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<<Matthew Thornton, Analyst, SunTrust Robinson Humphrey Inc>>

We're going to go ahead and get started here. This is the 11:25 fireside chat with Lionsgate. Lionsgate is, of course, a leading global manufacturer and distributor of premium film and television content and a very significant owner of content libraries. But Lionsgate is also, of course, now a leading premium and direct-to-consumer network with the December 2016 acquisition of Starz. And with us from Lionsgate, we are fortunate enough to have Michael Burns, who's been Vice Chairman at Lionsgate since 2000, so pretty impressive tenure there. Many thanks for being here, Michael. Also from Lionsgate, we have James Marsh, SVP of Investor Relations. Thanks for being here, James. And with that, let's get started with some questions.

So maybe, Michael, at a high level, last quarter, you guys kind of readjusted your – adjusted – OIBDA outlook for the next three years as you're reallocating some investment. So maybe we can start – just remind us of the new framework and, again, where you're putting some incremental investment to work.

<<Michael Burns, Vice Chairman>>

What we said was that we were going to be targeting mid- to high single-digit CAGR for the next three years, and it was going to be a little lumpy. But we're still very comfortable with what we said then, and it'll be discussed on the earnings call which is coming up.

<<Matthew Thornton, Analyst, SunTrust Robinson Humphrey Inc>>

The – and let's jump into – maybe, I guess, let's start with the Starz business here. You guys have talked about ramping investment in the original content at Starz. So one of the questions we always get is, with everyone kind of investing in original content, focused in original content, how does Lionsgate kind of compete and differentiate? What's your – how do you think about that? What's the latest thinking?

<<Michael Burns, Vice Chairman>>

It's really not how much money you put into shows. It's about the quality of the shows you end up with. We're pretty encouraged. We actually just launched two new shows Sunday night, Vida and Sweetbitter, very encouraging out-of-the-box ratings, out-of-the-box performance. So we're excited about that. So again, we're focusing on underserved markets. If you take a look at Vida appealing to the Hispanic community, but also a broader audience than that.

Take a look at Power. Power is a giant hit. It would be a giant hit on any network, but obviously, over indexing in the African-American space. So again, it's not about the amount of money, whether you're spending $7 billion or $8 billion, it's the amount of quality shows that you're putting on the air.

<<Matthew Thornton, Analyst, SunTrust Robinson Humphrey Inc>>

And how are you guys measuring the success with original program internally?

<<Michael Burns, Vice Chairman>>

I think we have to look at subs, and I think we have to look at – differentiate between linear subs and over-the-top subs. All subs are not created equally. Obviously, we like the margin, we like the independence that the over-the-top subs give us. We still want to continue to participate in a big way with our linear MSOs because that's a big business for us.

But again, if you're losing a lot on the linear platform and picking it up on the over-the-top, that's a pretty good trade for us. What I would say to focus on – and we're talking about this again on the conference call, is not necessarily focus on – focusing on specific subs. I would – numbers. I would focus on revenue.

<<Matthew Thornton, Analyst, SunTrust Robinson Humphrey Inc>>

Yes. And then the data that comes with the OTT subs, there's obviously a big advantage there.

<<Michael Burns, Vice Chairman>>

It certainly helps us, specifically knowing where to market. This is sort of a new frontier for us, having this information, and it is really helping.

<<Matthew Thornton, Analyst, SunTrust Robinson Humphrey Inc>>

Yes, a lot more intelligence there. The – now you guys are also talking about bringing Starz international in the coming years. You talked about that quite a bit on the last call. Can you remind us how you're approaching international, kind of what the bogeys are and then what investors should be thinking about in terms of milestones and impact to the model?

<<Michael Burns, Vice Chairman>>

I always have to be particularly careful, my adult supervision here, James Marsh, which is ahead of an earnings call, I'll say a bunch of things. But I'll tell you, we're talking about launching, over the next 2 or 3 years, in 15 international markets. We obviously are very happy, although we account for it below the line because we only own 41 percent of it. But I'll start with Play Arabia, very encouraging numbers out of the gate there. And again, the whole thesis when we put Starz together with Lionsgate was taking this giant 16,000-title library and coupling that with the Starz app that we were planning on launching all around the world, not only, obviously, a big play domestically but having a very robust offering as we roll out internationally.

