

WildBrain Ltd.

Fiscal 2020 Third Quarter Earnings Conference Call

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PRESENTATION

Operator

Good morning, and welcome to the WildBrain Fiscal 2020 Third Quarter 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. 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 an exchangeable debenture financing; use of proceeds from such financing for acquisitions and other investments; the impacts of COVID-19 on the Company and its business; and the future financial and operating performance of the Company and its assets. Such

statements are based on information currently available and are subject to a number of risks and uncertainties. Actual information available, 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.

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

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 appreciate your patience if we encounter any lumpiness as we steer the Q&A.

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

Eric Ellenbogen — CEO, WildBrain Ltd.

Thank you, Nancy, and good morning, everyone. Thank you for joining us today. I hope everyone who's listening has been safe and well.

First of all, I'd like to say how proud I am of our global team and how they've stepped up during these challenging times. Early in the pandemic, we moved quickly and decisively to implement work-from-home solutions for all employees, enabling our people to remain safe while still being connected

and productive. This was really no small feat, especially at our animation studio, and I'm grateful to our support teams who rose to the occasion with such speed and professionalism.

Today, in conjunction with our Q3 earnings, we've announced that we've entered into a binding term sheet for \$25 million in the form of exchangeable debentures with Fine Capital, our largest shareholder. Before we discuss the quarterly results, I'd like to talk about this positive development.

To be very clear, this is not working capital for our business. We've taken measures to contain costs and to address working capital and cash flow. As Aaron will speak about shortly, the financing is structured so that it will not impact our leverage ratio covenant whatsoever. This is capital that was born out of the remarkable opportunity set that we see in today's environment, and it will be used exclusively to finance attractive, accretive investments across areas such as content, IP, and technology, and with a special focus on our AVOD business, WildBrain Spark.

As I've stated on every earnings call since becoming CEO, we're building this company for the long-term. And to do that, we need to grow strategically. Looking across the media industry, one of the most exciting growth opportunities I see is the rise of AVOD, or advertising-supported video on demand.

I read a recent report from Deloitte that we can share that predicted global revenue from AVOD services will reach an estimated US\$32 billion this year, which reflects a CAGR of 21% from 2018 to 2020. Another report, as of this March, an eMarketer report, forecasted that YouTube's annual gross revenues in the U.S. alone will reach \$12.6 billion in 2022, which reflects a five-year CAGR of 24%.

In our multiple platform approach to the market, SVOD and linear do continue to be incredibly important segments for our content. However, we're seeing an emerging global AVOD business with rapid growth at YouTube and media giants are entering the space.

Last quarter, I spoke to you about the potential impact from changes at YouTube and what it did to their advertising policy, and that was in January. As expected, WildBrain Spark experienced a revenue decline of 37% in Q3. However, we actually began to see evidence of a recovery during February and March before the impact of COVID-19. Nevertheless, we expect WildBrain Spark to be a positive EBITDA contributor this Fiscal Year, as well as for Fiscal 2021.

WildBrain Spark continues to post record level audience growth, with views up a remarkable 36% and watch times up 71% through April, compared to April 2019.

In the media business, advertising dollars follow eyeballs, and with monthly views now approaching four billion, WildBrain Spark has one of the largest and most engaged global audiences in the kids and family space. While we anticipate the slowdown in advertising caused by COVID-19 to extend into our Fiscal 2021, the ad market will of course eventually recover, and when it does, we plan to be there in strength.

As many of you may be aware, over my 30-year career in media, I've established a strong M&A track record, always with the goal of creating value for shareholders. To that end, we've identified a pipeline of potential tuck-in transactions that we believe will be both accretive to earnings and to our leverage profile, and also enhance our growth prospects, strengthen our IP portfolio, and build platform scale to solidify WildBrain Spark's leadership position in the AVOD market.

We see AVOD as a very big part of the future of our company, and we remain steadfast in our conviction that WildBrain Spark represents a highly valuable source of emerging content, brand amplification, and advertising monetization. Our leadership position has afforded us significant scale and learnings across viewership patterns, both globally and regionally, monetization practices, short-form content production, and brand amplification. All of this allows us to bring significant value to our current and potential partners in the market, particularly in what has become a very difficult environment with the algorithm changes in January and the global pandemic starting in March. The current market affords us many opportunities for IP investment, and we will now have the capital to pursue those opportunities and to support our content partners and WildBrain Spark while advancing growth across the company.

