FINAL TRANSCRIPT

DHX Media Ltd.

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PRESENTATION

Operator

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

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

David Regan, you may begin your conference.

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

Thank you, Operator, and good morning, everyone, and thank you for joining for joining us on DHX Media's fiscal 2015 second quarter analyst call. To start off today, we're going to have Michael Donovan, our Executive Chairman, provide a high level summary of milestones achieved during the quarter. After that, I'll go into some greater detail on recent deals and corporate developments and then our Chief Executive Officer, Dana Landry, will discuss some of the opportunities that are before us. Finally, we'll have our Chief Financial Officer, Keith Abriel, provide a detailed review of the numbers. After that, we'll open it up to questions from analysts.

First, though, the matters discussed in 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 the call to Michael Donovan.

Michael Donovan — Executive Chairman, DHX Media Ltd.

Thank you, David. This was a tremendous quarter for DHX Media. This morning, we reported double- and triple-digit growth in many of our critical metrics, reflecting strong performance across key business lines. Amongst other things, we were very excited this quarter by the positive reaction from consumer products licencees to our Teletubbies and Twirlywoos brands for which we announced multiple merchandising and licensing deals. Dana will speak about this opportunity in greater detail, but I wanted to highlight this morning's announcement of a new deal for Teletubbies electronic toys with VTech, one of the top names in the industry. We are all very enthusiastic about Teletubbies and Twirlywoos brands and feel they hold tremendous potential for future growth.

Another trend we are seeing is the continued global growth in SVOD, that is subscription video on demand. This is one of the main drivers of our distribution business right now. More than two dozen SVOD services were either announced or launched in 2014, and this trend has continued into 2015. In late December, we were happy to learn that the Company was being added to both the

S&P TSX Composite Index and the S&P TSX Composite Dividend Index. Inclusion in these indices serves to recognize DHX's strong growth in recent years.

With that, I'll turn it back over to David. David?

David Regan

Thanks, Michael. Second quarter of fiscal '15 was indeed an exceptional quarter for DHX. As highlighted in our press release this morning, all key metrics showed strong growth as compared to the comparable period last year. But I'd like to for a moment zero in on the 138 percent growth in proprietary production. Q2 was quite strong in terms of proprietary production deliveries of 58 half hours being added to our library versus 21 for the same period last year. This increase was in line with management's expectations and highlights how production schedules do not necessarily adhere to the fiscal calendar as the first quarter of 2015 only saw us deliver 21 half hours versus Q2's 58 half hours. We can now reiterate that proprietary production deliveries remain on track for 2015 overall, consistent with our outlook.

Some of the production delivery highlights for the second quarter included: nine half hours of season 14 of Degrassi, 13 half hours of season 2 of Hank Zipzer, 8 half hours of the new animated series Looped, nine half hours of the new animated series Inspector Gadget, and 11 half hours of This Hour has 22 Minutes, which is now celebrating its 22nd season. For a complete list of deliveries in the quarter, I would refer you to the MD&A.

Also, on December 23rd we welcomed Nerd Corps Entertainment family into the DHX fold, having just completed that acquisition for approximately 57 million in cash and shares. This acquisition increases DHX operating leverage by adding 5 lines of production to our Vancouver operations and contributing more than 200 half hours of children's animated content to our library. One of the key brands acquired in this transaction was Slugterra, which is extremely popular with boys 6 to 11 years old. It is broadcast on Disney XD in Canada, and in the US on Disney XD, and has been seeing in more than 150 territories worldwide. This fun series also boosts a lineup of more than 70 licensing partners.

The quarter also saw us complete our first debt offering of a bond for 175 million in senior unsecured notes with a BB- rating from S&P.

Turning to DHX Media division. Q2 represented the first full quarter of ownership of the channels in that division. The Family Channel; Disney Junior, both English and French; and Disney XD. The division performed extremely well, delivering 21.9 million in revenues, which was at the high end of management's expectations. Disney XD was particularly strong this quarter, reporting its best season of ratings growth since the channel was launched in 2011.

Our distribution division continued to show healthy growth this quarter. For the second quarter, the Company closed significant deals with Disney, Netflix, Turner Broadcasting, amongst many others in various territories around the world, resulting in revenues of 12.8 million, which were up 35 percent over the comparable period last year.

In early December, we announced Inspector Gadget had been licensed to Turner Broadcasting for their Boomerang channels throughout Europe, the Middle East, Africa, Latin America, and Asia. And just subsequent to the quarter-end, we announced that Dr. Dimensionpants, a series about a boy who gains superpowers by donning a pair of magical pants, has been licensed to Turner Broadcasting across multiple countries in Latin America and Europe. This series has also been licensed to France Télévisions, ABC Australia, MBC in the Middle East, and Noga in Israel.

Our evolving advertising video on demand or AdVOD or AVOD business with Google YouTube continues to grow at a strong rate. The net margin contribution from YouTube for the quarter was 1.76 million, representing gross revenue of 3.2 million. This was an increase of approximately 155 percent over Q2 2014 in both metrics. It's clear that this relationship has become a highly beneficial and relatively low CapEx driver of revenue for us.

