DHX Media

Fiscal 2019 Fourth Quarter and Full Year Earnings Call

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PRESENTATION

Operator

Good morning, and welcome to the DHX Media Fiscal 2019 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. To ask a question during that time, please press *, then 1 on your telephone keypad. If you'd like to withdraw your question, press the # key.

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

Nancy Chan-Palmateer — Director of Investor Relations, DHX Media

Thank you, Operator, and thank you, everyone, for joining us today. Speaking on the call today are Eric Ellenbogen, our CEO and Vice Chair, and Doug Lamb, our CFO. Also with us and available during the question-and-answer session are Josh Scherba, our President, and Aaron Ames, our COO.

First, we have some standard cautionary statements. The matters discussed on this call include forward-looking statements under applicable securities laws with respect to the Company, including but not limited to statements regarding the rebrand, name change, and management reorganization of the Company, expected costs and savings associated with such reorganization and use of such savings, the business strategies and operational activities of the Company, 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.

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 and Vice Chair, Eric Ellenbogen.

Eric Ellenbogen — CEO and Vice Chair, DHX Media

Thank you, Nancy. Thanks to everybody in audio land for joining us today. I'm pleased to be with you on what is my inaugural call. First time you're hearing from me as CEO.

So we'll get to Doug and the earnings results in just a moment. But before we get to that, I'd like to talk to you about the announcements that we made today that set the stage for our path forward. First is a total rebrand and change of our Company; we're becoming WildBrain. And second is a management and business reorganization to simplify our structure and advance the priorities that I have for our company. So I'm going to tell you more about those changes and priorities in a moment.

But what I'm not going to tell you is that I have a silver bullet. It's no news to anyone on the call, or in this room, that DHX Media has faced some considerable challenges in recent years. I believe these first steps which we're taking now, together with more to come, will ultimately deliver on what we're all in this for, which are long-term, sustainable growth, improved cash flow, and a strong balance sheet. And we might even have some fun getting there.

I want to emphasize “long-term” and “sustainable”. That means I’m turning the volume down on announcing every single move we make. Of course, we’ll tell you what’s substantive and material and disclosable, but we won’t be spending our time and yours discussing each deal or minor development. And we’ll not be just focusing on quarter-to-quarter results; we’ll be fully focused instead on execution to deliver for the long run.

So let me tell you a little bit of what brought me here to now WildBrain. First and foremost, what really excites me about the opportunity is a world-class collection of IP, much of which I have attempted to buy, honestly, in my previous companies, and for which I give full credit to my predecessors at DHX Media. But—and no mistake, brands matter, and ever more so in today’s media landscape.

What we also have here are some very well-run business units with excellent leadership in production, distribution, television, consumer products, and—the star of the show—a burgeoning AVOD business called WildBrain, which by no coincidence is the name we’ve adopted for our Company. And just as an aside, I’d never really known what DHX stood for.

Without indicting past management, I think it’s fair to say that the Company has yet to realize the benefits of integrating those business units that were so rapidly acquired. Or even more promising, it’s barely begun to exploit the value of our entertainment assets.

It’s also good news that the number of streaming services continues to increase, as I’m sure all of you know, and that trend should present many new opportunities for us to create and monetize content based on our own as well as third-party brands. And to ensure that we’re poised to take advantage, we’re planning to increase our spend against creative development. It’s just one more step we’re taking to make our Company the very best home for talent. And I should add that, unlike the major studio distributors, we welcome partnerships with talent and we welcome sharing the success.

So changing our Company name to WildBrain, for me, represents a change in our approach toward the goals of creating unmatched content and unlocking our brands. And as most of you know, WildBrain has been at the forefront of the rapidly evolving digital media space, and so really, there's no better time to unify all the parts of the Company under the WildBrain corporate banner. And most importantly, and really what I want to do is to bring in the entrepreneurial culture that the WildBrain name represents.

At the risk of using a cliché, ours will be a 360° approach. And what I mean by that is it's about integrating our business units to manage and monetize our content across the entire value chain. And that's from development to production to screens, big and little, and then to consumer products for kids and families, and even location-based entertainment and live experiences.

