

Lionsgate Entertainment Corp

Third Quarter 2021 Earnings Conference Call

Friday, November 5, 2021, 5:00 PM Eastern

CORPORATE PARTICIPANTS

Nilay Shah - *Executive Vice President & Head of Investor Relations*

Jon Feltheimer - *Chief Executive Officer*

Michael Burns - *Chief Operating Officer*

Jimmy Barge - *Chief Financial Officer*

Joe Drake - *Chairman of Motion Picture Group*

PRESENTATION

Operator

Good day and welcome to Lions Gate's Second Quarter Fiscal Year 2022 Earnings Conference Call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing “*” then “0.” After today’s presentation, there will be an opportunity to ask questions. To ask a question, you may press “*” then “1” on a touchtone phone. To withdraw your question, please press “*” then “2.” Please note this event is being recorded. I would now like to turn the conference over to Nilay Shah. Please go ahead.

Nilay Shah

Good afternoon, everyone. Thank you for joining us for the Lions Gate Fiscal 2022 Second 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; COO, Brian Goldsmith; Chairman of the TV Group, Kevin Beggs; and Chairman of the Motion Picture Group, Joe Drake. And from STARZ, we have President and CEO, Jeffrey Hirsch; CFO, Scott MacDonald; President of Domestic Networks, Alison Hoffman; and President of International Network, Suparna Kalle.

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. This includes the risk factors set forth in Lions Gate's most recent Annual Report on Form 10-K as amended in our most recent quarterly report on Form 10-Q filed with the SEC. The company undertakes no obligation to publicly release the result of any revisions to these forward-looking statements that may be made to reflect any future events or circumstances. I'll now turn the call over to Jon.

Jon Feltheimer

Thank you, Nilay, and good afternoon, everyone. Thank you for joining us. Before I talk about another strong quarter. I want to note the Board authorization in regard to Starz. Following my remarks, I'll turn things over to Michael, who will discuss our filing. Now I'll go through a few highlights of the quarter then drill down in each of our businesses.

We returned to domestic subscriber growth at Starz, driven by a strong content quarter and we continue to grow our Starz international subscriber base. Overall, we added 1 million global subscribers in the quarter and remain on track for our long-term subscriber targets. Our Television Group had a very active quarter launching six new television series, three at Starz and three for other platforms. In addition to rolling out new shows, we're securing valuable renewals of current shows as six Lions Gate television series recently renewed for new seasons.

We started production on nine new films in the quarter as we continue to assemble a strong feature slate for theatrical distribution, ancillary platform monetization, licensing to streamers, and our theatrical output agreement with Starz. Our film and television library continue to perform at record levels with an all-time high of \$784 million in trailing 12-month revenue.

We're already seeing contributions from the Spyglass library acquired in the quarter, and we have great early momentum in our partnership with Gary Barber Spyglass production and distribution company, and we continue to advance our all-important diversity, equity, and

inclusion initiatives with inclusive hiring policies, a diverse internship program, an inclusive vendor pool, the continued ramp of inclusive new film and TV content, and the expansion of Starz's groundbreaking Take the Lead initiative.

Beginning at Starz, Power Book III: Raising Kanan, and the Crime Family Drama BMF launched in the quarter to the second and third best premier weeks ever on the Starz platform. We continue to diversify the slate with the successful debut of the critically acclaimed drama Heels with early renewals for all three series.

Looking ahead, we expect returning tentpoles Power Book II: Ghost and Outlander, and new series Power Book IV: Force, the Courteney Cox starring horror comedy Shining Vale, the Star-Studded Watergate Drama, Gaslit starring Julia Roberts and Sean Penn, and the period drama the Serpent Queen to continue to drive subscriber growth and retention as we continue to rollout our strongest slate ever. In the quarter for the first time, domestic revenue from our streaming business exceeded our traditional linear revenue. With the advantage of a strong linear business, we've been able to successfully expand into a premium service complementary to other platforms in both the traditional and streaming world and our value proposition will only continue to grow as this transition continues.

