FINAL TRANSCRIPT

WildBrain Ltd.

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PRESENTATION

Operator

Hello, and welcome to WildBrain's Fiscal 2022 First Quarter Earnings Call.

Today's call is being recorded. After the speakers' remarks, there will be a question-and-answer session.

I'd now like to turn the call over to Nancy Chan-Palmateer, Director, Investor Relations at WildBrain. You may begin your conference, Ma'am.

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

Thank you, Operator, and thank you, everyone, for joining.

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 investments by the Company, commercial arrangements of the Company, grand plans and strategies, 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 objectives and financial and operating performance of the Company and its assets.

Such statements are based on factors and assumptions that Management believes are reasonable at the time they were made and information currently available. Forward-looking statements 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 unless otherwise stated.

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.

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

Eric Ellenbogen — CEO, WildBrain Ltd.

Thanks, Nancy. Good morning and thank you for joining us today.

Before I get into the substance, I want to thank our IR, Marcomms and management teams, for their contributions to our Investor Day on October 5. The feedback has been terrific. We had over 300 registered for the event. And we really appreciate that investors and others took the time to log in and listen to what we had to say about the work we've done over the past two years, turning the company around – realigning our team, our process, our culture – and the investments we're making to significantly grow our business for the long-term.

For those who were not able to watch live, or even those who were, I invite you to watch a video of the event, which has been posted to our Investor Relations website, along with the presentation deck.

So, now to the business of today.

As you've seen from our release, we're off to a great start in the current fiscal year with a continued return to growth. We delivered double-digit growth in both revenue and EBITDA over Q1 of last year. Importantly, Spark revenue increased by 73% in the first quarter over last year, and it was driven by improving advertising rates and our focus on higher value views. Our consumer products business was quite strong too. It was up 25%, driven by a global rejuvenation of the Peanuts brand, and fueled by the steady output of new content. So, this growth is a result of our focused work and investments over the last two years. That work continued in Q1 as we launched WildBrain Spark on its next phase of evolution.

I've spoken to all of you at length about Spark on our past calls, but I'd like to take a moment here just to lay out the differences, what differentiates Spark from other companies playing in the YouTube sandbox.

In short, it's our scale and our ownership.

Spark is the largest kids' and family network on YouTube and that scale is built on our proprietary content. I really need to sort of come back and underscore that point. That library content, proprietary content – most of which is broadcast TV quality – is the cornerstone in the Spark network, and it yields to us valuable data and insights. This scale, together with our 360-degree approach to content monetization, are exactly what sets us apart, and in a virtuous circle continues to drive further growth by bringing in top IP partners to Spark. These partners are attracted not only by our scale and massive audience reach, but also by our value-adds of digital production, ad tech, data insights, direct ad sales, and paid media – all of which are fueling greater monetization. This underscores why we're getting longer-term, larger deals and economic stakes in partnership IP.

We have a few examples. Our partnerships in emojitown and Akedo are both off to great starts, building engagement for these new digital first properties.

The emojitown channel, which is comprised of content, all of which is produced by Spark, ranked number one for viewership on all of YouTube in the first month launch in June 2021, becoming the top-performing brand or influencer YouTube channel in the US and UK across digital first media.

For Akedo, very much like our emojitown deal, where we handle licensing and share in consumer products back-end, as well as produce the content and manage it on YouTube, consumer products just hit retail in North America and key European markets, and the early results are quite promising. According to industry data for September, in the UK action figure category, and it's in terms of velocity, Akedo is #2, beating out Transformers, Marvel and Star Wars.

So, let me just put this in a larger context, a development which we believe will highly favor us. YouTube is apparently disfavoring and demonetizing low-quality kids’ content. What that means is its content that is either heavily promotional, encourages negative behavior, or is sensational or misleading. We've always said we welcome the flight to quality. We believe that as YouTube continues to favor high-quality content like ours, we are going to realize even greater benefits from our network.

So, it's on that very foundation of quality that we're building for the future. Indeed, we're doubling down on AVOD and Spark as a driver for our multi-platform and integrated IP strategy, designed to maximize the opportunities and synergies across the global WildBrain business and also to open up new streams of revenue.

