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DHX.B.TO - Q4 2017 DHX Media Ltd Earnings Call

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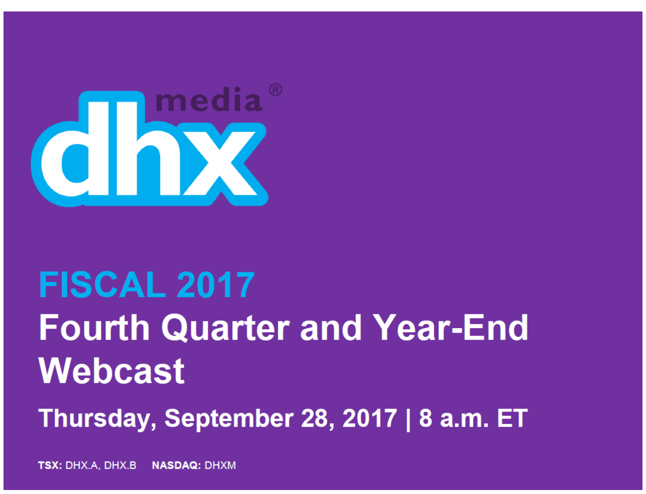
PRESENTATION

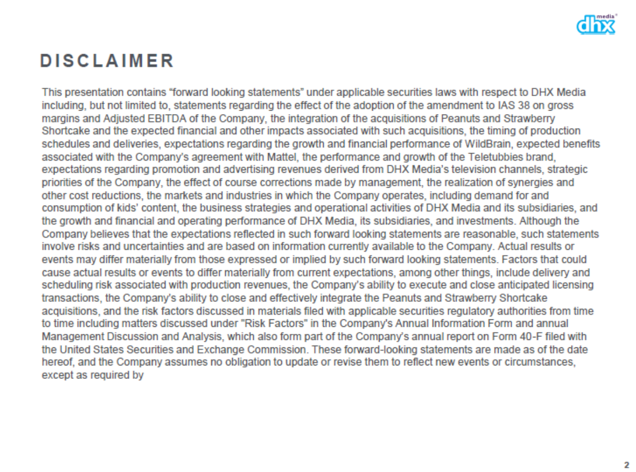
Operator

Good morning, ladies and gentlemen, and welcome to the DHX Media Fiscal 2017 Fourth Quarter and Full Year Earnings Webcast. (Operator gives instructions.) 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 - *DHX Media Ltd. - Director of IR*

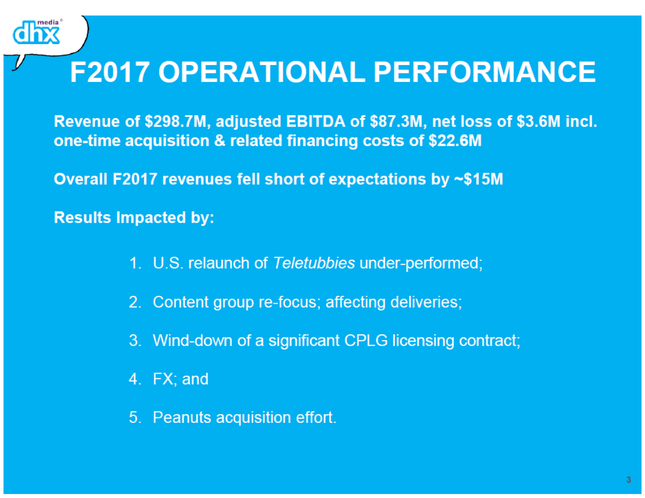
Thank you, Operator. And thank you, everyone, for joining us this morning. Speaking on the call with us today are Dana Landry, our Chief Executive Officer; and Keith Abriel, our Chief Financial Officer. Also with us on the call and available for questions and answer during question-and-answer session are Michael Donovan, our Executive Chairman; David Regan, our Executive Vice President of Strategy and Corporate Development; and Josh Scherba, our Executive Vice President of Distribution and Content.



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 effect of the adoption of the amendment to IAS 38 on gross margin and adjusted EBITDA of the company, the integration of the acquisition of Peanuts and Strawberry Shortcake and the expected financial and other impacts associated with such acquisitions, the timing of production schedules and deliveries, expectations regarding the growth and financial performance of WildBrain, expected benefit associated with the Company's agreement with Mattel, the performance and growth of the Teletubbies brand, expectations regarding promotion and advertising revenues derived from DHX Media's TV channel, strategic priorities of the Company, the affect of the course corrections made by Management, the realization of synergies and other cost reductions, the markets and industries in which the Company operates, including demand for and consumption of kids' content, the business strategies and operational activities of DHX Media and its subsidiaries, and the growth and financial and operating performance of DHX Media, its subsidiaries and investment. Such statements are based on information currently available and are subject to a number of risks and uncertainties. Actual results or events in the future could differ materially and adversely from those described in forward-looking statements as a result of various important factors, including the risk factors set out in the Company's MD&A and the company's AIF, Annual Information Form, which also form part of the Company's annual report on Form 40F.

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 a question. If you would like to ask an additional question, please rejoin the queue.

Now turning to Slide 3, I will now hand the call over to our CEO, Dana Landry.



Dana Landry - *DHX Media Ltd. - CEO*

Thank you, Nancy. And thanks everyone for joining us today. Management is sorry and disappointed to be reporting that revenues were down 2%on a year-over-year basis for Fiscal 2017 to $299 million. Adjusted EBITDA was also off, coming in again at $87.3 million or down 16% year-over-year. These results are not acceptable to Management, and we would like to provide reassurance to investors, who after many years of solid growth expect stronger performance from DHX Media, that we have identified the issues and have taken immediate corrective measures.

The shortfall arose from localized issues relating to execution and were specifically impacted by five factors: Teletubbies' delayed performance in the U.S. market; number two, our execution on the content side; number three, the winding down of the significance CPLG licensing contract; number four, foreign exchange rates; and number five, distraction due to our Peanuts acquisition effort.

