Twenty-First Century Fox Inc FOX (NAS) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
32.46 USD	38.00 USD	26.60 USD	51.30 USD	Medium	Wide	Stable	Standard	Entertainment

The Birth of the Murdoch Dynasty: James Murdoch Ascends to CEO Role at Fox

See Page 2 for the full Analyst Note from 16 Jun 2015

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The primary analyst covering this company does not own its stock.

Research as of 16 Jun 2015
Estimates as of 06 May 2015
Pricing data through 01 Jul 2015
Rating updated as of 01 Jul 2015

Currency amounts expressed with "$" are in U.S. dollars (USD) unless otherwise denoted.

Contents

Investment Thesis 21 Nov 2014

21st Century Fox possesses a vast array of media enterprises worldwide. We believe the company enjoys strong competitive advantages based on its worldwide cable networks, along with its film and television studios.

The filmed entertainment segment generates a number of hit television programs and movies annually. 20th Century Fox owns both robust film franchises and a strong television production studio, both of which are important given our premise that the value of quality content will increase. Its studios currently produce 70% of the prime-time slate on Fox and the majority of the original programming on its cable channels, while also creating programs for other networks such as Modern Family on ABC. The critical acclaim for the studio's content, along with its willingness to place shows on the right outlet, creates a virtuous cycle which retains the creators of the studio's hit shows and attracts new creators to the platform.

Consumers still consume news and sports programming in real time, not time-shifted on a DVR--a trend that advertisers value. Fox News remains the market leader in news and its recent growth has turned it into one of the 10 most-watched cable channels. As distributors cannot afford to blackout popular channels, we expect Fox to leverage this position into earning higher affiliate fees over the next several years.

The Fox broadcast network provides the company with an important platform for showcasing content as broadcasters are the only outlet to reach almost all 116 million households in the U.S. The network holds the rights for the NFL, college football, MLB, and other sports. We believe that the combination of original programming and exclusive sports rights will allow FOX to sharply increase its revenue from retransmission fees and reverse compensation in the near future.

Fox also has a large international cable channel segment with over 300 channels reaching 1.4 billion households. Pay-television penetration remains below 50% in many emerging countries. While penetration in these countries may never approach the 90%

Vital Statistics

Market Cap (USD Mil)	66,785
52-Week High (USD)	37.83
52-Week Low (USD)	30.11
52-Week Total Return %	-4.7
YTD Total Return %	-11.6
Last Fiscal Year End	30 Jun 2014
5-Yr Forward Revenue CAGR %	1.1
5-Yr Forward EPS CAGR %	12.3
Price/Fair Value	0.85

Valuation Summary and Forecasts

Fiscal Year:	2013	2014	*2015(E)*	*2016(E)*
Price/Earnings	20.9	22.1	*19.9*	*17.3*
EV/EBITDA	11.8	13.4	*10.7*	*9.5*
EV/EBIT	13.6	16.2	*12.8*	*11.0*
Free Cash Flow Yield %	3.6	3.0	*7.2*	*7.0*
Dividend Yield %	0.9	1.1	*1.0*	*1.1*

Financial Summary and Forecasts (USD Mil)

Fiscal Year:	2013	2014	*2015(E)*	*2016(E)*
Revenue	27,675	31,867	*29,724*	*29,714*
Revenue YoY %	10.5	15.2	*-6.7*	*0.0*
EBIT	5,375	5,488	*6,005*	*6,935*
EBIT YoY %	8.4	2.1	*9.4*	*15.5*
Net Income, Adjusted	3,181	3,521	*3,626*	*3,884*
Net Income YoY %	5.7	10.7	*3.0*	*7.1*
Diluted EPS	1.36	1.55	*1.63*	*1.88*
Diluted EPS YoY %	13.0	14.2	*4.8*	*15.5*
Free Cash Flow	2,168	2,508	*417*	*5,424*
Free Cash Flow YoY %	-702.3	15.6	*-83.4*	*NM*

Historical/forecast data sources are Morningstar Estimates and may reflect adjustments.

Profile

21st Century Fox is a media conglomerate with a wide range of assets: a film studio, which creates television programs and movies; broadcast television, including the Fox broadcast network and local TV stations in the U.S.; cable networks, which comprise over 300 channels around the world; and direct-broadcast satellite TV in the form of SKY, a satellite pay-tv provider in Europe.

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Morningstar Analysis

The Birth of the Murdoch Dynasty: James Murdoch Ascends to CEO Role at Fox 16 Jun 2015

The board of directors for 21st Century Fox announced changes to its management team on June 16, with current co-COO James Murdoch assuming the role of CEO effective July 1. The major impact of the announcement is that the Rupert Murdoch, the longtime driving force behind 21st Century Fox, is effectively handing over day-to-day and strategic control of Fox to his son, James. We believe that James Murdoch will focus on the challenges of pay TV and move the company toward investing further in digital media given his positive comments about Hulu and his role in acquiring digital advertising firm TrueX. We are maintaining our wide moat rating and fair value estimate of $38.

The ascension of James Murdoch to CEO of Fox has been widely expected by both Wall Street and investors, though the timing may be slightly faster than expected. Also, the moves were leaked by the Wall Street Journal last week before the board meeting. As co-COO, James Murdoch acted as President and co-COO Chase Carey's right-hand man and was responsible for much of the company's international expansion as the head of that division. Carey will serve as executive vice chairman for the board for one year. Carey was largely seen as the day-to-day manager of the firm, with Rupert Murdoch providing longer strategic vision. The board also announced that in addition to stepping down as CEO, Rupert Murdoch will serve as co-executive chairman of Fox along with another son, Lachlan Murdoch. Both men previously served as co-chairmen of the firm.

Valuation, Growth and Profitability 13 Apr 2015

We are raising our fair value estimate to $38 per share from $35 as we recalibrate our cost of capital assumptions to better align with returns that equity investors are likely to demand over the long run. We now assume a 9% cost of equity, down from 10%, aligned with the 9% rate of return, we expect investors to demand of a diversified equity portfolio, and reflecting a lowered 2.25% long-term inflation outlook. Our new $38 fair value estimate for 21st Century Fox implies a 22 price/earnings ratio on our fiscal 2015 adjusted EPS estimate. We forecast total revenue excluding the DBS business to increase at an average annual rate of 5.3% from fiscal 2014 through 2019. We expect average annual growth of 8.9% at the cable networks, fueled by affiliate fee increases in the U.S. and growth internationally where we expect pay-TV penetration to improve. We forecast 2.2% average annual growth for the filmed entertainment studio and 1.1% growth for the television segment. We expect overall EBITDA margins to expand to 26.6% in fiscal 2019 from 24.3% in fiscal 2014 as the higher-margin cable networks business continues to contribute a larger portion of the firm's EBITDA. Note that our current fair value estimate no longer reflect the impact from the direct broadcast satellite segment beyond the fiscal second quarter of 2015.

Scenario Analysis

Although our $38 per share fair value estimate reflects what we believe is the most likely outcome for Fox, we have contemplated a downside and upside case to frame our base-case assumptions. Our base case reflects our view that the current broadcast and pay-TV ecosystem remains relatively intact and macroeconomic conditions will be relatively stable during the next five years.

