FINAL TRANSCRIPT

DHX Media Ltd.

Fourth Quarter and Year-End Fiscal 2015 Results Conference Call

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PRESENTATION

Operator

Good morning. My name is Jessa (phon), and I will be your conference Operator today. I would like to welcome everyone to the DHX Media Fourth Quarter and Year-End Fiscal 2015 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 for analysts. If you would like to ask a question during that time, simply press *, then the number 1 on your telephone keypad. If you would like to withdraw your question, please press the # key.

I would now like to turn the call over to Mr. David Regan, Executive Vice President, Corporate Development. Mr. Regan, please go ahead.

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

Thank you, Operator, and thank you, everyone, for joining this morning. Today we're going to start off the call with comments from our Executive Chairman, Michael Donovan, after which we'll turn it over to our Chief Executive Officer, Dana Landry, followed by Keith Abriel, our Chief Financial Officer, who will take a deeper dive into the numbers. After Keith, I'll come back to provide a little bit more colour on some corporate activity—corporate development activity that is, pardon me. We'll then open the line to questions from analysts.

First though, the matters discussed on this call include forward-looking statements regarding the business strategies of DHX, the future financial and operating performance of DHX and its subsidiaries, the timing for implementation of DHX's business strategies and payments of dividends 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 DHX Media's MD&A and the Company's Annual Information Form.

I'll now turn it over to our Executive Chairman, Michael Donovan. Michael?

Michael Donovan — Executive Chairman, DHX Media Ltd.

Thank you, David. We're pleased this morning to be again reporting record results for DHX Media. Today's numbers continue to underscore the strength of the integrated platform and world-leading library we built. I'd like to congratulate Dana and the team on their hard work as they continue to realize double- and triple-digit growth.

One of the most exciting developments at DHX over the last year was our expansion into China. Earlier this month, we announced a deal with Alibaba to provide more than 2,500 half hours of DHX content to their new SVOD service. This of course follows the launch in March of our joint venture at AdVOD service with China's state broadcaster. We see these two deals as only the beginning of the exciting opportunities available for us in China. Dana will expand on this in his update.

I also want to highlight the excellent ratings for Family Channel going into the new broadcast year, which began September 1st. Family is the number one kids' specialty network in Canada, and the series, The Next Step, and the feature film, Full Out, winning the number one and two spots respectively on their premier date of September 11. We feel these strong ratings are signs of early success for our new branding and programming strategy at DHX Television, the remainder of which we will be rolling out over the coming months.

With that, I'll pass the call over to Dana. Dana?

Dana Landry — Chief Executive Officer, DHX Media Ltd.

Thank you, Michael, and thanks, everyone, for dialling in today. As Michael mentioned, this has been an exceptional quarter and year for DHX with contributed strong growth—continued strong growth I should say—across all key metrics, including growth in every revenue category.

Revenues for Q4 were up 139 percent over Q4 last year. Our adjusted EBITDA was up 124 percent. Our basic earnings per share rose from $0.01 to $0.03 for this quarter, and our adjusted EPS rose to $0.04 versus $0.02 last year. These results included strong quarterly organic growth, including, among others, 160 percent organic growth in proprietary production and 52 percent in distribution for the quarter; and annually, organic growth of 33 percent for proprietary and 68 percent for distribution.

As Michael mentioned, one of the many opportunities we are very excited about is China. Our announcement earlier this month puts us in business with e-commerce giant Alibaba, who have now licensed on a non-exclusive basis almost one quarter of our library for their new SVOD service. This is a huge leap forward for us in the territory. The Alibaba deal highlights the continued strength of DHX as a go-to supplier of kids' and family content worldwide. What we are seeing in China is the emergence of a new OTT market, in our view the same way OTT services rolled out in North America and Europe over the last few years. Moreover, we have started licensing in China in the same way, with non-exclusive rights, the same way that we did in North America and Europe some years ago. And as a reminder, we saw growth in North America and Europe as these services expanded and new ones emerged, and we expect to see the same escalating demand for our content in China as new services grow and emerge.

Indeed, while we cannot comment on any specific deals, I can say that we are now in negotiations with several additional OTT services in China. The VOD market in China is heating up and being on Alibaba's SVOD puts DHX in a strong negotiation position as these other services will want to lock in marquee titles as well as have access to our large library. Our Alibaba deal also allows us to offer a significantly larger deal of Mandarin translated content, leading to margin expansion as we look to leverage these assets across other OTT services.

Over the coming years, we expect to see similar growth dynamics unfold in other emerging territories such as India, Southeast Asia, and Brazil. This is all a continuation of what we've been discussing for quite some time now, the global expansion of OTT viewing. In fact, more than 50 new VOD services have launched in various territories around the world since January 2014 and others, such as Netflix, have expanded and announced further expansion plans. This has translated to ravenous demand for content, and kids' content is being disproportionately revalued upwards because kids' viewing creates stickiness within the household.

