Lions Gate Entertainment Corp.

Fiscal 2019 Third Quarter Earnings Call

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CORPORATE PARTICIPANTS

Jon Feltheimer - *Chief Executive Officer*

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James Marsh – *Head of Investor Relations*

Jeff Hirsch – *Chief Operating Officer, Starz*

Joe Drake – *Chairman Motion Picture Group*

Kevin Beggs – *Chairman Television Group*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Lionsgate Fiscal 2019 Third Quarter Earnings Call. At this time, all telephone participants are in a listen-only mode. Later we will conduct a question and answer session. Instructions will be given at that time. If you should require assistance during the call, please press "*" then "0" on your phone keypad. As a reminder, this conference is being recorded.

And I'll now turn the meeting over to our host, Head of Investor Relations, Mr. James Marsh. Please go ahead, sir.

James Marsh

Good afternoon. Thank you for joining us for the Lionsgate Fiscal 2019 Third Quarter conference call. We'll begin with opening remarks from our CEO, Jon Feltheimer, followed by remarks from our CFO, Jimmy Barge. After their remarks, we'll open the call for questions.

Also joining us on the call today are Vice Chairman Michael Burns; Starz COO Jeff Hirsch; Starz CFO Scott Macdonald; Lionsgate COO Brian Goldsmith; Chairman of the Motion Picture Group Joe Drake; Chairman of the TV Group Kevin Beggs; COO of the TV Group Laura Kennedy; and Chief Accounting Officer Rick Prell.

The matters discussed on this call include forward-looking statements, including those regarding the performance of future fiscal years. Such statements are subject to a number of risks and uncertainties. Actual results could differ materially and adversely from those described in the forward-looking statements as a result of various factors, including the risk factors set forth in Lionsgate's most recent Annual Report on Form 10-K, as amended in Lionsgate's most recent Quarterly Report on Form 10-Q filed with the SEC. The company undertakes no obligation to publicly release the result of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances.

With that, I'll turn the call over to Jon.

Jon Feltheimer

Thank you, James, and good afternoon, everyone.

We just reported a strong quarter with significant free cash flow and a solid earnings performance.

Jimmy will drill down on those metrics in his remarks when he talks about our capital structure and lays out our timetable for deleveraging.

As we approach the start of a new fiscal year, all signs are pointing toward strong growth across all of our businesses.

And as I go through my remarks this afternoon, I will highlight four key elements of our performance in the quarter.

First, the rapid pace at which we're refilling our feature film and television pipelines

Second, our targeted premium programming at Starz. Combined with the flow of data from our direct to consumer business, the strength of our slate continues to reduce churn and drive robust domestic over-the-top subscriber growth and our disciplined international expansion.

Third, our recent momentum in bringing our Lionsgate and Starz assets together and taking our Company to the next level as we begin to achieve the multiplier effect we've always envisioned for our content, talent, and partners.

And finally, the steps we've taken to right-size our business, simplify our organization, and streamline our infrastructure as part of our commitment to invest more money in content, not overhead.

Today, I'll take you through some examples of how all the pieces are fitting together as we continue to combine our best-in-class content engine with a fast-growing global streaming platform to create a compelling value proposition for our partners and our consumers.

For our Film Group, the fiscal year gets off to a fast start with fan favorite *Hellboy*, the irreverent comedy *Long Shot*, and the latest installment of our *John Wick* action franchise. Footage from *Hellboy*, starring *Stranger Things* David Harbour in the title role, was a sensation at New York Comic-Con, and its legions of fans worldwide are eagerly anticipating its April 12th release. *Long Shot*, teaming the incomparable Seth Rogen with superstar Charlize Theron and directed by Jonathan Levine, will premiere at the South by Southwest Film Festival next month and tested so well that we moved its release date up to a pole position in May. And with the highly successful launch of its marketing campaign last month, everything points to *John Wick* becoming one of those rare franchises that continues to build from movie to movie.

With a line-up that also includes Charlize, Nicole Kidman and Margot Robbie starring in director Jay Roach's film, written by *The Big Short* screenwriter Charles Randolph… Roland Emmerich's epic action film *Midway* in November… and *Star Wars* director Rian Johnson's murder mystery *Knives Out,* featuring an all-star cast, at Thanksgiving, our motion picture business is poised to return to form in Fiscal `20.

During the quarter, we also added exciting new projects with key talent, including Ryan Reynolds in *Shotgun Wedding*, following up our partnership on *The Hitman's Bodyguard* series, and Kevin Hart, starring in and producing *Monopoly,* to be directed by Tim Story, with our partners at Hasbro.

And today, I'm pleased to announce the next film in our collaboration with the iconic faith-based producing team the Erwin Brothers. *I Still Believe*, which begins shooting this spring, follows in the footsteps of their breakout hit *I Can Only Imagine*.

