Lionsgate Entertainment Corp.

Fiscal 2019 First Quarter Earnings Call

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CORPORATE PARTICIPANTS

Jon Feltheimer - *Chief Executive Officer*

Jimmy Barge - *Chief Financial Officer*

Chris Albrecht - *President, Chief Executive Officer, Starz*

Joe Drake - *Chairman, Motion Picture Group*

Kevin Beggs - *Chairman, Television Group*

James Marsh – *SVP & Head of Investor Relations*

PRESENTATION

Operator
Ladies and gentlemen, thank you for standing by and welcome to the Lionsgate Fiscal 2019 First Quarter Earnings Call. At this time, all lines are in a listen-only mode. And later, we will conduct a question and answer session with instructions being given at that time. And as a reminder, today's call is being recorded.

I would now like to turn the call over to our host, Head of Investor Relations, James Marsh. Please go ahead, sir.

James Marsh
Good afternoon. Thank you for joining us for the Lionsgate Fiscal 2019 First 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 President and Chief Executive Officer Chris Albrecht; Starz Chief Operating Officer Jeff Hirsch; Starz Chief Financial Officer Scott Macdonald; Lionsgate COO Brian Goldsmith; Chairman of the Motion Picture Group Joe Drake; Chairman of the Television Group Kevin Beggs; Chief Operating Officer of the Television 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 Annual Report on Form 10-K filed with the SEC on May 24, 2018, as amended in Lionsgate's Quarterly Report on Form 10-Q filed with the SEC on August 8, 2018. 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.

I'll now turn the call over to Jon.

Jon Feltheimer
Thank you, James, and thank you all for joining us today.

We got our fiscal year off to a great start with a strong quarter that reflected contributions from all of our businesses.

I'd like to begin with a few quick headlines –

With gains in over-the-top and traditional subscribers, Starz had growth of 300,000 domestic subs in the quarter.

Momentum continued after the quarter with the launch of Power, the highest-rated premium cable series of the year.

We added a major new content partnership with the announcement of a global music publishing agreement and a 1st-look television deal with the world's largest music company, Universal Music Group.

I'm also pleased to report that, on the heels of the breakout hit I Can Only Imagine, our Motion Picture & Television Groups have closed an overall deal with the Erwin Brothers, leading producers of faith-based film and television content.

Together with our partners at Liberty Global, we began shooting our 1st Lionsgate television series for Starz, The Rook.

This will be followed by our next series for Starz, the John Wick TV spin-off The Continental. I'd like to add that the footage from the John Wick 3 feature film looks terrific.

During the quarter, our Television Group was in production on nearly 50 series in 12 locations.

And I'm pleased to announce this afternoon that our partnership with 3 Arts Entertainment has hit the ground running with our collaboration with Ubisoft on a scripted series for Apple, a comedy created and executive produced by Rob McElhenney and Charlie Day, the creative masterminds behind It's Always Sunny in Philadelphia.

To sum it up, the quarter reflected the strong and integrated growth of our businesses.

I'm going to focus on Starz this afternoon because we're investing in a programming and international rollout strategy that's working.

In the quarter, new series Vida and Sweetbitter delivered on our commitment to be the platform of choice for diverse and underserved audiences. Both have been renewed for their second seasons.

The return of Power after the quarter has accelerated the already strong growth trajectory of Starz OTT subscribers. Power has become a global brand with broad commercial appeal across most demos, and it's driving a Starz Sunday night programming block that has become dominant in the premium television space.

We're also encouraged to see positive signs in the broader environment. The recent data that we've all seen seems to suggest that cord-cutting is decelerating industry-wide, and the growth of virtual MVPD subscribers is beginning to offset the loss of traditional MVPD subs.

As a platform with a flexible, lower-cost product, Starz is well positioned to capitalize on this growth and to benefit from the higher margins generated by virtual MVPD subscribers. Starz is already on DirecTV Now, YouTube TV and Sling, and we will launch on Hulu in October.

With this anticipated uptick in virtual MVPD subs and the heart of our programming slate still to come, including Outlander, American Gods and The Spanish Princess, we're bullish about overall subscriber growth for the rest of the year.

Internationally, all the indicators from our rollout to date show that the global arena presents an incredible growth opportunity for Starz.

Our launches on Amazon Prime Video in the UK & Germany are off to a strong start as the combination of Starz original programming, Lionsgate films & television series, and our deep content library is resonating with consumers.

Our Starzplay Arabia venture continues to grow rapidly in the Middle East & North Africa, where we've become the leading subscription video-on-demand platform in terms of revenue and subscribers. And we're pleased to announce today that we've entered into agreements to launch the Starzplay brand in France, Italy & Spain with more international territories and partners to be announced soon.

The bottom line is that we continue to successfully execute on our thesis – investing in premium programming that differentiates us from our competitors domestically while our platform of Lionsgate and Starz content has positioned us to be the launch partner of choice for major global distributors, something that will become evident as we continue to roll out new territories. Instead of our usual rundown of upcoming films and television series orders, I thought it might be interesting to talk instead about the overall talent strategy that will drive these slates.

