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First Quarter Results

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PRESENTATION

Operator

Good morning. My name is Heather (phon), and I will be your conference Operator today. At this time, I would like to welcome everyone to the DHX Media Fiscal 2015 First Quarter Results Conference Call.

All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be question-and-answer session. If you would like to ask a question during this time, simply press *, followed by the number 1 on your telephone keypad. If you would like to withdraw your question, press the # key.

I would now like to turn the call over to David Regan, Executive Vice President of Corporate Development. You may begin.

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

Thank you, Operator, and thank you, everyone, for joining us this morning for our fiscal 2015 first quarter analyst call.

To start off today, I'm going to discuss some recent highlights and corporate developments and then turn it to Michael for—sorry, I'm going to turn it to Michael for a few points off the top and then come back to those highlights, then turn it over to Dana, and finally to our CFO, Keith Abriel, will provide a detailed review of the numbers.

After that, we'll open up the call to questions from analysts, and look forward to everyone's points and connecting with you.

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 forward-looking statements as a result of various important factors, including the key risk factors, as set forth in DHX Media's MD&A and in the Company’s Annual Information Form.

Michael?

Michael Donovan — Executive Chairman, DHX Media Ltd.

Yes. Thank you, David. I'm happy to report the quarter statements or numbers. The most important thing is that we are continuing to grow the area that is most important, which is sales, and particularly library sales and digital.

And that's reflected in our numbers through our margin reaching really the top end of our numbers. And I'm thrilled; we, management, are tremendously excited particularly by that. That is really the most important determinant of growth in our business.

But also we're pleased to report in the quarter, or recently a number of meaningful material deals. Recently just signed—literally yesterday—was the acquisition of the children's library from Echo Bridge, an American company, with essentially over 1,800 half-hours we'll be able to add to our library, mostly children's shows; over 150 different series, including such series as Lunar Jim, Emily of New Moon, several Degrassi Street series, and others.

This is a transaction that we've been working on for over a year, and we're very pleased to have signed that literally last night.

Also, I want to compliment our team on executing the recent China transaction, and that's the co-launching with the main broadcaster in China, CCTV, new SVOD/AdVOD series, which we're contributing over 700 half-hours of our programming to. This is something we've also worked on for several years involving many, many trips to China, and this, we think, can be something that moves the bar for us measurably.

Also just today we're pleased to announce a new deal for Teletubbies publishing rights with Egmont, one of the leading publishing entities in the world, and the leading one, I believe, in Europe. This deal is for rights ex North America, ex-China.

And last, another important thing that we've achieved, management has achieved over the last—and I think the deal was approved post-quarter-end, October 9th, but—became effective post-quarter-end, but was approved within the quarter—and that was our dual-class shares that have been achieved successfully, and that is because of our issues around the Canadian ownership of Family Channel.

So thank you, David.

David Regan

Thank you, Michael. And indeed, first quarter of fiscal 2015 was something of a watershed quarter for us. On July 31st, we closed the acquisition of the Family group of channels, creating a new business unit named DHX Television.

This acquisition transformed DHX into a fully integrated content company, adding linear broadcast to our already strong business pillars of production, distribution, and merchandising and licensing.

The financial significance of this deal has already become apparent. In the first two months of ownership, August and September, DHX Television generated revenues of approximately 14 million, which was at the high end of management's expectation. Today, management reiterated its previously announced revenue target of 72 million to $75 million for DHX Television for fiscal 2015.

Related to the DHX Television transaction, our financials today also contained a $14.2 million tangible benefit obligation charge. It is important to understand that this is a onetime charge and reflects the present value of a stream of future payment obligations. The charge was recorded as a result of the acquisition of the Family Channel group as a condition of the CRTC's approval process. This reflects a commitment by DHX Media to provide $17.3 million to the Canadian Broadcasting System over the next seven years.

As is standard for the accounting of this type of charge, we are required to book this charge to this quarter. With this in mind, it is our view that it is particularly important to consider adjusted or normalized numbers, as management believes the adjusted figures to be a more meaningful indicator of operating performance for this quarter.

As Michael mentioned, alongside of our first quarter results we announced our acquisition of a library of more than 1,800 half-hours of children and family assets. Dana's going to speak a little bit more on this later.

I'll now look at some of our other business highlights for the quarter. On the distribution front, we closed significant deals during the quarter with Walt Disney Corporation, Netflix, Jeunesse TV, Société Radio Canada, Buena Vista International, and QKids, among many others.

New distribution opportunities continue to present themselves on a frequent basis globally, both in traditional linear television and as advertising and subscription video-on-demand markets continue to expand. YouTube, in particular, remained strong this quarter, and Dana's going to speak to that opportunity in a moment.