And again, that was only possible for us by putting these two companies together. Starz didn't have it alone, and Lionsgate didn't have it alone. But together, we do thousands and thousands of hours in each one of these territories that we're launching. So what happens is, as we roll that out internationally, there's not a lot of big costs associated with it. It's a very – well, I believe it will turn out to be a very profitable business for us. I would also say this, again, without sort of giving away state secrets. I would focus also, if I were looking at being an investor in Lionsgate, focus on who you think – and as an analyst, who you think would be the right strategic partners for us as we do roll out internationally. I think those – as we choose our partners in a variety of territories, I think that will make a lot of sense to everyone.

<<James Marsh, Senior Vice President of Investor Relations>>

I'll just chime in there. I think international is important because it changes the growth narrative on subs. Up until now we've been competing against others that have sub news that are global subs. We've had domestic only. So that's a real greenfield opportunity for us going forward. So I think it changes that narrative, it changes that growth profile when we talk about subs going forward.

<<Matthew Thornton, Analyst, SunTrust Robinson Humphrey Inc>>

Yes. And that becoming increasingly the number one KPI. And obviously, we've seen what happens with – Netflix went global, and we've kind of seen that inflection as well so

<<Michael Burns, Vice Chairman>>

What you see when we launch a new show, very encouraging. Again, if you look at last weekend, how many app downloads, both directly and through Amazon, we had, that was the best numbers for the weekend for us in quite some time. And obviously, there's a direct correlation between those app downloads and new shows. And obviously, our big show is Power, coming out in June. I think we'll see a pretty good uptake there as well.

<<Matthew Thornton, Analyst, SunTrust Robinson Humphrey Inc>>

The – how about on the MVPD side? Obviously, we've seen the video net adds, whether it's Charter or Comcast, have all been a little bit soft. What's the readthrough there to Starz? And not anything around the corner per se, but are there any disconnects? Is there anything you're doing from a distribution, from being on top of the stack, in the stack to kind of combat that trend? Or how do you think about the readthrough there?

<<Michael Burns, Vice Chairman>>

I think placement is really important. Obviously, the Charter numbers surprised The Street a little bit, and they got whacked. Obviously, anybody that is a – unless you pick up that additional sub over-the-top or another way, if they lose subscribers again, it depends on where you are. In some cases, it doesn't hurt us from the revenue standpoint, but it hurts us in the sub number. So I think that's an important distinction.

Look, I think that what Charter has done is – and Comcast obviously, I think it's all about speed, it's all about download capability. And I think, again, you take a look at what they built and just how fast these pipes are getting, that's obviously a much higher-margin business for us – for them. But obviously, we believe video is a pretty important component to it. I think that both Charter and Comcast – and I've been saying this for three years and I've been wrong to this point, but I will tell you that I feel like the trend is going our way.

I think all of these traditional MSOs have to be in a place where they have original content that you can only see on their platform because that's what keeps their customers there, their subscribers there and, again, gives them a unique value proposition. So I think they will move to that place. I think you'll see collaboration between cable companies because they're not in each other's footprints, and I think there's a great opportunity for somebody like us that makes a tremendous amount of content.

<<Matthew Thornton, Analyst, SunTrust Robinson Humphrey Inc>>

Okay. The – let's talk a little bit about the Altice.

<<Michael Burns, Vice Chairman>>

I'm just going to say one thing and then we're good, I'm sorry. I mean, we're doing that with – we just announced, I think, that we're filming, and we announced our cast for our show, The Rook. And that's a joint venture with Liberty Global.

<<Matthew Thornton, Analyst, SunTrust Robinson Humphrey Inc>>

The Altice dispute earlier this year was certainly very unique. What's been learned? What's the relationship like now? Any readthrough to other renegotiations? What can you talk to there?

<<Michael Burns, Vice Chairman>>

That was really an outlier. Altice is in a very unique position from the standpoint of one leverage. What they told – they told their investor base and also the banks what they were going to do. We don't look at that as a typical negotiation. It surprised us. And I think it hurt them ultimately, hurt us a little bit too, certainly in that quarter.