We've created a unique value proposition for artists with our entrepreneurial culture, our commitment to bold, original and diverse creative voices, and the opportunity to play across all of our platforms in a "no silos" environment.

We bring to this initiative an enormous stockpile of content, expertise in production, marketing and distribution, and executives with great talent relationships across our businesses.

And the talent community is responding. In addition to our partnership with 3 Arts, our new collaboration with Universal Music Group, and the Erwin Brothers deal announced today, we've recently signed agreements with Eugenio Derbez, Salma Hayek, Paul Feig, and Dear White People's Justin Simien and Yvette Lee Bowser. You can expect to see a number of new talent deals in the coming weeks.

In closing, success in today's environment is about who best understands the changing composition of our audiences, the different ways in which content is being discovered and enjoyed, the places where demand is growing and the places where it isn't, and how the needs of our media and technology partners are shifting in response to recent developments.

The value we bring to our partners and consumers is not only the breadth of our content but our agility, our freedom from legacy constraints, our willingness to be a game-changer, and our ability to quickly deploy our content in innovative and exciting ways.

Now I'd like to turn things over to Jimmy…

Jimmy Barge
Thanks Jon and good afternoon everyone. As we discuss the quarterly financial results, I will also update you on our outlook and balance sheet.

For the F1Q, AOIBDA came in at $117M on revenue of $933M. This reflects the ongoing strength of our businesses, with notable success in subscriber growth and ancillary revenues. As expected, the year over year comparisons reflect the post-merger licensing of Power in the prior year quarter and difficult comparisons in the Motion Picture segment. Reported FD EPS was a loss of $0.04 per share in the quarter while FD Adjusted EPS was a profit of $0.18 per share. FCF came in at $114M.

Before I walk you through the results of our various businesses, I will point out the realignment of reporting segments you probably have already noticed in our press release. The purpose of this realignment is to report the results attributed to all of our TV Production business in a single segment and distill the Media Networks segment to more clearly reflect the results of our network distribution business. [We think this better aligns our segments to how we run the business and should be more intuitive for investors.]

I would like to emphasize that the realignment of reporting segments has no impact on consolidated results. You will find more detail in our 10-Q disclosure and Trending Schedules where we have recast all periods in a consistent manner to facilitate comparison. [And of course, James will be available to work with you if have questions.]

With that in mind, I will cover some of the performance highlights across our businesses. If it's helpful, you can follow along on the updated Trending Schedules we posted to our website.

In Media Networks, segment revenue was $355M for the quarter. This reflects an increase of 3% that was primarily driven by OTT subscriber growth. Segment profits were essentially flat from the prior year quarter due to costs associated with our international rollout and a moderate increase in domestic marketing spend. As Jon mentioned, Starz ended the quarter with 23.8M subs, which was up 300,000 sequentially, and reflected an increase in both MVPD and OTT subscribers. Also, it's important to note that these sub numbers only include our domestic business at this stage. [And as we mentioned on our year-end F18 call, we are poised to deliver full year-over-year growth on Starz domestic subs in F19.]

For the Motion Picture segment, revenue of $365M and segment profits of $51.6M included strong ancillary performance on titles like Wonder and I Can Only Imagine. As you were expecting, there was a decline relative to the prior year quarter due to difficult comparisons against titles like John Wick Chapter 2 as well as the continued carryover effect of La La Land.

In our TV Production segment, revenue of $279M was up 7% in the quarter with a decline in segment profit attributable to the post-merger licensing of Power for multiple seasons in the prior year quarter. [Remember that under the realignment, the ancillary sales of Starz Originals have now been included in the TV segment. (Of course, Power continues to drive ancillary revenues, but excluding the year over year quarterly impact of Power, the TV Segment would have been essentially flat.)]

Looking ahead, we continue to feel comfortable with our guidance for a 3-year AOIBDA CAGR of mid-to-high single digits.

Now taking a look at our balance sheet, we continue to maintain leverage in the 3.5 – 4.0X range. (Leverage at the end of the quarter ticked up to 3.8X largely reflecting lower TTM AEBITDA.) Also, since last quarter's call, we hedged another $500M of 7-year LIBOR, effectively increasing our overall hedged position to $1.5B of notional value at just under 2.9%. I would also like to note that we continue to have substantial liquidity with over $300M in cash and $1.5B of undrawn revolver.

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

James Marsh
Great, thanks. Cary, can we open it for Q&A at this stage?

QUESTION AND ANSWER

Operator

We sure can. Ladies and gentlemen, if you would like to ask a question, please press "*" then "1" on your touchtone phone. And if you are using a speakerphone, please pickup the handset before pressing the numbers. Again "*", "1" if you would like to ask a question.

And our first question comes from Alexia Quadrani from JP Morgan. Please go ahead.

