FINAL TRANSCRIPT

DHX Media Ltd. (dba WildBrain)

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PRESENTATION

Operator

Good morning, and welcome to the DHX Media (dba WildBrain) Fiscal 2020 First 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

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 is 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 DHX Media (dba WildBrain) including, but not limited to, statements regarding the management and business reorganization, expected costs and savings associated with such reorganization and use of such savings, the rights offering, the term loan amendment, the business strategies and operational activities of the company and the finance 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 currently 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.

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.

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

Eric Ellenbogen — CEO, WildBrain

Thank you, Nancy. Good early morning to everybody on the call. Thanks for joining.

Aaron will dive into the earnings in just a minute. But before I hand the call over to him, I wanted to share with you some business highlights from the quarter.

As I mentioned during my first call, last time, we continue to make good progress across our core initiatives, creating premium content, growing our ad-based video-on-demand business – or AVOD – viewership and improving cash flow.

On the premium side, we've delivered to Apple all 12 episodes of the first new original Peanuts series, *Snoopy in Space*. It premiered on November 1 exclusively on Apple's new streaming service, Apple TV+. This service, if you haven't already heard, will be free for one year on all new Apple devices and analysts have estimated they will ship over 250 million devices in 2020 alone. We continue to generate steady consumer products revenue from Peanuts and we believe that the global exposure on Apple TV+ will be a positive for our consumer products business. It should serve to extend the Peanuts brand into a new generation of kids and families around the world. This first new series is just the beginning. More new Peanuts content is in the works for Apple and at our studios.

I should add that the Peanuts production has considerably upped our creative game and I think it's absolutely the best work our company has ever created. It is the standard to which we will aspire.

We're also getting our own IP and partner brands in front of a huge online audience through WildBrain Spark which is our AVOD network. Remarkably, we grew viewership by 66% in the first quarter to over 12 billion views and passed a new milestone of 4 billion views per month. This is up from 3 billion monthly views last year.

More than 65 billion minutes of video were watched on our network in the first quarter, which is up 43% from a year ago. We see significant potential for monetizing our large and growing viewership on WildBrain Spark and we're pursuing multiple initiatives to do so. YouTube is making the necessary changes to evolve into a safer environment for kids, which we fully support. This is leading a flight to quality in kids' content on YouTube and we're ideally positioned to benefit from that.

Also during this quarter, our management and business reorganization progressed as planned and we're putting some of the savings generated back into targeted growth areas. We also recently announced a rights offering backed by our largest shareholder. This, for me, is as important a vote of confidence as we could have in our strategy and the opportunities ahead. The proceeds from that rights offering are going to strengthen our balance sheet by reducing debt and enable reinvestment to grow our business. The first benefit of this financing will be an amendment to our credit agreement which eliminates the covenants step downs on our term loan.

As I've highlighted in our last call, we're getting back to creativity. We're changing how we manage brands. We're taking a disciplined, 360° approach when creating content to drive brand awareness and to build audience engagement. It's about becoming lifecycle managers from monetizing our IP, and we have the capabilities to do so by fully integrating our business units for greater collaboration.

I should say, and I may have mentioned this before, you just never know where the next hit is going to come from. With our WildBrain Spark platform, we can test-market IP in real-time and responsive way that was never possible previously in linear television. We can identify global content that's gaining views. We analyze that data, and we can see the trends. Then, we will partner with those content creators and IP owners wherever they are to bring content to a broader audience.

We're going to look at doing more of those partnerships, investing in digital content creation for IP that's working, and then managing that IP across all media and channels of distribution and consumer products - but making sure brands and content are available on all of the platforms where kids and families are watching. That includes AVOD platforms like YouTube, the SVODs like Netflix, and of course, Apple TV+, linear channels like Nickelodeon and Cartoon Network, and even feature films. We can get there in a number of ways, but our biggest priority is proprietary content and brands in which we have ownership. To be clear, it's a long-term play. It's going to require investment and aligning all the business units in the same direction, which we're doing. That's part of our rebrand, reorganizing the business, and improving cash flows, and of course, our financial flexibility.