Internationally, three years into the rollout of STARZPLAY, we're in more than 60 countries with 80 distribution partners and 7.5 million subscribers, not counting the nearly 2 million subscribers at STARZPLAY Arabia. Subscribers grew by over 0.5 million in the quarter driven by the success of the hit third-party Dr. Death in Italy, Spain and Mexico and the Starz original series Raising Kanan in the UK, France, and Brazil.

After a fast start in India, Lionsgate Play has expanded into four new markets in South and Southeast Asia where we're poised to roll out our first slate of original programming. We're continuing to strategically invest in more local language originals, striking new partner alliances and leaning into a wholesale model that we believe offers the best long-term return on our investment and the greatest advantages to current and future partners while strengthening our unique position in the ecosystem as a premium service that can sit on top of any platform.

Turning to our Motion Picture Group, the breakout performances of recent theatrical releases and the appetite from streaming platforms makes one thing certain; that overall demand for movie content across multiple platforms is greater than ever. Following an active production year, we're putting the finishing touches on a slate with strength and balance in a number of critical areas built not only to meet the needs of a rebounding theatrical exhibition business and ever-growing demand for home viewing as well as driving value in our library and Starz.

It's a slight loaded with bid valuable brands led by John Wick Chapter 4 starring Keanu Reeves, Borderlands with a world-class cast of Cate Blanchett, Kevin Hart, Jamie Lee Curtis and Jack Black, The Hunger Games prequel, Ballot of Songbirds and Snakes, adapted from Suzanne Collins' runaway best seller and expendables for with the who's who cast of action stars. And behind those tentpoles, iconic brands Dirty Dancing, Now You See Me, Monopoly, Naruto, the Highlander, and the Night Circus are all an active development. Intellectual property, which will drive value across our business.

It's also a broad and varied slate with inspiring stories like American Underdog opening on Christmas Day. Whitebird: A Wonder Story starring Helen Mirren and Gillian Anderson in the follow-up to the breakout hit Wonder, And Are You There, God? It's Me, Margaret adapted from Judy Blume's classic novel directed by Kelly Fremon Craig and produced by Academy Award

winner James L Brooks. Big event movies like Roland Emmerich's Syfy Epic Moonfall starring Halle Berry and Donald Sutherland, and star driven films including Shotgun Wedding with Jennifer Lopez and The Unbearable Weight of Massive Talent with Nicolas Cage.

And finally, as we launched slate with true global appeal. We're currently out to the international market with our biggest offering in years, over \$400 million of movies generating a voracious response from buyers across all distribution platforms.

Turning to television; it was a very impressive quarter for our TV group as they leaned into a number of emerging opportunities and strengths. Ramping up content for new AVOD buyers with Zoey's Extraordinary Christmas for Roku and shows in the works for IMDB TV in Tubi. Creating shows for broadcast where we just secured an order for the back half of the first season of Ghosts, the highest rated new comedy on CBS, and a second season renewal of Home Economics, the highest rated new comedy on ABC.

Deepening our streaming relationships with the debut of Acapulco and the renewal of Seasons three and four of Mythic Quest on Apple with five series either streaming on or in production for HBO Max. Rolling out a slate of inclusive content with BMF, Blindspotting, Run The World, Ghost, Raising Kanan, Force, and the first offering from The 1619 Project. And of course, continuing to supply Starz with 15 premium scripted series currently airing or in the pipeline.

Just this morning, we started production in Hungary on the continental series for Starz, our exciting expansion of the John Wick Universe into television. The origin story of the young Winston features a world-class cast and we will roll out in three big 90-minute events on the platform, serving as a reminder of the value of great intellectual property. The Continental becomes part of a slate of nearly 70 Lions Gate television series and 600 hours a programming spanning dozens of platforms. We will be able to further support this production activity with our new Lions Gate studio in Yonkers, New York.

With demand for content greater than ever and prime studio space at a premium, the new state-of-the-art facilities will become an East Coast production hub, increasing our ability to control costs, and manage scheduling. Our half hour scripted series, Run The World, for Starz is slated to be our first production to use a studio early next year.