Alexia Quadrani
Thank you very much. Just a couple of questions. First, can you talk about the economics of the Starz expansion, whether it's the Hulu or just virtual MVPDs in general that you are adding or also the international expansion you highlighted in your opening remarks? And then my second question is just really sort of a broader question on the TV side. Has your production focused, or does it…does the content sort of strategy focused a bit more now to really aim toward licensing your content to the streaming video players or you still looking a kind of a broader obviously Starz included but a broader kind of audience of potential buyers of your content including still broadcast and cable?

Jimmy Barge
Thanks Alexia. On the international rollout, first, I will just note that while…it's ultimately going to depend on the timing and the structure. The investment related to the release…recently announced launches has been included in our updated guidance. We are certainly excited about the international opportunity and we will keep you updated, as we refine our plans and launch new territories. But at this time we are not going to breakout the specific amount.

Kevin Beggs
Hi, it's Kevin speaking. With regard to the various platforms, we obviously sell everywhere there is a high degree of focus on Starz, but we are in business with all the premium players, all the basic players, the broadcast players, the other streamers. And it's a mix in the market moves and shifts and we move with it. And you know, wherever the product is best served and we feel creatively will be the most robust, and we can drive the best business model is where our product is going to land.

Alexia Quadrani
And Kevin, is there one that…is there a buyer that is maybe more attractive from an economic perspective or does it really depends on the individual content show and the content?

Kevin Beggs
It really depends on the show because every show is different some have stronger international potential. If you have a really strong international show, you want to hold onto as many rights as you can. Something that may be more domestically focused, you might lean more toward a streamer. But generally, we wind up with three or four bidders on most of the projects that we take to the market and then we do a very exhaustive kind of contemplative process to drill down to where we think it will really succeed and where the show will last. And it's not always about the short money, it's really about where can a show go multiple, multiple seasons and bring long term value to the company and the wider company obviously includes our platform partners.

Alexia Quadrani
Thank you.

Operator
Thank you. And now to the line of Ben Swinburne from Morgan Stanley. Please go ahead, sir.

Ben Swinburne
Thanks good afternoon everyone. I think Chris is there, I just want to get a little more color on the Starz strength this quarter, particularly on the traditional distributors, I don't know if we know…but still it's has been a while since traditionally distributed Starz has grown. Can you chalk that up to *Power* or to the new Altice deal to other stuff? Any color on that improvement. And then, how are you thinking about programming the international OTT products versus the U.S. is it...are you thinking about doing things differently overseas in terms of content mix or positioning of the brand or anything like that? Any color there would be great? Thank you, guys.

Chris Albrecht
Sure Ben. Look I think as Jon mentioned in his remarks the recent data that we've all seen is suggesting that there's been some deceleration in cord cutting. So that certainly helps. I think the strength of our programming helps. The consistency of our programming helps and you know, the increased focus on the virtual MVPD products from our partners I think is starting to gain traction. So those are all good things and we've already baked in a ramp-up of our original, so we think that we are going to continue to field an even stronger product.

With regard to the international products, the early returns show us that the Starz originals and the Lionsgate library stuff is among the top performers. I mean, what…what we are gratefully seeing is that the combination of Starz and the Lionsgate library, both television and film are allowing us to become the partner of choice because we can still quickly put together a robust content offerings and be in market like literally within weeks. So this is a terrific advantage that we have, partners are seeing that and we are looking forward to more announcements as we rollout this international expansion.

Ben Swinburne
And just a quick follow-up….

Chris Albrecht
But, I guess…also, I would say that we're sort of curating it differently for different territories depending on what rights we retain and also what we think might work in that territory, and its early days we are going to continue to learn just like we learned in Starz Play, just like we are learning on Starz here, domestically.

Ben Swinburne
Any timing guys on the Arabia consolidation? I think you hinted that that last call, which I think would bring in a decent size international sub number to the business?

Jimmy Barge
Yes, Ben, certainly Starz Play as you point out, is not currently consolidated nor do we include the subscriber count in the numbers that we disclose. And this is certainly one of those hidden assets. While STARZ Play Arabia is currently not included in the sub totals, it will be likely to be included in the future as we start to rollout global…our global footprint.

Operator
Thank you. And now to line of Matthew Thornton from SunTrust. Please go ahead.

Matthew Thornton
Hi, good afternoon everyone. Thanks for taking my question. Just following up on Ben's question there on the MVPD channel, I guess, anything kind of going on there on the Altice side

and that's kind of behind us, I know you've got a new agreement that's a little more favorable going forward. Was that a contributor in the quarter or do you expect that to kind of contribute to the sub, as I mentioned in the back half, some of the recent headwinds with U-verse, with the Charter-Time Warner cutover, some of those headwinds are they kind of continuing to fade or are they predominantly behind us? Is there any update there? And then just on the comment this year, you expect sub growth domestically; I thought was actually new, which is interesting. So I guess that doesn't include any increments from Amazon and the new launches you have coming here, France, Spain and Italy. So I just want to confirm that, any color there would be helpful?

