FINAL TRANSCRIPT

WildBrain Ltd.

Fiscal 2021 Third Quarter Earnings Call

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PRESENTATION

Operator

Hello, and welcome to WildBrain's fiscal 2021 third quarter earnings 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.

To ask a question during this time, please press *, then 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 Nancy Chan-Palmateer, Director, Investor Relations at WildBrain. You may begin your conference.

Nancy Chan-Palmateer — Director, Investor Relations, WildBrain Ltd.

Thank you, Operator, and thank you, everyone, for joining us today. Speaking on the call today are Eric Ellenbogen, our CEO; and Aaron Ames, our CFO. Also with us and available during the question-and-answer session are Josh Scherba, our President; and Danielle Neath, our EVP of Finance and Chief Accounting Officer.

First, we have some standard cautionary statements. The matters discussed on this call including forward-looking statements under applicable securities laws with respect to WildBrain, including, but not limited to, statements regarding future investments by the Company, actual and potential commercial arrangements with the Company and the expected benefit from such arrangements, the impact of COVID-19 on the Company and its business, the business strategies and operational activities at the Company, the markets and industries in which the Company operates, and the future financial and operating performance of the Company and its assets.

Such statements are based on information available currently and are subject to a number of risks and uncertainties. Actual results or events in the future could differ materially and adversely from those described in the forward-looking statements as a result of various important factors, including the risk factors set out in the Company's most recent MD&A and AIF.

Please note that all numbers are in Canadian dollars.

For the question-and-answer session that will follow, we ask that each analyst keep to one question with one follow-up so that everyone has an opportunity to ask questions. If you'd like to ask an additional question, please rejoin the queue.

Please also note that we are all in separate locations, so we do appreciate your patience if we encounter any lumpiness as we steer through the call.

I will now hand the call over to our CEO, Eric Ellenbogen.

Eric Ellenbogen — CEO, WildBrain Ltd.

Good morning, and thank you, Nancy. Thank you, everyone, for joining our call today.

Our content and our brands continued to performance quite well in this third quarter, driven by a robust production slate and strength in our Consumer Products segment. WildBrain Spark saw a further improvement in advertising rates, as well as growing revenue in emerging areas of direct ad sales, paid media, and digital production. In looking forward to the fourth quarter of '21, we will at last have Spark results fully comparable to Q4 a year ago, factoring in the impact of both COVID-19 and the "Made-For-Kids" changes. Of course, there's always going to be seasonality across the year; however, we expect Spark's revenue to grow more than 50% in the forthcoming quarter over last year's Q4.

We're also realizing the strategic value of WildBrain Spark's massive audience engagement and its reach to secure comprehensive, multi-revenue stream deals with brand owners that leverage our ability to exploit IP across content, licensing, and audience delivery. And this includes a recently announced partnership with the emoji company to launch *emojitown*, which is a brand-new, digital-first series and consumer products extension of the emoji brand.

On last calls that I've had with you, I've spoken about our 360-degree integrated platform across which we exploit IP in our business segments to realize multiple revenue streams. This emojitown partnership is an excellent example of this. For a number of years, our licensing agency, WildBrain CPLG, has successfully represented the emoji brand across Europe and the Middle East and, in fact, they added more new territories to their remit just this past January.

And through this strong relationship, WildBrain CPLG built a bridge for the emoji company to our AVOD network, WildBrain Spark, and the result is a significantly expanded partnership comprised of new digital-first content exclusively available on WildBrain Spark and licensing rights available exclusively through WildBrain CPLG.

This is one of many such holistic agreements in our pipeline. These deals fuel growth across our company and build quality, durable earning streams with meaningful consumer products upside. And they exemplify the unique value that we bring both to our own partner brands and partner brands, I should say, in the kids and family space by leveraging our industry-leading combination of creative studio production and brand and licensing expertise, coupled with the incredible reach across our WildBrain Spark network.

To be sure, our transactions come in all shapes and sizes. Some are like our extended Peanuts partnership with Apple TV+ announced last fall, and our *Sonic Prime* partnership with SEGA and Netflix announced just last quarter. And others, like emojitown, are perfect in scale for our Spark network. Some originate as commissions from our TV channels and extend into production at our Vancouver studio and wider global distribution, while others reflect opportunities around toy, gaming, or lifestyle IP.