We are seeing that OTT platforms need kids' content to attract and retain subscribers and help reduce customer churn. As we've seen in territory after territory, families want marquee shows like the ones in our library, shows such as Teletubbies, Degrassi, Inspector Gadget, Caillou, Yo Gabba Gabba!, and many others. This is meaningful not just for our—only for our distribution business but also for our merchandising and licensing business. Alibaba is not just an SVOD service. They are one of the world's largest e-commerce companies. We expect this will open doors to our merchandising and licensing brands in China, representing huge incremental potential.

Over the past year, we have been steadily building up our M&L business to be able to implement a strategy that takes advantage of platforms like Alibaba and other customer—consumer product retailers. Our UK-based M&L business, led by Peter Byrne, has experienced and amazing turn around driven by success in the represented group. For fiscal 2015, CPLG posted a year-over-year EBITDA increase of 1,200 percent. The business expanded into the Nordic, Central Europe, and Middle Eastern territories and continues to drive a strong retail agenda with an enviable portfolio of rights. In Europe, for instance, CPLG represents the Minions franchise as well as Jurassic World from Universal, both blockbuster merchandising success stories. We look to build off these successes.

Our DHX Brands team in the UK and US has been very busy securing no fewer than 77 international licensing deals for top DHX Brands. I'd like to spend a few minutes on focusing on three of these brands today.

First, our highly anticipated new Teletubbies series is set to launch in the UK this November and internationally in early 2016. This update of the classic brand has generated worldwide interest on the merchandising and licensing front, landing 33 toy and product deals. As you will recall, Character Options, based in the UK, was appointed global master toy partner. Spin Master will distribute in North America and key Europe territories. Haven will represent the brand in Australia, and VTech will be rolling out electronic toys worldwide. Broadcasters for the show have been announced in the UK, the US, Canada, France, and Italy, and there are more to come. We see tremendous optionality on this brand and feel it is poised to reclaim its position as a worldwide phenomenon in the preschool space.

Next, a potential second big driver for DHX Brands is the preschool—a new preschool show called Twirlywoos, which launched with strong ratings in the UK in February of this year. We've since announced broadcast deals in France, Finland, Sweden, Norway, Israel, and Canada, with more to come. Golden Bear, the global master toy partner on this brand, began shipping a limited release of products this summer. Harper Collins is global publisher. Further, we've signed a range of other partners for products such as apparel, puzzles, and party wear.

Next, turning our attention to our third property, which we're really excited about for DHX Brands, is the new hit tween show Make It Pop. The show premiered last April on Nickelodeon in the US, taking the number one spot with kids 6 to 11, and was the most watched long-form content on nick.com and on the Nick app. In May, Nickelodeon commissioned a second season for Make It Pop, which we are now currently shooting in our Toronto studio. Further, season one rolled out on Nick's international channels this summer. There is a tremendous buzz about the show and this momentum contributed to us being able to announce in September that Jakks Pacific has been signed as master toy licensee for the brand. Stay tuned for more exciting announcements on Make It Pop ahead.

These three examples illustrate what is possible with our integrated platform. Let's remember, DHX Brands is only 15 months old, so there's lots of room and lots of potential for growth. DHX demonstrated its scale in production and distribution by delivering explosive growth in recent periods. Over the coming two to three years, it's time to demonstrate our potential in merchandising and licensing. Our consumer products deals with Teletubbies, Twirlywoos, and Make It Pop are really just the beginning of what we feel can be accomplished with this part of the business.

Changing topics now, we are now one year into our ownership of DHX Television. The question that we as management often get asked is how does DHX TV fit into all of this? Well, as Michael mentioned, Family Channel remains the number one kids' network in the country. Meanwhile, our TV re-brand and new programming strategy is off to a great start. We launched new branding for our preschool channels, Family Jr. and Télémagino earlier this month and will be launching the re-brand of our kids' channel, CHRGD, on October 9th. Proven hits like The Next Step and the Gaming Show have been renewed. An exciting slate of new shows have also been commissioned, such as Degrassi: Next Class, The Wonderful Wayneys starring Molly Ringwald and Jason Priestley. Further, hit content from AwesomenessTV and Mattel has also been licensed, and top priority DHX series such as Degrassi, Twirlywoos, Slugterra, Teletubbies and Yo Gabba! are already either on the channels or will be on soon.

We've had a busy summer with the re-branding and have had great feedback from the BDUs on our new lineups, and we're feeling positive about our direction. The BDUs are interested in not only in linear rights, but also SVOD and mobile rights.

This re-branding is core to our content strategy as we are constantly looking at things from a global perspective. What's critical to understand is the channels are superb rights generators, allowing us to commission shows, many of which we produce in our own studios. Once produced, we can leverage those shows worldwide through our distribution and merchandising and licensing arms. We are very optimistic of the possibilities for new IP generation for the future.