On the production side of the business, we added 31 half-hours to our library and reported revenues of 5.6 million in Q1. As previously announced, this decrease from the comparable quarter last year was expected and was due largely to the specifics of timing around deliveries in the quarter.

Production schedules, unfortunately, do not adhere to the fiscal calendar, so quarter-over-quarter comparison does not necessarily provide an accurate measure of the production activity during quarter. Our production deliveries are, in fact, tracking as planned for fiscal 2015, and we remain confident of achieving our stated targets for the year of between 37.5 million and 50 million in proprietary production revenue and 17.5 million and 22.5 million for nonproprietary production revenue.

Production highlights for the quarter include the completion of season one of a new family mystery series from Epitome Pictures entitled Open Heart, which is slated to debut on YTV in Canada and TeenNick in the US in early 2015. We anticipate Open Heart will have strong crossover appeal with the Degrassi audience.

We also announced that Teletoon in Canada and Cartoon Network US have ordered a new animated series called Supernoobs, created by Scott Fellows, who also created our hit animated series Johnny Test. Supernoobs is targeted at the same 6 to 11 children's demographic that so enthusiastically embraced Johnny Test.

Finally on productions, it's worth noting that subsequent to the quarter we announced a production and rights deal with Sony Pictures Animation for a new animated series based on the highly successful Cloudy with a Chance of Meatballs film franchise.

Also following quarter-end we announced that CBeebies, the children's arm of the BBC, have commissioned a new preschool series entitled Twirlywoos from Ragdoll Productions, creators of the original Teletubbies series. This series is being produced in association with DHX, and we will handle global distribution, merchandising, brand management, and marketing for the property.

In merchandising and licensing, key deals announced during the quarter included a global master toy partnership for our new Teletubbies series being produced for CBeebies, and the relaunch of the Yo Gabba! Live! Tour for about 60 shows through December 2014.

No Yo Gabba! Live! revenues were reported in the first quarter of either 2015 or last year, 2014, for the first quarter that is, as no shows were scheduled during those periods, but we look forward to reporting current tour revenues in fiscal second quarter.

Following the quarter, other significant M&L, merchandising and licensing, announcements included a master toy partnership for the earlier-mentioned Twirlywoos preschool series, and licensing agreements with a number of companies for Teletubbies products, such as puzzles, arts and craft supplies, greeting cards, and costumes.

We also announced a Teletubbies publishing deal just this morning, as Michael alluded to, and Dana's going to speak a little bit more on that too. This was the deal with Egmont.

In other matters, the Company instituted a dual-class share structure shortly after the end of the quarter. A new structure was put in place to ensure that DHX was in compliance with the Canadian Broadcasting Act, which requires that ownership and control of a Canadian television broadcaster be not less than 66 and 2/3s by Canadians.

Shareholders, however, may purchase either class of shares, which convert automatically at the time of purchase according to the buyer's jurisdiction. For more detailed information about the new share structure, I would direct you to the press release and Frequently Asked Questions document dated October 9, 2014, and posted on the Investors page of our website, or feel free to give us a call.

I'll now turn our call over to our Chief Executive Officer, Dana Landry, who will speak about some of these high-level opportunities before us. Dana?

Dana Landry — Chief Executive Officer, DHX Media Ltd.

Thank you, David, and thanks to everyone for joining us on the call this morning. As David mentioned, I am Dana Landry, CEO of DHX Media.

We are pleased to be reporting financial results for Q1 2015 today. I'll provide a brief overview of some of the numbers before getting into a few opportunities David mentioned.

First, this was a positive quarter for DHX and the Company. Revenues for Q1 were up 59 percent to 43 million, up from 27 million for Q1 2014.

The strong increase was largely due to the 14 million contribution of DHX Television David mentioned, but also included increases in revenue from distribution, producer and service fees, owned and represented M&L, and new media.

Further, adjusted EBITDA was up 76 percent to 13.7 million from 7.8 million for Q1 2014, and normalized net income was also up 83 percent to 5.5 million, or 5 percent adjusted basic and diluted earnings per share.

Keith will provide a more detailed look at the numbers shortly, though I'd like to also mention that we are pleased to announce that on November 13th at the Board of Directors meeting the Board approved a dividend for this quarter of $0.031 per common share, both voting and variable voting, at the close of business December 5th to be paid December 29th.

As David noted in his opening remarks, with our earnings release last evening we were also extremely pleased to announce the acquisition of a library of more than 1,800 half-hours of predominantly children's and family titles for US $12 million.

