FINAL TRANSCRIPT

DHX Media Ltd.

Second Quarter Results Conference Call

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PRESENTATION

Operator

Good morning. My name is Steve (phon), and I will be your conference Operator today. At this time, I would like to welcome everyone to the DHX Media Second Quarter Results Conference Call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press *, then the number 1 on your telephone keypad. If you would like to withdraw your question, please press the # key. Thank you.

Executive Vice President, Strategic and Corporate Development, David Regan, you may begin your conference.

David Regan — Executive Vice President, Strategic and Corporate Development, DHX Media Ltd.

Thank you, Operator, and thank you, everyone, for joining this morning. On the call with us today are Michael Donovan, our Executive Chairman; Dana Landry, our Chief Executive Officer; and Keith Abriel, our Chief Financial Officer.

Also with us today in the room is Ms. Nancy Chan-Palmateer, whom I am pleased to report has joined us as Director of Investor Relations. Nancy is a 25-year veteran, and we are very happy to welcome her on to our team.

Before we proceed, though, we have some standard cautionary statements. The matters discussed in this call include forward-looking statements regarding the business strategies of DHX;

the forward financial and operating performance of DHX and its subsidiaries; the timing for implementation of DHX's business strategies; and the markets and industries in which DHX operates.

Such statements are based on information currently available, and subject to a number of risks and uncertainties. Actual results in the future could differ materially and adversely from those described in the forward-looking statements as a result of various important factors, including the risk factors set out in the Company's MD&A and the Company's Annual Information Form, which also form part of the Company's annual report on Form 40-F.

With that, I will turn it over to our Executive Chairman, Michael Donovan. Mike?

Michael Donovan — Executive Chairman, DHX Media Ltd.

Thank you, David, and thanks, everyone, for dialling in today. We're very pleased to announce our seventh quarter of growth in both revenues and adjusted EBITDA on a quarter-over-quarter basis.

We've posted double-digit growth across key metrics today, and I'd like to congratulate the team on the strong numbers. These results underscore, and I believe prove, our differentiated strategy of focusing on enjoying kids' content in the transformational digital environment that is now materially changing how content is delivered and being experienced throughout the world.

In the second quarter, we signed two very significant partnerships. First, we announced a content pact with DreamWorks Animation to co-produce 130 half hours of original animated content for DHX Television, and to license more than 1,300 half hours of additional DreamWorks content for DHX Television.

This makes DHX Television effectively the exclusive linear broadcaster in Canada for many of DreamWorks' top shows, such as The Mr. Peabody & Sherman Show, All Hail King Julien, and The Croods, and numerous others. We are proud to be in business with DreamWorks as the exclusive partner in Canada.

Secondly, we announced in the quarter a partnership with Mattel to co-produce and distribute new episodic content for four of their top brands: Bob the Builder; Fireman Sam; Little People; and Polly Pocket. And DHX will also distribute the back library for these brands. And we are also proud to collaborate with Mattel on such tremendously powerful and enduring family brands.

I'll turn the call now over to Dana.

Dana Landry — Chief Executive Officer, DHX Media Ltd.

Thank you, Michael, and thanks, everyone, for joining us this morning. We're pleased today to be announcing such strong results in an ever-shifting media environment.

This is a record Q2 for us, and also the second-strongest quarter in the history of the Company. If you will indulge me, I'd like to take this opportunity to dip into that history and provide a quick snapshot of the last 10 quarters.

During that period, going back to Q1 fiscal 2014, DHX has posed an average quarter-over-quarter revenue growth of 70 percent and an average adjusted EBITDA growth of 104 percent. The growth reflected by these numbers is driven by our steadfast commitment to being a go-to-kids' content company.

Since the start of this calendar year, the markets have seen volatility that has left many observers puzzled. To paraphrase one analyst, there seems to be a certain amount of disconnect between pricing and fundamentals. Many media companies have not been immune to this volatility and to the disruptive technologies that are reshaping our industry, and some have fallen short of expectations in their earnings.

I cannot speak for the other companies, but where DHX is concerned my response is that as illustrated by our strong numbers over the past 10 quarters, we are greatly benefitting from this disruption, and these forces are fuelling our exceptional growth.

To state it plainly: we are not a traditional media company. DHX is a next-wave content company. We create and acquire high-quality, world-renowned kids content. We license that content to broadcasters and VOD platforms around the world, and we leverage the option value of that content worldwide through merchandising and licensing; consumer products; gaming; apps; and live events.

