Corus Entertainment Inc.

Q3 2023 Analyst and Investor Conference Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen. My name is Michelle, and I will be your conference Operator today. At this time, I would like to welcome everyone to the Corus Entertainment Q3 2023 Analyst and Investor Conference Call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during that time, simply press *, then the number 1 on your telephone keypad. If you would like to withdraw your question, please press *, then the number 2.

As a reminder, this call is being recorded.

I would now like to turn the call over to Mr. Doug Murphy, President and CEO of Corus Entertainment.

Mr. Murphy, you may begin, sir.

Doug Murphy — President and Chief Executive Officer, Corus Entertainment Inc.

Thank you, Michelle, and good morning, everyone. Welcome to Corus Entertainment's fiscal 2023 third quarter earnings call.

I'm Doug Murphy, and joining me this morning is John Gossling, Executive Vice President and Chief Financial Officer.

Before I read the cautionary statement, I'd like to remind everyone that we have slides to accompany today's call. You can find them on our website at www.corusent.com under the Investor Relations – Events and Presentations section.

Now let’s move to the standard cautionary statement found on Slide 2. We note that forward-looking statements may be made during this call. Actual results could differ materially from forecasts, projections, or conclusions in these statements.

We’d like to remind those on the call today that in addition to disclosing results in accordance with IFRS, Corus also provides supplementary non-IFRS or non-GAAP measures as a method of evaluating the Company’s performance and to better provide an understanding of how management views the Company’s performance. Today, we will be referring to certain non-GAAP measures in our remarks.

Additional information on these non-GAAP financial measures, the Company’s reported results, and factors and assumptions related to forward-looking information can be found in Corus’ Third Quarter 2023 Report to Shareholders and the 2022 Annual Report, which can be found on SEDAR or in the Investor Relations – Financial Reports section of our website.

I will start on Slide 3. The advertising recession that began last summer remains, impacting our revenues and those of media companies the world over.

In addition, our required spending on Canadian programming this year based on both last year’s higher regulated revenues, combined with the required catch-up pandemic Canadian programming expenditures as mandated by the CRTC, have put unacceptable pressure on financial performance.

To protect our margins, we are focused on driving efficiencies and productivity. A far-reaching, enterprise-wide cost review remains in effect, as we leave no stone unturned in an effort to reduce all costs to offset lower advertising revenues.

Our meaningful progress in expense control is evident in Q3 and will continue to improve in Q4 as we streamline our operating model and asset base.

We are undeterred, that said, in our pursuit of aggregating premium video content and audiences on linear and digital services while we expand our cross-platform monetization capabilities.

Our smart, broadened investments in US-content acquisitions will generate growth opportunities in premium digital video as we also sustain our linear channels business.

At our recent upfront, we revealed the premium content offering that will debut this fall and upcoming year on Global, our specialty channels, and throughout our streaming portfolio. I'll speak more to this later in my remarks.

This is a cyclical business, and while visibility remains limited, our purposeful focus is on positioning our company for the future and the inevitable economic recovery. I will focus my remarks this morning on the opportunities we see in premium video, both on our linear channels and on our growing portfolio of streaming platforms, and the monetization of those audiences with ever-improving and expanding go-to-market sales strategies and capabilities.

Before diving in, let me briefly highlight the results for the quarter, which was another difficult one.

Our consolidated revenue of $397 million was down 8 percent in the third quarter, resulting from lower television advertising and subscriber revenues, partially offset by growth in our content business.

These revenue declines, when combined with higher amortization of program rights, resulted in lower total segment profit of $97 million for the quarter, with free cash flow of $26 million.

Over to Slide 4 and before I begin on video, I want to take a moment to address the Writers' Guild of America strike currently underway in the United States, which impacts broadcasters and streamers alike.

While we remain hopeful for a timely resolution, we are scenario planning, working with our US content supply partners and our own in-house studio production teams to address any potential impact over the coming months.

Our industry faced a similar, yet different situation at the start of the COVID-19 pandemic, when production was on a prolonged hiatus. We have confidence in our teams and our partners with their deep, collective experience in navigating these types of disruptions.

Now let's talk about our premium video content offerings for the fall and the upcoming year. Our upfront this year marked a meaningful step forward in our evolution as an aggregator of premium video across our many leading linear channels and streaming platforms.

Our premieres this year will drive 17 hours of simulcast on Global, with powerhouse fan favourite franchises such as NCIS and FBI, top comedies Abbot Elementary, Ghosts, and last fall's number one new show, So Help Me Todd. All will return. Buzz-worthy new-scripted dramas Matlock starring Oscar Award winner Kathy Bates and Elsbeth based on the character in The Good Wife played by Carrie Preston will make their debut.

We have built a very strong offering of winning unscripted content, which includes the 45th season of fan favourite and number one reality series, Survivor, coming to you from Fiji; I Can See Your Voice with Ken Jeong returning with a third season; and season 25 of perennial favourite, Big Brother, not to mention our amazing Canada version, Big Brother Canada.

Our Canadian productions have not been affected by the writers' strike. On Global, we have new, original scripted series Robyn Hood, from acclaimed filmmaker Director X debuting this fall. We have season 3 of award-winning thriller Departure starring Archie Panjabi and season 2 of Family Law.

We are stocked up with a deep library of specialty and foreign content through our exclusive deal with Peacock, produced and available across all platforms.