So, this type of curation allows us to create fully integrated right strategies for our own content, like Strawberry Shortcake, Teletubbies, Caillou, as well as for partnership content that I just referenced, emojitown and Akedo, among others. So, from the earliest stages of content development, we can establish a holistic strategy that ensures the rights for that IP are exploited across the best touchpoints from AVOD, SVOD, linear broadcast, gaming, music, marketing. Simultaneously, we can build integrated brand management programs to maximize engagement and awareness, and also develop licensing programs to extend that IP off screen and into consumer products.

So, our recent launch of Strawberry Shortcake, which I discussed with you in our last call at some length, also at Investor Day as we laid out the brand plan, is indicative of this “always-on” strategy, and it’s with content already rolling out on YouTube, Roblox, linear broadcast, and SVOD will follow soon thereafter. This all sets the stage for our consumer products rollout for the brand, next year and beyond.

Another example is the work we're doing with Teletubbies. Last month, we launched a new Teletubbies music album called *Ready Steady Go*, produced by WildBrain Spark and distributed across top music platforms such as Spotify, Apple Music, Amazon Music, YouTube Music, and it’s also supported by original music videos that are on YouTube that were created entirely by Spark.

So, this is just one of many activations we're working on, not only to reinforce the Teletubbies as a beloved kids’ brand, but also to connect with Gen Z, who loved the Teletubbies when they were preschoolers. This generation has a great emotional connection to the brand from their childhood, and they’re now re-engaging with the Teletubbies as pop icons.

We're planning to deploy many more such creative activations for our brands in the years to come, aligning all the capabilities of our platform to build affinity for our IP, and to drive our consumer products efforts.

One recent example I'd like to share with you of the type of expansion we're targeting is our new Gamefam agreement. So, Gamefam, if you don't know, is the leading professional game publisher on Roblox, and Roblox is spreading like wildfire. Through our owned and operated Spark ad-sales team, we're now their exclusive provider of direct ad-sales services.

Roblox is one of the top digital gaming platforms in what's called the “metaverse”, which for our purposes here – and for that matter of Facebook's – is a fancy word for an immersive and highly interactive 3D gaming environment. Roblox is one of the most popular 3D gaming platforms with over 43 million daily active users, 67% of whom are under the age of 16.

Gamefam's titles on Roblox have been visited more than 5.5 billion times and are played for an average of 150 million minutes every day. Gamefam owns three of the top 10 games on Roblox, and it's why they partnered with us on the recently launched Roblox game for our Strawberry Shortcake brand.

With Gamefam, we're taking Spark’s capabilities in ad-sales, and COPPA-compliant brand-safe advertising into an adjacent media space, where huge numbers of young people are spending massive amounts of time. This is an exciting new opportunity and it’s still early days. We’re already signing advertising deals under this partnership.

Turning to consumer products, Peanuts continued to post strong numbers in Q1 as more new content rolled out on Apple TV+ driving greater and greater awareness for the brand.

I want to put some context around this, and perhaps recap the remarkable content that we’ve rolled out in the last two years since Apple TV+ launched Peanuts.

In that time, we've launched two new Peanuts series, *The Snoopy Show*, *Snoopy in Space*. The second season is premiering incidentally this Friday. We've also launched two new documentary films about Peanuts, produced in partnership with Imagine Documentaries. We've delivered the first of many new family specials in the pipeline, titled *For Auld Lang Syne*, which is coming out this December in celebration of New Year's Eve.

This is by no means the full scope of the new Peanuts content in our pipeline. As noted in our Analyst Day, this deal is still in its infancy, and we have a robust slate of projects that will continue to engage and delight fans for many, many years to come.

This robust rollout of new Peanuts content over the past two years has amplified the brand in so many, many new ways. It's reconnecting with the existing adult fans, as well as reaching new audiences around the world, and especially a whole new generation of kids.

