most companies, a major merger would be the end of it for a few years. Everyone would take a deep breath, settle down to operate the business and business as usual. But that's not the Foxtel way.

Following the merger, if anything, the pace of change has increased. We've made huge advances in the range and quality of our content offering, wherever possible ensuring that our subscribers have access to programming you won't see anywhere else. In January last year we relaunched our movie offering, to bring Foxtel's premium movie content together under the Foxtel Movies brand. Just this year we added Foxtel Movies Disney to that line-up, to give families the best that that iconic studio has to offer.

We are massively growing the range of content available on demand, so that we now offer customers more than 2,500 hours of free on demand content.

More recently, we have renamed our catch-up and free video on demand offering as Anytime. And just this week our paid video on demand service was rebadged Store.

We are continuing to invest heavily in original Australian content across all genres. Powerful dramas like 'Wentworth', 'Devil's Playground', which goes to air next week, 'Deadline Gallipoli' and 'The Kettering Incident' will make Foxtel famous for challenging, provocative storytelling you won't find anywhere else.

I want Foxtel to be known as Australia's equivalent of HBO, with great scripts and incredible writers, directors and actors, like the ones involved in our current productions.

At the same time we are continuing to build fun, entertaining and informative franchises from favourites like 'Selling Houses', 'Grand Designs' and 'Top Model', through to fantastic newcomers like 'Paddock to Plate', 'River Cottage', 'The Recruit' and the crazy brave 'Real Housewives'.

I shouldn't forget our investment in factual programming, especially as the centenary of World War I begins, and a whole series of great initiatives begin to roll out on the History Channel.

Patrick and the team at Fox Sports have done great work, not just with amazing coverage of games and events themselves, but also with the hugely popular magazine programs that keep our sports-hungry audience engaged throughout the week.

I can confidently say that next year will be the best year ever for Fox Sports. There will be more than 10,500 hours of the most amazing live sport and more premium sport than ever before. It will start with every game live for the AFC Asian Cup, every match live of the ICC Cricket World Cup and more than 1,300 hours of new, live motorsport, including every race in the V8 Supercars. All to be combined with our fantastic AFL, NRL, rugby, A-League and EPL coverage, and will culminate in every match live from the Rugby World Cup in October.

You may also have seen yesterday that Fox Sports announced a revamped channel line-up. From Monday November 3, fans will enjoy six fully-fledged Fox Sports branded channels, plus Fox Footy, all in stunning high definition. The best action sports from Fuel TV and all the thrills of motorsport from Speed will move onto the new high definition Fox Sports 4 and Fox Sports 5 channels. By creating a more flexible channel line-up, we'll be able to ensure that all our live sports events will find a home on a Fox Sports branded channel.

I'm also very proud of the tremendous deals we've done with some of the world's greatest content creators, in particular HBO, Disney and the BBC. I don't know about you, but I think BBC First is a magnificent channel. The only problem is finding time to watch all the great programs that they've been broadcasting.

At the same time, we've also made great advances on the technology and platforms front. This has enhanced the viewer experience and created whole new ways to acquire and watch Foxtel. It seems so long ago now that we launched Foxtel Go as a companion service for our other offerings. Go is hugely valued by the many customers who use it, for the convenience it gives. It currently offers 75 live channels and more than 2,500 hours of catch-up content. Of course, we also launched Foxtel Play, our own over the top IP based service which gives access to a wide range of Foxtel channels at different price points and with more flexible pricing.

Play is especially good for customers who can't get Foxtel's cable or satellite service in their building. It also gives automatic access to Foxtel Go. And our close relationship with Telstra means our IP service growth was very strong last year, as Telstra T-Box bundles really helped drive that performance.

Finally, we launched Presto as a movie service in March 2014. You'd be hard pressed to find a streaming movie service anywhere in the world that offers more recent movies than Presto. And of course there is also a huge library of classic favourites.

We see Presto as an important new offering in what will become an increasingly competitive area. And we intend to win in that space.

After having Presto available a few months, listening to our customers and observing international trends, we decided we needed to offer a different value proposition, so we halved the price of the movie service to \$9.99 a month. Since launching on Chromecast we've seen customers embracing Presto on living room big screens. Chromecast has quickly become the most popular way of enjoying movies on Presto.

As I said, this is an extraordinary level of activity, and I can't properly express how proud I am of the amazing team at Foxtel who have managed to execute so many complex projects so successfully.

I particularly want to acknowledge some of the unseen heroes, like the teams who manage the IT and technology platforms and who deliver technology and training that supports our customer service centres.

All this hard work has seen the business perform strongly financially and produce solid growth. At the most recent results announcements from our shareholders we saw 5.6% subscriber growth in FY14. Churn was down to a remarkable 12.5%. Our bottom line performance was up by 16%, driven by careful cost management and continuing synergy benefits from the Austar merger. This is the best result in many years and bodes well for the future.

A good proportion of our subscriber growth last year came from IP products. Growth in our IP offering is an important part of our strategy. There is a significant segment of the population who really value the flexibility and convenience of these products. For example, they may be relatively light TV watchers, or they might be highly mobile. There are many reasons why Foxtel does not suit some people, and we want to be sure we have something that meets their needs. This highlights the opportunity we see in Presto and Play. But while IP products are an important part of our plans, the biggest opportunity is in growing our cable and satellite offering.

