FINAL TRANSCRIPT

DHX Media Ltd.

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DHX MEDIA CORPORATE PARTICIPANTS

Nancy Chan-Palmateer
DHX Media Ltd. — Director of Investor Relations

Michael Donovan
DHX Media Ltd. — Executive Chairman and CEO

Josh Scherba
DHX Media Ltd. — President

Doug Lamb
DHX Media Ltd. — Chief Financial Officer

Aaron Ames
DHX Media Ltd. — Chief Operating Officer

David Regan
DHX Media Ltd. – EVP, Strategy & Corporate Development

ANALYSTS

Rob Goff
Echelon — Analyst

Aravinda Galappatthige
Canaccord Genuity — Analyst

Deepak Kaushal
GMP Securities — Analyst

David McFadgen
Cormark Securities — Analyst

Bentley Cross
TD Securities — Analyst

Eric Wold
B. Riley — Analyst

Drew McReynolds
RBC Capital Markets — Analyst

Adam Shine
National Bank Financial — Analyst

Jeff Fan
Scotiabank — Analyst

PRESENTATION

OPERATOR

Good morning, ladies and gentlemen, and welcome to the DHX Media Fiscal 2019 Second Quarter Webcast. 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 this time, please press *, then the number 1 on your telephone keypad. If you'd like to withdraw your question, press the # key. Thank you.

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

NANCY CHAN-PALMATEER — DIRECTOR OF INVESTOR RELATIONS, DHX MEDIA LTD.

Thank you, Operator, and thank you, everyone, for joining us today. Speaking on the call today are Michael Donovan, our Executive Chairman and CEO; Josh Scherba, our President; and Doug Lamb, our Chief Financial Officer. Also with us and available during the question-and-answer session are Aaron Ames, our Chief Operating Officer, and David Regan, EVP, Strategy and Corporate Development.

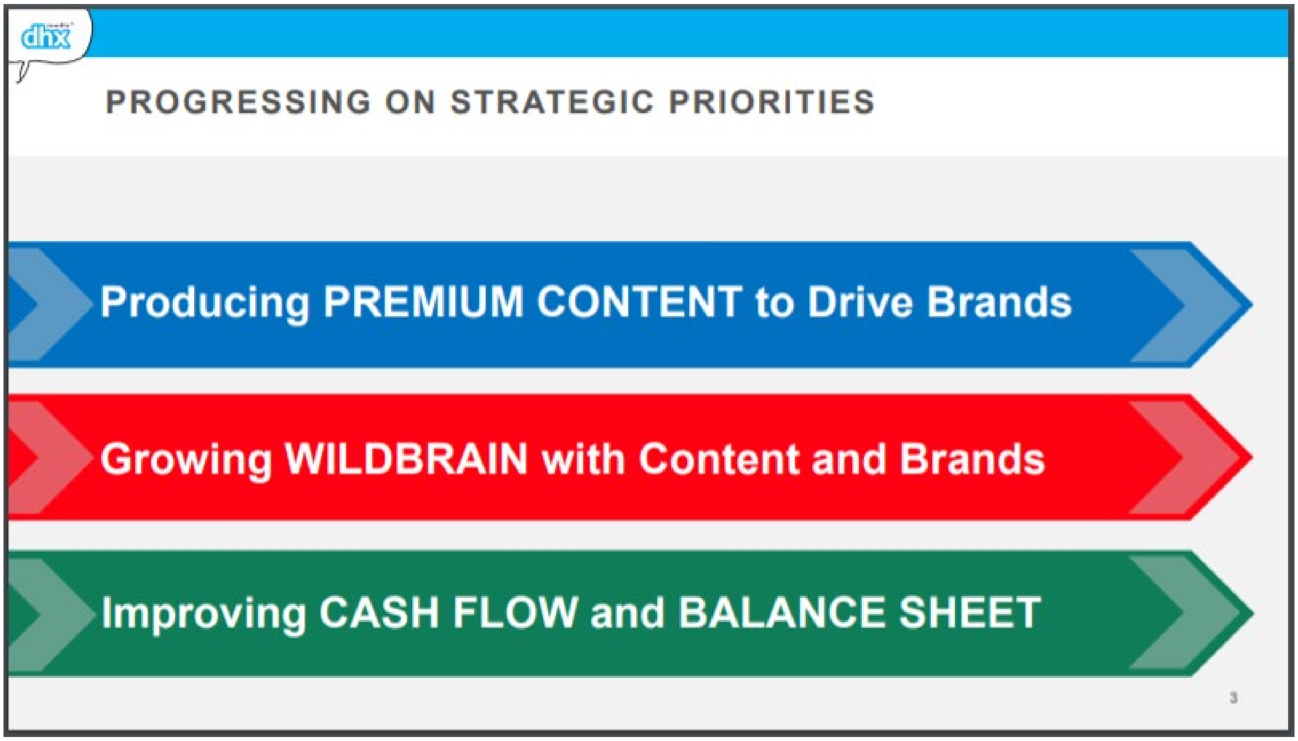
Turning to Slide 2, we have some standard cautionary statements. The matters discussed on this call include forward-looking statements under applicable securities laws with respect to DHX Media, including, but not limited to, statements regarding the Company's strategic priorities and initiatives; expected growth of the Company and its subsidiaries, including WildBrain; distribution pipeline, use of the Company resources, cost rationalization initiatives, and expected results therefrom; the markets and industries in which the Company operates; the business strategies and operational activities of the Company and results therefrom; and the future financial and operating performance of the Company.

Such statements are based on information currently available and are subject to a number of risks and uncertainties. Actual 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 regulatory and contract risk, the ability of the Company to execute on strategic and cost rationalization initiatives, and 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.

Turning to Slide 3, I will now hand the call over to our Executive Chairman and CEO, Michael Donovan.

MICHAEL DONOVAN — EXECUTIVE CHAIRMAN AND CHIEF EXECUTIVE OFFICER, DHX MEDIA LTD.



Thank you, Nancy. And thank you, everyone, for joining us today. In Q2, we made progress delivering against our key priorities, which are:

- one, producing premium content;
- two, growing WildBrain;
- three, reducing debt; and
- four, improving cash flow.

With respect to producing premium content, in this quarter we signed the largest content deal in the history of the Company, a deal which will contribute to EBITDA starting in Q3.

