FINAL TRANSCRIPT

# WildBrain Ltd.

## Q4 and Fiscal 2020 Year End Earnings Conference Call

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## PRESENTATION

**Operator**

Good morning, and welcome to the WildBrain Fiscal 2020 Fourth Quarter and Full Year Earnings 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 with analysts. To ask a question during that time, please press star, then one on your telephone keypad. If you'd like to withdraw your question, press the pound key.

I'd now like to turn the call over to Nancy Chan-Palmateer, Director, Investor Relations at WildBrain. You may begin your conference.

**Nancy Chan-Palmateer** — Director, Investor Relations, WildBrain Ltd.

Thank you, Operator, and thank you everyone for joining us today.

Speaking on the call 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.

First, we have some standard cautionary statements. The matters discussed on this call include forward-looking statements under applicable securities laws with respect to WildBrain, including, but not limited to, statements regarding future investments by the Company; the impacts of COVID-19 on the Company and its business; the business strategies and operational activities of the Company; and the future financial and operating performance of the Company. Such statements are based on information currently available and 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 AIF.

Please note that all currency numbers are in Canadian dollars.

For the question-and-answer session that will follow, we ask that each analyst keep to one question with one follow-up so that everyone has a chance to ask questions. If you would like to ask an additional question, please rejoin the queue. Please note that we are all in separate locations for the call today, so we do appreciate your patience if we encounter any lumpiness as we steer through the Q&A.

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

**Eric Ellenbogen** — CEO, WildBrain Ltd.

Thanks, Nancy. Good morning and thank you everyone for joining us today. I hope you continue to be well.

This month marks one year since I joined WildBrain, and to be short, it's been an eventful year, and I'd like to commend our global team for rising to the challenges and opportunities that we faced as a company during the past 12 months.

But before I dive in, I'd like to acknowledge that diversity and inclusivity are front-of-mind for everyone at WildBrain. These are core values for us, and we've begun the important process of reviewing our diversity and inclusivity policies and practices across the company. We see this as critical to everything we do as content creators and as brand builders, for not only today's kids, but future generations as well.

It's meaningful for us to know that our content and brands are providing much-needed comfort and entertainment to families around the world, and in the face of global economic and social uncertainties, we're seeing strong demand for our content and premium production capabilities, as well as the endurance of our television and consumer products businesses.

We've been very active in reorganizing and realigning the company to intensify our focus on creativity, digital media, and brands. We've made great strides towards these goals, and I'd like to recap some of those advancements.

First, the rebrand of the entire company as WildBrain has been extremely well-received, both by our employees and by our partners and customers across the entertainment industry. The rebrand was not just cosmetic. It signals for us a cultural reset across the company, the unification of our global operations under a shared identity, with common goals and increased collaboration.

As part of the reset, we implemented a top-down global reorganization to ensure we are investing in resources for growth. I'm really thrilled at the level of talent we've been able to attract so far, and I'll touch on a few of those key appointments.

Michael Riley joined us as Chief Brands Officer and is now working with our new brand-management team to spearhead our long-term strategy to build and reinvigorate our key brands.

We welcomed Deirdre Brennan as EVP of Content Partnerships. She has led the reorganization and integration of our distribution and TV businesses, bringing on new leadership to drive strategic rights curation with our global partners.

We also recently established a new China business with the appointment of our Managing Director, Jianbo Wei, who is building a content and licensing team to drive growth and collaboration in that important region.

We appointed Steve Manners as VP of Business Development to lead collaboration between our licensing agency, WildBrain CPLG, and our AVOD network on YouTube, WildBrain Spark. This is now beginning to bear fruit as we cross-sell paid media, digital advertising and licensing services to third-party IP owners to fully support their brands.

Charles Gabriel came on board as VP, Advertising Sales, to lead our digital direct ad sales in the US market. We continue to build out that ad sales team.

Finally, Aaron Ames was appointed CFO; Danielle Neath was named Chief Accounting Officer, and they have led a reorganization and streamlining of our global finance function.

These and other changes have had a profound effect on the company. Collectively, they've led to increased collaboration across the business and a more nimble and, indeed, entrepreneurial organization. It's worth repeating that all of this has been driven by our long-term strategy to focus on creativity, digital media, and brands. But before I touch on each of these priorities, I'd like to frame briefly what this all means from a near-term results standpoint.