The issues faced today by traditional media companies, such as cord-cutting competition for VOD services and declining advertising sales, do touch us to a minimal degree in our Canadian TV business, but any of that downside is being eclipsed by the enormous benefits we reap from the new environment created by the global proliferation of VOD platforms, such as Netflix, Amazon Hulu, YouTube, and dozens of others.

If you want to understand DHX, I would encourage you not to dwell on the performance of the traditional media companies while trying to compare us to them. We are unique: as pure a play of kids' content company as you're going to find throughout the globe.

To repeat: DHX is a next-wave content company with a global growth profile, and we are built for the future.

With that, I'd like to review some highlights for our Q2. Overall, today's results represent organic growth in revenue of 21 percent above Q2 2015. This is, again, a testament to the exceptional integrated platform we have built.

Revenue for the quarter was up 27 percent and adjusted EBITDA was up 16 percent. Net income came in at 11.7 million, or basic earnings per share of $0.09, up from $0.05 per share in Q2 2015. This represented a 6.1 million increase in absolute dollars over Q2 last year.

As mentioned, content creation is the cornerstone of our business. In Q2, we added 92 half hours of high-quality content to our libraries compared to 58 half hours for Q2 2015, representing quarter-over-quarter growth of 59 percent.

Global distribution of that content is equally important, and we're pleased to report 46 percent growth in our distribution revenues over Q2 2015. We will note that this was at the top end of management's expectations.

Next, I would like to compliment our CPLG team for their tremendous execution in our merchandising and licensing represented business, which came in well above the high end of management's expectations again this quarter, showing a 130 percent increase over Q2 last year. This was driven by exceptional performance from Universal's Despicable Me and Minions, and by triple-digit growth from nine additional represented brands.

Keith will provide a closer look at the numbers shortly. I'd like to now talk about some recent deals and further growth drivers for our business.

Michael mentioned how proud we are that both DreamWorks Animation and Mattel have selected DHX to partner on their brands. As IP owners ourselves, we understand just how critical it is to have partners that inspire confidence.

Last year our studios delivered outstanding content to both of these studios. In the case of DreamWorks, our Vancouver studio delivered The Mr. Peabody & Sherman Show, which can now be enjoyed on Netflix, and for Mattel our Halifax studio delivered Little People, which will soon be appearing on Sprout in the US and other channels internationally.

From these content arrangements the relationships have now evolved. Going forward, DHX will hold a significant financial stake in the IP for all of the new content produced under the agreements. That means revenue share across multiple revenue streams, including production, distribution, consumer products, all which we believe will drive significant growth for years to come.

In the case of Mattel, in addition to the revenue share for new IP, DHX has also become the global distributor for the back library of shows across the four Mattel brands. This instantly adds approximately 300 half hours to our distribution library, which we expect to be accretive to our results in fiscal 2016 and beyond.

Such deals are not entered into lightly. That DreamWorks Animation and Mattel chose to partner with DHX on their brand is, in our view, recognition by two industry leaders of our proven ability to develop, produce, and distribute world-class content.

Switching gears now, I want to talk a bit about toys and consumer products. I spoke earlier about leveraging the option value of content through merchandising and licensing. This is something we're really excited about, and have been focusing on it since 2014, the time when we launched DHX Brands, which is our dedicated brand management and consumer product segment (phon).

The Brand theme unit has realized some great accomplishments so far. Most notably, the first wave of Teletubbies toys hit retailers in the UK in mid-January of this year. This is the first batch of new Teletubbies toys to enter the market in almost 20 years, and it is a perfect example of how we are able to take an iconic show and leverage the optionality of that brand.

Since CBeebies commissioned the new series in June 2014, we have signed more than 50 licensing deals for Teletubbies worldwide, and there are more to come. The toys in the UK are just the start of a veritable flood of the Teletubbies consumer products that is being prepared for a global rollout.

By this time next year, in addition to playing with Teletubbies plush dolls, we expect kids around the world to be reading Teletubbies books, carrying Teletubbies backpacks, learning from Teletubbies electronics, and much, much more. Needless to say, we are excited about the potential for this brand.

Teletubbies premiered in the UK in November as CBeebies' number one show. While it is still a bit early to share any metrics around Teletubbies toy sales, what we can say is that we're off to a very fast start.

In addition to two of our other preschool brands, Twirlywoos and In the Night Garden, have now firmly established merchandising and licensing programs in the UK. Twirlywoos season one premiered on CBeebies in February 2015 and toys first hit UK stores in June. By December, Twirlywoos had entered the top 10 UK sales charts, and the brand was the 11th biggest preschool brand overall in the UK for 2015. Five items of the toy line finished the year in the top 100 preschool chart. This is a tremendous result to achieve in only a six-month time frame.