Our rebrand from DHX Media to WildBrain has been extremely well-received. We recently participated in Brand Licensing Europe and MIPCOM, two of the largest trade shows for our business. The reception to the rebrand from both customers and industry partners was unanimously great. I feel they're embracing what we're doing, recognizing the greater integration across our businesses. That's going to drive creativity. Our team is energized and I look forward to sharing some of the outcomes of their hard work down the road.

With that, Aaron, over to you for the financial results.

Aaron Ames — CFO, WildBrain

Thank you, Eric.

In Q1 2020, revenues increased by 8% to $112.3 million, which was primarily driven by higher revenues earned from both distribution and WildBrain Spark.

Adjusted EBITDA rose to $19.6 million this quarter as compared to $17.3 million in Q1, 2019. Normalizing for the $1.8 million increase from adopting IFRS 16 in Q1 2020 and also for the $1.3 million benefit from owning a larger share of Peanuts during the first part of Q1 2019, adjusted EBITDA increased by $1.8 million in Q1 2020.

Also, in Q1 2020, we reported a net loss of $16 million versus the net loss of $2.4 million in the same quarter last year. The higher loss in the quarter was affected by one-time reorganization charges and a higher non-cash foreign exchange loss.

Cash generation continues to improve. In the quarter, we generated $18.7 million in positive operating cash flow versus a cash outflow of $10.0 million in Q1, 2019.

As Eric mentioned previously, we've taken a number of steps to improve our financial flexibility. We paid down $7.6 million on our term loan in Q1 from excess cash flow. We're raising $60.0 million by way of a rights offering and we're using $50.0 million of the proceeds to reduce our term loan and the remaining $10.0 million, less offering expenses, for general working capital purposes including potential tuck-in acquisitions that could support growth in WildBrain Spark. We're also eliminating the covenant step-downs on the term loan to maintain a 6.75x covenant for the remainder of the term through December 2023.

On a pro forma basis, the paydown from the rights offering will bring our leverage to approximately 5.14x from the 5.66x at the end of Q1. The rights offering is expected to close during Q2 2020.

With that, I'll hand the call back to Eric.

Eric Ellenbogen — CEO, WildBrain

Thank you, Aaron.

We're taking deliberate steps to position WildBrain to realize the considerable value of our IP and brands. As I mentioned on the last call, we are not managing the business in service of quarter-to-quarter results which you may have been used to, but to maximize the value of these assets. Building for long-term sustainable growth is going to take patience and investment. There are no quick fixes.

We are, however, at an important crossroads with a lot of exciting opportunities ahead and we remain fully focused on execution to deliver for the long run.

With that, over to 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.

Your first question here comes from the line of Aravinda Galappatthige from Canaccord Genuity. Please go ahead. Your line is now open.

Aravinda Galappatthige — Analyst, Canaccord Genuity

Good morning. Thanks for taking my questions. I see good numbers on WildBrain Spark, both in terms of revenue growth and views and acceleration there. I know you talked a little bit about this in the prior call but—a couple of months on. I was wondering if you had a little more visibility as to how the YouTube policies would affect you from a revenue growth trend perspective. Obviously not looking for numbers but in terms of the shape that we should look for, I was wondering if you had any color on that?

Just following up on some of the comments in the MD&A about the Family Channel, the TV numbers, you'd alluded to some contract renewals that led to subscriber revenues declining. Just wanted to confirm if it's just one contract renewal with one BDU or are all three of the major distributors now on the new affiliate agreements? Thanks.

Eric Ellenbogen — CEO, WildBrain

All right, thank you for the questions, I'll turn this over to Josh. We're clearly focused on the YouTube changes that have been announced and have some thoughts about that. Josh can talk to you on that subject.

Josh Scherba — President, WildBrain

First of all, we were really pleased with the growth in the quarter. The 66% increase in views was an excellent result. We think this is due to a few factors. We continue to mine our library. We know we have best-in-class optimization capabilities. We also continue to grow our paid media business, as well as our production business. We also—as Eric alluded to in his opening comments, we know that there continues to be a flight to quality, that YouTube is rewarding quality content, and we stand to benefit from that and that is reflected in the increase in views.

Now, as it comes to the change in policy regarding advertising, we still at this point don't have enough visibility to make a comment on any impact. We're obviously monitoring the situation closely and we'll let you know more as we know more. With that, I'll hand it over to Aaron to speak on the television question.