With respect to our second priority, growing WildBrain, WildBrain has continued to post double-digit growth in viewership and revenue.

In the quarter, we also paid down debt of $9.5 million and over $16 million since the beginning of the fiscal year.

And with respect to our fourth priority, we generated $11.6 million in positive operating cash flow compared with negative $1.1 million in Q2 Fiscal 2018.

Additionally, we're seeing green shoots in our initiative to develop new SVOD channels for multi-service operators in the US, having signed one deal with a major player. Discussions are ongoing with other players.

As we have previously discussed, 2019 is a year of transition at DHX Media as we make the necessary investments and decisions across the organization to accelerate growth and maximize the value of our assets in the coming years. These investments include a number of senior hires at WildBrain and in our content business, continuing upgrading of our systems, and the addition of three new board members.

While we are focused on the long term, we thought it was important to note that in spite of these investments and decisions, we are comfortable with the full year consensus for Fiscal 2019 based on our significantly larger pipeline of distribution deals in the second half of 2019 versus the first half. We expect to continue to build on this momentum and grow this pipeline in 2020 and beyond.

In the press release issued earlier today, we announced that the Board of Directors approved initiating a process to reorganize the Company into two subsidiaries. Before we walk through operations, I want to offer a little colour on that announcement.

From a modelling perspective, nothing changes. In its most simplistic form, think of a holding company that owns two unique subsidiaries with different growth profiles and different regulatory constraints. Our objective is to simplify each subsidiary to enable improved focus and strategic flexibility, and we expect to report more in the next quarter and as the process unfolds.

Turning to Slide 4. One of the pillars of our strategy is to produce premium content for the world's leading streaming and broadcast kids' platforms. To that end, in the quarter we signed a landmark agreement for the Company to produce a range of new, original Peanuts content focusing on the characters Snoopy and Woodstock. The agreement is expected to keep our animation studio at near capacity and contribute steady EBITDA for years to come.

Further, we see significant upside to drive Distribution and Consumer Products earnings as new content comes to market.

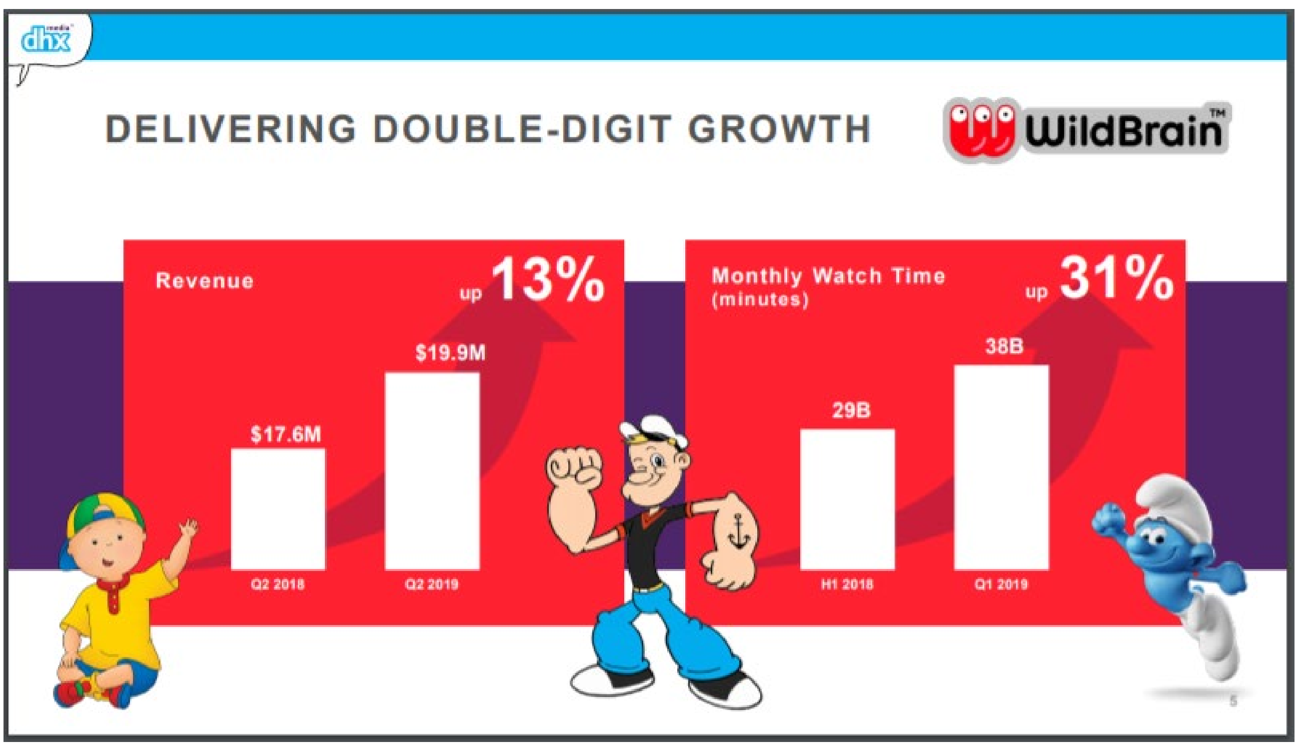
As competition heats up amongst major streaming services and broadcasters, the emphasis will increasingly be on offering viewers the best original series. Premium brands are the key to this formula, and Peanuts is the sixth-largest character brand in the world. In Q2, we saw a 7% increase in Consumer Products revenue from Peanuts, and we signed 66 new licensing agreements. This is the sort of growth Peanuts can achieve, and we believe having new, premium Peanuts content in the market will provide numerous large greenfield opportunities to monetize the brand globally and accelerate growth.

This focus on premium brands is a good illustration of our content strategy going forward. We have reduced production over the last year from 26 to 20 shows, and have sharpened our focus on shows that we believe have outsized potential, particularly with respect to Consumer Products.

That sharpening of our strategic focus has resulted in some short headwinds to Distribution growth. However, by focusing our time and resources behind our best IP, and as well as new content, we believe we will maximize our opportunity to unlock future earnings streams. And we look forward to more announcements in this regard in the quarters and years to come.

Additionally, we're adding resources to our content business to better monetize our substantial library. So, turning to Slide 5, I'll ask our President and head of content, Josh Scherba, to provide an update on WildBrain.

