Q1 2020 Stockholder Call

May 12, 2020

MGM Speakers:

Chris Brearton, *Chief Operating Officer*
Ken Kay*, Chief Financial Officer*
Lesley Freeman, *Chief Legal Officer*
Matt Davidson, *Chief Accounting Officer*
Katie Martin Kelley, *Chief Communications Officer*

Lesley Freeman – Chief Legal Officer

Thank you, operator, and thank you to everyone on the line for joining our call today to discuss MGM's financial results. Leading today's call will be Chief Operating Officer Chris Brearton and Chief Financial Officer Ken Kay. We also have with us Matt Davidson, our Chief Accounting Officer; and Katie Martin Kelley, our Chief Communications Officer.

Before we begin, we would like to remind you that we posted our financial report and supplemental slide deck on the secure data site for stockholders. If you are a stockholder and not registered on the secure data site, please email StockholderRelations@mgm.com. Please also note that the financial information we released as well as an audio file of today's call will be available on our corporate website at mgm.com.

I would also like to remind you that certain statements made on this call may constitute forward-looking statements. Forward-looking statements are statements that address results or developments that will occur or are expected to occur in the future. These statements involve risks and uncertainties, and actual results may vary materially. I refer you to the Forward-Looking Statement Safe Harbor included in our financial report for important risks and other factors that you should consider when evaluating this information. The forward-looking statements made during this call speak only as of the date hereof, and MGM undertakes no obligation to update such statements to reflect future events or circumstances.

Additionally, during today's call we will refer to certain non-GAAP financial measures, including earnings before interest, taxes, and depreciation and non-film amortization, or EBITDA and Adjusted EBITDA. Please refer to the financial information we posted for definitions and reconciliations of these measures to their comparable GAAP measures.

With that, let me turn the call over to Chris Brearton for his comments.

Chris Brearton – Chief Operating Officer

Thanks Lesley and hello everyone.

MGM delivered a strong first quarter, fueled by the performance of our library and television content licensing, in particular a new streaming deal for the global hit series *Vikings*. We also saw continued business momentum at EPIX and are ahead of schedule on our financial objectives for the network. While production may be in hiatus, the pace and quality of development remained strong, both in film and television, and our library sales were robust. Our liquidity position remains strong and we have also taken prudent steps to reduce costs. In short, the business continued to perform at a high level, and we are gaining traction as we manage through the pandemic.

Looking at key developments since our last report, in film, we have made some additional timing adjustments to our slate in order to best position us for success when theatrical markets reopen. The move of *No Time to Die* to November is obviously the headline event for the year and plans for Bond's return currently remain intact. *Respect,* our Aretha Franklin biopic, has been moved to a December exclusive engagement in select markets, followed by a wide release on MLK weekend 2021. The Jordan Peele-produced *Candyman* moved to the fall of 2020 and *Samaritan* will now open in June 2021. None of these date shifts will impact our guidance for 2020.

In the meantime, there is substantial new activity on the film development side. Since coming on board recently to take charge of our film group, Michael De Luca has put a strong team in place and is actively building our future slate. We are currently packaging several new titles for the 2021 slate. In recent weeks we've also acquired two exciting new properties:

Thirteen Lives, Ron Howard's project based on the Thai soccer team cave rescue; and, An untitled movie based on the upcoming book by best-selling *The Martian* author Andy Weir. Ryan Gosling is set to produce and star.

These projects are all illustrative of Mike's creative-driven approach to development that favors writer- and director-driven projects. These types of films will augment our traditional strength in tentpole franchises like Bond and Creed and our focus on leveraging library IP, which you'll see us do in new and creative ways. I look forward to updating you on what we have in store there on future calls.

In television, while production activity and deliveries in our scripted business are delayed, our top-rated unscripted franchises have continued their strong ratings runs in their current seasons. *The Voice, Survivor* and *Shark Tank* all delivered consistent #1 positions in their time slots and key demos, and our cable series including *Love & Hip Hop, Real Housewives of Beverly Hills, Vanderpump Rules* and the Live PD franchise also continue to excel. I'm excited to note that A&E has recently ordered 160 new episodes of *Live PD*, providing further validation of the strength of the franchise. *Live PD* will air its 300th episode on the network in June.