We also wanted to provide an update on our new SVOD service we are developing in China with the state broadcaster CNTV. This was announced just before Christmas, and this platform has been dedicated to delivering DHX content in China, and has been launched in beta. It's name is Xai Xai Belba (phon), which is roughly translated to Advanced Baby. DHX content will be leveraged in the more than 700 half hours of content we have across three dozen series and specials already dubbed into Chinese. We expect the service will go fully live just after the Chinese new year, which falls this Thursday.

Turning to merchandising and licensing where we've seen great momentum. We closed 14 Teletubbies licensing deals and seven Twirlywoos deals during the quarter. Dana is going to provide a more detailed update on those two brands in a moment. We also closed a publishing deal for the quarter with Penguin Young Readers for the preschool brand Ella the Elephant, which is expected to see books this fall in the US and Canada.

I'll now turn the call over to CEO, Dana Landry.

Dana Landry — Chief Executive Officer, DHX Media Ltd.

Thank you very much, David, and thanks, everyone, for joining us on the call. As David mentioned, I am Dana Landry, CEO of DHX Media. We are very pleased to be reporting our financial results today for Q2 2015. I'll provide a brief overview of some of the numbers before getting into some of the business opportunities that lie ahead.

This was a very strong quarter for the Company. Revenues for Q2 were up 112 percent to 64.25 million from 30.4 million in Q2 2014. The increase was partially due to a 21.91 million contribution from DHX Television, and also revenue growth from all other key divisions.

Proprietary production delivered a strong quarter with 12.36 million in revenues, and distribution also saw healthy growth, reporting 12.76 million of revenues. In addition, producer and service fees were up 41 percent to 6.62 million, and the media was up 53 percent to $890,000.

In other metrics, adjusted EBITDA rose this quarter by 148 percent to 23.9 million. Normalized, that income was up 210 percent to 9.83 million, or approximately $0.08 adjusted basic and diluted earnings per share. Gross margin was also up 110 percent to 37.5 million. Keith will provide a more detailed look at the numbers shortly, though I'd also like to mention that we're pleased to announce that on February 13, 2015, the Board of Directors approved a dividend for the quarter of $0.014 on each common share, voting share, and each variable votting share outstanding for the shareholders at record of close of business February 27, 2015, to be paid March 20, 2015, which I believe is approximately a 7 percent increase from last quarter.

Now, I'd like to look that some of the exciting business opportunities that David and Michael alluded to that lie before us. Our DHX Brands and our CPLG teams are doing tremendous work signing merchandising and licensing deals for Teletubbies and Twirlywoos. As David noted, in Q2 we closed 14 Teletubbies deals and seven Twirlywoos deals. Although merchandising and licensing for the quarter was down slightly, largely due to some expiring of existing licensing deals of Yo Gabba Gabba! and Caillou, what's really important to remember is that DHX Brands, our merchandising and licensing division, which is based in the UK is less than a year old and certainly thinking some tremendous momentum. Launched in June 2014, DHX Brands has been laying the ground work for what we feel is potentially very significant future growth on the merchandising and licensing side. Earlier this month, in fact, DHX brands received notable recognition being named in the industry-leading trade magazine, License! Global, alongside some fairly heavy weight global peers as one of the five key licensors to watch in 2015.

Last June, as you all recall, we announced plans to produce 60 new episodes of Teletubbies with the CBeebies, the children's arm of the BBC. Since then we have signed a total of 16 licensing deals for the new Teletubbies. The complete list is too long to deliver here, but the range of products includes: toys, puzzles, greeting cards, books, candies, bedding, and as announced just this morning electronic toys from VTech. Teletubbies products are expected to begin appearing in stores in autumn 2015 and winter 2016, starting in the UK with other territories to follow shortly. And as broadcast deals are announced in these other territories, we expect to be announcing additional Teletubbies merchandising and licensing announcements for those territories in the near future.

Needless to say, we are very excited about the potential of Teletubbies as a global brands. Evidence of the enduring appeal of Teletubbies is the popularity of the original series on YouTube where it has averaged 50 million views per month through calendar 2014.

Now, it's going to be a little while before we can unveil the new series, but being an insider and having seen what's been happening behind the scenes, in our view it looks extraordinary, and we are very excited about our reimagining of this iconic brand.

On the Twirlywoos side we're pleased to announce that this new series will premiere on CBeebies this coming Monday, February 23rd, and has begun to resonate with kids and families in the United Kingdom. A week ago, we unveiled the series at a special party in London where kids and families were invited to watch the show and meet the costumed characters. Twirlywoos, for those of you that are not familiar with it, is a preschool series about a group cute bird-like creatures. It was created by Anne Wood, who is the original creator of the Teletubbies. And if the reaction of the kids at our party, who were utterly transfixed by the Twirlywoos is any indication, we think this series is going to be a great success.

