FINAL TRANSCRIPT

WildBrain Ltd.

Fiscal 2022 Q4 and Full Year Earnings Call

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PRESENTATION

Operator

Hello, and welcome to WildBrain's Fiscal 2022 Q4 and Full-Year Earnings Call.

Today's conference is being recorded.

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

Kathleen Persaud — VP, Investor Relations, WildBrain Ltd.

Thank you everyone for joining us. Speaking on the call today are Eric Ellenbogen, our CEO, and Aaron Ames, our CFO. Also with us today and available on the Q&A are Josh Scherba, our President, as well as Danielle Neath, our EVP of Finance and Chief Accounting Officer, and I'm Kathleen Persaud, the new VP of Investor Relations, and our outgoing Director of IR, Nancy Chan-Palmateer is on as well.

First, we have some standard cautionary statements. The matters discussed in 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, and the business strategies and operational objectives and financial and operating performance of the Company, and the value of 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 materially differ, and adversely from those described in the forward-looking statements, as a result of 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 follows, we ask that each analyst keep to one question and one follow-up. If you'd like to ask an additional question, please rejoin the queue.

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

Eric Ellenbogen — CEO, WildBrain Ltd.

Hi, good morning, and thank you, Kathleen, and thank you all for joining us today. Fiscal '22 was yet another successful year for WildBrain as we continue to execute on the strategy that we put in place starting in 2019. Our focus on the 360-degree platform for the end-to-end reactivation of beloved entertainment brands from our deep vault of IP led us to return to growth in 2021, and that trend has accelerated in 2022.

Over the last three years, we deliberately built the resources and teams needed to create and integrate this unique 360-degree platform. I believe we are the only independent kids and family entertainment company with a fully integrated suite of in-house capabilities that span production, distribution, digital media, and consumer products licensing.

Our global reach and our ability to leverage IP across this platform positions us as truly unique and valuable in today's media landscape. Aaron is going to give you the details on our results, but I'd first like to take a few minutes regarding the highlights of the year.

We generated growth in revenue and EBITDA for the second year running. We have an incredibly strong content pipeline, an unparalleled executive team, and we're building earnings and growth momentum, and as we bring more and more of our branded IP to market and line up more consumer products opportunities in the coming years.

In content, production, and distribution, we continue to reactivate treasured brands from our evergreen library. Just recently, we announced that Peacock has commissioned 52 brand new 11-minute CG-animated episodes of Caillou for the U.S. market, and are picking up as well five new CG specials for the brand. This deal followed last year's announcement that Cartoon Network has picked up the Classic Caillou library following our repatriation of U.S. rights to the brand from PBS. Since we repurchased the U.S. rights for Caillou, we've achieved more than an approximately 50 percent return, underscoring the value of being an all-rights owner. This is entirely consistent with the strategy for Caillou driven by our visibility and the popularity of our brand on our Spark YouTube network.

It also bears mentioning here that, in Q4, our WildBrain Spark digital platform crossed the threshold of 1 trillion minutes of watch time since being unveiled in 2016. That's not a mistake, that's 1 trillion, and that's with a T. To our knowledge, this puts Spark in an elite class of kids' content providers on YouTube.

Now, within WildBrain Spark, many of our brands are posting spectacular viewing numbers, but none more popular than our own Caillou, which has garnered over 75 billion minutes of watch time. In addition to streaming the Classic Caillou series on WildBrain Spark, we've also been steadily releasing new short-form Caillou content. Delivering the series to audiences worldwide on WildBrain Spark is driving deep engagement for Caillou, it’s growing the audience, and amplifying the brand.

And this popularity was a springboard for reactivating the brand, and leveraging new and classic content across multiple platforms, including SVOD, AVOD, and linear. In the past, it’s been wildly misreported that Caillou has been cancelled, but as you can see from the deals and the numbers, Caillou is stronger than ever.

I know that all of you follow the SVOD space and you’ve read about how streamers are refining their content plans and moving to premium programming—quality premium programming, all of which favours us. While this may lead to some short-term reduction in certain new commissions across the industry, we think we’re extremely well-positioned in the changing environment. Netflix’s strategy, in particular, has favoured WildBrain as evidenced by our ever-growing relationship.

Demand remains extremely high for known kids IP, and that drives subscribers, it keeps down churn, and we are the foremost independent owner and producer of that kind of content. We have an incredibly strong content pipeline. As I said at the top of today’s remarks, we’re building earnings momentum as we launch more and more of our branded IP.

On just Netflix, as an example, our new Sonic Prime series, which is co-produced with SEGA, is set to launch in winter 2022. There is a tremendous positive buzz for Sonic Prime, and we've already began signing global toy and merchandized deals for the new series with consumer products set to rollout in calendar 2023. This builds on the already burgeoning Sonic franchise allowing the launch of enormously successful feature films from Paramount which have grossed over $720 million worldwide to date, with a third film slated for release in 2024.

