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Ben Swinburne: Okay, we're going to get started. Good afternoon, everybody. Please note important disclosures, including my personal holdings disclosures and Morgan Stanley disclosures all appear in the handout available in the registration area and on the Morgan Stanley public website. I'm Ben Swinburne, Morgan Stanley's media analyst and I'm happy to welcome back to the conference-- I think it's been a couple years, Michael, since you've been back. But I'm glad to have Michael Burns back, the Vice Chairman of Lionsgate Entertainment, a position he's held since 2000; and also to his left, Jeff Hirsch, the COO of Starz as of 2016. Guys, thanks for being here.

Michael Burns: Ben, thanks for having us.

Ben Swinburne: Absolutely. Maybe to start out, Michael, I'll start with you. There is a lot of activity, to say the least, in the sector right now, especially on the consolidation front. You guys have been buyers of assets historically. Obviously the Starz deal is sort of transformative for you. What is the value of scale to Lionsgate and for the industry? Is that going up and what do you -- how do you think about your portfolio assets in the context of having enough scale?

Michael Burns: Well, I think that you need to have as much scale as possible. But it's got to be the right scale. So you want to have something that you can actually not necessarily leverage other people, but have something that other people watch. And so we -- I had one of the assistants before I came up, because I know I'm going to get questions about scale which is usually a euphemism for other things. And I had one of the assistants, I said, look, John and I have been here since 2000. I actually went on the board in August of '99. I said, pull all the stories about every time we were to be acquired and or who we're buying or who's buying us. I mean and the pile is this thick. And so again, here's what I'll say, is that we think the right scale is important.

We thought that we, together with Starz, that we all hear this horseshit about 1 and 1 equals 5-- I'm sorry I used a bad word on the webcast (ph). But 1 and 1 is certainly at least 3 for us. And so the ability to leverage our library with Starz to create windows with our library again, we've got the over-the-top, that the bet on the Starz transaction-- which is $4 billion is a lot of money for us-- was that with the OTT offering was going to be viable and be one of those offerings, those over-the-top offerings that actually took off.

And so we think the thesis is pretty well established right now, which is that over 2 million OTT subs. We have the ability right now, we have our pay television deal with Epix on the Lionsgate side and HBO on the Summit side. So the idea that as those deals roll off we're free agents to be able to try to figure out the most competitive and the biggest profitable thing for us, and always have a vine to swing to, which is potentially Starz. And that also applies to the television business. Now we're not going to jam Chris Albrecht and (inaudible) on a show, but there are shows that Starz had been interested in and it's always nice that Starz is interested and somebody else is interested that you can play one up against the other. And even if one of them is our wholly-owned subsidiary, to get the best deal that you're looking for on a piece of product or a new show.

So it's a long answer. As my father would say, a long driveway to a small house. But really what it is, it is the right scale is what matters.

Ben Swinburne: And what do you think the impact on Lionsgate is from all of the activity happening in tech around content? So we've seen lots of checks being written. We had Facebook earlier and they talked about Watch, Alphabet on Monday talking about their investments in YouTube. I mean look at the totality of all those moves, we're talking about Apple; on the Lionsgate business outlook; how do you assess that just versus the world?

Michael Burns: I think all these tech companies have to make the decision, okay, are they going to be in the business? Are they in the business? Are they out of the business or are they all in? And so where are they going to, for example, seed the subscription business to Netflix (inaudible)? You know, a pretty significant first mover advantage.

So if you're any of those FANG stocks and there are others out there, and they're saying, wait a second. We want to be in this business for a lot of different reasons, particularly in the world of customer experience. We want to make sure that we're giving the best value proposition we possibly can to our consumers, if it's Amazon it's Prime, if it's Apple, what they're doing, if it's Google it's what are they going to do with Red. And so the idea is-- and Facebook is now, as you mentioned, dabbling in the business. So I think they all can say to themselves, okay, am I in or out? And if I'm in, am I building it or am I buying it? And that's what they have to figure out.

Ben Swinburne: Maybe turning over to you, Jeff, on the Starz side; when you think about the Starz business on the OTT side and the opportunities ahead of you, as well as all of the disruption happening in the traditional MVPD space. How do you feel about the growth outlook for that business over the next couple of years?