Okay. Here's the disclaimer I have to read. Our name change will be voted on by shareholders at our next annual meeting, which we expect to hold in December. And until that time, we'll continue to report as DHX Media and to keep our current stock tickers, both on the TSX and NASDAQ. And after we have that approval, we expect to change our stock symbol on both exchanges to WILD. However, in the meantime, we've started to roll out the new brand identity and we'll be exhibiting as WildBrain at the upcoming major trade conferences, Brand Licensing Europe and MIPCOM.

The second thing which I mentioned in my opening is that we've announced a reorganization of our management team, including my direct reports, to accelerate the execution of my priorities. We're simplifying the organizational structure, we're pulling together the business units such as consolidating our content business under one business leader, and we're putting the right people in the right places to make the business more nimble. These initiatives are all about collaboration, cross-selling, and speed to market. It's a cultural reset for us so we can focus our creative energy on executing the myriad opportunities that we're seeing in the market for our content and brands.

And so thanks to the strong team that began to come together over the past year or so, our earnings performance points to the progress that the Company has made against our priorities during the fourth quarter and full year 2019.

WildBrain revenue and viewership continued to grow, as did our consumer products-owned revenue, largely driven by Peanuts, which is exhibit A of our focus on premium content. And we continued to improve our financial position by generating positive operating cash flow in Fiscal '19 and paying down debt.

A great example of how we've already taken the 360° approach is our global exclusive agreement with Apple for new Peanuts content, which is expected to contribute steady EBITDA for the coming years. We've started production on the first new original Peanuts series, *Snoopy in Space*, for Apple's new streaming service. And new Peanuts content will extend the brand globally to an entirely new generation of kids and families.

Our consumer products revenue from Company-owned brands, largely driven by Peanuts, was up a full 22% in Q4 and 11% for the year. And we've already begun to roll out Space-themed programs with McDonald's and Hallmark to promote the Peanuts franchise. We're excited about the first new series, which is going to debut this Fall, and it's really just the beginning.

We'll also continue to focus on growing our WildBrain brand on YouTube, which has been renamed WildBrain Spark as of today. We continue to build a large and growing online audience, rising by 29% this year to almost 33 billion views, and growing revenue by 20% to $69.0 million. WildBrain Spark now averages more than 3 billion views per month. And a growing number of third-party brands, including PLAYMOBIL®, Smurfs, and Miffy, are turning WildBrain—turning to WildBrain, I should say—to manage their presence on YouTube.

We've also improved our cash flow and paid down debt. Strengthening our balance sheet will continue to be a key priority.

With that, Doug, take it away with the numbers.

Doug Lamb — CFO, DHX Media

Thanks, Eric. Before starting, I'd just remind everyone that all currency numbers we discuss are in Canadian dollars.

Q4 2019 revenue was $108.8 million, up 12% compared to Q4 2018. The increase was primarily driven by higher revenues earned from our non-WildBrain distribution, WildBrain, and our consumer products-owned businesses. Full year revenue was $439.8 million versus $434.4 million a year ago.

Adjusted EBITDA rose to $20.2 million this quarter, compared to $16.0 million in Q4 2018. For the full year Fiscal 2019, adjusted EBITDA was $79.6 million, down from $97.5 million in Fiscal 2018. This change, or the drop, was largely due to the sale of a portion of our interest in Peanuts to Sony in Q1 for gross proceeds of $235.0 million.

Q4 2019, we recorded a net loss of $62.8 million versus a net loss of $21.6 million in the same quarter last year. This loss was the result of a non-cash $68.7 million write-down, primarily related to intangible assets. A net loss of $101.5 million was recorded for the full year compared with a net loss of $14.1 million a year ago. The Fiscal 2019 loss was primarily the result of a $104.9 million write-down in the back half of 2019 on certain titles related to investment and film, licensed television programs, acquired content, and intangible assets, and a higher portion of net income attributable to non-controlling interests of $23.3 million, primarily as a result of the sale to Sony.

During the year, we improved our cash flow. Cash flow from operations increased to $44.5 million for Fiscal 2019, up from $13.4 million in Fiscal 2018.

