

FINAL TRANSCRIPT

DHX Media

First Quarter Results

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PRESENTATION**Operator**

Good morning. My name is Rob and I will be your conference operator today. At this time I would like to welcome everyone to the DHX Media first quarter results 2014 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, please press the # key. Thank you.

Mr. David Regan, Executive Vice President of Corporate Development and Investor Relations, you may begin your conference.

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

Thank you, Rob and thank you everyone for joining us this morning for DHX's first quarter analyst call. We're going to begin with some remarks from our CEO Michael Donovan. I'll come back with some updates on corporate development and then we'll hear from our Chief Financial Officer, Dana Landry for a detailed review of the numbers. And then, of course, we'll open up to questions from analysts after that.

Before we begin, however, 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

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future could differ materially and adversely from those described in the forward-looking statements as a result of various important factors, including the risk factors set for in DHX Media's MD&A and in the company's annual information form.

Also please keep in mind that as a result of our recent offering of common shares, management is in a quiet period until all of our underwriters have certified that they are out of the distribution. As a result, today's discussion will not provide full disclosure on all material facts relating to the securities offer. Investors should read the final prospectus and any amendment for disclosure of those facts, especially risk factors relating to the securities offer before making an investment decision. That prospectus can be found at www.SEDAR.com.

I'll now turn it over to our CEO Michael Donovan.

Michael Donovan – Chief Executive Officer, DHX Media Ltd.

Thank you, David. Good morning, everyone. I'm Michael Donovan, CEO of DHX Media.

The highlight of our first quarter was the acquisition of the Ragdoll library, which closed on September 13th. We are thrilled with this acquisition, closing when it did just before the major television sales market of the year, MIPCOM, which takes place in early October. Our sales team was able to hit the ground running, pulling in new sales almost immediately for the Ragdoll library, particularly with respect to the show Teletubbies and In the Night Garden. Interest has been particularly strong in Asia. And I am happy to announce that almost immediately we were able to

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commence the renewal of In the Night Garden series on BBC's Children's channel CBeebies in the U.K.

David?

David Regan

Thank you, Michael.

A little bit more colour here. First of all, we're happy to take that acquisition of Ragdoll. The integration's going well as evidenced by our recent broadcast deal with the CBeebies for In the Night Garden.

Also, as Michael mentioned, management recently attended the MIPCOM market for buyers, and received great interest from a variety of existing and prospective content buyers internationally with an unprecedented level of interest from digital buyers.

As a reminder, we have three primary lines of business: production, distribution and library, and licensing.

On the production side of the business where we currently have more than 12 series in various stages of production, we were pleased to recently announce the YTV commission for our new series Looped. We also added 53 half hour of proprietary content to the library this quarter, as disclosed in our statements and MD&A. Great progress was also made on the development of our new Inspector Gadget series for which we celebrated the brand's 30th anniversary in October. We expect this brand, as with many of our others, to enjoy new life in the digital world where viewers

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have the means to select for themselves what to watch and when to watch it. Our proprietary content feeds our library, which then generates recurring cash flows by licensing out that content for periods of between one and seven years, both exclusively and non-exclusively in territories around the world.

Our library and distribution business was robust across both traditional, linear and digital platforms, as disclosed in our statements.

Significant deals recently signed include being with such entities as Discovery Communications, Rogers Broadcasting, Hub Television Networks, Netflix, BBC, TVN Entertainment Corporation and many more.

We continue to see new digital buyers emerge on a monthly basis, and our newly acquired Teletubbies and In the Night Garden properties have generated great interest amongst a variety of international content buyers. Management is optimistic on the future distribution potential of these properties and for the rest of our library.

In the licensing business, revenue is divided between our own properties and our represented properties. Licensing from owned properties was down 7 per cent for the year. However, this was largely due to timing as there were no amounts booked for Yo Gabba Gabba! LIVE, the live four shows in the first quarter of this year as opposed to last year.

In our represented properties business, which is our CPLG business in Europe, revenue was \$2.6 million, about 5 to 10 per cent below management's expectation. Management expects M&L,

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merchandising and licensing represented particularly for the second quarter or the third quarter through the Christmas holiday period... season to pick up and be in line with previously disclosed fiscal 2014 expectations.

Now I'll hand it over to Dana.

Dana Landry Chief Financial Officer, DHX Media Ltd.

Thank you, David. Good morning, everybody.

