FINAL TRANSCRIPT

DHX Media Ltd.

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PRESENTATION

Operator

Good morning. My name is Melissa (phon), and I will be your conference Operator today. At this time, I would like to welcome everyone to the DHX Media Third Quarter 2014 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 at 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 Relations, DHX Media Ltd.

Thank you, Operator, and thank you, everyone, for joining this morning for DHX's third quarter analyst call.

We're going to begin with some remarks from our CEO, Michael Donovan. I'll come back with a corporate development update, and then we'll turn things over to our Chief Financial Officer, Dana Landry, for a detailed review of the numbers, and then of course open the call 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 forward-looking statements as a result of various important factors, including the risk factors as set forth in DHX Media's MD&A and in the Company's Annual Information Form.

I'll now turn things over to our Chief Executive Officer, Michael Donovan.

Michael Donovan — Chief Executive Officer, DHX Media Ltd.

Thank you, David. I'll start by just talking about some of the things that I'm particularly excited about going forward; basically two things.

Shortly after the end of the quarter, as we announced, we closed the acquisition of Epitome Pictures, a Toronto-based production company, and we're very excited about that acquisition.

With Epitome we acquired, first of all, the leading international teen drama series, Degrassi, which has run for 14 years, and is broadcast in almost every country in the world. Critically it's the flagship show for TeenNick in the United States. And we have also with this acquired 685 new half hours of original programming.

But the most important thing is that this acquisition extended our portfolio of offerings in the family space from our core base in preschool and the 6 to 9 category to youth and teenager, offering us a wider range of sales in the digital space and in the linear space.

Also with Epitome we acquired a very interesting, exciting production slate, which I'm personally quite excited about, and we'll be making announcements on new interesting shows going forward in that space.

Also, sort of the second main thing that I want to talk about today, which is an area that got us, management, excited; me personally, is AdVOD, which that is advertising supported video on demand. We believe, I believe that AdVOD will be one of the major contributors to growth in the next two or three years.

This is one of the most exciting areas. It's also completely unexpected. AdVOD for us didn't exist a year ago, and today it's growing 60 percent quarter over quarter and that is accelerating. In the last quarter, Q3 2014 to be specific, its contribution was $1 million. But probably the most important metric is that in the last 30 days over 1.3 billion minutes of our programming was viewed, and that's growing at 10 percent per month. David?

David Regan

Thank you, Michael. And of course this helped the business deliver strong growth in both gross margin and adjusted EBITDA and growth in our key metrics of proprietary production and distribution revenue.

The significant increase in proprietary production revenue was driven by organic growth and distribution revenue was driven by growth in both new digital customers, and of course the AdVOD, the YouTube revenue that Michael's just alluded to.

From a corporate development perspective, looking back beyond the Epitome acquisition mentioned by Michael, our acquisition of Ragdoll last September continues to prove successful, as evidenced by our recent renewal of our agreement with BBC Worldwide Asia to represent the licensing rights to Teletubbies and In the Night Garden in China.

We have, of course, three primary lines of business at DHX: production, distribution and library, and licensing. On the production side of our business, we currently have eight series in production and we added 53 half hours of proprietary content to our library this quarter.

We were also pleased to announce the premiere of a new live action kid series called Hank Zipzer starring Henry Winkler on CBB's iPlayer and on CBBC in January in the UK, as well as the US premiere of the new animated preschool series Ella the Elephant on Disney Channel and Disney in the US during the quarter.

In addition we recently announced the commissioning of the 22nd season of our primetime comedy series, This Hour Has 22 Minutes, to CBC in Canada.

Our proprietary content feeds our library, which then generates recurring cash flow by licensing out that content for periods of typically between one to six years, both exclusively and nonexclusively on different platforms in territories all around the world. This library and distribution business was robust across both traditional linear and digital platforms for the quarter.

Some of the significant digital distribution deals signed during this quarter included to such entities as Amazon, Dish Networks, NCircle Entertainment, Discovery Communications, Hub

Television Networks, and of course Netflix amongst others. Management is very optimistic on the future distribution potential of our library, which is the largest of its kind on these platforms, particularly from the emerging over-the-top services which have a desire for a bulk of content we're experiencing.

Also, we are pleased to report that the app associated with our Doozers, a co-production with the Jim Henson Company, made it to the best new app list on Apple's iTunes App Store.