In our downside case, the cable network business is affected by a decline in pay-TV subscribers due to cord-cutting, with the attendant declining audience ratings for its networks and underwhelming international cable network growth. This leads to average annual cable segment growth of only 5.4% while the television segment falls by 2.7% on an average annual basis. In addition, we assume the filmed entertainment studio declines 1% on average as OTT growth is more than offset by a tougher macro environment for theatrical entertainment. This results in 1.6% average annual sales growth, a decline in EBITDA margins to 24.6%

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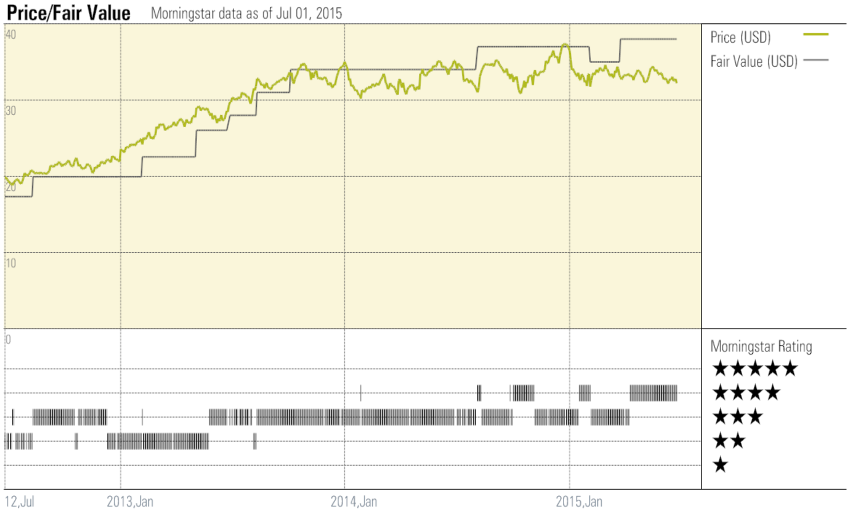
Price/Fair Value Morningstar data as of Jul 01, 2015



by fiscal 2019, and a valuation of $25 per share.

In our upside case, we assume that pay-TV maintains its penetration above 80% in U.S. television households, due to TV Everywhere and other initiatives enticing cord-cutters back into the ecosystem. We also assume steady growth in pay-TV penetration in international markets. This would help generate 11.5% annual cable network growth during the next five years. For the television segment, sustained economic growth boosts advertising revenue beyond its historical growth rates during the next five years. Retransmission and reverse compensation fees growth boosts revenue growth to 3.5% annually. Additionally, the filmed entertainment segment would grow 5.1% due to improved economics domestically and internationally. This scenario assumes 8.1% average annual growth and EBITDA margins reaching 28.9% by fiscal 2019, which would imply a valuation of $49 per share.

Economic Moat

We assign 21st Century Fox a wide moat rating. Our guiding premise within media is that the value of video content continues to increase even as the distribution markets mutate. Following the split from News Corp, Fox now operates a global entertainment company that is well situated to capitalize on increasing content value.

The cable networks segment contains a number of outstanding franchises, including Fox News, FX, and a number of regional sports networks (or RSNs). Fox News continues to outpace CNN and MSNBC to remain the number one cable news channel and one of the top 10 watched cable channels overall. FX and its new spin-off channel FXX have created a platform for critically acclaimed original scripted shows, most of which are generated and owned by the company. Fox's RSNs are in markets across the U.S. and own exclusive local broadcast rights for multiple teams.

Outside the U.S., Fox owns channels in a number of markets. While pay-tv penetration in the U.S. appears to have peaked at around 90%, penetration in many markets such as Brazil remains below 50%. While we don't believe that penetration will reach the levels in the U.S., we expect Fox, with its established channels, to reap the benefits of increased penetration in emerging markets.

Fox owns one of four major U.S. national broadcast networks and affiliated TV stations in 18 markets (including nine of the top 10 markets). While network ratings have declined over the past decade, the broadcast networks are the only outlet to reach almost all of the 116 million households in the U.S. Network ratings still outpace cable ratings and provide advertisers with one of the only remaining methods for reaching a large number of consumers.

The broadcast and cable networks also provide multiple outlets for the filmed entertainment segment, which has generated a number of hit television programs and movies on an annual basis. The company currently produces or co-produces 70% of the prime-time slate on Fox. The company's studios also produce many programs shown on

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other broadcast and cable networks, such as Modern Family on ABC, Burn Notice on USA, and Homeland on Showtime. The critical acclaim of its studio-produced content along with the studio's willingness to sell shows to the right distributor creates a virtuous cycle in which the creators of its hit shows have an incentive to launch new shows with the studio and the strong ratings attract other creators to the platform.

While there are a number of the bidders for original programming--including NBC Universal and USA (Comcast), TBS and TNT (Time Warner), CBS (CBS Corp), and ABC (Disney)--the revenue and profits for all of these players increased over the past decade. Demand for content remains the driver for revenue and profit growth, as the average adult spends over five-and-a-half hours a day watching TV according to Nielsen.

Moat Trend

We think the moat trend for Fox is stable. While the media environment is highly competitive, the demand for content continues to grow. Live sport remains the one programming category largely immune to DVR/time-shifted viewing and continues to draw adult males age 18 to 49, a key advertising demographic.

We believe that the popularity of NFL and college football will continue to increase and their importance to advertisers will also increase given their live nature. The company's RSNs generally stagger the expiration dates for sports rights deals to make entry by a new competitor difficult and expensive.

Given a broad and historically successful production pipeline, we expect Fox to continue to generate hits in both television and filmed entertainment. The growth of OTT and international syndication increases the value of wholly owning content. Despite the growth of viral and other short-form Internet video, we expect Americans to continue to consume original long-form content, making the studios that can generate high-quality content increasingly valuable.

Also helping buoy Fox's growth is the increase in the retransmission fees from cable operators. The company's slate of hit programming and sports programming (such as NFL) helps keep retransmission fee disputes to a minimum. Even if the proposed consolidated in the pay TV industry occurs, we believe that the breadth and popularity of the programming slate at NFL will insulate the company from potential decreases in retransmission fees.

On July 16, Time Warner disclosed that its board rejected an unsolicited stock and cash bid from Fox. The bid was reportedly for 1.531 FOXA shares and $32.42 in cash per TWX share, valuing Time Warner at $80 billion, or $85 per share at the time of the offer. While Time Warner reportedly is not engaging with Fox, Fox Chairman and CEO Rupert Murdoch has generally gotten his target even after being rebuffed the first time. We expect Fox to up its bid for Time Warner given the recent BSkyB transaction.

This bid appears to mark the return of the media empire-building focus at 21st Century Fox. The previous period of empire-building at Fox/News Corp led to a large number of acquisitions or stakes, including MySpace, Dow Jones, the L.A. Dodgers, Gemstar, International Family Entertainment, and DirecTV. Many of these investments were unsuccessful and caused the company's shares to underperform the broader market. While the press and analysts have outlined a number of reasons for the bid, we find many of them to be less than compelling.