In the Night Garden has experienced a huge resurgence, and is an extraordinary example of how an evergreen property can be rejuvenated and extended.

Just to provide some context, in 2017 In the Night Garden will be celebrating its 10th anniversary. The show has been a long-standing staple for preschoolers and parent co-viewing in the UK, and has enjoyed expanded viewership because many parents now use it as part of the children's bedtime routines, viewing it on smartphones and tablets throughout the world.

We acquired In the Night Garden alongside Teletubbies in September 2013, at which time the show's merchandising and licensing potential was underrepresented in the market. Last year, our brands team devised a relaunch. They redesigned the packaging; the logo; built the new website; and rolled out a new social media campaign.

Simultaneously working with the brand's master toy partner, Golden Bear, it developed an expanded offering of new and innovative toys. The results in the UK were outstanding. In the Night Garden was the fifth best-selling preschool brand in the UK for 2015.

The new In the Night Garden musical activity train was the UK's third best-selling overall preschool toy, and 10 items from the toy line placed in the UK's overall preschool top 10 list last year.

We've spoken before about the power of evergreen brands. In the Night Garden is a fantastic example of how option value can be realized from such a property.

As announced this January, we've renewed Golden Bear's master toy licence for this brand, and anticipate the launch of even more new and exciting products this year, including a new nursery line called In the Night Garden Baby.

Now I'd like to briefly touch on what we're seeing as the next big potential growth opportunity: mobile viewing and gaming apps. Since 2010, the time spent for adults consuming media content on mobile each day in the US has increased from less than 30 minutes to almost 3 hours. Younger consumers, for instance, in the UK meanwhile have increasing access to mobile devices as well.

Approximately 86 percent of UK two to six year olds have some form of access to a tablet device, such as an iPad, Samsung Galaxy, or Kindle Fire, with approximately 15 percent currently owning one. And one-third of preschoolers watch VOD every week on mobile and tablet devices.

The overall mobile apps industry, meaning everything across some 2,000 categories from music to weather to books and beyond, is projected to generate just over US 50 billion worldwide in revenues this year and approximately 75 billion next year. Of that, approximately 50 percent is projected to come from gaming and apps and the rest from mobile viewing.

As content producers and IP owners, mobile viewing and gaming is a category of great interest to us, representing a huge potential growth opportunity. We see this as the next wave for DHX.

So this is what the future looks like at DXH: happy kids around the world from Canada to China embracing adored toys and playing games from the DHX shows they love; shows they watch on their TVs or Mom's smartphone or Dad's tablet; shows produced in our studios by the very best creative talents we can find; shows that have evergreen qualities and the potential to appeal to generation after generation.

We go forward with tremendous optimism, confident in our abilities to create world-class content that audiences love and to license that content to broadcasters and VOD services around the globe, and to commission and broadcast the content using our own channels and to deliver toys and other products of content to adoring fans.

Call it a virtuous circle, but please don't call it traditional media.

With that, I'll turn the call to Keith.

Keith Abriel — Chief Financial Officer, DHX Media Ltd.

Thank you, Dana, and thanks to everyone for dialling in today. Management is pleased to once again highlight very strong growth this quarter.

Revenues are up 27 percent to 81.5 million this quarter from 64.3 million for Q2 2015. Adjusted EBITDA for the quarter was 27.8 million, up 3.9 million or 16 percent compared to Q2 2015.

Net income for the quarter was 11.7 million, or $0.09 a share, representing an increase of 6.1 million in absolute dollars over Q2 2015. The growth this quarter was led by record-breaking production revenues. Proprietary production came in at 20.7 million, which is 66 percent above Q2 2015, and producer and service fee revenues came in at 11.5 million, 74 percent over Q2 2015.

We added 92 half hours to our library in Q2, of which 76 half hours were for proprietary titles. This was above the high end of management's previously announced expectation for the quarter and was a result of certain titles being delivered ahead of schedule. Management expects deliveries and revenues to track to the previously annual expectations.

Our distribution business also posted a very strong quarter with revenues up 46 percent over Q2 2015 to 18.6 million from 12.8 million in Q2 2015. This quarter was driven by the continued proliferation of new digital customers, platforms, and territories around the world, and was at the top end of management's quarterly pacing expectations.

As Dana mentioned, our merchandising and licensing represented business also had a standout quarter, setting a record at 7.1 million in revenues, up 130 percent over Q2 2015. This was also above the high end of management's expectations.

