FINAL TRANSCRIPT

WildBrain Ltd.

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CORPORATE PARTICIPANTS

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

Eric Ellenbogen
WildBrain Ltd. — CEO

Aaron Ames
WildBrain Ltd. — CFO

Josh Scherba
WildBrain Ltd. — President

CONFERENCE CALL PARTICIPANTS

Aravinda Galappatthige
Canaccord Genuity, Inc. — Analyst

Drew McReynolds
RBC Capital Markets — Analyst

Deepak Kaushal
Stifel — Analyst

Jeff Fan
Scotiabank — Analyst

David McFadgen
Cormark Securities — Analyst

Tim Casey
BMO Capital Markets — Analyst

Adam Shine
National Bank Financial — Analyst

PRESENTATION

Operator

Good morning, and welcome to WildBrain's Fiscal 2021 Second 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 that time, please press star, then the number one on your telephone keypad. If you would like to withdraw your question, press the pound key.

I'd 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 include forward-looking statements under applicable securities laws with respect to WildBrain, including, but not limited to, statements regarding future investments by the Company, 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, including the leverage position of the Company. 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 Annual Information Form.

Please note that all currency 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 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.

Thank you, Nancy. Good morning. Thanks to everyone for joining us today.

Last week, we announced yet another major project that capitalizes on our unique capabilities to manage, monetize, and grow brands across content and licensing.

In partnership with SEGA, we're producing a new Netflix original series called *Sonic Prime,* which is based on the highly popular gaming franchise, Sonic the Hedgehog. And production is now underway in our Vancouver studio.

This is an incredibly meaningful deal for WildBrain. Like our Peanuts agreements with Apple, these multi-year, exclusive Sonic contracts with SEGA and Netflix add yet another premium project to our creative pipeline that translates into excellent visibility for contracted, high-quality earning streams for years to come.

We're partners in a property that has tremendous momentum and massive consumer reach. Sonic the Hedgehog is one of the most popular entertainment brands in the world, and since its video game debut in 1991, over 1.14 billion game units have been sold and downloaded.

Only last year, the theatrical feature film, *Sonic the Hedgehog*, grossed US$320 million worldwide. And it broke through a major box office milestone to become the #1 grossing video game movie of all time in North America. Given the success, the sequel to the feature is already in development from producers SEGA Sammy and Paramount.

We expect that our new animated series will connect with and expand the enormous global fan base for all things Sonic. And I want to emphasize this is not a service project for our studio. This is a true partnership, as WildBrain and SEGA will share in production, distribution, and licensing revenues. We're honoured to have this partnership with SEGA, and believe it speaks volumes about our capabilities in managing world-class brands.

We've witnessed first-hand the enduring popularity of this brand from the strong and steady global demand for our library of legacy Sonic series, which comprises 132 half hours in the WildBrain library. We've also seen the strength of Sonic in consumer products, and we've seen that first-hand through our pre-existing licensing agency representation of Sonic across continental Europe. We expect that business to grow as we now layer on representation of *Sonic Prime* in that territory.

This partnership is yet another example where we get all the benefits of premium content production, delivering steady-state, high-quality, predictable earnings, plus the considerable upside potential across distribution, including on our own AVOD network and in consumer products licensing.

As I said to you on our last call, we have a robust pipeline of premium content. Our Sonic announcement is just a preview of further coming attractions. And like Sonic, in coming quarters we expect to be talking to you about other activations for properties from our deep library.

One of my top goals when I joined this company was turning it into a premier creative force in kids' and family entertainment, and a big part of that is diving into our library and surfacing evergreen brands that have strong potential to renew and reinvent for today's audience. We're making great strides on these goals, turning to account an asset base that we have to build franchises, which we expect will continue to improve the value of our library.

This great new content drives further high-margin distribution and consumer product opportunities, opening up enormous option value across our business and our IP portfolio. Premium franchises command premium dollars across the entire value chain, and we believe top-flight creative, coupled with our unique capabilities to unlock and to exploit IP, will create a virtual flywheel of growth and value creation for years to come.

Our unique capabilities in development, production, distribution, licensing, and audience delivery, deployed against our own library, are also drawing these premier partners.

Another example of that is our new animated series, *Go, Dog. Go!,* co-produced with DreamWorks. The series began streaming on Netflix January 26, and within a couple of days it became a top 10 show on the platform in both Canada and the United States. This series is a case in point of doubling down on top-flight creative, which is clearly resonating with audiences who are recognizing that quality on the screen.

Likewise, our newest Peanut series, *The Snoopy Show,* just premiered on Apple TV+ last Friday and has been getting rave reviews. And Apple is launching a major marketing push for *The Snoopy Show,* not only on their own platforms, but also with an extensive global advertising campaign. Just last Friday, the Peanuts Gang staged a global takeover of the Apple.com website. Our studio, meanwhile, is hard at work on more original Peanuts content for Apple, including multiple family specials, and season two of *Snoopy in Space*.