I'm going to now invite Keith onto the call to build a bridge to our revenue and gross margin shortfalls. This will ladder up to our numbers in our Fiscal 2017 MD&A. Keith?

REVENUE BRIDGE A

Two live-action shows abandoned	$2.5 M
CP Represented contract ending	$3.5 M
Teletubbies U.S. underperformance	$3.0 M
Slate slippage and timing on distribution	$3.0 M
Reclassification to net	$2.0 M
FX and other	$1.0 M
TOTAL	$15.0 M

REVENUE BRIDGE B

Strategy course corrections	$2.5 M
Timing	$2.0 M
FX and reclassification	$3.0 M
Underperformance	$7.5 M
TOTAL	$15.0 M

GROSS MARGIN BRIDGE

Revenue shortfall	$9.0 M
Higher third-party distribution	$5.0 M
Teletubbies U.S. underperformance	$2.0 M
Production service margins	$2.0 M
TOTAL	$18.0 M

Keith Abriel - *DHX Media Ltd. - CFO*

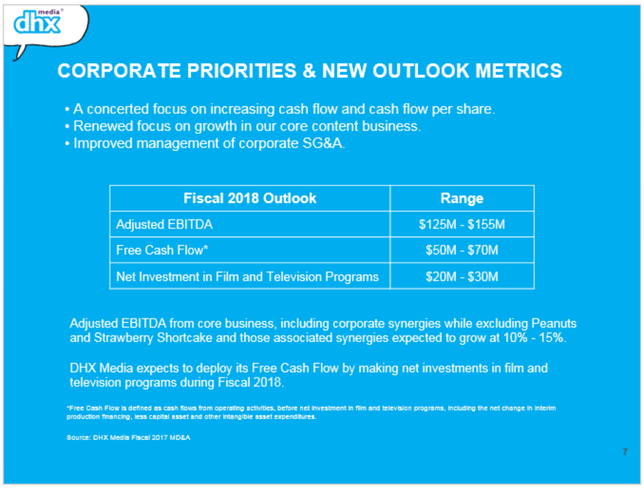
Thank you, Dana. And thank you to everybody for dialing in today. The revenue shortfall for the quarter was approximately $15 million. This is comprised or broken down as follows: Approximately $2.5 million related to two live-action shows that were abandoned late in the quarter; approximately $3.5 million related to consumer products represented revenues and a contract that had ended; $3 million related to the underperformance of *Teletubbies* in the U.S.; approximately $3 million related to the impact of the slate slippage and certain timing impacts on distribution revenues; approximately $2 million related to the reclassification of certain revenues on a net basis; and approximately $1 million related to FX and other impacts, for a total of $15 million.

In looking at this revenue bridge from another angle and breaking it down another way, approximately $2.5 million of that was related to strategy course corrections; approximately $2 million of that was related to timing; approximately $3 million of that was related to foreign exchange, the reclassification previously mentioned and other factors; and approximately $7.5 million of that was related to the underperformance of various business units, for a total of $15 million.

In looking at the gross margin bridge, the expected gross margin short -- the approximate gross margin shortfall was $18 million; approximately$9 million of that relates to the EBITDA flow-through of the impact on the revenue shortfall; approximately $5 million of that relates to the impact of higher-than-expected third-party distribution revenues, which carry a lower margin; approximately $2 million of it relates to the underperformance of *Teletubbies* in the U.S.; and approximately $2 million of it relates to lower-than-expected production service margins for a total of $18 million.

With that, I will hand it back to Dana.

Dana Landry - *DHX Media Ltd. - CEO*



Thanks, Keith. For those following along on the slide deck, we're now turning to slide 7. Management has now undertaken a comprehensive review of the Company, and we've reset our corporate priorities to focus our energy on creating content, leveraging our extensive library and driving consumer products to increase cash flow and cash flow per share, while improving our management of corporate SG&A.

Based on these three -- sorry, these core priorities, management is providing the following new outlook metrics for fiscal 2018. Those metrics are as follows: Fiscal 2018 outlook for adjusted EBITDA is a range of CAD $125 million to CAD $155 million. It is very important to communicate at this point the following key estimates that work into the adjusted EBITDA range: First, the range has been calculated in CAD using a spot rate for U.S. dollars at 1.23. As a comparison, this rate was $1.35 near fiscal year-end. This hits across multiple revenue streams, some more than others. It's unfortunate, but is outside of Management's control. The net is a drag of $10 million to $15 million on this range. So, for example, the midpoint would move from $1.40 to $1.50 to $1.55 should we be using the higher spot rate, which is generally in line with consensus leading up to these results.

Additionally, estimates include growth of 10% to 15% on core DHX business; plus $4 million of the $11 million synergies, now estimated for the go-forward, $4 million of which affect Fiscal 2018; plus modest growth in *Peanuts* and *Strawberry Shortcake* is assumed to be flat. All these assumptions and estimates are compiled using prudent assumptions.

Further, we've included for the first time in our outlook a free cash flow range. I'll guide you to the MD&A for a description and definition of that, the range of which is CAD $50 million to CAD $70 million, and an estimated net investment in film of CAD $20 million to CAD $30 million.