At Starz, we have developed a programming slate deep in areas of proven strength that will drive subscriber growth year-round, from *Power* to *Outlander*, the highly-anticipated return of *American Gods,* the debut of surreal comedy series *Now Apocalypse* from iconic indie filmmaker Gregg Araki, and the upcoming new drama *The Rook.*

The strength of this programming line-up, highlighted by season-over-season growth for *Outlander* in the quarter, coupled with everything we're learning from our over-the-top business about reducing churn and targeting our audience with laser precision, resulted in overall domestic subs holding steady at 25.1 million, with post-*Power* churn down 27 percent compared to last year. Even more significantly, Starz continued to achieve robust sequential quarter-over-quarter growth of over-the-top subs.

While we're very pleased with how quickly our direct-to-consumer offering has grown into a substantial and valuable service, we're also mindful of the industry headwinds in the traditional domestic MVPD space. In response, we continue to innovate, presenting our long-standing linear partners with packaging flexibility, new and engaging premium programming, and a compelling value proposition that we believe will continue to attract and retain subscribers.

On the Starz international front, we have already accomplished a great deal. In addition to a successful rollout with Amazon Prime in the UK and Germany and last month's launch on Liberty Global's Virgin Media, also in the UK, we'll debut Starz in Canada on Bell Media's linear and over-the-top platforms in March. I should note that our Starzplay Arabia venture, with over one million subscribers, continues to grow its SVOD leadership position in the Middle East and North Africa.

But we've only begun to scratch the surface. As we continue our global expansion, we intend to utilize every competitive advantage we have as a fully integrated global media company to maximize our impact in every territory we enter.

We're doing this by leveraging our new releases and deep catalog of Lionsgate and Starz content… augmenting our content offering in the UK and other territories with locally produced film and TV content… and capitalizing on our ability to quickly deploy our proprietary streaming platform across the globe… all positioning Starz to scale effectively across multiple territories with our existing partners with whom we've already launched and with new global players preparing to enter the marketplace.

Turning to our Television Group, we're focused on three objectives – becoming a supplier of choice to the streaming platforms that have become aggressive buyers in the marketplace, replenishing our slate with exciting new properties, and using our content engine to drive growth at Starz.

We made progress on all three fronts during the quarter.

After receiving a series order from Apple, production is underway on a workplace comedy set in the video game world from *It's Always Sunny in Philadelphia* creators Rob McElhenney and Charlie Day. Produced by 3 Arts Studios, Lionsgate and Ubisoft, this represents the first of several production commitments we've received in the months following the formation of our partnership with 3 Arts. Another high-profile series with a top premium platform will be announced in the coming weeks as our 3 Arts relationship continues to become one of our most important and prolific content partnerships.

Our TV Group continues to move to a decentralized "pod" strategy, partnerships with production companies and other platforms that is a little more nimble, less reliant on infrastructure, and the major source of new Lionsgate TV content moving forward. In fact, 44 of our last 50 projects set up at networks have come from these content partnerships.

Just last month, NBC announced the pilot order of our musical dramedy *Zoey's Extraordinary Playlist*, a unique collaboration among three of these production partners – Universal Music Group's Polygram Entertainment, *A Simple Favor* director Paul Feig and the prolific Tannenbaum Company – in a perfect example of Lionsgate 360.

And finally, we're looking forward to the upcoming launch of *The Rook* on Starz this summer, with the John Wick TV spinoff *The Continental* and a number of other Lionsgate studio projects right behind it in fast-track development. This is just the tip of the iceberg in terms of the vision we had when we merged our two companies – investing in and nurturing talent relationships together, retaining rights to our intellectual property, cross-promoting our content and utilizing all of our global relationships to maximize our biggest competitive advantage.

In closing, I'd like to acknowledge Chris Albrecht's contributions in transforming Starz from a legacy media network to a forward-looking streaming platform. He worked closely with me to position Starz for the next phase of its growth, and he leaves behind a strong programming slate and a talented leadership team. I'm confident that we will maintain our momentum without missing a beat.

We also remain confident that our response to the challenges of our operating environment is the right one – relying on our agility and innovation and continuing the exciting work of bringing a network and a studio together to form a content-rich global streaming platform that creates significant incremental value for its partners, consumers, and shareholders.

Now I'd like to turn the call over to Jimmy.

Jimmy Barge

Thanks Jon and good afternoon everyone. As we discuss the quarterly financial results, I'll also update you on our outlook as well as the balance sheet.

For the F3Q, AOIBDA came in at $171M on revenue of $933M. In the quarter, reported FD EPS was $0.10 per share while FD Adjusted EPS was $0.35. Just a reminder when you're comparing to the PYQ, recall last year's reported FD EPS was positively impacted by the $165M tax benefit related to US Tax Reform.

Now turning to FCF. FCF for the quarter came in at $274M as cash flow from operations benefited from timing of working capital improvements and monetization of receivables.

Now I'd like to cover some of the performance highlights across our businesses. If it's helpful, you can follow along on the updated trending schedules that have been posted to our website.