Today I'm going to talk about a new strategy that we are confident will see a major lift in our penetration of Australian homes. We have a two-pronged strategy launching on the 3rd of November that we believe will result in a seismic shift in the Australian media environment.

Firstly we will be significantly increasing the value we offer our existing, loyal

customers in a way that we believe will further reduce churn and increase advocacy.

Secondly, we will significantly reduce the price of our entry level package, so that all the people who have long wanted Foxtel but have thought it didn't fit their budget will look at us again. We are confident these strategies will initiate a new era of growth for Foxtel's business that will push penetration towards other global benchmarks.

So first and foremost we plan to delight our existing customers by adding fantastic value to their packages without charging them an extra cent. For a start, the vast majority of subscribers will receive all of our general entertainment channels. That's an addition of up to 30 great channels. We'll also be launching a new channel, Discovery Kids, and including this for existing customers who get the general entertainment tiers.

Our platinum customers will all receive over \$20 per month worth of bonus content at no additional charge. All premium movie and drama customers will get access to some pay-per-view movies at no additional cost. All Essentials customers who do not currently have it as part of their package will be given access to our award-winning premium drama channel Showcase, the home of HBO.

So to take an example of what we're going to do for existing customers, customers who currently subscribe to Essentials and Sport will receive at no extra cost all three general entertainment tiers, plus Showcase. That's 31 great new channels at no extra cost.

I'm also really excited to announce that we will launch a new BoxSets channel and BoxSets video on demand service that will give access to the best of television from powerhouses such as HBO. Most of our existing customers will also receive this at no extra cost. BoxSets is a hugely exciting initiative. The service will offer every episode of past series of the most popular, high-quality scripted TV series.

So, for example, in the lead-up to series 5 of Game of Thrones next year, we will make all previous seasons available on BoxSets so people can re-watch every episode or bring themselves up to date. Classics like 'The Sopranos', 'Wentworth', 'The Newsroom', 'True Blood', 'Band of Brothers', 'Big Love', 'Entourage' and 'Rome' are confirmed for the months following launch. And many others will be added between now and then, and then each month new titles will be added to the line-up.

Subscribers with an internet-connected box will be able to view all available BoxSets content whenever they want on demand, through the BoxSets menu in the Anytime section of the EPG.

But for those without an IP connection, the shows can be viewed either through Foxtel Go or through the linear BoxSets channel, which will run marathon screenings and stripped seasons. So these can be viewed in real time or recorded series link using the IQ box with one press of the button.

Binging on television is hugely popular and we know that this service will be a complete smash hit.

As a further enhancement in value we offer, nine more channels will be available in high definition, so that we will now have 36 HD channels across the platform. And think about this, every channel in the Sports tier will be in HD. Every channel in the Movie tier will be in high definition, and every channel in the Drama tier will be in HD, including the linear version of the BoxSets channel.

We have done extensive research with our existing customers, and I do mean extensive research, and they're excited with the improvement in quality and value that they will receive under their new packages at no extra cost.

But at the same time we recognise that many Australians feel that Foxtel is too expensive to fit comfortably into their budget. They all know we offer fantastic content, but they just don't feel that they can stretch their finances to afford it. So today I'm going to announce that we are launching a new Entertainment pack for just \$25 per month.

This pack will contain over 40 channels and include popular brands such as Fox 8, LifeStyle, MTV, National Geographic, Universal, TCM and Arena, just to name a few. It will also continue to include access to Foxtel Go and on demand content tied to that tier. Following on from that change, following from that, we will change the structure and pricing of our premium tiers. Sport will remain at \$25, but the change to the entry price means that for customers who take the Entertainment pack plus Sport, the price will now be \$50. Our research shows that this will be hugely attractive to sports fans.

We are creating a new Drama pack available for \$20 on top of the entertainment pack, which will include Showcase, BBC First, FX, 13th Street, plus the new BoxSets channel and the BoxSets video on demand service. Premium drama has become an increasingly popular genre on Foxtel. And we've now made our offering clear and accessible.

Our Movie package will also be available for only \$20. And we'll create three really clear genre packs, Entertainment Plus, Docos and Kids, each priced at \$10.

In addition, for those that don't subscribe to the Drama pack, the BoxSets channel and on demand service will be made available for \$10.

The new packages will continue to include IQ boxes and access to Foxtel Go as an important part of the service, and high definition functionality will remain at \$10

per month.

At \$25 for our high quality Entertainment pack, plus the ability to add one special interest tier for a total cost of between \$35 and \$50, or two tiers from between \$45 and \$70, plus all the convenience of Foxtel's amazing technology, I am absolutely confident that many, many more Australians will come to see Foxtel as great value and a must-have service.

While existing customers will be able to take advantage of the new pricing structure if they choose, we are confident, and our detailed research confirms, that the majority of customers will be happy with the added value we are giving them. The new content added to existing subscriber packages will mean that existing subscribers are paying the same, or in the vast majority of cases less than the price for the same amount of content under the new pricing and packaging structure. The first batch of customer letters informing existing customers of the changes of their packages are being sent out today.

