Lionsgate Entertainment Corp.,

Fiscal Fourth Quarter and Full Year 2019 Earnings Call

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CORPORATE PARTICIPANTS

Jon Feltheimer - *Chief Executive Officer*

Jimmy Barge - *Chief Financial Officer*

Brian Goldsmith - *Chief Operating Officer*

Joe Drake - *Chairman, Motion Picture Group*

Kevin Beggs - *Chairman, TV Group*

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James Marsh - *Investor Relation*

PRESENTATION

Operator
Ladies and gentlemen, thank you for standing by. Welcome to the Lionsgate Fiscal Fourth Quarter and Full Year 2019 Earnings Call. At this time all 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 star then zero. As a reminder, this conference is being recorded.

I would now like to turn the conference over to our host James Marsh. Please go ahead.

James Marsh
Alright. Thanks, Eric and good afternoon, everyone. Thanks for joining us for the Lions Gate fiscal 2019 fourth quarter and year end conference call.

We'll begin with opening remarks from our CEO, Jon Feltheimer, followed by remarks from our CFO, Jimmy Barge. After the remarks, we will open the call up for your questions. Also joining us on the call today are Lions Gate COO, Brian Goldsmith, Chairman of the Motion Picture Group, Joe Drake, Chairman of the TV Group Kevin Beggs, from Starz, we have COO, Jeff Hirsch, CFO, Scott McDonald, and EVP of International Digital Networks, Superna Kalle.

The matters discussed on this call include forward-looking statements including those regarding the performance or 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. This includes 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 results of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances.

With that, I'll turn it over to Jon. Jon.

Jon Feltheimer
Thank you, James and thank you all for joining us this afternoon. We're pleased to report our results for a very active and productive fiscal '19 in which we reloaded our film and television content pipelines, reenergize every part of our film business and restructured our television group around our most prolific, top-tier production partnerships.

It was a year in which we diligently refocused on extracting maximum value from all of our franchises. The results have been evident in everything from last weekend's huge global opening of John Wick 3 to the upcoming launch of our Lionsgate Entertainment World Theme Park in China this summer and the adaptation of beloved properties like the Nashville and Wonder to Broadway. I will drill down on all of these initiatives in a few minutes.

But first, I would like to talk to you about our biggest and newest initiative, bringing Starz around the world. Last year we told you about the opportunity to launch STARZPLAY, our Starz International streaming service in 15 countries within three years. Today, I'm pleased to announce that STARZPLAY including STARZPLAY Arabia is live with active subscribers in 42 countries and by July 1st, we'll be in 51 countries making us one of the three leading pure-play subscription video-on-demand services in the world.

Recognizing the uniqueness and scope of the incredible opportunity available to us, we leaned into it with all the resources of our company and with an investment at the high end of the range we had previously discussed. Here's why.

First, the market opportunity itself with only 5% penetration of subscription video on-demand services worldwide, we believe that the international market is a $45 billion opportunity for us that will result in between 15 million and 25 million new STARZPLAY international subscribers by 2025.

Second, great global partners, the pace of our expansion has been accelerated by successful international launches on Apple and Amazon Prime. Our premium content offering, platform capabilities and speed to market make us a launch partner of choice to the other streaming giants as well.

Third, great local partners, we've already launched the top local distributors like Bell Media in Canada, Liberty Global's Virgin Media in the U.K., and Orange and Vodafone in Spain and have become a strong performer on each of those platforms.

And finally, content…lots of content. From Hunger Games to Power, John Wick to Spanish Princess, La La Land to Vida, the combination of Starz original programming, our 17,000 title library, Lions Gate Premium TV series and films and the ability to augment our offering with locally produced films and TV programming in the U.K., and elsewhere, adds up to a compelling value proposition for partners and subscribers alike.

We are off to a great start scaling rapidly across multiple territories to give us an early mover advantage ahead of many other premium players. And to preserve that early mover advantage, we will continue to lean into the STARZPLAY International expansion with additional investment. Jimmy will talk to you in a few minutes about the size of that investment and how we will report it to give you greater visibility into how much we are planning to invest and how much value we're creating. We view this as an investment in our future. The STARZPLAY International expansion is an exciting next step in creating an asset with lasting and incremental long term value.