In closing, we've been consistent and creating value across our businesses quarter after quarter. In the past year alone, we've added over 500 titles organically and through acquisitions to one of the largest and freshest film and television libraries in the world, renewed our greatest number of television series ever in a single year as our Television Group continues to excel in making new shows for the network streamers and Starz, expanded and extended one of the largest portfolios of valuable brands and franchises in the industry with sequels, prequels, spin-offs, branded attractions, interactive games and digital collectibles, and created tremendous value with Starz by growing subs, adding valuable new shows, building our brand, and scaling our platform around the world.

And we've accomplished all this ramping our content marketing spend over \$3 billion this year and scaling our film, television, and Starz businesses into one of the largest independent content platforms in the world while still generating positive adjusted free cash flow and strong adjusted OEBITDA. Now, I'd like to turn the call over to Michael.

Michael Burns

Thank you, John. As you may have seen in an 8-K filing we made this afternoon, Lions Gate's Board of Directors has authorized management to explore potential capital market alternatives for Starz.

While we continue to realize substantial synergies from bringing Lions Gate and Starz together, we also see the opportunity to potentially unlock significant shareholder value under a scenario where investors had the ability to value our studio assets and Starz separately. Recent transaction multiples in the media space give us confidence that exploring alternate path is prudent. Additionally, we believe that a number of the structures we're considering will also allow Lions Gate and Starz to preserve many of the operational benefits we're currently achieving within a single corporate structure. Now, I'll turn things over to Jimmy.

Jimmy Barge

Thanks, Michael. And good afternoon, everyone. I'll briefly discuss our second quarter financial results and update on our balance sheet. Second quarter adjusted OEBITDA was \$108 million with total revenue coming in at \$888 million driven by new and returning TV series deliveries and continued demand for library content. Reported fully diluted earnings per share was \$0.03 a share and fully diluted adjusted earnings per share came in at \$0.15 a share. Adjusted free cash flow for the quarter was \$195 million.

Now, let me briefly discuss the fiscal second quarter performance of the underlying segments compared to the previous-year quarter. Media Networks quarterly revenue was \$385 million in segment profit was \$5.5 billion. Excluding Pantaya in the last year's second quarter, revenue was up 3%. Segment profit was down year-over-year on higher content marketing spend associated with the successful premieres of Starz Originals. We ended the quarter with 30 million total global subscribers. Total global media networks OTT subscribers grew sequentially by \$1.3 million to \$18 million, which represents a year-over-year subscriber growth rate of 40%.

Turning to Motion Pictures, revenue was up 28% to \$331 million while segment profit of \$102 million was up 23% and reflects strength from strong home entertainment and library sales. And finally, television revenue was up 70% to \$336 million driven by new series deliveries, including Raising Kanan, Heels, BMF, High Town, and Acapulco. Segment profit came in at \$29 million, up nearly 190% reflecting the delivery of several series and the licensing of Weeds. Our total library revenue across our Motion Picture and TV businesses hit a new all-time high of \$784 million on a trailing 12-month basis, which reflects a 6% increase over the \$737 million of trailing 12 month library revenue reported in the second quarter last year.

On the balance sheet, we ended the quarter with leverage at 4.7 times, or 3.4 times excluding our investment in STARZPLAY International, reflecting the impact of library strength, tempered by a return to P&A spend and higher content marketing costs. We continue to retain significant liquidity with \$443 million of cash on hand and \$1.25 billion of an undrawn revolver after reducing our unused commitments by 250 million after quarter end. We remain committed to strengthening our balance sheet and paying down debt while continuing to fund our investment in content marketing with positive free cash flow as we refresh our library and drive subscriber growth. Now, I'd like to turn the call over to Nilay for Q&A.

Nilay Shah

Thanks, Jimmy. Operator, can you open up the call for Q&A?

QUESTION AND ANSWER

Operator

We will now begin the question-and-answer session. To ask a question, press “*” then “1” on a touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. If at any time your question has been addressed and you would like to withdraw your question, please press “*” then “2.” At this time, we will pause momentarily to assemble our roster. And the first question comes from Alexia Quadrani with JP Morgan. Please go ahead.