As you know, we've focused on long-term growth, and we don't give annual guidance. We believe this remains the right approach for now, as it's important for us to have the flexibility to make the necessary investments across the organization, as well as the patience to find the right partners and make deals on the right economic terms instead of rushing deals to meet short-term earnings objectives.

That said, last year, we committed to delivering growth year-over-year in adjusted EBITDA. That was before the one-two economic punch of COVID and the "Made for Kids" changes. In spite of these significant headwinds, we delivered on the commitment, albeit modestly.

And looking towards 2021, while we expect to continue to see these two issues as potential headwinds to our near-term performance, we believe, once again, we can deliver at least modest growth year-over-year as we invest in, and execute on our plans to drive accelerating long-term growth.

In fact, even as the global commerce decelerated in March, we sharpened our focus, and we're delivering on the priorities of creativity, digital media, and brands – and the momentum continues to build.

Let me walk you through some of the progress we've made.

Creatively, we significantly upped our game. We're working on new content with a host of top-tier talent, new organization including animation artists, creators, writers, directors, and live action producers.

For example, *Snoopy in Space* was one of the most popular shows on Apple TV+, and our Vancouver studio is in full production on additional *Peanuts* content for Apple.

We're also in production on two new, original seasons of *Johnny Test*, exclusively for Netflix. In partnership with DreamWorks, our studio is producing a brand-new series based on the classic children's book, *Go, Dog. Go!*.

Our original animated preschool series, *Chip and Potato*, was a hit with young viewers on Netflix, and has been renewed. This is becoming a full-fledged brand for us, for which we intend to exploit consumer products.

In live action, *Malory Towers*, which is a coproduction with UK partners King Bert Productions and the CBBC, has been licensed to telecasters and streaming platforms in over a dozen territories, including the UK, the US, and Canada, and it's rolling out with great success.

We have a robust development pipeline, including a new animated Green Hornet series in development with acclaimed filmmaker, Kevin Smith.

We've rebuilt our creative pipeline to align with the shift in the industry, towards global deals for premium content. Our premium franchises command premium prices and have established a new baseline of earnings from which we'll grow. It's important to realize that these deals take time to play out in our numbers. As we add to our book of production business, it takes a number of quarters for revenue to work its way through the financials. You're seeing evidence of this in our growing production revenue over the past eight quarters as big projects, such as the new Peanuts content for Apple TV+, ramp up to full run rate. There's lots more in the works, so watch this space for content announcements to come, as we expect to continue adding to our core earnings base with more premium content deals.

Also, it's important to note, this is only part of the story. This is only the production-related earnings stream and doesn't reflect the significant earnings contribution that these new content deals can drive, and associated library sales and consumer products lift, which are all substantially—I should say, they're all margin. We see production growth as a leading indicator for future earnings contribution from these high-margin categories.

Turning to digital media, we continue to invest in our market-leading AVOD business, WildBrain Spark. We recently completed a $25 million financing with the support of our largest shareholder, Fine Capital. We have a pipeline of opportunities, many of which we expect to consummate in the coming quarters. This new fund allows us to finance accretive investments, especially in WildBrain Spark, which capitalize on WildBrain Spark's growing audience.

As an example, views at WildBrain Spark were up 35% over the prior year, to 44 billion. This amounts to 240 billion minutes of video watched on the network, which is up 45% from last year.

We've started to see some modest improvements in advertising rates and revenue at WildBrain Spark, following declines precipitated by the "Made for Kids" changes at YouTube, and by COVID-19 impacting global advertising. Advertising dollars are beginning to flow back into the market ahead of the holiday season, and our direct sales efforts are seeing early success with media agencies and advertisers. In recent weeks, we've been conducting new optimization trials for ad placement on our network, which are contributing promising initial results.

We're optimistic, and we're building our direct ad sales team to be in a position of strength as the market returns. What hasn't changed is advertising dollars follow eyeballs, and at four billion views per month, WildBrain Spark now has one of the largest and most engaged global audiences in the kids and family space. In fact, measured by audience size, our AVOD network has now eclipsed many top kids US cable networks, by reaching an average of 16 million unique American viewers monthly. In terms of watch time, WildBrain Spark is number one. As AVOD continues to overtake cable to become a preferred viewing destination for kids and families, our extensive audience reach and deep engagement present a huge opportunity to capture a larger slice of the $4.5 million per year spent globally on kids advertising. WildBrain Spark is the destination to reach kids around the world.