Debt reduction continues to be a priority. In Q4, we repaid an additional $11.4 million against our term facility using net proceeds from the sale of a building. So 2019, the full year, we were able to pay down an aggregate of $240.2 million on our term loan and revolving facility combined. Net debt declined to $494.1 million at June 30, 2019, compared to $726.4 million in fiscal 2018. This resulted in a decrease in the net leverage ratio to 5.92x at June 30, 2019.

As part of the repositioning and management reorganization that Eric mentioned earlier, to simplify the organization structure and reduce costs, we expect to incur $10.0 million to $12.0 million in one-time cash reorganization charges. These initiatives are already underway and are expected to be completed by the end of Fiscal 2020. This should generate approximately $10.0 million in annual cost savings, with a portion of these savings to be redeployed to invest in the business and advance our growth strategy.

And with that, it's back to you, Eric.

Eric Ellenbogen

Thank you, Doug. So as you may have also seen, this morning we announced that Doug will be stepping down from his role as CFO. Aaron Ames will succeed him, effective immediately. And I can't thank Doug enough for his dedication and contributions to the Company. It's really been a pleasure to work with you. And I appreciate that, to ensure a smooth transition, Doug will be staying on as an advisor. And I'll be working closely with Aaron in his new role as CFO, and I'm confident that his deep knowledge of our operations and background in finance, business improvement, integration, and synergies will make him very well-placed to lead our finance function going forward.

It's an exciting time for me and to be in the kids' and family content business. But the changes that we're making are going to sharpen our focus in achieving priorities, and we're ready to dig in and execute. I'm confident that we have the right people, the brands, assets, and strategy in place, and I'm looking forward to working together to make WildBrain the great company that it is.

As I said earlier, I believe that our performance should speak for itself. Rather than placing undue emphasis on quarter-to-quarter management that doesn't reflect the long-term nature of the opportunities we're investing in, we'll be more selective in updating you as appropriate when we have meaningful progress to share.

While we'll continue our policy of not providing guidance, we expect to build on the progress that we've made in the back half of last year and to demonstrate improving results in 2020. With that said, we're here to grow the business for the long run and expect growth to accelerate more meaningfully in the years beyond.

So with that, we'll be pleased to take some questions. Nancy?

Nancy Chan-Palmateer

Operator, if you'll open the line to questions, please.

Q&A

Operator

Once again, that is *, then 1 on your telephone keypad in order to ask a question.

Our first question comes from the line of Adam Shine with National Bank. Your line is open.

Adam Shine — National Bank

All right. Thanks. Good morning. Well, welcome, Eric. In terms of evolving kids' advertising strategies at YouTube, can you speak to how some of these might be affecting WildBrain and how you might need to do things differently going forward? And then maybe just a follow-up after that.

Eric Ellenbogen

For sure. So as everyone is aware, there have been a number of announcements regarding the kids' advertising space. I'm going to ask Josh Scherba to take that question. He's been focused on and has previously had that division reporting directly to him. And it's actually sort of an interesting change that's taken place because it's one we're quite familiar with in our television business, contextual advertising. But I'll let Josh take that and happy to take any follow-up.

Josh Scherba — President, DHX Media

Sure. So first of all, we fully support steps to create a safer environment for kids. So I'd say that off the top. And as well, we have no doubt that our content is going to continue to be enjoyed on AVOD by an ever-growing audience and monetized through appropriate advertising. As we've mentioned, our viewership was up 29% this past year so we continue to be encouraged by the growth.

But YouTube and monetization of AVOD will continue to evolve. So what you're referring to specifically there, Adam, is the removal of interest-based ads on content that's intended for kids. Interest-based ads are ads that are based on viewer data and behaviour. So it's too soon to know what the implications of the removal of this advertising will be. However, it's worth noting that advertising on content directed for kids continues, and specifically in the form that Eric referred to which is contextual advertising.