The baseline production deals are all profitable in and of themselves and add to our business in a meaningful way. And in a creative business like ours, there's always tremendous upside since you just never know when the next hit is going to come from.

The common thread, though, across all of this is our expertise across production, distribution, and consumer products. And these capabilities allow us to execute on quality agreements, not only for our own IP, but also for IP from partners who want to access our unique strength. And this translates into long-term profit sharing and, in some cases, equity in the underlying IP.

So each of our business units provides an entry point for these types of conversations and for the opportunities for cross-selling, and each of these deals contains the potential for even larger opportunities. The one-two punch of WildBrain Spark and WildBrain CPLG is driving many of these deals, offering robust AVOD distribution, plus consumer products licensing.

Single-brand owners, by which I mean non-studio businesses, are very keen to work with us across our business units. They recognize that WildBrain offers a unique proposition to develop and to amplify their brands and are, therefore, very open to putting ownership stakes on the table for us to activate those brands. This makes us unique in the market, and we're seeing major IP companies recognize us as the "go-to" partner for the brands.

Something else, though, makes our Spark network unique, and that is its appeal for advertisers. Ours is premium content, by which I mean the thousands of hours of library programing that originated on linear television and are now available on WildBrain Spark's network. And not unlike the successes being experienced by start-up AVOD networks like Pluto and Tubi, advertisers see greater benefit in placing media against long-form content. And compared with lower-quality, short-form content found elsewhere, audiences on our network are much more engaged, there's more inventory than competitors, and much less skipability.

We're focused on optimizing valuable premium content that we either own outright or have partnered with leading brands, and where we have upside in consumer products.

We've also built out our proprietary data analysis tools, which have been instrumental in driving 185% growth for Q3 in nascent revenues from direct advertising sales, paid media, and digital production compared to a year ago.

And yet untapped are the views on YouTube Kids, where approximately 35% of our views reside in the United States. And although we saw views begin to normalize in Q3 compared to the spikes we experienced last year during the start of the COVID lockdown, average viewing time continues to increase on our network.

And while there's always some quarter-to-quarter volatility as we continue to roll out new proprietary and partner content, we anticipate views will continue to increase, likely exceeding the COVID-19 peak consumption levels. And in fact, we've already begun to see this rebound in March and April.

We're building out and leveraging our expertise in ad sales, ad tech, data analytics, digital content production, and brand amplification to exploit the sizeable opportunity afforded by WildBrain Spark's massive audience through deals like emojitown and others that we have in the pipeline. So please watch for more deals to come.

Turning to consumer products, we saw continued strength in Q3, with revenues growing 12% in that segment, driven by Peanuts, which experienced strong royalties in multiple categories, as well as increased commissions from WildBrain CPLG's broadening portfolio of clients and territories. And to help you all better understand how the economics of this division work, not unlike our production business, we do have a lag between signing the deals and the recognition of revenues. But with that said, we have good visibility on an acceleration in this sector as we move into fiscal '22.

I'd also like to note that this quarter's growth for Peanuts products coincided with the launch to rave reviews of *The Snoopy Show* on Apple TV+ in February. Apple amplified the brand with a truly mammoth marketing campaign for the series launch that was pretty hard to miss, including television, digital, social media, in-store, and out-of-home, meaning things like billboards and even bus shelters here in New York City.

Peanuts content is clearly resonating with Apple's audience, given Apple's previously announced order for Season 2 of *Snoopy in Space*, as well a slate of new family specials now in the works. As we continue to roll out new Peanuts content in the years ahead, we are highly confident that the Apple TV+ partnership will drive greater and greater awareness and indeed fondness for the Peanuts brand globally, which in turn will continue to drive strong growth in consumer products licensing across new audiences and new territories.

The Peanuts-Apple partnership is a perfect example of how content can support a brand's overall presence in the consumer marketplace, which is why we have great optimism for the upside potential around deals like Sonic Prime for Netflix, emojitown for WildBrain Spark, and others we have in our pipeline.

With that, I'll hand the call over to Aaron.

Aaron Ames — CFO, WildBrain Ltd.

Thanks, Eric. In Q3, we successfully refinanced our senior secured term loan and our revolver on highly favourable terms. Credit markets have taken notice of our strong and improved pipeline, financial performance, and earnings trajectory, enabling us to extend the maturity of both of these instruments while removing the financial maintenance covenant on the term loan. This enhanced capital structure affords a significant, strategic, and financial flexibility to further drive our digital content and brand strategies.