In Media Networks, segment revenue of $367M was up 4% from the prior year quarter and was primarily driven by strong OTT subscriber growth. Segment profits of $134M were up nearly 10% driven by OTT revenue growth and cost saving initiatives. Starz ended the quarter with 25.1M subs, which was sequentially flat, and up 1.1M year over year. Once again we saw growth in OTT subscribers, reflecting solid retention following the second quarter premier of *Power*. I will remind you that sub numbers only include our domestic business at this stage. And as we mentioned on our year-end F18 call, we are well positioned to deliver full year-over-year F19 growth on Starz domestic subs.

In our Motion Picture segment, revenue was $363M and segment profits were $44M compared to $54M in the PY quarter. This was largely driven by the underperformance of certain titles in our F19 slate vs difficult comparison with the exceptionally strong performance of *Wonder* in the PYQ.

In our TV Production segment, revenue was $217M in the quarter, and $21M of segment profits compared to $28M in the PY quarter which, you will recall, included a difficult comparison against SVOD sales. Revenue was negatively impacted by the timing of certain episodic deliveries which have moved out of FY19.

Now looking ahead, we continue to feel comfortable with our guidance for a 3 year AOIBDA CAGR of mid-to-high single digits, which includes the absorption of annual startup losses of $30 to $40 million in the three international territories, Canada, Germany, and the UK, where we have already launched.

As for cadence on the balance of F19 and going into early F20, I would remind you once again that we expect our F4Q to absorb a substantial amount of P&A spend in anticipation of the F20 1Q releases of *Hellboy, John Wick Chapter 3,* and *Long Shot*. As you may have noticed, the release date of *Long Shot* recently moved up from early June to May 3rd. Accordingly we start F20 with three films we are really excited about and that will obviously put some pressure on MPG profitability in our upcoming quarter.

Now for a quick update on the balance sheet and our plan to de-lever while still investing in our core businesses. As we noted last quarter, we agreed to pay the final $800M installment of Starz merger consideration to the Dissenters and just over $100M in accrued interest per Delaware statute. Additionally, we agreed to an incremental $59M to conclude this matter. As mentioned on our last call, we fully funded these payments with cash-on-hand and by drawing down $840M on our revolver. By the end of the quarter, we had paid down the revolver to $520M using FCF and cash on the balance sheet. This reduced our peak leverage by almost a half turn.

We ended the quarter with 5.0X leverage and we will continue to prioritize deleveraging going forward. Under our current plan, we expect to get leverage down to 3.5-4X by the end of F20. As you have seen, subsequent to quarter end we issued $550M of unsecured bonds and completely paid off the revolver. This leaves us with $1.5B of unused capacity on the revolver.

In addition, we have substantially limited our interest rate risk by entering into long term swaps that effectively 'fix' our interest rate for just over 90% of our total debt. Our average interest rate is expected to be around $5^3/_8$% for the balance of F19 and F20.

Now I'd like to turn the call over to James for Q&A.

James Marsh

Hey Lori, we can open up to questions at this stage.

QUESTION AND ANSWER

Operator
Ladies and gentlemen, if you would like to ask a question, press "*" then "1" on your touchtone phone, you will hear to tone indicating you've been placed in the queue, you can withdraw your question at any time by pressing the # key. If you are using a speakerphone, please pickup the handset before pressing the numbers. Once again, if you have a question, press "*" then "1" on your phone keypad.

Our first question is from the line of Ben Swinburne with Morgan Stanley. Please go ahead.

Ben Swinburne
Thank you, good afternoon, everybody. I have a couple of questions on Starz. Can you guys talk a little bit more about the international outlook as you see it today, particularly in Europe, and when you might think about...I know you've talked about this before about consolidating the Arabia business back in? That business globally seems to be really taking off, but it's not necessarily evident in the numbers yet. And then, I'm wondering if...I think Jeff's on the call, if you could talk a little about your Amazon relationship, I know it's something that's been a positive contributor to growth in the U.S. and probably outside the U.S. as well, but there has been some Middle East press speculation that they've become...either asking for more economics in terms of distribution fees or become more challenging to work with. Any comments from your perspective on Amazon as a distributor would be great.

Jeff Hirsch
So, its early days in international, but we're off to a great start. We feel really good about what we're seeing in UK and Germany. The Starz original content coupled with the Lionsgate library is really being consumed in those markets. And so, it gives us great confidence that we can expand around the world with what we have today.

In terms of STARZ PLAY Arabia, we think it is a great management team, great product, great tech platform that we can expand all over the world as well. And so, we have a lot of flexibility in terms of which tech platform we use, whether we expand it into India or to South Africa or we use our domestic product in Europe. And so, we feel really good about what Maaz has built there, as a management team, we will continue to look at opportunities to consolidate that business over time but right now, we feel pretty good about what Maaz has built.

In terms of our Amazon relationship, they are a great partner both domestically and internationally. We continue to have...even in the quarter that we just had, we had great performance on Amazon domestically. We continue to launch...we continue to look at markets in UK and Germany and the countries around there and they're thrilled with the progress that we've had to-date in the growth of our products.