It has also seen an increase in the commercial deals with third-party IP owners who recognize the opportunity that WildBrain Spark represents on YouTube as an essential platform for reaching kids and families.

In the past, linear TV has been the primary driver of kids' brands, but we've known for some time now that AVOD was poised to dominate in the kid's brand space. We've positioned WildBrain Spark to leverage this opportunity, and now toy companies and content owners are increasingly turning to us for digital-first content and paid media strategies to support their brands.

As an example, we're deepening existing partnerships with companies such as Mattel, who have engaged WildBrain Spark in a digital-first content strategy to help launch their latest doll brand, Cave Club. In addition to Mattel, we've added new partnerships with IP owners such as Park Star Media, Funrise Toys, and ZAG. These and other commitments support our widely-held view of the growing importance of AVOD to support kid's brands.

Turning to our own brands now, our Peanuts business is maintaining considerable strength in consumer products. October 2nd marks the 70th anniversary of the beloved Peanuts comic strip from Charles M. Schultz, and we have some great programs rolling out at retail. Classic brands, especially Peanuts, have been particularly resilient, even in the times of COVID.

I'm going to be circumspect about our other brand activities, only because our programs are still in early stages. But what I will say is that we're building and implementing rollout strategies that encompass social media, gaming, celebrity partnerships, events, content, and consumer products for four key properties now: Strawberry Shortcake, Teletubbies, Chip and Potato and In the Night Garden. I look forward to sharing more once these programs gain momentum.

Finally, before handing the call over to Aaron, I'd like to congratulate the team at our global licensing agency, WildBrain CPLG, who were recently named the "Agency of the Year" by their peers at the 2020 International Licensing Awards. For those who don't know, those awards are the licensing industry's equivalent of winning the Best Picture Oscar. WildBrain CPLG has had a banner year, and this recognition is hard-won and well-deserved, so I'd like to offer congratulations to our Managing Director, Maarten Weck, and his team.

With that, over to Aaron.

**Aaron Ames** — CFO, WildBrain Ltd.

Thanks, Eric.

In the last year, we've improved our financial flexibility to invest and grow our business. We redeployed $10 million in cost savings from our reorganization initiative to invest and grow. We completed a $60 million rights offering, $50 million of which was used to reduce debt with the balance for growth, and we raised $25 million in growth capital, especially for investments in our AVOD business.

Turning to the quarterly and annual results.

Revenue in Q4 2020 was $92.9 million, compared with $108.8 million in Q4 2019. This decrease was primarily driven by declines in ad revenue at WildBrain Spark, the result of changes in “Made for Kids” content policy made by YouTube, and the negative advertising impact of COVID-19. Consumer products owned was also impacted by COVID. The collective declines were partially offset by high production revenue, which increased 46% quarter-over-quarter to $26.3 million, driven mainly by premium proprietary content in our animation studio.

Revenue for Fiscal 2020 was down 3% to $425.6 million versus Fiscal 2019, primarily due to decreases at WildBrain Spark and in our Consumer Products-Owned business.

Net income in Q4 was $4.0 million versus a net loss of $62.8 million in the same quarter last year. This increase was largely driven by lower SG&A, lower non-cash impairment charges, and a higher non-cash foreign exchange gain in Q4 2020 compared to Q4 2019.

For Fiscal 2020, we posted a net loss of $236.0 million versus a net loss of $101.5 million last year. This was primarily due to a non-cash goodwill impairment charge of $184.5 million recorded in Q3 2020, which was taken due to the impact of advertising revenue from YouTube’s changes to targeted advertising, as well as the impact of global economic uncertainties arising from COVID. This non-cash charge had no impact on our distributions, cash flows, or our ability to meet debt obligations, and it does not reflect the long-term potential of our assets and business.