The year ahead is going to be very exciting for DHX as we continue to realize optionality across our brands through the global platform we've built. So please stay tuned. There are many exciting developments to come.

With that, I'll turn the call over to Keith for an in-depth look at our financials.

Keith Abriel — Chief Financial Officer, DHX Media Ltd.

Thank you, Dana, and thanks to everyone for dialling in today. Along with these strong results, management is pleased to announce its outlook for fiscal 2016, the highlights of which are as follows.

Production revenue is targeted in the range of 40 million to $50 million. Producer and service fee revenue is also targeted in the range of 40 million to $50 million. Distribution revenue is targeted in the range of 75 million to 90 million. DHX Television revenue is targeted in the 68 million to $75 million range. And M&L-owned revenue is targeted for 24 million to 30 million.

Turning now to the posted Q4 numbers. Management is pleased to highlight very strong growth in revenues, which are up 139 percent to 71.1 million for the quarter from 29.7 million for Q4 2014.

The increase in Q4 2015 was partially due to the acquisition of DHX Television on July 31, 2014, which accounted for 19.9 million or 48 percent of the growth, as well as increases in distribution revenues, which accounted for 24 percent of the growth; proprietary production, which accounted for 8 percent of the growth; and producer and service fee revenue, which accounted for 17 percent of the growth.

Proprietary production contributed 5.1 million in revenues for the quarter, up 192 percent over Q4 2014's 1.7 million. Q4 2015, the Company added 75 half-hours to the library, of which 30 half-hours were for proprietary titles. This was at the low end of management's expectations for the quarter.

Distribution revenues for Q4 2015 increased 67 percent to 24.4 million from 14.6 million for Q4 2014. This increase was primarily due to the continuing growth of new digital customers, platforms, and territories and was well above management's expectations.

For Q4 2015, DHX Television revenues were 19.9 million, slightly below the mid-point of management's expectations. Approximately 90 percent, or 18 million, of the revenues were subscriber revenues, while advertising, promotional, and digital revenues accounted for approximately 10 percent, or 1.9 million, of the revenue.

M&L-owned revenue decreased 11 percent for Q4 2015 to 4 million as compared to 4.5 million for Q4 2014, as the Company had no scheduled live tours during the quarter. M&L-owned, excluding live tours, was 4 million, up 16 percent as compared to 3.4 million for Q4 2014.

M&L-represented revenues for Q4 2015 were up 1.6 million to 4.8 million compared to Q4 2014 at 3.2 million and were above management's expectations, driven mainly by the strong performance of our represented show, The Minions.

Revenues for producer and service fees came in above the high end of management's expectations for the quarter at 11.1 million, an increase of 184 percent versus the 3.9 million for Q4 2014. This increase was a result of the combination of the acquisition of Nerd Corps and continued increasing demand for children's content.

New media revenues were up 4 percent to 1.85 million for the quarter compared to 1.8 million for Q4 2014.

Gross margin for Q4 2014 was 37.7 million, an increase in absolute dollars of 18.8 million or approximately 100 percent, compared with 18.8 million for Q4 2014. The overall gross margin for Q4 2015 was 53 percent of revenue, just below the midpoint of management's expectations.

Adjusted EBITDA for the quarter was 22.8 million, up 12.6 million or 124 percent over 10.2 million for Q4 2014.

Net income for the quarter was 3.7 million over Q4 2014's 1 million, or an increase of 2.7 million in absolute dollars.

Comprehensive income for the quarter was 6 million compared to a comprehensive income of 2.2 million for Q4 2014, or an increase of 3.8 million in absolute dollars.

Turning to operating expenses. SG&A costs for Q4 2015 increased 71 percent to 16 million compared to 9 million for Q4 2014. This increase includes 2.9 million for DHX Television as well as Epitome, Nerd Corps, and an increased SG&A level at DHX UK, totalling 4.4 million. This also reflects increased costs associated with DHX Brands and DHX Distribution as management continued to add resources to take advantage of the M&L opportunities associated with Teletubbies and Twirlywoos and the continued global expansion of digital distribution platforms.

Also in the Q4 2015 SG&A are costs associated with the Company's listing on NASDAQ as well as 1.2 million in noncash share-based compensation. When adjusted for noncash items, the cash SG&A at 14.9 million was just slightly above management's quarterly SG&A expectations.

For further specifics on our Q4 results as well as additional information on management's fiscal 2016 outlook and various other information, including a reconciliation of GAAP and non-GAAP financial measures, I would refer you to the Company's fiscal 2015 MD&A, which was posted on SEDAR and EDGAR this morning.

I'll now turn it back to David for a summary for recent corporate developments.

David Regan

Thanks, Keith. And just briefly wanted to mention that we're certainly pleased to announce that September 23rd, the Board of Directors approved a dividend for the quarter of $0.015 on each common voting share and each variable voting share outstanding to shareholders of record at the close of business October 8, 2015, to be paid October 16, 2015. This reflects a 7.1 percent increase for the increase over the third quarter 2015.

