WildBrain Ltd.

Second Quarter 2023 Results

Event Date/Time: February 8, 2023 — 10:00 a.m. E.T.

Length: 47 minutes

(Edited transcript)

CORPORATE PARTICIPANTS

Eric Ellenbogen
WildBrain Ltd. — Chief Executive Officer and Vice Chair

Aaron Ames
WildBrain Ltd. — Chief Financial Officer

Kathleen Persaud
WildBrain Ltd. — Vice President, Investor Relations

CONFERENCE CALL PARTICIPANTS

Drew McReynolds
RBC Dominion Securities — Analyst

Aravinda Galappathige
Canaccord Genuity — Analyst

David McFadgen
Cormark Securities — Analyst

Daniel Kurnos
Benchmark Company — Analyst

PRESENTATION

Operator

Hello, and welcome to WildBrain's Fiscal 2023 Q2 Earnings Call.

Today's conference is being recorded. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session.

I'd now like to turn the call over to Kathleen Prasad, Vice President, Investor Relations at WildBrain.

Kathleen Persaud — Vice President, Investor Relations

Thanks, Justin, and thank you, everyone, for joining us today for WildBrain's Second Quarter 2023 earnings call. Joining me today are Eric Ellenbogen, our CEO, and Aaron Ames, our CFO. Also with us and available during the question-and-answer session are Josh Scherba, our President, and Danielle Neath, our EVP of Finance and Chief Accounting Officer.

Before we begin, please note the matters discussed on this call include forward-looking statements under applicable security laws with respect to WildBrain, including, but not limited to, statements regarding investments by the Company, commercial arrangements of the Company, the business strategies and operational activities of the Company, the markets and industries in which the Company operates, and the future objectives and financial and operating performance of the Company, and the value of its assets. Such statements are based on factors and assumptions that Management believes are reasonable at the time they were made and information currently available. Forward-looking statements are subject to a number of risks and uncertainties. Actual results or events in the future could differ materially and adversely from those described in the forward-looking statements as a result of various important factors, including the risk factors set out in the Company's most recent MD&A and Annual Information Form, which are available on the Investor Relations section of our website at wildbrain.com.

Please note that all currency numbers are in Canadian dollars unless otherwise stated.

After our remarks, we will open the call for questions.

I will now turn the call over to our CEO, Eric Ellenbogen.

Eric Ellenbogen — Chief Executive Officer and Vice Chair

Thanks, Kathleen, and good morning, thank you for joining us.

As we begin, I'd like to address our softer-than-expected second quarter results. I'm sure it's top of mind for our investors. This is primarily an issue of timing, which doesn't change the outlook for our full-year guidance. Our second quarter results were impacted by certain productions that were expected to start in Q2 and have moved to Q3. We remain confident that we'll see an acceleration in the second half of Fiscal '23 to achieve our stated targets for the year. Aaron will provide greater detail in his commentary, and of course we'll take questions at the conclusion of our remarks.

Now turning to some of our recent initiatives:

Over the past several years, you've heard me speak of the investments and upgrades that we've made in our creative endeavours. The product of those investments have been visible in our new Peanuts content for Apple TV+, and also in shows like *Chip and Potato*, *Go, Dog. Go!*, and *Strawberry Shortcake*, which are all on Netflix–but now we've achieved a new level with our latest Netflix series, *Sonic Prime*.

In December, *Sonic Prime*—our most creatively ambitious animation project to date—premiered on Netflix with an overwhelmingly positive reception from fans worldwide. The series debuted in the #1 position for kids' content; it spent three weeks in the Global Top 10 TV on the platform across *all* demographics; and it reached the Top Ten in 66 countries. For those who don't know, the turnover in Netflix's Top Ten can be quite rapid—just a few days is considered an accomplishment—three weeks in that ranking is quite exceptional. It's safe to say that *Sonic Prime* is a bonafide hit with audiences around the world—and Netflix has already announced the drop of the next eight episodes this summer.