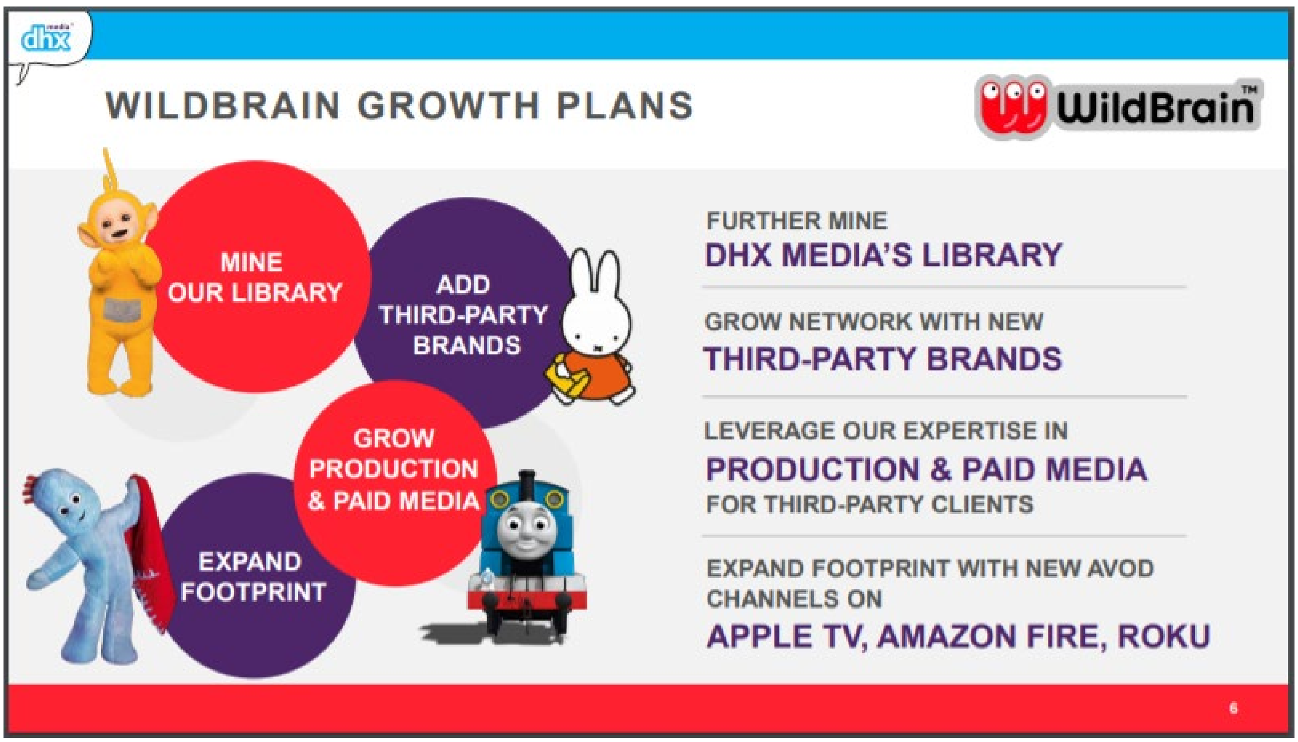
JOSH SCHERBA — PRESIDENT, DHX MEDIA LTD.



Thank you, Michael. Driving growth at WildBrain is also a strategic priority for us, as kids increasingly consume content online through mobile devices and smart TVs. WildBrain continues to grow revenue and attract a large online audience.

In Q2, views on WildBrain increased 29% to 7 billion. Revenue was up 13% to $19.9 million. This was WildBrain's strongest quarter to date with respect to both viewers and total revenue. However, this represented a slowing of the rate of growth compared to prior quarters. That was caused by a number of factors, including management transitions at WildBrain and a shift of kids viewing from the main YouTube platform to the new YouTube Kids dedicated app. We see this slowdown as transitional. In the past, algorithm changes and various other platform improvements have temporarily affected the rate of revenue growth at WildBrain, but ultimately led to better monetization and user experience.

As noted in our press release, these transitions happen from time to time and have been a matter of course for us at WildBrain. We are making necessary adjustments to accelerate growth.



Turning to Slide 6. As we indicated on our last call, we believe we have not begun to scratch the surface of the opportunities at WildBrain, and we are pursuing numerous initiatives to unlock the value of this large and growing user base. These initiatives include, first, mining our large library for new growth opportunities. For example, we recently enhanced our Teletubbies channels with additional new content. Over the last month, viewership across our Teletubbies channels on WildBrain increased from 125,000 views per day to over 450,000 view per day.

