FINAL TRANSCRIPT

DHX Media Ltd.

Third Quarter 2015 Results

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PRESENTATION

Operator

Good morning. My name is Brent and I will be your conference Operator today. At this time, I would like to welcome everyone to the DHX Media Third 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 star and the number one on your telephone keypad. If you would like to withdraw your question, press the pound key.

I would like to now 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 and Investor Relations, DHX Media Ltd.

Thank you, Operator, and thank you everyone for joining us this morning. We're going to start off with comments from our Executive Chairman, Michael Donovan, and then from our Chief Executive Officer, Dana Landry, to provide some overview on the Q3 highlights. I'll then go into some detail on recent corporate development activities and then finally, hear from our CFO, Keith Abriel, with a detailed review of the numbers. Then finally, Dana will take us back for a few comments on the opportunities ahead of us, going-forwards, and finally of course, questions from Analysts.

First though, the matters discussed on this call include forward-looking statements. Such statements are 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 as set forth in DHX Media's MD&A and the Company's Annual Information Form.

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

Michael Donovan – Executive Chairman, DHX Media Ltd.

Yes, thank you David. We're very excited this morning to be reporting the best ever quarter for DHX Media. Today's numbers are a testament to the integrated platform and world-leading library we've built. I'd like to congratulate Dana and the team on their hard work, as we continue to realize double and triple-digit growth.

One of our big successes from Q3 was our new Live Action Series, *Make It Pop*, which was serialized on Nickelodeon throughout April. This show is number one on Nickelodeon for kids six to 11 and girls six to 11. It's the most watched long-form content on Nickelodeon's website and mobile app. *Make It Pop* has already been renewed for a second season and we're eager to resume shooting at our Epitome Studios, to deliver 20 more episodes of this unqualified hit.

We also continue to be extremely enthusiastic about *Teletubbies*, which is set to air in the late fall or early winter. The brand is gaining tremendous momentum worldwide. In Q3, VTech was added for electronic toys, to the already extensive list of *Teletubbies* licensees, and Haven was appointed Australian agent for the brand. We look forward to releasing more licensing news over the coming months, and also some very exciting broadcast announcements.

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

Dana Landry – Executive Director, Chief Executive Officer, DHX Media Ltd.

Thank you, Michael, and thanks everyone for dialling in today. This was indeed an exceptional quarter for the Company, with excellent growth across many of the key metrics. Revenues were up 195 percent over Q3 last year, our Adjusted EBITDA was up 216 percent, and our basic earnings per share rose from $0.02 to $0.15 for the quarter.

These growth results, it's important to point out, included a 125 percent quarterly organic growth, I should say, including among others 69 percent organic growth in proprietary, 210 percent in distribution, and 68 percent in M&L-owned.

We are also pleased to announce that on May 13, yesterday, the Board of Directors approved a dividend for the quarter of $0.0014 (phon) on each common voting share and each variable voting share outstanding to the Shareholders of record at the close of business May 29, to be paid June 19.

In addition to realizing stellar numbers this quarter, we also launched a significant rebrand of our Television Division. We're very energized about the plans to extend our industry-leading family brand across the TV channels. I will speak in greater detail about those plans and other prospects in a few minutes.

First though, I'll turn the call back to David for an overview of the Q3 business developments and to Keith for a detailed look at the numbers. David?

David Regan – Executive Vice President, Corporate Development and Investor Relations, DHX Media Ltd.

Thanks, Dana. In the third quarter, we closed a number of distribution deals and realized significant revenues from firms such as Netflix, Hulu, and Amazon. Two notable deals in the third quarter were struck with the distribution firm, The Orchard, namely an electronic sell-through deal for more than 8,000 episodes of DHX library content, and a digital music distribution deal, for more than 2,000 tracks of children's music from our library.

In addition, we secured the worldwide distribution rights to the new animated series, *Kookoo Harajuku*, which is inspired by an Executive, produced by the pop star Gwen Stefani. Also, during the quarter, our DHX Television Division ordered new seasons of the number one rated show—kid's show that is in Canada, *The Next Step*; the *Gaming Show,* which is a top performing domestic show across all Canadian kid's digital networks; and the hit DHX Media series, *Slugterra*, which we acquired as part of our second quarter Nerd Corps transaction.

In addition, DHX Television announced several new commissions, notably a new music series provisionally titled, *The Music Room,* from the same producers as *The Next Step*, and a comedy series targeted at boys six to 11 called *Fangbone!*. In the content production business, we delivered 60 half-hours to the DHX library, including 12 half-hours of *Looped*, 10 half-hours each of *Inspector Gadget*, *OPEN HEART*, and *This Hour Has 22 Minutes*, and nine half-hours of *Degrassi*.

Looking at developments outside of North America, the quarter saw our full service licensing agency, Copyright Promotions Licensing Group, or CPLG, expand into Central and Eastern Europe, opening new offices in Stockholm and Warsaw. CPLG, of course, acts as a licensing agent in Europe for rights owners such as Universal Studios, Lionsgate, and the Tour de France, amongst many others.

In China, our Joint Venture with the State Broadcaster there launched in March, as a standalone streaming website, dedicated to providing DHX content. There are plans to expand this service to other platforms, including for mobile devices. The site currently offers 700 half-hours of Mandarin-dubbed DHX content.

With that, I'll turn it back to Keith for a look at the numbers.

Dana Landry – Executive Director, Chief Executive Officer, DHX Media Ltd.

David, excuse me, it's Dana. I just want to clarify one thing. I think I misspoke on the dividend. It's $0.014; just for clarification.

Keith, over to you.

Keith Abriel – Chief Financial Officer, DHX Media Ltd.