The deal increases our scale of our library by 18 percent, and further cements us as the owners of the world's largest independent library of children's and family content. As part of the deal we have acquired second-window US and international rights for Degrassi, Instant Star, and The L.A. Complex, all series that have been produced by Epitome Pictures, an acquisition that we completed earlier 2014 calendar.

By bringing these rights, among others, in-house, we expect immediate revenue synergies in the form of stronger distribution revenues, particularly for Degrassi, one of the most recognizable brands globally in the teen drama category.

I will note that these are incremental to the guidance that we provided yesterday. As Michael mentioned, we only signed this deal last night, so we'll look forward to updating our outlook in the coming quarters.

Now to look at some of the other business opportunities that lie before us. We continue to focus on the integration of DHX Television, and we expect to begin to realize the projected synergies associated with that acquisition starting in Q2 2015 and for the remainder of fiscal 2015.

We expect cost synergies of 2 million to $3 million for programming cost reductions, and 1 million to 2 million for SG&A cost synergies for full fiscal 2015, and 4.5 million and 1.2 million, respectively, for those categories for fiscal 2016 and onward. It's worth noting that in fiscal 2015 we expect to record costs of achieving these synergies of approximately 1 million to $1.5 million.

Next, our successes with YouTube continued this quarter. We have now uploaded more than 80 percent of our library to YouTube, and are in the process of creating distinct brand channels for our shows. In Q1 2015, DHX content logged approximately 697 million views on YouTube for approximately 4.7 billion minutes of content consumed across more than 256 territories globally.

While July and August are typically slower months for advertising revenues, our efforts still translated into gross revenues of 2.6 million compared to 0.6 million in Q1 of last year, and a net margin contribution of 1.44 million for this quarter compared to 0.34 last year. We ended Q1 on an upward note, as September showed 16 percent growth in AdVOD month over month, and we expect this trend will continue for the remainder of fiscal 2015.

David mentioned earlier, as did Michael, and last quarter I spoke about many M&L opportunities with respect to Teletubbies, our series that's being produced for CBeebies. Teletubbies is a key priority for our dedicated consumer product arm, DHX Brands, which was launched last June to spearhead our merchandising and licensing business.

In early September, DHX Brands announced a master tour deal for Teletubbies, and in early October they announced a host of other licensing deals for products, such as puzzles, greeting cards, and costumes. This morning, DHX Brands again announced a new deal, this one with Egmont Publishing, granting it international rights, excluding China and the North America rights, to produce a range of Teletubbies books and magazines for children.

The rollout of the product is expected in spring and summer of 2016, by which time consumers should be well acquainted with the new series. This deal is just one part of a multipronged M&L strategy for the new Teletubbies, and reflects the sort of strategy we are working on across a number of our marquee brands.

Finally, another big announcement was made last weekend at the APEC summit in Beijing. Our Chief Operating Officer and President, Steven DeNure, attended this summit as a delegate representing DHX Media in Prime Minister Harper's trade mission.

While there, Steven took part in an official signing ceremony hosted by the Prime Minister to announce a deal with China National Television, the new media broadcast division of China's state broadcaster, to launch a new streaming service exclusively dedicated to offering DHX children's entertainment across multiple platforms nationally in China. This is a revenue sharing deal.

DHX will provide more than 700 half-hours to start of children's content for this new service, including Teletubbies, Inspector Gadget, Madeleine, and others. This is obviously a tremendous opportunity for us to introduce our great brands to children and families in China.

Partnering with the national state broadcaster provides stability, while opening the door to an enormous emerging market.

With that, I'll now turn the call over to our Chief Financial Officer, Keith Abriel, to give us the details of (unintelligible). Keith?

Keith Abriel — Chief Financial Officer, DHX Media Ltd.

Thank you, Dana, and thanks for everyone for dialling in today. I am Keith Abriel, the CFO of DHX Media.

For Q1 2015, management is pleased to highlight strong growth in revenues, which are up 59 percent to 43.03 million from 27.0 million for Q1 2014. As Dana mentioned, the increase was due in part to the $14 million in revenues contributed by DHX Television during the months of August and September.

We also saw solid growth in distribution revenues, which were up 44 percent to 9.99 million from 6.96 million from Q1 2014. This increase was primarily due to the continuing growth of new digital customers and territories.

Both owned and represented M&L also contributed to the strong revenue growth this quarter. M&L-owned revenue increased 25 percent to 2.74 million compared to 2.19 million in Q1 2014. M&L-represented revenue was up to 2.98 million, or 16 percent compared to Q1 2014 at 2.57 million.