Before I turn the call over to Aaron, I'll provide a brief business update.

Having implemented work-from-home solutions for our studio of 700 people, our animation production continues at over 95% efficiency. Our slate remains healthy with a robust pipeline. Projects underway include new Peanuts content for Apple TV+, a new *Johnny Test* original series for Netflix, as well as projects for DreamWorks, LEGO, and Mattel. We expect to continue to deliver those projects on budget and with minimal delays. Our live action slate hasn't been impacted so far, since we're currently between seasons with no shooting scheduled to begin until late summer.

Meanwhile, our content is experiencing strong demand across platforms, providing hours of comfort, education, and entertainment to families around the world. Viewership on our Canadian linear channels is strong, with ratings on Family Channel up more than 54% in April, across kids and family demographics. Furthermore, our TV channels aren't dependent on advertising; some 90% of the

revenue in that segment comes from cable subscribers, so we continue to generate steady cash flow from that business.

Our new live action series, *Malory Towers*, is a hit with fans and critics in the UK, where it launched in recent weeks on BBC's iPlayer, and its linear children's channel, CBBC, to very strong viewership and positive reviews.

Streaming services and telecasters across the industry are reporting a spike in demand from viewers, and these trends are presenting new production and distribution opportunities which our content and sales teams are actively pursuing.

We're also seeing promising interest for our content in China. Our new Managing Director for the territory, Jianbo Wei, who joined us in January, has been focused on building his team and pursuing content deals. While there's nothing to announce just yet, we're looking forward to sharing good news in the coming quarters.

On the licensing side of our business, we're seeing some short-term disruptions in the retail sector at bricks-and-mortar, yet we're also seeing an accelerated shift to online. We expect potential impacts on our own brands and those represented by our agency business, WildBrain CPLG, and we're monitoring the market closely to assess measures that may be needed.

That said, brand strength is more important now than ever, as people gravitate to comforting, dependable, and known brands. Peanuts is, of course, a highly resilient, legacy brand, celebrating its 70th anniversary this year. Loved around the world, Peanuts is a top 10 character brand at retail, and we

believe, over the long-term, it will continue to perform well, supported by our new content on Apple TV+. *Snoopy in Space* is one of the most watched shows on the Apple TV+ platform, and the series has recently been made available for freeviewing by Apple.

With that, I'll turn the call over to Aaron Ames.

Aaron Ames — CFO, WildBrain Ltd.

Thank you, Eric.

Before diving into the Q3 results, I'll quickly share some additional detail about the financing we announced today.

As Eric stated, these funds will be earmarked for accretive transactions to drive our content and brand strategy, particularly in WildBrain Spark. The financing structure will not affect our leverage ratio, for covenant purposes under our credit agreement, as the debentures are being issued by a wholly owned subsidiary excluded from security under such agreements.

The binding term sheet that we entered into with Fine Capital is for \$25 million in debentures, which are exchangeable into shares of WildBrain at \$1.45 per share. In addition, a five-year warrant will be issued that can be exchanged for five million shares at \$1.45 per share. The debentures will bear interest at 7.5% per annum, payable at maturity three years from the date of closing. The term sheet is conditional on the completion of definitive agreements and subject to satisfaction of customary conditions to closing.

Turning now to the Q3 results, our revenue was \$98.3 million compared with \$110.0 million in the same prior-year quarter. Lower revenue for the quarter was mainly driven by our global distribution segment, including WildBrain Spark. Year-to-date revenue was \$332.7 million versus \$331.0 million in the same nine-month period a year ago.

Gross margin increased to 45% in both Q3 2020 and YTD 2020, compared to 43% in Q3 last year and 42% in the first nine months of Fiscal 2019. The increase is primarily due to higher non-WildBrain Spark distribution business as a percentage of the total, and the impact of IFRS 16.

Free cash flow for Q3 2020 was negative \$3.2 million, compared to negative free cash flow of \$1.1 million in Q3 2019. YTD 2020, we generated positive free cash flow of \$17.8 million versus free cash flow of \$6.4 million in YTD 2019. The period-over-period variances were driven by timing of working capital, reflecting our focus on collecting trade receivables and tax credits. And by the way, CRA, the Canada Revenue Agency, has been very helpful to our industry during this timeframe.