Chris Albrecht
Okay, let me try and remember from the beginning. So with regard to the domestic MVPD subs, Altice has not really been a factor yet. There is still some provisions of that deal that will get enacted as we move forward, and we are hoping that that will be…that will have positive impact although we are not here announcing anything, we will stand by our statement of we look forward to growth. Certainly, as Jon mentioned and as Jimmy mentioned, the strength of this last quarter doesn't include the July 1st, launch of Power where we've seen unprecedented growth on our OTT business, both on the wholesale and the retail side. As a matter of fact, if you took those two businesses together and looked at them collectively, they would represent our third largest distributor. So we think that's a pretty good showing and we hope that we will able to continue that.

We are not counting international subs, there is no announcement as to when we will be doing that, and the Starz businesses are strong. We are working with our MVPD partners. We want to continue to field a great robust product for them, and as there are new partners, the Hulu launch and the strength of the virtual MVPDs hopefully other partners for our OTT business wholesale, as well as, learning more and just getting better at our retail business as the strength and consistency of our lineup rolls out quarter…month-over-month, quarter-over-quarter.

Jimmy Barge
Just to clarify for you as you know, the domestic subs, we are just reiterating that we expect that growth year-over-year that's something we said earlier and it includes both the MVPD and the over-the-top subs.

Matthew Thornton
Right. Yes, I remember the other domestic component of that, so that's encouraging. Let me just put in one other if I could, the announcement in France, Italy and Spain, is that going at alone, is there a partner there, is there a partner you haven't announced you are kind of behind that. And then, just as you think out, just fiscal '20. I think you guys talk about being in 15 markets by the time we exit? Is that still a reasonable bogey? Thanks guys.

Jon Feltheimer
We have announced that the territory for this time we are not going to announce a partner that will come later. And I think, as Jimmy said before, the territories that we've announced so far are included in the numbers that we put out there and if anything needs to be updated, you will be the first to know.

Matthew Thornton
Thanks.

Operator
And that comes from the line of Steven Cahall from Royal Bank of Canada. Please go ahead, sir.

Steven Cahall
Yes, thanks. Maybe just, first as a follow-up on Starz Network, it looks like the ARPU growth has been pretty positive, running around mid-single digits. Just a question if you would expect that to continue? As you give your guidance for the sub growth for the year, I would think if it's coming from OTT, it would, but just to confirm that? And then secondly, with the alignment you've got between the Starz studio and the television segment. Do you get any strategic or operational benefits from that? Do you get any synergies or cost savings from like a single distribution sales force? So anything that's kind of going on there beyond just the way you are reporting, it would be helpful? Thank you.

Jimmy Barge
Could you rephrase that first ARPU question?

Steven Cahall
Yes. So ARPU looks to me like at Starz Network has been sort of growing mid-single digit. So I was just wondering, if you could comment, as you expect the subs to grow. Do you expect the ARPU to continue at this nice sort of mid single-digit rate, as we think about the overall network revenue growth?

Jimmy Barge
Yes, look Steven, we are not going to lean into the projection, specifically on ARPU, but we like where we are positioned, and we've obviously factored that into our guidance.

Jon Feltheimer
So, yes…and can you rephrase this…the second question as well?

Steven Cahall
Yes. So just in the release, you talked about the alignment of Television Production and Media Networks. And I just wanted to understand if that's actually starting to put teams together and if so, do you get any strategic or operational benefits from that alignment?

Jon Feltheimer
Yes, I think that's the magic of our company. I think our teams speak not once a day, but ten times a day. I think the television team is totally focused on premium product for Starz and I think the Starz team is reaching out talking about what their needs are. I think there is cross platform marketing across as we have a huge spend in terms of marketing and our feature film group is keen always on delivering our 100s of millions of social sites of followers to promote new Starz launches and vice versa. There is huge amount of efficiency in the retention of rights and our ability to look across the globe and the right way to monetize those, and the right way to use them across all of the Starz's platform, I could go on and on. But as I say that's I think our secret sauce it's the way all of our divisions if you add them up punch way above their way when we put them altogether, we saw all the synergies that we fit our initial synergies, both below the line and above the line tax benefits. We accomplish all of those and actually exceeded all our estimates at first. But I can tell you that as we continue to operate, we continue to even larger synergies both above and below the line which we are going to be taking advantage of.

Steven Cahall
Thanks.

James Marsh
Thank you. Next question, Cary.

Operator
Thank you. And it comes from the line of Amy Yong from Macquarie Securities. Please go ahead.

Amy Yong
Thanks and good afternoon. Maybe a couple of questions from me, first on the acquisition of 3 Arts, Jimmy can you confirm that it was roughly $170 million in the quarter? And then any comments to contribution to revenue or the bottom line? And I guess for Kevin, what are you hoping that this acquisition will drive to the TV segment? And then free cash flow obviously grew nicely in the quarter. Any other commitments that we should be aware of, whether or not [indiscernible] liability or the buy-in of Arabia? And then lastly, any broad comments on the recent forward movement with Chairman Malone leaving? Thank you.

Jon Feltheimer
Hold on, let me cover that, it's Dr. Malone, not Chairman Malone.