Thank you Dana, and thanks for everyone for dialling in today. Based on the strength of the quarter, Management is pleased to announce, along with these results, an increase in the outlook for fiscal 2015, highlights of which are as follows: Production revenue is targeted in the range of $41 million to $43 million; producer and service fee revenue is targeted in the range of $27 million to $30 million; distribution revenue is targeted in the range of $66 million to $71 million; and M&L-owned revenue is targeted for $20 million to $22 million. For further details of the Company's detailed outlook, please see Page 19 of our Q3 MD&A.

Turning now to the posted Q3 numbers, Management is pleased to highlight very strong growth in revenues, which are up 195 percent, to $85.6 million from $29.0 million for Q3 2014. The increase in Q3 2015 was partially due to the acquisition of DHX Television on July 31, 2014, which accounted for $20.4 million, or 70 percent of the growth, as well as increases in distribution, which accounted for 71 percent of the growth; proprietary production, which accounted for 31 percent of the growth, and producer and service fee revenue which accounted for 9 percent of the growth, and a 12 percent increase in M&L-owned revenues.

We also saw solid growth in proprietary production, which contributed $15.1 million in revenues for the quarter, up 153 percent over Q3 2014's $5.9 million. This variance was in line with Management's expectations based on delivery schedules for the quarter.

Distribution revenues for Q3 2015 increased 210 percent to $30.5 million, from $9.8 million for Q3 2014. This included $12.8 million in streaming revenues for *Degrassi*, a portion of which represented a catch-up for calendar 2014. The quarter-over-quarter increase was partially due to the continuing growth of new digital customers, platforms, and territories and was well above Management's expectations.

For Q3, DHX Television revenues were $20.4 million, which was at the high end of Management's expectations. Approximately 90 percent or $18.3 million were subscriber revenues, while advertising, promotion, and digital revenues accounted for approximately 10 percent or $2.1 million.

M&L-owned revenue increased 96 percent for Q3 to $6.4 million, as compared to $3.3 million for Q3 2014. *The Next Step Live On Stage* tour generated revenues of approximately $2 million. There was no *Yo Gabba Gabba! Live!* show during this quarter. The M&L-owned for the quarter was $4.5 million, up 69 percent as compared to $2.6 million for Q3 2014.

M&L-represented revenues were up $0.13 million for the quarter, to $3.5 million, compared to Q3 2014 at $3.4 million, and were in line with expectations. M&L-represented revenues benefitted somewhat from tailwinds associated with the weakening Canadian dollar relative to the Pound Sterling.

The Company earned $8.2 million for producer and service fee revenues for the quarter, an increase of 45 percent versus the $5.7 million for Q3 2014. This increase was a result of a combination of the acquisition of Nerd Corps and increased global demand for children's content.

New media revenues were up 59 percent, to $1.5 million, compared to $0.96 million for Q3 2014. Gross margin for Q3 2015 was $44.8 million, an increase in absolute dollars of $27.3 million, or 156 percent, compared to $17.5 million for Q3 2014. The overall gross margin for Q3 2015, up 52 percent, was near the midpoint of Management's expectations. This was a result of strong margins on digital distribution deals, overall distribution margins, and producer and service fee margins, and DHX Television.

Adjusted EBITDA for the quarter was $29.8 million, up $20.4 million, or 216 percent over $9.4 million for Q3 2014. Net income for the quarter was $18 million, up 902 percent from Q3 2014's $1.8 million, or an increase of $16.2 million in absolute dollars. Comprehensive income for the quarter was $13.8 million, compared to a comprehensive income of $1.7 million for Q3 2014, or an increase of $12.1 million in absolute dollars.

Turning to operating expenses, SG&A costs for Q3 2015 increased 98 percent to $16.4 million, compared to $8.3 million for Q3 2014. This increase includes $3.2 million for DHX Television, as well as Epitome, Nerd Corps, and increased costs at Ragdoll totalling $1.2 million. This also reflects increased costs associated with DHX Brands and DHX Distribution, as Management added resources to take advantage of M&L opportunities associated with *Teletubbies* and *Twirlywoos*, and global expansion of digital distribution platforms.

Finally, SG&A includes $1.4 million in non-cash share-based compensation, compared with $1.2 million for Q3 2014. When adjusted, cash SG&A at $15.0 million was slightly above Management's expectations.

For further specifics of our Q3 results, additional information on our revised outlook and various other information, I would refer you to the Company's Q3 2015 MD&A which was posted on SEDAR this morning.

Now, I'll turn it back to Dana.

Dana Landry – Executive Director, Chief Executive Officer, DHX Media Ltd.

Thank you, Keith. As those of you who follow us along will recall, Michael referred in our last call to the tremendous growth of subscription video-on-demand or SVOD. This base has continued to proliferate since 2014 and even earlier. More than 35 new SVOD platforms have been launched and been announced to this date. This is up 11 since the end of 2014 and does not include the expansion of the existing platforms such as Netflix into Europe and Australia.

Revenues from this global growth are now flowing through our results, as evidenced today. For example, we recognized approximately $13 million from Amazon in streaming revenues this quarter alone. On a similar note, we saw 7 percent growth in the ADVOD space, or advertising video-on-demand space, over Q2 2015, our last quarter. Most significantly, our YouTube revenues continue to climb. The net margin contributed from YouTube for the quarter was $1.88 million, up 88 percent over this quarter last year.

We are also seeing great promise in the M&L program as Michael mentioned. Last June, you'll recall we launched DHX Brands as our dedicated brand management and consumer products arm. Since then, the business unit has executed 45 licensing deals across multiple platforms around the globe, of which 25 have been for *Teletubbies* and 12 for *Twirlywoos*. From these deals, approximately $1 million have been recognized to-date and with many more to come.

Also on the M&L front, we are seeing opportunities in the Live Stage Shows. In Q3, the Live Tour for Next Step, one of Family Channel's flagship series, sold out across Canada, and was expected—sorry, and was expanded by 15 shows for a total of 40 shows in 28 cities. The tour generated a little over $2 million in revenue and we look forward to future Live Tours for this and other shows, including potentially *Make It Pop*, our hit show that Michael mentioned earlier. For those of you on the call who are not familiar, this is a show about three teenage girls who form a K-pop inspired band at their high school. *Make It Pop* is a very strong example of the capabilities of our Live Action Production Team and this is the sort of hit show that DHX can and will produce.