And of course we hope it won't just be the series that the kids love. Back in January, the Twirlywoos Master Toy licence, Golden Bear Toys, unveiled the Twirlywoos toy line-up at the UK Toy Fair. Golden Bear is one of the leading toy companies in the UK, and they have a tremendous success, have had a tremendous success, with In the Night Garden, one of our other preschool brands. We don't have the numbers in just yet on the Twirlywoos orders, but reports from our DHX Brands division are that the Twirlywoos toys generated significant buzz in London and at subsequent trade fairs in other countries. Golden Bear has now even moved up the launch date of the Twirlywoos toys from calendar 2016 to autumn 2015 to meet demand expected for the holiday season. In addition to toys from Golden Bear, other Twirlywoos products we can expect to eventually see in stores from other licencees include greeting cards, party wear, puzzles, games, beddings, outerwear, and costumes.

As you can see, we have great things in the works with our merchandising and licensing division, so it is well worth staying tuned.

Another area, as Michael noted, that we're very excited about is the SVOD space. SVOD, of course, is subscription video on demand and such services are proving very eager to license DHX content. What we are seeing right now is tremendous growth in that space worldwide. SVOD services such as Netflix, Amazon, and Hulu are well known, of course, and by themselves growing, but in addition to such established services, new services are emerging all over the world. In calendar 2014, more than 2 dozen new SVOD services were announced or launched around the world, and since January 1st we've counted seven more. The growth is so remarkable that we have, as others have, taken to saying that 2015 is the year of the SVOD. We're seeing new SVOD services in the United States, Canada, and Latin America, Europe, Africa, Asia, and Australia, and we're selling our content off into multiple services in all of these territories.

Earlier this month in fact, we announced distribution licensing deals to nine new SVOD services across seven territories, representing more than 5,000 half hours of DHX content. As shown by such deals, DHX's scale and its marquee brands have positioned us as a key player in providing content to SVOD services worldwide. We anticipate being able to announce more such deals as the year unfolds.

Before I hand the call back over to Keith, wanted to give a quick update on the live tours. As reported in Q2 2015, the Company completed its Yo Gabba Gabba! Live! tour which appeared in 30 cities and 58 shows, which was a little bit softer than management's expectations, but having said that, we're very excited about The Next Step Live On Stage Tour, which has commenced a 28-city tour with 46 shows to date targeting smaller venues across Canada. And for those of you that are not aware of this property, this is a show that's been commissioned by DHX Television’s Family Channel. The Next Step is a highly rated dance drama which is produced by Temple Street Productions.

With that, I'll turn the call over to our Chief Financial Officer, Keith Abriel, for a more detailed look at this quarter's numbers. Keith?

Keith Abriel — Chief Financial Officer, DHX Media Ltd.

Thank you, Dana, and thanks to everyone for dialling in today. I am Keith Abriel, CFO of DHX Media. For Q2 2015, management is pleased to highlight very strong growth in revenues, which are up 112 percent to 64.24 million from 30.36 million for Q2 2014. The increase was in part due to the 21.91 million in revenues contributed by DHX Television for the quarter. Approximately 83 percent or 18.23 million of the DHX Television revenues were subscriber based revenues, while advertising, promotional, and digital revenues accounted for a combined 17 percent or 3.67 million of the total DHX Television revenues.

We also saw solid growth in proprietary production, which contributed 12.36 million in revenues for the quarter, up 138 percent over Q2 2014's 5.20 million. This variance was in line with management's expectations based on delivery schedules for the quarter.

Distribution revenues for Q2 2015 were up 35 percent to 12.76 million from 9.48 million for Q2 2014. This included 2 percent or 0.2 million from Epitome and 33 percent or 3.04 million of organic growth. The quarter-over-quarter increase was primarily attributable to the continued growth of new digital customers and territories such as those in the SVOD market that Dana just spoke about.

M&L-owned decreased 10 percent for Q2 2015 to 6.62 million as compared to 7.37 million in Q2 2014. The 30-city 58 show Yo Gabba Gabba! Live! tour generated revenues of 3.48 million during the quarter, up 39 percent from Q2 2014. Although Yo Gabba Gabba! Live! revenues were up, attendance in revenues for the live tour were at the low end of management's expectations. Despite these factors, management remains confident M&L-owned revenues are on track to achieve the 2015 annual targets.

M&L-represented revenues were up 0.5 million for the quarter to 3.09 million compared to Q2 2014 at 3.05 million, and were in line with expectations. M&L-represented revenues benefitted somewhat from tail winds as a result of the weakening Canadian dollar compared to the pound Sterling.

The Company earned 6.62 million for producer and service fee revenues for the quarter, an increase of 41 percent versus the 4.69 million for Q2 2014, and new media revenues were up 0.31 million to 53 percent or 0.89 million above the 0.58 million for Q2 2014.

Gross margin for Q2 2015 was 37.51 million, an increase in absolute dollars of 19.69 million or 110 percent compared to the 17.82 million for Q2 2014. Management is pleased to report the overall gross margin for Q2 2015 of 58 percent of revenue was at the top end of our expectations. This was a result of a strong quarter for digital distribution deals, overall distribution margin, production and service fee margins and DHX Television.