But I think it surprised us that something – that they were making, as my father would say, better than a fair and amended return on their investment on every subscriber they have. But we are – we're – I wouldn't say we're thrilled with where we ended up, but I think we're okay with where we ended up. And obviously, the idea of picking up an additional potential 200,000 subs is something that we were happy with.

<<James Marsh, Senior Vice President of Investor Relations>>

Let me just dovetail on that. I think what Michael said, it's a data point. It's one data point. It's not a trend yet. I think the trend that we've seen over the last couple of years since we acquired Starz – or announced our acquisition of Starz is that we've been getting deals done around that market rate. So we've done deals with AT&T, DirecTV, that was disclosed through an 8-K, with Starz. We've talked about a Hulu deal.

We've talked about an Amazon renewal. And we've talked about a midsized cable operator. So I think the trend has been, generally, that we've been able to find deals around that market rate, and it hasn't been acrimonious. And every now and then, you have one that is. And when we get a couple of other data points that support that, maybe we have a different trend. But I think, up until now, it's a one-off.

<<Michael Burns, Vice Chairman>>

I suppose it's fair to say that no one can now say that we won't go off the air, which we will.

<<Matthew Thornton, Analyst, SunTrust Robinson Humphrey Inc>>

The – you mentioned Hulu. What's the latest on the – just the OTT side from a distribution standpoint, and particularly the Hulu relationship?

<<Michael Burns, Vice Chairman>>

So I talked to Randy this week. We thought we were going to launch in June around Power. I'll put it in the technical difficulty and timing issue. We expect to launch around October with the launch of Outlander. And we think that'll be incremental for us, and it'll be a win for Hulu and a win for Lionsgate because the more distribution, the more places you can get the OTT offering, the better.

<<Matthew Thornton, Analyst, SunTrust Robinson Humphrey Inc>>

Okay. And I think they just announced they closed 20 million subs, so they've got some momentum, so nice.

<<Michael Burns, Vice Chairman>>

They've got some momentum, and they've got some great offerings. And they've been great with us. They've purchased shows from us or licensed shows from us. And again, we think they're going to be a great partner.

<<<Matthew Thornton, Analyst, SunTrust Robinson Humphrey Inc>>

Let's switch gears for a second over to Motion Pictures. You guys wanted a new team – or brought back a team, I should say, to lead the film business. Out of the gate there, the restructuring, the slate for fiscal 2019, they're kind of putting their own kind of stamp on things.

What do you think the changes are going to be with the new team in terms of how they see and manage that business versus maybe where we've been previously?

<<Michael Burns, Vice Chairman>>

You're talking about Joe Drake coming back? Look, he's the best one we ever had. Obviously, in The World of Hunger Games was the Joe Drake regime when he was here, and it's like that old Frank Sinatra song, love is lovelier the second time around. So Joe's a businessman and a creative, and he's got a great team of creatives make it as fantastic and the whole team over there at Good Universe, which will be coming over to Lionsgate – or most of them. So the idea that we had the opportunity to get Joe back, we think that it's good to shake things up every once in a while. Very encouraged with what Joe's done so far. And again, we know him well. There is a shorthand with Joe. He's got great relationships around town, and I think that's going to be very positive.

<<Matthew Thornton, Analyst, SunTrust Robinson Humphrey Inc>>

What do you think the next franchise is going to be for Lionsgate? And what other titles are you particularly upbeat about? A year ago here, you were talking about Wonder.

<<Michael Burns, Vice Chairman>>

Yes, that worked out well. That was over $300 million. We talked about that, didn't we? And everybody thought I was insane, which maybe I am. But the – I would tell you that it's very hard to pick a franchise. But sometimes, franchises creep up on you. John Wick, the first one did $47 million at the box office. The next one did $94 million. I bet the third one does very well. So – and then we're copromoting it with a VR game, and we've just got tremendous momentum on that. And that's turned into a franchise out of nowhere. I mean, we bought that first movie, and then six weeks later, it was in theaters.

So – and our marketing team did a fabulous job with that. As well as our acquisition and theatrical just banked on the right moment, got it out there, created a brand, and now we're doing the third one. I think that if you look at what we have in development that are further along in development, I would say that – look, Chaos Walking is a huge book series; big director, Doug Liman; big cast, Daisy Ridley from Star Wars and Tom Holland from Spider-Man. It is a very special effects-driven giant movie. It will – I think we announced we pushed the release of it. Now we're doing a bunch of pickup shots on that. We want it to be good because if the first one works, they are not – there's not one, there are multiple.