Meanwhile, our animation studios continue to produce best-in-class content with international appeal, including shows such as *Inspector Gadget*, *Looped*, and *Dr. Dimensionpants*. As a reminder, this was our first full quarter owning the former Nerd Corps and its animation studio. We were particularly delighted by the enthusiastic response to the announced development of a project that was acquired with Nerd Corps. This project, in partnership with TVO, will be—we will be developing a new animated series based on the George Greenby books by renowned physicist Stephen Hawking and his daughter Lucy.

Last, by no means least, our plans and excitement continue to build at the opportunity to rebrand our TV channels here in Canada, based on the Family Channel's identity as the leading kids' and family entertainment brand in Canada. DHX will be extending the Family brand across our suite of channels. Family Channel, of course, will retain its industry-leading identity as Canada's most watched television channel—children's television channel, I should add.

Our preschool channels, targeting kids two to six in English and French will be rebranded, tentatively at the moment, Family Junior and Famille Junior, respectively. Our channel targeting six to 12 will be rebranded as Family XTRM, also tentative at the moment. These new brands will début by November 30, 2015. The core strategy behind the rebrand will be to leverage the DHX library, produce more original independent shows, and explore alternative content models such as working with YouTube Celebrities, as well as we will fill in the channels with third-party content. We can't divulge too many details just yet, but we're also developing ways to capitalize on the Family Channel brand on an overall DHX platform.

For example, with Family Junior, we will explore our library's preschool titles, prioritizing (inaudible) in our DHX Brands portfolio, and engage with top third-party brands. For Family XTRM, we will be emphasizing boys' animation and focusing on branded content for sponsorship and contest opportunities with toy companies. We are also in discussions with other content producers and we look forward to providing further updates on that in the future.

To wrap it up, before we hand it over to David for questions, please stay tuned, there's a lot of exciting announcements coming up. David?

David Regan – Executive Vice President, Corporate Development and Investor Relations, DHX Media Ltd.

Thanks, Dana. Operator, we'd be delighted to take questions from our Analysts.

Q & A

Operator

At this time, I would like to remind everyone, in order to ask a question, press star and the number one on your telephone keypad. If you would like to withdraw your question, press the pound key.

Your first question comes from Aravinda Galappatthige with Canaccord Genuity. Your line is now open.

Aravinda Galappatthige – Analyst, Canaccord Genuity Corp.

Good morning. Thanks for taking my questions. Congrats guys, great quarter.

Dana Landry – Executive Director, Chief Executive Officer, DHX Media Ltd.

Thank you, Aravinda.

Aravinda Galappatthige – Analyst, Canaccord Genuity Corp.

I'm just wondering if you can maybe expand a little bit on this, the large sized deal that you did for *Degrassi*, the $13 million streaming deal. I assume that's what you were referring to with respect to Amazon. Maybe just give us some background on how that came around and maybe, perhaps the sustainability of that type of deal. Not saying another $13 million deal, but sizable deals like that, the ability to continue to derive distribution deals of that nature.

Dana Landry – Executive Director, Chief Executive Officer, DHX Media Ltd.

Yes, thanks for the question, Aravinda. I mean, that's it, we've acquired IP; we've been acquiring IP now for 10 years with the thought and the hope that the global expansion of content would continue to grow, and that's what we're seeing. With respect to the individual Amazon deal, I would say about $5 million of it was a pleasant surprise; the rest of it was as expected. You'll recall from past quarters, we talked about the lumpiness of some of the distribution, in particular with *Degrassi* given the nature of the series. So, this was sort of that coming through.

With respect to the digital platform, I mean, obviously Amazon is a huge interest to us going forward. I think, hopefully, this will start to emerge as our—this year's YouTube story, as an opportunity for continued growth. I really think in this case, it's really about the fact that *Degrassi's* is an absolute, for-sure, global, well recognized brand. We've got 14 series and over 500 episodes and so we're looking forward to many more similar pleasant surprises, not only on *Degrassi*, but on other results going forward (inaudible).

Aravinda Galappatthige – Analyst, Canaccord Genuity Corp.

Okay, thanks for that. Just moving on to the M&L side, obviously you have a lot of license deals signed with—for *Teletubbies* and *Twirlywoos*. You know, as we think of the sort of the rollout of this, sort of when the products hit the shelves and sort of the progress from here on, can you take us through some of those milestones and how should we think about sort of the magnitude of—I mean, you know, you already have some revenue guarantees, but overall how should we think of the magnitude of this opportunity?

Dana Landry – Executive Director, Chief Executive Officer, DHX Media Ltd.

So, your line cut out just a hair on me there, Aravinda. Could you just repeat the first part?

Aravinda Galappatthige – Analyst, Canaccord Genuity Corp.

Yes. So, with respect to M&L, I just wanted to get your thoughts on—I mean you signed a lot of licensing deals for *Twirlywoos* and for *Teletubbies*. Just wanted to, maybe if you can, sort of take us through the milestones from here on, like the point at which it hits—the products hit the shelves and sort of the expansion from there. Also, to the extent that you can, just talk about your expectations as far as the magnitude of this opportunity is concerned. It's hard to predict retail sales I know, but generally your thoughts on that.

Dana Landry – Executive Director, Chief Executive Officer, DHX Media Ltd.

Sure. So, probably the best way to look at that is the—to go back to the scheduled launch dates of those particular brands and sort of first up is *Twirlywoos* that's already on the air in the UK. So we would expect that we'd start to see some results late calendar 2015, which would obviously hit our 2016 results for *Twirlywoos*, and that will start to gain some momentum in spring of next year.