Adjusted EBITDA was \$17.9 million in Q3 2020, compared with \$20.1 million in Q3 2019. The adoption of IFRS 16 positively impacted adjusted EBITDA by \$1.9 million this quarter. Normalizing for this impact, adjusted EBITDA decreased \$4.1 million in Q3 2020.

YTD 2020 adjusted EBITDA was \$63.1 million, compared with \$59.4 million YTD 2019. YTD 2020, IFRS 16 positively impacted adjusted EBITDA by \$6.0 million, while the first quarter of 2019 benefited from a \$1.3 million related to a higher ownership stake in Peanuts for a part of that quarter. Normalizing for both these items, adjusted EBITDA declined by \$1.1 million in the first nine months of 2020.

We posted a net loss of \$221.7 million in Q3 versus a net loss of \$18.4 million in Q3 last year. YTD 2020 net loss was \$240.0 million, compared with net loss of \$38.7 million in the same period a year ago. The higher net loss was largely driven by non-cash goodwill impairment charge of \$184.5 million, resulting from the potential impact of global economic uncertainties and the effect of changes made by YouTube related to targeted advertising. This is a non-cash charge that has no impact on our distributions, cash flows, or our ability to meet debt obligations, and it doesn't reflect the long-term potential of our assets and business.

I'll now hand the call back to Eric.

Eric Ellenbogen — CEO, WildBrain Ltd.

Thanks very much, Aaron.

We have fantastic people working at WildBrain, and I'm very proud of the efforts and sacrifices they're making. We remain optimistic, and we're encouraged to be able to provide the world with quality entertainment at this challenging time. Producing high quality kids and family entertainment is at the very core of what we do at WildBrain, and we remain committed to, and energized by, this mission.

With that, let's open up to questions.

Operator

Certainly. At this time, if you would like to ask a question, I will remind everyone to press star, then the number one on your telephone keypad. We'll pause for just a moment to compile the Q&A roster.

Your first question comes from the line of Aravinda Galappatthige from Canaccord Genuity. Your line is open.

Aravinda Galappatthige — Analyst, Canaccord Genuity

Good morning, thanks for taking my question.

My first question is on the WildBrain Spark trend. I think you provided some colour early on that, in April, the ad trends were down about 60%. I was wondering whether there's a little bit more visibility around what the potential recovery would look like in terms of shape, recognizing it can spill over well into Fiscal 2021. I was wondering if there's a little bit more colour on that, the shape of how that recovery could be?

Then as my follow-up, with respect to the consumer products side of the business, obviously a material element of your revenue and EBITDA, can you just talk to the potential hits to profitability there, recognizing of course that your interest in Peanuts is now 41% on an economic basis. I'll leave it there, thank you.

Eric Ellenbogen — CEO, WildBrain Ltd.

All right. As we said, we've seen a revenue decline around 60% in April—this is to your first question, of course, as a result of the impact of YouTube changes and COVID-19, and we're adjusting in the short-term. Our focus really isn't on quarter-to-quarter results; I think you know that from speaking to you on a number of calls we've had, but we really take a long view. While we don't report segment EBITDA, WildBrain Spark, I can say, is positive EBITDA for this Fiscal Year, and we expect that to extend into 2021 as well, even accounting for the hit that the advertising market has taken.

We're following very closely—you guys each have your own estimates about when the advertising market will recover, but as I say, what we saw was, in the Made for Kids decline in January and February—as you know, that became effective the first of the year. We saw some meaningful recovery because of YouTube algorithm changes and owing to the quality of our platform.

We're not going to... We're making these short-term adjustments, and one of the things that we're doing, which represents our commitment to the platform, is to build out our data analytics. We are, with this new investment capital, going to be focused on IP investment across the platform. We still have this incredibly engaged and large audience.

One of the things I think that I mentioned in my earlier discussion is that, across the industry, there is this migration that is happening between linear and non-linear television. We obviously see signs of that quite directly in our own television channels, which are not advertising dependent, but we have 10% exposure to that. The migration is to the dollars. I think I saw something yesterday or the day before in a journal regarding cancellations by advertisers in the linear space, perhaps representing \$1.5

billion in the U.S. market. But the comment was that those dollars, not all of them, but a portion of them would instead be migrating to non-linear and digital platforms.