In our licensing business, revenue is divided between our own properties and our represented properties. Licensing from owned properties was down 73 percent year over year, due to mainly management's previously reported decision to rest the Yo Gabba! Live! Tour and the timing of certain renewals and certain licences. Now that is a significant drop, but we'd also note that the rest of the live tour is just that, as it's still rated the number one live kids touring show in America ahead of various shows such as Scooby Doo Live, Elmo, Sesame Street, Disney Live, et cetera.

CPLG, our third party licensing business in Europe, was appointed as merchandising agent for our hit preschool series In the Night Garden during the quarter. We also recently announced the expansion of our CPLG business into the United States with the appointment of Ted Larkin in Los Angeles. We expect this to generate incremental revenue, both in the US and in Europe for CPLG.

I'll now hand it over to Dana Landry, our Chief Financial Officer, for a detailed look at the numbers. Dana?

Dana Landry — Chief Financial Officer, DHX Media Ltd.

Thank you, David, and good morning, everybody, and thank you for joining us on the call.

As Michael and David noted earlier, management is pleased to highlight our strong growth this quarter, a 21 percent increase in gross margin, which at 60 percent of overall revenue was above the high end of management's expectations.

Further, management was also encouraged with the adjusted EBITDA growth of 31 percent to 9.4 million and 42 percent growth in both of our key content metrics of proprietary and production and distribution revenue. And those, worth noting, are also up sequentially over Q2 2014 by 14 percent and 4 percent, respectively.

Further specifics of breakdown of the revenue by major category for Q3 were as follows: as David mentioned, 5.93 million for proprietary revenues, up 42 percent, which was driven by strong content deliveries of Dr. Dimensionpants!, Hank Zipzer, and Season 21 of This Hour Has 22 Minutes; 9.83 million for distribution revenues, which was up 42 percent mainly from the continuing growth of our digital distribution new customers, new platforms, and new territories, including, as Michael mentioned in his opening, a $1 million contribution for our YouTube growing and expanding relationship.

Next, M&L owned was down 3.37 million, as David noted 73 percent, due to our decision to rest and refresh the Yo Gabba! Live! Tour. M&L represented was up 3.37 million, which is a 23 percent increase, as we are seeing some positive signs of recovery in the UK and Europe.

Producer and service fee revenue was up 46 percent to 5.66 million. And I'll remind our listeners and our shareholders that we had made a decision about a year ago to transition our animation work from Los Angeles to Canada, and we're finally seeing some traction on that decision.

Finally, new media revenue at 0.6 million for the quarter were slightly below expectations due to certain UMIGO activity. On UMIGO we've made some production management changes and are back up to speed, and are expecting to be back on track for Q4 2014 and fiscal 2015.

Management was pleased with the gross margin for Q3 2014 at 17.48 million, an increase of 21 percent and an overall margin at 60 percent, which was above expectations, as noted earlier.

SG&A costs were down 8 percent to 8.28 million, and when adjusted for the noncash stock-based compensation charge was at 8.06 million, which was on par with management's quarterly expectations previously disclosed.

For Q3 2014, adjusted EBITDA was 9.43 million, up 2.22 million, or 31 percent over the 7.21 million for Q3 2013. For Q3 2014, adjusted EBITDA includes add backs for Ragdoll acquisition and pending Family Channel acquisition costs and other nonrecurring charges totalling 1.11 million.

For Q3 2014, net income normalized for these aforementioned charges was down slightly to $0.02 per share—or $0.02 per share I should say basic and diluted, or an adjusted basis of 2.58 million. This compares to $0.03 per share for Q3 2013.

Further specifics of management's guidance, I would refer you to Page 18 and 19 of the Q3 2014 MD&A, which were posted at the same time as our financial results yesterday.

David, I'll turn it back to you.

David Regan

Thanks, Dana. 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.

And your first question is from the line of Aravinda Galappatthige from Canaccord Genuity. Your line is open.

Aravinda Galappatthige — Canaccord Genuity

Good morning. Thanks for taking my questions. A few for me; just wanted to start off by revisiting the AdVOD, Michael. Great ramp-up; we're up to about $1 million a quarter. How should we think about the long-term magnitude of this opportunity? I mean is it fair to say that we're still at the early stages of exploiting this and it could be potentially be multiples of this a few years down the road?