Simultaneous with the success of *Sonic Prime*, our global licensing agency, WildBrain CPLG, working alongside our partner SEGA, has lined up a robust pipeline of Sonic Prime consumer product launches for this year, which will begin layering into our financial results over the coming quarters. As a reminder, we share equal participation with SEGA on the Sonic Prime IP. The success of the *Sonic Prime* series on Netflix, along with Sonic's worldwide brand recognition, is leading to new deals, partnerships and licensees. Just to put that into context, the number of deals we've signed in the last three months is at the same pace as some of today's most successful properties in kids' entertainment. We're just in the beginning stages of our Sonic Prime partnership, and we expect to see an acceleration in growth in Fiscal 2024.

Sonic Prime is a superb example of the inherent potential in reimagining and reigniting classic brands for today's audiences. Like Peanuts, the Sonic brand has a decades-long legacy with generations of loyal fans. I'm sure that everyone listening today has a favourite show, a game or a comic that they loved when they were young. Today, the opportunity to monetize such brands by tapping into that fandom and reigniting them for adults and kids to enjoy is sizable, and it's really a big part of what we do at WildBrain. We bring IP to life by delivering engaging content to kids and families everywhere, and we follow that with great consumer products. At the very core of our DNA is IP and content. We utilize all the creativity, technology and insights available to identify what resonates with kids and families so that we can deliver them fresh, exciting experiences to build new memories and connections.

We don't just do that with classic IP. We also build audiences for emerging IP, and in that vein, we partnered in the second quarter with Ukrainian producer Glowberry to bring the popular Brave Bunnies preschool brand into our 360-degree franchise portfolio.

Brave Bunnies was launched in 2020, and quickly gained a successful foothold with broadcasters. Season one is already enjoyed by kids on platforms in more than 80 countries. And in consumer products, Spinmaster launched a complementary toy line in Germany and Italy. The brand's publishing program has seen its first books debut in Italy and Australia.

We have been in discussions with Glowberry, tracking the brand for some time, but after the invasion of Ukraine we accelerated that process. While we recognized a need to help Glowberry in these terrible circumstances, it was also important for us that this was the right thing to do for our business at WildBrain.

We know what a good brand looks like, and we saw all the hallmarks of early strength with Brave Bunnies. It ticked every box, with its ability to engage global audiences through content that could ultimately drive consumer products upside.

Now the majority owner of the Brave Bunnies IP, WildBrain will lead global distribution of Brave Bunnies content and will co-produce season two with Glowberry and Spanish animation studio Ánima. We're going to manage the brand under our Franchise group, and WildBrain CPLG will handle the licensing and merchandising worldwide, excluding Ukraine.

Turning now to our licensing and consumer products business.

After quarter end, Peanuts Worldwide signed a U.S. partnership for Snoopy with MetLife Pet Insurance, which is the leading pet health insurance provider in the workplace. We have thus rekindled the more than 30-year relationship between Peanuts and MetLife. Our Peanuts brand continues to attract high-quality partners like MetLife around the world.

Additionally, after the quarter, WildBrain CPLG was appointed as master licensee worldwide for Playmobil—that is one of the most popular toy brands in Europe, and it has a brand recognition in the 80%–90% range across Germany, France, Spain, Belgium and the Netherlands. CPLG will expand the Playmobil brand into new territories and consumer product categories including merchandise, publishing, location-based entertainment, and promotions. This is just another example of how WildBrain CPLG continues to build its portfolio with high-quality partner brands, offering their expertise and a global turn-key solution.

Similarly, just last week, the CPLG team announced the renewal of representation for Hasbro's portfolio of kids' brands in EMEA, plus the addition of Italy and India, with properties that include Peppa Pig, My Little Pony and Transformers. We've established a very successful relationship with Hasbro across many of their most popular and iconic family brands in key markets and we look forward to continuing to grow their brands in these new regions.

Farther afield, as of January 1, just a little while ago, our CPLG team in APAC is fully up and running with our newly expanded operations in China, Singapore, Taiwan and South Korea, with many exciting deals in development that we look forward to announcing in the coming weeks and months.