Also late last quarter, as Keith had alluded to here, we were very pleased to announce the launch of listing of our variable voting shares on the NASDAQ global select market. This was an important milestone for the Company, which we believe provides us with greater access to a wider range of investors.

With that, I'm going to turn it over to the Operator to open it up to analysts' questions. Thank you.

Q&A

Operator

Thank you. Again, if you are an analyst and would like to ask a question, please press *, followed by the number 1 on your telephone keypad.

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

Aravinda Galappatthige — Canaccord Genuity Corp.

Good morning. Thanks for taking my questions, guys. Congrats on a solid year again. I wanted to start with the international SVOD opportunity that you folks got. I mean, I think, Dana, you had mentioned earlier—I think in a past conference—that China revenues were as little as 1 million. I was curious, I mean, when you deal in China with operators like TVO, Alibaba, how are the dynamics different versus your experience with Netflix and Amazon, et cetera, both in terms of the competitive dynamics and sale process, et cetera. I was just curious how that's different?

Dana Landry

Well, thanks, Aravinda, for that question. Yeah, I mean, it's an exciting territory to be in. Obviously it's culturally very specific, and we have been closely monitoring China for quite some time now, probably as long as a year, and trying to figure out a way to crack that nut.

As you mentioned, I did mention in a previous conference that we had less than about a $1 million a year in China, and really the point there is China is the second largest economy in the world, although obviously it's having a little bit of issues at the moment. It’s still very large, and when you compare that to the revenues we generate in the US, it's in our opinion, woefully inadequate so we're turning our attention to growing that. We feel the best way to that is through partnerships. The inevitability of that though it means that the sales cycle is slightly longer in China as it takes time to understand the political issues and the various movements there. But having said that, on the positive side, we really feel the territory is extremely ripe for western content and animation content in particular. It's really what we feel it has been our experience in all parts of the world, and China being no different, which is animation is—it dubs very well in the language, in this case, in the Mandarin and in other forms of Chinese dialect. And a lot of our brands were very well recognized over the period. Obviously, Teletubbies is a big one, but also In the Night Garden. And probably that was really their—they originally started as UK brands and sort of the connection to that part of the world is a little closer. So we feel that from a library perspective we are at the top of the heap for the same reasons as we are in multiple other territories, which is that our library is extremely large, is very diverse in terms of key drivers, a lot of drivers that we believe the Chinese culture will like, and—but also, has the scale to be able to provide the necessary two—sort of one, two punch—in these new OTT services. And so from our perspective, it's really just the beginning, as we mentioned, but it will probably take us just a couple of years longer than other territories to expand.

As far as what the deals look like going forward, I would expect a similar type of progression. You'll recall that when we started back in a lot of the original platforms in the US most of our deals were nonexclusive, and those overtime over the last three or four years have translated into some original commissions; for instance, our Degrassi: Next Class deal with Netflix. And so we would expect that that is a similar trend but we think we're extremely well positioned to take advantage of that territory.

Aravinda Galappatthige

Thanks, Dana. And just turning to the M&A landscape, and it's an area you've had a lot of success in the past. Just wondering if you can give us an update of what you're seeing out there. I know you've focused mostly on the smaller private tuck-ins. Just a maybe general comment around what the opportunities are? And related to that, we noticed that there is NCIB in place. Should we read that as sort of a slight change in capital allocation plans towards buybacks rather than sort of on the M&A front?

Dana Landry

Okay. Thanks for those questions, Aravinda. So I'll talk to the NCIB first. I mean, really, it's just we feel it's good corporate governance to have an NCIB in place for a company of our size, just in case. So nothing really specific to that. We hadn't had one for quite some time so we wanted to put it in place. We may access it, we may not, so really would not read too much into that in terms of capital allocation.

In fact, on the M&A front, and I'll turn to your other question, we think in the last 60 days a lot more opportunities have come forward. One of the interesting things about when the markets bauble a little bit, it drives opportunities out of those challenges. And I think a lot of the companies that were looking at doing deals, whatever those might mean, not having the access to the capital markets, whether that is via possibly they were considering going public, et cetera, and just not having access to the markets is now creating opportunities. And in the last sort of 30 to 60 days, the number of those have popped us. And so I would say it's considerably better than it was six months ago in terms of the prospect of opportunities. Having said that, there is not a lot of whales left out there, but—and as we get larger, inevitably, the deals look to be tuck-ins.

And the last thing I would say is further to some of the past comments I've made over the last couple of months or so is that the opportunities we really feel are in the sort of—some opportunities going forward in the joint venture strategic partnership where we're really on the map now with respect to content creation, and we're seeing a lot of opportunities coming right out of the licensing side of the business, whether that be toys or other licensing companies, and other companies that are producing content or trying to produce content from nontraditional means, whether that be games or apps. And so we, in that regard, announced a partnership a month or so ago with AwesomenessTV to produce some new content and own and co-own and co-distribute those rights. And so we're expecting to announce similar deals to that going forward and stay tuned.