Free cash flow for Q4 2020 increased to $9.3 million compared to $4.1 million in Q4 2019. For Fiscal 2020, we generated positive free cash flow of $27.1 million versus $10.4 million in Fiscal 2019. The improvements in free cash flow were driven by implementing our investment strategy related to our content production, requiring less cash outlay due to our targeted production slate, as well as by better management of working capital, including higher collection of tax credits and trade receivables in Fiscal 2020.

Adjusted EBITDA in Q4 was $18.7 million compared with $20.2 million in Q4 2019. The adoption of IFRS 16 positively impacted Adjusted EBITDA by $2.0 million in Q4. Normalizing for this impact, Adjusted EBITDA declined $3.4 million compared with Q4 2019.

Adjusted EBITDA for Fiscal 2020 was $81.8 million versus $79.6 million in Fiscal 2019. IFRS 16 positively impacted Adjusted EBITDA by $8.0 million in Fiscal 2020, while the first quarter of Fiscal ’19 benefited from $1.3 million related to a higher ownership stake in Peanuts for part of that quarter. Normalizing for these items, Adjusted EBITDA declined by $4.5 million in Fiscal 2020 versus the prior year.

Now, I’ll hand the call back to Eric.

**Eric Ellenbogen** — CEO, WildBrain Ltd.

Thanks, Aaron.

My first year with WildBrain has been energizing and eventful to say the least. We've accomplished a great deal in the last year. While there's still work to do, our team has much to be proud of. I feel sure we're making the right moves and advancing the right projects to realize the full potential and value of our assets.

We've also got good visibility on our core earnings numbers. We're building on this EBITDA base with a strong pipeline of content deals that will drive production revenue and generate significant incremental returns across our distribution and licensing platforms, all part of our 360-degree approach to asset monetization. We expect to layer on more large recurring revenue deals as we move forward, to continue to both grow and enhance the predictability and the quality of our core earnings.

In Fiscal '21, we're building on our success over the last 12 months. And we'll continue to execute on our long-term strategy by creating premium kids content with our priorities focused on, once again, investing in talent and supporting creativity across our business, in growing key brands, in monetizing our large audience on WildBrain Spark, and improving our cash flow and balance sheet.

With that, let's take some questions.

**Operator**

Thank you. At this time, I would like to remind everyone, in order to ask a question, please press star, one on your telephone keypad. To withdraw your question, press the pound key. Please stand by while we compile the Q&A roster.

The first question comes from Aravinda Galappatthige from Canaccord Genuity.

**Aravinda Galappatthige** — Analyst, Canaccord Genuity

Good morning, thanks for taking my questions.

I wanted to focus a little bit more on the direct sales opportunity, Eric, that you touched on, thanks for all the colour. But I was wondering if you can build a little bit on what you think is the size of that opportunity; how many salespeople do you have set up at this point? Then, directionally, what kind of tailwinds can we expect for Fiscal ’21?

My follow-up for Aaron is just on the production strength of Fiscal ’21. I know there was a little bit of growth in Fiscal ’20 in terms of cash spend. I was wondering if we can expect a bit of a similar trajectory for ’21 as well? Thanks.

**Eric Ellenbogen** — CEO, WildBrain Ltd.

Thank you for the question, and I’ll take the first part regarding ad sales and the status of what’s going on at WildBrain Spark.

As to the size of the sales team, it’s a build right now, and because we have offers out to specific people, I can’t get into the scale, but it is a meaningful commitment on our part and one which reflects, in our view, the substantial size of the prize.

Just to give you a little context to this, we've started to see ad rates recover in the period between the "Made for Kids" changes at YouTube, and COVID, because what was happening is, the advertisers and the YouTube ecosystem and algorithms were getting adjusted, so we started to see pretty good progress there and kind of a return to an equilibrium, a normal.

COVID, and I think you know this, saw not just on our network, but across the board in AVOD and SVOD, a huge uplift in viewing, and to our minds, a sampling of our network by viewers that had not been there before. But then there was this contraction, which was not unique to us, in ad spend, particularly because digital ad commitments are the easiest to pull back on when sentiment shifts.

But, we still continue to invest in building our ad sales capability over the period, just to take advantage of the short-term revenue, but to be poised, as I believe that we are now, to take maximum advantage as the market returns, and it's returning. The market sentiment is that budgets were pulled on a lot of categories like travel, and reprioritized to sort of the second half, and particularly heading into the holiday season of entertainment and toys.

