WildBrain Ltd.

Fiscal 2021 First Quarter Earnings Call

Event Date/Time: November 11, 2020 — 10:00 a.m. E.T.

Length: 45 minutes

Edited Transcript

"While Cision has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. Cision will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Cision ait fait des efforts commercialement raisonnables afin de produire cette transcription, la société ne peut affirmer ou garantir qu'elle ne contient aucune erreur. Cision ne peut être tenue responsable pour toute perte de profits ou autres dommage ou responsabilité causé par ou découlant directement, indirectement, accessoirement ou spécialement de toute erreur liée à l'utilisation de ce texte ou à toute erreur qu'il contiendrait. »

CORPORATE PARTICIPANTS

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

Eric Ellenbogen
WildBrain Ltd. — CEO and Vice Chair

Josh Scherba
WildBrain Ltd. — President

Aaron Ames
WildBrain Ltd. — CFO

CONFERENCE CALL PARTICIPANTS

Deepak Kaushal
Stifel — Analyst

Tim Casey
BMO — Analyst

Drew McReynolds
RBC — Analyst

Jeff Fan
Scotiabank — Analyst

PRESENTATION

Operator

Good morning and welcome to WildBrain's Fiscal 2021 First 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 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; Aaron Ames, our CFO; and Josh Scherba, our President. Also with us and available during the question-and-answer session is 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 deals and 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. Such statements are based on information currently available 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 a chance to ask questions. If you would like to ask an additional question, please rejoin the queue.

Please note that we are all in separate locations for the call today so we do appreciate your patience if we encounter any lumpiness as we steer through the Q&A.

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

Eric Ellenbogen — CEO, WildBrain Ltd.

Thank you, Nancy.

Good morning, good afternoon to everyone and thank you for joining us today. It's only been a few weeks since our year-end call so I'm going to focus today on new developments since the close of the quarter.

The most important news since September is our expanded partnership with Apple TV+ for Peanuts, which was announced on October 19.

This is the largest content deal in our Company's history, making Apple TV+ the new home for all of our Peanuts content. This multi-year, worldwide deal expands our preexisting partnership with Apple TV+, and under this new agreement, we will be making significantly more new content for the platform, well beyond what was ordered under our 2018 agreement. Apple TV+ has also licensed the full library of our classic Peanuts content, and needless to say, this is a tremendous deal for our Company. Let me walk you through what this means for WildBrain.

First, let's look back at the original Apple deal we did in December 2018. We really couldn't say much at the time about that deal, but I can share more details now. Included in that first agreement were orders for season one of *Snoopy in Space*, which was delivered to Apple TV+ last fall and has been one of the most popular series on the platform, so much so that Apple TV+ has ordered second season, which is now in production. That original deal also included season one of *The Snoopy Show*, which Apple unveiled to audiences in a sneak peek last month. We're also in production with that show too, which is slated to debut worldwide on Apple's platform in February of 2021. The original deal also included orders for multiple new family specials to mark Mother's Day, Earth Day, New Year's Eve, and Back to School. All of these specials are now also in production at our studio.

Let's take a look at the expanded partnership, which was just announced. It includes first, more new original Peanut series, introducing a whole new generation to Snoopy, Woodstock, Charlie Brown, and the gang. Second, a number of additional new family specials beyond those already in production. Third, a new 70th anniversary Peanuts documentary, which we're co-producing with Ron Howard's Imagine Documentaries. Finally, other new large projects as well over the term of this expanded agreement.

In addition to this extensive slate of new content, Apple TV+ has also licensed our full library of classic Peanuts content, including the beloved Halloween, Thanksgiving, and Christmas specials. These specials are some of the most popular TV shows ever made. They have consistently enjoyed strong ratings for 50 years, and we're thrilled that Apple is making them available for free viewing to everyone during the holiday season.

All of our Peanuts content will be available on Apple TV+ through apps and websites worldwide on just about any web enabled device, including Apple iPhones and iPads, as well as devices from other manufacturers, such as smart TVs, computers, tablets, and smart phones.