So this is—these are ads which rely on audience measurement and demographics, and to put it in plain terms, it's how advertising has always worked on television. We know that we have a great collection of quality content that attracts massive audiences and we believe that advertising will continue to be an important part of the monetization. But again, our largest asset is in viewership and that's what we continue to grow and be excited about in WildBrain.

Adam Shine

But, Josh, I guess just as a net takeaway, would the fair assumption be that we see some contraction in overall advertising, at least initially, as it relates to the items—the interest-based ads that we're talking about? But given WildBrain's market share and positioning, you can pick up additional market share as perhaps other peripheral players get more disproportionately impacted by this dynamic. Is that a fair sort of net takeaway?

Josh Scherba

Well, again, I think it's too soon to know the implications. This is an evolving space. I think it's worth noting that we've seen in the past few months that there seems to be an increasing reward on quality content, and as a result, our numbers have improved over the past few months. So there's lots of puts and takes, and I think it's too early to concede that we would see a contraction. All I would say is that we're focused on the long term and to continue to watch this space.

Eric Ellenbogen

I would just add to that, Josh, that one of the things that we've seen—in my case, over decades in media—is that there's always equilibrium in the advertising market and you are rewarded, ultimately, for delivering engaged viewers. And I think that is exactly what's going on with YouTube right now, like the early days of cable television, in a way, eyeballs are not being paid at the same rate as they should given the demographics. And now with contextual advertising, it will ultimately get there. And so I think just picking up on your question, my particular focus is not perhaps what has been done in the past of being all about delivering EBITDA from WildBrain, but rather engage viewers and growing audience. That is really the correct metric for that business, and it's a bit different than our linear telecast business in that respect.

So I just want to kind of underscore that emphasis. And just as banner ads evolved into pre-rolls and the nature of advertising has changed in the medium, it's really, in the final analysis, about audience delivery. And in that, we're making terrific strides and I'm very pleased to see the growth numbers.

Adam Shine

Maybe just a follow-up for you, Eric. I'm not going to push you too hard on guidance which I realize you really don't want to give. But maybe in the context of balance sheet and leverage, I mean, the Company's gone through, I guess, the end of F18 into early F19 with the partial divestiture of the Peanuts stake to help address the balance sheet. Do you see any perhaps non-core assets or any assets that may need to be put on the block just to give you a bit more of a cushion to execute going forward within the covenant constraints?

Eric Ellenbogen

So with that, since he is now three minutes into his job as CFO, I will give that to the esteemed Aaron Ames.

Aaron Ames — COO and Incoming CFO, DHX Media

Hi. What I would say is, we are—we're focused—one of the items we're focused on is improving our balance sheet. And as you've seen, we have reduced net debt significantly to $494.0 million from $726.0 million a year ago and our leverage has decreased to 5.92 times. So—and we're flexible, we're flexible about ensuring that we grow our business. But on the other hand, our balance sheet's very important and we're going to look at various options all the time to enhance our financial position. But overall, what I would say is, we are confident in our ability to manage our balance sheet from a covenant perspective and we'll continue to do what's necessary to grow our business. That's what we're focused on.

Adam Shine

Okay. I'll leave it there. I'll queue up. Thanks.

Operator

Our next question comes from the line of Rob Goff with Echelon. Your line is open.

Rob Goff — Echelon

Thank you very much for taking my question, and welcome, Eric. My question would be perhaps going a little bit further on what Adam had started. With respect to the significant improvement in WildBrain, could you talk to what factors, either external, i.e., at YouTube, or internal, i.e., repositioning, that led to the improved year-over-year growth in WildBrain revenues? And could you talk to the sustainability of that trend rate?

Eric Ellenbogen

So once again, let me give that to Josh. I'm familiar with it but he's been working it for some time now.

Josh Scherba

So, Rob, I would say that it's a combination. Certainly, we've got a great team on the ground with WildBrain Spark who have been growing the business. They've been adding clients to the network. As well, we've been growing our paid media business and our production business over the past year. So those have certainly helped contribute to the growth. But overall, it's driven by viewership, and our views just continue to accelerate. And I think that that's the thing that we continue to focus is how we continue to grow that audience.