Upcoming Peacock originals include Ted, based on the blockbuster film franchise. We'll debut this new comedy with Seth MacFarlane reprising the voice role of Ted, returning hit Peacock franchises Dr. Death and Bel Air, and an exciting new drama titled Based on a True Story starring the Big Bang Theory's, Kaley Cuoco.

In seven short months, Pluto TV has quickly become a leader in the Canadian market. Pluto TV has broad appeal with well-known series like comedy classics Cheers and Frasier; popular dramas Beverly Hills 90210 and Baywatch; and classic TV favourites Matlock and The Love Boat, plus older back seasons of crime franchise hits CSI and NCIS.

Tens of thousands of hours of content Canadians haven't seen for decades are now available and they're available for free. So viewers can stream now and pay never. In some ways, Pluto TV stands to benefit from a slowdown in the new content deliveries, as viewers explore the many past fan favourites given its enormous library of gold programming.

So our research and insights team at Corus has always been an important part of our test-and-learn culture and has driven many sales and product innovations over the years. Today, I wanted to share our latest eureka moment. Over to Slide 5.

Recent research provides compelling evidence that our lifestyle and entertainment specialty channels are very well positioned to compete with sports. Contrary to the popular belief that you have to buy sports to get live audiences, live tuning across our specialty portfolio comprises almost 90 percent of total viewing.

Whether it be the latest big dramas, stunning home reno projects, or delicious dinner ideas, audiences love the convenience of first-window lean-back as broadcast television.

Consider news, which could be described as our sports, produced and widely distributed across many platforms live every day in real time. At the Canadian Screen Awards this April, Global News topped the charts in the two biggest categories. Global National was recognized for the best national newscast and Dawna Friesen was recognized for best national news anchor. Further, Global is the only broadcaster to provide Canadians with completely free dedicated news FAST channels nationally and across many regional markets, and its growth has been a standout in the industry.

So in an effort to better monetize these live audiences, we explored the merits of sports-only advertising buys compared to sports plus lifestyle, entertainment, and news buys. Interestingly, we witnessed a compelling increase in reach with lower required ad frequency when a campaign is balanced across a wider array of specialty networks.

Simply put, it delivers better marketing investment results for the advertiser. And this validates our conviction that entertainment, lifestyle, and news are critical parts of a smart advertising buy.

Advertisers who narrowly focus on sports compete for attention in a cluttered environment, and they risk that their campaigns will not reach a significant portion of TV viewers that do not watch sports.

To make this point, this past fall sports made up 20 percent of total viewing, as did news and general interest content also at 20 percent. The remaining 60 percent of viewing was to genres like scripted dramas, comedies, reality shows, and movies.

Now, when you look at just specialty channels, we see that 59 percent, 59 of TV viewers do not watch specialty sports networks at all in an average week. So we are taking these insights on the road to accent our up-front buys as we work to change the channel on these outdated myths and demonstrate the value proposition of our specialty portfolio at Corus.

Moving to Slide 6. I want to reiterate the confidence we have in the long-term resiliency of our premium video business model in Canada, given what has now become the go-forward strategy for our big US studio content partners.

Across North America, we are all contending with the advertising recession. While our US partners are aggressively pursuing a disciplined path to profitability for their streaming platforms, in Canada, Corus has a partner-led, capital-light strategy to grow our streaming audiences and revenues. This four-corners model is clearly the smart path forward.

The US studio majors are investing more in content than in the pre-streaming era, more TV, more films, more franchise IP. They're optimizing their core linear channels business worldwide to generate significant earnings and free cash flow; they are launching streaming platforms that are distinct, but similar to their channels businesses; and they are embracing their international content business, licensing to partners such as Corus, and generating meaningful profits and cash flow. What results is an assured supply of content to sustain our linear channels business, but to expand also our premium digital video platforms.

Over to Slide 7. An important part of this year's up-front narrative has been our effort to modernize television measurement and create a more level playing field with our digital competitors.

Today, digital advertising is sold against the entire 2-plus universe of viewers, whereas television remains stuck in the past, constrained to demographics like selling the adults 25–54 demo, which effectively excludes more than 70 percent of the total audience.

This overlooks billions of valuable ad impressions that TV delivers, which is why Corus is leading the charge to redirect marketing investments and advertising spend towards audience segments that offer more targeted ways for advertisers to reach their desired audience.

In Q3, 53 percent, or $111 million, of advertising revenue was optimized, which is an important step towards breaking out of the legacy TV trading model.

Moving to Slide 8. Our streaming portfolio offers premium, long-form video that attracts compelling audiences at scale in a brand-safe and trusted environment, delivering incremental audiences that advertisers can't reach on TV alone.

Our three fully ad-supported digital video platforms achieve great engagement, delivering more than 90 percent ad completion and benefit from the growth of connected televisions.

With the recent launch of Pluto TV alongside the Global TV app, STACKTV, and our Global News FAST channels, we are delivering 7 times more digital video ad impressions than just two short years ago. In Q3, 12 percent, or $39 million of total TV advertising and subscriber revenue was attributable to new platform revenues.

STACKTV is our flagship streaming product, with 16 channels live and on demand. The appeal of lean-back as broadcast television viewing is evident in the fact that more than half of viewing on STACKTV is on our live channel feeds. The live channel viewing is captured by Numeris and extends the reach of broadcast campaigns into the streaming universe while adding new subscribers, and thus audiences, to the pay-tv ecosystem.