Anna Lizzul

Hi, this is Anna on for Alexia. Thank you so much for the question. First, I was wondering if you can just elaborate a little more on the timing of the spin or split of Starz and when you move forward with that. And also, why did you come to the decision now? And then, my second question is, and I know you've talked in the past about you're exiting calendar 2023 breakeven for Starz International, and I was just wondering if that target is still achievable, about three years into that. Thank you.

Joe Drake

I'll take the first question. The timing really would depend on exactly what path we choose, and so really that's an open question. And as we say in the filing, we're starting the process. And the answer really as to why is pretty simple that, even though we don't normally talk about equity value, it's pretty clear to us that we're not getting the value for the sum of our parts and we and the Board feel now is the right time to really shine value on those assets. And I think this disclosure emphasizes we're going to start that process. And frankly, we take our obligation to create shareholder value very seriously. On the international, Jeff?

Jeffrey Hirsch

Yeah, I'll take the second question. Hi. Great question. As you saw in the quarter, subs continue to be strong and we still feel really great about our long-term sub guidance. But as you saw some of the industry headwinds, some of our costs are higher, and so the breakeven is going to slide out of calendar '23 into early calendar '24.

Anna Lizzul

Okay. Thank you so much.

Nilay Shah

Operator, can we get the next question please?

Operator

The next question comes from Thomas Yeh with Morgan Stanley. Please go ahead.

Thomas Yeh

Hi, thanks for taking my questions. Jon or Michael, a little bit more on the capital markets alternatives you're exploring and where you see the most opportunity there to unlock value. How are you weighing the benefits of maybe greater scale with an outside partner versus retaining the synergies you mentioned is on structure? And then, one for Jeff on the Starz segment profit. The expenses ramped a bit in the quarter with your original. Can you talk about the balance of brand and performance marketing that you're focused on for subscriber acquisition? And as a marketer on the direct retail OTT side, how do you think about the trajectory and the leverage on that spending as you grow on the original programming slate? Thanks so much.

Jon Feltheimer

Yes, Thomas. I don't think we're going to put too much meat on the bone in terms of all of the possibilities. I would say we said, and Michael mentioned, that we are creating, have been creating some pretty robust synergies between the two sides. Frankly, we are--all of those synergies still are commercial agreements that benefit both sides. We would hope that in many of the structures we're looking at, that we can maintain those synergies and benefits. And of course, as well as you're noting, scale is important as well. And I think that would certainly play a role in our various explorations.

Joe Drake

And on the margins in the quarter, this is the low point in margins. Again, as we've talked, we're moving from 7 to 12 originals. So this is an investment year on originals. We're trying to really line up an original every week, 52 weeks a year for our two core demos that ultimately will bring churn down, extend lifetime value, and accelerate revenue. And so this is a low margin point of the year.

We expect for a full year to be in the mid-20s. In terms of marketing costs we did see the headwinds that the rest of the industry has seen. We saw increased costs due to some of the privacy issues that we got ahead of. We've done some we're, technical work with our partners around that the worst is behind us now and so we think that will normalize as we get through the next couple of quarters. So we feel really good about the content strategy and how that reflects into subscriber growth but, more importantly, in retention.

Thomas Yeh

Thank you. Very helpful.

Nilay Shah

Thanks, Thomas. Operator, could we get the next question please?

Operator

The next question comes from Matt Thornton with Truist Securities. Please go ahead.

Matt Thornton

Hey, good afternoon, guys. Maybe two questions, if I could. First one, maybe either for Jon or maybe Jeff. You guys have previously talked about subscriber growth being incremental sub adds being better this year versus last year. Just curious if you're still comfortable with that target. And then, just secondly, coming back to, again, the exploration of strategic alternatives for Starz, I'm just curious if there is maybe something you guys have been seeing in the market, whether it's library transactions or studio transactions or network trading multiples. I'm just kind of curious what has caught your attention and kind of steered you to kind of look in this direction. Any color there would be helpful. Thanks again, guys.

Jon Feltheimer

Sure. I'll let Jeff take the first question on the sub-growth.

Jeffrey Hirsch

Sure. As we've talked repeatedly, we see a real strong year based on moving from our 7 to 12 originals this year. But as you saw in the first quarter, there were some headwinds. We did have a slower subscriber base in the first quarter. So on a domestic basis we are catching up, but on an overall global basis, we will be stronger this year than we were last year.