In the quarter, we deployed capital from the Fine Capital growth fund to acquire rights we didn't already own in the *Caillou* series from PBS. We perfected our rights ownership, importantly giving us control over Caillou to reach an even broader audience, including on our WildBrain Spark network, and to increase exploitation of the property across various business areas.

I said previously that we'd invest in rounding out the IP rights in our library, and this is just one example with an enduring property that we know well. Caillou is one of the top brands in our AVOD network, and our data analytics tell us that there are opportunities to reignite and to grow this property.

Turning now to our AVOD business, WildBrain Spark, we're really encouraged by further sequential improvement as advertising revenues continue to rebound from the pressures of COVID-19 and the YouTube policy changes.

In the second quarter '21, revenue at WildBrain Spark improved sequentially by 74% from $8.9 million in Q1 '21, reflecting the build-out of our proprietary data analytic tools which are driving growth in multiple new revenue streams, including direct advertising sales on our own network, paid media, and digital production fees, and some seasonality. These nascent revenues grew by 365% in the second quarter '21 versus '20. Now, I need to contextualize that growth as building on a relatively small base. We're surely not expecting to see triple-digit growth every quarter, but the growth that we're experiencing shows that our investments are starting to pay off, and so we'll continue to make those investments. We know the opportunity is big and it is burgeoning, and we're in high gear to build out our teams and to expand our service offerings to both grow and monetize our engaged audience.

We're highly focused on benefiting from the secular shift in ad dollars from linear to digital. The tide continues to rise as these dollars shift, and to capture as much of this revenue as we can, we're creating a — standby.

I'm sorry. Technical difficulty.

Further to that, our network offers advertisers enormous scale, plus enormous breadth, and a variety of safe content. And we believe our competitive advantage lies at the intersection of this massive, advertiser-friendly network and our pioneering capabilities in proprietary data analysis.

An important variable for monetizing content is watch time, and that's a metric that tells us how much time people spend watching our content on YouTube. The more time people spend watching our content, the more ads we can serve. In Q2, for example, watch time increased 15% versus Q2 last fiscal to 59.7 billion minutes. Kids watching content on our platform spent 6 minutes and 16 seconds on average per view, which was up 20% from Q2 2020, and viewership remained strong at 9.5 billion views in Q2 '21.

Our direct ad sales efforts are benefiting from a shift in family viewing patterns to connected TVs, which accelerated during the pandemic. Households are increasingly using connected TVs to watch ad-supported streaming services like WildBrain Spark on YouTube.

This important trend was confirmed by our commissioned research report titled *Making Screen Time Family Time,* which we released in December.

We surveyed 3,000 U.S. households with kids and found that a very large percentage of parents, on the order of 90%, see free AVOD services as important video sources for their children. We also learned in that study that connected TVs are the most popular platforms for family viewing in over 60% of households.

Our data further indicate a very high rate of family viewing on our trusted network where parents are watching high-quality, curated content on YouTube with their kids, and this unlocks advertising opportunities for family consumer products and brands targeted at parents and kids in a COPPA-compliant environment.

The majority of WildBrain Spark's viewing in major markets is now on connected TVs, and the majority of that viewing is content that's at least 30 minutes long. That means in family living rooms, WildBrain Spark is directly competing with linear television on the very screen that linear once owned. This is a trend that we're confident will accelerate the shift in advertising budgets, because as I've often said, advertising dollars follow eyeballs. We're after our fair share of the $4.6 billion of global kids' advertising.

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

Aaron Ames — CFO, WildBrain Ltd.

Thank you, Eric.

During Q2, we continued our disciplined approach to content investments and the management of costs and working capital, as reflected in our continued generation of positive free cash flow.

We are also making significant investments to support our growth in premium production and licensing, and to expand our development pipeline. In Q2, we further accelerated the build-out of our proprietary data analysis and ad sales teams at WildBrain Spark to support growth in our own and partners' brands. These continued investments were driven by strong adoption we are seeing from the marketplace from these initiatives we launched last year.

Our leverage ratio remains steady from Q1, and we remain on track to be in the mid-4x level, or below, by the end of our Fiscal 2022.

If you look at the last three years or so, the source of our deleveraging has primarily been from free cash flow generation or asset sales, and to a lesser extent, EBITDA growth. As you look out to next fiscal year and beyond, we expect EBITDA growth to take over as the principal driver in accelerating the deleveraging process, amplified by improving free cash flow generation.

Turning now to our Q2 results.

Revenue in Q2 grew 17% to $142.3 million compared with $122.1 million in Q2 last year. The increase was primarily driven by the large deal for the Peanuts library with Apple TV+ announced in October.

Q2 2021 net income increased to $11.3 million versus a net loss of $2.3 million in Q2 last year. This improvement was driven by higher gross margin, a higher non-cash foreign exchange gain, and other income from litigation settlements, together with lower expenses related to reorganization, development, and finance costs in Q2 2021 versus Q2 2020.

Positive free cash flow in Q2 increased to $23.5 million compared to $13.3 million in Q2 2020. The increase was partly driven by improvements in collection of production financing, other income earned in Q2 2021, and lower distributions to non-controlling interest in the current quarter.