Digital platforms also provide many new opportunities to innovate our go-to-market strategies and advertising solutions. By way of an example, the introduction of dynamic ad insertion, or DAI, on

STACKTV video on demand, VOD, has been wholeheartedly embraced by advertisers since its launch in 2021, and we expect to do $10 million in additional revenues this year.

Our Global TV App operates 11 live channels, plus a robust offering of on-demand choices for authenticated subscribers.

For those that don’t have authenticated subscriptions, the Global TV App has something for everyone, including seven-day access to broadcast premieres and a robust free section that includes the Global News FAST channels and a diverse sampling of free-view content.

Like STACKTV, live viewing on the channels on the Global TV App is measured by Numeris and VOD is sold via DAI.

Pluto TV has grown leaps and bounds since launch, now offering 140 channels, including 45 customized channels from Corus. As Pluto TV’s exclusive advertising representative, we are very encouraged by the growth we are seeing on this 100 percent free service.

Since launching seven months ago, time spent per user has more than doubled and total viewing hours have grown 74 percent. As the service continues to gain traction, it delivers massive scale for advertisers and provides incremental revenue opportunities for Corus in the years ahead.

Over to Slide 9. Corus continued to produce great Canadian content for our premium channels and for our audiences around the world with 25 new original series announced at our upfront.

Our slate of original content entices viewers with scripted and unscripted series which showcase real-life experiences, engaging storylines, and Canadian talent. This slate will also serve to shore up our schedule with new premieres during the writers’ strike.

From Corus Studios, a proven leader in Canadian lifestyle and unscripted content, we are debuting Bryan's All In with HGTV Canada star Bryan Baeumler as he travels off the beaten path to help struggling entrepreneurs renovate their businesses.

Scott's Vacation House Rules Scott McGillivray is using his five rules to turn problem properties into profit.

Fan favourite Rock Solid Builds kicks off season three showcasing even more unique and challenging builds by Randy Spracklin and his crew in Newfoundland.

Hollywood icon Pamela Anderson returns for season two of Pamela's Garden of Eden.

Deadman's Curse returns for season two and season three already greenlit with more epic adventures where they search for gold in BC, and Rust Valley Restorers for season five offering classic car fanatics some fresh adventures from Mike, Avery, and Connor.

Over at Nelvana, maintaining its position as a world-renowned international producer and distributor of children's animated and live action content, this upcoming year will see eight new and returning series, and one notable highlight being the premiere of Millie Magnificent inspired by the Canadian author/illustrator Ashley Spires' popular children's book, The Most Magnificent Thing, published by our own Kids Can Press.

From Aircraft Pictures based on the bestselling book series, Popularity Papers follows middle school besties Julie and Lydia on their quest to demystify one of life's greatest questions: what makes someone popular?

And finally, from Waterside Studios, the highly anticipated news series, Geek Girl, based on the bestselling novels by Holly Smale is slated to premiere on YTV and STACKTV in Canada and worldwide on Netflix next year.

With that, I will now turn it over to John to discuss our Q3 results.

John Gossling — Executive Vice President and Chief Financial Officer, Corus Entertainment Inc.

Thanks, Doug, and good morning, everyone.

I will start on Slide 10 with a review of our consolidated results.

The challenging advertising environment and lower subscriber revenue was partially offset by positive results from our content business, contributing to consolidated revenue of $397 million for the quarter and that represents an 8 percent decrease from the prior year.

Consolidated segment profit was $97 million for the quarter and that reflects lower advertising and subscriber revenue and increased programming costs, including $5 million of additional Canadian programming expenditures, partially offset by $15 million, or 11 percent of general and administrative cost saves identified as a result of our enterprise cost review.

Consolidated segment profit margins were 24 percent for the quarter.

Consolidated net loss attributable to shareholders for the quarter was $2.48 per share, and that includes goodwill broadcast licence, trademark, and brand impairment charges totalling $590 million before tax in the Television segment as a result of continued contraction in advertising, which has a notable impact, obviously, on our share price since the end of the last fiscal.

We delivered free cash flow of $26 million in the quarter, which was relatively consistent with the prior year.

Net debt to segment profit was 3.85 times at May 31, 2023, and that compares to 3.59 times at the end of Q2 and 3.02 times at the end of the last fiscal year. And that obviously reflects the impact of lower segment profit.

Now let’s turn to our TV results for the third quarter and those are on Slide 11.

TV advertising revenue declined 12 percent, similar to the trends that we saw in our first quarter this year.

Subscriber revenue was 5 percent lower compared to last year. When you normalize in both years, subscriber revenue would have been down by under 4 percent.

Distribution, production, and other revenue grew 6 percent for the quarter and that was driven mainly by content deliveries from Nelvana, partially offset by lower Corus Studios revenue.

And just as a reminder, we did close a multiyear content licensing deal with Hulu for a package of Corus Studios titles in the third quarter of the prior year.

Direct cost of sales was up 3 percent for the quarter and that was a result of the 6 percent increase in the amortization of program rights driven by the ramp-up in Canadian spend, as well as investments in US studio output deals in the current year. And that was offset by a $3 million decrease in other cost of sales due to lower production service work.