Producer and service fee revenues were also up, as we reported 6.94 million, an increase of 69 percent versus the 4.1 million from Q1 2014. New media revenues increased 40 percent to 0.84 million compared to 0.6 million in Q1 2014. This increase was based primarily on scheduled timing of certain UMIGO and other interactive deliverables.

Gross margin saw an increase in absolute dollars of 9.81 million, or 64 percent, to 25.07 million compared to 15.26 million for Q1 2014. Overall, gross margin was near the top of management's expectations for Q1 2015 at 58 percent of revenues as a result of the strong quarter for digital distribution deals; overall distribution margins; strong proprietary production margins; M&L-owned margins; and the impact of DHX Television.

As David explained earlier, proprietary production revenues were lower this quarter when compared to Q1 of 2014 as a result of variations in proprietary production delivery schedules on a quarter-over-quarter basis. Quarter-over-quarter comparison does not necessarily provide a reliable measure of proprietary production activities, as deliveries can fluctuate from quarter to quarter.

Proprietary production deliveries remain on track and as planned for 2015, and we reiterate our annual proprietary production revenue target of 37.5 million to 50 million for the year.

David also mentioned earlier the tangible benefit obligation charge incurred this quarter. As part of the CRTC's decision approving DHX's acquisition of DHX Television, we are committed to contributing 17.3 million to provide tangible benefits to the Canadian Broadcasting System over the next seven years. We expect to make these expenditures in equal installments over the next seven years.

The accounting rules require that we recognize the estimated fair value of the tangible benefit obligation on the date on which we acquired DHX Television. So it is particularly important to consider the adjusted, or normalized numbers for this quarter.

EBITDA for the quarter was a loss of 4.41 million, down 10.97 million, or 167 percent versus income of 6.57 million for Q1 of 2014. Adjusted EBITDA was 13.73 million, up 5.93 million, or 76 percent over 7.8 million from Q1 of 2014.

For Q1 of 2015, adjusted EBITDA includes add-backs for acquisition costs related to the Epitome, DHX Television, and other transactions totalling 3.92 million, and a tangible benefit obligation expense of 14.22 million.

The net loss for the quarter was 7.73 million compared to income of 2.16 million for the first quarter of 2014, or a decrease of 9.89 million in absolute dollars, driven by the previously mentioned charge of 14.22 million related to the Company's tangible benefit obligation expense.

Net income normalized for nonrecurring and onetime charges incurred in this quarter, including acquisition costs, as previously mentioned, and the tangible benefit obligation expense of 13.27 million—that's net of a $4.87 million tax effect—was 5.54 million, or $0.05 per adjusted basic and diluted earnings per share. This was up 83 percent as compared to 3.02 million normalized net income for Q1 of 2014, or $0.03 per adjusted basic and diluted earnings per share.

Comprehensive income for Q1 2015 was 10.63 million compared to comprehensive income—sorry, yeah, comprehensive loss for Q1 of 10.63 million compared to comprehensive income of 3.46 million for Q1 2014, or a decrease of 14.09 million in absolute dollars.

SG&A costs for Q1 2015 increased 48 percent to 11.95 million compared to 8.05 million for Q1 of 2014. SG&A for the quarter includes 2.43 million for DHX Television for 61 days of activity, which was obviously nil for Q1 of 2014. SG&A also includes 0.61 million in noncash share-based compensation. The comparative figure there for Q1 of 2014 is 0.59 million, and when adjusted, cash SG&A at 11.34 million was in line with management's quarterly SG&A expectations.

For further specifics of the Q1 results, I would refer you to the Q1 2015 MD&A that was posted last evening for more particular information and our outlook and various other information.

David?

David Regan

Thank you, Keith. Operator, we'd now be delighted to take calls from analysts.

Q&A

Operator

At this time, we'd like to remind everyone in order to ask a question, press *, followed by the number 1 on your telephone key pad.

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

Aravinda Galappatthige — Canaccord Genuity

Good morning. Thanks for taking my questions. Why don't I just start with the—clearing up the production, sort of the, I guess, the seasonality. Obviously last year we saw sort of Q1 have nearly half (unintelligible) revenue number. This year it looks like it's a different cadence. Any specifics you can give us on the shape of the production revenues this year either maybe Dana or Keith?

Dana Landry

Yeah. It's Dana here. I'll happily jump in. Yeah. As you know, Aravinda, the deliveries of the proprietary is driven by schedule of the broadcaster and also production schedule. And last year we had a really strong robust first quarter.

This year it looks like Q2 and Q3 are the strong ones for us. As Keith and David mentioned earlier in the call, we're very comfortable with the guidance that we've given. And because most of our shows are animation, all of these shows are underway and are scheduled to be delivered for the remainder of fiscal 2015.