Adjusted EBITDA increased 14% to $29.1 million in Q2 2021 compared with $25.6 million in Q2 2020, principally driven by the Peanuts library licensing deal, continued strength in our content production and distribution businesses, and other income of $4.4 million from a litigation settlement.

The funds from the settlement are being invested to meaningfully accelerate growth areas, principally in our proprietary data and analysis tools, direct ad sales, and our licensing capabilities.

Now, I'll turn the call back to Eric.

Eric Ellenbogen — CEO, WildBrain Ltd.

Thank you, Aaron.

Overall, we're realizing positive momentum in every sector, as evidenced by our Q2 financial results.

We're delivering on our long-term strategy of:

- number one, creating premium kids' content to grow key brands;
- number two, monetizing our large audience on WildBrain Spark; and
- number three, improving our cash flow and balance sheet.

And most importantly, we're striking meaningful deals supported by our 360-degree strategy to grow our own IP and partner brands by leveraging the strength WildBrain has across development, production, distribution, licensing, and audience delivery.

There are many more such deals to come, so as I've said on past calls, watch this space.

Finally, before opening the call to questions, I'd like to mention that we're looking at holding an Analyst Day this year - probably mid-summer, early fall. I've now been with the company for 18 months, and I could not be more confident about the huge opportunity before us, so I'd like to spend some time at Analyst Day to spell out the size and the scale of that opportunity, with more details to follow.

Now, I'd welcome your questions.

Q & A

Operator

At this time, if you would like to ask a question over the phone lines, please press star, then the number one on your telephone keypad. To withdraw your question, press the pound key. Please stand by while we compile the Q&A roster.

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

Aravinda Galappatthige — Analyst, Canaccord Genuity, Inc.

Good morning. Thanks for taking my question, and congrats on the quarter.

I'll start with my main question and I have a follow-up. In terms of the trends that you're seeing at WildBrain Spark, obviously, you are now lapping the impact of the YouTube rule changes. I was wondering if you can talk to sort of the shape of the recovery that you're starting to see and anticipate.

And connected to that, obviously, the initial takeaways from the development of the direct ad sales initiative - I was wondering if you can expand a little bit on that.

And then as my follow-up, with respect to the Sonic the Hedgehog deal, can you talk to sort of WildBrain's share of merch revenues down the road? Is that something you can disclose or give us some general indications of? Thanks.

Eric Ellenbogen — CEO, WildBrain Ltd.

Okay, let me take your question about direct ad sales and how those results are coming forward.

It's going quite well. I think one of the things you pointed out is the change in YouTube policy, which we've highlighted previously for "Made for Kids", which happened last January. And for those not familiar, it basically prohibited kids' content providers from collecting, or YouTube collecting, data on individual viewers, and therefore needing to move to a more contextual advertising model, not dissimilar from linear television. We made significant investments this quarter in direct ad sales, which we believe will build long-term value, and those are the numbers that I highlighted in my earlier remarks.

If I can share with you what advertisers are looking for: number one, incredible reach, and that's something that we have in abundance; second, they're looking for brand safety and want to know their ads, where their ads are being placed. Obviously, the advertising environment is critical, and we're signing lots of deals. We have huge aspirations in this area. We're seeing a shift in revenue, not just from the adjustment in the YouTube algorithms, which are beginning to favour scale networks like ours, adjusting for the changes made in “Made for Kids” policy, but also in campaigns and switching on new revenue sources across WildBrain Spark, and one of the things that we're offering which we think is incredibly compelling is a customizable solution.

It's premium content based on viewing trends and data insights that we've compiled, and we've also invested heavily against data analytics and ad-tech with some proprietary technology that helps us better serve our audience with content that they're looking for, as well as helping advertisers understand better the audience that they're reaching. It’s probably not dissimilar, as an example, in linear television from understanding lead-in programming and what leads to the next, and that allows us to optimize what we're doing.

The other thing we're benefiting by, clearly - and this isn't us - it is the shift of ad dollars from linear to digital, and so as I pointed out, we really expect to harvest our fair share of that $4.5 billion that are being spent globally each year on kids’ advertising, and the incredibly engaged audience.

Can I ask you to repeat again your second question?

Aravinda Galappatthige — Analyst, Canaccord Genuity, Inc.

Yes. It relates to the Sonic the Hedgehog agreement which you announced, and I apologize if I didn't hear that during the prepared remarks. Can you talk to your share of merchandise sales or any kind of product sales down the road as per this agreement?

Eric Ellenbogen — CEO, WildBrain Ltd.

I'll ask Josh to address that. I'm not sure that we heard Josh.

Josh Scherba — President, WildBrain Ltd.

Apologies. Can you hear me now?

Eric Ellenbogen — CEO, WildBrain Ltd.

There we go.

Josh Scherba — President, WildBrain Ltd.

Sorry about that. Hi, Aravinda.