Ben Swinburne
Great, if I could just ask a quick follow-up to Jimmy on the deleveraging plans. I'm assuming that's just normal free cash flow generation paying down debt as the business performs, there is nothing else contemplated like asset sales or anything else in that 2020 target you gave us?

Jimmy Barge
Well, what we think on the…well, that's for sure, it is coming out of free cash flow and its operating free cash flow, but also in terms of our monetization program, we think that we can significantly reduce our future working capital needs here in a very sustainable way and we would also use that cash to de-lever.

Ben Swinburne
Okay, thank you

Operator
We'll go next to Bryan Kraft with Deutsche Bank.

Bryan Kraft
Hi, good afternoon. I wanted to ask you just on Starz, the revenue looks like it declined sequentially, despite subscribers being flat, and just want to understand that better, is that because their DT subs were down during most of the quarter post power and then return to growth later in the quarter or was it more on the MVPD side and was there anything one time in there like MVPD revenue true-ups or anything like that? And then also I wanted to know if you could talk a little more about what you're seeing on the virtual MVPD side. It sounded like you are…or on the MVPD side, excuse me, it sounded like you were referring to some weakness there and maybe if you could just comment on how the…who the relationship is going? So thanks for this.

Jeff Hirsch
So the first part of your question, as a post power quarter we did see the subscribers leave the business earlier in the quarter, but then we came back later in the quarter. So you will see a move in revenue that way because of the timing of the subs coming on to the footprint.

In terms of the MVPD business, we continue to be a strong partner to all of our traditional cable operators, telco and satellite partners and we feel really good about the value proposition that we provide to them with a strong slate of programming that we have. Additionally, over the last couple of months, we have negotiated…renegotiated our supplier…our movie supplier deals to allow us to be much more creative and much more flexible in how our traditional partners package us which allows us to actually adapt as their business changes and help them grow there sub base as well.

Can you repeat the Amazon question, I'm sorry.

Bryan Kraft
Yes, but actually Jeff, if I could ask a follow-up on that. I guess my interpretation of what you just said about the movie deals is that maybe you don't have to be sold through the basic package, and maybe you could be sold, as on a standalone basis or attached to broadband, was that what you were getting to?

Jeff Hirsch
Yes. So two major studios where we did those deals to allow us to be packaged as low as basic on broadband only, on wireless and it gives us great flexibility as their business changes, to change with them, and I think it puts us in a very unique position for the traditional side. Hulu, yes. So we launched Hulu in the quarter, we are off to a great start with Hulu, you know, I would say Hulu has told us it's probably the best premium launch to-date, and so we're thrilled with the numbers that have come in late in the quarter and we hope that will continue…we expect that to continue this year.

Bryan Kraft
Thank you. Very helpful. Thank you.

Operator
And we'll go next to Vasily Karasyov with Cannonball Research. Please go ahead.

Vasily Karasyov
Thank you. Good afternoon. Jimmy, I was wondering if you could give us a little more detail around the drivers to get to the guidance. I think qualitatively, you gave us a lot to think about, but let's say assuming you get to the mid-point of your guidance. Can you tell us how much of contribution from each segment should you expect and what drivers are what gives you confidence that we will get there after the year is not that inspiring so far, we knew it wouldn't be, but still…?

Jimmy Barge
Well, thanks Vasily. Listen, yes, we previously said fiscal 2019 was always anticipated to be a year of increased investment and reposition our Motion Picture Group. As we look forward, I think with regards to the cadence of what we're expecting for the remainder of this year, before moving into 2020. As I've mentioned, our P&A spend on early fiscal 2020 releases, which is more front-end loaded than generally with regards to the 2020 slate, which we are very excited about, but it does put P&A spend into Q4. As I mentioned, TV episodic deliveries, we had some that moved out of fiscal 2019. We have, on the TV side, also it's our first...we have the first full year, moving into 2020, our first full year of 3 Arts Integration. So we come out of 2019 with episodic deliveries moving into 2020, as well as, 2020 in TV with our first full year of 3 Arts Integration moving there.

On the…moving into 2020 in terms of Q4, on Media Networks, we continue to invest in our successful international launches and drive over the top subscriber growth, both in current end programming and marketing costs with the…remind you the Q4 premiers of both *American Gods* and *Now Apocalypse*. So given these changes, I would now expect Q4 to look more like Q1 in fiscal 2019. And then moving into 2020, we are very well positioned again with a strong slate moving in on the motion picture group with the first quarter releases of *Hellboy*, *Long Shot*, *John Wick 3*, we cover TV and media networks, obviously, the continued over-the-top revenue and subscriber growth continues into fiscal 2020. The other thing lastly I would add is that, as Jon referenced in his remarks, we are going to see cost containment and G&A savings across all of our businesses, as well as, corporate.

Vasily Karasyov
Alright. Thank you.

Operator
And we'll go to Alexia Quadrani with JP Morgan. Please go ahead.