Importantly, total general and administrative costs in TV declined 7 percent in the quarter. Employee costs were down 6 percent, and other G&A expenses declined by 9 percent, driven by lower marketing costs and CRTC fees and offset slightly by higher software and system licence fees.

Overall, TV segment profit was down in the third quarter, primarily a result of the contraction in advertising demand, reduced subscriber revenue, and higher amortization of program rights and film investments, partially offset by aggressive cost controls.

TV segment profit margins were 26 percent in the current-year quarter compared to 32 percent in the prior year.

Next, let’s turn to our Radio results outlined on Slide 12.

Third quarter results reflect emerging revenue softness, particularly in the professional services, communications, entertainment, and retail categories. While local markets for both radio and television remained very resilient, it was not enough to offset the impact of ratings and the broader macroeconomic environment on national advertising.

Radio segment revenue decreased $3 million for the quarter as a result of lower advertising sales, but that was partially offset by higher podcasting revenue.

Radio segment profit was $1.6 million lower in the quarter, and that was due to the revenue decline, partially offset by our progress on cost reductions in the Radio business. Q3 segment profit margins for Radio were 16 percent.

All right. Over to Slide 13. We exited the quarter with $56 million of cash and cash equivalents and $197 million available to be drawn under our revolving credit facility.

As a reminder, in the second quarter we renegotiated the covenants under our bank credit facility to address the persistent headwinds in the current economic environment. These revised covenants provide additional flexibility under the credit facility, and at the end of the third quarter we were in compliance with all covenants.

This morning, we declared a quarterly dividend of $0.03 per Class B share payable on August 15, 2023, to shareholders of record on July 31, 2023. This represents the first payment under our new quarterly dividend payment schedule of August, November, February, and May.

As Doug noted, we have and continue to take serious cost-reduction measures, which are starting to be reflected in our financial results.

As we navigate this low-visibility environment, these cost reductions, combined with an unwavering focus to maximize our revenue and carefully manage our expenses and cash, are not at the expense of our strategic plan and priorities.

We continue to make the necessary investments in growth initiatives that will position Corus to benefit from the eventual recovery in marketing conditions—sorry, market conditions while delevering our balance sheet and providing a compelling return to our shareholders.

Oh, sorry, back to you, Doug, on that.

Doug Murphy

Thank you, John.

Last quarter I said we were finally "on the cusp of some much-needed regulatory changes in our industry." And I am happy to report the Broadcasting Act of 1991 is finally ready to die and be buried.

On April 27th, parliament passed Bill C-11, which amended the over 30-year-old Broadcasting Act. By finally bringing foreign digital streamers into the regulatory framework, Bill C-11 got the biggest things right and will make more flexible and equitable broadcasting rules attainable for our company.

Last quarter, I also urged the CRTC to "move very quickly to implement the new legislation after it passes." And we were happy to see the Commission launch consultations on May 12th.

We continue to urge the regulator through those consultations and other forums to revisit the obligations on Canadian broadcasters as soon as possible. Levelling the playing field not only means regulating foreign players, but recalibrating and reducing outdated spending regulations and offering more flexibility to Canadian companies like Corus.

We're also very pleased that parliament passed Bill C-18, the Online News Act, on June 22nd. The law comes into force in six months and we will have more to say about it in future quarters.

But for now, we can say that the legislation clearly recognizes the value of online Canadian news content, and we are confident it will help journalism organizations, like Global News, extract market compensation for our news productions from the massive foreign digital platforms in the future.

I also wanted to take a moment to underscore our efforts to improve productivity and drive efficiencies as we streamline our operating model. The results are evident in the third quarter and expected to continue in quarter four.

I would note that since the beginning of fiscal 2023, we've reduced more than 250 full-time positions, representing approximately 8 percent of our workforce.

This was a difficult quarter and these are difficult times. It is precisely at these moments when we see the true character of our Corus team at play who remain resilient and steadfast in their efforts to advance our strategic priorities, while at the same time streamlining our operating model to position Corus well for the future.

Thank you, and over to you, Operator.

Q&A

Operator

Thank you, sir. Ladies and gentlemen, we will now begin the question-and-answer session. If you would like to ask a question, please press *, followed by the number 1 on your telephone keypad. If your question has been answered and you would like to withdraw from the queue, please press *, followed by the number 2. And if you are using a speakerphone, please lift your handset before pressing any keys.

One moment, please, for your first question.

Your first question will come from Adam Shine at National Bank Financial. Please go ahead.

Adam Shine — National Bank Financial

Thanks a lot, and good morning. Doug, just starting, first question around the restructuring. You touched on the 250 positions, 8 percent reduction of workforce. In terms of savings, are you able to quantify these for us and also speak to any related run rate that might have occurred in Q3 and could potentially build into Q4?

And then I'll just circle back with one or two more.

Doug Murphy

Yeah. I think the quantum of those eliminated positions are showing up in this quarter and the next. And the objective, Adam, is for all of those to achieve run rate savings going forward.

So, yeah, of course, there will be sort of variable compensation as it will come back in future years that will be attached to some of those positions, but those are eliminated positions that we hope to have stick to our ribs in the years ahead.

Adam Shine

Okay. In terms of the new platform revenues, obviously we're starting to see STACKTV a few quarters now having plateaued. Can you speak to sort of any initiatives under way to potentially try and reboot that? Is it a plateau? Or have you started to see some greater churn and anything else over and above STACKTV related to the new platform metric? Thanks.