Amy Yong
Apologies.

Jon Feltheimer
And the only thing that I would say is, he is going to be involved with us in a lot of ways it remains one of our largest shareholders, he is going to be well represented by Dan Sanchez, who was already an observer, knows the company extremely well, and I would only add that we are going to continue to count on Dr. Malone's continuing wisdom which is very, very deep and his interest in our company. Why don't we…Jimmy go on to the…that first question?

Jimmy Barge
So relative to…Amy, relative to 3 Arts, beyond what we laid out in the 10Q we are not really disclosing more there, but what I would tell you is the impact during the quarter was immaterial and this is certainly an important asset, we would expect it to contribute our future growth but all that's factored into our guidance. And I think it's important to remember that 3 Arts is more important as a strategic long-term asset rather than a near-term contributor to growth.

James Marsh
And then, Amy, can you just rephrase your question about acquisitions, there was something else embedded in that, I've missed it.

Amy Yong
Sure, I was actually wondering if you could talk about sort of the free cash flow commitments that you might have going forward. Obviously if you [indiscernible] you have the dissenter liability, you have the buying of Arabia? Anything else that we should be thinking of?

Jimmy Barge
Sure Amy from a balance sheet perspective look…and particularly the dissenter liability as you mentioned. The court date is set for October, you will see that in the Q. You will also see that

we've accrued liability of roughly $885 million in the Q as well. Other than that, I'm not going to comment further on the litigation, but to your question, you will be able to discern from the 10Q that our financial flexibility and the unused revolver meaningfully exceed the amount of the accrued liability. And then, with regards to Starz Play Arabia, we are not going to comment specifically on any provisions there to buy up additional interest.

Amy Yong
Thank you.

Kevin Beggs
And Amy, on the expectations of 3 Arts creatively, and I wanted the best production management companies in the business with 700 of the most important clients in town and we've quickly collaborated and partnered. Jon touched on the announcement about Apple that just broke with Rob McElhenney and Charlie Day. That's a really great one right out of the gate, it turned into a scripted serious commitment. There is another show with Pop, our co-owned network with CBS and something else brewing at a major streamer and that's just been in the last month. We are meeting with them regularly, collaborating with them on making, kind of pioneering studio production management deals that they have been unable to do without a studio partner in some instances, and in some instances we are bringing other things to the party including deficit financing and our distribution infrastructure. So we expect many more things to come out of it, it is already been a fantastic collaboration.

Jon Feltheimer
I would add, you know, one thing which is there are a lot of people, lots of talent that might want to go to one company, one streaming platform and basically say that's…they are going to take all of their business there. Again, part of our secret sauce is that talent can do absolutely anything with us. Movies still matters across the platform and we are noticing by the way the consumers are watching as many movies on premium as they are watching a series. They are actually turning off their subscription when they don't have enough movies, but you know talent with us can make movies, they can make television shows, they can make them for any network including Starz. They can be involved with co-production on a global basis. They can really do absolutely anything at our company. And I think a lot of talent are going to take that particular path as opposed to being tied up at one particular venue if you will.

Amy Yong
Thank you very much.

Operator
Thank you. And now to line of David Miller from Imperial Capital. Please go ahead.

David Miller
Yes. Hey guys, congratulations on the stellar results. Jon, a couple questions for you. The *Now You See Me Live* tour show, correct me if I am wrong, I believe you guys have tour dates all set up in China, and Brian if you want to chime in on this too…I believe you have spent a lot of time in China, so you probably worked hard on this. But I believe you guys have dates all set up in China, but no North American tour dates yet. So I am sensing kind of pent up demand here, I am wondering when the North American tour that would be, and how would we model that out if there is any guidance there? And then on the 3 Arts deal, I mean besides the access to talent and the access to the writing, you know, which really speaks for itself and sort of the first look component. What are some of the other reasons you did the deal, and more

importantly what does the Street not understand about 3 Arts that you would like to share this afternoon? Thanks very much.

Jon Feltheimer
Okay, and I think Kevin spoke with it, we are already reaping the results of what I said which is...you know, we believe the fourth leg of our stool is talent, and we believe that there is so much competition for talent, but I believe, you know in addition to reaching out the talent with dollars, we want to reach out to talent with all of the opportunities that we can give to them. We found that frankly the best operated company we looked at everybody. The best operated company in terms of not just management, but the ability to really be called a studio and a real production partner for us was 3 Arts. We feel the one…the largest one, it is scale number one and the one that actually based upon the way they operate the company, could actually fold in potentially some other choice companies as well.

David Miller
Right.

Jon Feltheimer
And as I said, we are all already…we have got two projects already sold and one I mentioned today, and I will tell you they're every bit as excited about as we are both in incentivized to partner with them to give their clients an opportunity they might not get otherwise, and so, again super excited about that aspect of our business.