In the markets where COVID is getting under control, we're definitely seeing a bounce back, and there is a clear correlation between CPMs increasing and the easing of lockdowns, and a pickup, definitively, in entertainment and toys in the run-up to the holidays. Advertisers have to spend. We're investing, in the mid-term, in direct ad sales and just constantly monitoring and keeping things in line with our business contingency plans. That's sort of the picture around ad sales; I hope that answers the question.

Aaron?

**Aaron Ames** — CFO, WildBrain Ltd.

Yes, thanks, Aravinda.

I guess I'll talk a little bit about free cash flow, and then I'll talk a little bit about production. We took deliberate steps, over the last couple of years, to manage the cash flow profile of our business and to really take a strategic view of the type of investments that we want to make in order to better manage our balance sheet risk. Overall, we're very careful where we take the risk, and we want to make sure that we have the appropriate returns. That's why our cash flow profile has been improving.

As far as production, we see this as a growth area for us, and we do have more visibility than we've ever had before as to our pipeline. There will be some more spend for production; however, as you know, that is funded through specific debt for each production, so it doesn't really affect our corporate cash flow.

**Aravinda Galappatthige** — Analyst, Canaccord Genuity

Thank you.

**Operator**

The next question comes from Adam Shine with National Bank Financial. Please go ahead.

**Adam Shine** — Analyst, National Bank Financial

Hi, good morning. Eric, I know you're not giving any specific guidance for this year let alone going forward, but curious, in the context of what might be a ramp-up in some of this sort of premium proprietary production activity, last year 49 half-hour proprietary deliveries versus 55 the prior year; obviously, a very big move of maybe timing, but nevertheless a very big move in Q4. How should we think about the potential step-up in deliveries, whether you can talk to this year, or maybe within the context of a sort of one to three-year dynamic, in terms of what could be the sort of "new normal".

Then second, arguably a bit of a follow-up; also mentioned in your presentation deck is efforts to do a bit more in the way of toy exploitation. We've seen in the past, some efforts in this regard; Teletubbies, through Spin Master, that unfortunately didn't necessarily go anywhere. But can you speak to some of the efforts here, and what we might expect, perhaps, in Fiscal 2021 in this area, and/or arguably heading into the back half of calendar 2021, your H1 '22? Okay, thanks.

**Eric Ellenbogen** — CEO, WildBrain Ltd.

All right, thanks, Adam, for the question. I'm going to ask Josh to participate in this as well, speaking to the production ramp-up.

One thing I would say is that the metric is not necessarily around the quantum of half-hour equivalents produced, because the thing that we're seeing, both in the market and the attractiveness of our content, is that it's going premium. That means that the revenue per episode increases, as far as I'm concerned, the long tail and value of those assets are enhanced. The other thing that we're very focused on is content production that also drives library value. It is a combination of new, original productions, but also the harvesting, effectively, of our library assets. What I spoke to earlier is the knock-on effect, which is considerable, in terms of consumer products and ancillary markets.

But Josh, you can perhaps address this a little bit more specifically. Again, without giving guidance on it, I'll just say one thing. The pipeline is robust. It takes awhile to build, and I think that, when I came in, I wanted to take a step back actually, because before anything was rushed to market, it was about having the right people in place, it was about brand plans, specifically, structured and thought through to take full advantage of what have been very high-performing assets in the past. The brand visibility and recognition of these are great, but we've got to get it right.

What you're seeing now is, in my view, the tip of the iceberg in terms of what we've got going on behind this production. Josh, do you want to speak to any of it?

**Josh Scherba** — President, WildBrain Ltd.

Yes. I would just reiterate, I think it was a really key point you made about the metric of half-hours produced. I think it's important that we contextualize that, because the revenue profiles of the premium projects that we're producing these days are so different than what they were in the past. They're more ambitious, they take more time and have higher revenue associated with them. I would deemphasize that number of half-hours produced per year as a metric to keep an eye on moving forward.

Then just to be specific, I think that—we've announced that we're producing a new *Johnny Test* series for Netflix, which we're really excited about. But in connection with that, we were able to license the library to Netflix as well, and we think this is a really interesting model for a company like WildBrain, that has meaningful IP and depth of library, and one we expect to replicate in the future.