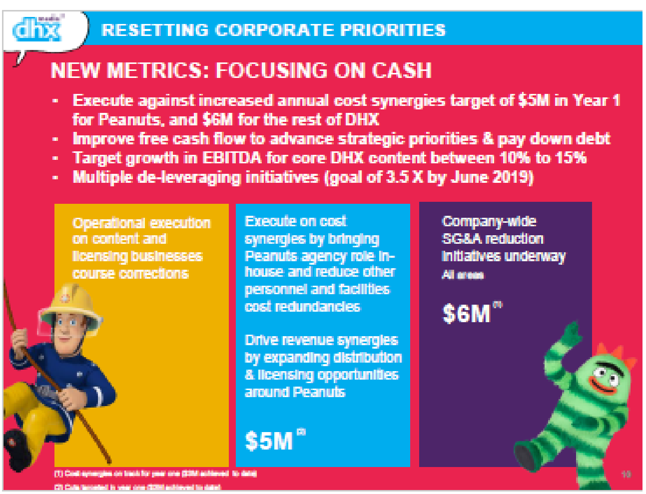
Turning to slide 8 now. First, I'll discuss how we've refocused and realigned our content business. We've integrated our Content and Distribution Management under a single veteran team, promoting Josh Scherba to the position of Executive Vice President of Content and Distribution, and Anne Loi to the position of Executive Vice President, Global Operations. Together, Josh and Anne are responsible for all content, studios and distribution group operations, and will employ their considerable expertise to identify and exploit trends and opportunities in the kids' and family content market, focusing on our best properties.

We are also taking a data-driven approach to content development by exploiting WildBrain's access to extensive user analytics. In summary, the strategy forward for Content is as follows: Leveraging DHX Media's existing production platform, our main content focus will now be: First, pursuing branded premium content, generally larger budgets, focusing on our core IP and driving consumer products; and continuing to drive growth in WildBrain by producing lower cost, more efficient content, data-driven, following the trend specifically for the AVOD network and focusing on return on invested capital.

Turning now to slide 9. We will now look at how we are reshaping our licensing business. While the launch of the *Teletubbies* in the U.S. has not yet gained traction, *Teletubbies* is performing ahead of Management's expectations in the United Kingdom, where the brand continues to occupy a top five position, based on toy sales. Management is further encouraged by the early signs for the *Teletubbies* in Germany and also in China, where the new series has received almost 50 million views since launching on streaming platforms last June.

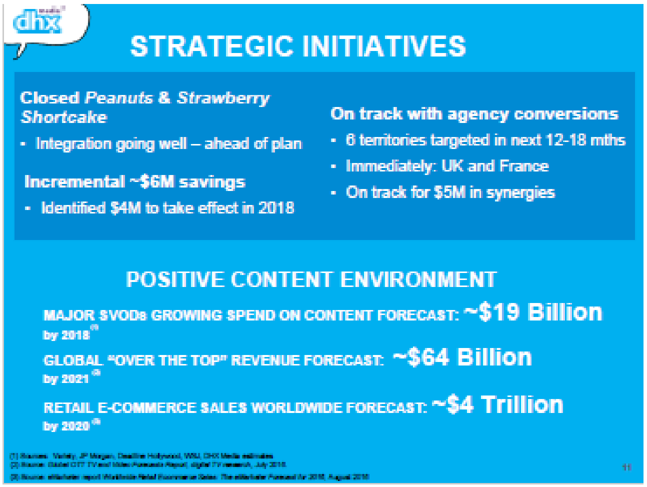
Turning now to our corrections. We have signed on most of the Peanuts Worldwide team, headed up by Roz Nowicki, an industry-wide veteran with deep experience having worked previously on such brands as The Simpsons and the Cabbage Patch Kids. We have also now closed our L.A. office and going forward, we will be centralizing our U.S. licensing activities under Roz's leadership out of the Peanuts Worldwide office in New York, set to open in October. We've been impressed with the Peanuts Worldwide team so far, and we'll be looking to leverage the scale of that business and the team's relationships across all DHX Brands activities.

On the agency side, Peter Byrne is refocusing his efforts on CPLG as we turn our laser focus on repatriating *Peanuts* and *Strawberry Shortcake* licensing contracts and achieving on our integration synergies.



Turning now to slide 10. In Fiscal 2018 and beyond, we will focus on generating free cash flow in order to de-lever rapidly. And as discussed earlier, we will measure our progress and EBITDA on an annual basis. To-date on the *Peanuts'* integration side, we have realized $3 million in cost synergies following the *Peanuts* acquisition, and are on-track to achieve $5 million in targeted cost synergies for year one. Our longer-term target is still set to achieve $25 million in cost synergies by the fifth year.

We have identified six key territories to repatriate third-party Peanuts agency contracts to CPLG. The first agency conversion is expected by the end of calendar 2017, with two more targeted for calendar 2018. Furthermore, we also recently initiated an incremental SG&A cost-reduction program, and have already achieved cuts of $3 million towards a target of $6 million within one year.



Turning now to slide 11. There has never been a better time to be in the global kids' and family content business. In Fiscal 2017, we closed the *Peanuts* and *Strawberry Shortcake* acquisition. We're executing on that integration plan that will result in $6 million of incremental savings, and we have an active strategy for realizing synergy through agency conversion for *Peanuts* through CPLG. Further, all major streaming platforms are boosting content budgets and players such as Facebook, Apple and YouTube brand are entering the market. Consumption of digital content and video-on-demand services worldwide is skyrocketing, and e-commerce for consumer products is poised for growth.

Our commitment to investors is to more effectively execute against the tremendous opportunities to deliver kids' and family content worldwide. With improving industry tailwinds and a renewed focus on execution across our best properties, we look forward to getting back to growth. We look forward to connecting with many of you next week at our Investor Day in New York to provide a much deeper dive into plans across our business.

With that, we'll now turn it over for questions.

QUESTIONS AND ANSWERS

Operator

(Operator gives instructions). And our first question will come from the line of Rob Goff of Echelon.

Robert Goff - *Echelon Wealth Partners Inc., Research Division - MD, Head of Research, and Telecom Services & New Media Analyst*

Dana, given the magnitude of the miss on the quarter, can you address the confidence factor that you would apply to guidance? And whether maybe some derisking this year, if there is, with respect to achievement on the new guidance released?