On location based entertainment, in general, I wouldn't talk just about *Now You See Me*. I think, we are going to go a couple quarters down the road, but we have probably right now 10 or 12 very active already being built location based entertainment attractions including in South Korea including China, you know, really all over. And I think we will start…down the road, we will start trying to give everybody a sense of what the future contributions of all of those are. When you add them altogether, I think they are going to be quite substantial.

David Miller
Okay. Thank you very much.

Operator
Thank you. And now to the line of Aravinda Galappatthige from Canaccord Genuity. Please go ahead.

Aravinda Galappatthige
Hi, thanks for taking my question. Just a quick question on Starz, I mean, obviously, you have talking about ramping up the programming spend on the original side…on the original content, I know you are looking at double the volume of shows there. Can you talk about the extent to which you are able to sort of pull back on the film component of your programming cost as you look to kind of make room in your programming project recognizing, of course, that there is going to be inflation in the budget regardless? I was just trying to get a sense of that mix, whether that's the right way to characterize it, sort of less on film down the road. Pulling back on that, to kind of finance the original side? And then connected to that, if that is in fact the case, are you comfortable that with less film content, like the current subscriber profile, it would still not see sort of additional churn or anything like that, but today's subscribers of your platform is predominantly looking at original content?

Chris Albrecht
So the Disney roll-off helps fund the ramp-up so far, and where we had a multi-year deal left with Sony which they have a lot of films that they release. So we are…we have a very robust supply coming to us. We still get the Disney films in the second and third window, so those will continue to cycle through our service. We have library deals across the industry with very strong titles that perform very well on a great critical mass films, films are really important.

As Jon likes to say the secret sauce, the other opportunity here is there is going to be a time when we are going to sit and talk about the Lionsgate and Summit output, which not only gives us an in-house leg up to really strategize across the whole company. But even as we talk about how we look at audiences and how we look at opportunities to grow revenue with specific audience groups, maybe we may have that kind of conversation with our motion picture partners and you know really do something that my mind is unprecedented in the entertainment industry as you look towards creating a monetizing content. So films are important, they are important outside the U.S., and as I said before the Starz originals coupled with the Lionsgate television and as or even more importantly, film library are giving us this very quick to market with a robust content offering capability. And I think that's just going to continue to be enhanced as we get better at it, and as more rights start to come back and cycle through the company for us to deploy in meaningful ways.

Jon Feltheimer
I think what Chris is partly saying is that having a very large robust theatrical division, we have a lot of optionality and lot of flexibility and we can actually start honing some of our film output actually to the need on a global basis of Starz.

Aravinda Galappatthige
Okay. That's helpful. Thank you.

Operator
Thank you and now to the line of Barton Crockett from B. Riley. Please go ahead, sir.

Barton Crockett
Okay, great. Thanks for taking the question. I guess, a couple of things about the numbers, one is, on the free cash flow which was stronger than I was expecting this quarter. I am just wondering if there is kind of near term benefit from rolling back film production, the pare back in the film slate, that might reverse and go the other way, as we kind of move, you know ahead into next year. So if there is kind of a gyration there that we should be thinking about. I was also wondering if you could give us some sense of quarterly cadence of these things that are hard for us to predict in terms of the cadence of spending at Starz, some thoughts about how do they think about the TV production pipeline and the movie pipeline as it flows through.

Jimmy Barge
Certainly, Barton, if you look at the free cash flow, it certainly was a very good quarter and strong free cash flow, of course, as you would expect, we benefitted for some timing of cash flows and changed in working capitals that you alluded to. The $114 million of free cash flow really almost matched our adjusted OIBDA, so the conversion is substantially above the historical run rate. We don't provide specific guidance on free cash flow as you know, but to give you reference point last year, we converted 55% of our adjusted OIBDA to free cash flow.

I think if you're looking forward, clearly we're increasing our investment in original content and spending into our international rollout at Starz. So you should expect to see some moderation in that conversion. Nevertheless, even with this increased investment, we still expect to generate substantial free cash flow in fiscal ’19.

In terms of quarterly cadence with regards to our ’19…year ‘19, last quarter I mentioned that that year would be backend loaded and that the fiscal first quarter would likely be our smallest. And then you see adjusted OIBDA building sequentially throughout the year. Well, now we still expected to be backend and loaded, but not necessarily sequential.

Now that the first quarter has benefited somewhat from timing at the expense of the second quarter, and we have also moved up, as you probably have seen the release date of Hell Fest, end of the second quarter and its associated P&A. I would now expect the second quarter to be the smallest in the year.

Barton Crockett
Okay. If I could ask one other question just on separate topic here, you guys are kind of at the smaller end of the story here, but there’s…you haven’t been immune to a lot of the reporting about the #Me Too stuff kind of sweeping Hollywood. You know, when you guys are doing a lot acquisitions, there is a lot of culture, you know, I think risk. And I am just wondering, if you could talk a little bit about how you see the need to address this. So what does one do, how does one address it, how does one deal with the reputational and, ultimately, investment risk as this kind of process unfolds?