As Michael and David noted earlier, management is pleased to highlight our strong growth in revenue for the quarter at 100-per-cent increase over Q1 2013, led by a 423-per-cent increase in distribution revenue. Management was also pleased with adjusted EBITDA growth of 322 per cent, up to \$7.8 million, and a gross margin of \$15.26 million, which is 57 per cent of revenue.

Further specifics for Q1 2014, as far as the breakdown in revenues, is as follows: \$10.58 million for proprietary revenues, which was up 596 per cent; \$6.96 million in distribution revenues, which was up 423 per cent; \$2.19 million for M&L owned, which includes our music and royalty revenues, as David noted, was down 7 per cent, generally due to timing; \$2.57 for CPLG and producer and service fee was \$4.10 million, which was down 40 per cent as we continue to move the less profitable service work in the U.S. into our Canadian studios in Vancouver and Halifax. Finally, new media revenues were \$0.6 million for the quarter.

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As David noted, we would again highlight the significant contribution from distribution revenue, which was primarily due to the proliferation of new digital and other linear customers, in addition to the adding of Cookie Jar.

David went through some of the individual sales in his opening remarks, and as noted, there were many others that were realized during the quarter.

We also highlight that proprietary revenue, which is core to our key business revenue stream for the quarter, was extremely strong, up 596 per cent. And the breakdown for that was 290-per-cent growth from the acquisition of DHX Cookie Jar and 306 per cent through organic growth.

Gross margin for Q1 2014 was \$15.26 million, an increase of 182 per cent for an overall 57 per cent of revenue. SG&A were in line with the midpoint of management's expectations at \$8.05 million at roughly \$7.5 million when you factor out the non-cash stock-based compensation expense.

For the first quarter adjusted EBITDA was \$7.8 million, up \$5.95 million or 320 per cent over the \$1.85 million for the same quarter of fiscal 2013. Adjusted EBITDA, it's worth noting, includes an add back for Ragdoll acquisition costs totalling \$1.23 million.

For Q1 2014 net income normalized for Ragdoll charges of \$1.23 was \$3.39 million or \$0.03 per share basic and diluted, which was up 304 per cent. This compares to \$0.84 million in normalized Q1 2013 net income or \$0.02 a share.

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For further specific of the company's outlook, I would refer you to page 13 of the Q1 2014

MD&A.

David?

David Regan

Thank you, Dana. Operator, we'd now be pleased to take any questions from analysts.

Q&A

Operator

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

Your first question comes from the line of Paul Steep, Scotia Capital. Your line is open.

Paul Steep – Analyst, Scotia Capital

Great. Morning. I guess if we start out, maybe we could talk a little bit about Ragdoll and the integration there, just the timing or how we should think about both for Ragdoll and even Cookie Jar, maybe re-licensing the library. There's obviously some existing agreements. Over what sort of period are those going to sort of burn off? And then you've obviously had early success on signing up new deals.

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Dana Landry

Yeah, thank you, Paul. Yeah, the deals are constantly sort of coming up, as you never really sell property even back in the original licensing throughout the world at any one time. It's all done on a periodic basis. So they roll off at all times, and the team is constantly looking at doing new deals.

We're fortunate that there was one license in particular, as both David and Michael noted, were In the Night Garden, which we were able to renew in the back half of the quarter, even though we had only owned the asset for about 18 days for the quarter. So we do expect that there, as Michael noted, there's strong interest for the two main properties, Teletubbies and In the Night Garden. So we do expect to have some more announcements in the future, near future.

Paul Steep

So is there any thought, I guess I'm just thinking about, you know, obviously there's hopefully maybe a bit of a lift once we get it into your overall licensing portfolio here. So where I was trying to go with it is, is there a period in the next, you know, in fiscal '14 where the majority rolls off, or is it just pretty linearly spread over, Dana?

Dana Landry

Yeah, it's pretty linearly spread; it's not... there isn't...

Paul Steep

Okay.

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Dana Landry

There isn't any one big spike that (inaudible).

Michael Donovan

But one thing I can add is that we... that library in our hands is doing very well. And we were able to make sales that the previous owners, for various reasons, were unable to make.

Paul Steep

Great. I guess the second half of my question this morning would just be around investment levels, and maybe talk about two parts. One, the timing and the deliveries of the 12 series, and then maybe the capacity overall of the studios if you decided to maybe ramp beyond the existing 12, and what that might mean number-wise? Thanks, guys.

Dana Landry

Okay, so, yeah, we're in a stage. Television is a generally a cyclical business, so at the moment the trend is up. So certainly from a working capital perspective, we're expending resources on growing the... and investing in those 12 series, as noted. So where you get the normalization is probably still a ways off in the future. And so, you know, we expect to see that continue to have a working capital (inaudible) for the next few quarters for sure, and then, you know, I don't know that you ever get to what you'd call a normalized state, but if you did it would obviously then level off.