I would tell you that the biggest franchise besides that one, which is in development but very speedily moving along, is obviously Kingkiller Chronicles. Lin-Manuel Miranda is our producer – creative producer on that. That is a giant sci-fi book series that's going to be directed by Sam Raimi, who did Spider-Man amongst other giant movies. If that one works, again, it's multiple movies. It's hard to know what your franchise is going to be, but those two come to mind as certainly possible franchises.

And the nice thing about the film business, look, it used to be that a year ago or two – I'm sorry, two years ago, pre-Starz, that 75% of our contribution came from the film business and 25% from other. Now that's swapped. 75% comes from the media network side, from other, and the 25% from the film group. However, what the film group gives you is enormous optionality, sort of like call options. When something works, it really works and we get the ability to print money. If you take a look at some of the recent releases, I Can Only Imagine, which we did with Roadside, which was this faith-based movie, and no one in their wildest dreams would have said that movie is going to do $80 million-plus in box office.

I think we have a wildcard coming out. Again, I don't want to pick a favorite child, but this Uncle Drew feels like it could be something very special. And again, the movie did not cost much. So the optionality that the film business gives you to make a lot of money, and then if you do get lightning in a bottle and you catch a franchise like Twilight or Hunger Games, I mean, those franchises, when they work, it can turn into an ultimate contribution of $1 billion. So again, not a lot of money to Warner Bros., a lot of money to a company with a $5 billion market cap.

<<James Marsh, Senior Vice President of Investor Relations>>

Just chime in here. Michael talked a lot about the potential upside from these big franchises, but I think if you go back and just look at how the film has – film group has performed over the last few years, it's been a derisked approach. We haven't had any big franchises. But if you take a look at that compound annual growth rate on the segment profits for Motion Picture, it will be up double digit through fiscal 2016 through 2020 based on what consensus is at right now. So I think the business has done very well without the franchise. The franchise is really just the cherry on top, if and when we find them.

<<Michael Burns, Vice Chairman>>

And it does not escape us that the needle-mover for us is Starz. It's the international expansion. It's picking up the OTT subscribers domestically. It's holding on to as many of the linear subscribers as we can because that is the cash cow. And again, depending on what shows that Chris Albrecht and the team; and Carmi; and the Operating Officer, Jeff Hirsch, at Starz, it depends on what it is that we put on the air, that we continue to focus on places where we can win in the underserved marketplace as well. But if Starz continues to work like it is and continues to grow internationally, that's going to be incredibly valuable to our earnings story.

<<Matthew Thornton, Analyst, SunTrust Robinson Humphrey Inc>>

Yes. A couple more on Motion Pictures, and we'll jump over to TV, so we've got to be sure to hit that one. What are your thoughts on – latest thoughts, as you said, on MoviePass, number one? And then secondly, there's been talks in the press of Netflix looking at theaters. I'd love to hear your take on that.

<<Michael Burns, Vice Chairman>>

Yes. I’d like to – look, I think it’s highly likely that the Paramount consent decree gets ripped up by the Justice Department so that studios can own theaters. Now I don’t know what that means, I mean, which studios are going to jump in or not jump in. But I do believe there’s an opportunity in the – in partnership with the theaters to have premium VOD, whether it’s [stage] date or 17 days later or whether it’s – what the price point is and how that’s split, et cetera. But I do think that is – it’s evidenced by what’s happening in the world. Consumers want to watch things, watch content when they want to watch it, whether it’s in the house.

And they’re willing to pay for it. It’s just a question of ease, of convenience. So I think that will happen. It is frustrating it hasn’t happened yet. I keep kidding my friend Ellis Jacob at Cineplex and I say, "You have an 80% market share or whatever you have." I mean, it should start in Canada because it’s a lot easier than trying to get a couple of these giant theater chains down here to do that. But I do think that when you asked about MoviePass, I don’t think that’s a sustainable model, but – they had too many subscribers.