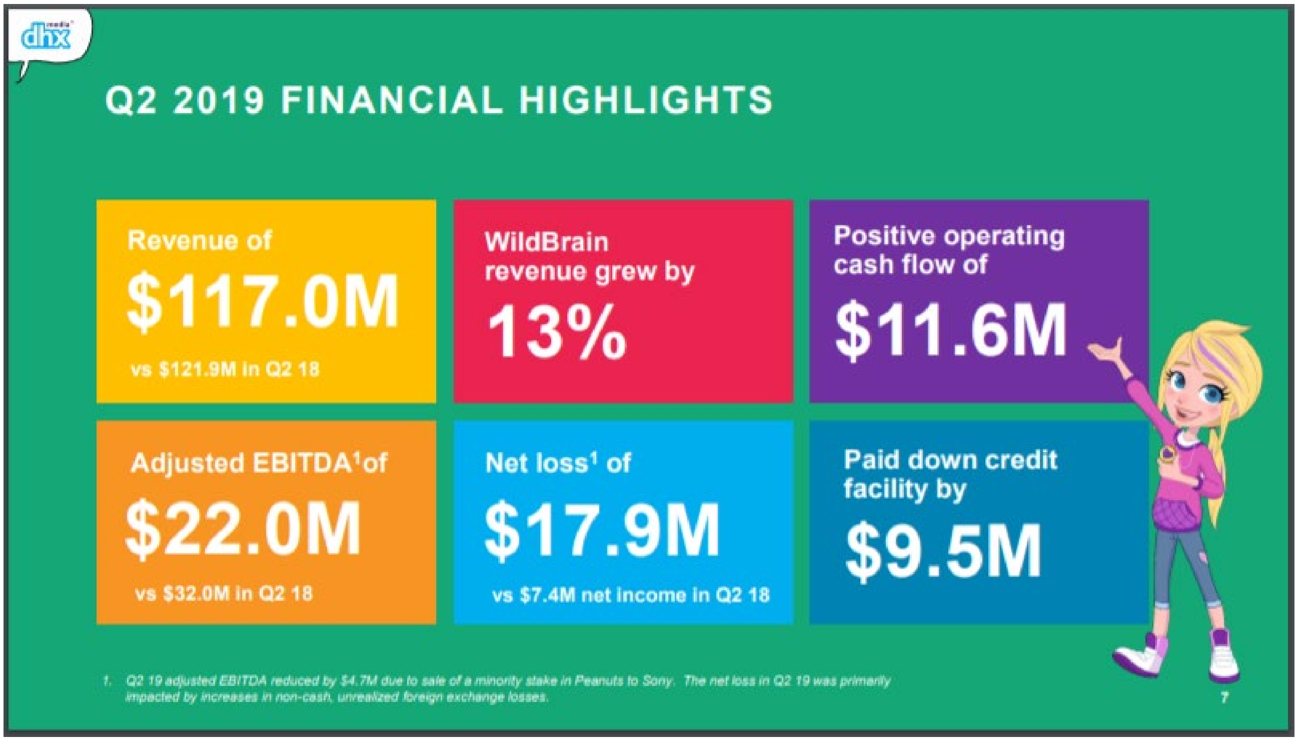
Second, adding more third-party brands. For example, in Q3 we added PLAYMOBILE, Smurfs, and Miffy channels to our network and are engaged in numerous discussions with other IP owners.

Third, growing our production and paid media services business. An example of this is new content we created for the Popeye brand, which we promoted through paid media campaigns to drive views.

Fourth, expanding WildBrain's reach beyond YouTube to additional AVOD platforms, including Apple TV, Amazon Fire, and Roku, and many other opportunities which we will discuss as they evolve.

Turning to Slide 7, I will hand the call to Doug for a look at the numbers.

DOUG LAMB — CHIEF FINANCIAL OFFICER, DHX MEDIA LTD.



Thanks, Josh. Q2 2019 revenue was $117.0 million, down 4% compared to Q2 2018. This was primarily due to a decrease in traditional Distribution revenue, as well as lower Producer and Service fees by $4.2 million as production was wrapped on certain shows in the Halifax animation studio prior to the sale of the studio during the quarter. These declines were partially offset by continued growth in WildBrain revenue of $2.3 million and Consumer Products-Owned revenue of $0.7 million.

Adjusted EBITDA was $22.0 million this quarter compared to $32.0 million in Q2 2018. The decrease was driven in part by a reduction in EBITDA of $4.7 million due to the sale of a minority stake in Peanuts to Sony in the first quarter of 2019. Additionally, due to the fixed cost nature of our library amortization, in periods of low bookings this becomes a meaningful hurdle. As we look to the second half, we expect this to reverse.

Q2 2019 recorded a net loss of $17.4 million versus net income of $7.4 million in the prior year. The decline was in part due to a larger non-controlling interest in Peanuts, as well as $15.5 million non-cash unrealized foreign exchange loss in the second quarter.

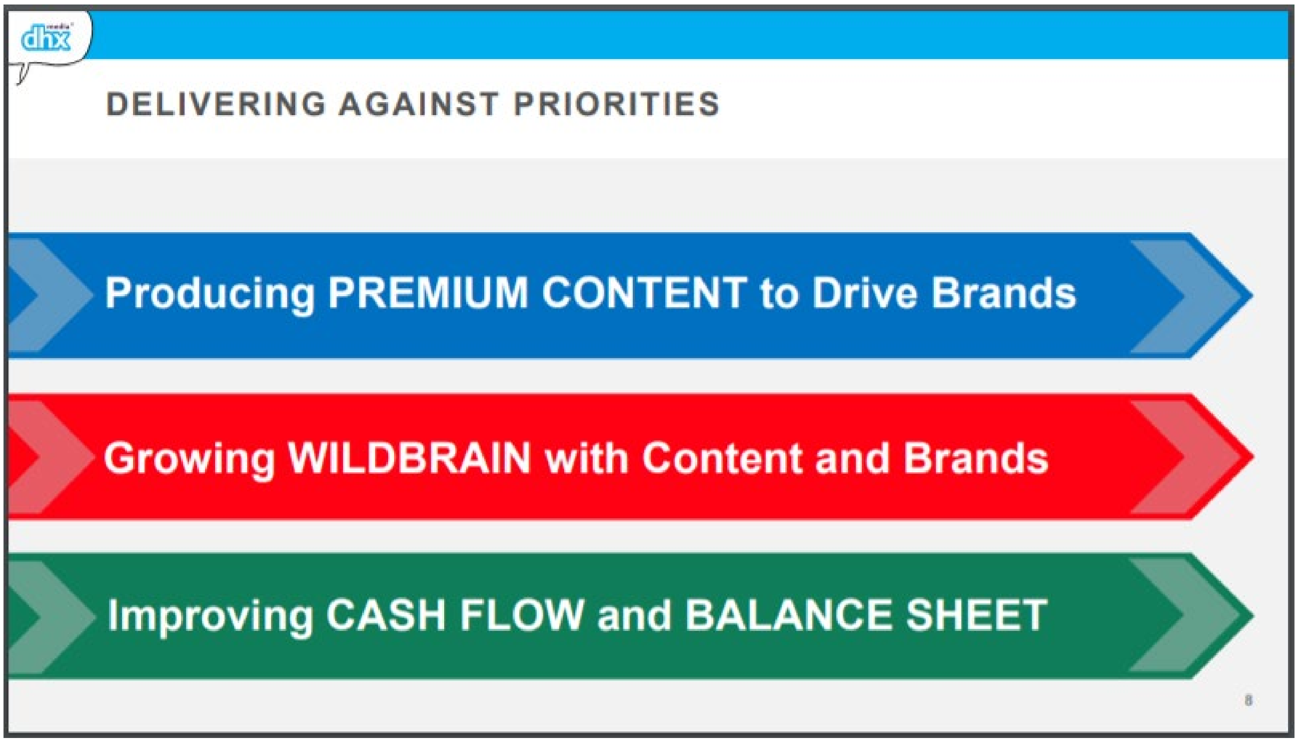
Gross margin declined to 42% in Q2 2019 from 44% last year, largely due to a lower volume of business in traditional Distribution and the increasing share of revenue derived from WildBrain. These factors were partially offset by higher margins in the Television business.