Certainly, I would characterize this deal with SEGA as truly a partnership. We're going to be sharing in all revenue sources related to this IP outside of video games and the feature film, so it begins with production and great creative, and we couldn't be more excited about the series. It's truly a landmark series for us, in terms of creative scope and ambition. It, in every sense, will be a premium project, and then once we get it out into the world, we're going to be managing exploitation outside of North America, so representation through our CPLG group, as well as utilizing our WildBrain Spark division to ensure that we're driving amplification of the brand, and ultimately, ancillary revenues. It really is a great example of our ability as a 360° company to really wrap our arms around a brand, and we couldn't be more thrilled than to be doing with SEGA on Sonic.

Aravinda Galappatthige — Analyst, Canaccord Genuity, Inc.

Great. Thank you. I'll pass the line.

Operator

Your next question comes from the line of Drew McReynolds from RBC. Your line is open.

Drew McReynolds — Analyst, RBC Capital Markets

Yes. Thanks very much. Good morning.

Just a quick follow-up on the SEGA partnership and relationship. Either Josh or Eric, clearly, under the new Management team here at WildBrain, we're kind of seeing better execution, and certainly, better execution on the premium side, and these aren't insignificant deals you're signing. How did this partnership come about? If you could provide a little bit more granularity there.

And then I have a follow-up after that. Thank you.

Eric Ellenbogen — CEO, WildBrain Ltd.

Drew, thanks for your question.

I'll let Josh talk to you about how the partnership came about, but one of the things I'd point out, which is somewhat axiomatic, is the scale of this deal is significant. Obviously, we had to provide a disclosure as a consequence of materiality, so you can obviously take away from that how important the transaction is for the company, and that we've struck a partnership deal. This is not service work, as I pointed out in my earlier remarks, but rather a very extensive relationship, building on a pre-existing relationship that our CPLG licensing group has had across EMEA.

I'll let Josh talk to you about the genesis of the transaction.

Josh Scherba — President, WildBrain Ltd.

Yes, Drew, it’s been a couple of years, really, that we've been cultivating this partnership with SEGA, and really taking a methodical approach to the creative, and what we would do in a series related to Sonic moving forward; and finding the right partner, which ultimately was Netflix. It’s a process that certainly takes time, but overall, our direction into premium, the improvements we've made at our studio, they all really help our case, in terms of proving ourselves to premium partners like SEGA.

The other thing that I would highlight, and Eric mentioned a little bit in his script, but the tremendous momentum Sonic has as a brand right now. The feature film last year did incredibly well. There is a multitude of plans in the coming years around the brand, including the second feature, and then, ultimately, it's going to culminate in this premium series on Netflix, so sometimes when we're working on brands, it's a full reboot and you're trying to kind of get momentum started. In this case, we're really standing on the shoulders of some tremendous momentum that's already been built, and so why we couldn't be more excited to be partnered here.

Drew McReynolds — Analyst, RBC Capital Markets

Super. (Multiple speakers)

Eric Ellenbogen — CEO, WildBrain Ltd.

Drew, I'd add one another thing, is this: just in contrast to - because I know you've followed the company for some time - to the old DHX. I'll borrow from Orson Welles: "No wine before its time." This is really just an example, I think, in contrast to the way that library properties and relationships were brought forward in the old DHX versus what we're doing today. As Josh mentioned, a highly methodical, careful development, brand plans, really growing the IP, understanding the DNA, and then going to market, and I think it isn't just about quickly harvesting these relationships and IP in our deep library, but rather, a very, very careful approach. It takes time, and so, many of these things that we planted - the Apple Peanuts example; now Sonic - they will bear fruit for many, many years to come. It's not churn and burn, and we thank everybody for their patience, which I think is going to be rewarded amply with transactions like this, and happily, things that we'll be announcing in subsequent quarters.

Drew McReynolds — Analyst, RBC Capital Markets

That's great. And a logical follow-up to that, and it's a little bit of a bigger picture. It does seem that with that refocus here and the execution, clearly, I think investors had wondered how capital-constrained the company is, and as you kind of climb out of the balance sheet, the extent to which you'd have to balance kind of growth and free cash flow.

Is it a fair comment to say that the way these deals are currently being structured that, versus the old days, it's a little less capital-intensive for the company to build these franchises, and specifically talking about some of the OTT deals where you can kind of get funded a little bit better upfront.

And I apologize for my son's trumpet playing downstairs in the basement, if you can hear it.

Eric Ellenbogen — CEO, WildBrain Ltd.

Well, hopefully he’s on WildBrain Spark at the moment. I'll let Aaron take that question.

Aaron Ames — CFO, WildBrain Ltd.

Yes, so I guess it’s two sides to it. Obviously, we had to make the investments that we did do in the studio to increase the premium production. We have to be making the investments in our audience engagement, in Spark, as we had to actually build those tools—give the teams the tools to do the work that they're doing, which is why they want to come to us, but from the production side I think you're right. Given the way that the SVODs fund content, that is a lesser constraint on us; but however, we do have to make the investments that we made to have the creative, to have the right people, and to have the right tools. I think it's still both things that are important, but I don't think there's a lack of capital to do those types of things. I think that's the way we're going to grow and that's what we are focused on.