On the *Teletubbies* front, as you know, we're busily producing the series. We're already getting tremendously positive feedback from the BBC and others with respect to the early reports of the content. So, we're already in discussions of possible renewal and stay tuned on that one. But that one is probably going to launch as Michael said, either probably in the winter or late fall, more specifically probably next early 2016. So, really those results won't come in until calendar '16, and so that will really be sort of start in earnest in our 2017 results.

But overall I think going forward for the next six months, look forward to new territories as we sign up content deals and the US being the one that's we're obviously heavily targeting at the moment, and we hope to have an announcement in the near term on that one.

Aravinda Galappatthige – Analyst, Canaccord Genuity Corp.

Great, thanks. Just lastly, with respect to Family, obviously, with the transition away from Disney, I was wondering if you can talk to sort of how this affects your BDU agreements. I mean, particularly we know that Shaw and Bell are a few years away. Is there anything in the agreement that would potentially drive sort of a renegotiation on that front? Maybe, sort of your comfort levels around maintaining the subscription fees on those affiliate agreements.

Dana Landry – Executive Director, Chief Executive Officer, DHX Media Ltd.

Yes, I think one of the key things that gave us additional comfort in our rebranding strategy was that these are staged out over the next few years, as you mentioned, with the two you mentioned being further off in the distance. So that gives us a chance to sort of transition now. The conversations at the moment, there's no reason to renew those early, but we've already started conversations with the BDUs. It's been very receptive. Everyone is clarifying the fact that Family is a very well known, vey often selected brand within the country, and in fact, in a lot of the platforms like Bell, as you will recall, we're already a part of the package that is selected.

With respect to the subscribers, you know, on various—within various BDU agreements, we expect that. You know, other than the normal course cycle of linear television, that we'll be able to maintain those, and we're feeling very good about our opportunities to secure those and continue them. Really, I think the value proposition for us is the same thing it is in the rest of the world, which is that we have tremendous brands that are in high demand. We're seeing that—you can see that today in our results. Our IP is extremely powerful and if you look at our YouTube stats, the views in terms of our content is growing every day, every month. So, we're very bullish on the fact that we can continue that momentum here in Canada.

Aravinda Galappatthige – Analyst, Canaccord Genuity Corp.

Great. Thank you, Dana. I'll pass the line.

Dana Landry – Executive Director, Chief Executive Officer, DHX Media Ltd.

Thank you.

Operator

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

Rob Goff – Analyst, Euro Pacific

Great. Thank you very much and congrats on an excellent quarter.

Dana Landry – Executive Director, Chief Executive Officer, DHX Media Ltd.

Thanks, Rob.

Rob Goff – Analyst, Euro Pacific

My questions would be two-fold; I'll start with the easy one and then go on to the tougher one. The first one would be on the *Slugterra*, if you could give us some more of the particulars with respect to the Burger King promotion? Then, on the tougher question, just to give a few seconds to think about it. If you scroll ahead just three months to where you're looking at putting out 2016 guidance, how much visibility will you have with respect to the M&L and like how conservatively might you go at that point? That's the tough one.

Dana Landry – Executive Director, Chief Executive Officer, DHX Media Ltd.

Okay. So, the Burger King one, I mean obviously, this is—in quantum, now that our revenues have grown to an extreme, it's not terribly significant in terms of monetization, but it's really indicative of the global appeal of *Slugterra* and the brand. That's pretty much why we've—one of the main reasons why we've gone and completed the transaction with Nerd Corps, and obviously, Ase (phon) and his team are tremendously talented. You know, it's building, it's gaining momentum. What's interesting about brands is we saw this on our own *Yo Gabba Gabba*, I mean *Yo Gabba Gabba* has had a good run for us, but people think it's the—it's a brand that's happened relatively quickly. But, it debuted in the US in 2007 and here we are eight years later, where we're still starting to generate M&L opportunities.

So, the brands that sort of take off—and *Peppa Pig*, which is not owned by us, but eOne has a similar experience of it taking awhile for these brands to connect. So, *Slugterra* has all of the elements of things that we like about it, in terms of the toy-etic features of it, the connection to boys, and so early results are positive and we hope to see that momentum going forward. So, more deals like this, in terms of global deals, we are certainly expecting on *Slugterra*.

In terms of visibility on the outlook, you know, I think it really comes down to—I know that you mentioned specifically in the M&L, but I'm talking about the other areas as well, briefly. On the production side, the reality is we have virtually almost a hundred percent visibility into the outlook for the next year, because as you recall, most of our production is animation. Animation takes a couple of years, 18 months to two years to produce and so, a lot of that is underway. So, deliveries, it's a scheduling exercise and you always have the back and forth with the broadcasters, and the channels. But, that's very much in-hand.

On the distribution front, you know, with everything sort of expanding at great pace, that's the one that's probably the most difficult to project. But, based on momentum and certainly excitement that we're seeing and the launching of all these new platforms, Netflix expanding, Amazon stepping up, Hulu stepping up, Google now getting into the content business, it makes us very optimistic to the future for growth in that category as well.

On M&L, the interesting thing about M&L is that it takes a long time to ramp up as you know, and so with respect to 2016, the visibility on M&L is pretty clear, because really the only major variability here would be *Twirlywoos* and how much we can pull in to '16. Seventeen and going forward is really where we expect, you know, the steep increase in revenues from obviously, *Teletubbies*, driven by *Teletubbies*, but also *Twirlywoos*, and other brands. *Make It Pop* is one that's now become a real possibility for merchandising and licensing opportunities. So, hopefully, I've given you some clarity on that.

Rob Goff – Analyst, Euro Pacific

Thanks, Dana, that's great.

Operator

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

Deepak Kaushal – Analyst, GMP Securities

Hi, guys. Thanks for taking my questions. I've got a couple, maybe I'll just follow-up on the *Make It Pop*. Dana, you mentioned that's a real opportunity. You talked about doing a live show for *Make It Pop* and that you guys are going to produce this. I was wondering if you could maybe shed some light on how you make that decision on whether you produce it or whether you go to a third-party producer, and just collect a license fee, which I think you do on *The Next Step*. How many of these live shows can you support in a given year and how should we think about growth for this segment of the business?