Adjusted EBITDA for the quarter was 23.87 million, up 14.26 million or 148 percent over 9.61 million for Q2 2014. For Q2 2015, net income was 5.54 million compared to net income of 2.81 million for Q2 2014, or an increase of 2.73 million in absolute dollars. Comprehensive income for the quarter was 3.22 million compared to a comprehensive income of 2.09 million for Q2 2014 or an increase of 1.13 in absolute dollars.

Turning to operating expenditures. SG&A costs for Q2 2015 increased 72 percent to 14.71 million compared to 8.56 million for Q2 2014. For Q2 2015, SG&A includes 3.74 million for DHX Television as well as the inclusion of Epitome, an increased level of SG&A at Ragdoll, and nine days of activity for Nerd Corps totalling 1.52 million. SG&A also reflects an increased level of activity at DHX Brands of 0.5 million as management has made a decision to add resources in this area to take advantage of Teletubbies and Twirlywoos M&L opportunities that Dana spoke about earlier. SG&A also reflects costs associated with the Company's Toronto office relocation.

Finally, SG&A includes 1.11 million of noncash share-based compensation for the quarter. When adjusted, cash SG&A at 13.63 million was above management's quarterly SG&A expectations. Going forward, cash SG&A costs are expected to move back in line with management's quarterly SG&A targets as the Company's recent acquisitions are further integrated.

For further specifics of the Q2 results, information on our outlook and other various information, I would refer you to the Company's Q2 2015 MD&A which was posted on SEDAR this morning. David?

David Regan

Thanks, Keith. Operator, we'd now be pleased to take any questions from analysts.

Q&A

Operator

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

And our first question comes from the line of Aravinda Galappatthige from Canaccord Genuity.

Aravinda Galappatthige — Canaccord Genuity

Good morning. Thanks very much for taking my questions. I'll start with the merchandising side of it. Obviously, you gave some good colour on the prospects of the Teletubbies and Twirlywoos. I just wanted to drill down on the Teletubbies rollout. Obviously starting out in the UK, I was wondering if you can talk to some of the other territories where you think this will be strong. Is there maybe a plan to sort of have the new season run in China as well and maybe have a product launch there as well?

Dana Landry

Thanks, Aravinda, for your question. Yes, absolutely. I think that it's always difficult to play the crystal ball game, but if we were to look at past history as to where the brand was strong, certainly China and the United States the brand was extraordinarily popular back in its heyday. And certainly so far the traction that we're receiving out of our conversations there, I would say that that would be a fair bet as well. But beyond that, the Teletubbies was a very well- known brand, globally known by over a billion people, so it's not just those three territories. I think what we're seeing as critical is the re-engagement in the UK the same way the original series was launched there and really gained traction before launching into the other territories.

Aravinda Galappatthige

Great. Thanks, Dana. And just switching gears to the digital distribution side, particularly the YouTube component. Obviously sort of after that—sort of sum up here, you're seeing a nice uptick again to $1.8 million. I know in the past you've talked about sort of a curated channel and taking the business to the next level. Any additional colour that you want to add in there?

Dana Landry

Well, yeah, I mean, that's exactly right. I think what we've decided to spend a little bit of internal resources in terms of trying to expand our minds with respect to the prospects of our relationship with YouTube, but others as a whole, and certainly we would expect that we'll be ramping up plans with respect to new AdVOD opportunities in the near future, and we certainly feel that this is a tremendous area for growth for us. And it's still relatively early days with respect to AdVOD, and if think about SVOD in a similar sort of trend where we would view AdVOD is sort of where SVOD was two to three years ago. And as the next couple of years unfold, we think that our brands are tremendously positioned to be able to realize some great growth going forward.

Aravinda Galappatthige

Thanks, Dana. And just with respect to the proprietary production revenues, obviously a guiding 45.5 million; you're up to about 18 million thus far. I know the seasonality tends to be somewhat unpredictable. I was wondering if you can remind us on the what do you expect in the back half of year in terms of proprietary production. Are we expecting a sort of a spike in Q3 and then an easing in Q4? And related to that, I was wondering if to the extent that you can maybe discuss the contribution of Epitome in that line item?

Dana Landry

Yeah, so as you know, as we've said last time, we—when we published Q1 numbers with respect to deliveries, it is a quarter by quarter—there's a lumpiness there, and what we said then is the same thing as we're saying now is although we had a great quarter this second quarter, you very much have to look at the annual. And I think we're up 17 percent overall for the year and tracking towards our expectations. Certainly Q3 looks like to be a solid quarter for us in terms of deliveries and the titles that we'll be delivering there—continue to deliver there—would be Open Heart for the Degrassi series. It's additional 22 Minutes amongst many other kids' series as well. And I'm not sure the second part of your question again, Aravinda, can you remind me?

Aravinda Galappatthige

Oh, sure. I was just wondering the sort of the contribution of Epitome in the proprietary production piece in Q2.