Doug Murphy

Yeah. Thank you, Adam. Obviously, that's a key focus of ours. We're being sort of strategically ambidextrous here as we're looking to drive meaningful lasting efficiencies in the operating model, but at the same time keep our foot on the gas on our strategies to grow premium digital video audiences and revenues in the years ahead now that we have this very impressive streaming portfolio we've built over the last few years.

STACKTV, we still are confident in our million sub-target. We are learning so much this year on a variety of different fronts in terms of improving the value proposition. As you know, we've added more channels like the Disney suite of services, Magnolia, Lifetime recently.

We've broadened the VOD offerings with more deeper seasons of fan favourites NCIS, FBI, Saturday Night Live. We have a Hallmark VOD channel there at this time and are exploring other ways to increase the content offering.

We also have been playing around with new credit-save strategies with Amazon. And I just went through and, obviously, I'm not going to get into the details because we'd be here for a couple of hours, but I went through in great detail yesterday with our STACKTV core working group all the key learnings and postmortems on our various campaigns. There's a coming campaign with Amazon that begins next week, as a matter of fact, which we're very confident in.

And so we hope to resume that growth profile. It has flattened out quarter over quarter, year over year recently, as you know. But there's been two or three sort of strings of weeks where we've seen some nice growth which has been in response to some of our programming and marketing strategies.

And so we're taking those learnings and kind of reinvesting them into, I think, a much more finely tuned marketing and acquisition strategy.

My final comment would be that we have complete support from our partners at Amazon, and they are continuing to turn on new technologies and new acquisition strategies with us that we think will be very informative and helpful going forward.

It's a huge market inside the Amazon network, and we've only begun just to scratch the surface.

Adam Shine

Thanks for that. I appreciate the added colour. Just one last question quickly. You face an easier comp in the Q4. You touched on that sort of in the outlook in terms of a modest decline.

There's a lot of moving pieces, obviously, the Writer's strike, ongoing SAG after negotiations, probably more of an issue for the new fiscal, but can you speak at all to whether or not you're seeing advertisers prepared to dip in? Or is it very much a last-minute wait-and-see approach that continues?

Doug Murphy

Well, we are comping against last year's challenging fourth quarter, so that's why we're confident in modest advertising declines comparatively. But the behaviour of advertisers and the kind of unbelievably unique ad economy remains as it's been the last few quarters.

We just continue to see, and I have been, I was in New York a few weeks ago, I talked to all the brass at the big US studios and networks, and everybody still continues to see the very same thing. And that is demand for goods way down, demands for services way up. Anything at home down, whether or not that's cleaning supplies or appliances or furniture or renovations. Anything out of home, like entertainment. Travel is up, but no one's advertising on travel because the demand exceeds the supply.

The one category that seems to be making a comeback, which is encouraging, is automotive, but we're seeing declines in financial services, telecom, direct-to-consumer, government. Government's more in Canada than the US, as you'd imagine.

So the variability is still very much there, and we still think it's effectively supply chain and consumer behaviour patterns driven. So it's hard to say when those conditions are going to return to a more normal space. But I can't tell you right now, Adam, that anything's changed in the advertising outlook.

Fourth quarter is always, in Canada, you know, people thankfully are not in front of their television as much. And so we're being, I think, appropriately muted in our forecast for the fourth quarter.

Adam Shine

Okay. Thank you for that. I'll leave it there.

Operator

Your next question will come from Maher Yaghi at Scotiabank. Please go ahead.

Maher Yaghi — Scotiabank

Good morning. Thank you for taking my question. Maybe I'll start with a big-picture question here on TV. We're continuing to see movement by US studios to improve their streaming services. Nothing new, really, but we're also seeing sports channel looking to do the same with recent discussion by ESPN looking to eventually leave the cable TV system.

As you said, audience on TV is not just purely there for sports, but sports does act like a magnet for consumers to remain within the cable system, the cable TV system. Canada is a bit protected from sports fragmentation, but when you look at the system long term, do you think this move by sports channel to go online, what could it mean to cable TV in general for you guys?

Doug Murphy

That's a big-picture question, but I'll make a couple comments. The anchor on sports is NFL, and that deal's done till 2034, both in Canada and US, number one. I won't speculate as to whether or not Disney is going to unbundle ESPN, other than to say I don't think they're going to do that.

And I think for us, then the point we were trying to make on sports is it underpins two things. One, there's better value for advertisers to include Corus in their buy and not to pound all their money into the sports services in Canada. Number two, it really shines a light on the value of STACKTV. If the majority of Canadians aren't watching sports, why are they paying for it in their packages? And why not consider STACKTV as a entertainment and lifestyle service when it feels very much like traditional TV, given that more than half of all viewing is on as broadcast live. Right?

So I would take your question and we can speak over a cup of coffee one day about my opinion on sports anchoring the bundle. And I think it in large part is an important part of that proposition.

But I think the real note here is that Corus is competitively well positioned, both in the advertising economy to provide better efficiencies to advertisers and their buys, but also in the product economy when we have a product like STACKTV, which is increasingly a great way for Canadians to consume entertainment, lifestyle, and news content.

Maher Yaghi

Okay. That's fair. And maybe just to follow up on the TV ad revenues. As you said, you expect Q4 to show a slight decline year on year. Over the last four quarters, we have seen the decline stabilize at, let's say, double-digit rates year on year.