Drew McReynolds — Analyst, RBC Capital Markets

Thank you.

Operator

Your next question comes from the line of Deepak Kaushal from Stifel. Your line is open.

Deepak Kaushal — Analyst, Stifel

Hi, guys. Good morning. Thanks for taking my questions. Just one, and a quick follow-up.

On the distribution side in AVOD versus traditional linear, I'm just wondering if you could give us a sense of the difference in the margin profile, so if I can ask it maybe a little differently, in the past, you had an army of distribution agents delivering content—library content to linear broadcasters around the world. How does that sales process change in the AVOD world in global distribution, and what kind of margin benefits can you get from that new model going forward? And then I've got a follow-up.

Eric Ellenbogen — CEO, WildBrain Ltd.

I'll let Aaron address some of the margin considerations.

What I would say, Deepak, is that we are, in many ways, the captains of our own ship now and not subject to a lot of the vicissitudes that you suffer from disintermediation. We're addressing directly our consumers. We're talking to our advertisers and sponsors, and that's been, I think, kind of the seismic shift, and frankly, opportunity that's been created around MFK, so it isn't just about the passive loyalties. We're able to generate campaigns and unique offerings on our AVOD network, and to work with advertisers and sponsors in various ways, and that's the business I referenced earlier that is burgeoning considerably, and I think had it not been for that change in YouTube policy, I don't know that we would have embarked as soon as we did in the direct ad sales market.

I'll let Aaron address the margin issues.

Aaron Ames — CFO, WildBrain Ltd.

Yes, and then I'll talk a little bit about margin, and then I'll pass it over to Josh on how the sales happened.

I'll say we're very unique in the space from the ad, the audience engagement, and the WildBrain Spark perspective, because we have one of the largest libraries after the studios, which everyone knows, and so, because of that, our margins are—when we put ads on that content, we own the content, and that's a big distinction. A lot of platforms are looking for content. We have a platform and we have the content, and so that creates a much higher margin profile for us as opposed to other companies.

I'll pass it over to Josh.

Josh Scherba — President, WildBrain Ltd.

Yes. Hi, Deepak.

Just one thing I would add in terms of the difference between the old world of licensing direct to the broadcasters and AVOD is that in the old world, it was more about doing your one deal—doing your deal, supplying some marketing materials, and then getting on to the next. When it relates to AVOD, and obviously, WildBrain Spark has its own thing, talking about our emphasis on YouTube, but on the other AVOD platforms, it is more of an ongoing partner management, so it's seeing how our content is performing, working with them to make adjustments to potentially help it grow. And one of the areas that we've actually been using across our company, some of the strengths we have is in content curation, which actually comes from our television group, who have decades of experience of knowing what content’s going to fit best together, and we tap into that expertise to help work with these various AVOD platforms, who are often new to kids content, and really giving them more of a tailored offer.

So it is different from the old world, but that we actually have a lot of advantages in that space given our different businesses we’re in.

Deepak Kaushal — Analyst, Stifel

That's very helpful. Thanks guys. And then just a follow-up to that, you mentioned the other platforms we see there. When we think about beyond YouTube, platforms like TikTok, Instagram, Facebook, I assume you have plans for diversification in the broader platforms. What can we expect in the next 12 months or 18 months regarding that size relative to the YouTube footprint?

Eric Ellenbogen — CEO, WildBrain Ltd.

Deepak, we're pursuing an always-on strategy with our content, and so—not that we drop a press release every week as we strike these new network deals with Samsung and some of the other surprising networks that have popped up, and we're seeing all kinds of new spigots turning on for revenue, but basically, we're going to be everywhere, and you'll begin to see, as an example, WildBrain channels popping up, really, across the spectrum.

One of the things that we're learning, and it’s, for us, an R&D process, particularly to the proprietary content, is the ability, for example, to launch a Teletubbies Channel and sort of see what the audience attraction of that may be, or specialized channels with a mix of our product, and it's one of the advantages that we also have from the AVOD Spark network is that these data analytics tools that really guide us in the way that the content is compiled and curated.

I don't know if, Josh, you have anything to add to that on the distribution side.

Josh Scherba — President, WildBrain Ltd.

No, no, I think that's right, and we are active on a wide variety of AVOD platforms, and leaning into the ones that are gaining traction, and we're really early adopters in this space, which gives us a big advantage, so we will continue to be there and lean into the ones that are getting traction.

(Multiple speakers)

Eric Ellenbogen — CEO, WildBrain Ltd.

Yes, Deepak, I was just going to add one other thought for you, which I may have highlighted previously, but was a real revelation to us. We, with a very important library property that we had, Josh and his team were in negotiations with a licensee in the on-demand space, and we’ve been particularly impressed with what was being offered versus what we believe to be the value of that content, and instead, we went to a rev share model in the AVOD space, and I think, safe to say, produced in one year a greater amount of revenue than we would have under a three-year license. That was a conventional license where there was no sharing of revenue.