Aravinda Galappatthige

Thanks. And last one and I'll pass the line. With respect to guidance of DHX TV, obviously the guidance for fiscal '16, at least on the revenue side, is fairly conservative considering that you did about $76 million in revenue for fiscal '15. Is that sort of meant to—is that meant to be conservative?

Is that—does that should be a reflection of sort some of your BDU discussions? I just wanted to see if you just wanted to comment on (unintelligible).

Dana Landry

Yeah, it's meant to be conservative. Obviously, I can't comment on any of the specific negotiations, but I think that we feel that this is an extremely comfortable range for us. Obviously, like we do on all of our ranges, we'll try to beat, and we think that there's a lot of opportunity certainly in the SVOD side and the mobile right side, in addition to possibly adding advertising on the channel and sponsorship, which we think over time those things will easily cover off whatever might—headwinds that might be created by the linear side. Having said that, as you know, we're relatively conservative with our guidance, and so we feel this is the range that we're comfortable putting out there at this moment. In six months, we'll readdress and perhaps we'll be updating that.

Aravinda Galappatthige

Okay. Thank you.

Dana Landry

Thanks, Aravinda.

Operator

Your next question comes from the line of Rob Goff from Euro Pacific. Please go ahead.

Rob Goff — Euro Pacific Canada

Thank you very much, and good morning.

Dana Landry

Morning, Rob.

Rob Goff

Morning. My question would be a follow-up on the Family Channel. With the ratings that you've seen to date out on the Family Channel, would that suggest that you've perhaps invested more in the programming than you might've originally anticipated or planned when you talked to synergies or programming savings of 10 million to 14 million last May I believe it was?

Dana Landry

Not really. I think it's really a timing thing. I think when you—when the reality, when you stir that all up into the consolidated pot, Rob, as you know, it bears out in slightly different ways. And for us, really what it means is inventory synergies. So when you look at our guidance, you'll see that we've upped our gross margin expectations from sort of low 50s to the mid 50s to possibly even 60 percent. And a lot of that has to do with, yeah, there has been some early investing in the schedule as we look to launch and hit the ground running, but over time that will certainly bear out and perhaps be even a little light. But in this particular year, we think that that conservative range of sort of 5 to 10 percent incremental margin would cover our cost synergies.

Rob Goff

Great. Thank you. And one other one, if I may. The headlines with respect to the Great Britain campaign are impressive practically. Is there a lot that they can do in terms of opening doors for you?

Dana Landry

Yeah, absolutely. I mean, that's a lot of—our team, we feel, is extremely good at that sort of grass roots marketing campaigns, and that is led by Peter Byrne who has, in his past, has been at places like HIT and Fox. In the case of HIT, he was there when Thomas went through its sort of boom. And so we're drafting off of his experiences, and certainly in the UK those sort of early efforts are certainly paying dividends. And from a global perspective it was great bang for our buck. I don't want to pre-disclose any other campaigns that our team has developing but other than to say lots more to come; stay tuned.

Rob Goff

Okay. Great. Thank you very much.

Dana Landry

Thanks, Rob.

Operator

Your next question comes from the line of Haran Posner from RBC Capital Markets. Please go ahead.

Haran Posner — RBC Capital Markets

Yeah. Thanks very much. Good morning, guys. Maybe first I was hoping you could give us an update on where you are with AdVOD. Maybe I missed it in the MD&A but just wondering if you could give us an update on revenues from YouTube, and I don't know if CCTV is included in there.

Dana Landry

Yeah. CCTV has been a soft launch so there is very little in there at this moment and it would only be up to the end of June but—whatever amount would be in there. What we've seen, Haran—and thanks for your question to allow me to clarify—is that as you've seen in the past, two years ago the YouTube revenues for us were pretty significant when it comes to a percentage of overall distribution revenue. And in terms of what's happening and you recall perhaps in past calls where I said stay tuned, we think there's other platforms that are going to also either meet or perhaps exceed YouTube. And one of those ones for us has certainly been Amazon. And so it's sort of self-inconsistent for us to sort of be highlighting that one in particular so we've started to group those whole—all of those revenues in a sort of digital category.

And what I would say is that that plus everything else in terms of the digital side, whether it be the SVOD or let's call it the premium service that you have on Amazon, which is free if you want to be served ads, and if you don't want to be served ads you pay the prime service and you get served fewer ads. So there's all sorts of expanse. And so as a result of that we sort of decided to go away from individual disclosure.

I think there is some general guidelines, and I'm just looking at them here now. Looks like the gross revenues for YouTube for fiscal—is this fiscal, Keith?

Keith Abriel

Yes, it is.

Dara Landry

That was about 12 million, offsetting 7 percent over last year of about 6.5. But going forward you'll see us probably group those with the other digitals and try to create a little more clarity into those streams.