Jon Feltheimer
I would say interesting question. I would think that and it has come up…I would say that as we look at any investment and really any company, anybody that we are going to be in business with, I think we have an expectation that the way they operate is the way that we operate, I don’t want to go any deeper than this other than saying we would expect they to follow sort of our commitment to a safe, respectful, tolerant working environment for everybody whether they are an employee, whether they are a production partner or in any respect. That would be our expectation. And I think that if we knew that it wasn’t going to be that way; that would not be an arrangement we would enter into.

James Marsh
Great. Thanks Barton. Next question, Cary.

Operator
Thank you. And that comes from the line of David Joyce from Evercore ISI. Please go ahead.

David Joyce
Thank you. Two questions, please. First on Starz, you had some headwinds in the past from AT&T U-verse customer migration. I was wondering if that’s the factor or is that waning at this point?

And then secondly, if you could map out the TV production deliveries…delivery schedule for this year generally and then or more specifically how you are planning to replace and increase the number of episodes over time for series that might be maturing? Thank you.

Chris Albrecht
So with the AT&T Direct, we do see a slowing. We don’t have real visibility into what they are doing. They are putting more emphasis on Direct TV now and I think that will be hopefully a

positive factor going forward. They seemed to be committed to their video business and we hope to continue to be a strong part of that.

Jimmy Barge
David, in terms your question regarding television production, what can I tell you is, as you move into the second half for the year, there is more episodic deliveries. I think you will see the margins are somewhat lower in the current period, we will start to see accelerated margins in the second half of the year along with the programming deliveries in the back half.

Kevin Beggs
Just adding to that, Kevin speaking. We have a robust slate of new shows coming. We touched on *The Rook*, which is shooting now in London, which is for Starz and our first original together and Liberty Global as our co-production partner. *The Continental* is kind of teed up behind that, which is in kind of the early pre-pre-production stage. Third season renewal on *Dear White People*, critically acclaimed show for us in Netflix. We've got an unprecedented 2-season order on… in *Manhunt* for Charter, a new player in the original programming game. We're always thrilled to have new partners and clients in the space. We're doing another series for Pop called *Florida Girls*, which is a # Arts collaboration as well and that's 10 new episodes and you know fair amount of pipeline behind it. *Kingkiller Chronicle* perhaps being the most high profile at Showtime, and others. And then as just announced here, the Rob McElhenney and Charlie Day collaboration for Apple. So we…more to come, but a good a good crop of new shows and obviously with the goal to keep them on for a multiple, multiple seasons and create library value for Jim Packer and his team of distribution executives.

David Joyce
Great. Thanks for the clarification.

Operator
Thank you. And to the line of Vasily Karasyov from Cannonball Research. Please go ahead.

Vasily Karasyov
Thank you. Good afternoon. I wanted to ask you about this since our last call, the previous quarter call, the Disney Fox deal is getting closer to the completion and Disney did clarify or provided some additional information, what they are going to do with their direct-to-consumer services. So I was wondering, if you could tell me...what…how you would change, what are you doing on the motion picture and television production side, if the deal does go through and then Disney eventually retains all the global rights to all the theatrical products, which is a possibility, right, and then they don't license to third-parties their TV product at all. So do you think a) it's an opportunity for you, how would that require for you to change what you are doing now domestically and internationally, because I think we all understand that that event would be unprecedented in terms of two major studios merging and I would love your thoughts on this? Thank you.

Jon Feltheimer
You covered the lot of territory, I will try to make a couple of remarks that at least address some of them. Which is one I would say disruption is always been our friend, I don't think, you know, we could have built this company, if it wasn't for the benefit of disruption. So I think in the transaction that big the integration will take a long time, I think there will be disruption in terms of executives, there'll be disruption in terms of processes and there will disruption in terms of talent and I hope, you know, we would be able to take advantage of that. In terms of Fox, the part of Fox that will remain…I think the Fox that will remain, have already reached out us and talked

about being a very viable buyer for the largest independent television company in the world. And so, I think that's a positive. I am not sure, what you are saying about their movie business. I think in a funny way typically that should provide an opportunity for us to fill in some of the blanks clearly if they will be my guess is taking some of their still expensive, but not hugely expensive franchise properties and putting them direct to video. So if your question was does that create an opportunity for sort of the mid-priced pictures to fill the gap in the actual marketplace, I would say the answer is, yes.

Vasily Karasyov
Yes, it was.

Jon Feltheimer
Yes. So I think the answer there is definitely yes, so again I think this presents an opportunity for us and I am not sure competitively in terms of Starz platform, what it means but I am pretty certain that the paths that Chris and Jeff and their teams have taken is one that we will continue I think it is particularly unique in that space. And so, I think it will stand out in spite of incremental competition.

Vasily Karasyov
Thank you.

Operator
Thank you. And now to line of Jim Goss from Barrington Research. Please go ahead, sir.

Jim Goss
Thanks, couple of questions. One, I was wondering when the EPIX and HBO contracts come up for renegotiation, and if given the change in ownership involving both of them and your new direction with Starz, there might be some different orientation you might take after that? And I was also wondering if you might discuss in somewhat greater detail, the deal with UMG, it sounds like you are merging to make content, so it would be based on their music. And I am wondering how that would work, how you would do a sharing of that, whether the creative content would flow in both directions, any color you might add on that I think would be interesting?