Michael Donovan - *DHX Media Ltd. - Executive Chairman*

Rob, this is Michael Donovan. I'll just start with that answer and turn it over to Dana. Yes, what we -- our commitment is that guidance will be met or exceeded for the future. And that -- the misses were -- are of the past. That's my personal commitment, that's our collective commitment. And so we have gone as conservative as we can be, and still be within the range. Dana?

Dana Landry - *DHX Media Ltd. - CEO*

Yes. Thank you, Michael. And the one thing I would add to that is that there's some incremental upside within our projection. Again, going back to Michael's point about being conservative, we only forecast a modest growth for *Peanuts,* given it's the first year. *Strawberry Shortcake*, we forecast flat, which we expect will have some upside. And further, we've projected in our estimates that deceleration in the WildBrain business, although on the cold face, we're not seeing that. We're actually seeing an acceleration. But to be prudent, we've come up with these estimates.

Operator

And our next question will come from the line of Aravinda Galappatthige with Canaccord Genuity.

Aravinda Galappatthige - *Canaccord Genuity Limited, Research Division - MD*

I wanted to focus on the free cash flow guidance, $30 million to $40 million. Obviously, given that you're starting off with an elevated level of leverage, what gives you confidence in achieving that number? Because if you look at, obviously, there is some -- there's a bigger -- obviously, a bigger range when you think about the EBITDA guidance of about $30 million. And as you discussed in the past, it's not always easy to kind of land on the free cash flow, even on an annual basis, given the nature of the business. So maybe just touch on what kind of gives you confidence that you can hit the free cash flow expectations that you've set for 2018?

Michael Donovan - *DHX Media Ltd. - Executive Chairman*

Yes. Now, Aravinda, that we are completely confident in those cash flow numbers, which, once again, are, I believe, at the conservative event. Dana and then Keith, do you mind to add to that, please?

Dana Landry - *DHX Media Ltd. - CEO*

Yes, I would say that the -- our confidence is based on our changes that we've implemented starting a couple of months ago in our refocus strategy, which is to focus on cash. And that really goes throughout the Company, number one. And number two, to Michael's point, our conservative estimate in terms of EBITDA and what we're expecting for flow-through to free cash flow.

Michael Donovan - *DHX Media Ltd. - Executive Chairman*

Keith?

Keith Abriel - *DHX Media Ltd. - CFO*

I think when you break the cash flow down with the *Peanuts* and *Strawberry Shortcake* acquisition, we've considerably more predictability, and proprietary production growth is not as accelerated as it has been in the past, so there is increased to predictability there.

Aravinda Galappatthige - *Canaccord Genuity Limited, Research Division - MD*

And just a follow-up on that particular point. If as the year goes along, if you're not seeing -- you just starting to see the numbers may be slightly there, of course, what kind of levers to you have to put it back within that range, from an operational perspective?

Michael Donovan - *DHX Media Ltd. - Executive Chairman*

Well, fundamentally, the business has been retooled in the last several months, particularly since the *Peanuts* acquisition to -- with a cut price -- with a consumer increased focus on consumer products, which has much, much more predictable product cash flow provenance than the production. And as that shift in the SKU takes effect, predictability has commensurately increased. So we -- so that's the reason for our confidence. And to answer your question, specifically, in terms of our -- in the event that is wrong and we're really truly confident, the Production business is an adjustable fact. Dana?

Dana Landry - *DHX Media Ltd. - CEO*

Yes. I wouldn't add further than I have to say that there's leverage within being able to pull back levers on production.

Michael Donovan - *DHX Media Ltd. - Executive Chairman*

Exactly.

Operator

And our next question will come from the line of Adam Shine with National Bank.

Adam Shine - *National Bank Financial, Inc., Research Division - MD, Head of Montreal Research and Research Analyst*

When we look to the free cash flow calculation, I think, there's a bit of a change in the way you previously adjust free cash flow and, obviously, that relates to the guidance. Can you speak to that at all, maybe Keith?

Keith Abriel - *DHX Media Ltd. - CFO*

Yes. Over the last couple of months, we've talked with few of the analysts in defining our free cash flow. And the way that we've decided to define it is, free cash flow from operations before our net investment in filming television programs and including the net change in production financing. We look at our investment in content as deploying our free cash flow and think it's critical to show that to investors. So we look at the free cash flow, we derange when we define that was $50 million to $70 million, and then we take and deploy that on a combination of: a) de-leveraging; and b) investing in content. And that definition also makes it a little easier to predict because you're excluding some of the period swings that do come with production from quarter-to-quarter.

Adam Shine - *National Bank Financial, Inc., Research Division - MD, Head of Montreal Research and Research Analyst*

And would -- could you give us the comparable number to F'17? I think, it's somewhere in the 50s -- 57-or-so?

Keith Abriel - *DHX Media Ltd. - CFO*

I don't have that rate with me. Sir, do you mean in terms of the investment in film and television, Adam?

Adam Shine - *National Bank Financial, Inc., Research Division - MD, Head of Montreal Research and Research Analyst*

No. I mean, in terms of just a comparable in the context of your guidance for F '18, the comparable number in F '17 for free cash flow? Maybe I'm wrong, but is it $59 million when you make the fee-related adjustments?

Dana Landry - *DHX Media Ltd. - CEO*

Here's what we'll do: We'll have Keith make sure that he calculates that right now. We'll come back to you, if that's okay?

Operator

And our next question will come from Andrew McReynolds with RBC Capital Markets.

Drew McReynolds - *RBC Capital Markets, LLC, Research Division - Analyst*

Just one follow-up on Adam's question, I guess, Keith. Just in terms of the change in interim production financing, obviously, it's a vehicle that's -- that rightfully should be used as much as possible. Is there any kind of comment you can give on what that net change is expected to be in fiscal '18, just so we can square off the rest?