Alexia Quadrani
Hi, thank you. Just I have follow-up on the Starz commentary about the…we've seen the strong growth in the over-the-top subscribers. Is there any…did the $5 holiday promotion I think you had over the December quarter. Did that help at all in terms of expanding user base, I mean, do you tend to do those promotions from time-to-time, and I guess how successful are they in terms of getting the additional subscriber and sort of keeping them in terms of what the churn looks like after it's over? And then just a second question really on the television…on the TV production side, is it a much more competitive marketplace now for the production and does your partnerships that you referenced in your earlier remarks, does that really make a competitive advantage in terms…or has that become more and more the industry standard?

Jeff Hirsch
So on the Starz question; we did do a holiday sale in December. We have found from the data that movies like Home Alone, Home Alone 2, Home Alone 3, if they make 5, 6, and 7 would be amazing as well, drive a ton of subscribers during the holiday family period, and so we decided to try retail sale this year, it was a three months for $5, so we haven't seen the back end of the churn yet but we are watching it very closely.

Kevin Beggs
And, Hey Alexia, it's Kevin. Speaking on the TV side. Yes, the environment is as competitive as ever, the good news is there's many more platforms to sell to, but the...the key is really for us is partnership…strong partnerships within the group and outside of the group. So starting with our Starz partnership, knowing that we have a premium platform in the family that for the right product is going to be a good home and expanding into it is global markets is really important. *The Rook* is case number one and the *John Wick* Spinoff, *The Continental* which is coming on great is really great example of that. And then in the larger kind of talent partnership family, the 3 Arts relationship has just really benefited everyone. Jon referred to the comedy that we're doing together with 3 Arts studios and Rob and Charlie from the *Sunny in Philadelphia* team at Apple, there is another one brewing with another high profile talent from 3 Arts who is going to turn into a series order, Courtney Kemp who is the creator of *Power* with

whom we've done now two overall deals in successive years is really hitting on all cylinders, *Dirty 30* was announced in HBO earlier in the week. That's a property that wasn't exactly right for Starz, but had multiple bidders and is perfect for HBO. And we're seeing that again and again from all the partnerships, we are focusing in on the ones that are the most prolific, Paul Feig is hitting it out of the park, Eric and Kim Tannenbaum have sold 12 projects since August, Universal which is our newest partnership as part of two new series that we're doing and on and on. And so, you've got to come in with your A game, but we really have it and it's been exciting time to be a seller in the business.

Alexia Quadrani
Thank you very much.

Operator
And we'll go to Steve Cahall with RBC Capital Markets. Please go ahead.

Steve Cahall
Yes, thank you. Maybe first question for Joe, you know, I know there's a lot of exciting releases coming up in the fiscal first quarter of the year, but just when we look at the way the guidance works, it's really about 2020 over 2017 and there was a pretty good slate in 2017, including a *John Wick* film and *La La Land*. So I was just wondering if you could let us know what you are thinking about the ability to drive profit growth in 2020 off of that tougher 2017 base. And then Jimmy appreciate the comment on improving working capital. I was wondering if you would be able to maybe size what you think the cash contribution of that improvement to working capital might be as you move forward, so we can factor that into our free cash flow and de-leveraging. Thanks.

James Marsh
Steve, just to clarify there, you mean 2019 into 2020, the build on motion picture.

Steve Cahall
Well, so you know, thinking 2019 into 2020 is kind of an easy comp, but the way your guidance works, it's a fiscal 2017 to 2020 CAGR. So I think a lot of the streets going to be focused on how 2020 compares to 2017 because that's just how the math works. So just trying to think about how 2020 kind of looks, I know, it's up on 2019, but how does it look versus that tougher historical comparison that drives the guidance?

Jimmy Barge
Relative to...Steven, great question. And I can understand why your comping back to that, but in terms of just guidance and comparative financially, we're not going to be comping back to the 2017, but clearly Joe can talk about the excitement of the 2020 slate, and how that looks a lot like earlier slates in earlier years versus 2019 for example.

Joe Drake
Yes. But…what I would say to you is that, at…2017 is actually an interesting context because when you look at the slate that we've put together, you've got a very balanced slate both in terms of big brands that can perform a mix of genres. We have been very focused on the actual appetite and those audiences that...those audiences have appetite of this kind of content. We've got a variety of financial metrics on our movies with different risk profiles, all mitigated in different ways and that all adds up to great downside protection and a ton of upside. And so, what's interesting about 2017 no big franchises…no obvious big franchises in that year and yet still delivered a lot of performance. What you're seeing in 2020 is a really exciting slate that absolutely reflects the content strategy that we've put in place. We've turned the corner some interesting metrics about 2020 is that we're a front loaded year which will both help our ultimate contribution in year, but also drive more profit into this year coming out of the weaker year. And yet, when we...the other thing that has happened, we talk a little bit how we've really focused our development in the company, while yet bringing those development costs actually down, we've got a robust slate of development that's really geared up to greenlight in the near term. So we are not reliant on all acquisitions, we're in control of our own content and that is set up to deliver even further growth in the

subsequent years. So very excited about 2020, it does represent our content strategy, but we are set up actually for growth beyond that.