Now, let me show you why we're so excited about the year ahead in each of our businesses. For the past year, we've been restructuring the organization and streamlining the operations of our film group under its new leadership team, ramping up production and closing major talent deals with Point Grey Pictures, the Erwin brothers and filmmaker Jonathan Levine, collaborations that touch every part of our company. These initiatives are producing results. We closed fiscal '19 with Madea, Cold Pursuit and Five Feet Apart films that were all profitable and outperformed expectations.

Last weekend John Wick 3 opened as the number one movie in the world, nearly doubling the box office of the last installment. Its outsized performs not only cements John Wick's stature as one of the world's premiere action franchises. It reaffirms our ability to create content that drives value across all of our businesses from video games and location based entertainment to the TV spin-off series, The Continental at Starz and the theatrical release of John Wick 4 on May 21st, 2021.

We're poised to keep this momentum going with a strong and balanced slate featuring a diverse mix of genres and budgets but deep in areas of proved strength. This slate features the final Rambo film. The latest installment of the popular action thriller series, Angel Has Fallen and

CBS's Scary Stories to Tell in the Dark, films with built-in fan bases all slated for release in late summer and early fall on dates on which we have capitalized in the past.

Then we build into the holiday season with Roland Emmerich's Midway, an epic action film with a huge ensemble cast. Star Wars Director Ryan Johnson who done it Knives Out which generated raise from our exhibition partners at CinemaCon and Jay Roach’s Bombshell starring Nicole Kidman, Charlize Theron, Margot Robbie and John Lithgow which is already creating buzz ahead of its release in December.

At Easter, we’re releasing the Erwin Brothers, I Still Believe, starring music superstar, Shania Twain, the follow-up to their faith-based hit, I Can Only Imagine. And looking beyond fiscal '20, we are bringing back some of Lions Gate’s biggest and most iconic properties including the Hitman's Bodyguard, starring Ryan Reynolds, Salma Hayek and Morgan Freeman and a great new twist for Jigsaw, starring Chris Rock on October 23, 2020.

Turning to our Television Group, we've spent the past year refilling our pipeline and entered fiscal 2020 with one of the strongest development slate in recent years. Of the 54 projects set up at Networks, 53 comes from production pods like 3 Arts, Courtney Kemp, Tannenbaum Company, BBC Studios and Universal Music Group that form the backbone of our television business.

Our strategy is working and our slate is filling with high profile series that have all the earmarks of success like Zoey's Extraordinary Playlist which was the centerpiece of NBC’s recent up-fronts. Mythic Quest Raven’s Banquet set in the world of video game development is one of our first collaboration with 3 Arts. It's currently in production as part of the Apple programming slate unveiled in March. We also have two new series fast tracked at HBO, Courtney Kemp's Dirty 30 and Silicon Valley creator Mike Judge’s Qualityland.

And today, I'm pleased to announce a new addition to our lineup, Love Life, a romantic comedy anthology that will be one of the first series for the Warner Media streaming platform from a Simple Favor director Paul Feig and starring Anna Kendrick. The diversity of our network partners shows our ability to create bespoke business models for different platforms.

With the universe of nearly 30 scripted series at Lions Gate Television, another 30 shows from Pilgrim and our in-house unscripted team, mix game, talk and variety shows from Debmar-Mercury, five series from Lionsgate UK and three productions already underway with 3 Arts, our Television business is positioned for success in fiscal 2020 and beyond.

Turning back to Starz, we had a strong year in fiscal 2019 and we believe that the best is yet to come. Let's start with the numbers. We grew overall domestic subscribers by 1.2 million during the year for a total of 24.7 million, including 4 million paid domestic over-the-top subscribers, a number that reflects in part our recent successful launches on Apple, Google, Roku and Hulu.

In addition, we now have 3 million international subscribers, including more than a million at STARZ PLAY Arabia. Our domestic growth in the face of a challenging MVPD environment reflects the unique positioning of our offering and the strength of our programming lineup.

American Gods returned with its loyal and passionate fan base in March and it's been renewed for a third season. The Spanish Princess is continuing in the footsteps of The White Queen and The White Princess, delivering a premium female audience that continues to grow week over week.