Aravinda Galappatthige

Great. Thanks, Dana. And then just on the YouTube numbers. I know you've indicated 16 percent growth in September, which is positive. I think in the past what you kind of indicated is that you could do sort of high single-digit growth in that line item on a monthly basis, that would be sort of a pretty good result. As you kind of think about October and beyond, are you seeing those same trends as well?

Dana Landry

Yeah. We don't have—as you recall, our year-over-year comps—we just started the business about five quarters ago, so really the early part of July and August of last year we hadn't really started. So the comps are relatively low for Q1.

For Q2 we expect—we've seen lots of great traction, so again, we expect quite a bit of growth over Q2 of last year. In particular, we expect to kind of get back on track with that sort of single high digit—high single-digit growth certainly quarter over quarter and month over month based off of the Q4 revenues.

Aravinda Galappatthige

Great. And just switching gears. One of the sort of transactions that you did or one of the agreements that you signed during the quarter was the Cloudy with a Chance, the deal with Sony. Maybe it's worth giving some background on how that came around. I mean you're talking about a fairly well-known brand with a lot of box office—with a strong box office track record, I would say, with a major studio. Talk about how you were able to kind of get the licensing on the TV show there, and also sort of also a piece of the merchandising and the potential to strike those kinds of deals in the future as well?

Dana Landry

Yeah. I mean essentially we view this as an indicative deal or deals to come for DHX. I think one of the great things that has resulted in us acquiring DHX Television and the Family Channel in general is the world is now seeing us as a sort of fully integrated media content company that can green light shows.

And as we’ve talked about in the past, most creators want their show to be seen by everyone in the world. And so that sort of is just increasing our exposure throughout the creative world. And Sony in particular, although they have a very robust feature film slate, have not really in the past engaged in the television side. And so they were looking for partners, in a way, to help launch their brands.

And so I think it's a great testament the Company that we've built to be able to sign a deal like that. And we look forward to more of those going forward. Certainly we have other ones that we're prosecuting, and nothing's done, but we are very optimistic for this to be an indicative type of deal for us going forward to just increase the brand exposure of DHX throughout the world.

Aravinda Galappatthige

Thanks, Dana. And then just on Epitome. I mean you indicated that the distribution revenues from Epitome in the MD&A to about 170,000. Perhaps it's a bit lower than I thought, recognizing of course there is some seasonality there as well. I know that when you acquired it it was about 24 million, 25 million revenue a year (unintelligible). Is that still sort of the run rate revenue that we are seeing? I'm just thinking of the quarters and trying to see if there's any adjustment to that long-term revenue base there?

Dana Landry

Yeah. No, we're still very much on track for that annual—or that guidance that we talked about in the past. I think now that we've announced a deal, part of the—obviously we were in the final stages of negotiating to get those distribution rights back and so the activity within that quarter was relatively low, given our acquisition.

And so we expect that to sort of get right back on track now that it's—those assets are owned by DHX. And really, just to tell you, the opportunity to expand on this a little bit is that recall that one of the great things that we have at DHX is scale, and what also matters in the digital world is drivers or key properties. And Degrassi is clearly a key property.

And so being able to reunite those rights just leverages everything across the whole platform, and we fully expect to have some nice revenue pickups going forward. And if nothing else, reuniting the commission, if you like, that was formerly going to the outside company here, but in addition to that just incremental digital wins as a result of our existing relationships.

Aravinda Galappatthige

Okay. Great. And lastly for me just on the M&A, Dana, if you can talk about the landscape, the potential of that going forward; any targets that—I know you can't talk about specific targets, but your general appetite on what you're seeing in the market out there? And I'll pass the line. Thanks.

Dana Landry

Yeah. I mean I think just to reiterate some of our past comments, we continue to look for opportunities. We're seeing opportunities. They are coming our way fast and furious as the bigger we get.

The benefit of the scale that we've now achieved is we can be quite selective in the ones that we look at moving forward. And so we're doing so with the ones that are clearly within our focus, which is kids and family, and so deals that we would be hoping to do in the future would be adding additional drivers, or additional scale for the either digital side of the business or particularly on the licensing side. And we are seeing those deals, and we would expect that we would hopefully be having some positive announcements in the coming quarters.

Aravinda Galappatthige

Thank you.

Dana Landry

Thank you, Aravinda.

Operator

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

Deepak Kaushal — GMP Securities

Hi, guys. Thanks for taking my call. A first question I had was on DHX TV. You talked about the production synergies, or the programming cost synergies you're looking at getting out, 2.3 million, 2 million to 3 million—sorry, this year, 4 million to 5 million next year ongoing. What's that coming from? Is that coming from operational efficiencies? Or is it coming sourcing more of the content internally?