Dana Landry

Right, so it would've been the—it's hard to guesstimate. It's probably about 25—20 to 25 percent of that.

Aravinda Galappatthige

Okay. That's great. Thanks. The last question for me just maybe for Keith or Dana, just wondering if you can give us a quick summary of the impact of the FX changes that we've been seeing which is the Canadian dollar just so that we kind of have a sense of it as we model forward? I'll leave it there. Thank you.

Dana Landry

Yeah, sure. I'll give maybe a summary comment and then Keith can get in in the details. I mean, essentially, as you're aware, we do have some US dollar denominated debt which provides a bit of a natural hedge against the future revenues. But having said that, really, where it bears out is in the margin, or if you like, in the costs of goods sold because we're translating current dollar revenues on a net basis in the quarter. And so as a really high level, we probably have somewhere between 5 million to 7 million sort of net US dollar let's say positive over Canadian dollar for the quarter which results in, as we've mentioned, tail winds for the current quarter, but it's probably somewhere in the range of 50 to 75 grand for every 1 percent of currencies flux. And of course that would be—that would sort of translate through the cost of goods sold, and as a result would—in quarters where there's a tail wind, the margin would be slightly higher. In a quarter where there's perhaps a head wind, it would be slightly lower, but still would be well within the range that we've posted in our guidance.

Operator

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

Rob Goff — Euro Pacific

Good morning, and thank you very much. Could you give us any additional colour on the SVOD business in terms of the pricing dynamics of the newly signed contracts? Or perhaps when you're seeing renewals of existing contracts is there any change in the dynamics? Or the complexion of the pricing?

Dana Landry

Yeah, Rob, thanks for your question. I mean, in terms of the new deals, what's really—I think the highlights are is that so far it's sticking with the trend of the existing ones which are more or less non-exclusive, larger deals, bit of a land grab with respect to those new—those new territories.

On your second part of your question, for deals that have sort of rolled over, it's—what you'd expect is that if you—let's say for argument sake you had a 1,000 half-hour deal with anyone digital cut (phon) service and it rolls over, they're not going to necessarily renew 100 percent of those titles. They'll probably renew 60 or 70 percent, and they're going to renew the ones that have obviously performed very well. Having said that, because we've never licensed all of our library into any one customer, they tend to roll out and swap new content in to try it out. So overall, the number of half hours are going up and because they know that that 60 or 70 percent of the library that has been viewed heavily is performing for them, they'll pay a higher price, so on average, we've seen per half hour go up on renewals.

Rob Goff

Thank you. And perhaps a more difficult question. Could you talk to the start-up costs and the revenue ramp that one might look for in China?

Dana Landry

Yeah, it's a difficult one. There's really not a whole lot of start-up cost for us other than some support on the marketing side and obviously some SG&A to travel and a little bit of resources along the support—to support the launch.

Having said that, it's such early days in terms of where that goes. I think that we're very encouraged at which the level of speed that they're launching up the service and how they're engaging with this opportunity. I think they feel, like we do, that there's just tremendous opportunity, and certainly they're looking to seize that, and they're not wasting any time.

So I think within 90 days, say by the next time we get together, we should have some real interesting information to share.

Rob Goff

Thank you. Thank you very much.

Dana Landry

Thanks, Rob.

Operator

And our next question comes from the line of Paul Steep from Scotia Capital. Your line is open.

Paul Steep — Scotia Capital

Great. Thanks. On SVOD, Dana, can you maybe just give us a sense of how much of distribution revenue is actually from SVOD? And what that's sort of grown to maybe relative to sort of a year ago to give us the pace of change there?

Dana Landry

Sure. I'm just going to give you a broad snapshot here because—so see if I can reverse engineer this of the top of my head.

So about 50 percent of the revenue would still be linear deals, 50 percent would be digital. Of that 50 percent digital—so sorry, let's say 40 percent and you're 60 percent digital. Of that 60 percent digital, I would say probably a third of that is the SVOD. In the past it would have been 20 percent of it probably.

The other thing to remember, of course, is that not all the deals that we have announced would have necessarily been in this quarter. It would have been based on deliveries. Of course we can't recognize those revenues until they're delivered, those half hours. So those would be in future revenues.

Paul Steep

Great. And then, I guess, the second one from me would be just how you're thinking about the pace of M&A post Nerd Corps, post the high-yield financing, and where you sort of see things pacing out here for the remainder of this year; whether it's take a pause or whether you're going to—it's all steam ahead. Thanks

Dana Landry

Thanks, Paul. I mean it's full steam ahead with respect to opportunities for us. We still see great opportunities out there. Obviously there's nothing to announce right now. I would say that probably look at our past average as an indication for the future.

Paul Steep

Great. Thanks, guys.

Operator

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

Deepak Kaushal — GMP Securities

Hi. Good morning, guys. Thanks for taking my questions. I just wanted to ask about the live shows. I know you mentioned some stuff on Yo Gabba Gabba! in terms of expectations and how you guys did. What can we expect more for that franchise? I don't know if what you can share in terms of future shows and prospects for this year and next year.