On the merchandising and licensing owned side, with our live tours on hiatus for the quarter, Q2 revenues for M&L owned decreased 34 percent to 4.3 million as compared to Q2 2015. However, excluding the live tour revenues, M&L owned revenues were up 38 percent.

DHX Television came in at—DHX Television revenues came in at 18.8 million, and even though they reflect a 14 percent decrease compared to Q2 2015, they were at the high end of management's quarterly expectations.

Gross margins for DHX Television meanwhile came in at 67 percent, or 12.6 million, which were above management's expectations for the quarter. It's management's view that this excellent performance from DHX Television validates the recent rebranding of our channels, and also validates the role of our Canadian TV business as a mechanism for commissioning new content and as part of our integrated content strategy.

Along with today's strong overall results, management reconfirms it's outlook for fiscal 2016 subject to a few minor adjustments to selected business units, which can be found in the Company's Q2 2016 MD&A.

Gross margin for Q2 2016 was 44.3 million, an increase of 18 percent, or 6.8 million in absolute dollars over Q2 2015. The overall gross margin for Q2 2016 at 54 percent was towards the low end of management's quarterly expectations; however, this was due to positive factors driven by our integrated content strategy, such as higher-than-expected percentage of live action deliveries in our proprietary production business and a higher percentage of new shows being licensed by our distribution arm.

Turning to SG&A expenses. SG&A expenses for Q2 2016 increased to 18.3 million, or 24 percent over Q2 2015. This includes all SG&A associated with the Echo Bridge and Nerd Corps acquisitions, and also reflects increased levels of SG&A associated with DHX Brands and DHX Distribution as management has continued to add resources in these key areas to take advantage of growth opportunities.

The Q2 SG&A includes 1.8 million in noncash share-based compensation compared to 1.0 million for Q2 2015. When adjusted, cash SG&A at 16.5 million was at the high end of management's quarterly SG&A expectations.

For further specifics on our Q2 2016 results, as well as additional information on management's fiscal 2016 outlook and various other information, including our reconciliation of GAAP and non-GAAP financial measures, I would refer you to the Company's 2016 Q2 MD&A, which was posted on SEDAR and EDGAR this morning.

I'll now turn it back to David for a summary of some recent developments and deals.

David Regan

Thanks for that, Keith. I'll just touch on a couple of recent activities, and then we'll get to analyst questions.

But of note, in China we continue to explore new relationships and potential business opportunities. Management has made a number of trips to China over the past few months, and while we cannot disclose any deals at this juncture, we feel positive about the discussions we've had with potential Chinese counterparts.

I can tell you that to date we have licensed 5,000 half hours of DHX content to Chinese video on demand services, so we are seeing very strong early appetite for our shows.

We're also seeing great interest in our content globally, and I want to touch on three such examples. Endangered Species is one of the superb animated series that came into our library with our Nerd Corps acquisition. We recently announced seven deals with broadcasters and video on demand services for this show. Most notably, CBBC has picked up the show for broadcast in the UK, and Turner Broadcasting has licensed it for its Cartoon Network and Boomerang channels in Latin America.

Additionally, the show has been licensed by Gulli Russia for its UniversKids channel, Plus channel in Ukraine, ZOOM in Israel, Daekyo Kids TV in South Korea, and iflicks in Southeast Asia.

Backstage is an original DHX Television serious that we're very excited about. This is a scripted series shot docudrama style like The Next Step; lots of singing, music, and dancing. It follows the lives of a group of teens at a high school for the performing arts.

The show will be premiering on Family Channel this spring, and outside of Canada we have licensed it to Disney Channel for the US; UK; Europe; the Middle East; Africa; Australia; and New Zealand. This is the third DHX Television original series to have been licensed by Disney Channel in the last six months.

So needless to say, we're quite excited that these shows are garnering such interest worldwide and clearly have great quality, and we expect to be well received by our audiences.

Finally, Airmageddon is a show that we're thrilled to be making with the creators of Robot Wars. In Airmageddon teams of kids compete with each other to fly radio-controlled drones in a series of competitions and challenges inside a huge arena.

The first two seasons are now being made with producer CBBC, who will broadcast the show in the UK. DHX Television's Family CHRGD will carry it in to Canada. DHX handles global distribution and licensing for Airmageddon, and we think it has tremendous potential as a global brand.

That will open up the lines for questions from analysts, Operator.