Some observers see the potential combination of multichannel distributors such Comcast/Time Warner Cable and AT&T/DirecTV as an attempt to gain leverage with

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Morningstar Analysis

media companies such as Fox. However, we believe any leverage gained by distributors by merging would be minimal against the large media companies since the distributors still need must-have content, especially from major content owners/creators such as Fox and Time Warner. Given the popularity of their respective channels, we do not expect either Fox or Time Warner to face any difficulty with either of the potential multichannel mergers. We have been unable to find an example of one of the major media companies not getting an increase in affiliate or retransmission fees. In addition, as a major content owner/creator, Comcast lacks the economic incentive to lower the value of content. Additionally, any potential synergies from a merger may also be outweighed by the potential for problems arising from culture clashes and from managing an enormous company with two of largest movie/television production studios and a massive global network of cable channels.

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Bulls Say/Bears Say

Bulls Say

- 21st Century Fox is still ahead of many of its peers in expanding its cable networks in Asia and Europe. It has the financial resources to further expand over the next decade.
- The Fox network and cable channels provide the studio with a strong platform for content delivery. Quality content is tough to build from scratch and Fox owns one of the more successful television production studios.
- Fox owns valuable sports rights, including the NFL. These popular rights give Fox leverage in negotiations with pay-TV distributors and with advertisers interested in the live viewing audience.

Bears Say

- If advertisers shift money away from the broadcast networks, the Fox network's profitability will also fall rapidly due to the high operating leverage of the television business model.
- Broadcast and cable networks depend on the continued growth of retransmission, affiliate, and reverse compensation fees. Increased cord-cutting by consumers and lower ratings could threaten the growth of these fees.
- The company's RSNs are facing heavy rights fee increases in the U.S., which will hurt profitability if the networks are not able to pass along these costs to pay-TV distributors.

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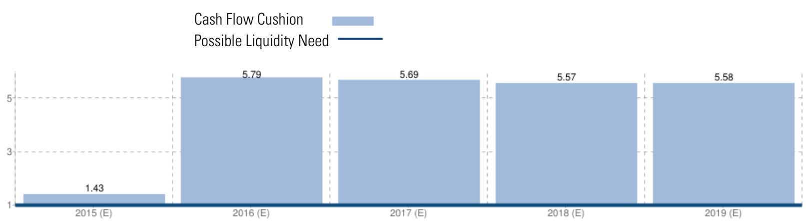
Five Year Adjusted Cash Flow Forecast (USD Mil)

	2015(E)	2016(E)	2017(E)	2018(E)	2019(E)
Cash and Equivalents (beginning of period)	5,415	5,469	3,665	3,180	2,907
Adjusted Available Cash Flow	-2,599	5,737	5,901	6,260	6,608
Total Cash Available before Debt Service	2,816	11,207	9,566	9,440	9,515
Principal Payments	-475	-475	-207	-207	-207
Interest Payments	-1,199	-1,168	-1,168	-1,168	-1,168
Other Cash Obligations and Commitments	-294	-294	-307	-319	-332
Total Cash Obligations and Commitments	-1,968	-1,937	-1,681	-1,693	-1,707

Cumulative Annual Cash Flow Cushion



Adjusted Cash Flow Summary

	USD Millions	% of Commitments
Beginning Cash Balance	5,415	60.3
Sum of 5-Year Adjusted Free Cash Flow	21,907	243.8
Sum of Cash and 5-Year Cash Generation	27,322	304.1
Revolver Availability	—	—
Asset Adjusted Borrowings (Repayment)	—	—
Sum of Cash, 5-Year Cash Generation, Revolver and Adjustments	27,322	304.1
Sum of 5-Year Cash Commitments	-8,986	—

Financial Health

21st Century Fox is in solid financial shape after the spin-off, as the company has $5.5 billion of cash and equivalents and $18.2 billion of long-term debt as of March 2014. This places the net debt/EBITDA ratio at under 1.5, a very healthy level within the media industry.

Enterprise Risk

The new business models proliferating throughout the media sector could diminish Fox's revenue growth or profitability. Viewership of its programs could fall below expectations, and advertisers could pull back on their spending, both of which could drag on advertising sales growth. The cost of sports rights may continue to skyrocket, putting pressure on margins. The company may overpay if Murdoch raises the bid for Time Warner.

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Management & Ownership

Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
MR. JAMES R. MURDOCH	CEO, Geographical/Chairman of the Board, Geographical/Director/ Other Executive Officer,Director	390,619	15 Aug 2014	—
JOHN NALLEN	CFO/Chief Accounting Officer/ Senior Executive VP	175,819	15 Aug 2014	—
SIR RODERICK I. EDDINGTON	Director	134,770	01 Jul 2014	—
MR. CHASE CAREY	Director/Deputy Chairman/ President/COO,Director	85,520	15 Aug 2014	—
ROBERT S. SILBERMAN	Director	15,000	13 Aug 2013	—
MS. JANET L. NOVA	Executive VP/Other Corporate Officer	4,445	13 Feb 2012	—

*Represents the date on which the owner's name, position, and common shares held were reported by the holder or issuer.

Fund Ownership

Top Owners	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
AMG Yacktman Focused Fund	0.68	4.52	1,200	31 Mar 2015
AMG Yacktman Fund	0.44	2.30	—	31 Mar 2015
Franklin Mutual Shares Fund	0.41	1.71	—	31 Mar 2015
PowerShares QQQ	0.29	0.50	24	29 Jun 2015
Invesco Comstock	0.23	1.18	—	31 Mar 2015
Concentrated Holders				
Diamond Hill Select Fund	0.01	5.12	50	31 May 2015
AMG Yacktman Focused Fund	0.68	4.52	1,200	31 Mar 2015
Lazard Select Australian Equity Fund	0.01	4.24	—	31 Mar 2015
Ranmore Global Equity Fund	0.01	3.84	20	31 May 2015
AMP Tyndall Australian Share Value AMPCI	0.06	3.78	-73	31 May 2015

Institutional Transactions

Top 5 Buyers	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
CRUDEN FINANCIAL SERVICES LLC	14.38	—	306,623	31 Dec 2014
Goldman, Sachs & Co.	0.21	0.07	3,933	31 Mar 2015
HSBC Holdings PLC	0.10	0.13	1,924	31 Mar 2015
Morgan Stanley Investment Management Ltd	0.58	5.82	1,887	31 Mar 2015
Ivory Investment Management LLC	0.08	1.28	1,651	31 Mar 2015
Top 5 Sellers				
Commonwealth Bank of Australia	0.02	0.22	-2,590	31 Mar 2015
BMO Asset Management Inc.	—	—	-2,510	31 Mar 2015
J.P.Morgan Securities Inc.	0.23	0.22	-2,380	31 Mar 2015
CQS (UK) LLP	0.19	5.98	-988	31 Mar 2015
State Of Wisconsin Investment Board	0.14	0.32	-945	31 Mar 2015

Management 05 Aug 2014

Fox's stewardship of shareholder capital is standard, which we base on the long corporate history of News Corp. before the spin-off. Chairman and CEO Rupert Murdoch begin in 1952 with his family's small newspaper firm in Australia, which he then built into one of the largest global media conglomerates. Murdoch controls roughly 40% of the voting power in Fox despite only having a 14% economic interest in the company. Murdoch's past successes include starting the Fox broadcast network and Fox News Channel in the U.S.