The other revolutionary event that will occur in the next few months is the launch of IQ 3. Our new set top box will completely change the way people experience television.

Features include the ability to record up to three programs while watching a fourth. Start over, allowing you to jump back to the beginning of a program if you tune in halfway through. A new EPG, with elegant cover flow presentation and the ability to continue watching a program while using other features. And a sophisticated search and recommendation tool, which includes the ability to see what's trending on Foxtel at the time you're watching.

So let me give you a little taste of what IQ 3 will do.

(Video plays)

('You Sexy Thing' by Hot Chocolate plays)

SPEAKER:

Introducing the ingenious IQ 3, the easiest, smartest and sexiest way to be entertained.

It's not just a pretty face. This little beauty is packed full of ingenious new features that'll let you take control of and discover new entertainment like never before.

Missed the beginning? Then simply start over. Missed it entirely? Move back up to 24 hours. Got a diary clash? Record up to three and watch a fourth. With the IQ 3, missing out's a thing of the past, but it's also all about the future of entertainment, with thousands of titles waiting for you when you want.

Want more choice? Explore thousands of shows and movies ready Anytime. Fancy the latest blockbusters? Then drop by the Store. New favourites? Record up to 345 shows.

With the IQ 3, the choice in what to watch has never been greater, but if all that entertainment's overwhelming, the IQ 3 can help with that too. Looking for something new? How 'bout a suggestion? Want to know what's popular? See what's trending. Got a favourite show? You may also like...

Or search and find what you want instantly. It's now effortless to enjoy more of what you like, with features like Bluetooth remote, wi-fi connectivity, remote record, series link and so much more. With the ingenious IQ 3, there's always something brilliant to watch. Coming soon.

(Video ends)

(Applause)

RICHARD FREUDENSTEIN:

It looks amazing, and combined with our new pricing I think it's really going to light up consumers. So IQ 3 is about to go into its final field trial, and we expect to make it available to customers late this year.

Finally I can announce the triple play of television, broadband and home phone will go to its final staff trials in November, with a full consumer launch in the first quarter of 2015. I'll announce details of the bundles and prices closer to the time.

One consequence, one exciting consequence of our anticipated growth and the new products and services we'll be launching is that there'll be a significant increase in the number of people employed directly and indirectly by Foxtel. We're in the process of recruiting over 400 new staff internally, with the bulk of the positions to be filled in Robina on the Gold Coast and the remainder chiefly in Melbourne.

Around another 350 will be required by our external installer, technical and sales suppliers, and they'll be spread throughout the whole of Australia. And it's exciting for the communities where these people will operate, 'cause the increased activity will directly benefit those communities.

So let me summarise, because there's a lot to take in. Our strategy is to grow subscribers by offering exceptional value. First we will improve what we offer to existing customers through more content at no extra cost. A world-beating viewer experience through IQ 3. Continued investment in great programming and a cost effective triple play service.

Secondly, we will launch a radical new pricing model for our cable and satellite service to drive new subscriber growth.

Thirdly, we'll use Presto to reach light TV viewers at very competitive prices.

The changes we announce here today clearly show the Foxtel board, our shareholders and our leadership team have great ambitions for Foxtel, and we are confident that these momentous changes will drive and deliver on those ambitions.

The changes we are embarking on today are not just about Foxtel, they are enormously significant for the Australian media and society. We are determined to see the Foxtel business and those of our partners grow to reach more and more Australians on many different platforms, but especially via our core cable and satellite products. We want Foxtel to be part of the daily lives of millions more Australian households and families. We will create a virtuous cycle where growing revenues feed into greater investment in technology and content.

We want to ensure that every Australian sees Foxtel as synonymous with innovation, with creativity and importantly, with fun.

We have an ambition to be a powerhouse for the creation of great Australian content. I look forward to many occasions where we highlight and celebrate the amazing work done by the Australian TV production sector for Foxtel and our channel partners.

We're already a leader in the Australian media industry. We aim to have an even more significant role in the debates and conversations about the future of our industry, but also about what it means to be Australian in the connected and interactive world of the 21st century.

Finally, I want to thank everyone at Foxtel and among our channel partners who have worked so hard to bring this momentous change about. I can't promise that the next 18 months will be quiet or relaxing. However, I am confident that we are charting the right course, and that we will all be able to look back with pride on the fact that with these changes we took a great industry and turned it into an amazing one.

I am also confident that the next phase will be fascinating and fun. So I'm excited about the journey we're on and I hope you are too. Thank you.

(Applause)

BROOKE CORTE:

And the #ASTRA2014 hashtag just went crazy, well done.

Thank you so much, Richard, and to Foxtel for sponsoring that platform address this morning, and of course big thanks to the speakers we have already had on stage so far.

Still coming up we're hearing about the evolution of content and we're also talking about some of the international innovations in audience measurement. Right now, though, it's time to enjoy some morning tea, so head downstairs to the events centre foyer and be back for the sessions in about 20 minutes, 11:30.