But last year in Q4, you had a significant decline in your advertising revenues on TV. So I would have thought like basically we're touching bottom here, but you're kind of indicating that there's still a little bit more to go before we turn around.

How does it look for Q1, let's say, as you look forward? Are we touching bottom here? Or there's still uncertainty as to where the bottom is?

Doug Murphy

There's a lot of uncertainty in Q1 really because of the writers strike. That's added a new layer of complexity into the outlook conversation. That said, as I went to some great pains to describe on my remarks, we actually believe we have a very strong schedule one way or the other.

And so Q4 really is—given what happened last summer where the back half of the quarter just sort of really kind of fell off the precipice, we're not in a position, I think, to say we could get to growth in Q4, but we do believe that single digits, low-single digits is a reasonable outlook.

And then Q1, I would say, Maher, I wouldn't venture to even take a stab at that.

John, you want to make a comment on that?

John Gossling

No, there's too much uncertainty around the strike and program deliveries and it's really hard to know now.

Doug Murphy

Yeah.

Maher Yaghi

Okay. That's fair. Thank you. Thank you, guys.

Doug Murphy

Thank you, Maher.

Operator

Your next question will come from Vince Valentini at TD Cowen. Please go ahead.

Vince Valentini — TD Cowen

Thanks very much. Let me start off with the operating cost question to try to come at it from a different angle. Your headcount reduction is at 8 percent, employee costs are down 6 percent year over year this quarter. John, I think there's some moving pieces where the employees that are still at the Company are probably seeing some sort of wage inflation, given the environment we're in. Tough to keep them if you don't increase their wages.

So is this net reduction of 6 percent in your mind sort of the full run rate? Or does it even get less than that if the wage increases escalate in Q4 and Q1? Or is there more of the net headcount reduction that's not fully reflected in Q3? I'm just trying to get a sense if 6 percent is the right run rate, or if it's better or worse?

John Gossling

So there are a lot of moving pieces, Vince. The biggest ones are variable pieces of compensation, whether it's short-term, long-term programs, things related to revenue. So that's a big part of it in Q3.

You're right, there have been increases. They were done for our nonunion employees at the beginning of Q3. So you'll see the effect of that in the Q3 numbers.

On the headcount reductions, a bunch of those are vacancies, so they may have never been in the actual run rate, but that's certainly part of our planning as to how we keep these costs from growing.

So I think there's a real mix in there, but we're certainly pushing into Q4 to continue to see that kind of momentum.

Vince Valentini

Okay. That's fair enough. The second question's on the subscriber revenue. I know that it seems like there's been retroactive adjustments every quarter of the last three or four. The decline rate on a normalized basis of just under 4 percent, you said, I mean, that certainly seems like it's a bit of a step-down versus prior quarters and where you had been flat and then it sort of went to minus 2 percent.

So what is causing this incremental step-down? And is it anything to do with the Eastlink channels being pulled? And did that already—did you have to make some sort of accounting adjustment already for that because you knew it wasn't being renewed? Or is that still in future periods?

John Gossling

Yeah. No, it's not anything to do with that. It's all to do with the streaming subscriber revenue is basically flat. Right?

So that was in the past when we were reporting pretty solid growth on the subscriber line. Even normalized, that was offsetting any of the linear declines. But now that it's flat, we're seeing the linear declines having a bigger impact.

Doug Murphy

But run rate remains—cord cutting still remains around 3 percent is what we're seeing. Right? Volume, total subscriber volume mid-single digits, yeah, down.

Vince Valentini

That's fair. So any help for us on Q4 then from two aspects, I guess? Is there anything on the lumpy retroactive side that could be coming up? I think Eastlink's a pretty small distributor. I think there's been some discussions with, let's just call them, a large now national distributor. Anything that could come up on that on Q4?

John Gossling

Yeah. You know what? I think in any quarter that's always a possibility. And for sure in Q4, that's a possibility, yeah.

Vince Valentini

Okay. And the Eastlink, that will start to show up in Q4? Whatever you lose?

John Gossling

Yeah. That's—we'll certainly get part of June in and then, yeah, that will affect July and August.

But keep in mind that we're seeing a pretty good increase in demand from other places for those channels. So there will be some offset to that.

Vince Valentini

Yeah. I know. I wanted to just tie up this topic, for I have one other topic, but to tie up this topic, I mean, how do you think about that if you—how many of the linear subscribers do you need to replace if they take STACKTV instead because they can’t get your channels on Eastlink cable?

Is it if you replace 75 percent of them, would you replace 100 percent of the EBITDA, given you make better subscriber revenue on STACK than you do on cable? Or is there any sort of ratio we can think about?

John Gossling

Yeah. Yeah. We need, this is a bit rounded, but we need one STACK for every two traditional.

Vince Valentini

Oh, it’s only 50 percent. Okay.

John Gossling

Yeah.

Vince Valentini

Good. And sorry, one last topic I had is just the production, let’s call it free cash flow in general. But this seems like an unusual year where your spend on production has been higher than your amortization for three straight quarters. It usually bounces around from quarter to quarter.

Is there some big recovery coming in potentially in the fourth quarter to help free cash flow? Or you’re down $72 million of cash year to date of what you spent versus what you’ve amortized. It’s unusually big.