Haran Posner

Okay. No that makes perfect sense, Dana. I wanted to give you an opportunity to maybe comment on the pulled equity offering, I guess, and really what's more interesting for me is going forward obviously lots of corporate development opportunities, whether it's JVs or acquisitions. How do you feel about sort of where you are in terms of the cash position to pursue these acquisitions?

Dana Landry

Yeah. Okay, thanks for that question. I mean for us it was really a matter of, you know we had the demand for the stock. At the last moment, unfortunately, the price of the stock on the day of pricing got crushed below a level that we thought was acceptable and fair to our long, so we pulled it. That was our decision at that moment, and certainly not one that we regret because obviously we feel over the summer we've had some tremendous conversations with a lot of the accounts we've seen, and a lot of them have picked up stock, we believe, over that period. So we're gaining traction in the US, and so we're looking forward to possible futures.

What I'd say in terms of our access to capital; we still think it's extremely positive, the market conditions for us, and as opportunities come forward, and we qualify those opportunities, we feel—if we need to access capital, whether it be from the debt market or the equity market, it's there for us. And so nothing specific in the works, but given our track record of being very inquisitive I would assume that we'll look to do a few deals as we move forward here, and as we do we will assess what the best fit for the capital is.

Haran Posner

That's great. Maybe last one, Dana, if I may. With respect to Teletubbies, obviously you're already recognizing some minimum guarantees in your M&L revenue. This is a big brand so we're seeing a good pick-up on the broadcasting side from a licensing perspective. I'm interested in your thoughts on kind of the timing on when is the optimal timing to go deep into the retail space with merchandising. I mean it's probably you want to wait until the brand has kind of had it's time to develop. I'm just interested in your thoughts.

Dana Landry

Yeah, exactly. The time line of these things is that you can't rush them. You have to—it's a very tricky scenario. First of all, you've got to have content that connects to kids in deep and meaningful ways, and we think we have that with our rebranding. You then have to have it on the proper channels, and in some territories that is linear broadcast. The US, for instance, is still a very key territory for linear. And then other visual platforms in various other territories are also emerging as key.

So once you have it on that, then you look to—that is essentially your advertising, for lack of better word, for your licensing campaign. So you've got to build the awareness within the territory and then have the toys on the shelves when the awareness is hopefully starting to build.

For us in the UK—I'll use that as an example—we feel that that won't be until next Christmas, sort of 2016 which would be in our fiscal '17 numbers. So you'll see that we increased our guidance for '16 for M&L, and we do expect a pick-up as momentum builds on these brands. But really, to be frank, we're not producing Teletubbies for minimum guarantees. We want royalties for years to come, and these brands tend to have a cycle of much longer than live action. In the live action world, brands tend to be seven to ten years. In the animation world, it could be as long as 15 to 20. And so we're on build. We're early days, but the momentum is building and stay tuned. But from a granularity perspective it's probably '17 and '18 forward for us with the big years.

Haran Posner

That's great. Thanks very much.

Dana Landry

Thanks, Haran.

Operator

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

Deepak Kaushal — GMP Securities

Hi, guys. Thanks for taking my questions. I've just got a couple of quick follow-ups and then a bigger picture question. Just on the last comment you made, Dana, live action, seven to ten years; animation has a shelf life of 15 to 20. But you have been commissioning through Family some more live action and drama-based content. How do you see the mix of this going forward? And any other difference in the economics that we should be aware of?

Dana Landry

Yeah. That's a good question. I mean I think as we look to expand and grow it's logical for us as a—we believe—as a key content provider to go into that live action space. It's not one that we should be afraid of. It's one that we should embrace, we feel. And one thing that you can do in terms of live action to extend that brand, as you've seen in the adult side, sort of CSI world or Law and Order world, is to continue to produce new series. And Degrassi for us is a great example of that where we're now into the third, I think, at least, version of the series, and the next class with brand new life. And so that's how you can continue to extend that brand. In the case of CSI, I believe I saw a note saying that it's wrapping up its 15th season and that's going to be its last. So you have to build it through awareness, and so that's a key area we think they'll focus, and so one that we're in a position to take advantage of so we're going after it. Obviously because we own Family as well it gives us great access to the resources related to that and to build those rights.

Having said that, we've felt from the beginning you want a diverse portfolio of rights, and animation has certainly been our strength. And so we look to continue to build on that, but adding the live action piece we think is very interesting in this world of OTT services.

Also, you'll note that we own a studio through our Epitome transaction, the Degrassi studio, and obviously that allows us to vertically integrate to just continue to reduce the overall CapEx requirement on our inventory. And that vertical integration will continue to—we believe—to result in further margin expansion going forward.

Deepak Kaushal

Okay. Great. And just does it tie up more working capital to do live action? And you get more over of a short-term period when you start delivering? Or how does it compare?