Looking ahead, the full second season of the critically-acclaimed, award-winning series, Vida, drops today worldwide. The series also recently launched on our premium Spanish language streaming service, Pantaya, as we continue to expand our content across our Latin mix vertical. And Starz continues to build a slate designed to drive subscriber acquisition and retention year round.

Next month we will debut the supernatural spy thriller, The Rook, from Lionsgate and our partners at Liberty Global, the first of over a dozen Lions Gate properties in development at Starz followed by Sweetbitter in July. August will bring the return of power with a super-size 15 episodes sixth season together with our incredible creator and show runner Courtney Camp and with several spin offs in the works we have a lot more story to tell as we explore and expand the power universe for years to come.

We're continuing to invest in a programming slate that is driving the growth of Starz over the top business domestically and its expansion around the world. We're also widening the creative aperture to ensure that we supply the Starz platform with programming that is right for its global footprint. In the past two months alone, we've green lit our fast track to production five new Starz original series, many of which we'll be telling you about on our next call.

As Starz continues to offer its partners a unique and compelling value proposition, we look forward to telling you in the near future about a number of interesting packaging, bundling and symmetrical marketing agreements on which we've been working and for which Starz is the perfect fit.

In closing, our industry is changing at the speed of light and we're changing with it. Over the past year we've re-imagined the role of our content businesses and undertaking the exciting process of expanding Starz into one of the world's leading pure-play streaming platforms. We're well positioned to continue to grow and create value for our shareholders in the year ahead.

Now, I'll turn things over to Jimmy.

Jimmy Barge
Thanks, Jon, and good afternoon, everyone. I'll briefly discuss our fiscal fourth quarter financial results and update you on our balance sheet. Then I'd like to take a moment to provide more color on the STARZPLAY international opportunity Jon mentioned in his remarks.

Fiscal fourth quarter adjusted OIBDA was $103 million while revenue was $940 million. Reported fully diluted earnings per share was a loss of $0.72 a share and fully diluted adjusted earnings per share came in at $0.11 per share. Adjusted free cash flow for the quarter came in at $151 million if cash flow from operations benefited from working capital improvements and monetization of certain asset. For the full fiscal year, adjusted free cash flow was $638 million.

Now let me briefly discuss the fiscal fourth quarter performance of the underlying segments compared to the prior year. Median network's quarterly revenues increased 2% versus the prior year to $362 million. Segment profits declined 21% year-over-year $91 million largely attributed to preparing for a more aggressive rollout of STARZPLAY. Starz ended the quarter with 24.7 million total domestic subscribers which was up 1.2 million from the prior year and down 400,000 sequentially from last quarter.

Over the top subs were up 400,000 sequentially driven by the premieres of American Gods and Now Apocalypse. Motion picture revenue declined 16% in the quarter to $358 million. Segment profits slipped 28% to $21 million reflecting the timing of prerelease P&A spend on Q1 titles that we highlighted for you on our previous earnings call. Television production revenues of $273 million were down 7% in the quarter. TV segment profits slipped 11% to $20 million on the timing of episodic deliveries and production schedules.

Now, for a quick update on the balance sheet and our plan to de-lever while still investing in our core business. During the fourth quarter, we reduced net corporate debt by $181 million and ended the quarter with leverage at 4.9 times and we will continue to prioritize deleveraging going forward.

Turning to STARZPLAY, we are enthusiastic about the international opportunity and believe it will drive long term value for shareholders. As you on this call know creating long term value requires investment in the short term and we believe we have the opportunity to create a first class international over-the-top business over a relatively short period of time.

We recognize there is currently a substantial valuation disconnect between our enthusiasm for the international business and the current investor perception. In fact, we estimate we have roughly $500 million of negative value weighing on our market value today. To narrow that valuation disconnect we will begin providing substantially more transparency around our international effort, helping to unlock that value over time.

This effort will consist of three elements of disclosure. First, financial; we will provide more financial disclosure by separately breaking out our STARZPLAY business within media networks so you can be more carefully tracking our execution. Second, nonfinancial; we will also provide nonfinancial KPIs, including disclosure of our international subs. And lastly, expectations; we will provide some increased disclosure around our expectations for STARZPLAY.

Here’s what we’re expecting from STARZPLAY. Within five years, our target is to have $15 million to $25 million total international subscribers within the 51 countries Jon mentioned earlier. We expect international losses to peak at $125 million to $150 million in fiscal '20, excluding these losses, we expect fiscal '20 adjusted OIBDA will be $650 million to $700 million following within our previous guidance range of a mid to high single-digit three year CAGR.