Kevin Beggs
It is Kevin speaking, on the Universal Music Group, that's specifically built for original television content both scripted and non-scripted and with an idea of collaborating with them and taking advantage of their deep catalogues, their cutting-edge artists, both legacy and newer artists, which is an incredible roster. So many of them, the artists that they are involved with or interested in bringing their story to television in this new PTV environment, we had a great run doing a music based show in Nashville, that led the way obviously shows like *Empire* continue to drive and those are the kinds of things we would want to do in addition to non-scripted docs built around artists and catalogue. So it's a mix we have already had two big meetings, we are working on finding the right executive to work between the two groups, but it's mostly about bring their IP and getting it to television in the original space that's the thrust of the deal.

Jon Feltheimer
And I think it would be inappropriate for me to talk about the contractual pieces of our contracts with our two platforms. I would say, what I said earlier which is having a very robust feature film division will allow us flexibility and optionalities to go forward, and I would say that…well, I won't give you specific dates, I would say those deals are not that far down the road.

Jim Gross
Okay, thanks. And just one final follow up with the UMG deal, how could you scale it or give any sort of like how that relationship would work and how big it might be or is this sort of a smaller piece of the business?

Jon Feltheimer
I would say this is…it's a very exciting new opportunity for us, again we think they have a tremendous amount of talent over there and when you look at what Chris and the team are doing in terms of documentaries and limited series and all of the new forms of televisions right now, I think it's a fantastic area to be in, and again we are with a fantastic partner, a huge partner, so we think this is a real piece of business.

James Marsh
Great, thanks Jim. Cary, next question, please?

Operator
Thank you and our final question today comes from Rich Greenfield from BTIG. Please go ahead.

Rich Greenfield
Thanks for taking the question. A couple of parts to it, so I think HBO is now up to somewhere around 8 million over the top subs, most of that's through Amazon and Hulu they are kind of wholesale relationship that they have struck on the digital side, a fraction is actually direct I believe. But I am wondering, how close is Starz tracking to those numbers, it seems like when I look at the app store that you are doing a lot better than Showtime OTT. And, I guess, kind of attached to that, John Stankey as he's taken over WarnerMedia has talked pretty openly about the fact that these premium networks have pretty large opportunity and they have been under invested in, by legacy media and they are going to start ramping the investment in HBO. And I wonder like as you think about Lionsgate, I know you sell to everyone, but how do you think about funneling even more content, so that there's even more of a regular cadence of programming original new programming on Starz to grow those subscribers even faster? Thanks.

Chris Albrecht
Hey, Rich, it's Chris. So we will take your numbers on HBO, we have had a long delayed launch on Hulu, and I guess, what I could say is, if you've sort of factored in, if you kind of took our Amazon business and added in a potentially like Hulu business, we would be right up there. We have a strong…we have a strong wholesale relationship and we think it's a really good product, our direct business is doing very well, and as John mentioned we have seen a great response to *Power*, and I think the…framing it as combined it would be our third largest distributor puts it in perspective. We think we are priced really well, we think our product is good, both from a user experience from a content experience what we are doing is we are focusing on grabbing people, bringing them into the tent and then keeping them. And as we do that we create kind of a Venn diagram of people being able to watch library stuff, watch other originals, we are getting some really important feedback that's going to help us to direct our spend on the content side. Certainly the Lionsgate content machine is going to be a big factor in our ability to do that successfully. We feel good about where we are and we look forward to you know, putting our foot on the accelerator.

Jon Feltheimer
But the question you are asking is…will our enthusiasm in the Starz both domestic and global rollout, translate into more spend, smarter spend perhaps based on again putting these companies together. But, more spend, more hours of original programming, the answer is, yes, and what we are seeing is, we are doing that because the plan is working as we spend more, as we market more effectively we are getting really excellent subscriber trajectory.

Chris Albrecht
And also, Rich, as we move forward we are going to be really looking at this as a global subscriber business and not just a domestic and in emerging international business. This is really a worldwide plan that we have in place that we are just at the early stages of executing on.

Rich Greenfield
Thanks very much for the detailed answer. Very helpful.

Chris Albrecht
Thanks Rich.

James Marsh
Thanks Rich.

Operator
Thank you we have no one else in queue. Please continue.

CONCLUSION

James Marsh
Please refer to the “Press Releases & Events” tab under the 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.

Operator
Thanks you. And ladies and gentlemen, this call will be available for replay after 4 PM Pacific Time today through midnight August 16, 2018. You may access the AT&T replay system at anytime by dialing 1800-475-6701 and enter the access code of 450776, international participants may dial 320-365-3844, again those numbers are 1800-475-6701 and international 320-365-3844 with the access code of 450776. And that does conclude our conference for today. Thank you for your participation and for using AT&T executive teleconference service. You may now disconnect.