On the unscripted side, we have also been able to resume production on select titles that have very small crews and can be shot with appropriate social distancing. We are also evaluating options to produce other unscripted formats remotely or with significantly scaled-down crews and without audiences. In early May, *The Voice* held its first-ever remote live shows, delivering strong ratings and demonstrating great resourcefulness and creativity in these times. Producers and showrunners have been able to recreate the key elements of the performances and competition while delivering to viewers a more intimate experience. The show's superstar coaches are mentoring remotely, and performers are showcasing their talent from their homes.

We will also be showcasing a 3-hour *Survivor* finale tomorrow night, further highlighting our ability to produce in a creative and innovative way during these times.

And we are active on certain new productions as well. We're excited to announce that we have acquired the rights to comedian Amy Schumer's new cooking show, which premiered on Food Network on May 11. The self-taped show, which will feature Schumer's cooking skills developed during her quarantine with her chef-husband, is a great example of the new ideas percolating in Hollywood in this unprecedented period.

In scripted television, with all production activity currently delayed, we're making great progress using the downtime to accelerate our development and advance episode scripts so that we are ready to hit the ground running when pre-production and production activity resumes. We are also excited to announce that CBS has elected to make a straight-to-series order for *Clarice*, previously a pilot project. *Clarice* is based on Jodie Foster's Academy Award-winning role in *Silence of the Lambs*. Production is expected to start later this year for a 2021 network debut. We have high hopes for this new network series, both for its debut on CBS as well as its international sales potential.

All in, we still expect to deliver 44 shows and over 800 episodes in 2020, with significant growth anticipated in 2021.

The industry-wide disruption to production schedules has had the positive effect of driving increased interest in our valuable library. Our team is working diligently to make available our rich trove of programming to distribution partners around the world who face scheduling holes due to the lack of new programming. There are pluses and minuses to this demand environment, as free-to-air services in markets impacted by advertising cutbacks have less spending power, but subscriber-driven services are showing strong growth, helped by free trials during the pandemic.

Finally, at EPIX we continue to see good momentum. Subscribers held steady, slightly increasing from the 14 million level we shared with you on our last call. We reached a favorable renewal agreement with Verizon FiOS, which was our only significant distribution contract up for renewal in 2020. This was a good outcome for EPIX, as we preserved EPIX's position on Verizon's premium tier at an attractive rate. The renewal further solidifies our confidence that EPIX will be cash flow positive this year.

On our last call we indicated that we had begun free preview offers with many of our MVPD partners. Those offers are now coming to an end and we've seen solid results, reaching an estimated 60 million additional viewers, and benefitting from valuable marketing support from carriers. We'll be learning more about free-to-paid conversion rates across our MVPD partners over the next couple of months. We've also seen strong spikes in EPIX viewership on digital platforms, especially Amazon Channels.

Subscribers and newcomers to EPIX over this period have embraced our new programming. Our new scripted series *War of the Worlds* became a top binge-watched show as shelter-in-place rules took effect. The first seven episodes averaged more than 1.7 million viewers measured over 14 days. In April, we debuted *Belgravia*, Julian Fellowes' follow-up to *Downton Abbey* and it's off to a solid start.

I also want to briefly call out another valuable asset in our Media Networks segment beyond EPIX. We're seeing strong viewership performance from our MGM HD platform both on MVPD platforms and Amazon. Our MGM platform is the number one non-sports pay TV channel in Germany and it is in the top 3 in both the UK and France. We're also seeing good progress in Latin America and will soon be launching in South Africa. This is a great adjacent business for us as we're able to program these platforms at a low cost since they primarily feature library content.

We are also continuing to be opportunistic in identifying strategic opportunities to broaden exposure to new production formats where we can further leverage our content. Last week we announced our investment in Audio Up, a media company founded by Jared Gustaldt. Audio Up's focus includes scripted podcasts, including musicals, as well as interview series. Through our partnership, Audio Up will produce and distribute podcasts for MGM and we will have an exclusive film and television first look at Audio Up's future audio content and IP as the company continues to expand its podcasting presence.