Through Apple TV+, audiences around the world, including most who've actually never seen Peanuts content in TV, will be able to immerse themselves in our new shows and the classic specials whenever and wherever they like, on any device.

The anticipated reach of this global deal is well beyond anything previously achieved.

This partnership will significantly amplify exposure for the Peanuts brand for many years to come, which we firmly believe will drive significant growth for our global consumer products business.

Peanuts is a top-10 character brand at retail, where it enjoys success across virtually every product category. The franchise is now celebrating its 70th anniversary and has secured dozens of new consumer products licenses driven by this milestone. Many of these agreements were brokered by our wholly owned licensing agency, WildBrain CPLG, exemplifying the collaboration we're implementing across our Company.

As we reach new audiences and new generations of kids through Apple TV+, not only do we expect the existing Peanuts licensing business to grow, we also expect it to expand in underdeveloped merchandising categories, particularly in the kids' demographic.

The importance of this partnership for WildBrain cannot be overstated. It reflects a long-term commitment for new Peanuts content from a leading global media platform. It also elevates our creative profile to an entirely new level. It secures our production pipeline for years to come, providing visibility on our future earnings, and it will drive meaningful growth in our consumer products business.

That's just Peanuts. As we activate more and more brands from our deep IP portfolio, there'll be lots more news to come.

I'd like to now invite Josh Scherba, our President, to provide some colour on the shifts we're seeing in content demand and how premium content deals such as this one play out in our earnings.

Josh?

Josh Scherba — President, WildBrain Ltd.

Thank you, Eric.

As we've discussed on previous calls, our priority for our content business over the last few years has been rebuilding our creative pipeline to align with an industry shift towards global deals for premium content. Our Apple TV+ partnership on Peanuts is a perfect example.

The growth we've seen in our content business over the past two quarters reflects this dynamic as bigger projects, such as the Peanuts content from the first Apple deal, ramped up to full run rate.

This has also been a creative magnet unlike any our Company has ever seen. The prospect of working on an iconic animation property like Peanuts attracts top talent to our studio, thereby establishing a virtuous cycle which will reignite other key IP from their vast portfolio of famous brands.

As Eric noted, this is just Peanuts. As we look across the rest of our portfolio and continue to activate the significant IP we have, we expect to layer on more and more large deals to meet the rising demand for premium content.

These deals often incorporate library titles. We saw this with the Apple deal. And similarly, when Netflix recently ordered a new original *Johnny Test* series, they also licensed worldwide rights to the shows full back catalogue. Not only are we reigniting key IP through premium original productions, we are often also able to license our library content to the same platforms, thereby driving larger overall deal value. To better reflect these shifts, we've decided as of this quarter to combine reporting of production and distribution into one revenue line in our financial results.

This consolidation reflects industry trends that we're seeing. It's how we're managing our IP and it reflects the consolidated nature of the transactions we're entering into with global SVODs and other distribution channels. This is also in line with the integrated management of our business and reflects industry practice.

Premium content deals are the way forward for WildBrain. They are a trigger for reactivating IP and our 360-degree strategy. As you have seen over the last year or so, while we are making fewer content announcements than we have in the past, the announcements we do make are highly meaningful to our production, distribution and consumer products businesses, and to growing our earning space.

With that, I'll hand the call back to Eric.

Eric Ellenbogen — CEO, WildBrain Ltd.

Thanks, Josh.

Turning onto our AVOD business, WildBrain Spark continues to have one of the largest and most engaged global audiences in the kids and family space, with 62.4 billion minutes of videos watched this quarter, which is up 14% versus Q1 2020. The duration of views is also increasing, which is a key attribute for monetization. On average, the duration of views on WildBrain Spark are 15% longer than the average on YouTube in the kids' genre. Each view on our platform averaged six minutes in Q1, up 27% from Q1 2020.