Aaron Ames — CFO, WildBrain

Yes thanks, Josh. Aravinda, what I would say is our broadcast channels in Canada are performing well. We are continuing to experience healthy margins and consistent EBITDA, and that is our expectation going forward. What we're accounting for in the quarter is our expectation on the renewal rates and what’s expected to occur there, but we’re pretty far down the path on those. That's what we're reflecting in the quarterly numbers.

Eric Ellenbogen — CEO, WildBrain

I would just add and amplify what Josh said about the changes in YouTube policy. The positive around this is a stabilization in the AVOD market. It's been a bit of a moving target until YouTube sorted out the way in which kids’ content would be created—curated, excuse me, and managed. I think we now definitively know where it's going. The good news to us is that how certain changes around the metrics have been implemented, what hasn't changed is the advertising load and the fact that it is an ad-based medium.

I think that for some time there was speculation about, could this become the PBS of AVOD, that definitively did not happen. Given the size of the kids’ audience and who is watching YouTube and just talk to the linear networks about that, it's clear to us that this is a priority at YouTube. We believe we're going to be the beneficiaries of these policy changes.

Aravinda Galappatthige — Analyst, Canaccord Genuity

Thank you very much.

Operator

Your next question comes from the line of Rob Goff with Echelon. Please go ahead. Your line is now open.

Rob Goff — Analyst, Echelon

Good morning, and thanks for taking my question. I guess more specifically, could you talk to the large library deal with CBS All Access in terms of exclusivity? Is there a term that went with it? Then, perhaps, more broadly, as a follow-up, could you talk to what you see in the second round of battle between the new over-the-top competitors? Thank you.

Eric Ellenbogen — CEO, WildBrain

I'll give that over to Josh.

Josh Scherba — President, WildBrain

Sure, all right. I can't comment on any specifics related to terms around the deal, that's obviously confidential but what I would say is, as was reflected in the announcement, it was driven by Cloudy with a Chance of Meatballs, which is the series that we're very proud of. Again, we know in this environment quality wins. That really drove what turned into a larger deal that included library content. I think it also reflects some of these new services do continue to need library, which is a great thing for us. But it's situational and it is lumpy. As we know, this distribution business has always historically been. We were the beneficiaries of this deal closing in the quarter.

What I would say in terms of the overall–the second wave of streaming wars, as you allude to is, again, going to be driven by premium content. Original high-quality content and often branded content is what's going to rule the day. That's why we have shifted strategy over the last year to focus on this. Eric has accelerated that by ensuring that we've got the resources to invest where we need to creatively. That's where we—we're focused on and that's what we're going to do moving forward.

Rob Goff — Analyst, Echelon

Okay. Thank you.

Operator

Your next question comes from the line of Deepak Kaushal with GMP Securities. Please go ahead. Your line is now open.

Deepak Kaushal — Analyst, GMP Securities

Hi, guys. Thanks for taking my questions. It's been a while, so happy to be back on the call. Eric, a couple of questions that go back to when you first joined the company. Coming out of this strategic review, there was a signal, I believe, of a desire to separate the Canadian-regulated business versus the non-Canadian regulated side of the business. Is it still in the cards, is it still something you guys are thinking about?

Eric Ellenbogen — CEO, WildBrain

Yes, and that continues apace. It is really about delivering to us financial flexibility and optionality around the assets, potential financings, partners, et cetera, that the regulated assets limit. I think that there are no changes afoot about separating the financials necessarily. We'll continue to report as we previously have. It's really about a legal structuring. It's obviously complicated given the legacy libraries and copyright recordations and CanCon and so forth. We're acutely aware of those issues and we want to be very, very careful about how we go about it. But the answer to the question is yes, we are proceeding to do what we previously announced.

Deepak Kaushal — Analyst, GMP Securities

Okay. Then, being a veteran CEO in the animation industry, just curious what your thoughts are on what long-term realistic cash flow margins can be achieved? Perhaps, your view on ultimates from your past versus how they were dealt with at DHX. Just trying to get a sense of how we bridge the gap more consistently between EBITDA margin and cash flow margin and wanted to get your reason and then I have one minor follow-up after that.