Overall, we had a better-than-expected start to the year. We will begin to see some impacts of delayed film and television deliveries in the second quarter. This was already factored into our guidance for the year, which assumed that production activities would re-start in July and August.

At this time, we do not have any further definitive information on the timing and implications of the resumption of production activities. However, we are monitoring events closely and will be in a position to further update you on our second quarter call in August.

In the meantime, MGM is in a strong position and 2020 will continue to be a year of positive growth.

We're making great progress on film development, with legendary directors such as Ridley Scott and Ron Howard,

Our television business continues to perform, evidenced by strong unscripted performance, including exciting finales of *The Voice* and *Survivor* and another significant 160 episode order of *Live PD*, and the CBS straight to series pick-up of *Clarice,* MGM/UA Television's first U.S. broadcast scripted series order.

EPIX is also performing well and trending ahead of schedule towards a positive cash flow contribution in 2020 and profitability in 2021.

We continue to execute and demonstrate our ability to be nimble and leverage the strengths of our diverse businesses, including the library. We're also managing our cost structure and our liquidity position.

These activities should favorably impact our consolidated performance for the year.

And, notwithstanding the uncertain timing of a return to production activity, I can say confidently that when that resumes, we will have a tremendous amount of momentum, with an impressive programming pipeline led by a great team.

Thanks for joining and here's Ken with the review of the quarter.

Ken Kay – Chief Financial Officer

Thanks Chris and hello everyone.

As expected, our first quarter results were strong and well ahead of the prior year's first quarter. Revenue of $403 million was up 27% over the 2019 first quarter; Adjusted EBITDA of $98 million was up 93%; and net income of $30 million was up from a loss of $12 million in the year-ago period.

This growth was largely driven by our television content segment, and in particular the significant SVOD licensing transaction mentioned by Chris. We also benefitted from deliveries of unscripted programming and the monetization of our minority investment in the Tubi AVOD network.

The strong results were offset in part by a decline in pre-G&A Adjusted EBITDA in our Media Networks segment, resulting from higher programming amortization and marketing expenses related to EPIX's recent slate of new original programming content, which was anticipated and factored into our outlook for the year.

Although we are pleased with the strong start to the year, these results precede the negative impacts that the COVID-19 pandemic will have on our businesses beginning in the second quarter. As this situation plays out, MGM has taken decisive steps to mitigate the financial impacts of production delays and manage our cost structure, while maintaining significant available liquidity. I'll discuss this in more depth in a moment, but first, let's review the first quarter performance.

In our Television Content segment, revenue nearly tripled to $158 million, up from $54 million in the prior year's first quarter. The growth was primarily driven by the worldwide SVOD licensing of the *Vikings* franchise, as well as deliveries of unscripted shows including *Live PD, Survivor*, *Live Rescue*, *The Voice*, *Botched*, *Shark Tank*, and several other shows.

Pre-G&A Adjusted EBITDA in the Television Content segment totaled $99 million, up from $27 million in the prior-year quarter. These results are indicative of the strong growth profile of our television content business and reflect the investments we have made to expand the depth and breadth of our slate. However, keep in mind that the performance of our Television Content segment for the remainder of 2020 will be negatively impacted by the suspension and potential modification of production activities and timing delays in the delivery of certain scripted and unscripted shows from 2020 to '21.

Our Film Content revenue totaled $138 million in the first quarter of 2020, down 6% from $147 million a year ago. Pre-G&A Adjusted EBITDA was $44 million, compared with $54 million in the prior-year period. Performance was driven by worldwide television licensing, including international revenue for *The Hustle* and *Tomb Raider*, the initial domestic free television availability of *Hercules*, worldwide VOD revenue for *The Addams Family*, and strong library revenue. The decline against the prior year's first quarter was primarily driven by $9 million of unanticipated foreign currency losses, reflecting the significant strengthening of the U.S. Dollar against the Pound, Euro and Canadian Dollar.