Turning to WildBrain Spark, results continue to be impacted by the global slowdown in the advertising market, but strong direct ad sales by our team in the quarter led to a sequential improvement. I'll remind you, it's important to recognize that the true value of Spark lies in its audience engagement and the insights that we capture from that engagement. Engagement is necessary to effectively reach kids and build brand affinity. According to a recent survey from the Precise Advertisers Report, 84% of kids say that YouTube is the main way that they consume video content. Kids continue to be highly engaged on our WildBrain YouTube network, which attracted over 7 billion views across 46 billion minutes[1] of video in the second quarter of '23. To date, Spark has captured over 1 trillion minutes of watch-time since its launch in 2016. This converts to the discovery of new content, the sustained popularity of our proprietary and partner IP, and ultimately drives the much larger opportunities in consumer products. [1]*Correction: the numbers for views and minutes of video were incorrectly reversed on the earnings' call.*

With that, let me turn it over to Aaron, who will review the quarterly results in detail and provide some more context for our outlook for the balance of the year. Aaron?

Aaron Ames — Chief Financial Officer

Thanks, Eric.

Second quarter 2023 consolidated revenue of $140.5 million reflected a decline of 8% year-over-year. Gross margins were up over 200 basis points as we recognize the synergies from the consolidation of Peanuts representation rights under our global licensing agency. This has been a journey five years in the making with Peanuts, and we will continue to benefit from this margin improvement for years to come.

EBITDA was $26 million, down 5% year-over-year with the lower revenue, which was impacted by the start date of several projects within Content Production and Distribution.

Turning to each of our revenue streams, Content Production and Distribution was $56.1 million in the quarter, down 8% year-over-year. Revenue we expected in Q2 was impacted by start times for several projects which shifted to Q3. These productions have already begun, and we are recognizing revenue in Q3.

Consumer products was $57.4 million, compared with $62.5 million in the year-ago period. Revenue was down in the quarter as we saw retailers pivot to reducing overstock that had built up during COVID. This was not brand-specific and was not specific to WildBrain but was rather a broader industry trend. We also saw an FX headwind in Consumer Products in our Peanuts business.

WildBrain Spark had revenue of $16 million, down 11% year-over-year, but saw a sequential improvement from the first quarter with strong direct ad sales. I will reiterate the real value of Spark is in the insights it provides to all aspects of our business and the engagement it brings to our owned and partner brands.

Lastly, television revenue was $11 million in the quarter.

We recorded a net loss of $13 million, compared to net income of $4.6 million in the year-ago period, primarily driven by higher change in fair value of embedded derivatives, higher SG&A, lower gross margin dollars, and offset by higher foreign exchange gain. As we discussed last quarter, we have begun moderating our SG&A spend and are beginning to realize the returns on those investments. Free Cash Flow in the quarter was strong with positive $26.4 million, compared with negative Free Cash Flow of $0.8 million in the prior-year period. Free cash flow for Q2 2023 reflected the increase in collections for trade receivables associated with the larger deals and timing on working capital settlements.

Our leverage at the end of the quarter was 4.25x. The leverage may fluctuate from quarter to quarter, but over all we expect it to continue to trend down gradually over time through EBITDA growth and Free Cash Flow generation.

Turning to guidance, I want to spend a few minutes to provide context for why we're comfortable with our full-year outlook. While the first-half results were flat on the top line and down slightly on EBITDA, we are maintaining our full-year guidance.

Starting with Revenue, within Content, we have a production pipeline which informs our view for the balance of the year. The animation studio has a full slate of over 15 projects contracted and in production. Within Consumer Products, we expect the inventory reduction trend we saw in the second quarter to normalize over the balance of the year. While we expect Spark to continue to be impacted by the pullback in the global advertising market, we will continue to leverage the insights generated by Spark to further the engagement in our owned and partner brands. On a consolidated basis, given the visibility of our pipeline, including deals and productions that are already underway, we are comfortable with our full-year guidance of approximately $525 million to $575 million.