Michael Donovan

Yes. That's exactly it. But this is—we think that television traditionally was advertising supported, particularly with the leadership of YouTube, with YouTube evolving as essentially as advertising supported and developing an understanding of how to exploit that. As that evolves, and we're seeing this, toward more curated content delivery, what's happening is that advertisers are much more attracted to it. And also much better pricing seems to be being obtained.

And one of the drivers of that is children's programming. And that's now being increasingly delivered through this medium. And we think that this will be—evolve as the new broadcast model, essentially video on demand, AdVOD video on demand. And so something that no one imagined even—we did not—is something that's presenting itself and accelerating.

And it's obviously just started, but we think it has years and years and that it can—and so where the end is is anyone's guess. It's one of the things that's got me excited though personally, partly because we just didn't see it.

Aravinda Galappatthige

Great. Thanks, Michael. Just a few financial questions for Dana with respect to—let me maybe start with the distribution margins; fairly high margin there at 81 percent; I think much higher than it has been prior. Any colour there? I mean is it simply the case of the mix going towards digital and the AdVOD itself kind of driving up the margins there?

Dana Landry

Yeah. That's it. It's mix. As you know, there's some unevenness in the quarters, Aravinda. So in this particular quarter we just happened to have a fair number of sales that were out of the library.

And so, therefore, a relatively low cash or cost (phon); it's all related to that. And so it's really a mix in timing of things.

And I think in order to get sort of a better indication as to the go-forward you probably want to look at the nine-month figures.

Aravinda Galappatthige

Okay. Great. And just two more; with respect to Epitome on the guidance, you indicated 1 million to $2 million in revenue for the year. I mean considering there are about three months of Epitome in fiscal '14, why is the number relatively lower? Because my understanding was Epitome's $24 million in revenue a year?

Dana Landry

Yeah. So I mean remember you can sort of harken back to DHX of a couple of years ago where a vast majority of our revenue base was production revenue on core content delivery, which is very much a seasonal business. And it's just the timing of delivery.

So the next season of Degrassi started about 10 days ago in production, and so because of the revenue recognition it’s an all or nothing, and so we're just not expecting any proprietary deliveries on Degrassi this quarter, Q4.

However, having said that, we will have some distribution revenues, and it'll be the first quarter of us sort of getting our feet wet with that library. So it usually takes us a little bit of time to get up to speed. Hopefully we'll be able to exceed on the upside, but want to be slightly cautious on the first quarter.

Aravinda Galappatthige

Okay. I understand. And just a last question for me on the produce and service fees; as you mention, I mean you're starting to sort of see that recover nicely. I mean as you look longer term there, I mean if I look back 2012 you were doing as much as $30 million in revenue there. Is there an opportunity to go back to those levels? Or is that sort of an unusual year in terms of service fees?

Dana Landry

Yeah. It's a good question, Aravinda. I mean I think that the—obviously there we have a strong preference in our studios to do our own proprietary stuff, for obvious reasons, being able to add those rights to the library and monetize them across many revenue streams. And so it's a bit of a give and take as we go forward in looking at the capacity issue. And clearly if we can get more proprietary stuff in there we will look to do so.

So whether we get back to the 30 million number is probably not what the goal would be, but certainly growth over where we've been the last 12 months. And I would expect somewhere going forward that settling in in the 20 million to 25 million range and being a nice steady base. We have a lot of great partners and customers in that line of business. And we've got two studios, Vancouver and Halifax, that are humming right now. And we look for lots of opportunities, but I think we would look to focus capacity on some of the proprietary stuff.

Aravinda Galappatthige

Great. Thanks. I'll pass the line.

Dana Landry

Thanks, Aravinda.

Operator

Again, if you would like to ask a question, press *, then the number 1 on your telephone keypad.

Your next question is from the line of David McFadgen from Cormark Securities. Your line is open.

David McFadgen — Cormark Securities

Yeah. A couple of questions. So on the AdVOD the revenue in Q2 was $1 million; what was the revenue in Q3?

Dana Landry

Just under 700, Dave. It’s about 690, I believe.

Michael Donovan

In Q2.

Dana Landry

In Q2. Yeah.