That's why I can say generally, and again, the exposure that we're getting right now with this remarkable increase in the views and watch time, is introducing many families to WildBrain's platforms, which we're delighted with. Like Netflix and the other services that have enjoyed this spike, we think many of them are there to stay.

Would you repeat your second question, please?

Aravinda Galappathige — Analyst, Canaccord Genuity

Yes, the second question was around the consumer products business, any additional colour you can provide on the impact on the March sales there, specifically relating to—mainly relating to Peanuts.

Eric Ellenbogen — CEO, WildBrain Ltd.

Yes, look. Well, first of all I should say that there are two aspects of the consumer products business. As you know, one is Peanuts; the other is through our direct agency business, WildBrain CPLG. There'll be impacts, no question, on consumer products and licensing, as some retailers haven't been able to move to online sales. We're watching it closely.

What we are seeing, though, because it's a very... We kind of know what's happening in the business, at least among licensees, almost a year ahead because they're putting through approvals, new product lines coming through. We haven't seen very much of a cessation in any of those approvals

coming through the pipeline. We think that the disruptions are really going to be happening at the retail level. So far, we haven't seen any impacts at the licensee level.

It's hard to size; I can't give you an exact number. What we do know, and I've seen this before—I saw this in 2008. Consumers gravitate towards established brands, but so do the retailers. I think it's harder, probably in a highly recessionary market, to roll out new product. I don't mean new SKUs of an existing brand, but rather new brand rollouts. The retailers tend to stick with the tried and true; they know what the velocity is on-shelf, what the items of merchandise that move the most are, and we're kind of the beneficiary of that. I mean, we represent famous brands, obviously, in CPLG and in Peanuts, and Peanuts remains a top 10 character at retail.

I think we'll see resiliency in this business. Overall, CPLG is not a giant contributor, it's part of our 360° solution, and so whatever the impacts are at retail, I think that that will only be likely felt in the rollup at the company level.

Aravinda Galappathige — Analyst, Canaccord Genuity

Thank you very much.

Operator

Your next question comes from the line of Deepak Kaushal from Stifel GMP. Your line is open.

Deepak Kaushal — Analyst, Stifel GMP

Oh, hey, good morning, guys. Just a question regarding the debenture structure; you guys mentioned that you're carving it out into a Subco. I'm just wondering if the acquisitions you make in deploying that \$25 million, will those sit in the Subco; will the ownership be skewed towards Fine Capital and that Subco?

The follow-up would be, are you planning to transfer more of WildBrain core assets into that Subco? I'll just leave it there. Thanks.

Eric Ellenbogen — CEO, WildBrain Ltd.

I'll let Aaron take that question.

Aaron Ames — CFO, WildBrain Ltd.

Hi, Deepak. I hope you and your family are well.

New acquisitions that use those funds would go into that Subco. Existing IP would not go into that Subco. It's just meant for new and accretive transactions.

It's a 100% owned Subco, it's a debt structure with exchangeable debentures, but it's a 100% owned Subco. The benefit is to WildBrain Limited.

Deepak Kaushal — Analyst, Stifel GMP

Okay, thank you.

Operator

Your next question comes from the line of Tim Casey from BMO. Your line is open.

Timothy Casey — Analyst, BMO Capital Markets

Hey, thanks. A few for me.

Eric, could you talk a little bit about this \$25 million M&A fund? It sounds like you have \$16 million available immediately. Obviously, we don't expect you to name names, but Eric, can you talk about the size of entity you would most like to acquire, and the nature, what you're looking for from that entity?

Then, could you talk a little bit about what you're hearing from your linear and your non-linear partners, I guess? What are you hearing from them that's changed from pre-COVID, in terms of how you expect to deal with them, and what are you hearing from them that's different between them? I guess, I would assume that the linear, more advertising-driven partners are feeling pain a lot more, and I would expect the streamers are really doubling down. I just wanted to get your thoughts on that. Thank you.

Eric Ellenbogen — CEO, WildBrain Ltd.

Okay, thanks for the question.