Dana Landry

Yeah. To some degree because the budgets are slightly higher, but I think you have to think about it moreover from is your production, proprietary production, growing? And ours is, and so there's a greater use of working capital. But again, we believe, as we've been saying for quite a while, is in the fullness of time that gets repatriated as you start to collect the tax credits in the various contracts. So you're always in a state of either expanding production or reducing production. When you're reducing production your working capital starts to swap back in, and right now we're in a growth mode. So certainly that will continue to be a use for at least the next few years.

Deepak Kaushal

Okay. Great. And then just a bigger picture one. There was a bit of doom and gloom last quarter coming out of the US linear industry with cord cutting and the fear of changing dynamics there. From your perspective it's one of the most mature over-the-top markets, but what are you guys seeing in terms of changes in that market? What are your observations? Or what do you think is coming down the pipe?

Dana Landry

And just to clarify, Deepak, was your question related to the linear side? Or the OTT side? I didn't quite catch it.

Deepak Kaushal

Well, just the overall US market. Given it's the most mature—

Dana Landry

Right.

Deepak Kaushal

—over-the-top market and there's doom and gloom being put in front of the—

Dana Landry

Right.

Deepak Kaushal

—linear, so just want to know what you're thinking about it there.

Dana Landry

Yeah. I mean like we felt for quite a while, obviously, media is very cyclical. It's driven by technology. The latest technology, of course, is digital. And the US typically leads that, mainly because it has the greatest access to capital. And so our theory from the beginning is that capital agglomerates to various parties and then monetization models emerge. Obviously, we're well into that cycle in the US, probably half way through the game. The leader—half way through these cycles leaders start to emerge in certain territories, and that's certainly what we're seeing. There hasn't—you haven't got to that next phase, which is sort the—let's call it the third phase, which is the consolidation phase, and we don't feel that that's there for another two or so years. And so we still feel there's pricing expansion possible because we still feel there's a supply-demand imbalance, which obviously through our growth and others and some of that is being filled.

And to that end you're still seeing Amazon lately and Hulu, Google all talking about putting much more capital into the content space, and particular into the kid space. And you're still seeing brand new VOD services come on stream. Like HBO came on, I think, a month or so ago, and we're seeing more. And on average it's been about one a month. So in terms of the new players, that hasn't subsided just yet.

Deepak Kaushal

Okay. So no change; still tracking along with the cycle and still lots of upside to go?

Dana Landry

Yes.

Deepak Kaushal

Okay. Great. Thank you so much.

Dana Landry

Thank you.

Operator

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

Bentley Cross — TD Securities

Morning, gentlemen.

Dana Landry

Morning, Bentley.

Bentley Cross

Speaking of upside, I wanted to talk about Inspector Gadget. That was hyped up as a property for you guys a couple years ago, and now it's hit the market. Wondering how the early traction is going for M&L.

Dana Landry

Thanks for that question, Bentley. It allows me—it didn't come up in our bullet because it's one that's probably a little bit further down the road for us. And just to remind everyone on the call, Gadget is an exclusive deal in the US through Netflix. And so like all of our information, although anecdotally they seem extremely positive and we've commissioned a second season, which is always the key metric, they still very much keep their cards close to their chest. However, having said that, you'll recall we did a number of cartoon network deals throughout the world, and the ratings on cartoon networks are extremely positive. And so the relaunch seems to be going well.

The thing about Gadget of course is that it's aimed at boys, typically aimed at boys although, obviously, there's a strong female character in Penny as well. It is boys sort of six to nine. And Gadget, although there's a logical play patterns related to the gadgets, he is, let's call it, a bit of a bumbling fool, and so not necessarily aspirational. So it's a little bit, always has been a little bit of tougher sale. A little bit of the slower cycle into the merchandising and licensing world.

However, having said that, over time it has built a great fan base and great traction, and so we would expect that to develop over the coming years, just at a slower pace.

Bentley Cross

Okay. And then one more. Production in the quarter fell short of where I was expecting and I think where you guys were expecting. I wonder if you could explain why that might have happened. If deliveries were postponed or something along those lines?

Dana Landry

You were fading out, but I think you talked about production deliveries? I think that was your question?

Bentley Cross

Yes, indeed.

Dana Landry

Yeah. Okay. So I mean they're quarterly specific, very hard to read into any one particular quarter. Sometimes you get—timing of deliveries is always the potential thing. You'll recall on past calls we've always said, look at the annuals, judge us on the annuals and you'll see the growth patterns are there, and you can see we're guiding up again for next year. So just more of a timing thing.

Bentley Cross

Okay. That's it for me. Thanks.

Dana Landry

Thanks, Bentley.

Operator

Your next question comes from Robert Peters from Credit Suisse Please go ahead.

Robert Peters

Hi. Thanks for squeezing me in. Just a quick question on my end, Dana. Maybe just when we think about the demand for linear production; I know traditionally it's always been very Canadian focused. I was just wondering if you see any—how you see kind of the demand for your content evolving over time from a linear perspective. Will it be shifting more to international markets? Or do think it's still going to be fairly domestic in nature?