Jeff Hirsch: I think the OTT business, the upside is huge there. I mean we continue to drive more programming into that business and we continue to learn more about how each show performs, whether it's an acquisition show that brings to it a subscribers to the platform, or it's a retention show that extends lifetime value; I think we're just kind of in inning three of what we can really learn and do in that business. And I think international is a huge opportunity for Starz. Because these platforms expand internationally and become global players. There's a real opportunity for us to build Starz branded product in multiple markets around the world. I know we announced on our earnings call that we'd be in 15 (ph) markets in the next three years. And so we think the digital business gives us a lot of opportunity to really grow globally.

Michael Burns: I mean look at the success you've had with Starz radio so far.

Jeff Hirsch: We've got a great venture in 19 new markets in (inaudible). We continue there. This has a great tech that is multitenant and mobile. So we can fly with that in different markets pretty quickly. We like that venture. We like going into markets rapidly on somebody else's tech. That's another model. And then what we just did in Canada with Dell Canada where we actually went with an incumbent rebrand a linear channel, but also launching into the digital world up there as well. So we think the digital opportunity globally is really good for Starz.

Michael Burns: And Ben to your point about scale, yes, you can grow organically, which we're doing. You can growth through acquisitions, which we've had a history of doing. I think we've bought 15-20 companies over the years and we've both had a lot of great acquisitions, or you can grow in new markets, which is exactly what Jeff is talking about. There's a giant opportunity internationally for Starz.

Ben Swinburne: And the whole market, investors and analysts are starting to think about what an OTT network P&L looks like versus a traditional wholesale model. As you guys had been running Starz with Chris and the team, what's different about an OTT business from a marketing and customer service perspective? How do you program it, how you brand it, versus the business you've been in for-- Starz has been in for ages?

Jeff Hirsch: Well first and foremost, you own the customer, right. And you have to go acquire the customer and keep the customer, which is fundamentally different than I think any content company has done before. We've historically been wholesale businesses that have sold channels to cable operators who do the packages or sold it ala cart. We don't get a lot of data. We don't have any of the consumer information. And if you get a package, if a show doesn't perform, it doesn't really impact the business one way or the other.

In the direct-to-consumer model and not the Amazon model, because that's a digital wholesale model; but in our own app, we've had to actually transition the business from being a wholesale business internally as talent from marketers who only just understand how to do key art and drive audience to shows, to marketers who know how to spend dollars of acquisition, look at content, consumer, how to find that consumer and how to keep that consumer; it looks a lot more like the cable business historically than it did the content business.

And so this had to be a C change in the organization. We've had to build-- I like to say we're a bipolar business now. We've got a marketing group that knows how to drive key art market shares and drive audience. But we also have a whole other side that knows how to acquire, keep, and retain customers. And so it's a fundamentally different business from that perspective.

Now the economics, we like the economics in the business much better than the traditional business. But it comes with a cost, which is it's very easy to connect and it's very easy to disconnect. I think we're also learning in a big way that the metrics that we've used traditionally in acquisitions isn't so fundamentally different. So win back in the digital world is almost a zero cost win back. So you can send an email to a consumer who's disconnected the app and they'll just reconnect back up. And so it's a $0.20 acquisition cost. Where, where I came from at Time Warner Cable, you'd have to roll a truck out there, they'd have to climb the pole, they'd have to pull the cap out. They'd have to go to the house, hope that the person is home, install the box, teach them, and so the definitions of churn are changing a little bit. Because is that really churn if the customer comes back for zero cost in 30 days? And so I think we're learning a lot as we get deeper in the business, but it requires a fundamentally different mindset for the business.

Michael Burns: And to Jeff's point is that this is why, one of the reasons that from a programming standpoint we really want to have one new original show coming out every month. So the customers have a reason to stay on, to not churn in and churn out, churn in and churn out. And so I think what Chris talked about, I think on the call and certainly what we believe in is to create again, you don't have to be all things to all people. To the African American community Power is Game of Thrones. And so we've got a couple of new shows which we'll package for, again, serving underserved markets. And the ability to have one of those shows coming up every month is a goal that we're shooting for.

The other thing I was going to say about the over-the-top is I think it's a -- I was thinking about it last night, which is it reminds me a little bit of the movie business and just sort of chill with me (ph) for a moment. At 12 o'clock on Friday afternoon, we know exactly how a movie, whether that movie is a success or a failure. Just all we do is plug in the feeders and figure out what we've done, and we compare it to the comps and what it was at 10 o'clock in the morning, 11o'clock and at noon.

I would argue that you sort of know whether you have a successful OTT app very quickly. And so Starz, when they launched the app, we knew there was a market for that when they're very quickly over a couple million. I think we had the same success happening, the same success profile with a couple-- it's advertising revenue, which is Kevin Hart's LOL with us. We feel very good about the trajectory of that.