Matt Thornton

Yeah. And overall, what we're seeing, what's informing how we're looking at our value, frankly, is indeed, what you just suggested, which is if you look on the studio side on the content side, you're seeing multiples out there that, frankly, make us believe that the value of the incredible amount of money we've invested, brands we've invested \$16 billion, an incredible pipeline film and television, when you look at the multiples of some businesses--I won't talk about specifics, I think, you know what I'm talking about. I already would say that the value of our studio in our opinion is worth more than the entire enterprise value. So I'll start with that.

I would say the second piece is, if you look at all of the streamers, the values mostly are sort of, obviously I'm taking Netflix out of the equation, but most are investing or, if you would, losing money, and yet, they're certainly getting huge multiples in their stock. It looks to us like they're getting multiples of somewhat like four times revenues, something like that.

And when we look at what we believe is happening with our equity value, honestly, we feel like the international where we're building revenues, buildings subs and in 58, 60 countries right now, we believe we're getting a negative value on our investments in the business. And so if you just with zero that out and just say it's even with STARZPLAY Arabia, which we think it's quite valuable, but if you said that was zero, that in our opinion adds \$1 billion of value right away. And so, yes, we are looking at the multiples and the way other businesses are being valued and we just think we're way off. We're way undervalued.

Nilay Shah

Thanks, Matt. Operator, could we get the next question please?

Operator

The next question comes from Rich Greenfield with LightShed Partners. Please go ahead.

Rich Greenfield

Hi, thanks for taking the question. When you think about sort of Disney, Fox and Warner Media, Discovery, Viacom, CBS, and I guess even Amazon MGM, it sort of feels obvious that, I guess, "winning" in the future of media is going to take sort of major sort of massive streaming subscriber scale and sort of a depth and breadth of content like we've never seen before.

I know that you're sort of exploring strategic alternatives. I read the filing of for Starz, but obviously that creates many different things that could happen in terms of M&A. I guess, how do you think about what Starz brings the potential merger partners in terms of its unique demographic appeal of its content, its global reach and strategic partnerships that you've been doing over the last few years?

Jeffrey Hirsch

Hey, Rich. It's, Jeff. It's a great question. Thanks for asking it. Look, as you said, we have really built a very unique content pipeline. We really focus on two core demos and we're the global leader, I think, in female audience demographic and African American audience demographic, which makes us really unique for any of our partners. We've built this business into 60 new countries around the world with over 80 partners all over the world. And as we've always said, we're a very complementary service to all these broad based streaming services. And as that broad-based streaming competition heats up with all of these mergers, you can compete on price, you can compete on dollars, but you can compete on value. And by adding Starz into our portfolio with our unique content strategy, it really will help differentiate somebody that they can't replicate with our services.

Rich Greenfield

And Michael, maybe just a follow-up, once you sort of set in motion sort of these capital market alternatives, I assume it's fair to say that anything is on the table transaction-wise, once you begin this process with the Board.

Michael Burns

The Board authorized us to explore these. So obviously, we're going to explore them and we mentioned some specific potential structures in there, and we're not going to go, Rich, right now into more detail than that, than we had in our filings.

Jon Feltheimer

I think, Rich, the answer is that we're doing this because we believe we're seriously undervalued and we are looking for, with this filing, with our Canadian (INAUDIBLE) as an optionality, and we're going to do all the work on it. And again, very focused on that shareholder value.

Rich Greenfield

Yeah. If bug is worth \$3 billion, it seems to create a lot of opportunities.

Jon Feltheimer

Appreciate your saying that.

Rich Greenfield

Thank you.

Nilay Shah

Thanks, Rich. Operator, could we get the next question please?

Operator

The next question comes from Jim Goss with Barrington Research. Please go ahead.

Jim Goss

Thanks. I guess, this is Michael, also. Are you thinking that the market has changed more than Starz has over this several of year period where you've been together? Because it seemed at the time of the that merger that Starz had a very nice but very steady stream of OEBITDA that was not varying a lot and, therefore, was not going to be valued is highly as some of them are growth-oriented ones. Do you think you've done anything to change that mix that would make it more attractive, or is it just that having that sort of property would be more appealing to one of the potential buyers at this stage?