Dana Landry – Executive Director, Chief Executive Officer, DHX Media Ltd.

Yes, it's one for awhile that—I mean, in our opinion it's similar to all other aspects of media. You need scale to really have a business organically. We've had a lot of experience the last five years with *Yo Gabba Gabba* on our tour there. That was a bit of a hybrid model. We produced the actual content of the tour to make sure that the brand, the integrity of the brand, and the messaging is proper. We have a, you know, we had a partner that did the bookings and all the arrangements on that end. So, that worked all right, so that's one form of partnership.

Another form is as you said, a hiring-out, contracting out like we did on *The Next Step*, although in *The Next Step* we also had a similar type of an arrangement with, as we did with *Gabba*. So, it really is a scale question. It's one of the things that we're considering now with *Make It Pop*. Do we have enough between those three brands to perhaps bring that, to a certain extent, in-house? But in any event, as the content company, we have to make sure that the content-side of the stage show is consistent, and that's really—you will always see us focusing on that. With respect to whether we bring that in-house or not, it's very much an ongoing discussion and stay tuned.

Deepak Kaushal – Analyst, GMP Securities

Okay. So, do you have a sense of how many shows you could support in a given year? Like, can you take say like five or six (inaudible)?

Dana Landry – Executive Director, Chief Executive Officer, DHX Media Ltd.

It's, I mean, again, it's market dependent and the US is a big market. So, you know, there's no real limit. You know, obviously you probably want a diversification of brand, so *Gabba's* a preschool brand, *Make It Pop* will be for teens and tweens. So, there's a pretty good broad cross-section there. You're not really going after the same audience. So, I don't see that as there's any constraints on the number of shows; certainly four or five we could easily do.

Deepak Kaushal – Analyst, GMP Securities

Okay, great. Then, just following on that, as you commission new brands with DHX TV, things like the *Gaming Show*, what's the opportunity to add on distribution deals with those new commission deals? Even for guys like Temple Street, can you complement their distribution deals with the BBC with your own kind of footprint in other parts of the world?

Dana Landry – Executive Director, Chief Executive Officer, DHX Media Ltd.

Yes. Going forward, there's an opportunity there to hopefully leverage our Distribution Team. I think that, you know, there's varying degrees of relationships that we have. In terms of the Temple Street guys, obviously, they've got a great track record in producing and we're doing *The Music Room* with them, as well. So, they've got their own distribution arm, so that's sort of the way forward on those particular series, but certainly *Gaming Show,* we actually do own the distribution rights on that one.

So, that's one that we're looking for to expanding, but similar opportunities, I think it's a bit of a one-off situation. I mean, obviously, we feel that's a tremendous value to producers, independent producers that are coming in, that don't necessarily have the scale that they could piggyback on the experience, and leverage the relationships that we have. So, obviously, we are out there selling ourselves with that in mind.

Deepak Kaushal – Analyst, GMP Securities

Okay, thanks, and I just have one more last question. It's more of a big picture, longer-term question. You know, I'm a bit of a—admittedly a bit of a geek and I'm a Star Wars fan and a superhero fan. It just seems like we're getting a bit of a tidal wave of Disney content since they purchased Lucas Films and Marvel. Last time we saw overcapacity in supply was late '90s, early 2000's. How far along are we in this cycle do you think? Where is supply and demand from your view today and how long can this kind of up cycle last?

Dana Landry – Executive Director, Chief Executive Officer, DHX Media Ltd.

Yes, it's a question that we obviously debate often here. I think in North America, we're probably halfway through the game, is my gut. But in the rest of the world it's really just beginning. You look at China, India, places like Brazil, which is more than half of the world's population; it's really just starting to expand. You also have platforms like Netflix that are proliferating throughout the world. So, there's still a lot of upside in the rest of the world.

We, as North Americans, tend to focus on North America, but I think indicatively it's well advanced here. But I don't think we're anywhere near the consolidation phase. I think there is still a tremendous, tremendous demand for content out there and we're seeing it all over. We're seeing that with our own brands, we're seeing it with the brands that we're representing. I don't know if Michael, you have any further comments on that? But that's what I would say.

Michael Donovan – Executive Chairman, DHX Media Ltd.

This is a whole new world and you know, it seems to be just beginning and everything is different now. I've been at this for a very long time. I've never seen anything like it.

Deepak Kaushal – Analyst, GMP Securities

So, Michael, what would be an indicator in your mind that we're getting close to the top? Would it be a consolidation among the content players?

Michael Donovan – Executive Chairman, DHX Media Ltd.

Yes, that's—I mean everyone has their series and ideas, but one of our views is that at the end of a cycle, you almost always see consolidation. We're not seeing any consolidation, we're seeing the exact opposite; expansion of new players and dramatic expansion. I think Dana mentioned 11 new ones in the last four or five months have come on and every week, we're hearing of more coming. So, we're still in the expansion of demand phase and fundamentally, what's happened is that we have a direct connection now with new technologies to the consumer.

The consumer being much better served with that direct connection is offering to share a much larger percentage of his wallet with the content creators. It's a sort of a two-pronged benefit: Number 1; more money, and Number 2; money going directly to content. It's those two drivers that are driving our numbers and we have the largest supply of children's content. We own this content in the independent world and so we find ourselves extremely well positioned, particularly with respect to the new technologies.

Deepak Kaushal – Analyst, GMP Securities

Okay, fantastic. Thank you very much. I appreciate that.

Michael Donovan – Executive Chairman, DHX Media Ltd.

Thank you.