**Eric Ellenbogen** — CEO, WildBrain Ltd.

Adam, would you like to—with that, address the second part of your question again, please?

**Adam Shine** — Analyst, National Bank Financial

Yes, the second part of the question was referenced in your presentation deck, to efforts to build out some toy brands, greater exploitation on the toy side. We've seen in the past where there was a prior push pre your administration, in terms of the launch of Teletubbies through Spin Master that didn't get a lot of traction. But wondering what some of your areas of initiatives might be in regards to pushing toys, and whether that's something that can materialize this year in terms of traction of revenue, or something to think about going into the holidays, maybe a year from now?

**Eric Ellenbogen** — CEO, WildBrain Ltd.

Okay, so let me take it in two parts. One, I think we are seeing, as I alluded to in my remarks today, a significant move on the part of toy companies to AVOD and a digital-first strategy. It's been very interesting because I find that these things lag and you can—I've been around long enough to see what happens in the shift from broadcast to cable, and now cable to digital and on-demand networks, and there's been—completely supported by the data, an enormous shift of audience to on-demand.

We're seeing, as a matter of fact, in homes with Smart TVs, which is where it's going right now, huge co-viewing numbers and on-demand dominating what was a linear environment. We've got that platform now. I think that there is not, as there has been in the past, an exclusive dependence on just the toy companies in whether to move things. We're pulling together our AVOD network with our brand plans and other efforts.

The other thing that's happened, I think in the past, and I don't think our company was unique in doing this, is rushing stuff to market. You really have to lead with the content. It's not about trying to announce a master toy deal all of a sudden and ship massive quantities of merchandise into retail channels when the consumer pull is not there. We're being much more deliberate in the way that we roll out our new content, and making sure, and testing, by the way, doing a huge amount of consumer intercepts and testing against the franchise properties that are highly toyetic.

Stay tuned. We are excited by some of the rollouts that are happening. One of the things I cited as an example is where we get content traction first, it's like *Chip and Potato* on Netflix. You never know where the next hit is going to come from, and that happens to be one of them. As opposed to trying to build a toy as that content was launched, we're now seeing traction on the content; it's ended up with new production orders. We know the audience is building for that. We're continuing to promote it. We're now going to chase on consumer products, as opposed to lead with it.

I also think it's worth reflecting that, having been at Marvel and seeing the time that it takes in order to get traction, that we need to be very deliberate in the way we do the rollouts. Peppa Pig is a great example. I mean, what an incredible property that is, but it grew from 35 licensees over the period of a decade to 1,500 globally. But it was about content investment, it was about distribution investment and extending into new categories. That's what really built the business. It was brick by brick. I tend to believe if something grows like a weed, generally it's a weed, and I think we're looking for oaks instead of weeds.

**Adam Shine** — Analyst, National Bank Financial

Okay, that's good. Appreciate it.

**Operator**

The next question comes from Drew McReynolds with RBC. Please go ahead.

**Drew McReynolds** — Analyst, RBC Capital Markets

Yes, thanks very much. Eric, thank you for all that commentary on the consumer products side. Just a couple of follow-ups.

I think first, in terms of the Consumer Products-Owned business, and let's just simplify it, what you did in Fiscal 2020, can you comment on what the properties are contributing to that base of revenue? You were kind to highlight the four properties you're focused on going forward. As a follow-up, just how is the overall business trending with the recovery in retail?

Then just a housekeeping item for Aaron, just on the working capital for Fiscal 2021; I know, a ton of moving parts, and sometimes not great visibility on collections, but could you provide us a little bit of an update there on what you'd expect for the full year? Thank you.

**Eric Ellenbogen** — CEO, WildBrain Ltd.

Sure thing. Owned Consumer Products, it's Peanuts. That business has been really solid. Even in the face of COVID, one of the things we're seeing, fortuitously, is that classic brands are dominating. Not just Peanuts, which is a top-10 brand, but we're seeing it across the board. As retailers are more conservative, certainly we're enjoying online sales, but we're seeing an uptick in the number of approvals and licensees coming on board, which is a good leading indicator. No question, it's comfort food.