The second part, can you remind me what the second part of your question was, Paul?

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Paul Steep

I'm just thinking, where I was going with it was what's the existing – if we look at the 12 series, you've obviously had, you know, a bit of a cycle, but you're looking like you're lifting up to new levels of highs, and I'm wondering with the existing base you have, is there an opportunity with the capacity to maybe add, you know, take it to 14 or 16 in the next 12 months, or is that, you know, maybe too optimistic?

Dana Landry

Yeah. Oh, absolutely. Yeah, there's definitely an opportunity to grow it by say 15 to 20 per cent. You do get to a bit of a ceiling in terms of shows, mainly driven by the Canadian market in that there's only a certain number of spots because remember, Paul, the key to our model's initial broadcast of Canada, so we kind of need that to trigger our green-light process. So, but yeah, there's still some growth there, probably 20 per cent is my guess.

And as far as the studios go, we do have capacity. There's no real, other than talent of... talented animators of course there is limitations on, we can easily add new space in both of our studios to be able to expand if the opportunity comes up.

Paul Steep

Great. Thanks, guys.

Operator

Your next question comes from the line of Aravinda Galappaththige from Canaccord Genuity. Your line is open.

Aravinda Galappaththige – Analyst, Canaccord Genuity

Thanks. Thanks a lot. Good morning. Let me just start off by asking about the digital sales. Just maybe touch on sort of the momentum that you're seeing right now. Are you still seeing sort of the strong momentum that you saw in the prior year? And related to that, maybe just a little bit more in terms of the takeaways from MIPCOM. I know that in the past you've talked about how the number of digital buyers have grown from about, you know, 15 a few years ago to about 300 I think you said last year. Just maybe talk to that kind of momentum as well in terms of digital sales.

Dana Landry

So yeah. Thanks, Aravinda for that question. Yeah, the trends are continuing to increase in terms of the number of digital buyers that are at the market. In fact, one of our sales people had noted to both Michael and myself after the conference that, you know, I think she said when she was going through her list of meetings that she had, she 90 per cent of them were in the digital space now.

So it really is still a fast growing part of business, and at some point we would expect that the growth will slow to some degree, but we haven't seen it yet.

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Aravinda Galappaththige

Okay. And then just on the numbers to the extent that you can, are you able to sort of give a sense of what the split is on your distribution revenues, digital versus analogue?

Dana Landry

We haven't disclosed that this quarter, and so I'm not able to comment other than I would say it's traditional... it's very typical of what we've seen in the past, the same kind of split that we had in the past, Aravinda.

Aravinda Galappaththige

Okay, great. And then I saw that you included Rogers, you know, in your discussion around distribution and sales. Obviously the BDUs are looking to continue to kind of stack up there on demand libraries. Do you see that as sort of a sizeable opportunity going forward with the Shaws and the Rogers of the world as they kind of build up their non-linear offerings?

Dana Landry

Yeah, I think so. I mean, I think that, you know, we would put them all into that sort of new entrants category for our purposes. So we are seeing a number of those, you know, BDUs, as we call them in Canada, MSOs in the U.S. that are starting to line up and look to add to their offerings. A lot of them... as you know, are doing this as a way to keep the stickiness factor for their own customers so that people don't go to other services. So we do expect that demand to continue. And then, you know,, it's all throughout the world of course, not just North America.

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Aravinda Galappaththige

Okay. And then now that you have Ragdoll kind of in your portfolio, I know that you've sort of started to turn the tap on, you know, with your YouTube channels, particularly in terms of the ad (inaudible) opportunity. Maybe just comment on how sort of the Ragdoll brand's kind of helped drive that kind of revenue stream as well.

Dana Landry

Yeah. So the... the... I can't give too many specifics of this because we didn't really disclose it, but what I will say is that we've experienced about a third to 50 per cent less on those revenues just by adding the Ragdoll properties. And that is really... it's a really fast emerging part of our business. It really is literally changing daily with... as we continue to add new and claim new revenues.

As I think we mentioned in the past, there's a process that we go through to be able to register the IP and claim that, and because we've had a good relationship with Google and continue to have one, in particular, you know, obviously own the subscriptions, a few subscription channels with them that allows us to have a deeper relationship with them to be able to expedite that process. So that has really worked out so far, and we expect that to continue.