Operator

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

Adam Shine – Analyst, National Bank Financial

Thanks a lot. Good morning. The distribution outlook for F2015 is up about $11 million. I think Dana might have said that only about $5.6 million was a surprise in the Q3 for you. Should we interpret that, you know, the other $5.4 million is something additive heading into Q4? Or are we getting a bit ahead of ourselves on that one?

Dana Landry – Executive Director, Chief Executive Officer, DHX Media Ltd.

No, I think that you can definitely sort of reverse engineer into that. I mean, we don't necessarily look at it that way. We try to provide the best guidance that we can, given the pipeline that we're seeing right now though, which is of course we're already into our last quarter here, so we're well advanced in terms of executing on all those opportunities. As you know, Adam, there tend to be some spike, some nature of lumpiness to those, but overall the trend is very positive. So that gives us comfort to up it a bit.

Adam Shine – Analyst, National Bank Financial

Okay and obviously, we're seeing the SG&A creeping steadily higher, but not an issue on margins overall, and certainly you've made it clear in the MD&A and I think on this call, that you're doing that to scale up resources ahead of some of the M&L opportunities you're pursuing. You know, apropos, the F2016 sort of question earlier, should we be thinking as we move M&L revenues higher and related profitability that perhaps SG&A should be moving up maybe a little bit higher than we might be anticipating?

Dana Landry – Executive Director, Chief Executive Officer, DHX Media Ltd.

No, I don't think so. I think what we're seeing is that we're trying to get on top of that. I mean, one of the things that you constantly try to do as a media company, is pull things forward. So, we're seeing real great tremendous momentum on a lot of our key brands. It's driven by this demand for content, but—so as a result of that, we're investing ahead of time, which we think is obviously going to pay off massive dividends. I mean, our margins are such that it doesn't, as you say, it doesn't greatly impact at the moment. But we can see some tremendous leverage and torque that's created on that. But I don't think I would necessarily read too much further into that, as to say we're just bringing that—sort of ramping up a little forward.

Adam Shine – Analyst, National Bank Financial

Okay, great. One last question just related to the Family Channel. In some of those maybe preliminary discussions with the BDUs, just in terms of some of their initial thoughts, post the rebranding disclosure a few weeks ago, I'm curious to hear what they might be thinking in the context of the uniqueness of Family Channel as a non-advertising entity. You know, there are not many of those in Canada. Once you get beyond Treehouse, there's almost nothing certainly for children, and then you jump up I guess, ultimately to pay TV skewing more adults. So, can you speak around that context and (inaudible) prospect of mitigating (inaudible)?

Dana Landry – Executive Director, Chief Executive Officer, DHX Media Ltd.

Yes. Yes, absolutely, you hit the nail right on the head, Adam. I think that—we think the tremendous value of Family is—it has multiple aspects to it. But one of the key aspects to it is it's a commercial-free network. As a parent, myself, I think that it's a huge opportunity to continue to captivate those subscribers, and that's really what parents are looking for. They're looking for opportunity to put their kids in front of content that they're not going to be pitched things left, right, and centre. So, at the moment, we want to sort of emphasize that.

You know, at the same time, we always have that sort of option to if we see the subscriber revenue starting to decline, we can make decisions on whether we want to change that idea. At the moment, we see the value and that's certainly bearing out in a lot of our discussions with the BDUs, and so we're going to build that up and continue that for the time being.

Adam Shine – Analyst, National Bank Financial

Okay, great. Thank you.

Dana Landry – Executive Director, Chief Executive Officer, DHX Media Ltd.

Thanks, Adam.

Operator

Again, if you would like to ask a question, press star and the number one on your telephone keypad. Your next question comes from Robert Peters with Credit Suisse. Your line is now open.

Robert Peters – Analyst, Credit Suisse

Hi, thanks for taking my question. Dana, I was just wondering if you could maybe give us an update on how *Inspector Gadget* has been doing in the US, now that it's out on Netflix. Maybe also the early reception to *Twirlywoos*, just kind of thinking how we should think about the ratings on those shows and any (inaudible) they might have to the merchandising opportunities?

Dana Landry – Executive Director, Chief Executive Officer, DHX Media Ltd.

Yes, thanks for that question, Rob. I think on *Gadget*, it's interesting because our excellent partners at Netflix are—notoriously keep their information close to the chest here. So, you know, there's—anecdotally we feel that they're very, very happy about Gadget, but specifically because we've sold *Gadget* in other areas and the biggest territory that we have experience on is in Germany, Super RTL. The ratings are extremely strong and in a couple of other territories that it's launched, as well. In the linear world, it's getting tremendous traction. So, the early indications are very positive on *Gadget* and all of our linear channels are talking about a second season. So, that's very positive.

On the *Twirlywoos* side, same thing; the main broadcaster, the BBC, we're in discussions of possible more, although no announcement to make, but we're positive and optimistic that we can move that forward. I think in the case of *Teletubbies*, I think it's just people are looking back to brands in the past that really moved the needle, and that was one that absolutely did. In its peak, it generated over a billion dollars in retail, you know, which there's not many billion dollar brands out there these days.

So, you know, we obviously are getting more and more bullish as we see more and more—more and more of the momentum with respect to the licensees, but also, the particular channels that we're negotiating with in each territory. As I talked about in the last call, you can kind of get an indication by this if you're getting the top channels in each country, and we're certainly having those meetings and we're getting offers from them. So, we're seeing more and more momentum and that's giving us a lot more optimism to being able to realize those M&L opportunities.

Robert Peters – Analyst, Credit Suisse

Perfect. Thank you and maybe, switching over to SVOD. You know, we've seen such a large number of platforms start up already this year. Looking forward to 2016, what do you guys think in terms of what your long-term kind of driver is on the SVOD side of things? Is it going to be continued platform expansion or do you think there's going to be incremental price increases on renewals?

Dana Landry – Executive Director, Chief Executive Officer, DHX Media Ltd.