Murdoch's recent moves reinforce our belief that he wants his family to remain in charge when he eventually retires. His younger son James was recently promoted to co-COO of FOX and placed in charge of the Fox Networks Group, in addition to his prior responsibility of running the direct-broadcast satellite TV segment. James Murdoch will continue to report to president and COO Chase Carey and to serve as his right-hand man. Most observers believe that James is being groomed to eventually fill the CEO role. However, we believe Carey remains next in line for the CEO spot if it becomes available in the next five years, as he is more prepared than James . We are confident that the company would be in solid hands if Carey stepped into the CEO role. Carey previously served a six-year stint as CEO of DirecTV and served as COO of News Corp from 1996 to 2002. In the past, Fox has implemented shareholder-unfriendly provisions such as the introduction of a poison pill and a staggered board of directors.

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Analyst Notes

Fox Posts Mixed Fiscal 3Q, Defends Value of RSNs in Evolving Media Landscape 07 May 2015

21st Century Fox posted a mixed fiscal third quarter, with revenue slightly above our expectations but EBITDA below our projections. Management reiterated its fiscal 2015 guidance but pushed updating its fiscal 2016 guidance to next quarter. We are maintaining our wide economic moat rating and our $38 fair value estimate. The shares are trading below our fair value estimate, but we would require a larger margin of safety before investing.

Similar to Disney, management spent time on the call discussing the changing media landscape and its impact on the company's channels. Fox president Chase Carey's remarks concerning Verizon's skinny bundles mirrored those made by his counterpart at Disney, in that Fox believes the current carriage agreement precludes a skinny bundle without its channels. Carey noted that a change in method of packaging or bundling would require a significantly different pricing structure in terms of affiliate fees. Management also addressed the position of regional sports networks in a potential over-the-top/skinny bundle situation. While Fox remains positive on RSNs, we believe RSNs may suffer much more than national sports networks in an OTT/skinny bundle world as they typically appeal to a much narrower slice of the market and charge relatively high affiliate fees.

Excluding the sold DBS business, quarterly revenue grew 2% versus the year-ago period, driven by increases in cable programming (up 14%) and filmed entertainment (up 5%). The broadcast segment disappointed with negative revenue growth (22%) even when accounting for the Super Bowl boost in the year-ago quarter. The Fox network continued to suffer from lower prime-time ratings, leading to a 7% decline in advertising revenue. EBITDA decreased to $1.7 billion, down 3% year over year and slightly below our expectations, as the Super Bowl-related declines at the broadcast division offset the gains at the cable network and filmed entertainment divisions.

Despite Strong Second-Quarter Results, Fox Lowers 2015 and 2016 Guidance; Lowering FVE 05 Feb 2015

21st Century Fox posted fiscal second-quarter results slightly above our expectations after excluding the sold European Sky businesses. Despite the beat, management lowered its guidance for both fiscal 2015 and 2016 due to ongoing foreign exchange headwinds and enduring weak broadcast ratings. Based on the lower guidance and the completion of the European Sky sale, we are lowering our fair value estimate to $35 from $37. We are maintaining our wide economic moat rating. Shares are trading slightly below our new fair value estimate, but we would require a larger margin of safety before investing.

Excluding the sold DBS business, quarterly revenue grew 10% versus the year-ago period, driven by increases in cable programming (up 14%) and filmed entertainment (up 11%). The broadcast segment disappointed with slightly negative revenue growth despite retrans fee growth and political advertising revenue. The FOX network continues to suffer from lower prime time ratings, leading to a 3% decline in advertising revenue. While FOX does appear to have one of the year’s breakout hits with Empire, the channel will need to find more shows to reverse the relative decline in ratings. EBITDA improved to $1.7 billion, up 12% year over year and slightly above our expectations, as the cable and broadcast divisions offset the decline at filmed entertainment due to fewer series deliveries.

The company closed the sale of its European Sky businesses to British Sky Broadcasting during the fiscal quarter. Management previously commented that the proceeds would be invested in the business and to fund the capital return program. As part of that capital return program, Fox

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Analyst Notes

announced 20% increase to the semiannual dividend to $0.15 and repurchased 42 million shares for $1.5 billion.

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Morningstar Analyst Forecasts

Financial Summary and Forecasts

Fiscal Year Ends in June

Growth (% YoY)	3-Year Hist. CAGR	2012	2013	2014	Forecast 2015	Forecast 2016	5-Year Proj. CAGR
Revenue	*9.6*	3.4	10.5	15.2	*-6.7*	*0.0*	*1.1*
EBIT	*11.6*	25.5	8.4	2.1	*9.4*	*15.5*	*9.0*
EBITDA	*18.8*	43.5	8.9	7.4	*7.8*	*13.0*	*7.6*
Net Income	*14.5*	28.2	5.7	10.7	*3.0*	*7.1*	*7.0*
Diluted EPS	*20.3*	34.8	13.0	14.2	*4.8*	*15.5*	*12.3*
Earnings Before Interest, after Tax	*13.6*	-57.9	216.9	9.9	*-107.3*	*-1,578.4*	*5.5*
Free Cash Flow	*-7.6*	-111.3	-702.3	15.6	*-83.4*	*NM*	*19.8*

Profitability	3-Year Hist. Avg	2012	2013	2014	2015	2016	5-Year Proj. Avg
Operating Margin %	*18.8*	19.8	19.4	17.2	*20.2*	*23.3*	*23.5*
EBITDA Margin %	*21.9*	22.6	22.3	20.8	*24.0*	*27.2*	*27.1*
Net Margin %	*11.5*	12.0	11.5	11.1	*12.2*	*13.1*	*13.6*
Free Cash Flow Margin %	*4.8*	-1.4	7.8	7.9	*1.4*	*18.3*	*14.8*
ROIC %	*15.8*	23.1	12.6	11.7	*11.9*	*14.0*	*14.9*
Adjusted ROIC %	*29.3*	39.4	24.4	24.1	*23.5*	*28.2*	*30.2*
Return on Assets %	*8.6*	4.2	13.2	8.5	*6.7*	*7.4*	*8.3*
Return on Equity %	*23.3*	9.6	34.1	26.2	*22.5*	*27.8*	*32.2*

Leverage	3-Year Hist. Avg	2012	2013	2014	2015	2016	5-Year Proj. Avg
Debt/Capital	*0.47*	0.39	0.49	0.52	*0.58*	*0.61*	*0.61*
Total Debt/EBITDA	*2.76*	2.73	2.67	2.87	*2.90*	*2.51*	*2.40*
EBITDA/Interest Expense	*5.74*	5.49	5.81	5.91	*5.96*	*6.92*	*7.24*

Valuation Summary and Forecasts

	2013	2014	2015(E)	2016(E)
Price/Fair Value	—	1.01	—	—
Price/Earnings	20.9	22.1	*19.9*	*17.3*
EV/EBITDA	11.8	13.4	*10.7*	*9.5*
EV/EBIT	13.6	16.2	*12.8*	*11.0*
Free Cash Flow Yield %	3.6	3.0	*7.2*	*7.0*
Dividend Yield %	0.9	1.1	*1.0*	*1.1*

Key Valuation Drivers

Cost of Equity %	9.0
Pre-Tax Cost of Debt %	6.5
Weighted Average Cost of Capital %	8.2
Long-Run Tax Rate %	30.0
Stage II EBI Growth Rate %	5.5
Stage II Investment Rate %	22.0
Perpetuity Year	20

Additional estimates and scenarios available for download at http://select.morningstar.com.