Jimmy Barge
And Steven, regarding your question about sizing the monetization, as we disclosed in the 10-Q, we monetized $130 million of various short and long-term receivables at very attractive rates during the quarter. We're in a great position and actually confident that we can continue to accelerate cash receipts at discounted rates that are lower than we could otherwise borrow on the revolver. We also think that we can significantly limit our working capital needs going forward and provide additional sources of funds to de-lever. I would say this is particularly effective in supporting our operating cash flows as, you know industry payment terms have lengthened over the past few years. So I am not going to size a program in total, but I would say that if you look at the historical pattern of our receivable balances and look at the quality of the underlying credits within those balances that we would expect this receivable monetization to be sustainable at meaningful levels and relative to de-levering, I would suggest and tell you that that's been factored into our plan in terms of de-levering to 3.5 to 4 times range by the end of fiscal 2020.

Steve Cahall
That's great color. Thank you.

Operator
And next, we'll go to Amy Wong with Macquarie Securities. Please go ahead.

Rachel
Hi. This is Rachel for Amy. You mentioned de-levering…but can you discuss your priorities with cash now dissenter's is over, is M&A on the table?

Jimmy Barge
Well, in terms of use of cash, obviously we're going to first and foremost be investing in our core businesses, there is a lot of exciting opportunities, we've touched on a lot of them including international opportunities and driving the subscriber base at Starz. Then we are focused on de-levering. But M&A is never off the table for the right opportunities, but I would say it's in that order.

Rachel
Okay. Thank you.

Operator
We have a question from Matt Thornton with Suntrust. Please go ahead.

Matt Thornton
Hi, good afternoon everyone. Thanks for taking the question. Maybe two if I could. First on the TV production push out, just maybe give us a little more color on what that was…is the 100% just moved from 2019 into 2020, so the risk of loss of revenue and maybe even in a sizing, you can offer would be helpful? And then just secondly, you talked a little bit about the spend on Starz International. When might you think about breaking out international contribution…international revenue subs profit, because obviously right now I think when you look at the stock, a lot of people apply a multiple and thus by default they are actually applying a fairly negative value to the international business, whereas if you kind of break that out, people can kind of do a little more…sum of the parts type of work. So just any thoughts on when you might think about breaking that out would be helpful? Thanks everyone.

Jimmy Barge
Great question with regards to the international investment, look, we're really excited about this opportunity as you know. We're currently not breaking out the entire international business at this time, but as I mentioned in my remarks, the investment of the current launches in Canada, Germany and U.K., right around $30 million to $40 million in terms of an annual impact of that investment that shows up as annual start-up losses. We think this, just like Starz Play Arabia really represents a hidden asset. As our international footprint grows we will absolutely provide more information including subscriber information

and likely break this out as a separate business line, so you'll have...you'll see more clearly the investment that we are making, as well as, have more information and visibility in order to determine the value that we are creating there. I would just say any additional launches would be very financially efficient in the context of including various launch partners, as well as, use for our own content which Jeff can elaborate on more.

James Marsh
Okay. Why don't we go to Kevin just to explain the push-out on some of the TV shows…? Kevin.

Kevin Beggs
Yes, just specifically we're talking about *The Rook*, *Dear White People*, couple episodes…few episodes of *Orange is the New Black*. And some of this is…again and this is incredibly competitive content, explosion the artists or show runners have a variety of options in front of them when you're not in a 22-episode broadcast environment, someone like Justin Simien the creator, show runner…co-show runner of *Dear White People* had an opportunity to make a movie this summer before he jumped back into *Dear White People*. That pushed the production start, movie went a little [ph] long, in essence, pushed it out of the fiscal. So no revenue changes their, timing change for sure it's a great show. His star is on the rise, a successful second movie follow-up to his original movie *Dear White People* is good for us, good for Netflix, good for everybody involved in the franchise and you make those audibles on the day and you say we're going to take a little pain short term for a long-term gain.

The Rook, the air date was always a little bit of a movable chess piece on the Starz lineup, they moved it into later this summer that gave us more time to work on the special effects on an effects heavy special sci-fi paranormal thriller kind of show, and when you get time, you take it because you want to be great. And *Orange* we are going in to our victory lap on this amazing show that's been on and been one of Netflix's biggest drivers into domestically and internationally and a huge revenue and earnings driver for us. The last few episodes are going to be special and big and a little longer than normal and those are going to slide because they are shooting over a longer timeframe and those are the three that really mean the difference.

Matt Thornton
Okay. That's very helpful. And I like that you refer to the chess piece…the chess board when you're talking about *The Rook*. And then maybe just one quick follow up if I could on...when we think about fiscal 2020, can we expect more international markets than any other...obviously, you have done a lot of work with Amazon, any other significant partners that you might be working with in fiscal 2020, even if you can't give names, just curious if any other partners we can kind of look forward to? Thanks everyone.