David McFadgen

In Q2. What was it in Q3?

Dana Landry

Q3 was 1 million.

David McFadgen

A million?

Dana Landry

Yeah.

David McFadgen

And so when you say it's growing 60 percent sequentially, are you talking viewership?

Dana Landry

No. Revenue from the first quarter, our first quarter was around 300,000 and it went to about 700,000 and now it's at 1 million. So for the last—we're in real time here, so this is a relatively, as Michael said, new stream of business for us. So the last two quarters it's grown 60 percent.

David McFadgen

Okay. And so that's captured in the distribution line, correct?

Dana Landry

Correct.

David McFadgen

Yeah. So when I looked at the guidance that you provided, the outlook for the year when you released Q2 results, you were looking for a distribution gross margin of 60 to 70 percent, and then when you released your quarter this morning you were looking for a distribution gross margin of 60 to 70 percent. So I would think the AdVOD revenue would have a higher margin. So I was just wondering why you haven't increased that margin

Dana Landry

Yeah. We could have. We chose to just leave it as is because of the unevenness of some of the quarters, but we probably will be on the high end of that number, if not ahead for the year.

David McFadgen

Okay. Now, so you talked about the last 30 days there, 1.3 billion minutes of your programming that was viewed over these YouTube-type channels. How much of that inventory is actually being monetized via someone's website selling ads on it?

Dana Landry

So how much is it being monetized?

David McFadgen

Yeah.

Dana Landry

It's probably maybe like I'm guessing 50 to 60 percent. The vast majority of it is still user-generated content, but we're quickly mobilizing a team to try to capture some of our own AdVOD channels as well to improve the quality, and hopefully to improve the CPMs, or in our case the RPMs, the revenue per 1,000 views, which of course as you know one of the key metrics in that world.

So as we look to try to improve that, one way to do that is obviously own the channels and improve the quality, for instance, deliver high def; perhaps deliver things that are unique and original; maybe new content for a territory that hasn't been seen before, et cetera, et cetera.

Michael Donovan

Yeah. We have a number of initiatives to seize this opportunity. The first one being simply to reclaim from the user generated, which is a laborious work, and we have a team working night and day to reclaim, to find and reclaim, and we're steadily getting better at that and succeeding.

But it's hard to know the percentage exactly because who knows really how much. The metrics are not—I mean it's not exactly a perfect science. But we're getting definitely increasingly better at it. But that's only just the start.

This whole idea of organizing our material, improving its quality, as Dana just said, and curating it, providing an offering, that is the evolution of the broadcast model from the user-generated world. And that's happening real time. That's the headline there.

David McFadgen

Yeah. Okay. So how are you being paid from assets on the AdVOD? Are you getting a cheque from YouTube? Or who's actually paying you?

Dana Landry

Yeah. It comes from YouTube, yes.

David McFadgen

Yeah. Because the way I understand it is YouTube takes 45 percent of the money, 55 percent goes to the website, but you don't own the website. So I'm just wondering how the money's flowing back to you? I don't know if you can answer that.

Dana Landry

Yeah. So it's rather complicated, but I'll break it down to basics.

David McFadgen

Okay.

Dana Landry

So essentially we have, for lack of a better word, digital watermarks on all of our content. And so on a regular basis daily Google will present a list of user-generated content that has de facto pirated our stuff and will ask this question, would you like us to shut it down? Yes or no. We say no. Then they say, would you like us to serve ads to that video? Yes or no. We say yes. In that case it immediately starts to collect and fund to our account.

Michael Donovan

In other words it no longer goes to the website.

David McFadgen

Okay. Okay. And then just—sorry, one last question and I'll pass the line. So the outlook when you released Q2 you were looking for distribution revenue of 35 to 42. With this quarter you tightened it up a bit, 36 to 39. I was just wondering what would be the rationale for the higher end metric coming down a bit.

Dana Landry

Yeah. So there's a couple of larger deals that we're working on, larger library deals for new territories, which we're optimistic might close in fourth quarter, but may slip a little.

David McFadgen

Okay.

Dana Landry

And those are sort of one-off larger ones, so therefore we've tightened it up a little.

David McFadgen

Right. Okay. Okay. That's it for me. Thank you.

Dana Landry

Thank you.