Dana Landry

It's the latter, sourcing more of the content internally. You will recall that as part of our licence arrangement we were allowed to put up to 40 percent of the Canadian spend in the form of DHX content. And so that would be executing on that part of the licence.

Deepak Kaushal

And does the 4.5 million savings ongoing, does that get you to that 45 or 40 percent? Or is there more opportunity...

Dana Landry

Yeah. Exactly. That's 40 percent of the Canadian spend. Correct. Yeah.

Deepak Kaushal

Okay. Okay. Just a corollary to that talking about risk capital that you guys put towards green lighting your production now that you have DHX Television. Are you looking to put more of your own capital towards green lighting new productions yourself? Are you seeing that both with

Family Channel? And how about with the new partnership you have in China? Are you going to be investing in that…

Dana Landry

Well, I think your question is one that is certainly an option that's on the table for us too. And I think what specifically you were speaking to is whether we would loosen our sort of threshold of our mantra, which has always been in the past to have 85 percent of the hard costs of any show in place before we green light. I think what we might do is—and in the past, though, I'll remind everybody that we've probably historically got to 100 percent because for the most part, our shows are more than 100 percent.

And so even going back to the 15 percent across the portfolio gives us an incremental opportunity to green light some things. But having said that, you always want to have shows that you think are going to sell through distribution and licensing. And so the great thing of the current market conditions are that the digital demand is out there, which is decreasing the capital across the spectrum. And as a result of that there is more money in the system and that more money we're able to sign up sooner rather than later.

And so we do think we can continue to grow organically in production for at least the foreseeable future, the next 8 to 12 quarters; just continue to ride that trend without straying too far from our mantra.

Deepak Kaushal

Okay. And just to follow up on that. Because we're seeing more money in the system we're also seeing, at least from what I'm seeing, over-the-top players commissioning new content, guys like Netflix commission original new contract. We hadn't seen anything for you, if I'm not mistaken, but we're seeing some from others. Does that change your view on what you think about the producer service fee business going forward? Are you still looking to trade that from a proprietary production? Or are you thinking that...

Dana Landry

Sorry to jump in on you. Absolutely. I mean I think there's always a capacity discussion that goes on with our studios and what's the proper balance. We've always liked certain percentage of the service because it keeps great people around, it pays the overhead; then is quite profitable.

But having said that that might be an opportunity for us to trade some of that out, continue to trade some of that out to increase the proprietary side of the business for sure. So we'll have to sort of look to that to the future. Now also just to touch on one of the comments you made in the first part of your question is that just for clarity we are in discussions with a number of those digital platforms, over-the-top providers for original programming, and we would expect some announcements in the near term on that.

Deepak Kaushal

Okay. Great. Looking forward to it. Thanks again, Dana, for taking my questions.

Dana Landry

Thanks, Deepak.

Operator

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

Rob Goff — Euro Pacific Canada

Good morning, and thank you for taking my question. At the Time Warner Investor Day they discussed their outlook for their five-year CAGRs on adjusted operating income with Turner Broadcasting, low double-digit; HBO, low double-digit; Warner Bros., high single-digit. In the past you'd helped us by addressing your ongoing organic growth objectives, and you've talked to the objective exceeding 10 percent annually. Could you address the organic growth that you are seeing, both in aggregate and by business line?

Dana Landry

Yeah. Sure. So thanks for your question, Rob. I mean it's obviously—this is all happening in real-time at DHX, so some of these numbers will be pro forma because of how we've been fairly acquisitive, as you know…

Rob Goff

Yeah.

Dana Landry

So some of the comps are a little bit tricky, and when do you throw something from acquisition growth into organic growth? But having said that, we think that there's a target, considerable target for growth, and maybe the best way to sort of think about that is if you look at, say, our guidance for this year, 2015. The guidance at the midpoint of the range is over 100 percent growth overall revenue from last year.

Now certainly as we mentioned earlier, 72 million to $75 million worth of that, or let's say 65 percent of that is related to the acquisition of Family Channel, but the balance is related to organic growth across the assets that we've acquired. Certainly I think the way I would kind of break it up a little bit is sort of in the next two to three years the vast majority of the organic growth, which I would say would vary between production, service, and then all the way into licensing and distribution would be on the production, the priority production side sort of 20 to 30 percent we'd see for the foreseeable future.

On the distribution side, I mean we've had a great track record of growth, and I think our midpoint of our guidance on that alone is somewhere in the range of 30 to 35 percent growth on that, so we do expect that that would continue at that pace.