Dana Landry

Sure. Yeah. Thanks for your question. Good morning, Deepak. So I mean Gabba is a great show. It still today has about 0.5 million friends on Facebook. Over the last year or so, the broadcast schedule with Nickelodeon in the US in particular has been a little bit inconsistent, and so we've been certainly working with them to try to improve that.

But having said that, we are definitely committed to the brand. We're very bullish on the prospects of new content, and we've got 66 back-catalogued episodes as well that—which we're looking forward to relicensing.

And it's early days, but we certainly are discussing a potential in-house move for that tour, along the lines of what we just did with The Next Step. And so stay tuned; certainly still very bullish.

Having said that, like all shows, and kids are not much different, there's peaks and valleys, and I would say that this one is certainly—it's not at its peak, but we're optimistic that it can get back there.

Deepak Kaushal

Okay. To so hit your targets for this year, that's kind of incumbent on Next Step filling in a bit of that valley. Is that fair to assume?

Dana Landry

Yeah. That's fair to say. Yeah.

Deepak Kaushal

Okay. And in terms of The Next Step, your involvement in The Next Step, given Temple Street's producing it, is that on a different level from Yo Gabba Gabba!? And will we see the—

Dana Landry

It is.

Deepak Kaushal

—revenue pulled (phon) in from the margin profile there?

Dana Landry

Yeah. Absolutely, yeah. It is. Just for clarification, the all-live tours tend to be on a cash margin basis, at best 15 to 20 percent, mainly because of the cost of doing these tours are fairly significant. And to be frank, although the revenue is nice, the margins are relatively—they're smaller than what we would typically have. But it does a number of things, and of course the biggest one is launching the brand and supporting the Family Channel and its sort of commitment to that brand.

And so we're certainly involved, we'll continue to stay involved, and we'll look for other opportunities. But yeah, it's a lower-margin business.

Deepak Kaushal

Okay. And then just to follow that up, more of a big picture question. When we look at M&A, I was wondering if you could maybe shed some light into what you're thinking of in terms of new genres in terms of kids or beyond, whether it's live or animated, and geographically. If you can offer some thoughts on that.

Dana Landry

Well, geographically, it's global; it's brands that were, like Teletubbies, once big, and we feel like we can remake them. Or brands like Degrassi, which are still big but don't have that distribution that is so critical in the new world of digital.

And so we'll look to really—there's really no specific, I would say, sections of the library where we're feeling particularly vulnerable. I mean I guess if I had to pick off the top of my head, perhaps some girls properties would be interesting to round out the offering. But generally, it's global brands that we think we can either relaunch or ones that we can use our infrastructure and leverage the revenue synergies that we've been able to experience on Degrassi and many other titles.

Deepak Kaushal

Okay. Great. I do have one final modelling question, if I may. In terms of cash flow for the year, cash flow expectations, what are you guys expecting in terms of working capital usage versus net general cash for ops? Are we expecting about 50 percent reinvestment back into working capital? Or are you expecting to get some contribution from that this year? I'm talking about investment in film and television programs and other working capital items.

Dana Landry

Yeah. I mean I think generally the trend of working capital use is driven by the cycle, and because we're ramping up production you could assume that there will be a use of working capital related to that and for the, I would say, not only the rest of this year, but for the next couple of years.

Deepak Kaushal

Okay. Great. Thanks. That's very helpful. Appreciate it.

Operator

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

Bentley Cross — TD Securities

Morning, gentlemen.

Dana Landry

Morning, Bentley.

Bentley Cross

I just wanted to dig down a little bit more into Teletubbies. Obviously you guys have had some great success with getting some licensing deals lined up, but I've been a little bit surprised not to see distribution agreements internationally, outside the UK. Obviously you can't tip your hand too much here, but can you maybe fill me in with little bits of colour as to what's been the holdup here?

Dana Landry

Yeah. I mean it's very much a—I wouldn't read anything into that other than to say that there's a lot of opportunities with respect to Teletubbies on both the linear and the digital side. Really where it boils down to is if history repeats itself, typically, particularly in the US, you want to go with a linear service, based on historical. And that's because, as we discussed in the past, retail is very much still driven by people going into stores. And as a result of that you're in a limited shelf-space universe, and then those retailers will generally want the shows to be viewed in, as they usually like to say, in 100 million or so homes in the United States.

Having said that, with digital and services like Netflix coming on at great pace, the lines are becoming blurred. And certainly as Netflix looks to—or some of that data starts to get out there in terms of number of views, and they call themselves either the number two or the number three kids platform in the United States behind the big two, Disney and Nickelodeon, as those stats really start to percolate through the ability to launch a show, like a Teletubbies, on a digital service, I would say, increases.

But it's very much in—it's hotly contested and I would say stay tuned. We'll hope to have an announcement in the very near future.

Bentley Cross

Thanks. That's great. And then just on the distribution gross margin in the quarter. It's very strong, much stronger than I was expecting. Wondering if you could just provide a little colour here. And were you able to find something in the cellar that had been completely written off to sell? Or is it just digital? Or what's going on there to drive the extremely strong quarter?