Discounted Cash Flow Valuation

	USD Mil	Firm Value (%)	Per Share Value
Present Value Stage I	17,895	19.0	8.37
Present Value Stage II	39,691	42.1	18.57
Present Value Stage III	36,671	38.9	17.15
Total Firm Value	**94,257**	**100.0**	**44.09**
Cash and Equivalents	5,415	—	2.53
Debt	-19,058	—	-8.92
Preferred Stock	—	—	—
Other Adjustments	-5,500	—	-2.57
Equity Value	**75,114**	**—**	**35.14**
Projected Diluted Shares	2,138		
Fair Value per Share (USD)	—		

The data in the table above represent base-case forecasts in the company's reporting currency as of the beginning of the current year. Our fair value estimate may differ from the equity value per share shown above due to our time value of money adjustment and in cases where probability-weighted scenario analysis is performed.

Twenty-First Century Fox Inc FOX (NAS) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
32.46 USD	38.00 USD	26.60 USD	51.30 USD	Medium	Wide	Stable	Standard	Entertainment

Morningstar Analyst Forecasts

Income Statement (USD Mil)

Fiscal Year Ends in June

				Forecast	
	2012	2013	2014	*2015*	*2016*
Revenue	**25,051**	**27,675**	**31,867**	***29,724***	***29,714***
Cost of Goods Sold	15,663	17,496	21,108	*19,269*	*18,687*
Gross Profit	**9,388**	**10,179**	**10,759**	***10,455***	***11,027***
Selling, General & Administrative Expenses	3,719	4,007	4,129	*3,725*	*3,596*
Other Operating Expense (Income)	—	—	—	—	—
Other Operating Expense (Income)	—	—	—	—	—
Depreciation & Amortization (if reported separately)	711	797	1,142	*725*	*496*
Operating Income (ex charges)	**4,958**	**5,375**	**5,488**	***6,005***	***6,935***
Restructuring & Other Cash Charges	—	—	—	—	—
Impairment Charges (if reported separately)	242	48	—	—	—
Other Non-Cash (Income)/Charges	—	—	—	—	—
Operating Income (incl charges)	**4,716**	**5,327**	**5,488**	***6,005***	***6,935***
Interest Expense	1,032	1,063	1,121	*1,199*	*1,168*
Interest Income	779	4,472	822	*5,936*	*-232*
Pre-Tax Income	**4,463**	**8,736**	**5,189**	***10,742***	***5,535***
Income Tax Expense	1,094	1,690	1,272	*1,434*	*1,384*
Other After-Tax Cash Gains (Losses)	—	—	—	*-5,389*	—
Other After-Tax Non-Cash Gains (Losses)	-1,997	277	729	*-38*	—
(Minority Interest)	-193	-226	-132	*-255*	*-267*
(Preferred Dividends)	—	—	—	—	—
Net Income	**1,179**	**7,097**	**4,514**	***3,626***	***3,884***
Weighted Average Diluted Shares Outstanding	2,504	2,341	2,269	*2,229*	*2,068*
Diluted Earnings Per Share	**0.47**	**3.03**	**1.99**	***1.63***	***1.88***
Adjusted Net Income	3,010	3,181	3,521	*3,626*	*3,884*
Diluted Earnings Per Share (Adjusted)	**1.20**	**1.36**	**1.55**	***1.63***	***1.88***
Dividends Per Common Share	0.23	0.26	0.35	*0.30*	*0.34*
EBITDA	**5,427**	**6,124**	**6,630**	***7,147***	***8,077***
Adjusted EBITDA	**5,669**	**6,172**	**6,630**	***7,147***	***8,077***

Twenty-First Century Fox Inc FOX (NAS) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
32.46 USD	38.00 USD	26.60 USD	51.30 USD	Medium	Wide	Stable	Standard	Entertainment

Morningstar Analyst Forecasts

Balance Sheet (USD Mil)

Fiscal Year Ends in June

				Forecast	
	2012	2013	2014	*2015*	*2016*
Cash and Equivalents	9,626	6,659	5,415	*5,469*	*3,665*
Investments	—	—	—	—	—
Accounts Receivable	6,608	5,459	6,468	*6,033*	*6,031*
Inventory	2,595	2,784	3,092	*2,823*	*2,737*
Deferred Tax Assets (Current)	—	—	—	—	—
Other Short Term Assets	619	665	401	*401*	*401*
Current Assets	**19,448**	**15,567**	**15,376**	***14,726***	***12,835***
Net Property Plant, and Equipment	5,814	2,829	2,931	*2,513*	*2,095*
Goodwill	13,174	17,255	18,052	*18,052*	*18,052*
Other Intangibles	7,133	5,064	8,072	*7,972*	*7,872*
Deferred Tax Assets (Long-Term)	—	—	—	—	—
Other Long-Term Operating Assets	4,983	5,808	6,896	*6,896*	*6,896*
Long-Term Non-Operating Assets	6,111	4,421	3,466	*3,466*	*3,466*
Total Assets	**56,663**	**50,944**	**54,793**	***53,625***	***51,216***
Accounts Payable	5,405	4,434	4,183	*3,819*	*3,703*
Short-Term Debt	273	137	799	*475*	*207*
Deferred Tax Liabilities (Current)	—	—	—	—	—
Other Short-Term Liabilities	3,939	3,864	3,874	*3,874*	*3,874*
Current Liabilities	**9,617**	**8,435**	**8,856**	***8,168***	***7,784***
Long-Term Debt	15,182	16,321	18,259	*20,284*	*20,078*
Deferred Tax Liabilities (Long-Term)	2,388	2,280	2,729	*2,729*	*2,729*
Other Long-Term Operating Liabilities	3,650	3,264	3,507	*3,507*	*3,507*
Long-Term Non-Operating Liabilities	641	519	541	*579*	*579*
Total Liabilities	**31,478**	**30,819**	**33,892**	***35,267***	***34,676***
Preferred Stock	—	—	—	—	—
Common Stock	23	23	22	*22*	*22*
Additional Paid-in Capital	16,140	15,840	15,041	*15,041*	*15,041*
Retained Earnings (Deficit)	8,521	1,135	2,355	*5,312*	*8,494*
(Treasury Stock)	—	—	—	*-5,500*	*-10,500*
Other Equity	—	—	—	—	—
Shareholder's Equity	**24,684**	**16,998**	**17,418**	***14,875***	***13,057***
Minority Interest	501	3,127	3,483	*3,483*	*3,483*
Total Equity	**25,185**	**20,125**	**20,901**	***18,358***	***16,540***