John Gossling

Yeah. I don't think there's—I think it's a little bit of the opposite of that, Vince. So there's not some big, expected recovery coming in Q4, but I think the good news is, and we've seen this through the first half of the year, that we were running quite a bit higher on cash versus amort. That was a couple things.

One is just simply a catchup in billings from the US studios for whatever reason. We were quite far behind in invoicing. That's nothing to do with us. That's all to do with when we get the paper.

And the second thing was we're building Canadian, obviously, to hit that $50 million catchup. So when I look at Q3, I think the good news is that cash and amort are pretty much equal now, which is what the typical pattern should be. And we hadn't been there, as you know, for quite a while this year. So that feels a lot better.

And I don't expect anything unusual in Q4 in that respect. I think that's largely behind us now. So I think that's good news.

But that's, look, that's the challenge with Canadian is you have to spend pretty much all the money up front to be able to make that amort that comes in over a period of time to hit the $50 million or not.

So we'll see. Q4 could be a little lower, the cash, than the amort, but it's pretty hard to predict right now.

Vince Valentini

Maybe more important from what you're saying, John, if I don't mishear you. You're now at a more stable point to enter fiscal '24. There's no big imbalance of catchup payments to either the US players or the Canadian players and working capital or production burn, if you call it that, should be a bit less of an issue in '24?

John Gossling

For sure.

Doug Murphy

Yeah. We've almost—I mean, I would say that catchup spend requirement, setting aside the mechanics of without the catchup, right, Vince, which is like prior-year's reg revenue next year on the amort, which is challenging in the best of times, but it's even worse when you're down in the following year on your revenue.

But setting that aside and just looking at the CRTC catchup decision, the cash impact, I think, of that is primarily out the door now. Now we've just got to roll through and register the amort to be compliant.

Vince Valentini

We care more about the cash, Doug, but—

Doug Murphy

Oh, I know. Well, that's my comments, my remarks, so.

Vince Valentini

I'll pass it along. Thanks.

Doug Murphy

Thank you.

Operator

Your next question comes from Aravinda Galappatthige at Canaccord Genuity. Please go ahead.

Aravinda Galappatthige — Canaccord Genuity

To start where Vince left off, just, John, when you think about the combined amortization, not just on the program rights, but on the film investments, are you—is it fair for me to think that going forward the actual cash on both those pieces, the net spend on the film and the payment on program rights, it essentially kind of will be 1:1?

Or is there still going to be a little bit of a permanent piece that will be there in terms of an incremental outflow net basis?

John Gossling

I wouldn't say that automatically. I think what there will be is there's definitely variability between quarters, the main reason being on the film investment side we do get the tax credit cash in the door usually in the summer. So that helps Q4.

But other than that, there's nothing that I can see that's sort of systemic in the system that's going to cause it to always be higher. It really is primarily timing.

Aravinda Galappatthige

Okay. Okay. Thank you. And then maybe just a little bit more help on the programming cost side, John. As we look at sort of Q4, I may have misheard you previously. Is there another catchup piece in Q4? Or are we done at this point for the year?

And maybe just talk to how that number, the extent to which that number is sensitive to the writers strike. I mean, could we potentially see a bit of a decline in Q1 if the writers strike persists?

John Gossling

Yeah. Look, the writers strike really isn't affecting Q4. I know that's not what you just asked me. But for sure, and that's the work we're doing right now, to understand based on what deliveries might look like what's that going to do to program amort, especially on Global.

We saw that in the first fall of COVID. Right? So Q1 of ‘21, there was a big decline of program amort. And then it came back at us the following year and we had a big step-up in Q1 of ‘22.

So yes, absolutely there could be a very significant impact on programming costs in Q1.

I’m just looking for the upcoming quarter what’s happening with Canadian. It’s not really showing the same kind of step-up as what we saw in Q3, so it’ll be similar to last year.

Aravinda Galappatthige

Okay. Great. That’s helpful. And then last question, maybe for Doug. Again, connected to the WGA strike, how should we think about the lag between, obviously, you get a temporary benefit, I think as John mentioned, on the programming side, but then it affects advertising. I’m just going back to a comment you made about Q1. Do you think that the impact is almost that immediate? Or will there be a bit of a lag as to when it affects ratings and then affects advertising?

Doug Murphy

Yeah. I guess I don’t know is the answer to that question. But when I was in the US with our partners most recently, the general comment was if you’re going to have a writers strike, have it during an advertising recession. So that’s qualitative and it’s hard to help your model.

But if we were shooting the lights out with big demand and all of a sudden audience levels drop because of that, then I think it would be more painful than at a time where your demand is a challenge, too, and now you’re going to have a supply challenge.

The question is the art and science of this business is always to kind of run your revenue model so that you’re kind of matching your supply and demand and you don’t burn any inventory. Right? So it’s really difficult.

I think I would note what I said in my remarks. We've got a really strong unscripted schedule. I talked about Big Brother, talked about Survivor, I Can See Your Voice. We've got The Wall from NBC. We've got Big Brother Canada, which is in the mid season, and we've got our Global News, which is the highest-growing news production in Canada right now. It continues to do very, very well.

So we're just going to continue to lean on our Canadian product, lean on the unscripted product, and then it won't surprise you to know that our programming teams are in constant contact with our US studio partners. And the US studio partners are incredibly aligned with the streamers to come to a conclusion on the writers strike.