Q&A

Operator

And thank you. At this time, I would like to remind everyone in order to ask a question, please press *, then the number 1 on your telephone keypads. We'll pause for just a moment to compile a Q&A roster.

Thank you. Our first question comes from the line of Sharath Toopran with Canaccord. Your line is open. Sharath Toopran, your line in open.

Sharath Toopran — Canaccord

Hi. Good morning, guys. Thanks for taking my questions. I guess I want to start off with CPLG; clearly a solid quarter. And when I look at the annual guidance number I see the biggest change in this line item as well. Can you just help us break out the FX impact specifically on this line item? And is there any upside on the annual target because of FX going forward?

Dana Landry

Yeah. Thanks, Sharath. Thanks for that. I mean we've been continuously impressed. A couple of years ago I'll remind the callers that we did a bit of a look into the CPLG business and really did a strategic review and focused clearly on key relationships and strategic properties.

And that's sort of paying dividends, and so really it's across all, as I mentioned. I think there's about 11 brands that are up triple-digit growth over the previous year. So that is definitely not all FX. I mean it's hard to generally comment because these are very fluid relationships, but my sense would be about three-quarters would relate to just pure business increase and a quarter would be related to FX.

So as the Canadian dollar continues, obviously there'll be some tailwinds related to that, but really the focus is our team is executing on a strategy which we set in place a couple of years ago, and that's really paying off.

Sharath Toopran

Okay. Great. Thanks for that. That's helpful. And I guess I just want to hear your views on the Mattel deal. I mean it's a clear endorsement to not just kid content creation, I believe, but also on the distribution side. In that context, can you give us your thoughts on going forward what are the kind of different doors that could open up; similar deals with other content creators maybe? And from a modelling perspective, is there any onetime or otherwise costs related to the Mattel deal that we should be thinking about?

Dana Landry

Okay. So there's multiple questions there. I'll try to remember them as we go through. I may come back to you. So just as a general statement, I mean the Mattel relationship is what I've been saying is sort of in my view is the next leg of step function for DHX; really gets us deep into a new relationship with obviously the largest toy company in the world.

Having access to their team for research, development, and retail engagement is tremendous. I mean Mattel has businesses in 150 countries, and so that's access that we would never be able to get. So that really just extends our brands potentially forward, and obviously the existing brands that they have.

On the second piece I would say is yes, it's an absolute vote of confidence in our team. For quite a while from an industry perspective we've been sort of moving up the ranks in terms of content creation. And really we're at the very top now, and this is really a shot in the arm for that. So it could open many, many more doors.

We're having lots of phone calls come in as a result of it, and look forward to new strategic partnerships. Really for us it's all about focusing our strengths on content and utilizing our capacity to the best of our ability.

Obviously we can move some shows off that are more of a service quality and into shows that we own more sides of IP or more angles on to revenue growth, and obviously that is something that we're looking forward to.

I'm not sure if I got all the questions. Was there another piece of it? Oh, onetime costs.

Sharath Toopran

Yeah. That was the other piece of it.

Dana Landry

There's an upfront payment. I don't think we've disclosed that, but it's sort of low eight figures, and it’s an investment for the life of the agreement. There will be some probably modest SG&A pickup as a result of that, but we think that will be obviously accretive, as I mentioned in my opening, in 2016 and beyond.

Sharath Toopran

Okay. Great. That's very helpful. And the last one from my side, on the TV segment are there any updates you can share around the BDU affiliate agreement?

Dana Landry

We have made a statement in the MD&A saying that we've agreed to—what's the wording we used, Keith, all of the—we can't comment on any specific deal, obviously, but we've agreed to all material contracts that have been up for renewal within the near term. So we're locked and loaded and moving forward.

Keith Abriel

And the majority of the underlying economics are multiyear agreements.

Dana Landry

Thank you.

Sharath Toopran

Okay. Great. Thank you very much, guys, and I'll pass the line.

Operator

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

Deepak Kaushal — GMP Securities

Hi. Good morning, guys. Thanks for taking my questions; only a couple for me.

Dana Landry

Good morning, Deepak.

Deepak Kaushal

So I just had a question. You reiterated your guidance for the year and you presented a strong quarter end of December. Can you contrast what you're hearing from customers from the fall versus what you're hearing since January? It's obviously a different macro environment. Maybe you can tell us if there's any difference in your discussion with customers or any caution on their part?

Dana Landry

No, not all, Deepak. I mean I think what we're seeing is is you're seeing where our growth is coming from the disruptive technologies, and all of them are continuing on unabated. And certainly if you look at Netflix as an example we've seen that they've made announcements to go global very quickly. And we are obviously well positioned to realize some organic growth there.