Dana Landry

Yeah. No, I think it's definitely shifting towards more of a global feel, and that's sort of how we're commissioning all of our series at this moment in time. Even though, obviously, we own the Family Channel and very much look forward to programming that for Canadians, we've always looked at it from a global. So Degrassi is a great example which is, obviously, a lot of Canadian stories are laced within it but it does play very well globally.

In terms of demand for linear production, it's still ironically growing, it's not growing at the pace that digital is, for sure. And that's sort of typical with what you see in cycles, in our view, in that as the technology, digital, creates new markets and new players come in you have the existing decide to either die or fight. And nobody likes to die, so they start to fight. And so we've seen this in various examples, and Caillou is a good example of that in the last year or so; couple years I guess we've seen some of the linear services paying up to a degree much more significant than they have in the past. And certainly we're seeing that in some of our existing brands. Teletubbies, for instance, we license to Nickelodeon in a very competitive—or Nick Jr. I should say—very competitive environment. So we are still seeing that demand. Obviously, we think the large portion of the growth is going to come in the digital side but that linear demand is still there.

Robert Peters

Thank you very much. And maybe just to follow up on that, kind of when you think about your own mix in terms of leveraging the Family Channel, is that a place where you're going to be focusing? I know I think you've said in the past you're going to be focusing more on, but is it going to be almost 50 percent Family and then 50 percent non-Family Channel commissions? Or how should we think about that?

Dana Landry

Well, I think in terms of the—remember there's three channels that we have. So there's Family Jr., and that's our preschool brand. Obviously that will be our Teletubbies, Twirlywoos, and Yo Gabba Gabba!, and many more going forward. So that's an area that we've had leadership in for quite some time, so we look to continue to build off of that one. What's key there is obviously the merchandising and license potential. So that plays very much into our expansion there for consumer products.

And then you've got the middle channel, CHRGD, which is typically more animation. And for us, we've been building that up through some of our recent commissions but also our existing slate, like Slugterra. So we feel that those are very much animation and also will have global demand.

And then finally you've got Family, which is predominantly live action. And we'll look to feed in as we feel the right mixes of our own content, but all the while focusing on those global brand things that we feel that will sell outside of Canada. We've felt for quite some time now that it's a huge advantage that we have, competitive advantage, to off-load the vast majority of our CapEx. And there's no reason why we cannot develop content that has global appeal and sells in multiple territories over multiple platforms. And we've had obviously a great track record of that in the recent past, and that's what we look to build on.

Robert Peters

Perfect. Thank you very much.

Dana Landry

Thank you, Robert.

Operator

Your next question comes from the line of Tony Rizzi from CIBC World Markets. Please go ahead.

Tony Rizzi — CIBC World Markets

Hey, guys. Just a question about, I guess, to go back and talk about the China opportunity. Can you give us a sense of maybe how much of that you're baking into your 2016 guidance? Do you have some sense of what that'll look like into next year?

Dana Landry

Yeah, we've built some small amount in there, Tony—

Tony Rizzi

Okay.

Dana Landry

—but that certainly could be considerable upside for us. It's a little too early days to be too aggressive on projections related to that. I mean, whenever you have an emerging market, particularly one that's largely in the control of others, you have to be a little cautious. So that does represent some upside, but there is a certain growth—there's a little bit of growth in that guidance.

Tony Rizzi

Okay. Okay. Perfect. And then I'm not sure—I apologize if you've already addressed this, but DHX TV's revenue outlook guidance is a little bit lower. Can you outline maybe some of the big drivers there are? Is it mostly kind in anticipation of how you're seeing BDU affiliate fees? Or is it audience size? Advertising? Like how did you guys kind of look at the guidance and put out this year?

Dana Landry

Yeah, so the guidance is based on our conversations generally with the BDUs. Obviously to this point the channel has been I think 87 to 90 percent subscriber fees, and so those we're building in comfort level within that range of where it could go. But having said that, we think there's lots of opportunity to potentially add advertisements to the channel and channels. So there’s upside, number one.

Number two, we think sponsorships are a big growth potential for us given our connection to some of our live action initiatives, and you'll see some of our new expectations going forward for things like the big ticket concert and Next Step and a number of other series. And so we think there’s a great tie-in there between the linear and the new ancillary rights potential. And so those are growth side and certainly upside.

Tony Rizzi

Excellent. Okay. Thanks, guys.

Dana Landry

Thanks Tony.

Operator

There are no further questions at this time. I turn the call back over to the presenters.

David Regan

Thank you very much, Operator, and thank you, everyone, for joining today. As always, if you have further questions, please feel free to reach out to us or consult the Investor Relations section of our website at www.dhxmedia.com. Thank you.

Operator

This concludes today's conference call. You may now disconnect.

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