Michael Burns

I think that, Jeff and his team has done a fantastic job in their demo, as Jeff talked about earlier. The world has certainly change because you've got an enormous competition and a lot of streamers around the globe. But we, as Jeff mentioned before, we think we're very well positioned in that world. And again, 60-plus countries internationally domestic subs are in a really good place as we migrate more to the digital over the top space.

Jeffrey Hirsch

Yeah, let me add to that. When we did the deal, we had somewhere, less than 4 or 500,000 over the top streamers. We were primarily a linear, domestic linear cable network. Today, we have over 53% of our domestic revenue comes from over the top. We have more global over-the-top streaming services. Then we have linear services.

We're in 62 countries around the world. We were just domestic. And so we've really changed and pivoted this business from being a single revenue stream linear your business to a global streaming service that's really driven off of data. And so I think the company is way more valuable than it was back in--when the acquisition was done in 2017.

Jim Goss

Okay. And then, maybe one other on the content creation side. Jon, you outlined a lot of compelling factors about your film business. I'm wondering if you could talk about, you or anyone, could talk about the theatrical release versus streaming series versus TV options in terms of where you think the sweet spot is in terms of economics and appeal in your content creation.

Jon Feltheimer

I'll have Joe answer that question.

Joe Drake

Yeah. Thanks, Jim. Look, we're in a really interesting market right now. There are certainly some complexities to it that has some challenges. We're finding, frankly, more opportunity than we're finding challenges. When you look at--you know, Jon talked a lot about the lineup. We, early on in the pandemic, leaned heavily into production because we saw an opportunity and we now have one of our most robust slates that's targeted to all the various opportunities.

So when you think about and you look at the data on who's coming back to the theater, you know it's heavily male. It's a diverse audience, Gen Z and millennials, and we've got a number of big brands like John Wick. You can think of American Underdog at Christmas, Borderlands that are right in that sweet spot. But we also release over 60 films a year across our whole business and that platform agnostic business because of all the appetite in home is starting to really grow. And we've also been working very closely with Starz, which has a real impact on what we're greenlighting so that we can really serve that customer with precision. So it's a really interesting time for us, and I think we're set up really nicely.

Jim Goss

Okay. And one last thing. Were you also basically implying that, if Starz is able to be sold or partnered with someone else that these sort of options would also apply to the remaining film business?

Joe Drake

Well, I mean, I think that--yeah, look, the simple answer is there is a lot of ways this could go. But one deal that we have exists--we just made it. So the slate of Lions Gate films would be securely in the Starz purview for a number of years. And again, it would be our intention, of course, to continue to grow synergies that that are beneficial for both sides.

Jim Goss

All right. Thank you very much.

Joe Drake

You're welcome.

Nilay Shah

Thank you, Jim. Operator, could we get the next question please?

Operator

The next question comes from Alan Gould with Loop Capital. Please go ahead.

Alan Gould

Hi guys, thanks for taking my questions. I've got two questions. First, Mike asked the various ways of doing this option, but Jimmy, you've been highlighting the trailing 12 month library number for a number of quarters now. Maybe a couple of years now. It's up to \$784 million. Can you refresh our memory as to what kind of be their EBITDA margin or free cash flow margin, you typically have on the library? And the second question is for Jeff. Jeff, you seem to be in your sweet spot of one franchise show rolling into the next franchise show. Can you tell us what the trend in churn has been? Not what the churn is, but is churn coming down a little bit given this, you know, going into the 12 shows and having one turn to the next one?

Jimmy Barge

Thanks, Alan. I appreciate it. Great question, particularly in the context of some of the parts and significantly undervalued assets. We're approaching \$800 million in revenues and trailing 12 months and organic growth and we expect to see continuing value there. The cash margins were 50% plus. So you can pretty well do the math pretty quickly put whatever multiple you want on that to come up with a \$4 to \$6 billion plus value. So again, tremendous, tremendous asset.