We've also a real tremendous uptick again in our YouTube business. We've got a real focused team that's executing on a strategy there, and so we're seeing upside there. And as David said in his remarks, we're also seeing the traditional linear channels like Disney that are also out there looking for our content and competing for it, and in some cases then the case is just backstage and others are winning.

So what we're seeing really is that it's—what we've seen in the past in other technological cycles where the capital comes into the system and that capital causes disruption. And in that moment where there haven't really been clear leaders—although you could say Netflix is a clear leader in SVOD; in other categories and many others that are coming on strong, Amazon, Hulu, and many others, of course—the linears or the traditionals are also stepping up and competing for market share.

And so for us as an IP owner we're greatly benefitting. So we're really not seeing anything in terms of caution from our customers.

Deepak Kaushal

Okay. Fantastic. And then just from a financial perspective, according to my math it looks like another cash burn in the quarter. Is that correct?

Dana Landry

Yeah. So we did a pretty significant detail in the outlook section page—Keith can get it for you—but essentially we're ramping up greatly here in production and content. We've got a bit of a cash burn as we do that.

You'll recall that for the first three months we were double paying on our former outer (phon) range and plus our content. And in the quarter I think we had about eight live action shows that were in progress. The good side of it is we're delivering—to Keith's point—delivering earlier, but obviously in order to fuel that growth there's a short-term cash burn, which as we've said multiple times in the fullness of time we fully expect that to repatriate to working capital going forward.

Deepak Kaushal

Right. So that high investment in working capital is a timing issue and should reverse. Is that a correct interpretation?

Dana Landry

Yeah. Yeah.

Deepak Kaushal

Okay. Great. I mean can you give us a sense of EBITDA to cash from ops conversion for the year and for next year? Do you have a target…

Dana Landry

Well, yeah. I mean I think this is always a hard one to generalize, but I would say that in media the average is sort of mid 50s, the very high end low 60s. For us this year because we have a new step function of ramping up I suspect it's probably closer to the 40 range. But ultimately I think last year when you look at our numbers, I think we generated just under 50 million on 90 million, so we were slightly above average last year. And fully expect to get back there in the near term.

Deepak Kaushal

Okay. Okay. Fantastic. Last question for me, if I may; you talked about the new opportunity in mobile viewing and gaming. I was wondering if you could elaborate on your planned strategy to target this market? Is it going to be like before a combination of in-house, a combination of third party partners, and then acquiring new titles? What can we expect on that strategic front?

Dana Landry

Yeah. Exactly, exactly. It's something that we've been—thank year for that question—we've been watching this quite clearly. Obviously, we're living in a new world. I mean those of you who have kids on the call or know kids, they don't go anywhere without their mobile devices, smartphones, or tablets. And in my home, so in particular, the only fights we have is about screen time, not about did they do their homework or not.

So there's just a tremendous appetite for content out there. And that's really fuelling many new platforms, and really we've been sort of growing our YouTube business for quite some time, which in a lot of ways is a kind of content one click to obviously viewing and video. We feel the next wave of feature is going to be content click to retail for consumer products and anything else.

And so what I often say is if you want Caillou going forward, if you want to download a video, if you want to buy a concert ticket, if you want to buy a T-shirt, a book, a set of pajamas, you're going to have to come through us as the IP owner. And that's what we're building here, a scarce group of very powerful assets with a very strong provenance for evergreen tendencies that will last, we think, for many, many years in the future.

Deepak Kaushal

Okay. So just a quick follow-up on that, so for example on the gaming side should we expect that you're going to go out and acquire video game brands and turn that into TV…

Dana Landry

No, no, no. That's really not our—our thinking here really is to leverage our strengths, our strength as a content creator, and really just taking our own library. If we can net some creative ability within that sort of app development interactivity world we will definitely look towards that. But we will stick sort of to our strengths, which is content creation.

And so any sort of acquisition or strategic view that you see on this will be twofold: one, to get that expertise, either build it in-house or attain it through acquisition; and then two, obviously leverage our deep broad library. I mean we're seeing tremendous potential in many, many opportunities, and really we see this as the next leg of extension of our monetization plan for our IP. And so those would be kind of the two highlights.

Deepak Kaushal

Okay. Fantastic. That's helpful. Thanks again for taking my questions.

Dana Landry

Thanks, Deepak.

Operator

Thank you. Our next question comes from the line of Robert Peters with Credit Suisse. And your line is open.