Operator

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

Haran Posner — RBC Capital Markets

Yeah. Thanks very much. Good morning, guys; maybe a couple of questions for me starting with Epitome. Was hoping maybe you can give us a little bit more guidance. I mean we know, I guess, what the LTM revenue and EBITDA was. In terms of your thoughts on the production slate, I guess, for fiscal '15 in terms of half hours? And then maybe just, again, your outlook for profitability. And then, Dana, just wondering if there's any tax losses that you're getting with this asset?

Dana Landry

Okay. So a number of questions. So no tax losses. Deliveries are expected to be approximately 40 to 50 half hours for fiscal—for the next 12 months say, but most of it would be fiscal '15.

Profitability, I would say you could use the expectations, similar expectations to last year in terms of production revenue.

And distribution revenue, obviously we're busily processing that, and we'll look forward to providing further guidance on that in our next report.

Haran Posner

Okay. No, that's very helpful, Dana. Can you just remind me what the breakdown was between production/distribution in the LTM period?

Dana Landry

I believe it was 75/25. But, David, could you check on that and get back to us before the end of the call?

David Regan

We will.

Haran Posner

And then maybe moving on to distribution; obviously you've signed quite a few deals this quarter, including some large digital customers like Netflix. I was wondering without commenting obviously on any one deal whether you can make any comments on volume on price on these renewals? So I guess these customers taking more DHX content. And then how—is there any pricing dynamic working in your favour here?

Dana Landry

Well, I mean I think it's difficult to comment, other than to say that we've seen positive traction, positive momentum on renewals. There definitely is a bit of a give and take, though. In the case of Netflix, we've done maybe overall 15 deals, something like that for all the different territories, and each deal is definitely a give and take.

In some territories they want to renew the same shows; others they want to replace in and out. It's probably safe to say that they renew about 70 percent and they replace 30 percent. But overall we're coming up on a per half hour slightly ahead. You have to be careful to remember that some of that is new and fresh content as well, but the trend is positive.

I think that the overall, though, it's very much that we have the new platforms and new customers as well coming on. So it's not only that there's potential growth within the existing SVOD customers, but also the new emerging ones.

Michael Donovan

And also our understanding is that 34 percent of the viewing on, for example, Netflix is family, and yet our understanding is that it's closer to 20 percent of the spend for inventory is family. So there's a gap there that we believe over time will close.

Haran Posner

Okay. No, that's great. Michael and Dana, thanks for that. And then just maybe lastly for me, regulatory question always fun. I guess you made public, or CRTC made public, your application to acquire Family. You made some asks there in terms of Can con and self-dealing. Just wondering looking at some of the interventions all seem—mostly seem very supportive of your application. I guess some pushback in some cases around these requirements on the condition of a licence. Any comments at all from your perspective and how, I guess, you're back and forth with the Commission on this?

Dana Landry

Well, we're still in our response period, Haran. As you probably are aware, the interventions were due May 8th. We have 10 days to respond. We're actually looking to expedite our response, so we were hoping to have a response this week out.

And as you said, there were predominantly supportive. There wasn't really any what I would call negative interventions. There were some comments and some commentary, and we'll look forward to working with the Commission to hopefully satisfactory resolution on some of those slightly negative comments.

And hopefully the normal would be a 60 day, I think, is their sort of service standards once we reply formally. So if they are able to achieve that that would be, I guess, worst-case scenario early July.

Haran Posner

Okay. No, that's great, Dana. And then just actually maybe last one for me; give you an opportunity to comment anything at all on the Disney discussions? I guess that process is ongoing. Or is there any update there?

Michael Donovan

Well, we are, I mean, prohibited from having discussions with Disney until the CRTC has approved, assuming the CRTC will approve. We're obviously confident, but we're blocked in time.

There's been a kind of handshake and a reaching out, but no, there can be and are not any formal discussions until we actually are officially the owners of the channel.

Haran Posner

Okay. Thanks for that, Michael.

Michael Donovan

Yeah. Thank you.

Operator

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

David Regan

Thank you, Operator, and thank you, everyone, for your questions. I'd encourage anyone to feel free to reach out to us directly if you have further questions.

For further information also on the Company you can refer to our website, dhxmedia.com, as well as sedar.com, for complete financial statements and informations and filings.

Thank you.

Operator

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

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