We expect STARZPLAY to reach profitability in fiscal 2023. Most importantly, we think the returns are compelling. We plan to raise equity against STARZPLAY to help finance this international roll out and manage our overall leverage to a target of four times by the end of fiscal '20 which includes the startup losses I just mentioned.

Now with that, I’ll like to turn the call over to James for Q&A.

James Marsh
Great. Thanks, Jimmy. Eric, we can open it up to Q&A at this stage.

QUESTION AND ANSWER

Operator
Thank you and ladies and gentlemen, if you wish to ask a question, please press star then one on your touchtone phone. You will hear a tone indicating you have been placed in the queue

and you may remove yourself from the queue at anytime by pressing the pound key. If you are using a speakerphone, we ask that you please pick up your handset before pressing the numbers. Once again, if you have a question for today's speakers, you press star then one on your touchtone phone at this time.

And our first question will come from the line of Matthew Thornton from SunTrust. Please go ahead.

Matthew Thornton
Hey, good afternoon, guys. Thanks for talking the questions. Maybe just to start, Jimmy you talked about potentially raising equity against STARZPLAY. Is that an open market offering that you are talking about or bringing third-party private equity or strategic sidecar to help expand STARZPLAY? That will be question number one. Secondly, just coming back to Starz U.S., the ARPU was down a little, again second quarter in a row; just want to get some color about the dynamics driving that? And then finally, I am wondering if you can maybe update us or give us any color on how to think about core library and what that's driving from a free cash flow standpoint per annum and any color there would be helpful. Thanks, guys.

Jon Feltheimer
Sure, and I will take the equity and then the core library component of this. On the equity side absolutely this is an equity raise against STARZPLAY in that opportunity in particular. The timing of that and forms to be determined obviously it'll be dependent on valuation as well. This is going to help de-lever our overall business, same time it's going to provide very important valuation marker for everyone and help unlock that substantial value that we mentioned earlier.

With regards to the core library we have over $500 million of revenues in the library across the board on any given year and there is pretty substantial margin on that gearing around 50% on the cash side. Don't confuse that because that's both TV and film and it flows into the results of both Motion Picture and TV segments and are incorporated into the guidance that I mentioned earlier.

Jimmy Barge
And in terms of the ARPU question, ARPU was slightly off for the quarter, primarily due to timing of show premieres, just remember American Gods was later in the quarter.

Matthew Thornton
And if I could just have one follow-up really quickly, Jimmy, on the library, $500 million in revenues across film and TV, call it 50% margin and then apply a tax to that and that would kind of give us a rough guess on free cash flow. Is that fair?

Jimmy Barge
And that's the cash flow margin, correct.

Matthew Thornton
Okay, perfect. Great, thanks.

Operator
Thank you. And our next question will come from the line of Alexia Quadrani with JP Morgan. Please go ahead.

Alexia Quadrani

Thank you. Just two questions, staying on Starz here, the first one is, can you give us more color in terms of which markets are more of a target on the earlier part of the rollout on STARZPLAY in terms of which international markets? And then, second question more just on traditional on Starz here in the U.S. With your second run film, output window potentially changing in a couple of years in terms of your partnerships maybe shifting, how important are, I know your original contents and the big driver for subs, but I'd love to hear sort of some color from you on how important having that sort of theatrical library on Starz is and should we assume any sort of disruption based on potential changes ahead because of that?

Jon Feltheimer
Superna Kalle will answer the first question, Alexia.

Superna Kalle
Hi, Alexia. Our initial rollout will be throughout Western Europe, including the U.K., and also Latin America.

Jon Feltheimer
Okay. In terms of library, library as we've talked about a lot on this call are being originals drive subscriptions to the over-the-top into our linear partners. The library provides a tremendous retention value to our subscriber base. We've got a lot of data around age of the library content and how important it is to viewership and it is to churn an extending lifetime value, we will eventually go and Joe will talk about this in a minute. We'll eventually take the Lionsgate pay one onto the platform to help continue to bolster our over-the-top business.