Twenty-First Century Fox Inc FOX (NAS) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
32.46 USD	38.00 USD	26.60 USD	51.30 USD	Medium	Wide	Stable	Standard	Entertainment

Morningstar Analyst Forecasts

Cash Flow (USD Mil)

Fiscal Year Ends in June	2012	2013	2014	Forecast 2015	Forecast 2016
Net Income	3,369	3,299	3,743	*3,881*	*4,151*
Depreciation	611	697	1,042	*1,042*	*1,042*
Amortization	100	100	100	*100*	*100*
Stock-Based Compensation	—	—	—	—	—
Impairment of Goodwill	—	—	—	—	—
Impairment of Other Intangibles	—	—	—	—	—
Deferred Taxes	—	—	—	—	—
Other Non-Cash Adjustments	-132	-207	-179	*38*	—
(Increase) Decrease in Accounts Receivable	-734	-127	-790	*435*	*2*
(Increase) Decrease in Inventory	-393	-1,035	-1,057	*269*	*85*
Change in Other Short-Term Assets	—	—	—	—	—
Increase (Decrease) in Accounts Payable	13	275	105	*-364*	*-115*
Change in Other Short-Term Liabilities	—	—	—	—	—
Cash From Operations	**2,834**	**3,002**	**2,964**	***5,401***	***5,265***
(Capital Expenditures)	-564	-622	-678	*-624*	*-624*
Net (Acquisitions), Asset Sales, and Disposals	-450	-606	-692	—	—
Net Sales (Purchases) of Investments	429	1,968	518	—	—
Other Investing Cash Flows	-181	-654	-83	—	—
Cash From Investing	**-766**	**86**	**-935**	***-624***	***-624***
Common Stock Issuance (or Repurchase)	-4,422	-1,823	-3,706	*-5,500*	*-5,000*
Common Stock (Dividends)	-580	-613	-792	*-669*	*-703*
Short-Term Debt Issuance (or Retirement)	-35	523	859	*-324*	*-269*
Long-Term Debt Issuance (or Retirement)	—	—	—	*2,025*	*-207*
Other Financing Cash Flows	-65	-2,658	-137	*-255*	*-267*
Cash From Financing	**-5,102**	**-4,571**	**-3,776**	***-4,723***	***-6,445***
Exchange Rates, Discontinued Ops, etc. (net)	-20	-1,431	571	—	—
Net Change in Cash	**-3,054**	**-2,914**	**-1,176**	***54***	***-1,804***

Twenty-First Century Fox Inc FOX (NAS) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
32.46 USD	38.00 USD	26.60 USD	51.30 USD	Medium	Wide	Stable	Standard	Entertainment

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Valuation Analysis

		Price/Earnings			EV/EBITDA			Price/Free Cash Flow			Price/Book			Price/Sales		
Company/Ticker	Price/Fair Value	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Walt Disney Co DIS USA	1.09	20.6	23.6	21.2	11.8	14.1	13.5	23.4	24.9	22.0	3.4	4.4	4.5	3.1	3.8	3.5
Time Warner Inc TWX USA	0.89	20.6	19.0	16.3	13.2	11.9	11.0	22.2	18.0	15.9	2.9	3.1	3.1	2.6	2.5	2.4
CBS Corp CBS USA	0.83	18.7	15.8	13.6	10.7	10.2	9.4	26.2	13.9	13.2	4.0	3.9	3.7	2.0	1.9	1.9
Viacom Inc VIAB USA	0.81	14.1	11.6	10.1	9.9	10.3	8.5	12.9	10.9	10.0	8.6	7.4	7.6	2.3	1.8	1.8
Average		18.5	17.5	15.3	11.4	11.6	10.6	21.2	16.9	15.3	4.7	4.7	4.7	2.5	2.5	2.4
Twenty-First Century Fox Inc FOX	**0.85**	**22.1**	**19.9**	**17.3**	**13.4**	**10.7**	**9.5**	**33.0**	**14.0**	**14.4**	**4.3**	**4.5**	**5.1**	**2.4**	**2.2**	**2.2**

Returns Analysis

		ROIC %			Adjusted ROIC %			Return on Equity %			Return on Assets %			Dividend Yield %		
Company/Ticker	Last Historical Year Total Assets (Mil)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Walt Disney Co DIS USA	84,186 USD	—	—	—	28.8	28.1	28.6	16.6	18.4	19.6	9.1	9.7	10.1	1.0	0.8	0.9
Time Warner Inc TWX USA	63,259 USD	—	—	—	23.0	26.3	28.0	14.1	16.2	18.4	5.8	6.2	6.9	1.6	1.6	1.7
CBS Corp CBS USA	24,072 USD	—	—	—	23.6	31.0	33.4	16.0	26.0	28.0	5.4	7.5	8.3	1.0	1.1	1.2
Viacom Inc VIAB USA	23,117 USD	—	—	—	51.5	49.4	58.8	53.7	63.8	72.6	10.2	9.8	10.4	1.7	2.1	2.3
Average		—	—	—	31.7	33.7	37.2	25.1	31.1	34.7	7.6	8.3	8.9	1.3	1.4	1.5
Twenty-First Century Fox Inc FOX	— USD	**11.7**	**11.9**	**14.0**	**24.1**	**23.5**	**28.2**	**26.2**	**22.5**	**27.8**	**8.5**	**6.7**	**7.4**	**1.1**	**1.0**	**1.1**

Growth Analysis

		Revenue Growth %			EBIT Growth %			EPS Growth %			Free Cash Flow Growth %			Dividend/Share Growth %		
Company/Ticker	Last Historical Year Revenue (Mil)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)	2014	2015(E)	2016(E)
Walt Disney Co DIS USA	48,813 USD	8.4	6.3	6.8	22.1	6.6	4.7	27.4	12.8	11.2	34.1	28.0	14.9	17.4	12.0	12.0
Time Warner Inc TWX USA	27,359 USD	-8.2	5.5	4.7	-11.1	17.1	8.6	10.1	12.5	16.5	65.0	-21.8	11.3	10.3	11.4	8.7
CBS Corp CBS USA	13,806 USD	-9.7	2.8	4.4	-9.3	5.6	9.0	-4.4	19.7	15.6	-40.2	112.2	5.6	8.3	15.3	13.3
Viacom Inc VIAB USA	13,783 USD	-0.1	1.9	3.2	5.0	-14.4	23.0	16.4	1.8	15.1	-28.4	32.4	7.7	9.6	7.4	13.6
Average		-2.4	4.1	4.8	1.7	3.7	11.3	12.4	11.7	14.6	7.6	37.7	9.9	11.4	11.5	11.9
Twenty-First Century Fox Inc FOX	**31,867** USD	**15.2**	**-6.7**	**0.0**	**2.1**	**9.4**	**15.5**	**14.2**	**4.8**	**15.5**	**15.6**	**-83.4**	**NM**	**33.3**	**-14.1**	**13.3**

Twenty-First Century Fox Inc FOX (NAS) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
32.46 USD	38.00 USD	26.60 USD	51.30 USD	Medium	Wide	Stable	Standard	Entertainment

Comparable Company Analysis

These companies are chosen by the analyst and the data are shown by nearest calendar year in descending market capitalization order.