When we acquired the Peanuts brand back in 2017, one of the challenges and opportunities that we identified then was that kids were not highly engaged with the brand. We knew, however, that parents love to share brands they cherish from their childhoods with their kids, and our content plan for the brand was designed specifically with that in mind. Today, parents are introducing their kids to Snoopy and the gang on Apple TV+.

Peanuts certainly has a magical quality, but to maintain its popularity and success, any brand needs to remain current by reaching today's kids where they actually engage with brands, be that on leading SVOD platforms like Apple TV+ or Netflix, or AVODs like YouTube, TikTok or gaming platforms like Roblox, which I referenced earlier. That's our “always-on” strategy, making brands available wherever, whenever fans want to engage with them.

What we know is that as we switch on more and more of our evergreen brands from our deep content vault, brands like Strawberry Shortcake, Teletubbies, Yo Gabba Gabba!, Caillou, Inspector Gadget, Degrassi and others, we can create new, high quality content to tap into the magical quality those brands have for their fans, and reinvigorate them for new generations.

It's also important to note that longevity is an important, evergreen quality. Looking around, I see a lot of properties in the market today that are one-hit wonders. They're the Beanie Babies and Cabbage Patch dolls of today. At Wildbrain, we're working with numerous multi-generational, emotionally connected brands that have withstood the test of time.

Our 360-degrees strategy and structure are designed specifically to build and harness brand equity through high quality content and brand management that drives engagement with our IP all the way from screen to the retail shelf, and I mean that virtual or otherwise. As I've said in the past, we're just getting started switching on the brands in our vault, and the opportunity ahead is unlimited. Stay tuned, lots more to come.

With that, I'll hand it over to Aaron for a look at the Q1 numbers.

Aaron Ames — CFO, WildBrain Ltd.

Thank you, Eric. Q1 2022 reflected the early returns from the investments we've made across our business. In consumer products, we're realizing synergies of our vertically integrated business by aggregating our Peanuts representation across Europe and the Middle East, which contributed to higher consumer products revenue in Q1 2022.

We also continued to unlock new monetization opportunities at Spark to generate a bigger portion of revenue through nascent areas, including digital production, direct ad sales, and paid media, which collectively grew 128 % in the current quarter over Q1 2021.

Our investments provide a solid foundation positioning us for sustainable growth and margin expansion in Fiscal 2022 and beyond. We reaffirm our expectations for Fiscal 2022 of achieving revenue in the range of $480 million to $500 million and Adjusted EBITDA between $87 million and $93 million. Further, we remain confident in reaching our leverage goals of mid-fours or below by the end of Fiscal 2022.

Looking at the key numbers for the quarter now, revenue in the quarter grew 18% to $112.6 million, compared with $95.5 million in the prior year, driven by strength in our Spark and consumer products businesses.

We recorded a net loss of $21.4 million in Q1 2022, compared to a net loss of $3.3 million in Q1 2021. This was primarily due to a non-cash foreign exchange loss of $13.0 million in the current quarter versus a foreign exchange gain of $5.1 million in Q1 2021.

Free Cash Flow for Q1 2022 was negative $19.9 million, compared with negative Free Cash Flow of $2.7 million in Q1 2021. This was primarily due to increased accounts receivable arising from larger deals completed during the quarter and timing of working capital settlements, including $8.8 million of accounts receivable from production, which was received subsequent to quarter end.

Adjusted EBITDA in Q1 2022 increased 13% to $19.9 million, compared with $17.5 million in Q1 2021.

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

Eric Ellenbogen — CEO, WildBrain Ltd.

Thank you, Aaron.

Look, we've worked hard over the past two years to reposition the company. We're now underway on a new course that is evidently returning us to sustained and sustainable growth.

As we leverage our 360-degree capabilities and audience delivery to switch on IP, we're lining up a creative pipeline with meaningful consumer products upside and building a large book of business for years to come. We are excited and energized by the sizeable opportunity ahead.

So, now I'll turn it to our listeners and open up for questions.

Q & A

Operator

Thank you very much, Sir.

We'll now move to our first question over the phone, which comes from David McFadgen from Cormack Securities. Please go ahead. Your line is open.