Dana Landry - *DHX Media Ltd. - CEO*

Maybe what I'll do is, I'll give a high level, and then I'll invite Keith to give a little more detail. So, in terms of the -- generally, what we try to do is -- if you think about our investment pieces, about 85% is covered by hired cost of contracts, which we pledge to banks. So really 85% of any change in investment should run through the interim production financing, generally.

Keith Abriel - *DHX Media Ltd. - CFO*

And technically -- sorry, and just one comment to add to that, Drew, is typically what you'll see is interim production financing moves in one direction, net change and working capital moves in the other direction. And that is almost without fail, you'll see them moving in opposite directions.

Drew McReynolds - *RBC Capital Markets, LLC, Research Division - Analyst*

Yes. Understood. Okay. That's great. And then just my actual question, just when we look at the balance sheet, just in terms of your targeted leverage by the end of fiscal '19, obviously, nudged up a little bit versus where it was a quarter-or-so ago. Can you comment on your updated target?Is it a function of slightly lower adjusted EBITDA trajectory, slightly lower free cash flow, just kind of the different components that brought it down slightly versus where you were a couple of quarters ago?

Michael Donovan - *DHX Media Ltd. - Executive Chairman*

Yes. And that is our goal, just to repeat, to bring our leverage down by 2019, and our target is 3.5x. We have a number of initiatives underway, some -- at least one of which we hope to announce very, very shortly and others over the next several quarters. But Dana, could you add to that?

Dana Landry - *DHX Media Ltd. - CEO*

Yes. I think that the only other thing I would say, Drew, in addition to what Michael has said, is that when we were looking at a number of closer to 3x, we were doing it before what we said although on what the convertible debenture would be, 3.5x. Now we're factoring in the convertible debenture. We're also factoring in the changes in the USD that we talked about earlier. And in addition to the corollary of the EBITDA being lower affected by the FX that I spoke about earlier is that the debt is also commensurately lower by about $60 million to $70 million on the difference in terms of Canadian Dollars. So although you lose it on the EBITDA side, you pick it up on the lower debt side in CAD.

Operator

And our next question will come from Ruben Sahakyan with GMP Securities.

Ruben Sahakyan - *GMP Securities L.P., Research Division - Associate*

I just had a general question in terms of the content strategy going forward. Will there be a shift in the strategy towards more original content and less buying and refreshing of it?

Michael Donovan - *DHX Media Ltd. - Executive Chairman*

That's a good question. And maybe what I'll do, today we have our head of Content, Josh Scherba present. So I'll turn that over to you Josh, please.

Josh Scherba - *DHX Media Ltd. - EVP of Distribution and Content*

Sure. So, in this world where there's tremendous opportunity with all the large variety of SVOD platforms, all looking for content, be it Netflix or Amazon, the one key advantage we have is having known IP. In a fragmented world, the opportunity to have something that has built-in brand recognition is a really positive thing and considered to be a real advantage that we have. So, when we talk to these platforms, they've actually expressed the most interest in things that have built an awareness. So, while our slate won't be limited to refreshing, remaking of existing brands, we think it's an advantage that we need to continue to exploit.

Michael Donovan - *DHX Media Ltd. - Executive Chairman*

Yes. And if I can just add, the -- particularly, our year-end ended June 30, but since July 1, and through August and now September, the climate has picked up considerably in terms of the demand because of the new SVOD players that have entered the market. And to some extent the demand is for new content. But particularly in children's content, where stickiness is the one of the drivers for the SVODs, and children's contributed and family contributed to stickiness. It's the known brands that are -- that provide the most amount of torque. And that's our -- that's what we have to offer and we're one of the leading players in terms of delivering those known brands. And our strategy -- core to our strategy has been to leverage our production advantage, our studios, et cetera, and our finance advantages with respect to production into developing the new -- the old brands, the familiar brands, the ones with provenance, recognizable in families and households into new content. That's basically the essence of our strategy. And we've, as everyone on the call I suspect knows, 450 brands, with which to do this, that is our priority, that is our focus. And that has been something that has materially picked up in, the literally, the last several months. Josh, do you have anything more to add to that because your -- Josh is dealing with this everyday and...

Josh Scherba - *DHX Media Ltd. - EVP of Distribution and Content*

Well, yes. Speaking to the market opportunity, it's never been stronger. And I think the one key announcement that's happened in the last couple of months is Disney launching their own SVOD service, which has a twofold effect for a company like DHX. On the one hand, it potentially provides another customer to sell our content to, and Disney being their own SVOD service. But also, the effect of their pulling back from their content on Netflix and other services provides a larger opportunity for independent companies like DHX.

Operator

(Operator Instructions) Our next question will come from the line of Bentley Cross at TD Securities. And pardon me, Mr. Cross, please check your mute button. Pardon me, Mr. Cross, if you're on mute, please check your mute button.

And our next question will come from the line of David McFadgen with Cormark Securities.

David McFadgen - *Cormark Securities Inc., Research Division - Director of Institutional Equity Research*

Just a question on a comment that Michael said. Michael, I think, you said that you expect to make some announcements soon to allow you to de-lever quickly. Did I understand that correctly.?And if so, is that an asset sale?

Michael Donovan - *DHX Media Ltd. - Executive Chairman*

Yes. We have a number of -- since we leveraged in order to buy the transformational *Peanuts* and *Strawberry Shortcake* assets, which is core to our strategy, those name brands with provenance in the children's space. Since -- but we leveraged, the priority -- our high priority has been to de-leverage, and we have a number of initiatives underway. And we expect to be announcing those over the next several quarters. However, one of those announcements, an incremental one is, we are expecting to announce very soon, within 24 to 48 hours, and possibly maybe little bit later, but probably within the day or two. Does that answer your question?

David John McFadgen - *Cormark Securities Inc., Research Division - Director of Institutional Equity Research*

Yes. But is it -- are you contemplating an asset sale of asset sales?