Eric Ellenbogen — CEO, WildBrain

Let me give that to Aaron. I would just say, in a more general statement about how things have potentially changed. I can really speak to the issue of the emergence of the SVOD services and these one-stop shopping aspects and more of a fixed margin that is included in the license fees paid by those services, and as opposed to the old way in which the content was syndicated. But it's really more about free cash flow than it is on EBITDA, but I'm going to give that to Aaron.

Aaron Ames — CFO, WildBrain

Yes, thanks, Eric. Deepak, what I would say about our business going forward is, and Eric's made this clear, we need to invest more in our own IP. Of course, when you invest more in your own IP, your margins go up. That's really where we're very focused on. That's what I would say, going forward in the future, we would expect margins to go up as we advance and of course that will take time.

Eric Ellenbogen — CEO, WildBrain

I don't know that that necessarily points to changes in the industry. My past experience has been almost exclusively with proprietary IP, and so, that's old habits die hard, and that's where I'm taking the company. The library is deep and interesting, and I'm having a lot of fun dumpster diving in that.

Deepak Kaushal — Analyst, GMP Securities

Thanks for that. I just have minor follow-up. Eric, I was at MIPCOM earlier in last month as well, obviously there's a lot of excitement around the new streaming platforms that are getting launched and

Eric Ellenbogen — CEO, WildBrain

For sure.

Deepak Kaushal — Analyst, GMP Securities

What was new that you learned coming out of there that you didn't know or didn't expect going into the MIPCOM events this year?

Eric Ellenbogen — CEO, WildBrain

I mean, that's an interesting question. I'll take a piece of that, and then let Josh take that since he oversees the distribution arm of our company. I saw a couple of things that had changed since I had taken, thankfully, a hiatus for two years since Universal. When I was at Universal, all of that went to their distribution division, and it wasn't a part of my remit… is consolidation. That definitely changed. There were quite a few dead soldiers and companies that weren't reappearing. I think that that's—there's no great insight around that. I think there continues to be consolidation. I would say that the competition for quality content has actually gone up. I think that what we alluded to earlier, the arms race among the SVODs has been overall quite helpful to the company, benefiting both the production side of our company, the studio side of our company.

As far as the amount of content that is being produced, it's increased dramatically. I think that that is probably an interesting fact. I'd say those are sort of the two main events, consolidation on the content supplier side. Maybe one more thing that I think is happening and creating some opportunity. We'll see how this unfolds. But the number of new entrants both, as you pointed out, in North America and globally but also some of the regional SVODs, has created a deficit for the linear telecasters who still are incredibly well financed. A lot of them like the BBC and great companies like Super RTL with whom we have a close relationship and I think they're among the smartest and best telecasters in Europe. They need content and a lot of it is being siphoned off by the high paying SVOD services. That creates an interesting opportunity as well.

Then lastly, the recognition, and it’s going to take a while, of how important AVOD is in our services like WildBrain Spark and really being a complementary platform to linear telecast in driving viewership. I think they are complementary and I think that that recognition is taking a little while. It’s transitional, but I think we're getting there with it and also that AVOD, in and of itself, is an extremely valuable launch platform. Probably, a lot more answer than you asked in your question, I don’t know.

Deepak Kaushal — Analyst, GMP Securities

No. That’s perfect. You're more than welcome.

Eric Ellenbogen — CEO, WildBrain

Yes. We’ve now monopolized the entire conference call. But I can keep going if you like.

Deepak Kaushal — Analyst, GMP Securities

No. I really appreciate the thoughtful response and the thoughts coming out of that conference because it's big and noisy and a lot going on and it's important to get those insights and your thoughts and I appreciate it. Thanks, again.

Eric Ellenbogen — CEO, WildBrain

Yes. Okay. Thank you.

Operator

Your next question comes from David McFadgen with Cormark Securities. Please go ahead. Your line is now open.

David McFadgen — Analyst, Cormark Securities

Yes. Hi. Maybe a clarification question. Just on the TV business, the new distribution agreement. If I understand correctly, it hasn't been totally set but the quarter reflects your expectation of what the new rate would be for the full quarter; is that correct?

Aaron Ames — CFO, WildBrain

Hi, David. Yes, that's correct.

David McFadgen — Analyst, Cormark Securities

Okay. Then can you give us any idea of what the take-up is on the rights offering outside of Fine Capital?