Why don't I take the second question first, just because that's pretty straightforward. We're seeing an increased demand post-COVID for library content from both linear and non-linear, and though the linears are the more advertising impacted, they're also not getting delivery on some live action

content, and therefore turning to library in order to fill the void and keep their schedules up to date. Obviously, more economical to acquire library content, and we have an incredibly large library and a deep content shelf and are there for our customers. I would say that's a bit of the pre- and post.

In the non-linear space, I think the response has been similar. Their businesses are obviously incredibly healthy, and I'm sure all of you have read, we and the animation industry in general are up and running and have been able to deliver content and continue production while there's been a fairly widespread shutdown in all other formats; live action, whether it's reality, scripted, and otherwise.

Hard to say as we emerge from the recovery what that market is going to look like, but my experience tells me that, again, library content is going to be more economical, particularly if we're able to deliver as we do branded entertainment and known content. Then, the flush SVODs complemented, I should say, by the emergence of all these new services, are going to create, I think, an unusual demand in the market for animated content and our IP titles. That's kind of the picture that we're seeing emerge. I don't think it's unique to us; I think that is a rising tide across content companies in general.

To go to your first question, given the... Well, first of all, the nature of the debenture is, we control the rest of the funds as needed. It is committed capital, and this structure just defers some of the interest on the undrawn funds. We love the structure of the deal. Obviously, we have in our sights potential acquisitions around the first tranche, and have been looking at transactions—not in the last 30 days, but sort of since I arrived at the company. And this capital now, I think, has an opportunity set around it that—again, the same as I saw in 2008, I saw at the time of the Internet bubble before that, and every economic pullback.

I would say, size of transaction, from six-figure to seven-figure deals, and in many instances, these will be deals that we do with partners at WildBrain Spark. We obviously know a great deal about the content that we have up on that network from content partners, and we see this as an opportunity to extend and deepen the relationships around that content, as many of them will be impacted by the fallback in advertising, as well as the Made for Kids changes which we saw some recovery in.

Then on other things, standalone IP that we can put through the system on a 360° basis where we're picking up licensing and merchandising rights, new production rights. Then, the other category that I would say is in our very large library, we have some great titles in which we may own only certain territories or rights, and I see this as an opportunity to own the entire bundle of IP and stuff that we really like and favour, around which, once again, we have a lot of experience and we know the performance and the market, its regional strengths, etc. That's really what I would say about the pipeline.

We have a healthy list and growing every day. I'm pretty excited about what we're going to be able to do with these across the entire company.

Timothy Casey — Analyst, BMO Capital Markets

Can I just ask a clarification? Are the companies you're targeting, are they exclusively content and rights related, or would you be looking at data analytics companies and more things on the other side of what you do?

Eric Ellenbogen — CEO, WildBrain Ltd.

I think that the... Unlikely in particularly data analytics, because one of the things that we do, we spend on that now, and a lot of that money runs through our operating budget. Similarly, creative development; we spend a lot on creative development, and as I've discussed in prior calls, I've made that a priority. When we did the rights offering, it was to free up some capital to move into those areas. I really view these as acquired assets rather than operating companies, so it's IP-centric.

There may be some of these where, often it's interesting; in past acquisitions I've done, you get a gift with purchase, and there are other assets attached to a company that you're buying, so it may come in that form. Those sometimes turn out to be real bluebirds. But I would say the primary focus is content-related.

Timothy Casey — Analyst, BMO Capital Markets

Thank you.

Operator

Your next question comes from the line of David McFadgen from Cormark Securities. Your line is open.

David McFadgen — Analyst, Cormark Securities

Yes, thank you, and a couple questions.

Just wondering, is there any other security in this new sub that you're creating, aside from the future acquisitions? Are you starting it with zero security in that sub initially?

Aaron Ames — CFO, WildBrain Ltd.

There's zero security other than the cash that would be put in.

David McFadgen — Analyst, Cormark Securities

Okay. Then just on the distribution revenue, you talked a lot about the fact that there's been a lot of live action production that's been put on hiatus, who knows exactly when that's coming back, and broadcasters need shows so they're looking for increased library. But yet, the distribution revenue in Q3 was down, so I was kind of surprised by that, I thought it might be up. I was just wondering, is that a result of you licensing out a fair amount of your library already and waiting for the rights to revert back to you, or should we expect to see some nice revenue increases on the distribution side in the fourth quarter and heading into 2021?