Alexia Quadrani
Okay. And if I could just sneak in one more, looking just at your film business, you have obviously a huge success recently with John Wick and you obviously had some great success in the past. Do you think in general you have the scale you need to be competitive given just how consolidated some of the other your peers are becoming?

Joe Drake
I do, this is Joe. We built the strategy that really focuses both on where the consumer appetite is, and I think when you look at the box office outside of the top 10 movies the rest of the marketplace is over $7 billion available and it's the place that we play. So whether it's Wonder in the live action family business or John Wick or some of the horror initiatives that we're in, in Saw and the like, there is plenty of real estate for us to play in. Another advantage that we're really seeing play out is that talent, writers, directors, actors still have a huge appetite and frankly some are making a condition of their deal that they're at a place that can get them up on screen for that theatric release for that immediate customer feedback. We're having more success than ever attracting the kind of talent we want from this content and where talent goes, we will get the content that we need.

Jon Feltheimer
Yes. And I would add as well you get scale in a couple of ways. You get scale by spending a huge amount of money; you also get scale by doing what we do here and what you've heard me talk about before Lions Gate 360. If you watch what happened on John Wick, we had every part of our company operating together. Adam Films, a fantastic promotion with T-Mobile and a separate one. We had the videogame promotions with Epic Films and two video games that are coming out soon. We add one plus one plus one at our company and generally come up with five. I think we just show that and we'll continue to show that.

Alexia Quadrani
Thank you very much.

Operator
Thank you. And our next question will come from the line of Ben Swinburne with Morgan Stanley. Please go ahead.

Ben Swinburne
Thank you. A couple of questions, Jimmy just to go back to the balance sheet, I don't know if you want to give us some…a free cash flow look for 2020 or at least talk about whether there's an equity raise baked into that 4 times number you gave us for your expectations for the end of this year.

Jimmy Barge
Certainly, there is an equity expectation baked into that for the 4 times. And obviously, the leverage throughout the year's going to…end of the year as well is going to depend obviously on the timing and…of free cash flows as well as the equity raise itself. But hat is factored in throughout the year. Keep in mind that while I would expect that to be relatively level, in fact, declining as our trailing 12 months is going to be the…OIBDA is going to be more back-end loaded in fiscal 2020, and so, the trailing 12 months will be slightly declining in that context. We'll have leverage be higher during the earlier part of the year and then reducing throughout the year as we focus on deleveraging. And to be clear, the equity raise is against the international opportunity also.

Ben Swinburne
Right. And then on that international opportunity, what does the 15 million to 25 million subscribers look like from a unit economics perspective? And I ask the question because in the quarter you just reported, I think you ended the year with 2 million international subs but very little revenues. I couldn't really make sense of the implied ARPU. Maybe just talk about what was going on in Q4 but more interestingly longer term, do these 15 million to 25 million look like your US Starz subs financially in your view?

Jon Feltheimer
In the numbers, STARZ PLAY Arabia is not consolidated in number even though we did talk about in the call because those are Starz subs in our mind. What you see in the current numbers in the schedules is our Canadian deal which is late at the end of the quarter, and there's a little funkiness in the ARPU. In terms of international, our retail rate is €499 euro. It will be a little different than our domestic numbers, but we do think some…our ARPU will be somewhere around $3 to $4 long-term in terms of that business.

Ben Swinburne
Okay. And then, if you don't mind just one last one, I think I guess I have to ask you. It's obviously been Jon a lot of M&A in the press. I know that that's not new for you guys and I'm sure you don't want to talk about specifics but what's interesting here is the idea of splitting apart Starz and Lions Gate again which obviously is a lot different than the story you're telling today about the continued integration of the assets. What do you tell your shareholders about this release concept of potentially moving in a different strategic direction if that creates value? How should we think about that as an option for you guys?

Jon Feltheimer

Yes. Obviously, we don't comment on M&A, and I would say simply what you heard on the call today is that we have a plan. That plan is we're super confident about it. We are executing on the plan. We felt that the window of opportunity was now, and you can see the results already. We are in 51 markets. Our STARZ PLAY Arabia is really successful. We are positioning our programming to be more global. We are getting some of the best third-party content, amazing shows like the Act, a huge show on Hulu right now by moving quickly. We're getting great content. It's going to play in a number of our international markets, we have a plan. We believe in it. We think it's going to create great value. We are obviously always, our responsibilities to our shareholders. We always have to listen to opportunities to create whatever way that would bring shareholder value. But again, we outlined today the plan and that's what we're going to execute on.