Dana Landry

Yeah. Exactly. Well a lot of the library deals that we're doing, whether they're SVOD or even the ones that we're doing on AdVOD, a lot of it is older library titles, and a lot of them have been more or less written off. So that's really the power of having a library that's as large we have, which has properties, brand new properties, but also properties that are classic, iconic properties. And in this day of digital where you need both scale and drivers, we're able to deliver those, that library, to multiple services at reasonable prices to them but very good margins to us.

Bentley Cross

Great. And just one last one. Going forward, what can we think about in terms of total capacity for deliveries in a quarter?

Dana Landry

Well, I think that the—we've published some of our outlook to say that we've—our goal is to sort of increase our library by one to two percent from the new content side. And that would equate to sort of somewhere between 100 to 200 half hours. So let's say 150. Where could that go to? It could probably grow at, let's call it, 15 to 20 percent for the next couple of years. And beyond that, we would have to look at whether there's cannibalization of our existing brands, but certainly we could grow for that period of time.

Bentley Cross

Great. That's it for me. Thanks.

Dana Landry

Thanks, Bentley

Operator

And our next question comes from the line of Rob Peters from Credit Suisse. Your line is open.

Rob Peters — Credit Suisse

Hi. Thanks for taking my question this morning. Just wanted to touch base. You saw good solid contribution from the Family Channel business this quarter. Just wondering how we should kind of think about that for the remainder of the year. If it's kind of similar to what we see in Q2? And then maybe if you could just give an update on the synergies related to the transaction and how those are kind of shaping out this year?

Dana Landry

Yeah. So the first question. Similar to Q2, other than I would say that—and if you look at the specifics in the quarter, I think 83 percent or so is on the subscriber side. So that's very much consistent. The flux, if there's any, Rob, here is where the—on the advertising side. Obviously that would be stronger in the holiday season. So there's probably a bit of uptick there. But more or less, relatively consistent to Q2.

In terms of synergies, in terms of the actual high-level stuff, we've all moved into our brand new location here in Queens Quay. Like it was around November or so. And so very much looking forward to seeing a full quarter and the balance of the year having some of those synergies.

But thereof, just as a reminder, the synergies that we expected from the channel, and this is really driven by the fact that DHX really wasn't in the traditional linear-channel business, was really more along the lines of absolute redundancies, which are relatively small, and also the facilities side of the business.

And so I think we posted in our guidance somewhere in the range of 1 million-ish of expectations going forward. So it's a couple 150,000; 300,000 maybe a quarter is what we would expect. So important and we're focusing on it, but relatively small.

Robert Peters

Perfect. Thank you. And then maybe just to touch on the distribution side of things. I think you said that digital was up to 60 percent of that segment now. And I was just kind of wondering, I mean obviously we've seen strong pick-up on the SVOD side of things with the number of deals that have been announced recently. But additionally, you've had some deals on the linear side. Kind of just how do you guys think about the mix of that going forward? And where do you guys kind of focus your attention?

Dana Landry

I mean we focus our attention on distributing our library. And that includes some linear services and also to the digital services. What we—we affectionately call them our existing customers and our new customers. We haven't really split them up. But going forward, surely a lot of the growth is driven by the digital but it is the situation we're in a very hot cycle for content, and it's also driving the linear up as well. And really, this is evidence. And I think in the past I've used this as an example. We've had some of our properties where the linear have competed head-to-head with the digital, in a lot of cases have increased their pricing by two or three x over what they were in the past. And so it would be improper to assume that the linear is not increasing. It is. It's just increasing at a, let's say, a more relatively slower pace than the digital is.

Robert Peters

Perfect. Thank you very much.

Dana Landry

Thank you.

Operator

And our next question comes from the line of Haran Posner from RBC Capital. Your line is open.

Haran Posner — RBC Capital

Yeah. Thanks, very much there. Good morning, guys. Maybe starting with your guidance. A few puts and takes in there; I guess just two questions for me on that. First on the SG&A side. If I'm doing the math right, I think about a 6 million increase for the full year. Keith, I think you mentioned some sort of onetime costs related to the office moves. I'm wondering if you can maybe help us separate that from the rest. And what—whether you expect it, I guess, to go down to the lower end of that guidance on a quarterly basis?

And then just on the gross margin side for distribution. I think there was a question earlier on the quarter. The gross margins for distribution for the full year; again, your guidance is up nicely. So just wondering how high can this go from your perspective?

Dana Landry

Okay. Maybe I'll do a general comment on the SG&A and the margin, and then if there's anything specific that I've missed, maybe Keith can jump in. And so on the SG&A, I think that yes, there were some things in the quarter that were spiked a little bit related to office relocation and stuff. And you know, we're always hesitant to throw things into onetime costs. So there's probably some, let's say, some SG&A slightly over what we were expecting last quarter. Having said that, I think if you take kind of the midpoint of our revised quarter, I think that you'll find that it's probably only up about a couple million dollars on an annualized basis. So maybe say up to 500,000 each quarter.