And I guess there a lot of people that said that Netflix didn’t have a sustainable model, but I think they’re different. I think the "all you can eat" is a difficult model because it’s just going to consume an enormous amount of capital. We have this ticketing app, which is Atom, which is a competitor of Fandango. It continues to take market share, still small but growing. Our partners are some theater chains and also Fidelity, also Disney and FOX. So do I think there is a subscription model that can work which is different than MoviePass?

Yes, I do because it’s one thing – I mean, you – again, you have to take a look at what you’ve learned from what that’s - there’s been a great – millions of subscribers mean something. I just think you have to tweak that model and go after it. Look, we were very early. We were before, in many ways – we had this thing called Movielink, which was sort of a streaming service before Netflix. When you’re too early, they call you bankrupt. So we think that there’s probably a way to thread that needle. And perhaps, Atom is going to be that way, but we’ll see.

<<Matthew Thornton, Analyst, SunTrust Robinson Humphrey Inc>>

The – let’s shift gears over to TV for a couple before we open it up to the audience. James, you talked about Motion Picture as having performed. It’s performed actually very well last couple of years. Starz has performed well since the deal. TV production is the one that sits – we all thought would have performed well. We’re in the golden age of TV and everyone’s bidding up content, but TV has kind of underperformed actually out of the 3. What’s the disconnect there?

<<James Marsh, Senior Vice President of Investor Relations>>

Sure. So TV is about 10% of our total profits for the company. I think it’s a very important leg to the stool back when we had the Motion Picture Group that was 75% of the total profits because it provided visibility and helped to kind of derisk the overall perception of the Lionsgate model. I think if you look at how the performance has been of late, I think we’re looking at a flattish year this year. I think that’s disappointing to us. We think it’s a better business than that.

We’ve had a couple show cancellations, some timing issues with shows that are going to fall into fiscal 2019. On our last call, we talked about returning to growth. I think if you look at consensus expectations for the TV group, they’re up mid- to high single digit top line, they’re up maybe double digit on the profit side. So I think there’s been a pause in fiscal 2018. I think if you look back over the last decade, there’s probably been 2 or 3 instances where we didn’t have growth in a given year.

There is always some reason for it, maybe it was a cancellation, maybe it was a delay of a show. But I think we feel really good about the growth prospects going forward. In particular, Starz has become a big, new, important customer. And obviously, we have a very special relationship with them. They’re not going to have as many shows cancelled there. So I think the business is poised for growth going forward.

<<Matthew Thornton, Analyst, SunTrust Robinson Humphrey Inc>>

How are you guys thinking about the pipeline there to Starz versus to others? How do the pipelines look?

<<Michael Burns, Vice Chairman>>

Nobody’s jamming because it’s all breakout shows. So the issue is, for us, does it fit there? Is it a great show? And again, maybe that’s 1, 2 shows a year, maybe it’s none. But I think that, again, there’s a place for our slate in a wide variety of places.

We have two shows that just got picked up again at YouTube. YouTube, by the way, is going to launch the Starz app as well. So it’d be nice to be in business with Google in that regard. But if you take a look at the pipeline, again, we got a bunch of shows in play.

I saw the pilot for L.A. Confidential, which we did for CBS. It’s a fantastic show. So Michael Dinner directed that for us. The show is great. It’s going to be ultimately up to Les, whether he says it’s great for CBS or whether he passes or puts it on All Access or maybe Showtime, but that show is terrific. So I think that, again, it ebbs and flows. And I think my guess is, if I were going to bet on Kevin Beggs to have another pretty good run, I would.

<<Matthew Thornton, Analyst, SunTrust Robinson Humphrey Inc>>

Got you. I got a bunch more here, but why don’t we open it up to the audience, see if there’s any questions for Michael or James. We’ve got one back here.

Q&A

<Q>: [Question Inaudible] once you put a show over-the-top? How long can you run a show [Question Inaudible]?

<A – Michael Burns >: Well, it’s a little bit of a Wild West. So – yes, the question was, how long you could go directly to over-the-top? If you do a show with Netflix or Hulu, how long can it

run? Look, it's a bit of a Wild West, which is new, but certainly, Orange Is the New Black has had a fantastic run with Netflix. We're pretty excited about what Dear White People is doing there.