Robert Peters — Credit Suisse

Hi. Thank you very much for taking my question. Congratulations on the solid growth for the quarter.

Dana Landry

Thanks, Robert.

Robert Peters

Maybe just touching on the other side of the cash flow equation on CapEx, I mean we saw a little bit more outflow in this quarter. And I know you mentioned the investment you're making in the Vancouver office. One, how should we think about CapEx going forward? And maybe two, shifting focus to the Vancouver office, how should we think about any potential synergies we should have once that's up and running in 2018?

Dana Landry

Yeah. So let me make some general comments, and then I'll turn to Keith for specifics. But I mean generally other than investing in our content we don't have, as you know, Robert, a very capital-intensive business. We do from time to time have to ramp up in terms of software and technologies related to keeping on top of the game for content.

And so we're looking at the Vancouver situation as an opportunity where we can take two operations and combine them into one. And we will obviously see some benefits, efficiencies going forward in terms of just shared services, et cetera. And so we're looking forward to that.

It's a little bit early days to figure out exactly what the quantum of that is, but we certainly think that there'll be some savings there. And in general, really we're looking at those as sort of a little bit of onetime anomaly costs of getting that studio up and running, not unlike what we had a couple years ago when we did Halifax.

But going forward we expect that that would normalize into our normal range for what we would call normal CapEx, 4 million to 5 million.

Keith, I don't know if there's anything to add.

Keith Abriel

Yeah. And, Rob, we're tracking on that 4 million to 5 million path this year. We're actually tracking a little bit below that, and we've given a range in terms of the Vancouver studio to be incurred from '16 through '18 on the construction of the leaseholds there.

Robert Peters

Yes. I saw that. Thank you very much, and thank you for the colour. Maybe shifting focus to the distribution side of the business, and you highlighted on the call the fact that Netflix is going global, and I think that's a big opportunity for you guys. But I was wondering when we think about that opportunity and we think about the current licensing agreements you have with them now, are there any that are kind of multiregional? Or literally you do it on a country-by-country basis with them?

Dana Landry

Well, certainly it's evolved over time. I mean I think we've probably done somewhere between in excess of 25 different deals with Netflix over the last six, seven, eight years. In the beginning they were nonexclusive generally for individual territories, and as those have been renewed those have been extended to their other territories. And that's sort of one big piece of business that we do with them. That's probably still probably 60, 70 percent of our business.

The next piece is sort of what we would call the Netflix originals, obviously, in which case they get the exclusive rights for a term, let's say, five years for all of their territories. If they add new territories, depending on the title, there may be incremental revenue going forward.

So there is incremental revenue opportunities for us as they go and expand globally is the short answer.

Robert Peters

Fantastic. Thank you very much.

Dana Landry

Thanks, Robert.

Operator

And thank you. Our next question comes from the line of Rob Goff with Euro Pacific. Your line is open.

Rob Goff — Euro Pacific

Thank you very much and good morning.

Dana Landry

Good morning, Rob.

Rob Goff

Good morning. My question would be on the distribution side. Could you talk to what the pricing trends are there? And further on the mobile side, could you talk about the pricing impact or your ability to bundle in mobile rights with other linear or digital sales?

Dana Landry

Okay. So thanks for those, Rob. So on the pricing trend what we're seeing I would say is that in the very early stages of our growth a lot of it was being driven by a lot of library titles. And I think what's happening now, as Keith mentioned in his comments, there's a lot of the current content that's being sold as well.

Typically, there's a positive and a margin consequence to that, though, so in terms of balance I would say we're moving more towards a 50/50 approach where we would have 50 percent of our distributions from current library, let’s call it, within the last couple of years, our current catalogue, and then a library catalogue as well. On the newer stuff, obviously because they're new and you haven't—not got the ability to forecast revenues forward, the amortization on those tend to be more aggressive, so the margins tend to be a little smaller.

However, it's a hugely positive trend going forward because that content is in demand in multiple places. But, and the last thing I would say on that, is typically the per half-hour on the new stuff is higher, so pricing is actually trending upwards. So that is feeding some of the growth.

In terms of mobile rights, I mean this is just another category for us. You’ve seen now that you’ve been with us, Rob, for quite a while, you’ll have seen that when we went to YouTube we had a tremendous opportunity. And that's really because what we talked about for many, many quarters is that we have a largely unencumbered very large library. And so we represent—we're a perfect partner to go into any new technology. And mobile is just another technology that we see has huge potential. And so we've kept that for the most part the vast majority of those mobile rights.