Profitability Analysis

Company/Ticker	Last Historical Year Net Income (Mil)	Gross Margin % 2014	2015(E)	2016(E)	EBITDA Margin % 2014	2015(E)	2016(E)	Operating Margin % 2014	2015(E)	2016(E)	Net Margin % 2014	2015(E)	2016(E)	Free Cash Flow Margin % 2014	2015(E)	2016(E)
Walt Disney Co DIS USA	7,599 USD	45.9	45.1	45.0	28.3	28.2	27.5	23.6	23.7	23.3	15.6	15.9	15.6	13.3	15.1	16.0
Time Warner Inc TWX USA	3,660 USD	42.0	43.8	44.8	25.0	27.2	28.1	22.3	24.7	25.7	13.4	13.5	14.3	11.7	14.0	15.1
CBS Corp CBS USA	1,663 USD	40.2	41.8	42.5	23.6	24.1	25.0	21.5	22.1	23.1	12.1	12.8	13.6	7.7	13.9	14.1
Viacom Inc VIAB USA	2,399 USD	52.5	48.0	52.5	31.5	26.7	31.5	29.9	25.2	30.0	17.4	16.3	17.1	18.0	16.8	17.7
Average		45.2	44.7	46.2	27.1	26.6	28.0	24.3	23.9	25.5	14.6	14.6	15.2	12.7	15.0	15.7
Twenty-First Century Fox Inc FOX	**3,521** USD	**33.8**	**35.2**	**37.1**	**20.8**	**24.0**	**27.2**	**17.2**	**20.2**	**23.3**	**11.1**	**12.2**	**13.1**	**7.2**	**16.1**	**15.6**

Leverage Analysis

Company/Ticker	Last Historical Year Total Debt (Mil)	Debt/Equity % 2014	2015(E)	2016(E)	Debt/Total Cap % 2014	2015(E)	2016(E)	EBITDA/Interest Exp. 2014	2015(E)	2016(E)	Total Debt/EBITDA 2014	2015(E)	2016(E)	Assets/Equity 2014	2015(E)	2016(E)
Walt Disney Co DIS USA	14,840 USD	33.0	36.5	39.5	24.8	26.7	28.3	-100.9	610.4	635.6	1.1	1.1	1.1	1.9	1.9	2.0
Time Warner Inc TWX USA	22,494 USD	91.9	92.3	97.1	47.9	48.0	49.3	5.4	5.8	6.2	3.3	2.8	2.7	2.6	2.6	2.7
CBS Corp CBS USA	6,530 USD	93.7	93.3	86.6	48.4	48.3	46.4	9.0	9.8	10.6	2.0	1.9	1.7	3.5	3.4	3.3
Viacom Inc VIAB USA	12,769 USD	343.3	396.8	411.4	77.4	79.9	80.5	7.0	5.7	6.8	2.9	3.7	3.0	6.2	6.9	7.1
Average		140.5	154.7	158.7	49.6	50.7	51.1	-19.9	157.9	164.8	2.3	2.4	2.1	3.6	3.7	3.8
Twenty-First Century Fox Inc FOX	**19,058** USD	**109.4**	**139.6**	**155.4**	**52.3**	**58.3**	**60.8**	**5.9**	**6.0**	**6.9**	**2.9**	**2.9**	**2.5**	**3.1**	**3.6**	**3.9**

Liquidity Analysis

Company/Ticker	Market Cap (Mil)	Cash per Share 2014	2015(E)	2016(E)	Current Ratio 2014	2015(E)	2016(E)	Quick Ratio 2014	2015(E)	2016(E)	Cash/Short-Term Debt 2014	2015(E)	2016(E)	Payout Ratio % 2014	2015(E)	2016(E)
Walt Disney Co DIS USA	195,348 USD	1.94	1.92	2.22	1.14	1.11	1.13	1.02	0.99	1.01	1.58	1.36	1.49	20.1	19.7	19.9
Time Warner Inc TWX USA	72,821 USD	2.97	1.16	1.47	1.68	1.55	1.56	1.50	1.36	1.37	2.34	0.97	1.02	29.0	30.0	28.0
CBS Corp CBS USA	27,526 USD	0.76	0.77	1.26	1.39	1.37	1.47	1.16	1.15	1.24	21.40	3.93	6.15	21.6	16.9	16.6
Viacom Inc VIAB USA	25,648 USD	2.27	4.07	4.23	1.33	1.25	1.26	1.12	1.05	1.08	55.56	1.83	1.83	22.6	23.8	23.5
Average		1.99	1.98	2.30	1.39	1.32	1.36	1.20	1.14	1.18	20.22	2.02	2.62	23.3	22.6	22.0
Twenty-First Century Fox Inc FOX	**66,785** USD	**2.39**	**2.45**	**1.77**	**1.74**	**1.80**	**1.65**	**1.39**	**1.46**	**1.30**	**6.78**	**11.51**	**17.75**	**17.6**	**18.4**	**18.1**

Research Methodology for Valuing Companies

Components of Our Methodology

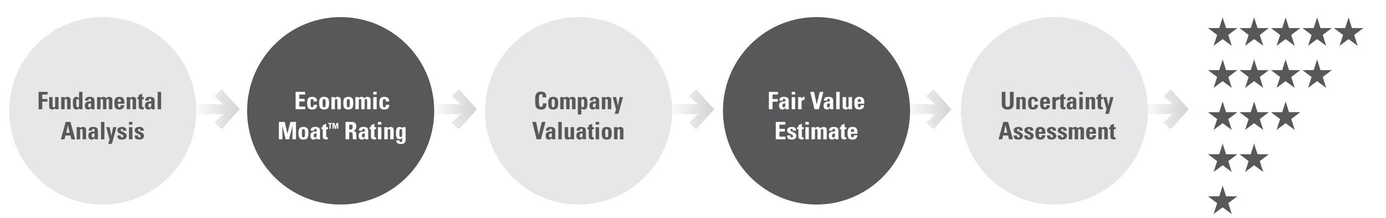
- Economic Moat™ Rating
- Moat Trend™ Rating
- Moat Valuation
- Three-Stage Discounted Cash Flow
- Weighted Average Cost of Capital
- Fair Value Estimate
- Scenario Analysis
- Uncertainty Ratings
- Margin of Safety
- Consider Buying/Selling
- Stewardship Rating

The Morningstar Rating for stocks identifies companies trading at a discount or premium to our analysts' assessment of their fair value. A number of components drive this rating: (1) our assessment of the firm's economic moat, (2) our estimate of the stock's intrinsic value based on a discounted cash-flow model, (3) the margin of safety bands we apply to our Fair Value Estimate, and (4) the current stock price relative to our fair value estimate.