While COVID-19 and changes on YouTube have negatively impacted advertising sales in the short term, we're encouraged by sequential growth in revenue for Q1, which is up 37% compared to Q4. In fact, we've seen improvement every month, starting with July and continuing into October.

Overall, the trends we highlighted last quarter have continued and there are positive indicators across the advertising industry. The digital advertising market started to pick up in Q1, particularly as COVID lockdowns eased and we came out of the summer and started the run up to Christmas. In September, we saw encouraging uplift in advertising demand, which is leading to gradual improvements in advertising rates.

On direct ad sales, we have been investing in building out our market presence, particularly in the US with plans to build further. This has led to ad campaigns being sold and run on both sides of the Atlantic. Our premium brand-safe content, at global scale, with proprietary content solutions and data-led planning is resonating very well with ad buyers.

Finally, as you know, in Q4 last fiscal, we secured a $25.0 million growth fund to fund accretive transactions across the Company, with special focus on our AVOD business. By way of an update, I can tell you that we've now earmarked substantially all of the initial funds for deals and investments that are currently under negotiation, and we anticipate closing many of these transactions in the coming quarters.

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

Aaron Ames — CFO, WildBrain Ltd.

Thank you, Eric.

During Q1, we continued to execute on our disciplined approach to content investments while managing working capital and controlling our costs. We also paid down $5.0 million on our revolving credit facility in the first quarter and the outstanding balance of $5.0 million in October, subsequent to quarter-end.

While we expect our Total Net Leverage Ratio to increase moderately in Q2 2021 due to timing, based on our current expectations of how the pandemic will play out, coupled with the enhanced visibility we now have around our revenue earnings and content pipeline over the next 18-plus months, we expect our Total Net Leverage Ratio to be comfortably in the mid-4x level, or below, by the end of Fiscal 2022.

As Josh mentioned, we have and will continue locking in a content pipeline with premium projects that give us great visibility into future revenue and earnings. It's important to also understand, however, that it takes time for this booked business to appear in our results. For example, the expanded Apple deal will begin contributing to our EBITDA in Fiscal 2022 when these new projects ramp up. Revenue from these shows are recognised on a percentage of completion basis over the life of the production.

One other thing I wanted to highlight with respect to the Apple TV+ agreement is that the library deal for the classic Peanuts content was signed after quarter-end so this will be recognized in our second quarter results.

To better reflect the characteristics of these premium deals and align with how we are monetizing our content, we have reclassified the financial reporting of our revenues as follows.

For reporting purposes, our "Content Business" segment now comprises the following three revenue lines:

- First, Production and Distribution,
- Second, Consumer Products, including WildBrain CPLG, and
- Third, WildBrain Spark.

Our Canadian linear TV business has been renamed "Canadian Television Broadcasting" and continues to be reported separately.

Turning now to our Q1 results.

Revenue in Q1 was $95.5 million compared with $112.3 million in Q1 last year. The decrease is primarily attributable to pressures on global advertising due to COVID-19 and policy changes on YouTube for "Made for Kids" content at WildBrain Spark, partially offset by stability in our other businesses.

However, as noted by Eric, we are encouraged by the sequential revenue growth of WildBrain Spark's revenue for Q1, which is up 37% compared to Q4.

In the quarter, we reported a net loss of $3.3 million versus a net loss of $16.0 million last year. This improvement was attributable to lower SG&A, lower reorganization development costs, and a higher non-cash foreign exchange gain in Q1 2021 compared to Q1 2020.

We recorded positive operating cashflow in Q1 of $19.6 million compared to $29.9 million in Q1 2020, due to the timing of settlement of working capital balances. Free Cash Flow for Q1 2021 was negative $2.7 million compared to positive Free Cash Flow of $7.7 million in Q1 2020. This decrease was partly due to the timing of distributions to non-controlling interest in the current quarter as compared to no distributions in the prior year quarter.

Adjusted EBITDA was $17.5 million in Q1 2021 compared with $19.6 million in Q1 2020, principally related to the short-term weakness in advertising revenues noted above.

Now I'll turn the call back to Eric.