Jeff Hirsch
Yes. So we've talked before in prior calls about launching in markets in France, Spain and Italy. We have not revealed who the partner is yet, but we are continuing to look into that…into those markets to have more distribution partners, so I expect those to come in the coming year.

James Marsh
Okay. Can we go to next question?

Operator
Thank you. We'll go next to David Miller with Imperial Capital. Your line is open.

David Miller
Yes, hi guys. Jimmy, two questions for you if I may. First of all, is there anything we need to do unique to the current quarter, given Chris Albrecht's departure, is there any kind of like acceleration of his contract or any kind of special entry we need to be aware of in the March quarter? And then also, this is for Jimmy as well, is there anything in the quarter that you just reported that accounts for any kind of impairment on Defy Media, which I believe shut its doors in the third week of November. And then I have a follow-up for Jon? Thanks.

Jimmy Barge
Nothing in the quarter relative of any significance relative to Chris's departure and nothing in the quarter relative to Defy that was previously taken care of in Q2.

David Miller
Okay, great. And then Jon as you know, there was a significant price raise with both Hulu and Netflix of late. I love the quality of the product of the Starz app, I just think it's absolutely outstanding, any kind of thoughts on price elasticity or perhaps raising the price once you get a little bit more traction internationally, appreciate your thoughts? Thanks.

Jon Feltheimer
I think that's a great question and I'm going to let Jeff Hirsch answer it.

Jeff Hirsch
On the domestic front, we feel based on the amount of content we have today and how we wanted to position the product at the price point is the right product, we wanted to be viewed as an addition to the Netflix's, the Hulus, the Amazons versus the replacement of. And so we feel pretty good that in year three that we're at the right price point to continue to grow.

Turning to the international, again in the markets that we've launched, based on the amount of content we have again, we feel like we're priced correctly to grow our subscriber base and so we will continue to stay where we are today.

Operator
And our next question from the line of Aravinda Galappatthige with Canaccord Genuity. Please go ahead.

Aravinda Galappatthige
Thanks for taking my questions. Two from me. First of all, just circling back to the free cash flow discussion, thanks for all the color. It's definitely helpful. I just wanted to confirm the cash programming spend, that sort of the expectations that was set in the past to sort of unchanged, I know that we're looking at about $1.5 billion in 2018 going towards $2 billion in cash spend on a consolidated basis in 2020. I just wanted to make sure that that's still relatively in place. And then secondly, can you just help us in terms of very generally P&A spend beyond fiscal 2019. I mean, when you look at 2020 versus 2019, is there any material timing matters we should consider and if there is an update on Chaos Walking release date?

Jimmy Barge
I think you're in the ballpark in terms of just cash, production spend, without getting into the specifics there. And certainly from a P&A timing standpoint, recognize that we have more pre-spend, what we call pre-spend which is spent on 20 titles occurring in ‘19 and is likely to occur in 2020 on our 2021 titles. And I would also add we have two larger films in the 2020 slate with regards to *Long Shot* and *John Wick 3*, and they are early in the period, which allows us obviously to recoup the P&A more quickly in year.

Joe Drake
Just to kind of add on to that, we did a slight increase in the P&A spend in the year to accommodate the things that Jimmy talked about. I will...I want to remind everybody, we...at the same time, really brought a very...a data initiative into the group to create efficiencies and we think we're going to start seeing real efficiency in our spend at the same time, which will allow us to save dollars on a per movie basis in our P&A spend, while hitting the same results, that should really start to impact our movie summer and beyond.

As it relates to *Chaos Walking*, we're looking at dates now. The actors are finally back and available to finish the photography on that. So we're going to pick up the remainder of photography in April and then look for a date. I don't want to telegraph a date yet, because whether it makes it in the late-2020 or early 2021 is still to be determined.

Aravinda Galappatthige
Great, thank you very much.

Operator
And we'll go to David Joyce with Evercore ISI. Please go ahead.

David Joyce
Thank you. Two questions if I could. First thinking about Starz in the traditional distributor relationships, can you talk about the cadence of renewals that are on the horizon and then how your over the top successes playing into that? And then secondly on TV production, given that more of the programmers are seeking some ongoing equity stake in those productions, is that something you are seeing and how will that be impacting on your revenue and margin streams going forward? Thanks.

Jeff Hirsch
In terms of the cadence of the renewals on the traditional business, we don't comment on the renewal cadence, but we do say that we have two or three every year that we're always consistently in renewals with. In terms of the impact of the direct to consumer business on those renewals, I think the data that we've been pulling from the product has really helped us go in and show the value of the Starz original programming and how it can be really helpful for them to actually drive subscribers, retain customers, so that's really been a great addition into the conversation.

Kevin Beggs
On the TV side, there's really been in the last few years the emergence of a couple of different models, traditional models on a licensee basis in which studio controls all distribution after the first cycle on the U.S. platform. That gave way over time to co-productions, which is generally kind of a split right situation and then the emergence of streamers who are on the cost plus basis. And as there are many variations within that, as a challenger brand, from the get go, we've always been willing to co-produce and have done that a great deal, so that's not a surprise or a change for us. What is interesting is holding on to international rights with partners who are taking domestic, let's say, a Hulu or others that gives us optionality internationally, not only for our own distribution and traditional legacy clients, but also in the emerging Starz Play world.