But the one to watch, watch PANTAYA. PANTAYA is, for lack of a better term and (inaudible) I think are saying this; it's sort of the Netflix for Hispanics. It's Spanish language. We're teamed up with Hemisphere and Pantelion, a big library product. But out of the gate, I think it's been four months. The numbers are very compelling. And that's paid subscription. And there's a huge niche for that and it's a big opportunity for us inside of (inaudible).

Ben Swinburne: And when you guys think about the OTT opportunity for the company, do you see that rich environment being the end game here? Because we're going to be Roku I think next. They have 5,000 channels on Roku. But the top five are 70% of the engagement. I mean do you see the multi-app niche strategy at play at Lionsgate long-term or do you think that aggregation and curation come back and you sort of re-bundle things?

Michael Burns: I think it depends on who's curating it. I mean I think they're going to be like anything else, a dozen winners. And again, you've got to stick to an economic model where you have enough subscribers. But if you get to a place where you have a PANTAYA, which I think will realistically get to a million subscribers in a relatively short period of time; it's a real business. So you don't need a 100 million people to be a real business. And what Jeff will tell you is as we're holding (inaudible), use James Marsh's point with the traditional MSOs, including all the (inaudible), then we look at the OTT offering as additive.

And again, we announced, I think it was sort of overlooked when we did our earnings and probably part of that was because we were saying we're going to invest more and we're pushing out a year on what we said. It's still tremendous free cash flow and EBITDA. But I think everybody missed this renewal that Amazon-- (inaudible) but it was a good deal. It was a long-term deal as far we're concerned. But again, it's Amazon out there pushing out the Starz app and they are a tremendous partner.

Jeff Hirsch: And I think the digital business is really kind of shaping up right now where you've got kind of like on the new digital basics, where you have Netflix, Hulu, Amazon and to a certain extent HBO is broad enough. We view I think on the Starz side, it was always build the product and price the product to be a second one in. We think most consumers will have three or four. And I think at the end of the day, we want to be the second or third in with the Starz and the fourth one is Empire, depending on the household. And we think that's a really sustainable and good business long term.

Michael Burns: I also think it's a competitive advantage that we have is again, it's all the usual suspects all saying what can we do with your app. But I don't think if you said to these guys, these different platforms and players and you say, all right, who moves fastest? I think that you would say that they would say Lionsgate, Starz, they can just, bang. And it's often we're doing experiments with them and we're trying to figure out pricing and all of that.

And I think to Jeff's point, you want to be one of the early ones up there. And I think out of all the platforms, we're finding ourselves in a place that we will be front and center.

Ben Swinburne: Well, I mean you brought up the earnings call. I was hoping you could spend a minute just talking about the lower guidance for the 3-year period from a year ago, when you when you first established it. How much of that lower guidance on EBITDA growth is strategic decisions that you guys have known about the business and how you're all in the business for the long-term versus things that have happened to the business that haven't been as you expected?

Michael Burns: Look, I can tell you that somebody said what are the good, the bad and the ugly of the Starz transaction. I lump them altogether. And so the surprising thing about the Starz transaction is that there were no surprises and knock on wood. That just doesn't happen. So we're really happy with that.

But really the short answer to that question is, we just made a strategic decision to invest more in our business. We want to get out of the guidance business. It's ridiculous, particularly for us. Again, remember what the company was just a few years ago. 75% of our contribution came from the film business, as volatile a business as you could possibly have. And now post Starz, media networks; now the film business is 25% of our contribution.

And so we look at this and say, okay, that's still 25%. It's still significant. It's a quarter of the business. And if you move a movie out from, for example, the worst thing we can do from a fiscal year standpoint is to say, all right, we've got a great release date in March. But if we release it in March, we have all the P&A expense for the end of the year, the fourth quarter in the fiscal fourth quarter. And we potentially whack the year. So we can't run a business by saying, all right, we're going to hurt this year. We've got to run the business and you want us to run the business for the long term, which is picking the right release date and then investing the right amount of money and content to say that you have to have faith or not in our model, which is -- I can't remember a year -- well look, we've always had a very significant contributor in the film business for-- I'm talking about for 18 years.