Eric Ellenbogen — CEO, WildBrain Ltd.

I'll let Josh take part of this question. What I would say is, so much of this is timing related. Not to be a broken record, but no deal before its time, and I'm not doing this on a quarter-to-quarter basis. I sort of look ahead multiple quarters for when it is opportunistic and we're making the best deals, really a break from past practice. You'll see some variation on a quarter-to-quarter basis, but my suggestion is to take a full year view on that.

Josh, you can pick up just around what the opportunity set is.

Joshua Scherba — President, WildBrain Ltd.

Yes, I would just mention, David, that any of these short-term opportunities that have arisen, lockdown for a lot of countries didn't begin until the middle of March; deals take some time to get through. I wouldn't have expected any of these opportunities to present themselves in the numbers this quarter. But again, there are some of these incremental opportunities that are out there and we're pursuing, and we're pleased with where we are for the year on distribution and expect that to continue.

Aaron Ames — CFO, WildBrain Ltd.

Yes, just to add to what Josh said and to what Eric said, year-to-date, we're ahead in the first nine months by \$2.6 million in distribution, excluding WildBrain Spark. WildBrain Spark, by the way, is also ahead year-to-date by almost \$5 million.

David McFadgen — Analyst, Cormark Securities

Okay. You kind of didn't answer the part of the question about—so do you expect that distribution revenue to be up in the fourth quarter and into 2021 as a result of this increased demand? Can you respond to that?

Eric Ellenbogen — CEO, WildBrain Ltd.

Well, we don't provide specific estimates for any business unit, but we're—as I mentioned, we're on track for the year and we're pleased with the direction we're going with distribution.

David McFadgen — Analyst, Cormark Securities

Okay, all right. Thank you.

Operator

Your next question comes from the line of Jeff Fan from Scotiabank. Your line is open.

Jeffrey Fan — Analyst, Scotiabank

Thanks, good morning. Hope everyone is well.

Just a quick one on the new financing—and it looks like it certainly frees you up for opportunities for these acquisitions. That could be viewed as a good thing, because you—in terms of balance sheet. It certainly didn't give you the wiggle room to do that. But I guess at the same time, it gives the impression that your current content slate may not be big enough to address that big AVOD opportunity that you talked about. I'm wondering if you can just reconcile that, I guess specifically for your current content slate before you do these acquisitions.

Then the second quick one is on the leverage. If we look forward, I know you don't manage things on a quarter-to-quarter, but unfortunately you do have a lot of debt, and I think that's important, at least looking at it from a balance sheet perspective. When you look at the leverage for the next few quarters, where do you think things will peak on the leverage front when it comes to your net leverage calculation? Thanks.

Eric Ellenbogen — CEO, WildBrain Ltd.

If I may, I'll let Aaron take that.

Aaron Ames — CFO, WildBrain Ltd.

Sure. I'll start with the leverage, and then, on the content side, I'll hand it back.

We, as many other companies, are not in a position to understand fully, kind of the timeframes for when things turn back on. But what I would say is, we've made significant strides on the leverage, with paying down over \$300 million over the last two years. We did additional cost cuttings, \$2 million a quarter that we implemented, and this financing allows us to focus on growth. We're very conscious of the leverage and we watch it really closely.

On the content side, I'll hand it back to Eric.

Eric Ellenbogen — CEO, WildBrain Ltd.

Yes, and Josh can best address, I think, our content question. I would just add to what Aaron has said. We're very comfortable with where we sit in leverage. Look, in an ideal world, a lot less; there's been a \$300 million paydown on debt over the last couple of years. Again, we've reduced cost by an additional \$2 million a quarter, generating positive cash flow. As I suggested at the top of my remarks today, just in terms of working capital at the company, and cash flow, I think we're shipshape. I think that the financing we receive really allows us to hit for the fences now, when it comes to where we've been most restrained, and that is in these kinds of capital-intensive acquisitions.

So much runs through the operating budget for the company; I feel very comfortable, because of where we stand on cash flow, to allocate towards creative development. I think that's well-covered. Then, the same thing, it has been pushing resources into WildBrain Spark to build out their data team, business development, operations, to get great operating leverage into WildBrain Spark so that we can onboard a lot of additional content onto this incredibly robust platform to begin with. Those have been kind of the principal moves.