These are emerging platforms, technologies; and fortuitously, we had the content and the reach in order to be on all of those platforms and figure out how to optimize revenue from various streams. But there is this aspect, as well, with so many leading brands that we have, which is to kind of be everywhere, and that's proving to be outstanding across all of the platforms and licensing and merchandising. It’s helping our distribution business. It's frankly attracting a lot of partners to us, as in the case of SEGA Sonic.

Deepak Kaushal — Analyst, Stifel

Well, it's great to hear that you guys are back on the cutting edge and looking forward to seeing some new opportunities. Well, thanks again for taking my questions.

Eric Ellenbogen — CEO, WildBrain Ltd.

Great. Thank you, Deepak.

Operator

Your next question comes from the line of Jeff Fan from Scotiabank. Your line is open.

Jeff Fan — Analyst, Scotiabank

Thank you. Good morning.

There is a lot of mention about analytics. Wondering, Eric, if you can just elaborate a little bit on that journey: where you are now with respect to the data collection that you're doing, and where would you like to get to, and perhaps maybe there's a build process and maybe the cost or investment that may be required to get you there, so I wonder if you could elaborate a little bit on that.

Eric Ellenbogen — CEO, WildBrain Ltd.

Sure. Thanks for the question, Jeff.

We already know about views, about regions, having a massive network of millions of data points, and what that scale of network allows us to do is do—we get greater insights where viewers are coming from and going to, languages, etc. I want to emphasize, though, it is not about individual viewer data - that has been changed with MFK policies.

It's about understanding how the algorithms work, how different brands and the franchises relate to one another, and that's where we are emerging with some great proprietary tools in data analytics and ad tech, and I would say, but for the changes in policy, I don't know that we would necessarily have developed those tools. That policy has been the mother of invention of our need to be able to define our audience, and frankly, better serve the audience with the content that we're delivering. We can now look at the viewing data, as an example, for every episode. We can see which characters are performing. We can analyze the contents. We can flag, as an example, when a character or an idea is working, and we can adjust the creative accordingly.

We've been doing this for a while now on Caillou, which I mentioned earlier, where we've consolidated rights. And that data, of course, is not only incredibly powerful for advertisers, but we're also looking at this across a lot of business lines and opportunities.

As far as the investment is concerned, we… Was that your question, about the investment in the data analytics?

Josh Scherba — President, WildBrain Ltd.

Yes, just whether that's already been done, or whether that's kind of an ongoing investment that we need to account for.

Eric Ellenbogen — CEO, WildBrain Ltd.

Ongoing. And we are—it's obviously attuned to the results that we're getting out of it, but we think that these proprietary technologies put us at a significant market advantage, and we've seen that in the discussions that we've had with media buyers, brands, agencies of what we're able to offer them, and have great case studies now on campaigns that we've been putting up. So you know what? We're going to keep investing against it. As I pointed out, that the enormous growth that we've experienced on a percentage basis is granted on a relatively low base, but it is sequentially improving, and we'll continue to invest against it. I think that those data tools are invaluable in helping us understand the market, not only for advertisers, but as I pointed out, to better serve our audience.

Aaron Ames — CFO, WildBrain Ltd.

Yes, I guess just I would just add to that, that the two key focus areas for us where we're investing is IP and licensing, and, of course, in WildBrain Spark and audience engagements. And that’s where we have been investing, but we’ve doubled down this quarter and invested even more significantly because that's where the growth is coming from.

Jeff Fan — Analyst, Scotiabank

Thanks. And my follow up is, Eric, you made a comment that piqued my interest. You talked about that you’re a captain of your own ship. You have control over—more control over the process. At what point, given your size and scale and the library that you have, do you think it might be worthwhile to consider, from a distribution perspective, go direct to consumer, i.e., have your own app, have your own AVOD, SVOD opportunity as opposed to going through other distributors like YouTube? Wondering if that's kind of in the cards down the road.

Eric Ellenbogen — CEO, WildBrain Ltd.

Interesting question. I think we're finding out about that through the ubiquitous distribution of our content across every platform. And they're evolving, to be sure, but it is about an on-demand universe. That is inevitable. Its force of gravity now in our business.

That said, YouTube is where the audience is, and it's a massive, massive audience, and so I think, at the moment, our specific focus is the optimization, maximization of the YouTube audience and engaging in these direct ad sales. Just as an example, though, which you may or may not be familiar with, is in the direct ad sales category: one of the deals or the way that it works with YouTube in direct ad sales as opposed to revenue that comes through the YouTube auction where they're selling ads, is that when we place media, provided that we sell at or above the YouTube rate card, we keep the difference. So the more effective we are, the more pinpoint these campaigns are and are effective, we are able with our premium content to charge premium rates for the advertising. And that's, again, something afforded by the scale of the network we have.