Michael Donovan - *DHX Media Ltd. - Executive Chairman*

Well, yes. We're contemplating many things, including asset sales. But it's very important to point out that what we're doing is focusing our strategy, our IP strategy. IP is the key. And with an emphasis on known brands, and both data-driven, a digital-driven strategy matched with consumer products because we believe the consumer products' delivery mechanism is transitioning rapidly into digital where we have leadership. So, focus on that is what we are doing. So, things that don't contribute very specifically to that strategy are on the hit list, if you will, to -- as part of our de-leverage initiative as well. And so -- but some of those involve sales, yes, but other things -- but there are other things -- the announcement that we are on the cusp of making, we believe, is a transition of certain parts of our debt into a different vehicle.

David McFadgen - *Cormark Securities Inc., Research Division - Director of Institutional Equity Research*

Okay. And in order to hit that leverage target of 3.5x by the end of Fiscal 2019, that would envision executing on these announcements you're going to make very soon, right?

Michael Donovan - *DHX Media Ltd. - Executive Chairman*

Well, first of all, I'd like my colleagues to answer. I believe that we will not only meet that target, but exceed it, and that it is extremely conservative. And that these announcements are not necessary to meet that target. That's my belief that the announcements will help us exceed the target. Dana, do you have anything more? No. Keith, anything more? No. Okay. So, thank you. Any other questions?

David McFadgen - *Cormark Securities Inc., Research Division - Director of Institutional Equity Research*

If I may, if I could just, on a different topic. Could you just talk about why *Teletubbies* underperformed in the U.S.?

Michael Donovan - *DHX Media Ltd. - Executive Chairman*

And I'll answer that. There's a number of reasons. Essentially, it comes down to our team's execution because the -- that particular piece of IP remains strong in every other territory where we've launched it, with a primary focus on the U.K. But now, it's showing tremendous provenance in Germany and China as we indicated earlier. So we feel that, that is -- and this is my opinion and this is Management's opinion that that is a unique situation related to our own execution in that market. And we have a number of initiatives underway to restart that program. And I believe, as it has succeeded in other territories, it will succeed there. This is not uncommon for IP -- children's IP, when it's relaunched to take more -- sometimes more than one initiative to succeed. And so -- having said that, the headline for our shift in strategy is more toward a digital initiative, which we think is the future anyway. And so that's our -- that's where our focus is now. And we expect, in the next several quarters to have announcements in that regard.

Operator

And our next question will come from the line of Bentley Cross of TD Securities.

Bentley Cross - *TD Securities Equity Research - Associate*

First, maybe, switching gears and maybe talking about something a little bit more positive. The CBC came up with an article this morning suggesting Minister Joly will announce $500 million commitment by Netflix to fund Canadian production. To the extent that you guys are able to talk about that at all, just curious to get any color that you may have.

Michael Donovan - *DHX Media Ltd. - Executive Chairman*

No, that's exactly it. And that's what's the most important thing, I believe, for investors to note that -- I have been in this business for 37 years. And it has never been this positive. And it's getting more and more positive in terms of demand than it was six months ago, and that was breaking new ground. But particularly, in the -- since Josh referred to earlier or mentioned, the Disney, Netflix announcement, we basically had a starting gun go off of that for a whole new arms race, if you will, for -- in this content sector. And we are very, very, very well positioned as the leading independent owner of content in this space. And with some of the -- with having completed the *Peanuts* acquisition. And by the way, one of the reasons, in my opinion, for our misses here is that acquiring *Peanuts* and *Strawberry Shortcake* took really all of Management's time for six months, and it was a one-year process. And for the last six months, we unfortunately took our eye off the ball. However, the good news is we now have these incredible assets, which we are working 24/7 to deploy into this incredible opportunity, one example of which is the Netflix announcement today in Canada, which we're primed to position -- in front-row position to benefit from. And before I get carried away, Eric, as I can go on, Josh, could you, who is dealing with this everyday.

Josh Scherba - *DHX Media Ltd. - EVP of Distribution and Content*

It sounds like very positive development. We look forward to the official announcement later today and hearing more about the details related to it. And I will be catching with my friends from Netflix later as well.

Michael Donovan - *DHX Media Ltd. - Executive Chairman*

But we are...

Bentley Cross - *TD Securities Equity Research - Associate*

And just one follow-on to that and not at all related. But Dana, you mentioned FX impacting 10% to 15%. Just wondering how exactly you get to the number because I can't quite get there, so hoping you might bridge the gap for me.

Dana Landry - *DHX Media Ltd. - CEO*

Sure. If you look at the delta between the end of the year of about $1.35 to now the spot rate around $1.23, it's about sort of $0.12. If you look at our total revenue base, around 55% of that is denominated in U.S. dollars across all revenue streams. And so if you take a normal EBITDA flow-through from that 55% and use that math, you'll get into that range of 10% to 15%. In this case, a lot of the U.S. dollar revenues are at a higher -- also one thing I would add is at a higher flow through. So, it's probably at the high end of the flow-through, more like 40% to 45% rather than the traditional EBITDA flow-through.

Bentley Cross - *TD Securities Equity Research - Associate*

And just to clarify on that, Dana, that 55% you're saying is pro forma for all...

Dana Landry - *DHX Media Ltd. - CEO*

Correct. Correct. Correct. *Peanuts* being the biggest contributor to that, obviously, because it's mostly denominated in foreign currencies, but U.S. in particular.

Bentley Cross - *TD Securities Equity Research - Associate*

Okay. I still can't get there, but maybe, I'll follow up with Keith after.

Dana Landry - *DHX Media Ltd. - CEO*

Okay. I'm sure that Keith will follow up.

Operator

And our next question will come from Andrew McReynolds with RBC Capital Markets.