Eric Ellenbogen — CEO, WildBrain Ltd.

Thank you, Aaron.

In sum, we continue to execute against our long-term strategies of:

- One: creating premium kids' content to grow key brands,
- Two: monetizing our large audience on our AVOD network, WildBrain Spark, and
- Three: improving our cashflow and balance sheet.

Although there is still a lot of uncertainty out there, our business is demonstrating resilience as families take comfort in our entertainment content and brands. We're lining up more deals, which will layer onto our current earnings space, so please stay tuned.

Now we'd welcome some questions.

Operator

At this time, if you'd like to ask a question over the phone lines, please press star, then 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 line of Deepak Kaushal of Stifel. Your line is open.

Deepak Kaushal — Analyst, Stifel

Hi. Thanks, guys. Good morning. Thanks for taking my questions.

Eric, Josh, I wanted to ask you a bit more about the Apple deal. If you can kind of parse out the impacts on your production capacity and your balance sheet, particularly on the production side: will this require an increase in production capacity or this backfilling some declines in other areas and that capacity the same?

On the balance sheet side, what would be the impact to working capital and free cash flow over the next 12 to 18 months? Thanks.

Eric Ellenbogen — CEO, WildBrain Ltd.

Sure thing. Thank you, Deepak, and I'll certainly ask both Aaron and Josh to chime in on the multiple parts of your question.

First, maybe I can describe a little bit about the magnitude of the Apple deal before we get into the production capacity issue. Certainly, I wish I could tell you more details of the transaction, but I know you'll appreciate that we're subject to a non-disclosure. I'm telling you what we can.

One of the things I can highlight by the way, is that on the library deal alone, in Q2, we're going to recognize net revenue that's over 60% more than the last publicly reported transaction, which I believe was by (audio interference)—

Operator

There has been an unexpected disconnection by that speaker. One moment please.

Deepak Kaushal — Analyst, Stifel

At this point, may Josh take it?

Josh Scherba — President, WildBrain Ltd.

Yes. Why don't I jump in and pick up on the capacity question. I'm happy to do that, Deepak.

We've certainly been ramping up in the studio over the past year. We're now at essentially the highest rate of capacity in Vancouver that we've ever been. We expect to be able to carry on at this rate for the foreseeable future.

This new Apple deal will add new productions over time. We will find ways to expand to make sure that we can accommodate and ensure that we can continue on executing on the highest quality that we have been, which is really what led to this second Apple deal, is how happy they've been with what we've delivered to date.

Aaron Ames — CFO, WildBrain Ltd.

As far as balance sheet and cash flow, this deal is a very big positive for us on cash flow and the balance sheet. As you know, we recognize these types of deals on percentage of completion, and we earn the revenue as we produce the show. For both balance sheet, there'll be the typical production financing arrangements, which are in place, but our earnings will be very positively impacted by this, as well as our cash flow.

Deepak Kaushal — Analyst, Stifel

Okay, and so just to be clear: in terms of the lag between revenue recognition and cash flow, the interim production financing will close that gap, or is there going to be a certain big percentage coming from tax credits, etc., as per the past?

Aaron Ames — CFO, WildBrain Ltd.

There is a portion coming from tax credits, but because we recognize and get paid over the term, it's a big positive to cash flow. We earn our producer fees and overheads during the course of production, and so this is a big positive to us.

Deepak Kaushal — Analyst, Stifel

Okay. Thanks for taking my questions.

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

Operator, do you want to introduce the next caller?

Operator

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

Tim Casey — Analyst, BMO

Yes. Three for me. I was wondering if—hopefully, Eric's back on the call. He was talking about reporting a big jump in revenues in Q2. Maybe if you could just finish that thought.

Eric Ellenbogen — CEO, WildBrain Ltd.

Yes, I'm back with you, Tim. Apologies.

Tim Casey — Analyst, BMO

Great. No problem. My two questions would be I guess for Aaron. Should we think about the profitability of the Apple arrangement as being consistent, or will the various series and various special projects carry varying levels of profitability? How should we think about that over the course of the projects?