I think it's a combination of both. It's certainly platform expansion and I think what's interesting—what's happening Rob is that the lines are continuing to be blurred. We're kind of looking at that all in the digital category, because you have services like Amazon, which have a sort of free component to it. But they also have Amazon Prime, a more subscription or a pay component to it. So there's—a lot of these services are crossing over now and there's now a concept of freemium, where you get a certain amount of content for free, but you get served ads and if you don't want to be served ads, you pay a subscription or you pay a higher fee. In those instances, those sort of cross both spectrums.

Overall, the platforms that Michael said earlier are just continuing to expand, and I think you can see the bigger players like Google and Amazon and Hulu and others that are stepping up and competing against Netflix for some of those content. So, we're in a very exciting time for us and we think that's just going to continue.

Robert Peters – Analyst, Credit Suisse

Perfect. Thank you and maybe just touching on Family. I think you guys gave us good colour on—in terms of your content strategy. I was wondering if I might be able to maybe touch on that a little bit more. How do you think about the balance between your own content and your own library versus say, new and original content? Is it half and half or kind of—I don't know if you go into that much detail, but kind of how do you guys think about the strategy there?

Dana Landry – Executive Director, Chief Executive Officer, DHX Media Ltd.

Yes. I mean, it's early days. We're still developing the overall schedule and what would be the optimal outcome here in a couple of years. Obviously, we have a transition period that we're working through so they'll probably be more of our stuff, more originals in the near-term filled in by some third-party content. But I think it's safe to say and I don't think we're at a position today that we could comment on what the actual percentage of our content would be. But safe to say that it'll be significantly higher than it was in the past.

Just as a reminder for those of you that aren't aware, prior to us owning the Family Channel, our percentage of content on that channel was maybe 1 or 2 percent. So, you know, the potential for synergies with respect to programs and our content is significant. We've made some increases in our MD&A with respect to our sort of near-term expectations of those synergies, and I think the numbers are 10 to 14. Keith, correct me if I'm wrong, in terms of next year. But going forward, that may go up significantly if we're able to continue to see the expansion of content and get the deals done that we're—that we have in our pipeline.

Robert Peters – Analyst, Credit Suisse

Great. Thank you very much. That's fantastic colour.

Dana Landry – Executive Director, Chief Executive Officer, DHX Media Ltd.

Thank you.

Operator

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

Bentley Cross – Analyst, TD Securities

Hi gentlemen.

Dana Landry – Executive Director, Chief Executive Officer, DHX Media Ltd.

Morning, Bentley.

Bentley Cross – Analyst, TD Securities

First; just a follow-up on that last question. I mean, you guys are capped though, in some regards as to how much content you can put on the channel, correct? It's CRTC mandated, kind of only up to 40 percent; is that still true or fair?

Dana Landry – Executive Director, Chief Executive Officer, DHX Media Ltd.

Well, I think there's a—the way that—our view is that the interpretation there really is that there's certainly a minimum amount that we have to spend in terms of external content from the independent world. Obviously, we're going to live up to that and perhaps exceed that because we've got a lot of great originals. But, we do think there's an opportunity there, outside of those minimums to replace some of the third-party content that we had in the past with some of the DHX content. That's an ongoing discussion and it's certainly something that we think is within the spirit of the rules and certainly something that we're working into our plan.

Bentley Cross – Analyst, TD Securities

Another housekeeping item; how much of the $12.8 million on the deal was retroactive, that was recorded this quarter?

Dana Landry – Executive Director, Chief Executive Officer, DHX Media Ltd.

It's probably in the range of that number that I said earlier. It's $5 million to $6-ish million is what I would say is sort of the pleasant surprise. Remember though, that all of our revenues are in arrears because of the way those royalties work is you get them after the fact, post de facto, and you're only able to accrue the revenue if you have the history with respect to the particular property. So, things like *Gabba*, things like *Caillou,* you're able to accrue so you can kind of get that sort of timing brought up to speed. But on new series for this, in the case of *Degrassi*, there's inevitability of that you're in arrears. But you're sort of always in arrears, if you think about it. So, this quarter will be the next particular period.

So, but it's probably as I said, there's probably seven or so of that that was within our expectations as to where we were going to get in terms of revenue, the balance was I guess you'd call a bit of a catchup. But I think the interesting thing to point out is that it's still at the most a year-long period here and so, not to say that that's absolute certain that that will repeat in the future, but there's strong indication that not only that will repeat, but other IPs will also have similar results with respect to these new platforms, Amazon and others, Hulu, Google. As I said, this is really just beginning in terms of the explosion and so that's the whole reason we went down this path of acquiring and owning IP.

Bentley Cross – Analyst, TD Securities

All right, thank you. Then (inaudible), I have about zero visibility into that one. Just any extra colour you could provide as to kind of what sort of metrics we could look at, going forward?

Dana Landry – Executive Director, Chief Executive Officer, DHX Media Ltd.

I'm sorry. You cut out there, Bentley. Can you repeat the first part?

Bentley Cross – Analyst, TD Securities

Just on the China Joint Venture.

Dana Landry – Executive Director, Chief Executive Officer, DHX Media Ltd.

Okay. Yes. Yes, China is—I mean it's an area for us that we're looking at really ramping up potentially. We think there's a lot of organic potential within China. Obviously, China's a huge country, huge population, but it's complicated. In order to own businesses within Beijing or Shanghai, you can't actually own the majority. So, you know, we're contemplating perhaps setting up in Hong Kong or somewhere else and looking for potential partnerships.

I think what's really important here though is the—with respect to China, the brand like *Teletubbies* are still actually today, extremely popular. If you go in right now, after this call, into Alibaba for example, there will be over a thousand knock-off *Teletubbies*' consumer products, everything from costumes to dolls, some of which in my opinion are quite awful actually. But, it is a testament to the brand's interest in that region.