And so as we move forward and see opportunities the same way as we did in the AdVOD space with YouTube, the same way as we did in the SVOD space with Netflix, Amazon, Hulu, we'll look to take advantage of that in the mobile space. Obviously we'll try to start here at home in leveraging some of the strengths that we have in our Family brand, but also the US with some of our strong content.

Rob Goff

Very good. Thank you.

Dana Landry

Thank you.

Operator

And again, if you would like to ask a question, that was *, and the number 1 on your telephone keypad.

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

Bentley Cross — TD Securities

Good morning, gentlemen, and welcome, Nancy.

Dana Landry

Thanks, Bentley.

Bentley Cross

Congrats on a strong quarter.

Dana Landry

Thank you.

Bentley Cross

I have a few questions, though. I just wanted to push back on the guidance a little bit. Obviously the organic growth has been 30 percent plus for most of the key lines, but when I look out for the balance of the year it to me looks like you're essentially guiding to mid to high or maybe 15 percent-ish ballpark of organic growth. I'm wondering what is causing the hesitancy there? I know…

Dana Landry

Well, right. I mean I think it's really just looking at the pipeline and seeing how it develops. I think there's some upside there for sure. It's a little early to sort of update that.

What I would say, though, Bentley, is you'll recall last year in Q3 we had a very, very strong quarter. I think revenues of distribution were in the 30s, and there were some elements of onetime nature of it in terms of some Amazon stuff…

Bentley Cross

Yup.

Dana Landry

Somewhere in the 5 million to 6 million, 7 million, so that is going to present a bit of a tough comp for Q3. But the pipeline is very robust, and we're executing very well. We're only—we're short period in the quarter.

We expect that we—we're optimistic that we can go and tweak that going forward, but for now we're leaving it at that time—sorry, at those ranges. And we'll look in Q3 once we've done our—once we've obviously executed on that quarter to come back and look at revising.

Bentley Cross

Okay. That's somewhat reassuring. And then on the Mattel deal I just wanted to clarify. There was roughly a $50 million intangible asset payment. Is that Mattel payment included in there this quarter? Or that still to come?

Keith Abriel

Yeah. That is largely the Mattel payment, and present value of future payments as well.

Bentley Cross

Okay. And then related to that, when you guys are thinking about deals like this with Mattel or whether it be acquisitions or buying back more stock, how do you think about the return mechanics? And how do you choose your battles here?

Dana Landry

Yeah. So great question. It’s a question that we debate multiple hours every day on, but essentially we're pretty simple. Our targets are 20 percent return on capital, so if there's any sort of growth opportunity inorganic or organic that we see we'll look to put capital to work.

We've successfully exceeded that 20 percent for quite some time, so I really feel like our team does a great job at ferreting out opportunities, number one, presenting solid business cases, aligning them with core strategies, and then obviously executing on those, and whether that be through acquisition or through organic.

So going forward when our stock dips to a ratio that we feel falls above that we'll look to deploy that capital through the share buyback; however, having said that, we're seeing lots of opportunity out there for additional acquisitions. But what's great about the platform that we've built is you can see in quarters like the first two quarters where we did not close any acquisitions we still had tremendous organic growth, but yet there's still lots of opportunities for acquisitions coming forward. And I would say the quality and quantity is accelerating.

It's always been strong, but particularly strong right now. And that's one of the benefits of a tough market when the people at the top struggle, the people at the bottom struggle, the people at the bottom struggling tend to get to capitulation, and then you tend to get assets that pop up. And we're in a very, very good position to take advantage of those.

Bentley Cross

Great. And then just one more housekeeping just in terms of live tours; can you remind us what is expected for this year and what came in last year just so I'm not taken off guard for the balance of the year?

Dana Landry

Live tour, there is one significant live tour that's currently scheduled and been announced. It’s the…

Keith Abriel

The Next Step Live tour is actually starting now. It started two weeks ago. It’ll wrap up towards the end of this quarter, and a little bit of it’ll run into Q4. We would expect the magnitude of that to be 25 to 30 percent more than it would have been last year.

Bentley Cross

Great. Thanks, guys.

Dana Landry

Thanks, Bentley.

Operator

Thank you. And there are no further questions at this time.

Presenters, I turn the call back over to you.

David Regan

Thank you, Operator, and thank you, everyone, for joining us today. For more information, please feel free to consult the Investor Relations section of our website at www.dhxmedia.com, or get in touch with us directly.

Thank you, and good-bye.

Operator

And this concludes today's conference call. You may now disconnect.

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