So I don't think we've had a year that the contribution was less than nine figures. And in some cases, it's nine figures times a multiple. And when you have a franchise, when you catch lightning in a bottle, et cetera. So we look at it and say, look, we can't focus on this year-to-year thing. We got stuck in the guidance business when we did Starz because you have to put everything in your public filings and you have to put projection and all of that. And okay, I get it. But we did. We pushed it out a year. Again, fiscal '18 ends next month. Actually, oh, we're not in March yet -- yeah, next month.

And so we said, okay. Here's what we're doing. Here's why we're doing it. We think it's the right thing to do. And we did it. And we suffered some short-term pain. But every time we've done in that past it eventually, people start focusing on the fundamentals. People start saying, okay, these guys are building a huge asset base, whether it's subscribers through Starz or it's all the library products. You know, there's a real value in what we've created, which is call it a couple hundred million dollars of contributions just coming out of the library right now. Because it's 16,000 titles. And I will tell you, as long as you're refreshing that library, it's getting more valuable every year, not less.

Ben Swinburne: And Jeff, what should investors (inaudible) today take away from the whole Altice experience? I couldn't remember a premium network doing that before. I mean I know it's happened.

Jeff Hirsch: Similarly, I did it at Time Warner with CBS, (inaudible) on that one.

Ben Swinburne: It is unusual though.

Jeff Hirsch: I mean it was very unusual situation. I mean at the same time during the month of December we also announced a great deal with Verizon. Michael talked about the Amazon renewal. We had another large MSO that renewed earlier in the year that was a great deal. Now I think it's new ownership. I think they had a lot of deals that came up at the end of the year. They seemed to undervalue the strength of the Starz programming in the marketplace. And we ended up unfortunately putting the consumer in the middle of the war. And they took us off the air. I think they have realized the strength of the product now. I think it's obviously, it impacted both of our businesses, which is unfortunate.

But we got put back in packaging and we got increased distribution, which to me was the homerun. And I think they now see the value of what Starz really brings to them and we look forward to working with them and growing the business together going forward.

Michael Burns: That was very powerful for you.

Jeff Hirsch: It was.

Michael Burns: That was very nice. You know this story. Which is I was getting frustrated because I have mutual funds with Dexter and so I was texting him. And I was like, god, the guy's not even texting me back. And then about a week ago I get this text back and it says, who is this? And it's not Dexter. I hit the wrong number. (Inaudible)

Ben Swinburne: Did this just reinforce though as you think about OTT, the importance of the programming and the frequency at which you need to bring new content to market? I mean you guys have done Power, Outlander and Driven. But some your counterparts have (inaudible).

Jeff Hirsch: And I think that the nice thing we've learned, we were slow to launch on other wholesale platforms because as an independent we wanted to build our own direct-to-consumer business of scale, not only to create balance in the universe in terms of renewals, both on the digital wholesale, but on the traditional side; but also to get all the data that we needed to really make smart investments in content. One of the things strategically we see in the revised guidance is that we're investing more.

We're able to track a dollar investment against an acquisition of attention show (ph). So when we look at the programming slate now, instead of just looking at a good show, it's got to check one of five boxes. It's got to be either African-American, Latinx or female. It's got to be either (inaudible) great acquisition or helps retention of the (inaudible). And so we sit with Chris and programming and we say, okay, here's a piece of content. Where do we think it plugs in and how are we going to schedule around that? And so the data that we've been able to glean has made us feel very confident in the investment in terms of what we saw in revised guidance. Because we know when we put Power on the air that we drive a large amount of subscribers to the app. We needed something that extends the lifetime value of the Power customer.

And so what we were able to do is like docuseries or lower-cost hours that are similar type audience as Power, and then launch them on the tail of Power for another 10 weeks to try to extend lifetime value. Unlike a traditional broadcast would two year ago before we really knew what we were doing I guess, we would launch Power with Survivor's Remorse behind it. But the traditional broadcast model where you're trying to launch a new show on the back of another show.

Last year we actually staggered it to try to extend lifetime value. But that was a very expensive show and we didn't see the retention value relationship against that show. So now we're looking at a docuseries called Warriors of Liberty City, which is a LeBron James and Maverick docuseries about Liberty City in Florida, which is like a Pop Warner football team that basically saves the town but also every pro player -- well not every-- but most pro football players in the NFL have played Pop Warner football in this town.

We'll launch that on the back of Power to try to extend lifetime value. But underneath that, you'll have Outlander. So it won't look like a traditional broadcast. Because you'll say, well Outlander is for 50-year-old women. Why do you have Warriors of Liberty City behind it? We're actually thinking about this more on a linear basis than a vertical basis. Because we have the data now to show how we can extend, we can drive acquisition and extend lifetime value. And so we're looking for shows that plug that in so that ultimately we can bring churn down and really have great (inaudible).