Aravinda Galappaththige

Great. Last question for me. Just on sort of the re-branding of the... or sort of the repositioning of the older brands. You've talked about Inspector Gadget that's coming on Teletoon I

think in '14 or '15. In terms of the other brands that you've sort of earmarked to bring back into production, how soon can you effect that? Is that more of a 2015 event than a '14 event? Maybe just talk to sort of the roadmap on that from here. Thanks a lot.

Dana Landry

Yeah. So thanks for that question, Aravinda. The... the... typically the cycle is a couple of years to develop a show, but we are seeing a fair bit, as Michael mentioned in his notes, the opening into South Asia for new Teletubbies content. So we're exploring that at the moment to see what we may be able to do in an expedited manner. But you know, we... as you know, we have a normal process, a green light that we like to stick to, so we'll obviously announce that in the coming months, so we do expect that we'll be able to continue along with that trend, as we have with (inaudible).

Aravinda Galappaththige

Thanks. I'll leave it there.

Operator

And again, if you would like to ask a question that's *1.

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

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David McFadgen – Analyst, Cormark Securities

Yeah, hi. I have a couple of questions. So in your MD&A you talk about the distribution revenue growing from \$1.3 million up to about \$7 million. And a lot of that was from digital customers. Can you give us an idea what the list would have been from these digital customers?

Dana Landry

Did you say the list, David? I'm sorry?

David McFadgen

Yeah, the increase, the increase from \$1.3 up to \$7 million.

Dana Landry

Okay. So yeah, the... There was very little digital sales in the \$1.3 number, maybe 10 per cent.

David McFadgen

Okay.

Dana Landry

And as I mentioned earlier I think when Aravinda or Paul mentioned it, I... we haven't disclosed what the split is this quarter, but I did mention that we have disclosed it in the past and it would be typical to what we have disclosed in the past in terms of the split of the current quarter.

David McFadgen

Okay. I can't remember what it was in the past. Could you remind us?

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Dana Landry

So that was... it's around 30 per cent.

David McFadgen

Okay.

Dana Landry

On average, so far.

David McFadgen

Okay.

Michael Donovan

The other thing to note, David, of course, as we've discussed in the past is that as the discussion around Rogers goes, while we've officially considered that a linear customer, they've also got a digital business. So those lines are blurry to a great extent too.

Dana Landry

Yeah, absolutely.

David McFadgen

Okay. And then I was wondering if you could give us an idea based on your production expectations this year what you think the net change in investment in film will be as reflected in the cash flow statement? Any idea what that will come out to be?

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Dana Landry

Let's... Give me a moment on that one then maybe these others I could come back to you with.

David McFadgen

Okay. And then I have another question. Can you give us an update on the YouTube channels? Any subscriber numbers? Anything you can share with us on that?

Dana Landry

We haven't disclosed that yet. It's trending in a positive direction. It's off to a slow start, but, you know, we're seeing some interesting lift on that as the channels – not only ours, but all the channels get a little more visibility within that Google world. So stay tuned. We are... we still remain hopeful on that one. But we haven't disclosed those figures yet.

David McFadgen

Okay.

Dana Landry

And on the actual investment in expected throughout the year, would be around \$20 to \$30 million, David, somewhere in that range.

David McFadgen

\$22 to \$30 million?

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Dana Landry

No, \$20.

David McFadgen

Oh, \$20 to \$30.

Dana Landry

Yeah.

David McFadgen

Okay. That's the amount you expect to invest. Okay.

And then if you look at note 18 to your financials, you give the revenue segments, but then you, as core, but then you have CPLG kind of not as core or... ?

Dana Landry

It's only with respect to the segment because it's a separate cash generating unit, under IFRS we have to disclose it separately.

David McFadgen

Oh, okay. So we shouldn't read into that...?

Dana Landry

No, there's nothing... there's nothing. No, it's the... the main... there's two cash-generating units that we have. It's our main sort of content business and then CPLG, given that it's a

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represented licensing business, it's not exactly the main business. So for IFRS you have to disclose those separately.

David McFadgen

Okay. All right. Okay, I think that's it for me. Thank you.

Dana Landry

Thanks, David.

Operator

And again, if you would like to ask a question it's *1.

There are no other questions at this time. I'll turn the call back to your presenters.

David Regan

Thank you, Operator and thank you, everyone for your questions. We encourage you to reach out to us directly if you have further questions or visit our website, DHXMedia.com, of course, as well as at SEDAR.com for our complete financial statement.

Thank you.

Operator

Ladies and gentlemen, thank you for your participation. This concludes today's conference call and you may now disconnect.

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