Moving to EBITDA and our expectations for cadence, we have a tough comparison from the prior year in the third quarter, but given the visibility on deals in our pipeline, we expect year-over-year EBITDA growth in Q3. As you will recall, the fourth quarter in 2022 was lighter relative to prior quarters in 2022. We have moderated our SG&A spend and expect to leverage the investments we have made. We expect full-year adjusted EBITDA of approximately $95 million to $105 million.

Finally, we expect Free Cash Flow to end Fiscal 2023 similar to the levels we saw in Fiscal 2021.

I will now hand the call back to Eric.

Eric Ellenbogen — Chief Executive Officer and Vice Chair

Thank you, Aaron.

One question I'm often asked is, when are we going to see the results of the WildBrain turnaround really inflect in our financials? I thought it would be helpful to break this down.

You can divide the IP monetization and growth into two phases. Phase one is content activation, production and rollout. We spent the bulk of the last three years getting the content right. I'm happy to say we're seeing the results of those creative investments. I spoke to you about our latest hit, *Sonic Prime*, but let me remind you of some of the other brands we have in our portfolio–Caillou, Chip and Potato, Strawberry Shortcake, Teletubbies. We partnered each of these brands with major streaming platforms, and some are now in multiple seasons.

We're also attracting incredible talent, like Oscar-nominated producer Bonnie Arnold, to spearhead numerous long-term projects for us, including episodic series, TV specials and features. Measured just by awards, we've seen a 600% increase in nominations for our shows since 2019, and closed 2022 with seven wins including an Emmy. Getting the creative right is the very foundation to sustained long-term growth. We've done that over the past three years, and we've seen associated production and distribution revenue in our numbers.

That's phase one, which incidentally continues rolling on a simultaneous basis as we continuously feed more projects into our production pipeline, some of which you know about, and some of which we've not yet announced. As we accumulate multiple seasons of shows, we add considerably to the library value and downstream distribution revenues.

Phase two is when the content creates buzz and audience engagement that we can leverage into consumer products growth. That's where the rubber meets the road in terms of potential revenue generation, but it takes time, and we're just at the beginning of this phase two for most of our brands. Yet if we look at Peanuts, we've produced a significant amount of content for the brand, which will continue to propel the brand's growth, and we have a robust pipeline of more Peanuts content to come. Having built out the important global infrastructure of our in-house agency, WildBrain CPLG, and with representation of leading brands like Peanuts, we now have the operating leverage to layer on additional brands at higher incremental margin, just as we're seeing with Sonic Prime.

With the *Sonic Prime* series, which just premiered on Netflix, we're signing lots of licensing deals through CPLG. The bulk of those licensing results will not start appearing in our financials until Fiscal '24, and that's with a brand that already has an existing global audience. We're still in the beginning stages with many of our brands, but we're taking measured, deliberate steps to get the content right and set ourselves up for future growth in consumer products.

With our global presence, infrastructure and expertise, we have a global turn-key solution ready to take advantage of the consumer products growth across our entire portfolio of brands. We are the owners of a deep vault of IP. With our creative talents and insights, we can identify, iterate and create compelling content that engages audiences. Using our multi-platform, "always-on" strategy for content, we build awareness for brands through both short-form and long-form content. We do this not only for our own brands, but also for partner brands that seek to leverage our expertise. Once we build that brand awareness and engagement, we can ignite that last step in the IP life cycle–consumer products.

In sum, we have a strong creative pipeline across multiple IP titles, with meaningful consumer products upside, and we will continue to execute for future growth across this 360-degree platform.

With that, I'll open it up to the operator for questions. Let's go ahead.

Q & A

Operator

We'll go ahead and take our first question from Drew McReynolds with RBC.

Drew McReynolds — RBC Dominion Securities

Thanks very much, good morning.