As part of an incremental $5 million in targeted run-rate cost savings, we implemented $3.8 million in further cuts in Q2, primarily related to the sale of the Halifax animation studio. These initiatives are expected to contribute to improving margins beyond Fiscal 2019.

As Michael highlighted, cash from operating activities increased in Q2 to $11.6 million versus a negative $1.1 million in Q2 2018. We also paid down our revolving credit facility by $9.5 million in the second quarter.

Turning to Slide 8, I'll now hand the call back to Michael.

MICHAEL DONOVAN



Thank you, Doug. 2019 continues to be a year of investment and transition. We're making progress against our strategic priorities, we're energized by the new Peanuts deal, and we're excited to pursue further partnerships across our portfolio which sets us up for improving results in the back half of 2019 and the years ahead.

With that, we'll open it up to questions.

Q&A

Operator

Thank you. Again, if you'd like to ask a question, please press *, 1 on your telephone keypad. Your first question comes from the line of Rob Goff with Echelon. Your line is open.

Rob Goff — Echelon

Thank you very much, and good morning. My first question would be on WildBrain. Perhaps if you could dive a little bit deeper into the impact of the algorithm changes and the change of viewership over to the kids' dedicated app and your visibility on when you see an acceleration of that year-on-year growth?

Michael Donovan

Yes. What I'll do is I'll ask Josh to respond, and maybe I'll add at the end.

Josh Scherba

As alluded to in the script, there were a few factors that contributed to the moderation in growth in this last quarter. One factor we did mention is the shift to the YouTube Kids app. Ultimately, we think the YouTube Kids app is a great thing. It's an excellent product. It's COPPA compliant. We know that when parents and kids start to use it, they fall in love with it as a product. And over time, we believe this will be an environment where premium CPMs can be charged.

And in fact, that's happening already. However, there is a transition where those CPMs need to grow and the advertisers need to be educated about the opportunities that are on the YouTube Kids app.

So we think that there's every reason to believe that this is a transitional moment, but ultimately a positive thing.

One other factor we indicated in the script was some changes in management at WildBrain. Certainly for a significant portion of last year under strategic review and with changes to our commercial team, we weren't as active as we typically are out attracting new content to the platform. We're happy to say we've announced recently we made some additional hires on the commercial side of WildBrain, and that's resulting in the pipeline building back up, including recent announcements where we've added Miffy, The Smurfs, and PLAYMOBIL to the network. And we expect more announcements in that regard soon.

Rob Goff

If I may, could we look for improved visibility on those gains with the next quarter? Or is this more of a six- or nine-month getting back on prior trajectory levels?

Josh Scherba

I don't want to handicap the time frame, other than to say that we're positive about the overall trend, and again, the viewing continues to increase. And over time, we believe that there's an incredible amount of underived value from our WildBrain asset.

Rob Goff

Okay. Thank you.

Operator

Your 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. Just staying on the subject of WildBrain, obviously you announced recently and you talked about today sort of the extension of WildBrain beyond the YouTube platform into Apple and Roku, et cetera. Can you just talk to—to the extent that you can right now—the size of the opportunity and what the business model looks like? Is it very similar from a rev share perspective to YouTube? But perhaps more importantly, what that opportunity looks like in terms of size? And connected to that, with respect to the Peanuts Apple deal, can you just discuss to what extent you can still pull in Peanuts content into sort of the WildBrain platform to sort of drive viewership there?

Michael Donovan

Josh, I'll ask you to answer that, Aravinda's first question, please.

Josh Scherba

Sure. So I wouldn't quantify what the opportunity is currently for these other platforms. But what I'll say is that we are really optimistic about where AVOD is going in general. There's a significant increase in opportunities out there.

From a model standpoint, it is similar to how we work with YouTube in terms of it being a rev share. However, there are these increasing number of platforms and we believe there's going to be higher CPMs. They're more containing environments with more premium content around them, so we think that there are opportunities for our AVOD business to grow significantly outside of the YouTube environment.

As it relates to your second question and our premium content initiative around Peanuts, we will continue to have the ability to promote our new premium content on WildBrain, and we think that will be a positive thing for our network. And over time, there will be opportunity for us to do additional derivative content specifically for the WildBrain network.

Aravinda Galappatthige

Thank you. I'll pass the line.

Operator

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

Deepak Kaushal — GMP Securities

Thanks for taking my questions. I just had a couple of follow-ups on the WildBrain side, if I may, and another question on the TV side. Just on the WildBrain side, can you perhaps comment on how the economics are different between general YouTube and now as it moves to the YouTube Kids app? Is there a meaningful change in how the remuneration works for you guys?

Michael Donovan

I'll start with an answer to that question. No, the economics are basically the same, although we expect that over time the economics on the dedicated Kids app will be better than on the main YouTube network because the main YouTube is a de facto giant auction, whereas the dedicated YouTube Kids app is able to provide more targeted advertising. So over time, we expect that to be a higher CPM.

In the short-term, it's the same or even a little bit lower, but in the long-term, it is our understanding, as it's been represented to us, that it will represent an improved CPM, which is only logical because it will provide a much safer environment for families and children.

What's happening is that when one of our shows joins the new dedicated Kids app—and by the way, that happens by way of an automatic process through algorithms—when that happens, we immediately see an uptake in viewership.

But the monetization is a slower process because it's just happening in the last quarter and the quarter before. But hopefully, it'll be completed and producing CPMs that are higher than the average within the next couple of quarters.

Deepak Kaushal

I just wanted to follow up. Do you expect to see YouTube eventually doing direct buys of seasons or series of episodes? Or is that still far down the road?

Michael Donovan

Josh, I'll ask you to answer that. It's speculative.

Josh Scherba

I don't foresee that for the time being. I think certainly AVOD is the model. Rev share is where they've continued to see large growth and an opportunity, and I think that will be the trend that I would expect to see continue.