On WildBrain Spark, I appreciate the sequential—there's been some sequential gains in the revenue profile, but maybe if you could talk prospectively going forward for the rest of maybe this fiscal, how you think the trend lines that you're going to report in that business in the face of expanded viewership but an uneven ad market? How should we think about the revenue profile there?

Thanks.

Eric Ellenbogen — CEO, WildBrain Ltd.

Thanks, Tim, and again, sorry to our participants today for the disconnect. Thank you, technology.

Let me share this question with Aaron and first go back to your first question, which was about the increase that we will be enjoying in Q2 with the recognition of net revenue.

As you know, just in the accounting policy, we'll be aggregating the entire value of that license in Q2, which is a multi-year license. What we can say though is that it's going to be on the order of 60% more than what was last publicly reported in the transaction between Iconix and ABC Television in 2014. That's a matter of public record and that's why we can share that with you today.

As to the specifics around margin and profitability of the various content that we're producing, let me have Aaron and Josh address that particular question at what's happening at our studio and what it means for our Company.

Aaron Ames — CFO, WildBrain Ltd.

Yes. I'll touch on first, Tim, your question on the production revenue. Yes. This deal would be similar to the continuation of the types of projects we've been working on with Apple TV+ already. We expect a similar profile with respect to the margin and revenue. That's your first question.

Your other question on Spark, we expect to continue to see a pretty significant improvement, sequential improvement, quarter-over-quarter in this quarter. This quarter is a bigger quarter because it is the Christmas season and so we will get benefit for that. As we continue to get out there in direct ad sales, which I know we've been discussing over the last quarter, that we are making an investment in our direct ad sales. That also will help us continue to monetize against Spark and continue to see pretty significant sequential improvement.

Tim Casey — Analyst, BMO

Thanks for that. Eric, can you spare us all the effort of Googling October 2014 and Iconix? What was the number they reported?

Eric Ellenbogen — CEO, WildBrain Ltd.

Yes, I can share that with you. They reported $17 million. We Googled that. That's how we found out.

Tim Casey — Analyst, BMO

We're looking at something a little North of $25 million on the revenue line in Q2?

Eric Ellenbogen — CEO, WildBrain Ltd.

That would be the math.

Tim Casey — Analyst, BMO

Thank you.

Eric Ellenbogen — CEO, WildBrain Ltd.

By the way, Tim, I'll just modify that by saying that's US dollars, not Canadian.

Aaron Ames — CFO, WildBrain Ltd.

Eric, for us, that's Canadian.

Eric Ellenbogen — CEO, WildBrain Ltd.

No, but the Iconix deal was US dollars.

Aaron Ames — CFO, WildBrain Ltd.

That's right. The Iconix deal is US dollars. Yes.

Operator

Again, if you'd like to ask a question over the phone lines, please press star, then one on your telephone keypad.

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

Drew McReynolds — Analyst, RBC

Thanks very much. Good morning. Two for me.

Maybe for you, Eric, on the IP front, we saw with Entertainment One, for example, with Peppa Pig, which I kind of view in the same category as Peanuts, just hit it out of the park and it looks like you're gaining kind of equal success here with Peanuts, but then they took a couple of their other pieces of IP in over a two-, or three-, four-year period, really built those up.

I'm wondering, from your perspective, when you kind of look into your existing IP versus what is in development or maybe what you acquire, where does that stand? In other words, have you identified the piece of IP that could hit these same levels that you're doing with Peanuts currently?

Eric Ellenbogen — CEO, WildBrain Ltd.

Great. Thank you, Drew.

First, I appreciate the comparison to Peppa Pig, but I also wonder if we'll know about Peppa 70 years hence. Peanuts is frankly a bit of a unicorn in the character business. I mean, an incredible legacy, sort of sustained content production, which paused many years ago - we're now accelerating to a brand new level - and always has had a remarkable consumer products business on a global basis. I think in some ways it defies comparison.