Maybe starting with you, Eric. Obviously, you continue to execute really well across the entire business, so congrats on that. Always curious to get your updated view on how the content cycle is evolving in terms of your buyers and the end demand that you're selling into. And then, maybe related to that, we are seeing the delay in the timing of some of the deliveries within the industry. Are there specific causes that are behind this with respect to shifts from Q2 or Q3, or is this just generally normal cadence of the industry as you see fit? Thank you.

Eric Ellenbogen — Chief Executive Officer and Vice Chair

Thanks, Drew, and good morning. Maybe I'll start with the second and more specific question first, and then work back to an overview of industry trends, which you and, I think, everybody on the call follows, but I can give the particular insight around how it affects our business.

What you're seeing here is really a timing issue. As I have often admonished, we're not managing quarter-to-quarter in these creative endeavours. Sometimes a show gets pushed–that's what happened, and it happens regularly. Overall though, we are excited about our production orders. The show that got held in Q2 is now in full production, we're in Q3, and that will work its way through to our numbers.

There's nothing particularly macro about that. It just has to do with getting the creative right, getting the team, and often there have been some delays.

On the larger picture of where things are going, it's a different story with each of the streamers. What we know is this, and this has not changed: kids’ content continues to drive not only subscriptions but also retention. In particular, it's favouring known content. And fortuitously, we are rich in that known content; branded entertainment. Unlike which has happened over the past several quarters, you've seen a big throttling back in the number of shows that the SVODs are picking up. No change in spend, by the way; spend has accelerated. They're being more selective. That's been good for us. We've gotten orders and reorders on our content, and I think we're exceptionally well positioned with the brands that we have.

It's a consistent move to known IP. Sonic is just a great example. Again, not so hard to predict whether something's going to be a double or a home run prior to launch. We had a very good feeling about Sonic. The creatives were just so excited about what was turning out at the studio. It's the biggest thing that we've ever made at our studio in Vancouver, and now we're seeing the results. It's great, and I think that we have more in the pipeline for the back half of this year.

Drew McReynolds — RBC Dominion Securities

Okay, super. Maybe one quick follow-up on that. When you look at your consumer products, Peanuts obviously been a major driver of that in recent years, and it does sound like Sonic Prime will kind of layer on quite nicely over time. Just remind us, within consumer products, is it still predominantly Peanuts? Or how are other IP properties that you're monetizing, your own IP, flowing through?

Eric Ellenbogen — Chief Executive Officer and Vice Chair

Okay. Peanuts definitely predominates. It is a top ten IP on a global basis. I think I've said before, which is a stunning number, Peanuts is about $2.5 billion at the consumer level globally. This is for a property–and I've been doing this for a long time–remarkable at 75 years old soon. For the longest time, until we got into the picture, it was sustaining those levels or growing without any filmed entertainment, and we've definitely switched that part on. That is major.

It gives us huge operating leverage, though, and over the past several years we've consolidated consumer products representation of Peanuts across not only all of EMEA, but also, importantly–and it's an area that I'm pretty excited about–what we're doing in APAC. Because if you want to think about it this way, Japan, incredibly, is about something on the order of over $1 billion of retail. That's just Japan. You take that against all of APAC, which is something as, when we inherited it, like $300 million. So many of the—particularly in the APAC market, and I would say Korea is a really good example, you see the success in Japan is a very good predictor of what happens across the region. We're really stepping it up there and going to see growth.

But at the same time, in the broader CPLG portfolio, we are seeing a growth now in Strawberry Shortcake licensing, Teletubbies licensing–our proprietary properties, which are beginning to take off. But that has to be seeded with the content, and not the phase one that I talked about a few minutes ago, that we then began to see the results in the phase two, which is happening.

I just want to also say that, when we have something like Sonic Prime, we're a full partner in that. We really consider that, in a way, and it feels to us very proprietary, and we're very committed to the property. That's one where we have a partner property, in which the consumer products participation is beyond an agency role.

I don't know if that answers your question, but it's some perspective on what we're doing there.

Drew McReynolds – RBC Dominion Securities

It does, that’s fabulous colour. Thank you.