Looking at the key numbers for Q3, revenue grew 4% to $102.2 million in the quarter, compared with $98.3 million in the prior-year quarter, driven by strength in our Consumer Products business.

The Q3 net loss improved to $26.5 million versus a net loss of $221.7 million last year. The net loss this quarter was primarily due to non-cash non-operating items of $3.5 million related to the refinancing and the change in fair value of embedded derivatives related to our convertible and exchangeable debentures of $23.5 million resulting from the higher share price.

Adjusted EBITDA was $17.2 million in Q3 2021, slightly lower than the $17.9 million in Q3 2020.

Now I'll turn the call back to Eric.

Eric Ellenbogen

Thanks, Aaron. We've been hard at work over the last 20 months repositioning our assets for meaningful long-term growth.

With two major IP deals announced in the past six months and a robust deal pipeline, we're now well on our way to executing on our strategic vision. I think I've said this previously: no deal before its time. It's about market opportunities that we're pursuing that will drive the business substantially over the coming years. This is about using our unique collection of assets and platforms to go after our share of the tens of billions of dollars in the kids and family space across digital ad sales, toys, consumer products, and underexploited territories like China.

Behind the scenes, we've got a lot going on. Our team is constantly moving the business forward, and we look forward to meaningful announcements in the coming weeks and months.

And before we open it up to questions, I wanted to give an update on our Analyst Day. We're narrowing in on the exact date, likely shortly after our next quarterly earnings in late September, early October. And I look forward to providing you, hopefully in person, with a deep look at everything we've been up to since my arrival, and why I'm so excited about where we're going.

So next, let's open up for questions.

Q&A

Operator

At this time, if you'd like to ask a question over the phone lines, please press *, and the number 1 on your telephone keypad. To withdraw your question, press the # key. Please stand by while we compile the Q&A roster. Again, that's *, 1 on your telephone keypad.

We have our first question coming from the line of Aravinda Galappathige with Canaccord Genuity.

Aravinda Galappathige — Canaccord Genuity

Good morning. Thanks for taking my question. Obviously, good numbers on the WildBrain Spark side as you kind of come out the other side. I was interested in the disclosure you gave with respect to the other initiatives, the direct ad sales-led initiatives, which you disclosed grew 185%. Just so that the analyst industry can kind of size up what that upside could look like, at least roughly, could you give us a sense of what you're seeing when you strike these deals with brands? I mean, when you compare the programmatic CPMs with sort of the rates, the pricing you're seeing on the direct ad sales front, how much of a variance to the upside are you getting there?

And just as a follow-up to your comments about including more third-party content within WildBrain, so content that is not owned by WildBrain, where does that mix lie today? And do you see yourself sort of significantly moving in that third-party direction where perhaps less than 50% of the content would be non-WildBrain or third party? Thank you.

Eric Ellenbogen

Sure. Thank you for your question, Aravinda. I think we're doing really well in direct ad sales. It's why we're doubling down and investing in this area, which we think is building long-term value. And the percentage numbers are high because we're starting from a small base, but we're seeing a lot of traction building. We're signing deals. It's early, but we see very, very big opportunity.

As an example, and I've highlighted this before, when we're talking about 35% of our views in the US residing on YouTube Kids, it is a virtually unmonetized channel of distribution. And YouTube and we are highly committed to converting those views to dollars. And the proposition that we're offering to the marketplace is pretty compelling. We have a customizable solution, we have premium content, we have data insights, it's COPPA compliant, and all of that seems to be resonating with buyers.

I think one of the other things that we're seeing too, and I want to want to focus on this because it's an important competitive advantage, and that is that our watch time continues to increase. And in fact, we haven't published this as yet, but we've just broken through to the seven-minute mark. We're already 15% higher than the sort of average kids viewing on YouTube. And what that translates into is that watch time is the environment which advertisers favour because it's about less skipability; many of those views happening on television now, as YouTube is a strong AVOD presence on connected televisions. And that growth in our view duration reflects a growth in consumption of longer-form content. It's television.