Our Media Networks segment generated revenue of $107 million in the 2020 first quarter, down 8% from $116 million a year ago. Pre-G&A Adjusted EBITDA was lower, as anticipated, totaling $10 million compared with $28 million a year ago. Despite the expected comparisons, EPIX performed better than anticipated and we've gained increased confidence in our goals for the year. The comparative results primarily reflect accelerated revenue recognition in the prior year's first quarter associated with the delivery of first-run films and library content under EPIX's digital distribution agreements, partially offset by higher revenue from affiliate carriage agreements following EPIX's expanded carriage on Comcast beginning in December 2019, as well as subscriber-based revenue from our over-the-top distribution of EPIX.

The decrease in pre-G&A Adjusted EBITDA primarily reflected higher programming amortization expenses and marketing costs associated with EPIX's new original content.

Total company G&A expenses for the first quarter of 2020 were $67 million, up from $56 million in the prior-year quarter. The increase primarily reflected the run-rate impact of our targeted 2019 investments to drive future revenue growth in our film and television content businesses. Last month we implemented restructuring actions designed to mitigate the current financial impact on our business from the COVID-19 pandemic and to ensure MGM is well positioned for the future. These actions include reconfiguring certain divisions of the studio to allow MGM to operate more effectively now and into the future, reductions in headcount, and temporary voluntary senior management pay reductions across all divisions.

The net impact of these actions is estimated to be a $15 million reduction in G&A expenses for 2020. We had previously guided that 2020 G&A would be up 5-7% compared with post-investment run-rate levels in 2019. We now expect 2020 G&A to be flat with the 2019 run-rate.

Equity in net income of affiliates for the 2020 first quarter was $6 million, including the gain from the sale of our investment in Tubi. This gain was partially offset by our share of the net loss of our U.S. theatrical distribution joint venture.

For the 2020 first quarter we recorded an income tax provision of $8 million, representing an effective tax rate of 21%. We continue to benefit from significant tax assets, including Federal NOLs of approximately $220 million, California NOLs of approximately $500 million, and foreign tax credits of approximately $120 million. This does not include the incremental material tax benefits that we believe we will receive under the CARES Act, which includes enhanced utilization of Federal net operating losses, as well as payroll tax credits and deferrals.

Looking now at cash flows and the balance sheet, we continue to maintain a strong capital position with ample liquidity and significant flexibility to execute on our strategic growth plans. Our cash balance at quarter-end was $455 million, and we had $1.38 billion drawn against our $1.8 billion revolving credit facility. As of last week, we had approximately $645 million of cash on hand and $280 million of availability under our revolver giving us total liquidity of approximately $925 million. In addition, we have the ability to upsize our first lien credit facility by another $250 million. Our credit facility is based on a borrowing base that is primarily supported by our library and which provides us full access to the entirety of our revolver.

Since our last call, we repurchased approximately 145,000 shares of MGM stock at an average price of $71 per share and have approximately $13 million remaining in our current Board repurchase authorization.

Turning now to our outlook, we are making no changes today. As we discussed on our year-end call at the end of March, our outlook for 2020 includes the estimated impact of delays in production and deliveries of new content stemming from the industry-wide suspension of content production. We have no information today that would materially change our outlook for the year, and we're hoping for improved visibility in the near future as to when the entertainment industry will resume full production activities. In addition to the strong traction we have experienced this year across our Studios business, the efficiencies we have gained in G&A spend for the year, and the strong momentum at EPIX increase our confidence in MGM's 2020 performance.

Wrapping up, MGM is off to a strong start to 2020. While our second quarter results will begin to reflect the anticipated impacts of the production delays and timing shifts, we will be in a strong position to execute to our plans when production activity resumes, supported by our deep content and development pipeline, our valuable library and our strong and flexible liquidity position. We believe we are in good shape to weather the current crisis and emerge from it in a position of strength.

That concludes my prepared remarks. Operator let's now begin the Q&A period.

Chris Brearton – Chief Operating Officer (Closing)

Thank you everyone for your questions and your interest in MGM. We hope you are all staying safe and healthy, and we look forward to updating on our progress on our next call. Good-bye.