I can't say that we're going to be achieving legendary iconic status with the balance of the IP portfolio, but that does not mean it isn't incredibly robust. We're specifically concentrating now on a set of brands, for example, *Strawberry Shortcake*, which also has a great operating history and legacy both in media production and consumer products sales. I think that that's going to be one of the franchises coming forward.

We've been surprised, which I think I may have highlighted in our last call, by the incredible success on Netflix of *Chip and Potato*, where a new season has been ordered and we see great consumer products potential around that franchise. We're reactivating on *Teletubbies* right now. We are in development on *Inspector Gadget*. I think we announced a development project around *Green Hornet*, an acquired property as opposed to one that resides in our library.

I'm loathe to sort of predict levels of success and try and compare them against Peanuts. What I do know is that the content pipeline has been—we have a lot of visibility on it right now and I'm incredibly encouraged by what we're doing on the creative development side and how we're going to be rolling these properties out very carefully in order to kind of achieve an evergreen status that Peanuts enjoys.

I'm happy to take a follow-up on that, but that's generally how I would characterize it.

Drew McReynolds — Analyst, RBC

No. That was helpful and that's good context. Thank you.

Just to follow up maybe for Aaron. On the balance sheet target that you've put out there, can you just systematically talk about EBITDA growth versus free cash flow generation in arriving at that target? Thank you.

Aaron Ames — CFO, WildBrain Ltd.

Yes, sure. I'm happy to.

Because of this deal and other deals that we have been working on, we have very good visibility on how the next sort of eight quarters look. Therefore, from a baseline perspective, we feel comfortable with that target that we were giving for the end of our Fiscal 2022. Of course, there are other things that we're working on that we expect to further improve it, but this is what we have specifically visibility into.

As far as cash flow, I think our cash flow profile will be improved as well, given that these types of deals, including the Peanut deal, as I had mentioned before, are positive to us from a cash flow perspective and a balance sheet perspective.

Drew McReynolds — Analyst, RBC

Okay. So it's kind of a combination of both free cash flow and EBITDA growth to kind of square you up on that?

Aaron Ames — CFO, WildBrain Ltd.

Yes, and again, that doesn't really include other things that we're working on. I mean, I don't know how the direct ad sales, how much of an improvement it will be. We're investing in it. It's a big focus of ours. Could do quite a bit better than what's currently in our baseline model.

Drew McReynolds — Analyst, RBC

Great. Understood. Thank you.

Operator

Once again, if you'd like to ask a question over the phone lines, please press star, then one on your telephone keypad.

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

Jeff Fan — Analyst, Scotiabank

Thank you. Good morning, and thanks for taking my question. Just a couple.

First, Eric, I think you talked about Spark advertising rates improving. Wondering if you can elaborate on that a little bit, and maybe also give us a little bit of an update on how direct sales is doing, and if there's anything to share regarding direct CPM versus some of your prior CPMs pre the YouTube policy change? Maybe even talk about what percentage of your views because your views are still growing very strongly. Just wondering what percentage of your views you think you can monetize to the direct method.

The second question is related to your comment about the growth fund earmarked for investments. Wondering if you can just elaborate a little bit on the nature of some of these investments that we expect to see.

Eric Ellenbogen — CEO, WildBrain Ltd.

Good morning. Thanks, Jeff, for your question. I'll kind of give an overview of the shape of the recovery.

First, for those of you who've been focused on this, you'll know that in the period between the Made for Kids policy change at YouTube and the COVID impacts, and that was from like early January to middle of March, we saw ad rates beginning to recover significantly as advertisers adjusted their spend migration, frankly, between linear and digital, our rapidly, vastly increasing audience during the COVID period, which has leveled out to more normal levels, and how the YouTube ecosystem and algorithms were adjusted to the MFK changes. Again, when COVID hit, we saw a big uplift in viewing, but also a contraction in ad spend, but it's really a factor of the digital ad commitments being the easiest to pull. They also come back when consumer and advertising segment shifts.