And we see a lot of secular movement from linear to digital, and I think I've said before, which is kind of remarkable, it's maybe the best-kept secret in digital media is that as measured against the US cable networks like Cartoon Network and PBS, Nickelodeon, we're larger. We have a larger audience delivery and hence getting our fair share.

So as to I think you asked about programmatic ads, it's basically against the YouTube rate card in which we share or split on a 45%/55% basis with them and those tend to be higher CPMs. And that's the other thing we're seeing is a move up in CPMs. And that obviously favours us. It's an area of patience. The fact is we've got the views, and with the views will come the advertising dollars. And the variability around COVID, we actually expect to exceed, as I said in my remarks, the COVID numbers and the COVID spike in the aggregate number of views that we receive. So directionally, it's really good.

If you could, your second question?

Aravinda Galappathige

Yes. It's with respect to the mix between WildBrain-owned IP within Spark as opposed to a third party. I mean, should we expect that third-party piece to materially get larger to perhaps more than 50% of WildBrain Spark? I mean, with just the model kind of moving rapidly in that direction, I just wanted some clarity on that.

Eric Ellenbogen

Sure. Directionally, what we're doing is using our network for these holistic partnerships, and not in every case do we own the underlying IP. I mean, the announcement we made last quarter, as an example, with Sonic and Netflix, I think was really good news because it represented something in which we add a stake across every revenue stream. But technically we don't own Sonic, so these are contractual participations, but they have a equal effect on long-term earnings and are marque properties with very significant upside.

So on the Spark network, what we're doing is looking at holistic deals. And we're beginning to enjoy the benefits of the cross-selling among the divisions and the use of that network to reap the rewards of the viewership that we bring to them. So not all of them are proprietary IP—I think I highlighted they're partner IP—which we definitively favour, and to be able to use our unique assets to switch on revenue in consumer products specifically, but also across distribution and longer-form content. So that is much of the migration that we're seeing on the WildBrain Spark network.

We're doing it for toy companies, for things like emoji with emojitown and as well as our own proprietary IP. There's Peanuts content that runs on that network. And we use it promotionally to drive to other platforms.

So I can't give you an exact quantification, but we're trying to favour transactions and they're coming to us, in fact, that drive multiple sources of revenue. And it's a portfolio approach. It gives us lots of at bats and the opportunity for upside using the power of our network. So that is definitely directionally where we're taking the network and we're getting a lot of leverage.

Aravinda Galappathige

Thank you so much, and I'll pass the line.

Operator

Next question we have David McFadgen with Cormark Securities. Your line is open.

David McFadgen — Cormark Securities

Hi. Yeah. Just a couple of questions. So first of all, just on the debt, I'm just wondering if you could confirm that it's all variable? There's some concern out there that maybe it should start to go up as inflation picks up here, so I was just wondering on that. And then secondly, you talked about these nascent revenue streams growing at very high rates. Can you just kind of give us an idea the actual dollar value of these revenue streams? That'd be helpful. Thanks.

Aaron Ames

Hi, David. It's Aaron. Yeah. So our debt is currently variable, but we are looking at some solutions, as you could imagine. And then what was your second question?

David McFadgen

So just on the solutions I guess you'd be looking at some sort of interest rate swap? Is that it?

Aaron Ames

Yeah. I mean, yeah, there's various types of solutions that we are looking into, so things like that.

David McFadgen

Okay. And just underneath the revenue streams, you set a very high growth number. I was just wondering if you could give us an idea of the actual dollar value of those revenue streams?

Eric Ellenbogen

So—

Aaron Ames

Sorry, go ahead.

Eric Ellenbogen

Go ahead please, Aaron.

Aaron Ames

Yeah. So the number's starting from a small base, but it is growing very, very, very nicely, and we're doubling down and investing further to continue to grow those streams. Sorry, Eric.

Eric Ellenbogen

No, I think that it's a very, very big opportunity. And I think that we're accelerating in ad tech, in our data analytics. That's the currency for advertisers. We have a very good understanding of our audience, what they're watching, where they're watching, length of views, et cetera. And so it is conversion.

And again, we are positioned very much like the big entrants in the AVOD market, and you can see where their numbers are going. They are doing extremely well. We've got the audience, though; we don't have to build it. There's virtually zero customer acquisition cost here. We're building off of a very, very small base, and it's the conversion of that very sticky, very engaged audience to dollars.