On the content part of the question, why don't you repeat that, and I think that Josh may have some remarks on that.

Jeffrey Fan — Analyst, Scotiabank

Yes, the question was really, if you have to go out and make acquisitions to take advantage of the AVOD opportunity, does that imply the thinking that maybe your content slate currently is not really big enough to address that opportunity?

Eric Ellenbogen — CEO, WildBrain Ltd.

Oh, no, quite to the contrary. Josh?

Joshua Scherba — President, WildBrain Ltd.

Yes, these are incremental opportunities that we're seeing out in the market that we want to be able to take advantage of. We're pleased with our slate and the direction it's going, as we've stated in previous quarters, we've got a renewed focus on talent and quality and we think that's really starting to

pay off. We're really pleased with the content we're producing for Apple TV+, and then the announcement recently of a *Johnny Test* series for Netflix; we're thrilled to be reviving that franchise. We think fans are going to be really pleased with what we've done. It's a huge improvement on the quality of the animation, and we think that that's going to be a big win for us. Lots more happening across the slate.

Jeffrey Fan — Analyst, Scotiabank

Maybe just a quick follow-up on the Subco. When you make acquisitions within the Subco, and suppose that there's a huge value created from the Subco, whether it be through EBITDA or some other value creation, how does that count towards the leverage calculation, if it does at all?

Aaron Ames — CFO, WildBrain Ltd.

Yes, so I'll take that. It's a unique structure. From a leverage perspective, there's non-recourse to the company, so that's why it doesn't add to the leverage for the covenant calculation. But there's the opportunity, on an EBITDA basis, to transfer those funds to the restricted company and therefore get an improvement on the restricted company growth and EBITDA, and leverage.

Jeffrey Fan — Analyst, Scotiabank

Okay, got it. Thanks.

Operator

Your next question comes from the line of Deepak Kaushal from Stifel GMP. Your line is open.

Deepak Kaushal — Analyst, Stifel GMP

Oh, hi, thanks guys. Thanks for letting me ask a couple follow-ups.

Eric, I just wanted to play back the strategy on the M&A side. It sounds like you're going to be going out and acquiring AVOD-first brands, rather than networks or software, effectively bringing in-house third-party producers on WildBrain Spark. Is that correct, and how much third party versus internally created content should we expect going forward? I have a follow-up. Thanks.

Eric Ellenbogen — CEO, WildBrain Ltd.

Sure thing. It's really, just to clarify, IP-centric. It's what we do best, generally, acquiring all rights across all media. Obviously, each deal is different, but I don't view it necessarily as purely WildBrain Spark as the beneficiary. They will be a primary beneficiary; we see a huge amount of emerging content. One of the things that is great about this platform, I have to say, is the data science that we apply to emerging content. A lot of the third-party content that you refer to, and you see on that network, has been acquired exactly that way; that we're in touch with creators globally who are producing new content. You never know where the next hit is going to come from.

In some instances, we have just represented that content on an agency basis, and this will allow us—and they've asked us for this, to partner with them in IP and content creation of things on our network, as well as things coming out of their studio. I think that's one aspect of it.

The other thing that I referred to was expansion of rights in our existing content library, and really having the full bundle of IP where we may hold fractionalized rights or limited rights. Again, those

are things in which we have, obviously, good operating experience, and we sort of understand the economics and audience appeal around that IP.

Those are going to be, principally, the two buckets that we're looking at, as well as a piece of IP that might be out there. That includes library content, so there is existing cash flow associated with the acquired asset, and with rights to make new content. That's been the pattern and practice of the company in its previous acquisitions. That's what I would say it's in probably three different buckets.

Deepak Kaushal — Analyst, Stifel GMP

Okay, great. Then, obviously this is a bigger picture question; there's been a huge shift in viewing and advertising in online platforms, and its long-term profound and still kind of being shaken out. But in terms of shelf life, what are your expectations in terms of shelf life for these online AVOD-first brands versus kind of what we've seen in terms of shelf life historically? Are you expecting this to change—how do you kind of think about shelf life potential in the online world, and how does that shape your M&A strategy? I'll pass the line again. Thanks.

Eric Ellenbogen — CEO, WildBrain Ltd.