I've often been asked, do you like the YouTube economics. I don't know that there's any content supplier that loves them and would certainly like a more generous split; but that having been said, the audience delivery is unmatched, and it's a matter of doing the things we are doing to maximize the opportunities around YouTube ad sales. Some of the direct campaigns that we produce for advertisers, which, frankly, don't touch YouTube revenue, there isn't a share there where it's a bespoke program where we're creating content, as an example, for a sponsor. Those are where the opportunities live, and that's why I say being the captain of our own ship is beginning—it's extremely rewarding, and is putting us closer to the audience, as well as the advertisers.

Jeff Fan — Analyst, Scotiabank

Great. Thank you for the colour.

Operator

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

David McFadgen — Analyst, Cormark Securities

Oh, yes. Thank you.

I just have a question on the Adjusted EBITDA. I notice that it includes a litigation settlement of $4.4 million, so if you strip that out, it'd be down slightly, so obviously, the Peanuts deal is in here, and that would be, obviously, additive, so it seems like the other revenue, for some reason, has a much lower margin on it this quarter. I'm just wondering, is that the correct interpretation, and if so, why would that be?

Aaron Ames — CFO, WildBrain Ltd.

Sorry. Yes, David, it’s Aaron here. Can you just explain your question a little further? I'm not sure I fully understand it.

David McFadgen — Analyst, Cormark Securities

Sure. Okay, so you had attributable EBITDA in the quarter of $29.1 million and the prior year of $25.6 million, right, so it’s up $3.5 million. You had a litigation settlement in there for $4.4 million, so if we strip that out, it's actually down slightly year-over-year, but at the same time, you had a Peanuts licensing deal in there, so obviously, that's additive, so to be flat, when you factor in the Peanuts deal, it seems as though the margin on the non-Peanuts revenue was down quite a bit year-over-year, and I'm just wondering why that would be.

Aaron Ames — CFO, WildBrain Ltd.

Yes, I think on your math, I think what you're missing is there's significant investments that we're making in the quarter, with respect to growing the ad sales business and investing in the ad tech. And so I think we can go through that offline, but I think you're missing part of the other things that happened in the quarter.

David McFadgen — Analyst, Cormark Securities

Okay, and then just a follow up. Obviously, the Peanuts library deal drove the revenue nicely in the quarter. I was just wondering, can you provide any commentary on the outlook for the balance of the year in terms of distribution revenue?

Aaron Ames — CFO, WildBrain Ltd.

Yes. Our pipeline is strong, and we feel very comfortable with how we're going to do for the rest of this year, and then we will have some growth over the prior year. Again, we have that visibility now and are feeling good about this year.

David McFadgen — Analyst, Cormark Securities

Okay. All right. Thank you.

Operator

Your next question comes from the line of Tim Casey from BMO. Your line is open.

Tim Casey — Analyst, BMO Capital Markets

Thanks. Good morning.

Just a follow-up on the SEGA deal, and then a question on television. On the SEGA deal, Eric, you mentioned it was material enough to press release. I know you can't give specifics, but is there any way you could frame the scale of the investment or the resources you're deploying in this deal relative to, say, Peanuts, or some of the other franchises.

And Aaron, could you direct us as to how we should think about the impact of this deal flowing through the P&L? Is it start immediately and it's kind of linear, or is it going to be lumpy, bigger chunks here to—something like that?

And then, just on television, there's been some speculation in the trade press about a potential challenge for distribution on Family Channel. I'm just wondering if you can comment on that, and how you're thinking about the stability of those subscriber revenues going forward. Thanks.

Eric Ellenbogen — CEO, WildBrain Ltd.

Hi, Tim.

I'll let Josh take up the last question, but just to talk to you about the Sonic deal and our disclosure requirements around that.

First, and forgive me, I guess this is the kind of awkwardness of doing these calls remotely, but I wanted to pick up on something that James said, if I may, in the last question after Aaron's explanation, which is—and I know there's always this relentless focus on quarter-to-quarter and EBITDA movements, etc. I take a slightly different view, and again, forgive me, I come from 14 years of working for private equity in the entertainment and media business with a relentless focus on long term, and perhaps I should be more concerned about it, but these minor puts and takes on a quarter-to-quarter basis, I don't find disconcerting. As a matter of fact, I find them comforting because it's a big play for the long term, and it's about setting up this pipeline, which you guys have seen now and we're experiencing, so that's my focus, the way that I manage the company, and have often nipped in the bud some deals that were not good and that didn't play for the long term in maximizing and turning to account in the value of our IP. I just want to point that out.

The other thing is that with those investments, which is human capex, there were funds that we deployed from Fine Capital, which were an incredible boost to our business, but obviously, hit EBITDA because they go into SG&A, so I just want to point that out. I view it as a positive development, and not one that's a detraction at all.

On the EBITDA side, or what that looks like on Sonic, we just executed the deal. We're in production. We're ramping up, and I would say that the largest impact from studio is to be expected in the next fiscal year. Consumer products will follow, I would say, in Fiscal ’23 after the rollout of the new series, but the other thing that we always see in this case because of the likely Paramount/SEGA Sammy movie coming through the pipeline is a lot of interest at retail and among licensees, and it’s a drip, drip, and then it's a flood, so our focus is on sustainability, and that's the case not only for Sonic, but across all of our IP.