Jeffrey Hirsch

Yeah, in terms of churn, like you said, we continue to lineup our programming with finales and premieres on the same weekend to the role audiences from one shows the next. And in the quarter, we continue to saw historic low levels of churn on the business. And so we're really encouraged on the thesis, and we really think long term, we can achieve that low single digit churn number.

Alan Gould

Thank you.

Nilay Shah

Thanks, Alan. Operator, could we get the next question please?

Operator

The next question comes from Matthew Harrigan with Benchmark. Please go ahead.

Matthew Harrigan

Thank you. My (INAUDIBLE) of Starz questions has pretty much been exhausted, but had a couple other things. One, you've got tremendous momentum on the TV production side, not just for Starz with third parties. One thing that's interesting, and I think this is a telling number. There is one data company in UK that had access to, I think, the actual consumption data for 1500 Netflix customers in September. Again, in the UK. And four of the top shows were actually off-network U.S. shows, I think they were all comedies. But clearly, dramas have a lot of interest over there as well.

And some of the value is just the sheer amount of volume and repetivity (PH) in terms of people watching the shows. But how difficult is it going to be in this world to really get to a credible number of episodes for something like Ghost, assuming that it continues to get traction and really get this breakout long-term value? And then secondly, I know Jon has been on the Board

of Televisa since I think 2015 or 2016. What are the possibilities year Televisa-Univision joint venture and all the production that they're going to need there, given your relationships with Televisa over the years and Univision? Thank you.

Jon Feltheimer

I'll start with the question about getting too enough episode to syndicate, if you will, and for continuing back. And so the broadcast model is one that we've been out of for a lot of years and with some new templates and models and just fantastic content. We've really broken back into it. Ghost is a great example. It's a huge success. It's the number one comedy of the fall across all broadcast networks. And they order the back episodes to give it a full season order, and we hope, like you would with any comedy, that you successfully get new season renewals and that moves very quickly to get to scale.

Ditto with Home Economics, that was a mid-season show for ABC, premiered again this fall, renewed for the full '22. So those move fast. The Netflix or premium shows often are in the 8 to 10 episode order range for the first season. But like many shows when they're working, I find that the platform is one as many as they can get as quickly as they can get because they are driving audience. And every time we turnaround, there is an emerging player that's jumping into the fray. We're excited to have Joey's Extraordinary Christmas on Roku. That's an AVOD player moving into the original space.

One of the great things about our partnership with Starz is really Jeff's mindset and thinking about series is longevity. That's quite different than a lot of the other streaming players who are interested in two or three seasons and out. In the Power-verse, obviously Ghost was a long-running hit. Our Power and then Ghost is right behind it. Kanan is off to a great start, and we're excited about Force and we think, if they continue to hit their numbers, they'll be on for years to come. So it's all about making great shows that a price and delivering value to the customer on the platform.

Jeffrey Hirsch

Yeah, I think it's sort of interesting the way you pose that question, Matt, because fact of the matter is that, given that the streamers are making real value out of the longer running series, as you say, and essentially are serving the purpose of re-trans (PH), the way the old syndication business was, I think everyone in the marketplace is really encouraged to have a real portfolio each of those brands in the future. And we don't really see that going the other way.

In terms of, I think what you're alluding to, I mean, again I'm on the Board. I can't say much, but I think it clear Televisa's real ambition to be a big broad a stream. They are the biggest player in the Spanish language market. What's fascinating about the world right now, I just finished watching a whole bunch of episodes of called Velvet, which is the Spanish series. And I think what's happening right now is people are enjoying watching in language, if you will, a series that are actually subtitled, and I think there is going to be some really interesting opportunities.

We're doing about four or five Spanish language co-productions right now at of Spain. We're doing four originals right now in India. And we think that, given that we're doing a high value programming, we think there is going to be a lot of opportunity to use programming and create programing library value all over the world right now. And that's why we are reaching our tentacles in our production expertise into a lot of different place.

So again, we are one of the only independents that I think it's going to be able to supply every single vertically integrated stream and all of the new players, the AVOD players, (INAUDIBLE)

in the market. We think that the buying and the amount of buyers we're going to have to serve and who will rely on us because they know we deliver, I think it's bigger and bigger, and our ability to create content is greater than ever.