So there's a lot of economic interest in resolving this. So I'm hopeful, based on what I learned, that there's not oppositional views in terms of the broadcasters versus the streamers. This is really about trying to find a way to get the new economics of content aligned with the needs of the Guild.

Aravinda Galappatthige

Okay. Great. Thank you, Doug. I'll pass the line.

Doug Murphy

Thanks, Aravinda.

John Gossling

Thanks, Aravinda.

Operator

Your next question comes from David McFadgen at Cormark Securities. Please go ahead.

David McFadgen — Cormark Securities

Yeah. So just on STACKTV. So STACKTV, it seems like it's probably been flat for a few quarters now. I see advertising all the time for STACKTV, so I'm just wondering are you seeing any signs that the growth will pick up and we will start to see growth? Any comments on that?

Doug Murphy

Yeah. We actually have; I mentioned it. In the last few months there's been two multiweek runs where what we've been doing on marketing has worked. And so we're kind of iterating that to build our plan for next year.

That's the only expense item you're going to see not going down in terms of the non-people, non-programming. We want to invest in marketing. We actually think that there's more runway ahead for us with the more sort of leaning in on the marketing investment side.

So again, David, we're holding to our 1 million subscriber target on STACK, and we believe it's a compelling product. We're investing in the programming that's going on in the product. We're investing in the ad tech. I mentioned the meaningful growth in dynamic ad insertion on VOD zero now to 10 million and counting.

And the team's continuing to get smarter on our kind of campaign management, and then Amazon is turning on new tactical tools that I think will bring us into a much better spot to start driving a return to growth on STACKTV to get to our target.

David McFadgen

Okay. And then just a question on the dividend. Obviously we know you've reduced it. It's actually not that big anymore, just $1 payment, but still nonetheless when you see your leverage climbing where it climbs just given the reduction in EBITDA, do you think it might be prudent to just cancel the dividend altogether and use that cash flow to try and get that leverage down to protect the equity?

John Gossling

So, David, a couple things on the dividend. One is it's always subject to board approval every quarter, so there's that piece. We just need to always point that out.

And when we changed the dividend in March, this situation was fully contemplated that you're seeing as we report today, so I don't think anything's really changed in terms of what was happening when we reset the dividend to $0.12.

David McFadgen

Okay. All right. Okay. Thanks.

John Gossling

Thank you.

Operator

Ladies and gentlemen, once again if you would like to ask a question, please press *, 1 now.

Your next question will come from Scott Fletcher at CIBC. Please go ahead.

Scott Fletcher — CIBC

Good morning. I might ask another question on the leverage. I mean, it seems like we may be hitting something of a peak on the leverage, but obviously it's uncertain with the ad market.

Is there any—outside of free cash flow and EBITDA growth, is there any appetite to maybe look to monetize any of the assets within the business to sort of take a look at leverage that way?

John Gossling

Well, certainly that would help. I think we haven't been dealt a strong hand from the regulator in that respect thinking of the radio decision, but yes, that's an option.

Look, anything to reduce debt, we're going to delever mostly by improvement in segment profits. Right? That's where we're going to get the juice on it, but because that's what's happened in the last year to make it go the other direction, but certainly anything around debt reduction that we can do, we will pursue.

Scott Fletcher

Okay. Fair enough. And then more of a bigger picture question. One of your—one of the media competitors recently announced some pretty notable changes to the way they plan on delivering the news because they basically said they weren't making any money in it.

Is that—can you comment on the profitability of your news business and whether you're seeing the same type of pressure? And if similar—if there's anything similar on the table?

Doug Murphy

Yeah. Well, Scott, we, Global News has been the innovator in Canada for decades now. We have a tool we use called multi-market content where we have four green screens across our 14 stations and those are the hubs that generate the news, which is what the other mentioned news competitor is moving towards.

Our team won the Edward R. Murrow Award for technological innovation in news, which is a US award, a number of years ago for that very technical achievement. So we don't comment per se on the profitability of news. It's an expensive investment.

And we remind the regulator that in our opinion our only regulatory obligation should be the provision of news to Canadians. Everything else is rooted in 1991. But that said, we're finding ways to be more profitable in news.

That’s both the function of cost reductions by operating more efficiently using our multi-market content techniques, for example, but also I made a purposeful mention of our Global News streaming apps, 14 of them, which are free and which we launched during the pandemic at expense in capital investment in order to provide news and information on a timely basis to all of our viewers in those markets.

And so we’re doing the very best we can to make news kind of wash its face. And we are always looking for cost savings and it’s still part of our enterprise wide-cost review.

But I also believe that we have a real opportunity with news because it’s, as I described in my comments, it’s sort of like our sports in a way. The live viewing on our news, now that we have the number one national broadcast in news and the number one anchor, is growing. And so we’re gaining share and we’re getting ad dollars.

Scott Fletcher

Okay. That’s helpful. Thanks. I’ll leave it there.

John Gossling

Scott.

Operator

There are no further questions, so at this time I will turn the conference back to Doug Murphy for any closing remarks.

Doug Murphy

Thank you, Operator. And thank you, everyone, who joined us on the call.

As ever, we’re here for follow-up questions, if there are any, and have a great happy Canada Day long weekend.

Take care now. Bye-bye.

Operator

Ladies and gentlemen, this does conclude your conference call for this morning.

We would like to thank you all for participating and ask you to please disconnect your line.