David McFadgen — Analyst, Cormark Securities

Thank you. Thanks for that commentary about WildBrain Spark. I think it'd be helpful for all of us if we can maybe get a few more details. For example, of the 800-plus channels that are on WildBrain Spark, how many are owned and operated by WILD? Of the total number of hours of content on WildBrain Sparks, how much of that is owned by you?

It'd be also helpful if we knew what the WildBrain Spark revenue was, net of the YouTube cut because then we can see exactly how much of the revenue is actually value-added services. I don't know if you can provide those but that'd be really helpful.

Eric Ellenbogen — CEO, WildBrain Ltd.

That is a compound complex question. So, we own much of the content on Spark and that's why we're able to build the scale that we have. This couldn't be farther from an MCM. I would say we own about 50% of the 650 brands and 800 channels on our network. The core of that business is monetizing our own library and optimizing our network to grow audience engagement.

I think, David, I shared at Investor Day that we make no claim to prescience or genius here. This almost started out as an accidental business, as a way of monetizing the tremendous library that WildBrain possesses, since no linear channel could find room for 14,000 titles. They became really good at it, in terms of data science, optimization, and managing those titles. That in turn—and I was at NBC Universal at the time that I granted rights to then WildBrain—because they were so good at library monetization, we gave them our library. They spiked revenues considerably for us there. So, it's nascent, it's still growing rapidly, and we are using our expertise to leverage partnerships. Those are the deals.

There's a process as we look at what we're going to spend our time on and realizing that we have this very powerful platform. Not everybody gets into the club. We're making decisions now, we're sifting through the content, where we can be a partner, and where we see additional revenue opportunities. Then we do all the value add: digital production and paid media, ad tech, algorithm management, licensing. We don't just put up a third-party content and walk away.

That's, frankly, why we're getting these partnerships in. As you know, YouTube remains preeminent in content discovery, and that’s what we're using it for. We look across the entire value chain and the aggregation of margin at every part of our business and look at those brand P&Ls.

So, it's not just a simple matter of the monetization that happens at Spark. It happens across consumer products. We often take those nascent IPs and we produce long-form television with them. We put those up on SVOD. We’re in every one of those channels of trade, and in the aggregation of margin across the entire value chain.

So, I think you can look at it a bit in isolation, and we're doing very, very well with it. I want to emphasize again, I've said this before and I mean it only somewhat facetiously, this isn't WeWork, where the more you lease, the more you lose. We convert to EBITDA, but I've been taking what we make and I put it right back into content creation and into that network because we believe in it. That's the 360 strategy around WildBrain Spark. So, I think it defies comparison a little bit.

One other thing I just want to bring up, forgive me for going on with this, but in terms of understanding sum-of-the-parts of our company, and it's one of the things that I addressed a bit at our Investor Day, is, in my view, there is a complete under-realization and recognition of the value of that network. Yes, we do convert to EBITDA, but if you look at our peers in the business, take a few of the recent transactions, by the way, they are being measured on multiples of revenue. It’s because of the data and the reach that they are correctly measured on that value, as they then monetize through advertising subscriptions and other means of monetization. Anyway, I'm not sure if that answers your question.

David McFadgen — Analyst, Cormark Securities

I mean, it’s useful information but just to reiterate, it would really, I think, drive the points home if you can get some actual data, but it doesn’t seem like you guys want to provide that right now.

Eric Ellenbogen — CEO, WildBrain Ltd.

We provide our revenue numbers. Our revenue numbers are out there, David, on what we’re doing in WildBrain Spark.

David McFadgen — Analyst, Cormark Securities

Yes, it'd just be good if we could get the revenue net of YouTube's cut to calculate what the value-added services revenue are. I know you say it's nascent, but it'll be nice to be able to know what it is. Actually, of the total numbers of hours of content on WildBrain Spark, how many are actually owned by you? It's just my opinion. I just think that those metrics will be really helpful to really understand, I think, what you're trying to say. Anyway, let's move on.

Maybe you could give us an update on Strawberry Shortcake and how that's progressing because I know that's in your plans to drive growth going forward?