Operator

Our next question will come from Aravinda Galappatthige with Canaccord Genuity.

Aravinda Galappathige – Canaccord Genuity

Good morning, thanks for taking my question. I'll start where you left off there. With respect to Consumer Products, I think, Aaron, I think some of the comments you made about the timing of content falling into Q3, I think, gives us a sense of what the cadence could be. Is there any commentary you could make about the CP side over the next several quarters? I know that you had talked about some FX headwinds and some sort of inventory buildup-related issues. Should we expect, given sort of the macro backdrop, sort of that CP line to be a little uneven in the near term? But obviously, perhaps some of the items you talked about, including Sonic Prime, starting to drive it towards Fiscal ’24. I'm just trying to get a sense of what kind of shape that we are looking at, recognizing the uncertainty obviously in the medium term.

Eric Ellenbogen – Chief Executive Officer and Vice Chair

Aravinda, it's Eric, and I'll hand it over to Aaron and perhaps chime in afterwards, or if you have a follow-up, for sure.

Aaron Ames – Chief Financial Officer

Thanks, Aravinda. First of all, I'll start a little bit about the Content side. As I mentioned, we have significant visibility in that pipeline and the deals in our production and distribution pipelines, and we do expect to have sharp acceleration for that in the following couple quarters here ahead of us.

On the Consumer Products side, we believe it can still be impacted from the industry inventory reductions, and that will take probably a couple quarters for it to roll through. Spark will probably continue to be impacted by advertising headwinds. But our pipeline is really strong, especially with Sonic and the content that we've seeded into Peanuts. In ’24 and beyond, we expect that to considerably pick up.

The one thing I will mention is, buying was strong in the year-end period; it's just that retailers were clearing inventory. It's not like everything just dropped off a cliff, we just have this kind of one-time thing that needs to work its way through.

Operator

Do you have any further questions, sir?

Aravinda Galappathige – Canaccord Genuity

Yes. Sorry, I think Eric spoke at the end, I didn't hear the last bit. But let me just—I think what you're saying is generally clear. Let me just—I'll jump into the second question.

It's on the balance sheet. Can you give us a sense of how we should think about some of the maturities that you have coming up, both in June and in September? Then connected to that, interest costs, given the rate environment, how we should think about that. I know that you've hedged part of your term loan. What kind of rates we are thinking about net of that? Thanks.

Aaron Ames – Chief Financial Officer

We hedged US$165 million of the Term Loan B, and so that's at 5.25. The converts are at 5.875, and those are fixed. We have a year and a half, almost two years left there. We have really strong relationships with our lenders, and we're very comfortable with our debt management, and so we feel very comfortable with where we are, and on the ability to refinance that as it comes due.

Operator

Our next question will come from David McFadgen with Cormark Securities.

David McFadgen – Cormark Securities

Hi, a couple of questions. Just on the MetLife deal, was wondering if you could give us an idea of the magnitude of the deal. Would it be similar to what it used to be a few years ago?

Eric Ellenbogen – Chief Executive Officer and Vice Chair

Hi David. Obviously, we can't share the specific breakout in MetLife, which, over the 30 years, grew considerably. Interestingly, post-MetLife, the business didn't take a dip but continued to grow, and I would just point that out because, fortuitously, we are so diversified in our licensee base that any one license kind of doesn't matter. I think there was a lot of concern with my predecessors about losing MetLife and what the implications would be and so forth, and that has had no effect whatsoever.

That said, we're excited to be back with them. I can't go into the exact financials, except to say that we are staked not only in an MG but on the upside. The deal that we've signed, unlike—we never had a participation, as an example, in the sale of life insurance. This feels more like a traditional license where we are partnered with MetLife, in success.

David McFadgen – Cormark Securities

Okay. All right, and then just a question on the cost saving initiatives. Is that primarily targeted towards SG&A? Can you give us an idea of the magnitude of that?

Eric Ellenbogen – Chief Executive Officer and Vice Chair

I'll give that to Aaron.