And to Michael's point, they're working on creating a more premium environment with the YouTube Kids app which can demand a higher CPM, but as is often the case when you're migrating your traffic over advertisers, sometimes lag in realizing the opportunity.

Deepak Kaushal

Okay. And then just going back to the economics on WildBrain, you mentioned deals with Miffy, PLAYMOBIL, and The Smurfs. How do the margins waterfall? Is there a cost for you guys to strike these partnerships up with those content brands?

Josh Scherba

We can't disclose any specifics around those deals, but they are third-party representation deals, so they would follow in line with similar economics to our other third-party representation deals.

Deepak Kaushal

Okay. So similar economics to the other deals. And then I think, Michael, you'd mentioned a paid media promotion on some Popeye content, and I don't know if I understood that. Can you perhaps walk through the logic and the strategy behind that? And, I guess, what the lifetime value versus acquisition cost is for that type of effort and what benefit you get ultimately?

Michael Donovan

Yes. Okay. But I am actually going to ask Josh to do that because that was actually something that he and his team led.

Josh Scherba

Sure. So we've been hired by King Features to essentially reboot Popeye on YouTube, so we've been producing original content with the Popeye brand. Along with that, there's a marketing campaign to help build awareness. And so essentially we run paid media campaigns on our existing inventory of YouTube content to help build awareness to drive views to that content. So this is a service that we occasionally do on our own content, and it's something that we provide to third parties who are looking to build awareness.

And it's something that we've—it's been quite successful for a number of partnerships we've worked with.

Deepak Kaushal

So just to be clear, King Features is paying you guys to create the content and paying you guys to promote it on your WildBrain platform to try to get views for them. Is that right?

Josh Scherba

Yeah. That's correct.

Deepak Kaushal

Okay. That's helpful.

Operator

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

David McFadgen — Cormark Securities

Just a question on the TV business. I believe you guys are in the process of renegotiating your carriage agreements with Bell and then probably some of the other big distributors later this year. I was wondering if you could give us an update on how that's going?

Michael Donovan

Okay. Thank you, David. Aaron, our COO, will answer that.

Aaron Ames — Chief Operating Officer, DHX Media Ltd.

Negotiations on that are progressing in line with our expectations. And as we talked about in the discussion before, we've continued to maintain healthy margins and steady EBITDA from our TV business by exploiting our own content library and controlling costs, and as well as we're seeing some improvements in advertising as well.

So things are going pretty well.

David McFadgen

So do you know when you expect to have, say, the Bell deal finalized? I mean, I think everybody that I speak to thinks that you're going to be taking somewhat of a cut in the revenue per sub, and we're just wondering what that decrease would be, the magnitude.

Aaron Ames

We're not going to speculate or comment on that, and negotiations are progressing in line with our expectations.

David McFadgen

Okay. Maybe if I can ask one other question. Is there any reason why you don't want to disclose the WildBrain EBITDA? That would be really helpful for all of us to put a value on it. It's my understanding that some of these YouTube AVODs don't really make a lot of money, but maybe your situation is different. So if you could help us out with that that would be great.

Michael Donovan

I'll ask Doug to answer.

Doug Lamb

The way we look at it, David, is WildBrain is an integral part of the content business unit. Obviously, we're sharing content from our library with WildBrain. We're selling it separately as from a distribution—in terms of distribution contracts, so we kind of view it as an integral extension of the library. And that's why it's part of the content business unit. It is producing healthy positive EBITDA I would add too.

And we continue to feel optimistic about the long-term prospects, as Michael and others and Josh have mentioned.

Michael Donovan

Yeah. Because of the fact we have such a large library, it makes a material difference in our ability to deliver EBITDA into WildBrain, giving us a comparative advantage in the space. Also, I think that the children's space is a unique and possibly more profitable niche in the whole YouTube space. I don't know that for sure, but we can say that for us, it is.

David McFadgen

Mm-hmm. I mean, if we could still get the EBITDA it would be really helpful for us. Even if you could just even put some parameters around why it is, what it is, that would be helpful.

Michael Donovan

Okay. Well, we'll take that note and get back.

Operator

Your next question comes from the line of Bentley Cross with TD Securities. Your line is open.

Bentley Cross — TD Securities

I first wanted to ask on the leverage front. Michael, it was kind of you to offer up that you think you're comfortable with the consensus outlook for EBITDA, but I'm wondering how that dovetails into the leverage outlook, especially relative to your previous targets?

Michael Donovan

Doug?

Doug Lamb

I think as we alluded to, Bentley, we're seeing we've got a stronger pipeline now than we did six months ago in Distribution. And on the back of that, we feel pretty comfortable with the outlook for EBITDA in the context of leverage and covenants. And I think that's kind of basically what I would say on that.

Bentley Cross

So just to really drive that home should we assume that we're going to—kind of this is peak leverage at this point and we should see reductions from—

Doug Lamb

Well, yeah. I think what I would say is you may see a slight increase next—I mean, we're up against a very strong quarter last year from Distribution perspective in Q3, so it's possible, it's conceivable you may see it creep up a bit more.

But beyond that, I think our expectation is it would continue to come down.

Bentley Cross

Okay. That's helpful, Doug. And then just on the idea of the separation, my main question there is why now? Having just gone through the strategic review, it just seems like somewhat odd timing.

Michael Donovan

So it's something that we've been reflecting on for actually over three years. We've focused most recently on operations; on restriking our production slate, dividing it between premium content and AVOD—low-cost, fast content, if you will—and we've been focused on blocking and tackling in so many ways, so more strategic things had to take second place.

But now as we are producing cash flow, and that's the plan going forward, positive cash flow and our expectation, the Board decided it was time now to relook at the division of assets in the Company between ones that are regulated and subject to regulatory constraints really primarily in Canada, and then our more international assets not subject to regulatory constraints. And in order to unlock value, we've decided to look at how to internally restructure.

But the key headline there is nothing really changes. The Company remains the same, just a reassignment of assets so that we can refocus and really focus on bringing the right resources and the right management to the right assets with the right growth profile, if you will.

Bentley Cross

And will that just essentially be the TV business and everything else?

Michael Donovan

No, no. Certain of our assets are subject to regulatory oversight in Canada, but primarily you're right, primarily the television. But there are some other few assets. The majority of our assets, for example, Peanuts or Teletubbies, Inspector Gadget, are international assets. WildBrain is located in the UK, et cetera.