Eric Ellenbogen — CEO, WildBrain Ltd.

Absolutely. Early, early days. We don't have a ton of content out there. We've basically been very transparent. We've shared our complete brand plan. It's way too early, and we're not going to start promoting until we get a broader slate of content out there.

Again, you see these IPs out there, overnight hits that took seven years in the making, it's not going to take us that long. Look, the content is off to an encouraging start. We're on Roblox. There are brand plans in place. We'll be announcing dozens of retail partners as we move this into grocery as an example in the spring of next year. It's a long game, it's a build. The strategy is deliberate, and it's really early days.

So, no overnight ratings like you had in the Nielsen days. That's not how digital media works. We're again, very, very encouraged by the start and by the creativity. I can also tell you, there will be a deal with a global streamer on the SVOD side, and that's about the quality of the content. It just is another piton in the mountain of “always-on”. So, we're on every channel, and we'll be on TikTok and Instagram and everywhere that content is watched.

We’re not in the antediluvian days of linear television launches anymore. It's about ubiquity and that's something we have. Having great legacy brands with incredible performance is what draws partners in, and it is essentially a proxy for marketing and familiarity. That's what I can tell you about it. Watch this space. Good things to come with Strawberry Shortcake.

David McFadgen — Analyst, Cormark Securities

Okay, thanks so much.

Eric Ellenbogen — CEO, WildBrain Ltd.

Sure thing.

Operator

Thank you. We’ll now move on to our next question over the phone, which comes from Dan Kurnos from the Benchmark Company. Please go ahead.

Dan Kurnos — Analyst, Benchmark Company

Great, thanks. Good morning. Happy to be on.

First off, congrats on a strong start to the year. Eric, if we can just go back to Spark for a second. I guess two-part question. One, the Gamefam expanded partnership. You already have LEGO and Minecraft content on the site. Does that open the door for further conversations with parties like those? Does that help grease the wheels?

Secondarily, you've obviously talked about reinvesting into digital content. So, to the extent that you can kind of talk about the growth and sort of parse it out between impression growth and CPM growth, that would be super helpful. Thanks.

Eric Ellenbogen — CEO, WildBrain Ltd.

I'll take the first part, and then Josh can perhaps expand on the second question, Dan.

Look, the Gamefam thing is terrific because in terms of monetization in the media space, it's about cross-platform selling. It is a terrific door opener. It is novel, the idea. It is sort of like early days of YouTube in the sense of enormous audience engagement, and then monetization following. It really underscores the incredibly compelling proposition and audience delivery that we're now able to offer to media buyers and brands. So, it's a small base. It’s growing quickly.

A number of our campaigns are cross-platform campaigns. I can't give you the sort of where CPMs are at right now. It's kind of mixed. The measurement tools are coming into play. For those of us who've been around the media business long enough, as linear TV went to cable television, home entertainment, all of this, it takes a little while for the catch up to happen in terms of media buying and information, but it is happening. Of course, it's a door opener.

By the way, with the LEGOs of the world, we already have deep relationships. I think, Josh can share this with you. I think we have two LEGO shows in our studio at the moment. They're amazing content creators, and we're already in business with them. This is just an expansion of pre-existing relationships. Josh, do you have anything to add?

Josh Scherba — President, WildBrain Ltd.

Yes, just to Dan’s second part of his question. We've been primarily seeing the recovery from CPM growth, which has been really recovering in a really positive way and I think really speaks to post-MFK YouTube being better at improving how it’s monetizing kids’ content. We're pleased with our impressions. They’ve stabilized and going back up. There was, of course, the additional viewership that was happening as a result of lockdowns around the world. So, those were tough comps for us, but we're pleased with where the impressions are today.

I would also say, and Eric alluded to it in his script, but we're really watching this space closely around the algorithmic changes that YouTube have signaled that they're going to be making in terms of demonetizing more overtly commercial content. We, again, think this is a really positive thing for us with our premium content network. It's going to take time. We're not making any statements about that right now. It's just something that we think overall will be a positive for us as it develops.

Eric Ellenbogen — CEO, WildBrain Ltd.