Aaron Ames – Chief Financial Officer

Hi David. Yes, so over the prior couple of years, we built an infrastructure to help us with our growth in CP and content, and we feel very confident that we've put together that—the appropriate level of infrastructure and systems. Now we're going to harvest those investments that we've been making, and so that's why we feel very comfortable in the infrastructure we have now, and we can moderate that continued spending because it's been built and it's in place.

David McFadgen – Cormark Securities

Okay. All right. Okay, thank you.

Operator

We'll go ahead and take a question from Dan Kurnos with The Benchmark Company.

Daniel Kurnos – Benchmark Company

Great, thanks, good morning.

Eric, bear with me here. I know you always admonish me about advertising around kids' content, but we saw HBO-licensed content from Roku of all places recently, and it's interesting the way that Disney has rolled out its lower AVOD tier. Netflix is doing what Netflix is doing. But I'm just curious, with how the—your comments clearly ring true on spends not flowing in the ecosystem, despite all of them losing money. I am curious, as we roll out this new tiered product—I never had a problem watching *Ninja Turtles* with advertising behind it, but how much do you think that you can continue to expand the product lineup if AVOD incrementally becomes the area of interest and monetary spend from the streamers?

Eric Ellenbogen – Chief Executive Officer and Vice Chair

Hey, good morning. Dan, listen, advertising dollars follow views, and a great area of expansion for us has been fast channels and AVOD. Broad brush, AVOD—it isn't, as you well know, just YouTube.

YouTube is the discovery mechanism. It is the on-ramp for views. I quoted like 85% of kids primarily watch YouTube, but they also heavily watched the SVOD services, and now, since their parents pay the bill, they may be watching hybrid SVOD with advertising.

It's kind of a rebalancing of the market. One of the things that's just fascinating to me, and I'm sure you have some analysis on this subject, is that, in a traditional cable model, about half the revenue came out of affiliate fees, which is indirectly consumer dollars, and the balance came out of advertising. I think, when the shakeout finally happens—and it's happening—we're going to see a not dissimilar balance between sub fees and advertising dollars, with a full shift to digital. Very full shift to digital.

I think we'll get rewarded by it, and YouTube is not the only player in town. We have deep experience there, and we continue to lean on Spark for amplification, for viewer insights, and a lot of the data that helps us make decisions around content. I should also add that that very data has been an incredible sales tool, and then taking content, *Caillou* is a really good example of where we just have these tremendous viewership numbers by region, by watch time, language, et cetera. And with that, ended up with a new series on Peacock, licensed library episodes to Warner's, and uniquely positioned, I think, with the kind of insights that help drive the IP and give us that really long tail.

I don't know if that answers your question around advertising in particular, but I don't think it's a particular revelation on my part that advertiser dollars are going to follow views, and that's why I think Netflix, as a singular example, is going to be quite successful in the advertising area.

Daniel Kurnos – Benchmark Company

No, it does answer my question, and it does make sense, I was just trying to get sort of your thoughts on the evolution of the market. But you unintentionally let me lead you into my follow-up, which is YouTube itself is now pushing into fast aggregation, and so I wonder if that's a chance for you guys to improve brand recognition. You've talked about this probably ad nauseam, Eric, but I'll give you the platform anyway. There is an obvious shift in short-form video in the marketplace, whether or not they've been TikTok who knows, but you guys have clear expertise there. I'm just wondering on the data and insight and branding opportunity there, if you can—I know it's early, it hasn't really been launched yet, but just how you're thinking about potentially attacking that.

Eric Ellenbogen – Chief Executive Officer and Vice Chair

I think you know we're platform-agnostic. Our current content is everywhere. It's about ubiquity, and that comes in a couple of ways. Deep library—it really helps. It reminds me of a cycle that happens in the music industry, Dan, where everything was about music publishing. I wish I had bought music catalogs at that point, masters. Then all of a sudden, as all these platforms came in, it was all about the masters. That library is incredibly valuable. The vault that we have, for example, against, you know, whether it's *Teletubbies* or *Degrassi*'s 14 seasons or at a—like 13 thousand to 14 thousand half-hours that we have—that helps fuel that ubiquity. We can share the wealth of that IP across multiple platforms, taken with brand recognition and fandom. It's the strategy that we're following. It's about brands, for sure. It represents an incredible asset and is essentially a proxy for marketing spend, and gives us, then, a running start as we reinvent and relaunch these titles.