On the licensing side, it's really more of a three to five-year outlook. As you know, Rob, the pipeline, the cycle for M&L growth it takes longer to ramp up. And so for instance on the Teletubbies we're expecting that '16 and onwards will be the big years for that.

And so we're very comfortable because we feel like the next two or three years we kind of have that covered from the production and distribution side, and then beyond that we're looking forward to that sort of organic growth on the licensing to really start in earnest.

Rob Goff

Okay. Thank you. And if I may, a follow-up question. With respect to your China venture, it's very hard for us to put numbers on it. Would it be fair for us to suggest that it could track your YouTube revenues, albeit two years delayed?

Dana Landry

Yeah. I mean it's an interesting one. Obviously everyone on our team is having a bit of fun with numbers, as we like to say, in terms of the modelling of this. It's difficult to predict the specifics of it.

That might be an interesting way to look at it in terms of, again, it's a little bit tricky to compare because how do you compare 1 billion people to the rest of the world? I guess it is tricky. Having said that, though, it's a large population, and I think we're well positioned with CNTV and CCTV as a partner to be able to realize on some of those figures, so it’s probably not a bad way to go about it, Rob.

But having said that, what I want to make the point on is really what we're doing is this is really just an indicative deal for DHX going forward. And really just it sort of it meshes with some of the past conversations that we've had on previous calls, which is that we have a large unencumbered library and we're able to do these deals in real-time.

And if you're going to get into the business of either streaming video on-demand for subscription or advertising and you want to focus on kids and family, we always, we feel, top of the list for partnership opportunities because of our unencumbered rights and our deep broad library across multiple territories and multiple languages.

And really this is what we've been able to accomplish here with the China announcement is that we have the brands and the properties that are dubbed in the language that is required from our past acquisitions, and we're able to leverage that across. And we've got many other conversations going on with that, and it is difficult to project at the moment, but we'll obviously look to update that in real-time as we go forward as we get more clarity on the launch and when we expect those results to come.

But really the headline that I would say is we've got many more of these that are in the works, and we look forward to announcing more of them in the coming quarters, years, and that in all of them—this is the key point—are incremental to what we have now on paper and what we have now included in our guidance.

Rob Goff

Okay. Thank you, Dana.

Dana Landry

Thanks, Rob.

Operator

Your next question comes from the line of Haran Posner with RBC. Your line is open.

Haran Posner — RBC

Yeah. Thanks very much. Good morning, guys. Maybe just I'll start off with following up to Rob's question on the China deal. Dana, can you maybe help us with explaining what business you do in China today? And I guess part of this deal is just giving you really a step into that market, obviously. And then can you remind me, do you have—has anyone in China picked up the Teletubbies series for linear TV at this point?

Dana Landry

So the amount of revenue that we have on China now is basically close to zero. There's a little bit of sales here and there, but not much has crossed into the linear world because most of it is owned by the state-owned broadcaster, who is our partner here, CCTV. So really it's all incremental from this point forward.

And having said that, we have had some shows in the past, like the Teletubbies has had great pickup over the years in China because it was a—first of all, the Chinese, unlike some of the other Asian cultures, they really like the Western content, and in particular kids and family. And in particular they really took to Teletubbies.

And what I think it is is because it's Western content that is viewed to be English, or British, the BBC, which has a great brand in China and has really taken off. So that's really why we're excited not only about the partnership, but the incremental revenue stream that we can get from the distribution side through the video-on-demand service that we launch, but also as we add new content there and partnering with additional content partners in China, particularly on Teletubbies, but also In the Night Garden and a number of our other properties that have had some success in the past.

But at the moment it's relatively small.

Haran Posner

Okay.

Dana Landry

So we'll let you know about that.

Haran Posner

No, that's very helpful, Dana. Then maybe just on the Echo Bridge transaction. You commented that there's going to be some immediate revenue synergies that will be incremental to guidance. Is there any way to quantify that?

Dana Landry

Is there any way to quantify that? I think the best way to—if you think about it on a historical basis perhaps would be to go back to the numbers, I think, that Aravinda had mentioned earlier on his questions, and say that the sort of annual revenue stream, I think, was in the 20 million to $25 million range; probably somewhere in the 5 million to $8 million was the distribution revenue piece of that. And so reuniting that extra 30 percent I guess you could inverse into the balance of that in terms of a lift based on the historical. That's one way to look at it.

However, I fully expect to exceed that. It's just hard to tell at this moment by how much because we've only owned it now for a few hours, of course, and our team is already visibly planning and contacting. But we'll have to just—you'll have to bear with us in real-time, Haran, as we work through that and look to provide further clarity going forward.