Again, those are pretty – those look like they're going to be pretty long run. Orange Is the New Black is already in the bank. And then we had a show that was a good show, Casual, which ran for, I think, three seasons on Hulu, maybe it was four. But – and then we have these new shows with YouTube. We'll see how long they last. So there's no reason, again, if you have a hit show and they all want exclusivity, that if it's a great show, it could run as long as it could certainly on cable.

<Q>: [Question Inaudible]?

<A – Michael Burns>: Well, look, if you have a show, if you're in a cost-plus model, and we always try to retain some rights, in the old days, you'd lose money if it's just one season. In this new world, that's not the case. You're making money from the get-go, season one.

<Q – Matthew Thornton>: Other questions for – we're going here. And we've got a mic here actually. Maybe…

<Q>: If you – going back to the Charter surprise earnings and what – the cord- cutters there. How do you feel about your business? And if you project forward 3 to 5 years, what's the world look like in terms of how you deliver content with folks like Charter and Comcast?

<A – Michael Burns>: I think that Charter and all the traditional cable companies, satellite, I think that you're going to see a slow decline for some time. But I do think you'll see a leveling off. And it depends, again, on what they're offering. Their consumer business, what I was talking about, which is the idea of having shows available only if you are a Charter subscriber or if you're a Comcast subscriber, I think that they absolutely have to go that direction. But I still think it'll be a big part of our package, a big part of our Starz offering.

We'll have a ton of subs that way. But as I said before, all subs are not created equally. So that's why it's so important for us to add over-the-top subs. That's why, again, if I were in your seat, I would look at not necessarily what are the total subs, look at the revenue. Is the revenue going up or down? Are they – and I would pay specific attention when we share the data on how many over-the-top subs we've added. And again, that's the value proposition domestically, but the world is our oyster internationally.

And as evidenced by the Starz Play Arabia, which everybody sort of shook their heads and said, "You guys are crazy." But that's doing very well. You'll hear more about that specifically on the earnings call. But these other international marketplaces, there's a lot – there are a lot of subscribers to pick up there, particularly if you have the right offering. What people don't understand is that how good the value proposition is for the Starz app.

Over the course – no one ever gets this question right, but over the course of the calendar year, you will – if you're a Starz subscriber, you'll be able to watch 4,000 movies over the course of the year. People are looking for value, and Starz – obviously, Netflix gives them that, but so does Starz in a big way.

<Q – Matthew Thornton>: And we'll take one more from the audience. Anyone else? All right, I've got two more here. Consolidation, we've got either Comcast or Disney for FOX. You got Viacom and CBS potentially coming back together. John Malone's called you guys both predator and prey. What's your latest thinking on – Sony has said that they're going to be a consolidator. What's your latest thinking on just the industry consolidation? And do you think some of this consolidation will help some of the box office crowding, kind of alleviate that a little bit?

<A – Michael Burns>: I do. I think whether it was – I still bet on Disney, by the way, because you got a look at that deal. It was effectively a stock-for-stock deal. And Rupert believes that the best interest of the shareholders – of the FOX shareholders is to roll into Disney stock, and I would not bet against Bob Iger. But – whereas the other one – I understand why the Comcast offer is all cash because the issue is it's a controlled stock situation.

I don't know why Mr. Murdoch would have any interest in that because I think he's going to have a significant board representation and, if he does the Disney deal, that FOX shareholders will have effectively, what was it, 25% of the combined company, the big slug of that. So – and again, one class of stock. So I think that if I were going to bet, I think that Disney ends up with that and for the reason that he thinks he's got significant upside on the Disney stock. I think Comcast play – again, I don't speak for Brian Roberts or any of those.

I think they've got – I think that it's the international play. That's why they're interested in that particular asset. The international play is an opportunity for them. But I do think you will continue to see consolidation. Look, I think, eventually, all the FANG stocks show up. Because Netflix is already in the digital world, so I think all of these guys show up, which is the idea about how do we supercharge this content offering.

And do I want to control my own library to help do that in a variety of ways? So I do think that there will be land grabs happening. It's just a question of when.

<<Matthew Thornton, Analyst, SunTrust Robinson Humphrey Inc>>

All right. With that, we're about out of time, so why don't we wrap it up there. I just want to thank Michael and James for being here with us this morning. And thanks, everyone, for joining us for the fireside chat with Lionsgate.

<<Michael Burns, Vice Chairman>>

Matt, thank you.