It's really not about platforms. I think we're—I don't want to say unconcerned or ignorant of them, but essentially we've found ourselves on every one of the platforms, in every form whatsoever. On fast channels, on Roku and Samsung TV, and whoever comes along, we'll be there.

I used to say that it's sort of like being an IP toll booth collector. It kind of doesn't matter what vehicle you're driving through, we collect the royalties and revenues associated with the traffic. I still have that view, again irrespective of platform.

Daniel Kurnos – Benchmark Company

Got it. While I'm sure I'm getting the hook here with the Grammys music, I will ask on CPLG just a little bit, if I can.

Aaron, maybe first to you. Yes, toys was probably actually the strongest e-com category, at least domestically, this holiday period, but there was major discounting, in part due to the inventory issue that you referenced, but also I think maybe some price competition in this space. I know that there are some concerns out there that, because of what happened, not in ’22 but in ’21, that retailers overbought inventory, and so it feels like Q1 is still a bit of a clearance quarter. I think you called that a couple of quarters to get through that, so I just want to get a sense of your comfort on your normalization question.

For you, Eric, within the toy category, don't get me started with the new Barbie for preschoolers, but there's clear category expansion. I'm just curious, with all of your expanded licenses, how you're looking at attracting new audiences in ways that I think is starting to get a fresh look from the top down from all the brands? Thank you.

Eric Ellenbogen – Chief Executive Officer and Vice Chair

Sure thing. Aaron, you want to pick that up first?

Aaron Ames – Chief Financial Officer

Sure. Yes, we do think that it could last a couple of quarters, as you said, as retailers clear. But what's important is, a lot of what Eric talked about before, we're also in those new brands like Sonic and strong brands like Peanuts, consumers are going to—are going to be looking for that product. They will have to reorder and place new orders for that type of consumer products, and so that's why we're confident going into '24 that it'll start to rebound.

I'll turn it back to Eric on the other question.

Eric Ellenbogen – Chief Executive Officer and Vice Chair

It's interesting, in the toy category, and I won't get you started, Dan; you know what, this is amazing. Peanuts does not have a toy business. All those couple billion-plus in retail sales, without toy. So watch that space.

We haven't really had—I hate the word toyetic, but a toyetic presence. But one of the things that is pretty terrific about the content that is being created, and truly content first—it's not with an eye to consumer products, our creative groups. It's quite independently, and it's just about making great shows. My experience is that the CP follows, you can't reverse engineer, you don't want to, ever. I think that that is a gigantic white space and opportunity for the Peanuts brand on a global basis.

Incidentally, we have a long way to go with Peanuts, even in the domestic market where, in my view, it's somewhat under-indexed for, as popular as it is. And we have the Saturn rocket of Apple TV+ behind us, which has its strongest presence in North America. A lot of upside. We've got a long way to go with that particular brand, and as with the launch of our other brands.

I'm not sure if that picks up where you were going with the toy market, but if not I'm happy to clarify.

Daniel Kurnos – Benchmark Company

No, that's helpful. I think I've used my allotted time anyway. I'll be on the lookout, Eric, for Woodstock for infants. I appreciate all the colour. Thank you very much.

Eric Ellenbogen – Chief Executive Officer and Vice Chair

Thank you, Dan.

Operator

Thank you.

There are no further questions over the phone lines at this time. I'll turn the call back over to Kathleen Persaud.

Kathleen Persaud – Vice President, Investor Relations

Thank you, everyone, for joining us today. We look forward to updating you again next quarter. Thank you. Bye.

Operator

Thank you. That does conclude today's conference. We do thank you for your participation. Have an excellent day.