Drew McReynolds - *RBC Capital Markets, LLC, Research Division - Analyst*

Maybe, Michael, with your kind of view and experience, can you just talk to the SVOD market? And obviously, you're pivoting to what I kind of look at as a barbell approach going up market and downmarket, want to serve SVOD and linear wanted to serve AVOD. What's happening in the middle there in terms of the demand? And how are you positioned in that middle? Is that kind of middle declining and therefore you're kind of investing on the ends? Whatever you have in the middle, is that something you can monetize? Just -- can you just flush out that SVOD mix, if you can?

Michael Donovan - *DHX Media Ltd. - Executive Chairman*

So, yes, good question. So -- for a number of years, the price point has basically stayed strangely constant, I mean, literally for 20 years, at around $350,000 an episode. Of course, that has come down in real terms because the nominal had stayed constant. So -- but, however, what's happened is, the market is now shifting in a number of very important ways, in interesting ways. One of which is, prices are moving, for the first time, quite a bit higher into the $750 million-plus price range, higher end. And that's driven by the SVOD's, who are able to monetize to a much higher degree and are looking for that premium content. So as we reposition our IP, we are repositioning it with a priority on the higher end, that is our -- that -- and our studios are perfectly positioned for that. But that's at all just starting now, that's all in the last several months, nine months, I would say, about a year, and again, I'll get Josh to give detail on that, that's my sense. But also, you're right, in the AVOD space, the price point is being driven down to $50,000, $75,000, $150,000 an episode. And we -- so we are working that as a priority for WildBrain, moving into the price range that is ideal for that space. In other words, the medium is the message. And the new money, considerable new money coming into the system is changing the shape of content and the structure and the price points, and we are working both. In terms of the middle, that still remains the majority and likely will for the foreseeable future. But again, we're -- that has been our focus. And we are -- and so essentially, we are making money. We're working all three of those fronts as it evolves, and we're -- and we money on everyone, irrespective. Although what I think that what's happening now, the most significant is this change in SVODs. That as I said earlier, kind of an arms race, a fight for market share, where budgets seem to be exploding on the upside. Essentially the content spend literality in the last 2 years has doubled. It's projected to be, next year, a total of $19 billion, that is from $10 billion last year, that's a double. We are critically positioned on that -- to do that. And a lot of that is more high-end. Again, I can talk all day, I won't use up too much airtime here. Josh?

Josh Scherba - *DHX Media Ltd. - EVP of Distribution and Content*

Just to touch on a couple things there. So certainly, the competition amongst the SVOD services is heating up. And they're all looking for content that's going to differentiate their service. And so what the net effect of that is that -- is in the original space, the commissioning space, they are going with higher budgets, more premium contents. So that's why we're putting an emphasis on that with our new slate moving forward. But I think Netflix has even publicly stated that they're looking for a mix of 50-50 between originals -- high-priced originals and acquisitions. We're still extremely well positioned on the acquisitions side. We've got -- we do have the largest independent library in the world, and that's still very valuable for these services because they need a variety of content. So I think our library serves the middle ground very well, as you illustrate in your barbell approach. But for the new content, we need to be taking advantage of this high-priced opportunity.

Drew McReynolds - *RBC Capital Markets, LLC, Research Division - Analyst*

That's really, really helpful, so thanks both on that. And if I could just squeeze into housekeeping. Just -- Keith, just on the CapEx guidance for fiscal '18, just comment on kind of what's in there? And then what, maybe, falls off longer term? And then secondly, just on the DHX TV, you alluded to kind of a net versus gross impact. Just wondering how that effectively flows through the revenue line for DHX Television in fiscal '18?

Keith Abriel - *DHX Media Ltd. - CFO*

Yes.

Michael Donovan - *DHX Media Ltd. - Executive Chairman*

Okay, Keith.

Keith Abriel - *DHX Media Ltd. - CFO*

Sorry, Andrew, I'll take that one straight up. So we guided -- on the CapEx, we guided $10 million. Included in there is, there's some intangible spend that is already -- there are required payments on some of our intangible assets that we've acquired, and there is also some IT spend within our company that needs to be made. That number at $10 million actually going forward, I see that number coming down more to $5 million to$10 million range going forward. So, at a run rate, I would use $7.5 million if my models sort of comes down a little bit after this year. And what was the second question, sorry? The...

Drew McReynolds - *RBC Capital Markets, LLC, Research Division - Analyst*

Yes, just on the DHX TV.

Keith Abriel - *DHX Media Ltd. - CFO*

Yes, purely an accounting thing. We had some ancillary revenues in there that were -- we'd expected to realize on a gross basis. They were recognized on a net basis. No impact on the bottom line.

Drew McReynolds - *RBC Capital Markets, LLC, Research Division - Analyst*

And then for Fiscal '18, just in terms of kind of that revenue line, just trying to figure out if we still kind of decline 15% to 20%? Or things kind of normalize a little bit more in '18 on -- off the '17 comp?

Josh Scherba - *DHX Media Ltd. - EVP of Distribution and Content*

No. I think, you'd normalize that down. There will be -- first of all, our -- the majority of our rates from the BDUs are set through the fiscal year. We've been quite modest, in my view, in terms of advertising and promotion revenue. And then you're into whatever a normal subscriber churn rate would be.

Operator

Our next question will come from the line of Tim Casey with BMO.

Tim Casey - *BMO Capital Markets Equity Research - Equity Research Analyst*

A few questions. Just, Dana, can we just go over the definition of leverage using your target of 3.5x? Does that include the converts? And is that an LTM or a forward-looking number?

Dana Landry - *DHX Media Ltd. - CEO*

Yes, that does -- that includes the converts and it's a forward-looking number by the time we get to 2019, what our expectations on EBITDA growth would be versus what we would use on free cash flow between now and then to pay down on some [substance] there. And I'm sure Keith can happily walk through that with you.

Tim Casey - *BMO Capital Markets Equity Research - Equity Research Analyst*

So -- but just so we're clear, that's basically a full year '19 number looking at 2020 EBITDA?