James Marsh
Is that alright, Ben? Alright we can go to the next question, please?

Operator
And the next question comes from the line of the [indiscernible]. Please go ahead.

Analyst
Yes, good afternoon. Thank you very much. Wanted to ask about TV production, so if we look at the past several years, sort of the margin and the EBITDA it's all over the place. You can't assess out a trend here. I was wondering given the environment one would think is really conducive for TV production here, what's going on under the surface here? Why can't we see more years of $100 million plus in EBITDA or will we see them and if we will, how will we get there? I would appreciate your thoughts on that. Thank you.

Kevin Beggs
Hi, it's Kevin here. Let me just speak about the environment, the last couple of years, as you all know have been a little down in the entire market because of the big merger activity. A lot of places were shoring up not buying as much. All of that seems to now be unlocked. I think you saw that at the upfront last week, it was a splurge of buying and declarations of victory by the big conglomerates. That's great for us as an arms dealer of content across the board. We have our biggest development in production slate historically now. As Jon mentioned, 54 projects sold and set up across 17 networks and now the biggest priority of course is STARZ. We've really opened a great deal of collaboration the last few months. Several shows green lit and more in development. I think you're going to have more visibility and the volume both revenue and EBITDA is going to trend upward.

Analyst
Thank you.

Operator
And once again, if you have a question please press star one at this time. The next question comes from the line of David Joyce from Evercore. Please go ahead.

David Joyce
Thank you. I've had some more questions on Starz. If you could talk about the programming seasonality in churn lately just to help us address the subscriber totals both on the traditional and the over-the-top and I also wanted to think about how that is impacting the margin? And then if you could help to separate that from the margin impact from the international expansion? Thanks.

Jon Feltheimer
On the domestic front, what we're seeing in terms of the traditional linear businesses a lot of our large operators have looked at their subscriber base and reconciled the very highly discounted customers and we saw some impact of that in the quarter. We continue to see great growth on the OTT business as we've talked sequentially. We did have some timing related to American Gods being premiered late in the quarter. But churn continues to be at an all-time low. We continue to use the data capabilities that we've built off the domestic direct to consumer product to look at how we schedule the content, what shows you put behind other shows, what library we go out and buy to really minimize churn and extend lifetime value, we continue to keep churn at low levels and will continue to improve as we get more and more data from our products.

David Joyce
Thanks. And your release mentioned some content impairment charges that related to Starz programming. If you could highlight which properties those were and was there anything from the motion picture side in those impairments? Thank you.

Jon Feltheimer
There was nothing there relative to motion picture and while I'm not going to comment specifically on programming, as you'll see in our 10-K, there's some programming that is not going to be running on Starz network. And we took this opportunity to go ahead and write that down and that's included in the programming charge.

David Joyce
Alright. Thank you.

James Marsh
Next question, please.

Operator
And the next question comes from the line of Doug Creutz from Cowen. Please go ahead.

Doug Creutz
Yes. Thanks. Can you just talk a little about…it looks like you're going to be spending about another incremental $100 million in fiscal 2020 in international relative to last year. Is that marketing spend, or are you spending on other things? Could you just kind of give a little bit of color where those dollars are going, that'd be helpful? Thanks.

Jimmy Barge
Yes. Great question. About 85% of that spend is going to our content marketing.

Doug Creutz
In terms of the content piece of that, are you buying other people's content? Are you creating content specifically for local markets? What's going on there?

Jon Feltheimer
There's really a three pronged approach there. We are obviously taking from the Lions Gate library, the Lions Gate original series as well as the Starz original, and as those come off licensing from other properties we will put those under the services. That's around 30% in the short term. We think that grows to about 70% by 2025. In terms of the Starz domestic slate with some of the shows we don't have, Outlander for example, is a license. We don't have that

around the world, we've been augmenting that by purchasing third-party content, the combination of those two pieces. And then in UK where we have a local production group, we're looking at putting locally produced local talent shows that the office there is producing under the service. It's a combination of all three of those things.

Doug Creutz
Okay, great. Thank you.

James Marsh
Let's start, next question, please.