Bentley Cross

Okay. Thank you, Michael.

Operator

Your next question comes from the line of Eric Wold with B. Riley. Your line is open.

Eric Wold — B. Riley

Thank you. Good morning. Just a couple questions. One, you mentioned that the Peanuts agreement will start recognizing revenues in Q3. Is that solely related to an up-front payment? Or maybe give us a better sense of the cadence of when new deliveries will start the agreement and more of a steady-state EBITDA generation?

Michael Donovan

Because we're already producing those shows. They've gone into … they went into production almost immediately upon announcing that we had entered into the agreement. And so, therefore, almost immediately the process of being able to recognize revenues and earnings has begun. That's why.

Doug Lamb

I think Q3'll be the—

Eric Wold

Okay.

Doug Lamb

Yeah. There wasn't any material revenue to date. And so as that ramps up, you start to see greater impact, but it's spread over a year and a half to two years, right?

Eric Wold

Perfect. And then lastly, you mentioned in your opening comments comfort with full year consensus estimates. Was that around adjusted EBITDA or some other metric? And then given everything that's kind of being taken hold in the back half of the year on cost cuts and the new agreements ramping up, does the back half of the year become more of an appropriate run rate looking into next year versus the first half of this year?

Doug Lamb

I think what we're trying to signal is that we see the back half EBITDA will be some—certainly won't be any worse, and we expect it to be somewhat better than what we saw in the first half. And I think based on how we're seeing momentum build, we expect momentum to continue to build beyond 2019.

Eric Wold

So the comfort with consensus estimates for full year was related to EBITDA consensus?

Doug Lamb

Yeah.

Eric Wold

Perfect. Thank you.

Operator

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

Drew McReynolds — RBC Capital Markets

Yeah. Thanks very much. Most of my questions have been answered. Just maybe for modelling purposes, Doug, Producer and Service Fee revenues with the sale of the Halifax studio, wondering if you can kind of square off where that lands stripping out that studio? And just on the production slate, any chance you can give us a little bit of a range on just the number of episodes now that's kind of a sustained level for your production slate going forward? Thank you.

Doug Lamb

In terms of the service business, I think from an EBITDA perspective, we expect to see improvements in the studio business as a whole. We don't necessarily want to start predicting service versus proprietary because the two are linked.

But I think overall we're going to see better margins and improved EBITDA on the back of the Peanuts deal and that studio, particularly the Vancouver studio at optimum capacity, whereas Halifax was actually contributing a loss in the current year. So having eliminated that, we'll see improvements in EBITDA.

Drew McReynolds

And on the production slate, just in terms of what the size of it looks like relative to prior years, is that something you can kind of help us with?

Michael Donovan

Production slate has dropped from 26 episodes this time last year to 20, about a 25% decrease because I think that's a message we want to communicate that what we've done is reduce production. That's affected a number of areas, for example Distribution, for example margins. But it's allowed us to focus on the shows that we think have the greatest potential, particularly with respect to Consumer Products. That's really what we've done. We've pulled back the levers of production by not a huge amount, but by a material number so that we can focus. And we think we have the greatest chance for success by focusing on mining our library, particularly such shows as Strawberry Shortcake. That's a very high priority in this company going forward. And we see it as a potential winner.

But we feel the Company needs to focus. And also we've brought resources. Not only have we pulled back production, we've brought resources to the creation process and to the content process inside this company at every level. So that's the message which we think is important for investors to get. That's a key difference.

And one last thing, that focus has been disproportionately on premium shows because that's what the market wants now. And also, those shows have the best cash flow and capital use profile.

Drew McReynolds

Maybe one final one for me back to you, Doug. Appreciate some of the commentary around consensus EBITDA and leverage. When you look out the next couple years, what does the contribution to delevering look like between free cash flow generation and EBITDA growth? Are you leaning on one over the other? Is it a combination of the two? Just some guidance there would be great.

Doug Lamb

It's hard to put specific numbers on it, Drew, but suffice it to say I think like we feel momentum is building and so growing EBITDA obviously is going to be a component of reducing leverage. But we're also prioritizing—we will continue; I think we've done that in the last couple of quarters—but we will continue to prioritize free cash for debt repayments. So I see it as a combination of the two.

Drew McReynolds

Okay. Thank you.

Operator

Your next question comes from the line of Adam Shine with National Bank Financial. Your line is open.

Adam Shine — National Bank Financial

Thanks a lot. Maybe just going back to the nature of monetizing the library and the context of the traditional Distribution revenues coming down, I mean we know that we're coming off a very nice runway in regards to SVOD strength. But maybe, Michael or Josh, can you speak to that a little bit? And then just flipping over for Doug maybe, working capital was much better both sequentially and obviously looking at the trend of a year ago. Any timing issues to sort of think about or just some improvements there period to help drive some free cash flow in this period?

Michael Donovan

Okay. So, Doug, you can answer that last question, but I'll answer the first question first. And then, Josh, I'll ask you to join. The overall trend in the markets continues up because it's driven by more and more entrants. For example, we announced earlier the entrance of Amazon Fire and our own engagement with Roku. There's a trend of—or the arrival of Disney or NBCUniversal's announcement. So the trend is toward more entrants into the space, and that is creating more demand. And it's those trends.

Now, I've been in this business for a very long time. I've never seen it change so quickly so often. So you have to be really nimble to realize where the opportunities lie. And we're always asking how can we monetize what our greatest strength is we feel, which is our legacy library, into new changing environments? But generally, that's the trend.

So with that, I'll turn it over to Josh.

Josh Scherba

I think just to add, in general there's a lot of positive news about these new entrants coming on. But it is early stages for a number of them, so it's going to take time for them to come online and to really get involved in acquiring significant content. But overall, the trend is in the right direction.

And I mean, you alluded to it, Adam, that we certainly rode the trend of SVOD services expanding with our library and now that the shift particularly for Netflix is on original content, but over time these things go back and forth. And we think that the library still provides great value for these services in terms of the views they get versus what it costs compared to brand-new original fully owned content.

So we're confident in the long-term value of the library.