I'm pleased to remind you this is not a work for hire project. We are full partners in the profits of Sonic Prime as well as being additionally compensated as producers, distributors, and licensing agents in consumer products. I should note as well, also on Netflix, which was announced just last week, a refreshed version of our 2015 Teletubbies series is launching this November. This new version has been updated for U.S. audiences with fresh elements including new narration, music videos, and diverse sun babies already imagining another beloved brand from our library for today's generation.

It's also worth noting that on our own WildBrain Spark platform, Teletubbies has garnered over 44 billion minutes of watch time since just 2016. We are going to be making additional exciting announcements about the Teletubbies' franchise in the coming weeks. So, please stay tuned.

Also on Netflix was the announcement of Season 4 of Chip and Potato which will be launching this fall. Chip and Potato is a terrific example of our brand capabilities extending from development and production through global distribution, consumer products licensing, and even new toys launching at retail this fall.

Chip and Potato is a really a great example of leveraging our 360-degree capabilities which start with owned IP, producing creative content, engaging viewers, and finally moving to consumer product's upside.

Last but certainly not least, Netflix is also the home to our original Strawberry Shortcake series *Berry in the Big City*, and as we continue ramp up the launch—re-launch, I should say, of Strawberry Shortcake, we're looking forward to the exclusive launch on the platform next year of four new CG-Animated Specials for the brand.

So, in addition to Netflix, our Apple TV relationship remains stronger than ever. Apple TV last month on the platform launched our latest Peanuts family special *Lucy's School* as well as additional episodes of *The Snoopy Show*. So, in total now, there are four family specials on the platform, multiple seasons of two original Peanuts series, for a total of 48 series episodes. In addition, there are two original documentaries and 13 classic Peanut specials. Apple TV is the greatest home ever for Peanuts. There is a lot more to come in that pipeline.

Let me turn to Consumer Products. Within our wholly owned CPLG business, we secured the rights as the exclusive licensing agent for the Peanuts brand in Asia-Pacific, which bolstered the recently announced expansion of our agency's business into that region. The deal consolidates CPLG's longstanding Peanuts licensing relationship across EMEA, and more recently, we added India which is seeing Peanuts featured in extensive cross-category promotions for apparel, toys, games, homewares and more. Global annual consumer product sales for Peanuts now exceeds $2.5 billion at retail. As we continue to roll out our new Peanuts content on Apple TV+ as well as additional platforms in China, we believe there is plenty of runway to continue to grow the brand.

So, with that, I'll turn the call over to Aaron to review our details—excuse me, our results in detail.

Aaron Ames — CFO, WildBrain Ltd.

Thanks, Eric.

In the Fiscal 2022, we delivered a strong year reflecting growth across all our content-driven businesses. Growth accelerated with revenue of $507.2 million reflecting a 12% increase over Fiscal '21, and EBITDA was $88.8 million for growth of 7%. Excluding one time items in Fiscal '21, Adjusted EBITDA increased 23% versus the prior year. We also saw double-digit growth across Content Production and Distribution, Spark, and Consumer Products.

Net income grew to $5.6 million compared to a net loss $7.1 million in the Fiscal 2021, reflecting higher gross margins. Fiscal 2022 Free Cash Flow was negative $17.4 million, compared to positive Free Cash Flow of $31.5 million in Fiscal 2021, reflecting higher accounts receivables associated with larger deals, growth initiatives, and working capital timing.

One of the drivers in the working capital timing was the catch-up related to the Canadian production expenditure for our broadcast business due, in part, to COVID-related live-action production delays. We also had a step-up in proprietary live-action production, which required short-term working capital, which we talked about last quarter. As we discussed in the past, we're in a growth phase, so there are short-term working capital needs as we execute on content deals and build receivables.

Turning to the quarter results, revenue was $112 million, consistent with $112.6 million in the year-ago quarter. Net income was $1.1 million, compared to net income of $11.4 million in Q4, 2021. Adjusted EBITDA was $11.4 million, compared with $19.2 million in Q4 2021. Free Cash Flow was negative $4.7 million in the quarter, compared with positive Free Cash Flow of $13.9 million in Q4 2021.

Looking forward to 2023, we expect revenue of approximately $525 million to $575 million. We expect Adjusted EBITDA of approximately $95 million to $105 million. Our guidance is based on our current pipeline and timing of revenue recognition.

Before handing the call back to Eric, I'd like to take a moment to thank Nancy Chan-Palmateer for her service to the Company as our Director of Investor Relations over the last seven years. Nancy is leaving WildBrain at the end of this month. She has been a very valuable member of the team, and will be missed. So, thank you, Nancy, for your time. I'd also like to welcome Kathleen Persaud, our new VP of IR, who has recently joined the Company, and will be managing investor relations going forward.