Operator
Once again if you have a question please press star one at this time. And the next question comes from the line of David Miller from Imperial Capital. Please go ahead.

David Miller
Yes. Hi, guys. Jon, question for you. It's actually a question I wanted to ask you 90 days ago and I just didn't get the chance. You had mentioned 90 days ago on your fiscal Q3 call that you were looking to take Starz to the next level in integration. I'm wondering exactly what you meant by that, what specifically in your view got integrated further over the last 90 days than otherwise might not have been integrated if Chris Albrecht had stayed on, I guess that's the more blunt way of asking it. And then Joe Drake, the film that stands out to me if I look at the slate over the next year, the film that really stands out to me in terms of commerciality is Midway. And Roland Emmerich films, I'm sure I don't have to tell you are super expensive. I was wondering if you could just talk about the risk profile for that film and does that fit into your Tier 3 risk bucket as you guys outlined at your analyst day a couple of years ago, or should we consider other inputs? Thanks very much.

Joe Drake
Sure, David. I'm going to answer first. This is Joe. In terms of on the slate, Midway is a very big budget film, it was an acquisition for us. And so we acquired North America and the UK. We don't comment specifically on the numbers but I can tell you that they're very favorable terms and that it is uniquely situated as a big, broad heartland action movie, you're focusing on a title that does have a lot of attention, but out economics on it, are very low risk and strong on the upside. And there's a couple of titles you had to pay attention to, like things that there's a movie that is coming out over the Thanksgiving holiday called Knives Out, big broadcast. We showed it to audiences, haven't seen audiences that like a movie like this in a long, long time and it's the kind of thing that could turn out to be a nice brand for us.

Jon Feltheimer
Physically, organizationally, we have actually already integrated in the last 30 days; we integrated the STARZ production unit together with the Lions Gate production unit. But I would say, the integration that I've been talking about is much deeper than that and that's cultural and it's working as we said, we've green lit five new shows. We are aggressively mining power. One thing that happened a couple of years ago honestly is Courtney Kemp was one of the best show writers I've ever worked with in 35 years, the creator Power was going to leave. She didn't like that, she didn't have any other opportunities outside of Starz and frankly, felt she was being pigeonholed and honestly at that time, we also didn't have any spin-offs that were planned. What we ended up doing is we've wrapped our arms around her on the studio level and right now, she's got like six shows in development, two with other networks but frankly four at Starz including three that are spinoffs of Power. I think that I would characterize this a little bit

as there's typically for buyers a lean out kind of way, you wait for programming to come in. But a studio is a little bit of a lean and aggressively going after talents that you can sell it.

What we've done from a cultural perspective is put them together and Kevin and Jeff have gone out to the community and it's working and they're actively seeking the kind of talent, the kind of shows that will propel us forward. With that kind of teamwork that is working for us right now I think the agencies, management, companies like including 3 Arts, everybody sort to seize it and we're actually starting to see everything. We won't get everything. We were super aggressive about a show recently from the creators of Downton Abbey, ended up going at HBO but I will tell you right now we are seeing everything because of this combined integrated effort.

David Miller
Okay. Wonderful. Thank you.

Operator
And the next question comes from the line of David Borst from Goldman Sachs. Please go ahead.

Drew Borst
Thanks. It's Drew Borst. I wanted to ask about the Starz international sub that you mentioned because it jumped up pretty dramatically right at 1.9 million subs. You said I think it's related to the Bell Canada deal. Is there something different about the distribution of the service in Canada versus what you're doing in UK and Germany, given that it's scaled so fast?

Company Representative
Yes. As we spoke about in the last call there are three models that we really like for the international. There's this global partners that Jon detailed significantly in the first part of his remarks. We are on the backs of the Amazons, and the Apples. There's the local partners where we're with Vodafone and Orange, Bell Canada and Superna is going to talk about the details in a minute and then there's a venture like STARZ PLAY Arabia. We have those three models. Bell sits into that middle one and I'll let Superna take you through some of the details.

Superna Kalle
There's a linear component where there's a linear service in Canada that we participate on the revenue share basis with, and then there's an OTT service called Starz that's on top of Crave and digitally on other platforms as well.