Since July, we've been seeing a couple of things, really a reversal in two ways. One, improving CPMs or advertising rates, and that really has a lot to do with that algorithm adjustment at YouTube, which I referenced. Also, we're enjoying new optimization trials for ad placement that we're doing on our networks, and those are also contributing to results and also just seeing more ad placements.

In a more general way, and this is really a more macroeconomic factor, market sentiment is that a lot of the budgets that were pulled, like travel and so forth, have been reprioritized in the second half to entertainment and toys. We're seeing a pickup as well in those categories in the run up to the holidays. The ad dollars are flowing back. That's the good news.

One of the things that I can more generally say is that the nature of ad placement on YouTube has changed meaningfully with Made for Kids since targeting is no longer taking place. It really emphasizes the contextual sale and also selling directly by our own ad salesforce, which is one of the things that you asked about, and that effort is going pretty well. We're getting good visibility there just in terms of the recovery of the market; and presuming this trajectory and the compounded increases, I'd say we're pretty optimistic.

The audience continues to grow, watch-time grows, and while I can't give you a precise number, we will be the full beneficiary of those changes, and particularly with our data tools, and direct ad sales, and campaigns that we're doing. We've launched a number of very successful digital-first campaigns for toy companies. We're sort of the leading edge of the change in market perception around where advertising is effective.

Was there a second part of the question? Allow me to address that as well.

Jeff Fan — Analyst, Scotiabank

Yes. The other part, I think you've sort of addressed it, but it was really as you go to the more direct sales route, wondering if you think you can monetize through the direct channel all of the same views that you were monetizing before under a more, I guess under YouTube's algo?

Eric Ellenbogen — CEO, WildBrain Ltd.

I actually think we'll be able to monetize much more effectively because in the auction process, which was what we relied on previously before the MFK changes and launch of our own direct sales organization, we were kind of at the mercy of what came in and the varying CPMs. We couldn't offer really a bespoke program to advertisers, consumer product companies, etc.

One of the other things that we're seeing and benefiting by considerably is, believe it or not, the advent of smart TVs and penetration of those devices in the market. I'm sure when you turn on your own smart TV, you'll see the dozen tiles come up of Netflix, and Apple TV+, and HBO Max. One of those is YouTube.

What's happening is the views are migrating from iPads and other display devices onto the big screen. What that's meant is co-viewing in almost every case. That opens up the tremendous market of parent and caregiver demographics and consumer products. That's really one of the things that I think we're going to benefit by.

The advertisers are choosing to go direct. They want to get in front of our content specifically, which is curated and safe. They are very sensitive to content and audience and the curation factor. They want to know where their ads are placed, and that really is drawing premium rates, which is getting to this targeted audience. We're going direct and we're tapping into that branded ad market.

Jeff Fan — Analyst, Scotiabank

The other question was just about the growth fund and if you can just talk about that a little bit on the profiles.

Eric Ellenbogen — CEO, WildBrain Ltd.

Sure. In the growth fund, I think when we originally talked about this, we indicated that it would be for these accretive investments and the… I should, just at the risk of redundancy, remind everybody that the financing structure has no impact whatsoever on our leverage ratio. The current environment has offered us a lot of opportunities for IP investment and really to use our operating leverage to exploit that IP across various business areas. A lot of money we're using as an accelerator on WildBrain Spark.

As I noted in my initial comments, we really earmarked substantially all the initial funds and have transactions now under negotiation and closing. Those really have focused on perfection of our rights ownership, not only in our existing catalogue, but we have a lot of partnership deals at WildBrain Spark and we've used that for the benefit of those partnerships.

Again, I can't speak to the specific negotiations and deals; but sort of in the same way as I've indicated on past calls, please watch the space. We will be, as we can, disclosing some of those transactions.

Jeff Fan — Analyst, Scotiabank

Great. Thank you, Eric.

Operator

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 — Director, Investor Relations, WildBrain Ltd.

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

Operator

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