I know you had a question in the middle of that, as well, if I can ask you to repeat that, and then Josh can talk to you about the TV business.

Tim Casey — Analyst, BMO Capital Markets

It was more just if you could put any perspective on how big the Sonic deal is to the company maybe relative to some of your other major initiatives?

Eric Ellenbogen — CEO, WildBrain Ltd.

I think in terms of scaling, what I can say is, probably the biggest single transaction to come through the studio and one of the things that we're excited about is a CG 3D series, and that helps build the capability that we've already developed in the studio, and really augments our efforts around that technology format animation.

I don’t know if, Josh, you want to add anything to that, as well as the TV question.

Josh Scherba — President, WildBrain Ltd.

Yes.

No, I think that's it as it relates to Sonic—and wow, it's a miracle: I actually wasn't on mute as I began to speak here. No, I think you hit the nail on the head there in terms of scale of the project. It is the largest CGI series that we’ll have we've ever taken on in the studio.

As it relates to your question, Tim, on television, I mean, we don't comment on any specific ongoing commercial negotiations, but it's standard course of business. And in terms of the viability of our linear business, we continue to be confident that we can manage our cash flows well into the future. I think we've shown our track record in doing that, where we've got great cost controls and can manage the bottom line quite well, and we're confident we’ll going to be able to continue to do that.

Tim Casey — Analyst, BMO Capital Markets

Thank you.

Eric Ellenbogen — CEO, WildBrain Ltd.

Hi, Tim - one more thing, which is just to line it up. This SEGA Sonic deal represents the fourth series that we now have at Netflix, along with *Johnny Test*, *Chip and Potato*, *Go, Dog. Go!*, all of which are performing exceedingly well, so again, it's just a constant build. They're a great partner, as is Apple and the other SVODs that we deal with, and that in proving out that performance, obviously, just attracts more partners, and it's that flywheel that I'm talking about, sequential growth that we're pretty excited about. We're really beginning to see those returns, and it's not just slamming shows in there. It's about tending to those franchises, and I think I said before, if it grows like a weed, it's generally a weed. And we're kind of growing—we're going to the oak, not the weed.

Operator

Your final question comes from the line of Adam Shine from National Bank Financial. Your line is open.

Adam Shine — Analyst, National Bank Financial

Thanks a lot. Good morning. I'll just ask one question given that we're coming up on the hour.

Eric, you touched on EBITDA, and I certainly don't want to fixate on one particular quarter. As a look ahead, as you build some revenue growth into the business, can you speak at all to some of the efficiencies that you gain as you layer on some of these new big productions; some of the operating leverage that inherently comes in the business going forward, acknowledging, as you did earlier, that there are some evolving investments that are being made for ad tech, maybe for human capital to scale the production side of the business, or even distribution, for that matter; the look ahead in terms of operating leverage efficiencies, and perhaps, margin expansion going forward?

Eric Ellenbogen — CEO, WildBrain Ltd.

Good question, Adam, and so you've actually identified the areas in which we're making those investments, and certainly, on the human, where, to me, it's about talent. It's where I've spent my career. We have a team of five in China now and we're continuing to build that out. Watch that space, please. I think some exciting developments in that business. That will give us operating leverage and reach.

What we're also doing is integrating those business units across the entire spectrum of our company, and that's where I think we're getting the operating leverage as well, is that the previous structure, honestly, was somewhat balkanized with each of the business units. They are operating in harmony now. We’re, as an example, taking our capabilities in research, which had been deposited in each of the business units, and now combining that so that we just have a lot of intel across the entire company.

The same thing in the ad tech space and our insights in data analysis and AVOD, not just on YouTube, but sort of across understanding what audiences want, so those synergies, if you will, are beginning to bear fruit and I think that the foundation is incredibly solid. I'm excited about the team now, and they're ticking on more and more.

My brands group as an example, and we hired a superstar in that area. He's built out an amazing brands' team, and they are sequentially working through the many franchises in the library, and you'll be hearing soon about some of the properties that we're going to be bringing forward, I think, in unique ways, some of them on a digital-first basis using our AVOD network.

As far as quantification, yes sequential growth long term. I can't give you a specific number, but feeling very, very good about the build that we're experiencing, looking it over, looking at it on a multi-quarter basis.

Adam Shine — Analyst, National Bank Financial

Okay. I'll leave it there.

Eric Ellenbogen — CEO, WildBrain Ltd.

Does that answer your question?

Adam Shine — Analyst, National Bank Financial

It does, but I'll follow up, and I imagine more will come this summer.

Eric Ellenbogen — CEO, WildBrain Ltd.

Yes. You've got that right.

Adam Shine — Analyst, National Bank Financial

Okay. Thanks.

Operator

That concludes our Q&A over the phone lines at this time, and I will now turn the call back to Nancy Chan-Palmateer.

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

Thank you, Operator, and I want to thank everyone for joining us today, and please stay well. We look forward to updating you in the next quarter. Have a great day.

Operator

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