Jon Feltheimer
Yes, and what you probably haven't heard before is the fact that as we look to what's the most accurate picture of our international business, we realize that STARZ PLAY Arabia really is a part of that business, it's our brand with the largest shareholder. We're integrating the tech platform elsewhere. We have a path to control it, it's part of our plan. We realized that's the way we're going to start talking about our subs. As I think Jimmy may have mentioned, we don't consolidate or maybe Jeff mentioned, we don't consolidate that, therefore we don't get the benefit of the ARPU when we're looking at that. But at the end of the day, that's a critical part of our ongoing plan.

Drew Borst
This may be difficult to do, but you mentioned you're now in 42 countries; you'll be in 51 in a month or so. Is there any way to generalize which of the two models you're using? Is it more a

hybrid or linear and digital or is it more just sort of a pure digital model like you've been doing in UK and Germany?

Jon Feltheimer
Currently we're linear in Canada only. Everywhere else is digital purely.

Company Representative
Going forward, it will be more digital.

Drew Borst
Okay. And if I could try to sneak one other one on a completely different topic, but I believe the Lions Gate output deal with Epix will expire at the end of this calendar year. Should we expect that you pivot that output to Starz or do you think you'll look for a third-party license deal?

Kevin Beggs
I think that you can expect down the road that particularly when you sort of look at the sun setting of the Sony deal, I think you can expect that we will make all of the Lions Gate films available for STARZ.

Drew Borst
Okay. Thanks for taking the questions.

Jon Feltheimer
Okay. Thanks Kevin.

Operator
And the next question comes from the line of Rich Greenfield from BTIG. Please go ahead.

Rich Greenfield
Hi. Thanks for taking the question. I got a couple of them sort of related, at Disney's streaming Analyst Day a couple of months ago, they put up a whole bunch of catalog titles on the screen. Many of them are or a whole bunch of them were actually in Windows that would have kept them exclusively on Starz. Wondering how much you were paid, I assume you were paid, if you were paid, did it hit this quarter, will it hit when Disney+ launches later in the year? And then as kind of related to that, a conceptual question, wondering you all have been in the business, the direct-to-consumer business but also in the SI [ph] business, if you look at the Starz team for many years, curious like how important is catalog especially Disney catalog to driving Starz? Does Disney catalog titles drive a lot of viewership? Same thing with Sony, you talked about potentially losing Sony? How important are Pay 1 eight to nine months old movies to driving gross ads especially now that you're in the B2C business? Just any way you could kind of give us a sense of how to think about titles like Power, a new release or original programming versus the catalog's impact on that business? Thanks very much.

Jon Feltheimer
Great question, Rich. First, we're not going to comment on the details of our Disney deal. I'll just say that we have a very multipronged relationship with Disney. I would say the content will continue to stay on Starz, but if we are going to get great value, we're going to get great value back and there will be more to come on that down the road.

In terms of your...the second half of your question, we've been mining the data pretty significantly across both our Sony Pay 1, our Disney in the second window and library that we buy, coupled with our large originals. First and foremost, Big Originals drive acquisition like nothing else. Secondarily big box office movies at Pay 1 drives acquisition of more than anything else but they also come with higher churn because people can come in during the seven day or the 30-day free window and watch it and then disconnect. And so, we see a lower conversion rate and a higher churn rate against those services. The real value of what we're seeing in the library and the Pay 2 is that value proposition against the $8.99 where people come in on large scale for the originals and they see all the other valuable movies that we have in the service. We've got more movies than HBO and Showtime combined, and we think that plus our price point gives us a really great value proposition and one way that we've been able to really produce churn long-term.

Rich Greenfield
I assume they shouldn't expect the movies that you're licensing back to Disney, they'll stay on Starz?

Jon Feltheimer
Like I said, we will continue to have the Disney product on Starz for the foreseeable future.

Rich Greenfield
That's exactly what I thought. Thanks so much.

Jon Feltheimer
Thanks very much. Any further questions there Eric?

Operator
There is no questions in the queue at this time.

CONCLUSION

Jon Feltheimer
Right. Just let me quickly provide a closing statement here. Please refer to the press releases and events tab under the Investor Relations section of the company's website for a discussion of certain non-GAAP forward-looking measures discussed on this call. Thanks very much.

Operator
Ladies and gentlemen, that does conclude the conference for today. Thank you for your participation and for using AT&T Executive Teleconference Service. You may now disconnect.