The concept of the Morningstar Economic Moat™ Rating plays a vital role not only in our qualitative assessment of a firm's investment potential, but also in our valuation process. We assign three moat ratings—none, narrow, or wide—as well as the Morningstar Moat Trend™ Rating—positive, stable, or negative—to each company we cover. There are two major requirements for firms to earn either a narrow or wide moat rating: (1) the prospect of earning above-average returns on capital; and (2) some competitive edge that prevents these returns from quickly eroding. The assumptions we make about a firm's moat determine the length of "economic outperformance" that we assume in the latter stages of our valuation model. We also quantify the value of each firm's moat, which represents the difference between a firm's enterprise value and the value of the firm if no future net investment were to occur. Said differently, moat value identifies the value generated by the firm as a result of any future net new investment. Our Moat Trend Rating reflects our assessment of whether each firm's competitive advantage is either getting stronger or weaker, since we think of moats as dynamic, rather than static.

At the heart of our valuation system is a detailed projection of a company's future cash flows. The first stage of our three-stage discounted cash flow model can last from 5 to 10 years and contains numerous detailed assumptions about various financial and operating items. The second stage of our model—where a firm's return on new invested capital (RONIC) and earnings growth rate implicitly fade until the perpetuity year—can last anywhere from 0 years (for no-moat firms) to 20 years (for wide-moat companies). In our third stage, we assume the firm's RONIC equals its weighted average cost of capital, and we calculate a continuing value using a standard

Morningstar Research Methodology for Valuing Companies



Analyst conducts company and industry research:

- Financial statement analysis
- Channel checks
- Trade-show visits
- Industry and company reports and journals
- Conference calls
- Management and site visits

Strength of competitive advantage is rated: None, Narrow, or Wide

Advantages that confer an economic moat:

High Switching Costs (Microsoft)

Cost advantage (Wal-Mart)

Intangible assets (Johnson & Johnson)

Network Effect (Mastercard)

Efficient Scale (Lockheed Martin)

Analyst considers past financial results and focuses on competitive position and future prospects to forecast future cash flows.

Assumptions are entered into Morningstar's proprietary discounted cash-flow model.

Analyst uses a discounted cash-flow model to develop a Fair Value Estimate, which serves as the foundation for the Morningstar Rating for stocks.

The analyst then evaluates the range of potential intrinsic values for the company and assigns an Uncertainty Rating: Low, Medium, High, Very High, or Extreme.

The Uncertainty Rating determines the margin of safety required before we would recommend the stock. The higher the uncertainty, the wider the margin of safety.

The current stock price relative to Morningstar's Fair Value Estimate, adjusted for uncertainty, determines the Morningstar Rating for stocks.

The Morningstar Rating for stocks is updated each evening after the market closes.

Research Methodology for Valuing Companies

Detailed Methodology Documents and Materials*

- Comprehensive Equity Research Methodology
- Uncertainty Methodology
- Cost of Equity Methodology
- Morningstar DCF Valuation Model
- Stewardship Rating Methodology

* Please contact a sales representative for more information.

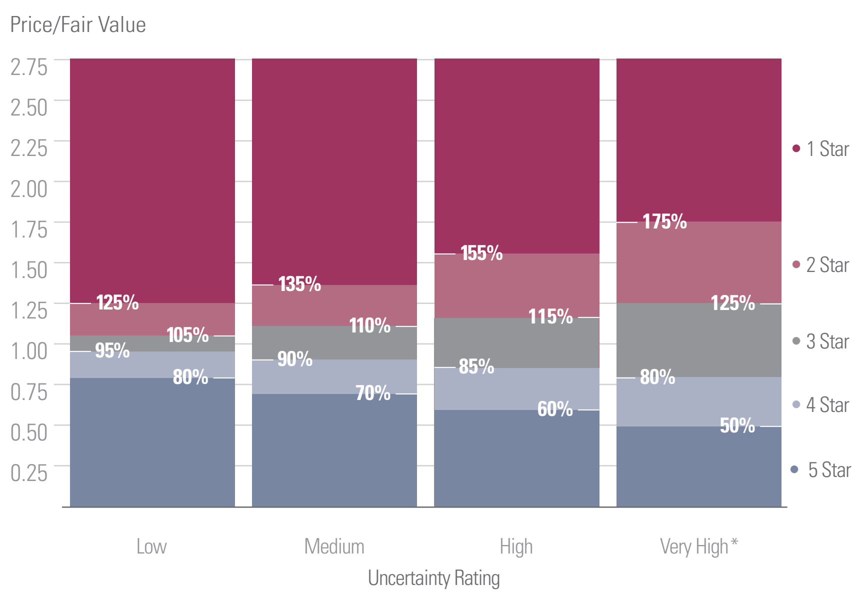
perpetuity formula. In deciding on the rate at which to discount future cash flows, we ignore stock-price volatility. Instead, we rely on a system that measures the estimated volatility of a firm's underlying future free cash flows, taking into account fundamental factors such as the diversity of revenue sources and the firm's fixed cost structure.

We also employ a number of other tools to augment our valuation process, including scenario analysis, where we assess the likelihood and performance of a business under different economic and firm-specific conditions. Our analysts typically model three to five scenarios for each company we cover, stress-testing the model and examining the distribution of resulting fair values.

The Morningstar Uncertainty Rating captures the range of these potential fair values, based on an assessment of a company's future sales range, the firm's operating and financial leverage, and any other contingent events that may impact the business. Our analysts use this range to assign an appropriate margin of safety—or the discount/premium to a fair value we apply in setting our consider buying/consider selling prices. Firms trading below our consider-buying prices receive our highest rating of five stars, whereas firms trading above our consider-selling prices receive our lowest rating of one star.

Our corporate Stewardship Rating represents our assessment of management's stewardship of shareholder capital, with particular emphasis on capital allocation decisions. Analysts consider companies' investment strategy and valuation, financial leverage, dividend and share buyback policies, execution, compensation, related party transactions, and accounting practices. Corporate governance practices are only considered if they've had a demonstrated impact on shareholder value. Analysts assign one of three ratings: "Exemplary," "Standard," and "Poor." Analysts judge stewardship from an equity holder's perspective. Ratings are determined on an absolute basis. Most companies will receive a Standard rating, and this is the default rating in the absence of evidence that managers have made exceptionally strong or poor capital allocation decisions.

Morningstar Margin of Safety and Star Rating Bands



* Occasionally a stock's uncertainty will be too high for us to estimate, in which case we label it Extreme.

Twenty-First Century Fox Inc FOX (NAS) | ★★★★

Last Price	Fair Value	Consider Buy	Consider Sell	Uncertainty	Economic Moat™	Moat Trend™	Stewardship	Industry Group
32.46 USD	38.00 USD	26.60 USD	51.30 USD	Medium	Wide	Stable	Standard	Entertainment

The Morningstar Rating for stocks identifies stocks trading at a discount or premium to their intrinsic value.

Five-star stocks sell for the biggest risk-adjusted discount whereas one-star stocks trade at premiums to their intrinsic value. Based on a fundamentally focused methodology and a robust, standardized set of procedures and core valuation tools used by Morningstar's Equity Analysts, four key components drive the Morningstar Rating: 1. Assessment of the firm's economic moat, 2. Estimate of the stock's fair value, 3. Uncertainty around that fair value estimate and 4. Current market price. Further information on Morningstar's methodology is available from http://global.morningstar.com/equitydisclosures.

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