So what we're trying to do is trying to get—bring back the monetization of that by exploring these partnerships. So as we've launched this SVOD service for CNTV, it's a bit difficult to project, to be honest, Bentley because we don't know exactly whether it'll get tremendous traction. One thing I can say is it costs us nothing. It's incremental to us, and it's just the first of many partnerships that we're exploring within China. In particular, *Teletubbies*, we think there's a real opportunity here to produce some localized content for *Teletubbies*, you know, dubbing in some Chinese language, and dubbing in some Chinese culture into the show, to really get the connection to that region and use that as a driver for the forward.

The great thing about that deal and other deals that we're talking about, so far they're all still non-exclusive and it doesn't foreclose on other opportunities. So, it's a bit early, it only launched in

March. Seemingly started off okay, but little early to guide in terms of what the revenues would be. Hopefully by next quarter we'll have a little more to say on that.

Bentley Cross – Analyst, TD Securities

That's helpful. Thank you and lastly, just a question—I'm not sure how much you'll want to add to this, but I'm going to put it out there anyway. A lot of people seem to suggest that there will be a wake of asset sales coming out of the CRTC decision. Wondering if you guys would be at the table for any of these broadcast assets if they do come up for sale, or if you guys are happy with the existing assets you have and don't want to go down that road anymore?

Dana Landry – Executive Director, Chief Executive Officer, DHX Media Ltd.

Yes. I mean, it's not in our current plan. Our plan as always—it's never really deviated—we're a content Company. We want to own IP and own as many rights in as many territories as we can. We acquired the Family Channel because we felt like that could be consistent with that story, to allow us to continue to produce our brands, own more content, and own more rights foreign. The way to sort of think about that is if you look at our revenue with respect to production this year, I think the midpoint of the guidance is somewhere between, I don't know, $65 million or $70 million in terms of the revenue side.

As you will know, that is—that's sort of discounted down by things like cash credits and CMF, etc. So, if you sort of gross that up, that equates to somewhere in the range of $130 million to $140 million worth of working capital that DHX puts to work in content every year. Well now by adding the synergies from the—not spending the money on the third-party content or not spending as much, we've now just super-sized that content budget. That allows us to own more IP and the more IP, we can obviously, hopefully, have some further results like we had today. So, that's the plan. The plan is to own more content and never say never, but that's certainly not in our current plans.

Bentley Cross – Analyst, TD Securities

All right. Thank you. Great quarter, guys. Thanks a lot.

Dana Landry – Executive Director, Chief Executive Officer, DHX Media Ltd.

Thanks, Bentley.

Operator

Your next question comes from Haran Posner with RBC Capital Markets. Your line is open.

Haran Posner – Analyst, RBC Capital Markets

Thanks very much. Good morning guys. Dana, going back to *Degrassi,* and trying to clarify one thing. So, I think with respect to the $5 million or $6 million of sort of surprise there, so I guess, over what period was this recognized? Do we think about the $12.8 million as recognized for two years of delivery (inaudible)?

Dana Landry – Executive Director, Chief Executive Officer, DHX Media Ltd.

No. No. No, it's just one year.

Haran Posner – Analyst, RBC Capital Markets

Okay. Okay, got you on that. Then one other tidbit on—within your M&L, obviously, you've reported about a million dollars of minimum guarantees on *Teletubbies*, *Twirlywoos*; is that something that we should think of as sort of a quarterly run rate now?

Dana Landry – Executive Director, Chief Executive Officer, DHX Media Ltd.

Well, I mean, that's a hard thing to predict because we're adding on new deals all the time. So, it is a—it's difficult. I mean certainly it's not going to be lower than that. I think that's going to ramp up, Haran, as new deals come on.

Haran Posner – Analyst, RBC Capital Markets

Okay, that's terrific, and then one last one for me. Sort of big picture, Dana, what you're hearing about Netflix looking to move increasingly into content ownership, I don't think that surprises you at all. But just interested in your thoughts on how that impacts your business and opportunities.

Dana Landry – Executive Director, Chief Executive Officer, DHX Media Ltd.

Yes. We've never—we've spoken about this certainly one-on-one many times and certainly on the calls at times in the past. I mean, we really don't see this is a—this is not a negative for DHX, this is an extreme positive, I think. You know, one of the great things about Netflix is that they're out ramping up their content side, but they need—absolutely need partnerships. They cannot cover the waterfront, so to speak, on all content opportunities. Certainly to this date, the way that they're taking advantage of the kids' business is to partner with companies like ours.

You know, they did a big deal a couple of years ago with DreamWorks. We're in discussions. Obviously we've done *Gadget* with them; we've got a couple of others that we're in discussions with them. But I think that it's a trend. The same conversations are also going on with Amazon; the same conversations are going on with Hulu; the same conversations are going on with Google. So, it's the trend of the moment; it's driven by the demand for content.

Haran Posner – Analyst, RBC Capital Markets

No and that's great, Dana. I guess what I'm referring to is as opposed to sort of the original series like a *Gadget* where obviously you control and own the IP. You know, increasingly talk about them wanting to actually own the IP in perpetuity. I guess I'm wondering on that.

Dana Landry – Executive Director, Chief Executive Officer, DHX Media Ltd.

Yes. Certainly the conversations that we've had, they've not sort of gone away from the conversations of let's continue to license and partner. I think with us, we really represent a real opportunity for them; because we own the channels in Canada, we can continue to be a partner. We've done lots of co-productions in the past where we share IP. So I don't see them any different than any of our other partners.

Haran Posner – Analyst, RBC Capital Markets

Thanks very much.

Operator

There are no further questions at this time. Mr. Regan, I'll turn the call back over to you.

David Regan – Executive Vice President, Corporate Development and Investor Relations, DHX Media Ltd.

Thank you, Operator, and thanks again everyone for joining us. Please feel free to reach out if you'd like some more information or consult our website at www.dhxmedia.com, in the Investor Section. Thanks so much.

Operator

Ladies and gentlemen, this concludes today's conference call. You may now disconnect.