Adam Shine

But, Josh, maybe just on that last point, if I can push you a little bit. I mean, obviously we could acknowledge that the nature of proprietary production by the Netflixes and a few other of these SVOD players creates a bit of a crowding out of just buying everything previously. Are we seeing some pressure in regards to pricing at all as an incremental function here? Or is this perhaps even one of these temporary moves as in the early 2000s before, once again, a resetting of value?

Josh Scherba

For content that these services want and know what works, we're not seeing any pricing pressure. They're still certainly paying off. And you can see that with what they're doing with premium content. And same goes for library. That really works.

It's just there is this moment while these new services come on board of increasing more competition. We think there will be a moment when they all come online and that will help with the value of the library once again, but we're not seeing pricing pressure with the incumbent SVOD services at this point.

Adam Shine

Okay. Thank you. And, Doug?

Doug Lamb

Yeah. Just in terms of cash flow, I think we've made a number of—like obviously that's been a big focus for us is ensuring that we continue to generate positive cash flow. I think we've streamlined our production capacity, we've focused our production slate, and just making sure we have the discipline to make sure we've got finance plans in place before we start production. And I think those factors and others have helped improve cash flow.

I don't think there's anything unusual one way or the other in the most recent quarter, and I don't envision anything in the near term. I think it's just really being disciplined and focused on cash flow as one of the metrics we measure the success of our business on.

Adam Shine

Okay. But maybe in fairness, I think one of the earlier questions suggests or the answers to one of the earlier questions on leverage suggested that we're not necessarily quite at peak, but nevertheless EBITDA is poised to climb in the second half. So perhaps there's some degree of some timing issue in terms of negative free cash flow perhaps emanating in the back half, rather than necessarily a big contribution in, let's say, Q3 or Q4 on the free cash flow front. Is that a fair way to assess what was said earlier?

Doug Lamb

Well, I think my comment on the covenant potentially creeping up in Q3 was more a bigger quarter from last year rolling off as opposed to any deterioration in cash flow relative to the first half of this year.

Adam Shine

Okay. Okay. No—

Doug Lamb

And it's not really. The covenant cash flow has a minor impact on the covenant. Obviously to the extent we pay down debt it helps, but EBITDA is the key factor.

Adam Shine

Absolutely. Okay. Thank you.

Operator

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

Jeff Fan — Scotiabank

Thank you. Good morning. Just a few to finish off. On WildBrain, I'm wondering if you can give us some colour on the mix of content that you are seeing viewership on between your own content versus third party? And just give us some perspective on how that has changed maybe from last year? Any kind of trends or perspective, that would be helpful. And then just on the quarter itself, with the revenue down—with the revenues slowing, just wondering how the viewership that's begun on WildBrain for the quarter if we compare it to last year, just because of the comments around CPM, I'm just wondering what the puts and takes are in terms of the key drivers in that revenue growth slowing? And what really drives it to reaccelerate again from the current level of growth?

And maybe we'll start there, and then maybe a question on margin for WildBrain just how things have changed. I mean, as you might be adding more third-party content is the margin stable? Is it going up? Or is it going down? I think it may be just a follow-on to the prior questions about WildBrain margins, any colour. Thanks.

Michael Donovan

So once again I'll start and, Josh, if you could add. So first of all, growth in revenue—or in viewership, I should say, at WildBrain was up, as we reported in the quarter, by 29%. So the viewers around the world are increasingly adapting and adopting this new technology. And we see, in our view, that's just beginning and that AVOD is the technology of the future. Why? Because it's free. And free is the model that traditionally worked in television, and we believe will be the model of the future as well, as it has been of the past.

And we think we're just 1% or 2% of the way there to the implementation of this new version of TV. It's a complicated delivery system through the internet using algorithms, using computers, and then we're going through a transition from the main platform for kids to the dedicated app, which is, of course, a much, much safer environment; something we see as an absolute positive.

Now the various ways in which we are trying as we're adapting to that we've discussed as well, but I think I'll let you elaborate on that, Josh, please.

Josh Scherba

So just to pick up because there were a few questions in there, I think there was a question about the split of content between third party and original. We don't disclose exactly what that split is, but we have grown the third-party representation certainly over the past year.

The other component has been original content that we're creating for WildBrain that has been growing, and that would be growing our proprietary, as well as the content that we're producing for third parties. So we have a production component that we end up managing as well for others. So those are kind of the three components of content and how we make up the overall network.

Remind me, I think there were a few other questions in there.

Jeff Fan

No, just the final question on the margin. I guess as you change from your own library to more third-party content how the margins change?

Doug Lamb

I think I would say, Jeff, that we continue to push our own content like by further mining our library and have a focus on growing the third-party part of the business. So both parts, I think, are growing. If you had to place a bet, I think we believe that the bigger opportunities for growth are probably on adding more and more third-party content and services.

And so I think over time those margins will come down a little, but we don't see big swings.

Michael Donovan

I'm just going to add that we see increasingly WildBrain as a platform for building brands. And that means building our brands by building third-party brands.

Jeff Fan

And maybe just one quick follow-up on the switch from the main platform to the dedicated app. When do you expect the CPM level to kind of get back to where you were under the main app?

Michael Donovan

We don't know exactly, but we can say one to three quarters. But we don't know.

Jeff Fan

Okay. Thank you.

Operator

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

David McFadgen

Just to follow up just on the YouTube dedicated app, is there any issue for you to migrate your content over to the dedicated app? Or are there any problems bringing the content over? Or it's just a matter of time getting the viewers there and so on?

Michael Donovan

Josh?

Josh Scherba

Yeah. So there's no issue with the content migrating over to the app. That's happening, and we're seeing an increase in viewership across it. It's really the monetization of that asset that's currently lagging. So it's an education process of getting advertisers to shift their dollars over from big YouTube over into this more premium COPPA-compliant environment.

And we expect that will happen, but it's all happening in real time, and we think it's a transition for it to get there.

Operator

This ends the Q&A portion of the call. I would now like to turn the call back over to Nancy Chan-Palmateer for closing remarks.

Nancy Chan-Palmateer

Thank you, everyone, for joining us today. And we look forward to updating you on the next quarter of our progress.

Thank you, and have a good day.

Operator

This concludes the DHX Media Fiscal 2019 Second Quarter Webcast. We thank you for your participation.

You may now disconnect.