Aaron Ames — CFO, WildBrain

Yes. We don't have—we don't receive the details on who's exercising their rights. But everything we've heard has been positive, and we believe that many of our shareholders intend to participate.

David McFadgen — Analyst, Cormark Securities

Would you know when the deal is closed? You should know when the deal is closed, right?

Aaron Ames — CFO, WildBrain

Yes. It'll close November 20. End of November, it will close.

David McFadgen — Analyst, Cormark Securities

Okay. Then just lastly, just on Fiscal 2020, and I'm not trying to put words in your mouth, but I think in the past you indicated that you thought that would be a flat modest growth year. I was wondering if you could give us any update on that in light of the CBS All Access deal?

Aaron Ames — CFO, WildBrain

Yes. I'm not going to provide guidance, as has been our custom, but that's in line with what we expect for this year.

David McFadgen — Analyst, Cormark Securities

Okay, great. Thank you.

Operator

Your next question comes from the line of Bentley Cross from TD Securities. Please go ahead. Your line is now open.

Bentley Cross — Analyst, TD Securities

Just two follow-ups, if I may. One for Aaron. On the TV business, I'm still not entirely sure what's going on there. Is the current quarter reflective of expectations with all new BDUs or just one in particular or is there another shoe to drop? I just wonder if you might clarify that.

Then for Josh or Eric, just on the distribution side, I know it's lumpy but wondering with all these guys coming to market, if you guys have any better insight than we do as to when or if you might be a beneficiary of another large library deal?

Aaron Ames — CFO, WildBrain

Thanks, Bentley. I'll answer my question first and I'll pass it over to Josh. Yes, I mean, all of the—there's no shoe to drop as far as our understanding, the negotiations are proceeding well. Just from an accounting perspective, we record based on what we expect the renewal rates will be. We're far down the path on those discussions and so there's really not—they reflect what we expect.

Josh Scherba — President, WildBrain

Bentley, just to comment on the question around the new streaming services. As I mentioned, really, these new services that are popping up are focused on original exclusive content that’s going to be driven by premium. That's where we stand to benefit is really on the original side. Having said that, there may be library needs for these services as they pop up as we've seen with CBS, but I can't speculate on whether that's going to happen or not.

Bentley Cross — Analyst, TD Securities

Understood. Thanks, guys.

Operator

Your next question comes from the line of Jeff Fan with Scotiabank. Please go ahead. Your line is now open.

Jeff Fan — Analyst, Scotiabank

Good morning. Thanks for taking my questions. A couple of questions. First, probably for the team is when you sit back and it's been a few months, Eric, since you've been in the role, when you sit back and kind of summarize, what—can you help us think about what a few things that you're doing differently, perhaps, prior—versus the prior regime, just so that we can identify what was being done before and what you're doing that's different that's going to drive the changes? As you look at your business today, are there non-core assets that you think are still in-house that, perhaps, can help you divest and help you with the flexibility on the balance sheet?

Then the second question is related to just your comment about AVOD complementing SVOD. Wondering if you have a view as to how that mix may look in the non-linear world compared to the linear world, specifically like the business mix between subscription and advertising in the industry, where we are today on the linear versus non-linear, and where that linear world would go in terms of the mix between subscription and advertising services? Thanks.

Eric Ellenbogen — CEO, WildBrain

That's a lot of questions. Let me just start with what I perceive to be different. Having served on the Board for a little bit before I took my current role, which I called Teletubby and Chief. First, I've said we're not going quarter-to-quarter and I think that is, from a financial management as well as strategic perspective, is a considerable change from where the company has been. I think that in also taking a longer view, it has given us, with the rights offering, with the restructuring charges that we've taken and overhead reductions, all that's going back in to invest in creative, which I think has been frankly underfunded in the past. What I'm excited about is we're delivering the best content ever in Snoopy. That has drawn to the company some of the best creators in the business. It's my intention to keep them with us and working on other content from WildBrain.

The other thing is investment in Spark. That was not possible in the past. I'm taking a very close look at that business. We're giving them the resources that they need. There are quite a few initiatives that I can't talk about just now but are in the works for that business unit.