And yes, admittedly, YouTube and the algorithm plays an—has an impact on viewership, but we know we're—we believe we're best-in-class at optimizing our content to be rewarded by the algorithm and that's what we're going to continue to do. And I'd also add from, again, going back to what we discussed earlier, quality content for kids will continue to be—is important and will continue to increase in importance for YouTube, and we think we're really well-positioned for that.

Eric Ellenbogen

Yeah. I would just add to that that what's apparent to us, as YouTube has constantly—they're changing an algorithm—but it's about a flight to quality, number one. It has—we are among the beneficiaries of that flight to quality as well as network scale. So the other thing that's happening is that the big suppliers and those who control a lot of the network traffic are benefitting by these changes, and it may or may not disfavor small independents and those who have not been able to aggregate.

So we think fortuitously, the business is positioned in just the right way. And I can tell you that a top priority for me is to accelerate growth in that market to acquire additional views, but more importantly, persistent views, which is one of the things that we're seeing. So it's not just about—like somebody can put up a cat video and get a lot of views, but I would not call those engaged or persistent, and I think it's the quality of the content that delivers.

Rob Goff

Thank you. And as a follow-up, from some of your comments, should I read that you may be more aggressive in pursuing third-party representation within the WildBrain brand?

Eric Ellenbogen

I don't know it's about third-party representation necessarily or agency work. I think that I'm very focused on proprietary brands as well as content in which we have ownership. And I think that what we will also be doing—and this goes to my cliché of 360°—is really become life cycle managers for IP. And you never know where the next hit's coming from. And the great thing about the WildBrain Spark platform is their ability to identify global content that is gaining views and to analyze the data, a lot of data scientists in the Company, and to see the trends. And then to partner with those content creators no matter where they may be, in bringing their content to a much broader audience. So that's one thing that I think that we do exceptionally well both for clients as well as partners.

And it will be more about those partnerships, investing against digital content creation for things that are working, and then managing that really across all media and channels of distribution and consumer products. Maybe that three-minute video becomes and eleven-minuter for linear television. It could be a movie, it could be a lot of other things, but it's really about being a great partner to content owners. So I think it's both. We'll get there in any number of ways, but there is a great focus on proprietary content and that will require investment and aligning all the business units in the same direction.

Rob Goff

Okay. Thank you. Good luck.

Eric Ellenbogen

Thank you.

Operator

Our next question comes from the line of Aravinda Galappatthige with Canaccord Genuity. Your line is open.

Aravinda Galappatthige — Canaccord Genuity

Good morning. Thanks for taking my question, and congrats, Eric, on the appointment. I'll start with a high-level question. Obviously, as you alluded to at the beginning of your call, sort of the true value of DHX is the quality of the IP and sort of the known brands that you're working with. And it can be argued that, what hasn't happened in some of those brands were not taken all the way in terms of development, all the way through to potentially merchandise sales, et cetera. I was wondering, Eric, can you talk a little bit more about your approach as you think about those brands that still have awareness, that still have—although in some cases maybe dated—that still have general awareness in the market, your approach in terms of progressing those sort of to the next level. Would it be sort of a more targeted approach where you pick the three or four brands that you think that have real potential and invest heavily in them? Or would it be a more broad-based approach? I wanted to get your thoughts on that to sort of start with.

Eric Ellenbogen

That's very much in my wheelhouse so happy to take that question. Let me give you an example of one of the things I found when I arrived at the Company. And not pointing any fingers, but Teletubbies, which is a globally known and beloved brand, was relaunched by this Company and now has enjoyed less than $1 million in the last year out of consumer products. That's just ridiculous. It's one of the best-known brands in entertainment and it should command a considerable multiple of that number. And I think one of the things that, frankly, it's sort of suffered from is by bringing a lot of the brands to the market very quickly, by not necessarily brand managing those properties, which are great properties to be sure, but rather going from production directly to consumer products.

And these brands are by no means injured. They need a reset, to be sure, but it's what excites me the most because they have not been turned to account. They are underexploited. One of the first things I did with Josh when I got here was on Strawberry Shortcake, we—and I think it may be the first time, Josh, that this has happened at the Company—is to take that to focus groups, our early development work, to bring the creators together at a summit to really think about the brand and brand strategy before we pull the trigger. And I think it's just a more considerate, planned approach that is designed to maximize the value of the IP.