Yes, that's a really interesting question, the long tail. I think it's a couple of different categories. One, I would say, to distinguish the AVOD market from the SVOD market. In SVOD, clearly we are a supplier. We have valued and important relationships with all the big players, and they have added considerably to our library content, often tapping, as they have with—Johnny Test is a good recent example, going into the seventh season. That's a pretty long tail. I think it's on a title by title basis.

The virtue of AVOD, of course, is that we are the captain of our own ship, and that we can control the destiny of that content by what it is that we produce, the running time, the regions, the languages; we get the data directly. We don't enjoy that benefit in SVOD. That data is held by our SVOD partners. As a consequence, we know when to hit the accelerator, as far as new content production. I would give Caillou, a very valuable title in our library, as an example, where we produced a lot of new content specifically for our WildBrain Spark platform, just based on the appeal that we see.

I think that full story has not as yet been written, but one of the opportunities that we see, particularly as we bring well known past content out of the library and to the fore and bring it back into the market, that we see the AVOD platform as an interesting way of taking the content out.

I want to mention something else as well which I think is an interesting phenomenon. Not directly addressing your question, but one of the things that we're beginning to see emerge is the use of AVOD to support and promote the content on SVOD. I think that there was an orthodoxy in the early days of SVOD that didn't permit any AVOD exploitation. Now what we're seeing is the availability and the flexibility among the SVOD players to really use the huge audience, the number of eyeballs that AVOD enjoys, to drive traffic for the longer form version. I think it's a really smart move; it's the equivalent of advertising. I think we then have this sort of always-on aspect where you're seeing content across multiple platforms.

I don't know if that fully answers your question, but those are the trends that we're seeing.

Deepak Kaushal — Analyst, Stifel GMP

No, it's very helpful. Thanks very much, I appreciate that, and you guys stay safe.

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

Thank you.

Operator

Your next question comes from the line of Drew McReynolds from RBC. Your line is open.

Drew McReynolds — Analyst, RBC Capital Markets

Thanks very much, good morning.

Two for you, I think, Eric; on the WildBrain Spark, obviously very good traffic numbers that you're reporting, can you comment on how it's performing relative to what you would consider to be decent AVOD comparables within the space?

Second, on M&A in general; if the world's locked down a little longer than what's expected—clearly, the demand for animation and production and library assets presumably goes up, to lock in that supply. Are you sensing you're seeing, or would you expect some of the bigger players to go hunting here for that bulked-up capability? Thank you.

Eric Ellenbogen — CEO, WildBrain Ltd.

Let me take the second part of the question first. Your guess is as good as mine. We don't know where this is going to land exactly. As kids go back to school, I wouldn't be surprised to sort of see a secular decline in the amount of watch time, of views. That said, the discovery that's taken place during this time is pretty amazing, so those numbers are impressive; new content being discovered all the time, and it really creates some stickiness and adhesion to our platform. I think we'll see lasting effects of that, irrespective of how the COVID crisis resolves itself.

To your first question, look, there have been a lot of trades in this space. You saw VUDU and Tubi and other major media companies stepping in. Obviously, we think and welcome Peacock to the marketplace; I think it's going to mean an incredibly muscular player, and my former employer, NBCUniversal. They will bring to the market incredible advertising sales, and I think analytics that the industry needs and wants. I think that's really good for everyone, and again, it will help shift fundamental viewing patterns from linear to non-linear television.

Yes, there are definitely trades taking place in the space. It's aggregation; it's not unusual or surprising. I think we saw the same thing happen, frankly, in the cable industry, with independent cable channels and how those were absorbed some years ago, so history repeats itself.

Drew McReynolds — Analyst, RBC Capital Markets

Thank you.

Operator

There are no further questions at this time. I turn the call back over to Nancy Chan-Palmateer for closing comments.

Once again, there are no further questions at this time. I turn the call back over to Nancy for closing comments.

Eric Ellenbogen — CEO, WildBrain Ltd.

I think we may have lost Nancy.

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

Sorry, I had it on mute. I was talking but nobody was listening.

Thank you, everyone, for joining us today, and we look forward to updating you next quarter. Please stay safe and healthy. Have a good day. Thank you.

Eric Ellenbogen — CEO, WildBrain Ltd.

Thanks a lot.

Operator

That concludes today's conference call. You may now disconnect.