Matthew Harrigan

Thanks. Congratulations on your initiative today.

Nilay Shah

Thanks, Matt. Operator, could we get the next question please?

Operator

The next question comes from Doug Creutz with Cowen. Please go ahead.

Doug Creutz

Yeah, thanks. You kind of alluded to the idea (INAUDIBLE) changes is being a headwind, and obviously it's impacted user acquisition for a lot of people. Can you kind of talk about how your effective user acquisition costs are trending, whether you're spending more or less, and how you change your allocation of budget across different channels? Thanks.

Jon Feltheimer

Yeah, thanks for the question. So the nice thing about what we've been able to build because we got out so early building our own direct to consumer app, is that we really had great robust data on the back end. We're able to bring digital buying in-house. And so we really control the bottom of the funnel.

We knew from our partners that this change was coming. We are working ahead of it to try to work around it and work with our partners to come up with some technical work arounds. We did see an impact in the quarter in terms of our cost. We have seen costs come down the tail end of the quarter. We do think working with our partners will be able to normalize that and the worst is behind us. And again, I think we get back to our normal cost in the next couple of quarters.

Doug Creutz

Great, thanks.

Nilay Shah

Thanks, Doug. Operator, could we get the next question please?

Operator

The next question comes from Steven Cahall with Wells Fargo. Please go ahead.

Steven Cahall

Thanks. So interesting on the potential transaction you announced. And I certainly agree on your sum of the parts are demand, especially in this gold rush for content with what you've got at the studios and the library. I think one question folks are going to debate is in a transaction, if you can get a similar value for Starz versus, I think, the \$4.4 billion that you paid in 2016. So I was wondering if you could comment. I'm sure you've talked to advisors and potential approaches here, if you think you'll be able to realize a similar or higher value for Starz than what you paid for it.

And then, Joe, a question just on how you're thinking about theatrical. It seems like a lot of the success that's coming back in theatrical is with a lot of really big budget films, big experiential

sort of periods. And how do you think about how Lions Gate fits into maybe a more premium format theatrical experience? We've seen some smaller studios like A24 sort of go to smaller budget but straight to streaming strategy, and I think that's a much more profitable sort of approach for you as well. So I'm just curious how you're thinking about theatrical versus in home. Thanks.

Joe Drake

Thanks for the question. Look, I think Jeff laid out pretty clearly all the value that he and his team have created in transforming Starz into a really modern global streamer. I think I'd be very foolish CEO if I were to tell you what I think the value is. And I'm also--you're anticipating a transaction or potential transaction that may or may not be the form that it takes. So all I can say is we believe we've created great value at Starz. We believe we're not having that recognized in our equity value, and we are embarking on a stat to make sure that we get that value.

Jimmy Barge

Yes. Steve, on the theatrical question, we're spending a lot of time looking at that theatrical audience. I think that there is some trends you can see. Certainly, big event, branded titles, action titles, big event spectacle works, we've leaned heavily into our development slate in that area and have a number of a couple of films in post and a number of films going into production that we think will fit that demand really, really well. We're a company that release all kinds of films. And so we have this other business doing 50 to 60 films a year and various distribution scenarios that don't require theatrical.

And yet, there is a mid-space in the business that I call like mid budget original content that we've really occupied and done well in, historically. We still think that there is a space there for us. These are really target audience films and you have, because that theatrical release still drives so much downstream value and because the values downstream, whether that's our international sales business, the value and television, the value in home entertainment is increasing, we still feel very confident and have proven on a number of releases recently that we can be profitable and hit really nice margins without having necessarily to achieve the same level of box office.

Nilay Shah

Thanks, Steve. Operator, could we get the next question please?

CONCLUSION

Operator

We currently have nobody in our question queue. So I will remind our listeners, if you would like to ask question, press "*" then "1" to join the queue. Again, that is "*" then "1" to join the queue.

Nilay Shah

Thanks, Operator, and thanks, everyone. 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. Thank you, and have a good evening.

Operator

The conference is now concluded. Thank you for attending today's presentation. You many now disconnect.