Dana Landry - *DHX Media Ltd. - CEO*

Correct.

Tim Casey - *BMO Capital Markets Equity Research - Equity Research Analyst*

Is there any cash costs related to the acquisition or anything that have to flow-through the statements in fiscal '18? Or is that all done?

Dana Landry - *DHX Media Ltd. - CEO*

You will see a bit of a cash impact on working capital in Q1 of fiscal '18, but forward-looking beyond that, not much built beyond Q1.

Tim Casey - *BMO Capital Markets Equity Research - Equity Research Analyst*

So all the cash cost related to the acquisition fees, everything like that are all -- they're on the balance sheet now.

Dana Landry - *DHX Media Ltd. - CEO*

They are. Everything has been recognized. All of the acquisition cost, early redemption costs, et cetera, et cetera, have been recognized in the P&L. There is a portion of them that are still sitting in accounts payable and will be settled in Q1.

Tim Casey - *BMO Capital Markets Equity Research - Equity Research Analyst*

Got you. Okay. Last question, I guess, is for Michael. I mean, Michael, I appreciate that *Peanuts* was the big acquisition. But your comment that it was a huge distraction and led to some of the misses here-- I mean, isn't this a core competency of you guys? I mean, you have done many deals through the existence of this company. And yet, now you're asking us to ignore this and go forward. It just seems this is what you guys do. I mean, you -- this is a core competency is to integrate these brands you buy, integrate them into your core operations and go forward. It just seems to be a disconnect here between what's happened and what your message to shareholders has been.

Michael Donovan - *DHX Media Ltd. - Executive Chairman*

Yes, okay. So that's a great question actually and an important one, so thank you. The -- so -- our core -- yes, we've rolled up 12, 13, 14 different entities over 10 years, averaging about one per year. However, most have been in the $10 million, $20 million, even $30 million range. At $500 million, this was material to this company, and that's in CAD. And so -- and also critically was different because it involved leverage beyond our comfort zone. And so because -- and so for that reason, it was particularly preoccupying at every level of this company. And there was a constant process of -- since our -- since everything in our Company is -- because we are in the front-row position to realize the digital opportunity critically as well as the current SVOD opportunity because of our breadth and depth of library and our leadership with WildBrain. So this was something we didn't necessarily have to do, except it was core to building IP, which remains essential to this Company. And it was a unique opportunity once in 20 years, once in 50-year opportunity. So we felt that we really had to focus completely on it and get the deal and the structure and the terms as optimal as possible. And unfortunately, there was some collateral damage. And that's my two-mile up view as Chair of this company. And so that is what I see as well as the FX as the two primary unexpected factors that led to our disappointing numbers. High priority in this company has been to focus and fix. And one thing is the *Peanuts* integration has gone extremely well. The company has executed, in my opinion, better than ever on any of our acquisitions in terms of integrating that asset led -- we brought in an expert -- an integration expert with whom we worked before, Aaron Ames, and together with our team has led a flawless integration expert -- exercise, I should say. So -- and I believe, we're basically done and dusted in terms of acquisitions for the foreseeable future. Now it is drive cash, drive -- use that cash to drive our leverage down, realize the SVOD opportunity focus on the digital future where we are in leadership.

Operator

And our next question will come from the line of Bentley Cross of TD Securities.

Bentley Cross - *TD Securities Equity Research - Associate*

Michael, just following on your question about being done with acquisitions. You also did two little ones in the last little while. Keith or David or anybody, can you give us any sort of EBITDA contribution from those little assets you picked up?

Michael Donovan - *DHX Media Ltd. - Executive Chairman*

Dana?

Dana Landry - *DHX Media Ltd. - CEO*

I'll actually turn to David Regan. David, are you on the call?

David Regan - *DHX Media Ltd. - EVP of Strategy & Corporate Development*

Yes, I am, Dana.

Dana Landry - *DHX Media Ltd. - CEO*

Can you answer that question? I think the question --just clarifying, Bentley-- is, EBITDA forward on the two WildBrain small acquisitions we did. Is that right, Bentley?

Bentley Cross - *TD Securities Equity Research - Associate*

You got it.

David Regan - *DHX Media Ltd. - EVP of Strategy & Corporate Development*

Yes. And we haven't disclosed that. We did one acquisition in January, and we made one recent one in the past month. These are de minimus deals, and they're consistent with the WildBrain model. The key thing is the multiple on these businesses that has been very, very attractive. They're highly accretive deals from the sense that they're being done in the 4x to 6x range. And we bring a great deal of value because the WildBrain platform, of course, has such a volume of viewership, that adding in smaller channels means that those channels can then benefit from a higher placement rate on CPMs for ads as well as bringing greater viewership to us. The second component of the benefit is, of course, the WildBrain team has a tremendous ability to enhance viewership through modifying the content of some of these channels that we've taken on. And so, yes, I think you'll see and you'll learn more particularly at our Investor Day next week about how that's being done.

Michael Donovan - *DHX Media Ltd. - Executive Chairman*

If I could just clarify, though, that, yes, in terms of WildBrain, we have -- we are rolling up channels. And that's part of the -- as we view the operations of that enterprise to just clarify in terms of large IP -- pure IP acquisitions. That's -- that may change in the future, but our current focus has shifted from such acquisitions to de-leveraging.

Operator

Ladies and gentlemen, this concludes our question-and-answer session for today. For now, it's my pleasure to hand the conference back over to Mr. Dana Landry, Chief Executive Officer, for closing comments or remarks. Sir?

Dana Landry - *DHX Media Ltd. - CEO*

Thank you all for joining us. We look forward to speaking with most of you over the next day or so and a lot of you at the Investor Day. Thanks for dialing in. Bye for now.

Operator

Ladies and gentlemen, thank you for your participation on today's conference. This does conclude the program, you may all disconnect. Everybody, have a wonderful day.