Yes, I was just going to say, Dan, the algo changes that YouTube continues to implement have always favored us. It's been kind of amazing that at the very beginning as MFK came in, since Google ad sales is set up all around very specific data delivery, and when that was curtailed because of MFK, I don't know that there was a plan in place, frankly, in order to bring back to equilibrium the getting paid for the audience delivery that we were doing.

I mean, what I can tell you is the audience didn't change with MFK. It didn't at all. It was really the data collection side and feeding the ad sales mechanism. So, all of that is getting unscrambled, and that's been favoring us a lot with CPMs going up. Quality of views, though, very, very, very important. We think what we've heard now from YouTube and the demonetization and de-emphasis, a lot of de's there, around kind of the low-quality crap that's out there, this should be great for us. That is a rising tide for quality content creators, producers, and network owners.

So, we're very happy with those changes. I can't tell you where that's going to land on the specific translation. Clearly, as those algo changes are made, it favors us, disfavors others, and that should cause a shift to dollars to high quality content like we've got on our network.

Dan Kurnos — Analyst, Benchmark Company

Got it. That’s helpful. I think the first part of my question was really more expansion of those existing partnerships, not renewal. So, expansion of LEGO and Minecraft, but I appreciate the color. I will bite on this, Eric, because it's a very straightforward segue to my next question. You alluded to it.

Moonbug for $3 billion, roughly three times the size of your entire company for a product that I think, I'd be curious on your opinion, but my opinion is that I think my 7-year-old probably could have produced the same quality content. How do you think that impacts the marketplace? How do you think that impacts brands? I’d just love to hear kind of your thoughts. If you have any idea on what the multiple they're planning on paying for that was, I think that would be a great kind of reference.

Eric Ellenbogen — CEO, WildBrain Ltd.

Look, I don't have a lot other than what I've read about the transaction. I think you and your colleagues and the analyst business have pointed out, consolidation is inevitable. We've talked about it before. We’re in a new wave of it. What these companies are getting, and I alluded to the fact that there's no way to look at these, particularly the digital media plays, as an EBITDA multiple. I think that revenue is incredibly relevant, as is engagement, frankly. CoComelon has enormous engagement.

As to the longevity of the property, your guess is as good as mine. I think that we have incredibly substantive properties with incredible track records and performance and brand identity. Like Teletubbies, there's a pedagogical piece to it. It is not spun candy or empty calories. I think the implications for the valuation of our business should be obvious. They've done a terrific job but it's one or two properties. We have quality, we've got scale. What it does reinforce is the strategic value in owning strong, enduring content and IPs.

By the way, I point out a couple of other transactions out there that I think are really interesting. The Roald Dahl acquisition by Netflix, and I think the number out there was between $600 million and $700 million, those properties are fabulous but there's no film library. That is all content that has to be created. A very good Broadway show, by the way. That's all about having to harvest the value of that IP. We have both, and I think that library and IP, never more valuable. I think there's a marking to market to it.

It reminds me, and I don't know whether you follow the music industry, same thing. When music publishing and master recording libraries were declared dead, it’s like, I don't think so. Could never be more valuable, but it’s cyclical, and I think it takes a few good transactions like this one for people to take notice. So, thanks for that question.

Dan Kurnos — Analyst, Benchmark Company

I appreciate the colour. For what it’s worth, it’s about one-third owned to two-thirds licensed. At the low end, it’s probably four times for US AVOD revenue multiple distribution. So, slight delta, I think, between what you guys own and what’s out there. Thanks.

Eric Ellenbogen — CEO, WildBrain Ltd.

For sure. Thank you, Dan.

Operator

As there are no further questions over the phone at this time, I'll turn the call back over to Nancy Chan-Palmateer. Please go ahead, Ma'am.

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

Thank you, Operator, and thanks, everyone, again for joining us today. Please do stay well. We look forward to updating you again on more exciting news in the upcoming quarters, the next quarter. Thank you and have a great day.

Operator

Thank you very much to our speakers. Ladies and gentlemen, this does conclude today’s conference call. Thank you very much for participating and you may now disconnect.