Then finally, I would say the third thing is really just trying to get a bit of a symphony going among the various business units, and that the integration of those units really had never effectively taken place. I alluded in the last call, and I think any observer knows that there were a series of rapid fire acquisitions, disparate business units, varying geographical locations, it's just—it's about working together and meeting and I think the team has been terrific, by the way, incredibly supportive of working together. I find them collaborative and not competitive in the best sense of that word. I think that those are the changes that I point to principally.

Your next question was, is anything to sell, or as you put it, non-core assets for divestment. Look, right now, I think the business units are integral. Each serves a different purpose in the constellation of assets that we own. It's not something I'm actively looking at right now. It's really about managing them, and making them best in breed. Then we'll sort of consider later what we may or may not do with any of them. But at the moment, there are no present plans in the works.

I'll give Josh the opportunity to jump in here on the linear and non-linear environment, those changes and what the implications are for our business and more generally for the industry.

Josh Scherba — President, WildBrain

I think what Eric was referring to earlier, in terms of how Spark can benefit telecasters or SVOD services is that they're in this increasingly fragmented world. There are, for linear broadcasters, there's ratings challenges, and for SVOD services, there's discoverability challenges. The same kid who's watching Netflix then goes and watches content on YouTube, and we think that there's tremendous opportunity in terms of windowing, to allow AVOD to help amplify the content on these streaming services, as well as on linear broadcasters.

Now, there's an education process with these services, who are accustomed to looking for as much exclusivity as they possibly can. But we believe in kids' content, actually having different types of content in different places is a benefit for brands overall, and we're uniquely positioned to be able to capitalize on that.

Eric Ellenbogen — CEO, WildBrain

I'd add one thing to what Josh has said, and I think this came up in an earlier question, and is relevant about the changes at YouTube, which reminds me frankly of what happened in broadcast television, as DVRs came on the scene and audiences were not watching day and date real time. Yet the measurement services were sort of stuck in that metric. The advertisers and broadcasters recognized what was happening. Then it went to this sort of Nielsen plus 7 rating in which the measurement took place over a week's time of viewing as opposed to day and date.

I see the same thing, frankly, as both a need and a service that's emerging in the AVOD space. As audiences migrate to the platforms, measurement is necessary and will we drive that? Not really. It's going to be the advertisers. It's going to be the major media companies. They're not going to want to leave any money on the table. I think that we will be a considerable beneficiary as those measurement services come on stream.

Jeff Fan — Analyst, Scotiabank

Great. Thanks for all the color.

Operator

Your next question comes from the line of Drew McReynolds with RBC. Please go ahead. Your line is now open.

Drew McReynolds — Analyst, RBC

Thanks very much. Good morning. Two additional questions for me. First, a follow up on an earlier topic on the linear side. Maybe for you, Josh, more interested in the outlook here for linear and unprecedented amount of elephant SVOD platforms coming on stream at a time when you're seeing a lot of cord cutting, cord shaving across the industry. What are your expectations for that linear response from arguably some deeper pocketed broadcasters that are now embedded in bigger companies? Are they going to go into full cost cutting mode and rationalization or do they double down?

Second question, probably for you, Aaron, on the balance sheet. Are there any leverage targets you want to throw out there? If not, maybe give us a sense of whether delevering mainly is through increases in EBITDA as you reinvest in the business and/or are you certainly targeting outright debt repayment with free cash flow, a combination of the both, perhaps? Thank you.

Aaron Ames — CFO, WildBrain

Drew, I guess I'll start first. Thanks for that question. What I would say is we're very comfortable with our balance sheet, and the leverage. We've proven—I was looking at the numbers over the last quarter, and we've paid down almost $300 million of debt over the last of last two years. We've made pretty significant strides there and we will continue to do so, especially from free cash flow. Then this quarter, as we noted in our release, we paid down another $7.6 million from excess cash flow. That's where we're going to continue to do that and focus on continuing to lower our leverage.

But on the other side, there's a balance that we have to make between growth and the balance sheet. The actions that we've taken has given us some financial flexibility so that we can have the opportunity to execute on our plan and grow our business. Definitely, we want to grow our business and grow our EBITDA and delever that way as well. But that's in addition to continuing to use excess cash flow to pay down debt.