So just going back specifically to your question, it's not doing 1,000 things. I think that it's an assortment of top brands. I'm actively searching right now for a brands director who will have a important role and a direct report to me and the Company, both to help launch new brands that are created at the Company as well as to manage the pre-existing IP, and also to take a good look at other properties out in the market. As you may know, I've built companies in the past through acquisition of unloved or under-loved brands and reviving them. And so the Company has the talent to do it. We have the AVOD channel, we've got linear television, we have a very powerful consumer products network. And so it's really about pulling together all of those pieces in order to realize the full value of the assets that we have and those that we may launch and acquire.

Nancy Chan-Palmateer

Thank you, Aravinda. Do you have a follow-up?

Operator

Our next question comes from the line of Bentley Cross with TD Securities.

Bentley Cross — TD Securities

Welcome, Eric. And sorry to see you go, Doug. Maybe first question, just a high-level for Eric. Just, other than obviously a higher share price, how will you measure success over the next three, five years, or any time frame that you'd like to choose?

Eric Ellenbogen

So first I would say, let's just talk about the assets. I will measure it by audience growth and EBITDA, but audience growth and engagement in the AVOD business and our WildBrain business. I will measure it by the successful creative launches and relaunches. We're going to be investing considerably in talent and creativity at this Company. I often say we operate at the intersection of art and commerce. There's perhaps been a little too much emphasis on commerce and not enough on art, but that's where the long-term value is delivered is from developing and switching on those brands.

Clearly, balance sheet management. We have a number of options available to us in terms of strengthening that balance sheet, which will give us the flexibility to invest against the brands, and the creativity which I think is key to our success. And ultimately, in those sectors, probably outside of the AVOD space that are more traditional, it will be an EBITDA measurement. So I think that that's sort of a fair lineup of how these things should be evaluated.

I would just add—which is a follow-up, really, to the last question—it's about the switching on and augmenting our success with the brands that we already have in the marketplace. I will say I'm very impressed with the Peanuts content. It is superb and I would congratulate the executives here. Probably the highest-quality, best content ever turned out by this Company or its predecessors, and it sets a high bar but that's the bar that we're going to reach for with everything else that we do here, and I think it's a great opportunity.

Let me just also freelance with another comment, which is, as an American, having worked in the Canadian system for a very long time—I'm in Toronto now, I worked on Kids in the Hall a couple of decades ago—it's an incredible system that has created a robust animation industry. Really amazing talent that has come through here. But by the same token, I think that that system, because so much could be financed just within Canada, has led to a certain type of content that's really good but did not have to compete at a global level. I think that has changed. I think that the Company has stepped up to it and understands that it is about a flight to quality, and that the IP and the expression of that IP and the exploitation of that IP has to be up to global standards. So I think that that's the opportunity and the challenge, and that's the reason I'm here.

Bentley Cross

That's a helpful way of thinking about things. Maybe just following on with that. I mean, both in that answer and then in your opening script, you talked about the need to invest in talent. Obviously, that comes with a cost. And you also highlighted the balance sheet. Just kind of how do you expect to walk that fine line between those two conflicting variables?

Eric Ellenbogen

It is a fine line. I'll let Aaron answer that question. We're already taking measures now but there will be more.

Aaron Ames

So that's exactly the reason why, in accordance with Eric's strategy, we have really focused our management team. And that's why we announced the reorg that's happening, so that we can take a portion of those savings and apply it to the strategies that Eric put forth.

Bentley Cross

Okay. Thanks gentlemen.

Operator

Our next questions comes from the line of David McFadgen with Cormark Securities. Your line is open.

David McFadgen — Cormark Securities

Yeah, hi. Thanks for taking my question. I have a couple of questions on the balance sheet. So when I look at your cash flow statement for Fiscal 2019 year, I calculate your free cash flow is about $11.0 million. And at the end of the year, you have $494.0 million in net debt, so that amounts to basically 2% of your net debt. So I think myself, and I think a lot of other people are kind of wondering how you get yourself out of this situation, just given the magnitude of the debt and the relatively little free cash flow.