We benefit not only by those intrinsic trends in retail, but I think the competitive set has changed, because there is greater reluctance until retail stabilizes to move to new and unproven brands. Then of course, we've seen what's happened with the studio distributors and theatrical release schedules, which tend to be big drivers in the rollout of consumer product campaigns, and they're not happening. In a sense, there's competition that's been removed from the market, and there's a trending towards classic properties, so in that, we are the beneficiary.

As far as the other classics which are in our library, it really is about—again, which I cited, a deliberate rollout, when the time is right, with the correct content in a thoughtful program, to really build a solid, steady-state consumer products business. I feel really good about what I'm seeing coming from the Brands group now, tied to the Content team and rollout strategies in both digital media on our own Spark network, but also with partners like some of the premium SVOD networks.

Aaron?

**Aaron Ames** — CFO, WildBrain Ltd.

Yes, thanks.

Drew, what I would say is, we've been prudent and disciplined in managing the investments and really managing risk around our balance sheet, and we'll continue to do that. We've made, also, a number of improvements in how we manage working capital and collect working capital and the focus is still there, and I expect that to improve. I expect that the free cash flow should improve next year, given all the work that we're—as well as the disciplined approach and strategic approach that we're taking with our balance sheet.

**Drew McReynolds** — Analyst, RBC Capital Markets

Okay. Thank you.

**Operator**

The next question comes from Drew McFadgen, Cormark Securities.

**David McFadgen** — Analyst, Cormark Securities

Hi, yes. I saw that you guys started to deploy or tap some of the capital that Fine agreed to fund, and I was just wondering when we might start to see the benefits of that show up in your results.

**Eric Ellenbogen** — CEO, WildBrain Ltd.

The answer is soon. The opportunity set is considerable. The way that I defined it was, first, perfecting rights in our existing IP catalogue. Since my arrival, we've been scrubbing that catalogue to identify the long-term value assets that we have, and to the extent that the rights are not complete, completing those rights.

Secondary emphasis has been in partner deals and opportunities associated—which is related to the first category, at WildBrain Spark. Again, we have a whole set of partners, proprietary content, and other areas that merit investment. One of the benefits of the structure that was created around this that you may be familiar with is that, it has no impact whatsoever on our leverage ratio. But the flipside is that it's going to be accretive, because we have the capability to upstream the cash that's generated from the growth opportunities.

We're seeing a lot of deals out there in the current environment, and I think it's something that we well-anticipated and we're able to get a huge vote of confidence from our leading shareholder, allowing us to go out and acquire these assets. I can't speak to specific negotiations. I see most of these deals as near-term, and I think that we will soon deploy, fully, the entire fund.

**David McFadgen** — Analyst, Cormark Securities

Okay, so we should start to see the benefit of that show up in the Fiscal '21 year, then, correct?

**Eric Ellenbogen** — CEO, WildBrain Ltd.

Again, I don't want to give when returns start to come, because many of these things are, again, perfecting asset value in catalogue that we already have. It's about accretive investments, and with the deployment of the capital, it's our expectation that we're going to begin to see returns soon.

**David McFadgen** — Analyst, Cormark Securities

Okay.

**Danielle Neath** — EVP, Finance, and Chief Accounting Officer, WildBrain Ltd.

The other thing I would add is that we've shown that as restricted cash on the balance sheet at year-end, so while we've drawn the initial cash, it is showing as a separate line on our balance sheet.

**David McFadgen** — Analyst, Cormark Securities

Oh, okay. All right. Okay, thank you.

**Operator**

The next question comes from Edson Lai with Stifel GMP. Please go ahead.

**Edson Lai** — Analyst, Stifel GMP

Hi, good morning. Thanks for taking my questions.

My first one's on the production revenue for the year. I was wondering if you can comment on the flip between the proprietary production versus third-party and how that's trended in 2020 versus prior years?

**Eric Ellenbogen** — CEO, WildBrain Ltd.

Josh?

**Josh Scherba** — President, WildBrain Ltd.

Yes. I think you'll continue to see a growth in our proprietary slate, which—yes, I certainly wouldn't categorize that as a slippage in service; rather, how we're deploying our resources at the studio. Of course, when we can do proprietary, high-quality premium projects, that's a benefit for us.