Josh Scherba — President, WildBrain

This is Josh Scherba. Yes, so it's really the question to write the—as you know, that the deepest pocketed linear broadcasters are aggressively going after direct consumer strategy. But what's interesting is it's a dual strategy, they don't want to give up on their linear business because they still think that that's a meaningful way that content is consumed and it still generates a lot of cash. In the short to medium term, they're all trying to figure out content solutions that can serve their new direct consumer offering as well as their linear offering. That's going to mean more original commissions and more content that they're going to be ordering which we stand to benefit from with if we have—when we have great creative and great IP. But yes, over time, that's going to be a really interesting trend to watch in terms of how they balance their direct consumer with what they're doing in their linear world.

Drew McReynolds — Analyst, RBC

Okay. Thank you.

Operator

Your next question comes from the line of Adam Shine with National Bank. Please go ahead. Your line is now open.

Adam Shine — Analyst, National Bank

Thanks a lot. I want to go back, Eric, to your comment on the dumpster diving in the library. I know the reference there isn't necessarily that it's garbage, per se, but there's been a number of comments through the course of this call in regards to upping the creative game, the new standard, Josh just referenced, original commissions. The question becomes, notwithstanding the revenue, the annual revenue, that's fairly material that this library continues to generate on the distribution side. Can you speak a little bit in terms of what you're seeing in the library, opportunities to incrementally monetize it compared to what the company was doing prior to arrival? Additionally, notwithstanding what you answered earlier regards to status quo and not necessarily any non-core divestitures at this time, but is there an opportunity to clear the slate, so to speak, maybe sell off larger components of that library, and, frankly, move on with the greater focus on some of the areas that I think inherently you're more excited about?

Eric Ellenbogen — CEO, WildBrain

Okay, interesting. Thank you, Adam. First, I would say, and I meant it humorously, it is a process of, which I've done in my past jobs, of taking a look, whether it's at Marvel or Universal or Classic Media, DreamWorks, what's in the library, what can we bring to the fore, reinvent, recreate and so I think that that exploration has not really taken place here. Brands matter. I'm doing that. I'd say that's a bit of a change from the past.

The other thing is that it isn't just about making new shows, it's about managing those brands. That's something that I think has not been a primary skill of the company in the past. But I think a highly necessary one and an area in which I'm making an investment so it isn't just, take a show, put it on the air and then move on. There's a lot of care and feeding to do with these brands. I think they are highly resilient. I started to see work that's come out of the studio that I'm—I find incredibly exciting and encouraging. When I talk about that flight to quality, I do look at that Peanuts content as the North Star, it is just so good. If you haven't seen it, please do. Take a look at it. Critics love it. We're getting great reactions back. But more than that, it's been a creative magnet. Creators love great content and love working with other great creators. I think that that is—we're on a bit of a roll there, which I think is something good.

In the divesting I, honestly, I cannot fathom a scenario where I would sell any IP. You just don't know what the next hit is coming from, which I said earlier, and it's absolutely true, from the most unsuspecting unlikely places. By having control of that IP, it's, every bet that I've ever made is on IP ownership. I've never been dissuaded of the wisdom of that. I think I don't see that happening at all.

That is not in the cards. Anything I want to do to the contrary, if there can be bolt on acquisitions and additional IP that we can judiciously acquire, I'm all about doing that. That comes either from pre-existing library content, or the thing that I cited before, is our radar scope at Spark where we see rising content all over the world, and then partner with those creators and managing their content across the entire product lifecycle and that is something I can say honestly, and studio distributors in the larger companies are just not very good at. You have to be pretty nimble, you have to embrace partnership. I think that's not necessarily part of the DNA of those companies and offers us a meaningful competitive advantage.

Drew McReynolds — Analyst, RBC

I guess the…

Eric Ellenbogen — CEO, WildBrain

Yes.

Drew McReynolds — Analyst, RBC

Yes, thanks for that, Eric, and I get still, obviously, the release in regards to the covenant deal serves certainly to preclude any immediate necessity to do anything in terms of divestitures. Maybe one last question, just as a follow up in the context of, I think back on the last call, there was some, I think, discussion around you guys pursuing the reimagining of Strawberry Shortcake, just curious if anything's worth updating there.

Eric Ellenbogen — CEO, WildBrain

Josh can speak to that. Sure.