Ben Swinburne: Let's see if we have any questions in the audience. Please raise your hand and wait for a microphone. And while we're waiting guys, any update on Hulu and whether they've started marketing and distributing Starz and (inaudible)?

Jeff Hirsch: So we're trying to deal. We've been sending them all of our content and metadata. We're hoping to get on before the launch of (inaudible).

Ben Swinburne: Okay, great. Any questions for these guys? Yeah, front row?

Unidentified Audience Member: Given the evolving media landscape that you discussed earlier, how are you seeing the role that you play with theater operators going forward?

Michael Burns: Theater operators? Well, look, I happen to think-- I always get in trouble when I say this, although a lifetime in the theater business, but there's consolidation (inaudible). I think that will-- that we'll all come to the conclusion that there is an opportunity for (inaudible) and VOD. It's a question of meaning not necessarily (inaudible) date. Are we going to guess that it's 17 days and it's three weekends. And I think we'll do it in a friendly manner with the theater chains. But I think that theater business is going to be around a long time and it's a communal thing where people want to be in the theater with people. And look, for everybody this whole thing about oh, the theatrical business is dead. Okay, it's dead if you have shitty movies. When you create good movies, look at the numbers. Just look at the numbers for what Disney's putting out there right now on some of these great things. Look at Black Panther.

(Inaudible) and I ran into my friend Toby, who's from Warner Brothers, a great executive. And I said, I was at dinner party birthday last weekend. And I said, why you look so sad? He said, oh, yeah. We have Game Night. I thought it was going to do better. And I said, but you know it's been fine. It's not expensive movie, only $30 million. And we're looking at other and said, who would have thought that Black Panther would do $108 million in its second weekend? I mean it will do probably $60 million this weekend. Anyway, so the theater experience is here to stay. We'll try to figure out a way to create win-wins. I think you'll see us do this. There's tremendous consolidation in that space around the globe. So again, I think there will be a version of, and again, when, do I have a crystal ball? I think sometime over the next 12 to 18 months there will be some sort of significant test in that period in VOD and I think if it's done correctly with the studios in cooperation with the theater chains it's going to be a homerun.

Because there is a lot of people that are not rushing out. And remember what happens. Think about that for a second. Think about my close friend at Warner Brothers. When a movie is at-- he probably thought it was going to do maybe (inaudible), because the movie is supposed to be great. He thought maybe $80 million.

Ben Swinburne: That's Justin Bateman, right?

Michael Burns: Justine Bateman, Rachel McAdams -- I love her. And so the idea is-- but the idea is you probably thought, all right that movie will open at mid-20s and then it will $13-14 million the second weekend. And it will do $75 million. And now the movie opens at $16 million, so if it goes down half, second week it will do $8 million. So now you'd start talking about that as far weekends. Well weekends, it's hard to hold on to the screens, except that like all the studios, you spent $30-35 million, maybe more maybe less, I don't know. I don't know what Warner Brothers spent on that to promote the movie, to advertise it; and now it's out of the theaters. And now you're waiting for the next window.

If you had a premium VOD window and now it's down to fourth week, because you've waiting 17 (inaudible) days. And now it's the 18th day, I'm making that up, it's the 18th day and people can see it in their home. They know it's a theatrical release because they saw the trailer or they saw the marketing campaign. And now the studio gets to take advantage of the fact that, okay, I still get some bang for my buck for the amount of money I spent on marketing. And by the way, the amount of money that we're all spending on marketing, I mean the one good thing that's finally happening is we're all getting so much smarter in the world of digital. We have this Atom ticketing app, which we own with the big (inaudible). I don't know if we announced it.

But we have two big theater chains in it. We have two other big studios. And as partners and the data that we're getting from that is pretty incredible. And we had this whole team from Amazon that came over and they set the thing up and they're doing great. We just keep getting market share. And they said, you know, we don't understand it. You guys in your business, you run a trailer and at the end of the trailer there's no place to buy a ticket. That's crazy.

So but what the theaters have done is the theaters have now said we've got assigned seating. We know we're going to book x number of theaters. You can buy that ticket in advance. So we're all getting a lot smarter. We're spending money, I think, more efficiently. It could be a lot more efficiently. But in a digital world, it's really going to help. We're going to quit pissing away money.

Ben Swinburne: I think we're going to have to wrap it there. We're all out of time. But thank you, guys, appreciate it.