And I can tell you that YouTube and Google are very committed to this area. This is the number-three highest viewing content on their network. They fully recognize that YouTube is now television and not mobile devices with most of the viewing now migrating to big TVs, so it's TV in every sense. And I think that we're totally committed to the area, we know how big the audience is, and we will be converting that to revenue.

So it is a small base, but it's growing quite rapidly in the multiple hundreds of percentages. And directionally, I think you're going to be hearing in subsequent quarters how much growth there actually is.

David McFadgen

Okay. All right. Thank you.

Operator

Okay. Next question we have the line of Deepak Kaushal with Stifel GMP. Your line is open.

Deepak Kaushal — Stifel GMP

Hi, guys. Thanks for taking my question. Eric, Aaron, I have a question about emojitown. Just curious if you can offer a sense of who's putting up the capital for creating the content and how much risk capital are you guys putting up? And what is the cash flow profile? And in general, just how does that compare to the SVOD deal with Apple Peanuts or, say, with Netflix when you're doing it all AVOD?

Eric Ellenbogen

Okay. So they're different. Thank you, Deepak, for your question. They're all sized differently. In the case of the SVOD deals, those tend to be licence fees paid by the SVODs with a certain reservation of rights, for example, in linear television where we exploit—they don't take any participation in licensing and merchandising, and the structure of those deals are slightly different.

In emojitown, it's building off of and leveraging our long-standing relationship at WildBrain CPLG, our licensing agency. And we said the way to go with this is short-form content that is produced and exploited on our Spark network, on our owned and operated network, because the play there is a consumer products play. And just to kind of size the deal, I can't tell you exactly what the CP pro forma is. We kind of know what the base of business is already and the appeal of the emoji company and its IP because of our licensing experience with them across EMEA. But these represent relatively modest investments by us. The big investment is being able to put this on our network, and that's where there's this incredible multiplier effect because we can put this in front of our gigantic audience and convert those views to consumer products.

I want to point out something else important about emoji, which I didn't remark upon in my remarks at the beginning, and that is the appeal of that particular property is in the kind of 11 and up. It is not classified as 'Made-for-Kids' content. And therefore, the advertising, monetization of those views is going to have a different profile than the MFK because of the way that data collection, which you're well aware of, works on the YouTube network. And so this targeting is to a slightly older audience, which consumes lifestyle licensed merchandise, and that's what the play is.

But the investment, it's essentially a joint venture between the companies and is characteristic of the kinds of deals that we're striking to get this high value kinds of partnerships on the Spark network.

And I'm not sure if that answers your question, but those are kind of the parameters and how it's distinct from some of the other deals that we do.

Deepak Kaushal

Got it. And just from a high level, if I can follow up. Aside from relative size, when I think of relative return on invested capital on an AVOD type of deal versus a Netflix type of deal, I assume you're putting up less capital up-front for a longer tail and a potential higher ROI. Is that how to think about it versus an SVOD deal? Or are they close to being the same?

Eric Ellenbogen

So it's also a matter of magnitude. And so while we look at obviously what the IR is and return on investment is extremely high and we know—again, we have pretty good experience with the emoji business because it's been a long-standing client of CPLG. So we already know what the return is just across licensing and merchandising, and how this essentially becomes—it's in a way, the same way that toy companies operate, it's an infomercial in a way. It's entertainment, but will precipitate much greater consumer products.

Orders of magnitude, hard to say. I mean, obviously, the Peanuts, Apple TV+ business is gigantic with a huge operating history, and is going to much higher levels in view of the amount of content that we have on Apple TV+ on a global basis. So this is a different profile. This is using the Spark network, but it's all about ROI. And we're very comfortable with the level of investment and the returns just even based on the base business that we have with the emoji company.

Deepak Kaushal

Okay. Okay. Thank you very much. I appreciate you taking my question.

Eric Ellenbogen

Sure thing.

Operator

Again, if you wish to ask a question over the phone, please press *, then the number 1 on your telephone keypad. Again, that's *, 1.

There are no further questions over the phone lines at this time. I turn the call back over to Nancy Chan-Palmateer.

Nancy Chan-Palmateer

Thank you, Operator, and thank you, everyone, for joining us today. Please stay well. We look forward to updating you on more exciting news in the next quarter.

Have a great day.

Operator

Thank you. This concludes today's conference call. Thank you for participating. You may now disconnect.