So to have a high profile premium show coming off of a premium competitor that Jeff and his team can access is really, really great and really rare and we look for those and of course there's a mix of shows in cost plus, our near term successes because that's a media profitability and you mix that with long range hits that you think will pay off for years to come. So it really isn't changing revenues or margin, it's really about changing the portfolio and we are deep in the middle of that and of course every new buyer into the market, whether it's Apple or Facebook or YouTube gives us more flexibility.

David Joyce
Great. Thank you very much.

Operator
Our next question is from Doug Creutz with Cowen and Company. Please go ahead.

Doug Creutz
Well, thanks. Could you just give an update on *Kingkiller Chronicles* where that stands as regards to both the movie and the television portion of that? Thank you.

Joe Drake
On the film side, we are taking another pass with the script, we're making good progress, but still in development phase.

Kevin Beggs
On TV, we're in the middle of the writers' room, getting additional scripts and material. We're kind of in lock step with Showtime, who is liking what they're reading and this is a show that you have to have all the 10 first series, first season episode scripts completed based on the scale and size of what you're doing. We're budgeting, scouting locations in every possible location in the world and as we get closer to having all 10 completed, we'll move into a time table for only the show time, but going great, we're really excited about.

Doug Creutz
Great, thank you.

Operator
Ladies and gentlemen, as a reminder if you have additional questions you may queue up pressing "*" then "1" on your phone keypad. And we'll go next to Rich Greenfield with BTIG. Please go ahead.

Rich Greenfield
Hi, thanks for taking the question. A couple. First, when you think about a piece of content, given the strategy from trying to use Lionsgate content to drive Starz, you've got, I think as you talked about, you've got more buyers than ever, you've got Apple coming in strong, you've got Disney starting to buy from the outside, they just announced a CBS content licensing the other day, how do you figure out from a management level, whether a piece of content should be sold externally or put on to Starz. And then, just a follow-up, you've got companies like Comcast that are putting more and more stuff, I want to say on the set-top box, whether it's Netflix or Amazon Prime or Hulu or Tubi TV, not Hulu, Tubi TV or even YouTube, how is that affecting their interest in premium, like, are they deemphasizing premium relative to other distributors or have you not really seen any impact from what Comcast has been doing with third-party applications, non-traditional pay-TV applications on the set top box?

Jeff Hirsch
Rich, it's Jeff. I'll take the second one and then I'll hand the first part back to Jon. I think, we're...in Comcast specifically, we performed very well based on their DMAs and their customer base. We're heavily packaged in a very low tier with them and so they continue to use us as a valuable partner in content service.

Jon Feltheimer
So your first question is a great question and I would say it's is a super high class problem, high class question, because for us, the magic of what we've done is this collaboration between the studio and the platform. And some of the things and some of the considerations that we think about are some of the content potentially that we'll want for the International is going to be a little different than some of the more narrow cast that we've been doing for the domestic. And so every time we have a piece of content, the key thing for me is that the studio and the platform work hand in hand. That's what's happening right now. Kevin and Jeff are already planning and going out to the community, basically saying, we're in this together, we want to open the creative aperture just a little bit wider. We want to attract talent that we haven't attracted before and again we can do that because we have...we're serving on Starz, two different needs, one is domestic and one is the International. And then, you would think maybe its bad news when we take a great piece of property like *Kingkiller* or something else to another network, but we've been very much involved with creating a model where we retain most usually the international rights.

So back to the question that was asked a little while ago, we don't mind if it's a deficit show that somebody else comes in and helps pay for the deficit. That's great in terms of sort of present value, you know, earnings or lowering really our ultimate investment in that product as long as we get the kind of rights retention that we want. So again, I think the key thing is we look at our budgets on Starz, we look at what we want to accomplish both domestically and internationally, but the key thing...the magic what we're trying to create here is this integration, this sort of huge content engine with a huge library, with huge creation of new IP working hand in hand with the platform to really build value. We don't believe that that value is being recognized right now, both in terms of the growth rate right now, with domestic over the top subs as well as the International as well as Jimmy mentioned before, STARZ PLAY Arabia, but we do think that when people actually understand the value of these companies together, we will get that value recognition.

Rich Greenfield
Thank you very much.

Operator
And I'll turn it back to our speakers for any closing comments.

CONCLUSION

James Marsh
Thank you, Lori. I just want to remind listeners to please refer to our press releases and events tab under our Investor Relations section of the company's website at investors.lionsgate.com for a discussion of certain non-GAAP forward-looking measures discussed on this call. Thank you very much.

Operator
Thank you. Ladies and gentlemen, this will conclude the teleconference for today. We thank you for your participation and for using AT&T Executive Teleconference. You may now disconnect.