**Edson Lai** — Analyst, Stifel GMP

Okay. Just one follow-up question on production as well; I think, Aaron, you said earlier that the visibility on the pipeline isn't the best yet. Can you give additional colour on the backlog, and maybe expected utilization over the next year or so? Thanks.

**Aaron Ames** — CFO, WildBrain Ltd.

What I said was, we have the most visibility that we've ever had in our pipeline. As far as the backlog, I'll turn that to Josh to talk a little bit about that.

**Josh Scherba** — President, WildBrain Ltd.

Yes, I'm not sure I'd categorize it as backlog. I think we've got a stable of high-quality projects that are lining up, and we're really positive about the slate that we have in front of us over the coming year.

**Edson Lai** — Analyst, Stifel GMP

Okay. Anything on utilization, or?

**Josh Scherba** — President, WildBrain Ltd.

Utilization specifically at the studio?

**Edson Lai** — Analyst, Stifel GMP

Yes, correct.

**Josh Scherba** — President, WildBrain Ltd.

Yes. I think we're—look, we continue to use our capacity to the fullest. I think that one thing that has happened as a result of COVID is we've gotten—we continue to have the vast majority of our studio working remotely, and we're optimistic about what that can do for us in the future. We never intended to be limited by physical real estate, but practically that was a factor, and it's really not anymore. It's going to come down to our ability to grow through high-quality projects and talent that we can fill those projects with. But we think there's—we can be optimistic that there's room for more growth than there would've been in a pre-work-from-home world.

**Edson Lai** — Analyst, Stifel GMP

Okay, perfect, that's super helpful. I have one last question, on WildBrain Spark. You guys are seeing modest improvements in ad rates and your continuing investments in direct sales, but with monetization so volatile in the past year, how do you guys think about the value of an AVOD view versus an SVOD view? In other words, what are these WildBrain Spark views worth, and what key points give you comfort around this?

**Eric Ellenbogen** — CEO, WildBrain Ltd.

SVOD, of course, no advertising, so we view our program strategies in SVOD as building library and as awareness. One of the things, incidentally, that we're seeing now, and it's really interesting, is our ability, which as a matter of policy, had not been the case in the past, to use our AVOD network with clips and promotional content to drive views to SVOD. The discovery process has been made incredibly easier, and I think there's a lot of enlightenment and learning among the SVOD players in the use of AVOD as a funnel for viewers. There's been considerable liberalization in the licensing practice of SVOD.

Here's what we're seeing in Spark, though, in our sort of general view, is that—again, recovery is happening. We're seeing marketers step in, in a way that they have not before, and using our AVOD network and its incredible reach, view time, sort of the persistence, to launch toy campaigns and consumer products, particularly when it comes to our co-viewing audience, which is substantial, largely driven by preschool content.

The other thing is that market sentiment is turning now, and again, I don't think this is unique to our platform. I think there's a considerable rising tide around the value of AVOD. One of the things I may have alluded to in past calls, which we welcome, is the entrance of mega-players like NBC, Comcast Universal in their Peacock network, which is an AVOD network. It really is the transformation of linear delivery into streaming on-demand, advertiser-supported on-demand. I think that that is going to be great for the market, because the measurement tools, the ad sales forces, the focus on AVOD delivery is good for everyone who is in the AVOD business. As the leading network in the category, we should be a substantial beneficiary of those changes.

We have this co-viewing audience, we have watch time; all the data is pointing in the right direction, as far as the traction that we're receiving and total engagement. Again, compared to the kids cable networks, we now eclipse many of them. Just to give you a factoid, with cable networks in the US, we have greater reach now than Cartoon Network, PBS Kids and Nick Kids, and that is a tectonic change in the nature of viewing habits in the market, as well as in engagement. It gives us, I think, considerable optimism about this asset that we own, and I think in many ways, it's a real sleeper.

**Edson Lai** — Analyst, Stifel GMP

Okay, that's great colour. That's all my questions, I'll pass the line. Thanks.

**Operator**

At this time, I will turn the call over to Ms. Chan-Palmateer.

**Nancy Chan-Palmateer** — Director, Investor Relations, WildBrain Ltd.

Thank you everyone for joining us today and stay well. We look forward to updating you next quarter. Have a good day. Thank you.

**Operator**

This concludes today's conference call. Thank you for participating. You may now disconnect.