Eric Ellenbogen

Yeah, I mean, David, thanks for the question. I think it's a fair question. I think of a couple of points. One, cash flow is improving significantly. We think we can continue to improve that cash flow. And I think as Aaron has said, and maybe Aaron wants to speak to it directly, but look, the Company is very focused on the covenant issue, understands the covenant issue, and is highly confident that that's manageable. Aaron, I don't know if you wanted to add anything.

Aaron Ames

Yeah, I mean, I think to your point, that's why we also announced the reorg and so there's savings there to do that. And our plan is—there's two parts to it—you can't cut your way to profitability, you can't continue to do that, so we're going to grow our business, and we're focused on the premium originals and WildBrain to grow our business. And that's the way we work our way out of this, so. But of course, we will be careful with the balance sheet. And right now, we're confident in our ability to manage the balance sheet from a covenant perspective and we've continued to show that we are making significant progress and strides, and we will continue to do that, and the balance sheet is a significant priority.

David McFadgen

Okay. I mean, even if you stay on side with the covenant, the debt would probably still be quite elevated, but anyways.

Aaron Ames

The way to do that, though, David, again, is growing our business. And that's, as you can see, those are the steps that we're taking to grow EBIDTA and that that will resolve the covenant issue as well.

David McFadgen

Right. So I saw that you guys took fairly significant write-downs. Just wondering, what was the rationale for taking those write-downs.

Eric Ellenbogen

Well, the vast majority of it, David, was related to Strawberry Shortcake. So when the Company acquired the Peanuts assets, a large chunk of the value was attributed to Strawberry in anticipation of a relaunch. So what I would say is that, in terms of long-term potential, I think we're as confident—I'll let maybe Josh could speak to that just in a minute—but I think the Company remains very confident about the long-term potential for Strawberry Shortcake and consumer products associated with it. However, in the short-term, as you're aware, accounting guidance and standards requires that you have visibility on relatively short-term revenue and earnings off of a brand which, based on our short-term outlook, we felt it was the appropriate time to write that brand down.

And just, Josh, in terms of the longer-term non-accounting—

Josh Scherba

I think—

Eric Ellenbogen

—timing issue. Yeah.

Josh Scherba

Yeah. And as Eric alluded to previously, we're taking a more deliberate approach with Strawberry, and we're investing more in research and focus testing to ensure that it's really going to launch and be successful. And so—but that doesn't speak to the accounting, which is the reason for this change or the reason for the write-down, but that has no implication in our long-term value of the property.

David McFadgen

Mm-hmm. How much in that write-down was, say, related to product that you've delivered, say, over the last three years?

Doug Lamb

None of it was related to content. It was all the brand of—none of it was related to Strawberry library content. It was all related to the brand.

David McFadgen

Yeah. But was any of it related to just productions that you've delivered over the last three years or so?

Doug Lamb

No.

David McFadgen

No. Okay.

Doug Lamb

No.

David McFadgen

So it’s quite a dated product, aside from Strawberry?

Doug Lamb

Well, it wasn’t—it was the brand itself, which is what drives consumer product licensing revenue. So it’s quite distinct from any library legacy content for Strawberry. It was all attributed to the brand. So it’s quasi-goodwill, really, but it was—if you think of it that way, it was attached to specifically to the Strawberry brand as opposed to content, library content or—

David McFadgen

Okay. So—

Doug Lamb

It wouldn't have—to get to the point—it would not have—it will not have any impact on EBITDA at this rate.

Nancy Chan-Palmateer

Thanks, David. Well, just maybe having had a couple of follow-ups, if you want to rejoin the queue to—if you ask any further questions, but let's give a chance to some of the others.

Operator

Once again. If you'd like to ask a question, that is *, then 1 on your telephone keypad. Our next question comes from the line of Drew McReynolds with RBC. Your line is open.