Haran Posner

Okay. No, that's fair enough, Dana. Just one last one for me for either you or Keith; I guess just on the SG&A the one item that I think has changed in your guidance is SG&A picked up a couple million bucks. Just wondering if there's any colour on that? Is it something specific to fiscal ’15? Or is that kind of the run rate?

Dana Landry

No, it wasn't anything specific. It's really just, as we mentioned earlier, there's a number of partnership opportunities that are coming our way, like the one in China, for instance, which are going to require us to increase overhead to some degree. And in real-time as we see those emerging we are adjusting slightly.

And so the vast majority of that increase is really to focus more on our YouTube initiative, and we've got some plans that we're working on there to hopefully continue to grow that. And that means adding a little bit on the overhead side of the business. We think it will more than pay off, not only in the long run, but in the short run, and so we feel it's time to go after that a little bit.

Haran Posner

Super. Thanks a lot.

Operator

Once again, if you would like to ask a question, press *, 1 on your telephone keypad.

Your next question comes from the line of Robert Peters with Credit Suisse. Your line is open.

Robert Peters — Credit Suisse

Good morning. Thanks for taking my question. Dana, I was just wondering if you could maybe talk a little bit about the merchandising side. I know that you've done a number of master toy agreements within the last quarter and after it wrapped up, so I was just wondering, most of these are going to be coming in, I think as you guys have indicated 2016, but like how should we think about this opportunity long term? It seems like you've been kind of picking up momentum on that side of things.

Dana Landry

Yeah. Thanks for your question. Yeah. I mean I think it's hard to predict, but what we can do is look to the past for some guidance, and really in particular Teletubbies, I guess, is really the easiest one to kind of if you want to do a mini case study on. And you look at that specifically, and Teletubbies at its peak was generating in excess of $1 billion at retail annually, and I think cumulatively has generated life to date near 5 billion at retail.

So if we could come back to that peak of, let's call it, $1 billion annually on retail, typically the owner of the IP would flow anywhere from 10 to 12 percent of wholesale gross to its cash flow stream. So you sort of half that $1 billion, it would equate to something like 60 million to $70 million worth of incremental EBITDA on the bottom line just for Teletubbies. And I think that's really what you get with respect to a large library.

Not only you get the opportunities from the partnership perspective on the digital that we spoke about earlier, but you also get the optionality on the merch side of the business. And the merch side, as you've said, takes a little longer to evolve, but we're very confident that there can be some really transformational pickups here on the merchandising side of the business, and really why we think that there's lots of room left, lots of runway left for DHX with respect to it.

The other brands that we're excited about are obviously Inspector Gadget, which we get another—every quarter we get a little closer to the launch of that, and we're looking forward to that in 2015 and then hopefully some great merch as a result of that, but also Twirlywoos, which I'll take time right now to update.

Since the last call we attended the BLE, Brand Licensing Europe, and launched Twirlywoos to great response and a lot of comments to the effect of nobody saw it coming. And it's a great new show from an excellent creative source, Anne Wood, who we obviously have a deep connection to with Teletubbies. And so that again goes back to as we continue to get bigger as a company we're seeing more of these opportunities come to our door and we're able to execute on them, and hopefully see some great incremental growth in the two, three, four years ahead.

Robert Peters

Perfect. Thank you very much. Just to maybe follow up on that, speaking specifically to Twirlywoos. I know it's a new IP, but it's got a pretty strong pedigree with Ragdoll there, so I was curious then, should we think about that kind of as being maybe a greater percentage of the retail revenues than say a brand-new IP? Because I know that can be higher for something that's more established and at the lower end for something that's just a brand new show.

Dana Landry

Yeah. I mean it's a good question, and really it's one when you start it's probably only 1 in 100 that actually gets to the shelves. Now because of the pedigree of the creative and our platform throughout the world, we're able to go broad and deep quickly on this opportunity. And from early signs, though, there's great interest on this property, and so we're able to get through the pipeline quicker.

I mean it's very unusual to have a toy deal out of the gate for a brand-new property like that, and you wouldn't get that without great content and without the great track record there, not only from Anne Wood's perspective or Ragdoll, but also DHX. And so, again, I think it's hard to predict exactly whether you could kind of repeat that recipe or not, but that's certainly the plan, and we think that there's a lot more opportunity to do that.

Robert Peters

Perfect. Thank you very much.

Dana Landry

Thank you.

Operator

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

David Regan

Thank you, Operator, and thank you, everyone, for joining. We look forward to speaking to you next quarter. And in the meantime should you have further questions, we'd encourage you to visit our website, dhxmedia.com, on the Investor page, or reaching out to us to arrange a time to speak.

Thank you.

Dana Landry

Thank you, everybody.

Operator

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

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