Josh Scherba — President, WildBrain

Yes, we're excited about what we have creatively on Strawberry. There's nothing to announce yet, but lots of exciting conversations and again, creatively we think we're in a good place with it. One of the things Eric did when he came in is said let's take a step back and do some focus testing on it and make sure that we what we think is good is, in fact, going to work for our target audience. We've done more research with that brand than we historically have, which I think puts us in a good place moving forward, but nothing to announce at this point.

Eric Ellenbogen — CEO, WildBrain

Nothing else, I just want to amplify something that Josh said, there will not be a rush to market. This will be a deliberative, managed, thoughtful process of bringing up the next big title. With less hoopla, lots of substance, great creativity, allow an equity like this to build and find its audience. That's where we're going to get durability in a brand like Strawberry, which, it's all out there in the public domain, but a really, really big brand and popular worldwide. I think that we—it's incumbent upon us to recapture that audience and introduce it to new audiences. Coming out of that focus group test, it was fascinating, very positive associations, moms and girls. Yes. I'm encouraged by what I've seen.

Drew McReynolds — Analyst, RBC

Great. Thanks a lot. Much appreciated.

Operator

Your next question comes from Bentley Cross from TD Securities. Please go ahead. Your line is open.

Bentley Cross — Analyst, TD Securities

Eric, I just wanted to follow on your thought on the building brands; increasingly, I've heard more brands coming to you guys in the WildBrain Spark business to help build their brands. Just wondering how sizable that component is now as the WildBrain business, and also what that means for merchants.

Eric Ellenbogen — CEO, WildBrain

I'm going to let Josh take the first part, and then I'll hop in with any comments around that.

Josh Scherba — President, WildBrain

Yes, Bentley, this goes back to what I was referring to earlier in terms of innovative windowing strategies and trying to amplify existing brands that may have a presence on other platforms. Brand owners are recognizing the importance of a strong YouTube offering, and we're best in class at it. I think that's really what's driving it. I mean, over time, we think that that can unlock more value for us, but in terms of a contribution margin, I can't speculate on that.

Eric Ellenbogen — CEO, WildBrain

Yes, and what I would add to it is it’s an interesting mix as far as, on the one hand, with a number of our partners, it's about monetization of library assets. For others, it's about, as Josh points out, amplification of the brand, and they're not particularly interested in the money that we make for them. They want that all reinvested in turning up the volume on reaching audience because their toy sales or merchandising of a particular property. That's been fascinating to me about what motivates them.

The other thing that I can just comment generally on, and I've seen this evolving in a good way, which is how retail and traditional channels of licensed property distribution, whether it's online sales or brick-and-mortar, are adapting to and understanding the AVOD market. You can't ignore it. I mean, it is huge. As measurement tools begin to advance, but more than that, as that platform is where the audience lives, being there becomes a new qualifier for a lot of brands and for retailers. It takes a while. Same thing happened in cable. Same thing has happened with the SVOD services as the audience has shifted. They're watching more and more content. I think that there's an alignment that's taking place between retail consumer products and these emerging platforms.

Aaron Ames — CFO, WildBrain

Just to add to what Eric said, from a CPLG perspective, WildBrain CPLG, where we are the agents for a number of brands, working together in integration is proving very valuable.

Eric Ellenbogen — CEO, WildBrain

Yes. That's a very good point. I mean, we—one of the things that came out of the brand licensing show that we just came from was what a valuable asset Spark has become to our WildBrain CPLG clients. We're now able to furnish data on if there's related content. We can tell them where in the world it's working and where it's not. It's really about insights and not just being an agent but really being an analyst and understanding their businesses in ways that nobody has been able to do before.

Then, as we've referenced previously, being able to amplify those brands on a global basis, so that's really a nice synergy, if you want call it that, that's taking place between those divisions and frankly an offering that I haven't otherwise seen in the market. Maybe there is one, but that would be news to me.

Bentley Cross — Analyst, TD Securities

Thanks for the color, guys. If you ever feel like divulging what the mix is of your IP versus somebody else, I'm sure investors would be happy to hear it.

Eric Ellenbogen — CEO, WildBrain

Okay.

Operator

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

Nancy Chan-Palmateer — Director, Investor Relations, WildBrain

We want to thank everyone for joining us today and we look forward to catching up with you next quarter. Thank you. Have a great day. Bye, now.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.