Drew McReynolds — RBC

Thanks very much. Good morning. Question on the distribution side of the business. Clearly, we're seeing a whole bunch of elephant SVOD platforms launch in the next six months. Are you seeing a pickup in demand for your library on that basis? Or, Eric, does it require kind of that reinvestment in the brands to get that engine humming?

And a second question just on DHX Television; if you could update us on just the status of carriage renewals, where you are in that cycle. Thank you.

Eric Ellenbogen

Thank you. So I'll let Josh take part of this, but let me just address the tectonic plates. It's a really good development. And I can tell you—as you may know, when I was at DreamWorks, when we were the first company to break with the other studios and sell a pay-one window to Netflix which dramatically helped their business—it's I think the worst-kept secret about the SVOD space, that kids and family content is premiere and important, and it helps the services both sign up new subscribers as well as keep down churn. And we ended up then building a television unit that—I don't know—it may be probably the biggest order in the history of all of television, to serve the Netflix audience.

You know about all the services. Obviously, you've alluded to them. It's sort of an arms race at the moment among the major media companies, both in SVOD and AVOD services. It's all about opportunity for us. So they want quality, they want brands. We've got brands. That's kind of what matters. My observation is a lot less interest in library content, in deep library; they're not serving up as much of that. Although, when they do acquire some of the big brands, the library tends to go with it because audiences, you know, more is more. And you see that, frankly, in all the reboots that are happening in live action. They pick up the libraries as well.

So Josh can speak to that a little bit better, distribution reports to him, but that's my, sort of big-picture view of the opportunity that's available to us. And by the way, we are there with them, and you saw the announcement around Cloudy with a Chance of Meatballs going to CBS All Access, big new player in the market, important player. We like what they're doing. They wanted to pick up a brand; they got one. That's one example. I think that we have Johnny Test—is that announced? No. So I can't tell you about that one right now, but good things in the offing. Let me put it that way before I say something that I shouldn't.

So let me give it to Josh.

Josh Scherba

So, I mean, I agree with all of that. There will be an increasing number of opportunities over the next year. But the emphasis is on premium content, premium originals that differentiate these services from their competitors, and we think we're really well-positioned to take advantage of that. And along with that, there will be library opportunities as we've seen.

Eric Ellenbogen

I'd say, Josh, I was going to add one other thing too, which is, because of Peanuts, because of Cloudy, because of the premium content that is being developed and produced at this Company, we also have in-house some amazing creators and writer-producers who want to do more shows with us. And part of that brand buy that's happening among the services is named content but also named creators. And because of our welcoming architecture for creators and sharing the wealth, we have some pretty great people working at the Company both at studio in Vancouver, here in Toronto, work for us in LA as well. And that's part of what we have to deliver and at scale, too. And also, the capability to put these shows on the air.

One thing you didn't ask about, by the way, and I'll answer a question you didn't ask, which is about what's happening in linear telecast. And the kind of interesting dividend that we're seeing right now in the market, and I saw this at DreamWorks as well, is that the big linear players, particularly outside the United States, are having to compete against the SVODs and so they need dependable, big, quality suppliers. They cannot afford to get in the hand-to-mouth production business where they don't know whether a show is going to get delivered from small suppliers. It's where, frankly, scale and studios and having our own network gives us a considerable competitive advantage. But it's an interesting phenomenon because they really—they need content that has, frankly, been bid away by the SVODs, and it creates a market opportunity for strong players like us.

Aaron Ames

And then, Drew, just to touch on your point on the TV renewals. Our TV channels in Canada continue to do very well. They're delivering healthy margins and steady EBITDA. We are seeing stability in our subscriber base and growing viewership and ratings, which our ratings were up 21% across our channel group this past summer. And this is a really good position for us to be in affiliate renegotiations and those are progressing in line with our expectations. So nothing else to report there.

Drew McReynolds

Okay. Thank you.

Operator

They are no further questions at this time. I'll turn the call back over to Nancy.

Nancy Chan-Palmateer

Thank you very much, everyone. And we look forward to reconvening next quarter on giving you more progress. Thank you. Have a great day. Bye now.

Operator

This concludes today's conference call, and you may now disconnect.