We certainly think that this is going to be easily covered by increasing in the margins that we're experiencing. And really that leads into your question on margining. We did increase the guidance this quarter up to—I think 65 to 75 percent is our new target. And it's really along the lines of my answer earlier, Haran, which is that what we're seeing is a consistent trend of deals that include a significant portion of the library where the vast majority of those costs are written off. And so the margin is pacing ahead of expectation to the point where now having been six months in we're comfortable and moving that upwards.

Haran Posner

Okay. No, that's good colour Dana. Thanks for that. And then maybe sticking with margins a little bit. I think it's your first call since the Nerd Corps acquisition. And when you look at the trailing numbers for that asset, very healthy margins, I think close to 50 percent, and probably fair to say that's roughly double what you would normally get in production. So I guess I just wanted to make sure that that's a number that you think is sustainable going forward?

Dana Landry

Yeah. I think on the series that they have in production because, of course, as you know, a lot of these, the proprietary side, take a couple of years to develop. And so certainly the margins are consistent with the recent history. Having said that, like all margins as you've seen in the past, that the proprietary can range anywhere from the low end of maybe as low as 20 percent to the high end as high as 70 percent. And so on the proprietary side, there is big swings. I think overall when you factor that into the greater DHX equation, it's relatively insignificant. And so you might get some anomalies of a point or two or here and there from a quarter, but I don't think it's going to be that significant, Haran.

Haran Posner

Okay. No, that's very helpful Dana. And then just maybe lastly. Wondering if you have any comments on, I guess, Netflix in their last quarter sort of made some comments on sort of the efficiency of what they call original series relative to licensed content. And I think on both sides is an opportunity for you. But just wondering if you have any thoughts on that?

Dana Landry

Yeah. Absolutely. I think that some of the stats that they've released is that about 35 percent of all their viewing is kids. And a number of their series, which includes some of our series, have multi-million views. And so you can assume that we being an excellent partner for Netflix is—we're definitely having conversations along the lines of originals. We're definitely optimistic. Obviously nothing to announce today. But we feel pretty bullish on our slate and we certainly feel that they have a strong interest in expanding the relationship. So just stay tuned.

Haran Posner

That's great. Thanks very much.

Dana Landry

Thanks, Haran.

Operator

And again, if you'd like to ask a question press *, and the number 1 on your telephone keypad. Our next question comes from Tony Rizzi from CIBC World Market. Your line is open.

Tony Rissy — CIBC World Market

Morning guys. Just found on the CRTC, we let the first few rulings trickle on through on the future of TV. Obviously these weren't as relevant for you, but any initial thoughts perhaps on those decisions or on the tone from the CRTC and what it might mean for you on more important elements like pick-and-pay and skinny basic?

Dana Landry

Well, thanks for your question, Tony. I mean, you know, your guess probably as good as ours. And if you have any intel, I'd be happy to hear it. We've heard all kinds of interesting rumours and innuendos, but I would say they're more or less exactly what they are. And we really don't have any more colour other than what the Commissioner has said, which is that I think he's going to release the announcements over a series of different talks or press releases. And we've heard everything from things are going to change relatively small with some tinkering to right to the level of skinny basic. So it's hard for us to—it's not my job to particularly play that game. So what we focus on delivering our content. We are very bullish on our content. And if the world is any evidence as to how much our content is in demand on all levels, new content and old content, we feel in any regulatory environment, we'll do well. Particularly where kids—it's still very much a niche programming. And still in the top three on most household dials when you have kids in the household.

Tony Rizzi

Okay. Fair. And then maybe just one more for me on the dividend. Do you have a formal dividend payout range target? And if not, how does the Board kind of think about the dividend? Should we still be kind of anticipating a couple busy bumps per year for the near term?

Dana Landry

Yeah. We are sort of stated policy is that we review it annually. Our history has been every six months we've been able, we've fortunate in a position because of our growing business, been able to grow dividends. Certainly it's something that we think is interesting and important and provides a nice solid base for the share. But certainly as a yield, it's relatively low.

I think we think that we want to communicate a couple of things there. One is that we are producing cash. Cash is growing and we're confident. Going forward, I would say that if you look at the history, I think, in terms of an adjusted free cash flow metric, now that's always dangerous because everyone's version of free cash flow is different, but we can certainly use let's say a reasonable definition. It stands in the range of sort of 20 to 25 percent of what we've paid out and I would say that we'll try to keep that relatively consistent. And so you could assume that as free cash flow increases, we'll keep that ratio in place.

Tony Rizzi

Okay. Perfect. Thanks, guys.

Dana Landry

Thanks, Tony.

Operator

We have no further questions in queue. I'll turn the call back to the presenters for closing remarks.

David Regan

Thank you, Operator. And thank you, everyone, for joining us today on the second quarter fiscal 2015 conference call for DHX Media. If you have further questions, please feel free to get in touch with us or consult our Investors Relations section of our website at dhxmedia.com. Thank you.

Operator

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

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