I will now turn the call back to Eric.

Eric Ellenbogen — CEO, WildBrain Ltd.

Thank you, Aaron.

So, looking ahead, we're going to continue to focus on the execution of our integrated 360-degree strategy. We're investing in the business to harness new opportunities for both our and partner IP. We'll also continue targeting new partnerships and strategic acquisitions that will cement our position as the foremost independent producer of kids and family content in today's market. With our strong management team and our deep IP portfolio, we're extremely well-positioned to drive future growth.

Now, before we open up to questions, I'd just like to say on both a personal and professional note, how excited I am for the road ahead having recently renewed my contract with the Company for another three years. We spent the past three years completely realigning our business, we've laid the foundations, and we're building for the future, actions which are now beginning to show considerable returns in our financials. We have an incredibly strong management team; I think one of the best in the entertainment industry. I'm delighted to continue working with this talented group to propel WildBrain at its next stage of growth. I'd like to send out my thanks to all of our dedicated, hardworking employees across the global WildBrain organization, and without whom none of this would be possible, and also to my fellow Board members for their continued support. It's really an exciting time for everyone at WildBrain as we look to the future.

I'm now happy to open up to questions from analysts.

Q & A

Operator

Thank you. Your first question comes from David McFadden from Cormark Securities. Please go ahead.

David McFadden – Analyst, Cormark Securities

Yes, hi. A couple of questions. First of all, I was just reading through the MD&A and there was mention about Degrassi, and just wondering can you give us an update on that, because you said you're in negotiations with HBO Max, and production has been halted. So, just wondering what's happening with the new shows there?

Eric Ellenbogen — CEO, WildBrain Ltd.

No other update, David, good morning, other than we're in constructive discussions with them right now. HBO has indicated, I think widely, at a change in strategy. What hasn't changed is the streaming of our deep library on HBO. As soon as we have more information regarding the Degrassi series we'll definitely share it.

David McFadden – Analyst, Cormark Securities

Okay. I mean, did you expect them to continue with the series or you just can't comment right now?

Eric Ellenbogen — CEO, WildBrain Ltd.

Yes, we really can't comment at the moment but it—huge fan base and great success story around Degrassi, one of our great franchises. But as soon as we have more news, we'll definitely share it.

David McFadden – Analyst, Cormark Securities

Okay. Then just on the TV revenue, I noticed there was a rate adjustment. I'm just wondering does that impact the future revenue of that business? Is it going to be a bit lower now or is it that's just purely a one-time item?

Eric Ellenbogen — CEO, WildBrain Ltd.

Let me give that to Aaron who can speak to that point.

Aaron Ames — CFO, WildBrain Ltd.

Yes, our TV business continues to perform, and is a very good contributor for revenue and EBITDA. We're continuing to manage the business efficiently through cost controls. So, this is absolutely a one-time item, and we'll continue to manage it the way we have historically.

David McFadden – Analyst, Cormark Securities

Okay. Then just on the Free Cash Flow, this year the Free Cash Flow was negative. I was just wondering what your thoughts are for Fiscal '23, and do you expect it to be positive? And then, sorry, just one last one after that. In the past, you gave an indication of leverage and where you thought that would go. And so, it's decreased this year, I was just wondering what your thoughts are for leverage at the end of Fiscal '23?

Aaron Ames — CFO, WildBrain Ltd.

Yes, so I'll start with the latter one, on leverage. Our leverage over the last couple years has continued to decline, and we're feeling very comfortable with where our leverage is, and that it will continue to decline over time. I think you mentioned about Free Cash Flow, obviously, we right now are in growth mode. With all this activity, that requires a short-term cash need and we've had, as you can see, I think approximately an $80 million increase in accounts receivable. So that, of course, results in some negative cash flow. But that reflects the higher volume and the increasing revenue that we are doing. What's great is it gives us a lot of visibility on our future cash flow because as we will collect those receivable, and therefore it will generate cash flow going forward. So, our future cash flow is positive and looks positive. And we're excited to keep growing our business.

David McFadden – Analyst, Cormark Securities

Okay, all right, thank you.

Operator

We will now take our next question from Dan Kurnos from The Benchmark Company. Please go ahead.

Dan Kurnos — Analyst, The Benchmark Company

Great, thanks. Good morning. Eric, first, let me just congratulate you on the contract renewal. I think you've done a terrific job turning the story around even if the equity markets don't exactly recognize it yet. So, I'm looking forward to see what you come up with next. I have a couple two-part questions. First, I can't help but notice that all of your new deals with Netflix seem to be coinciding with their brand new AVOD launch. Maybe I'm reading too much between the lines here, but it feels like others are going to need to come up—to keep up with this content arms race, perhaps at maybe more thoughtful cost structures, Eric.

So, other than Disney and maybe Paramount, to an extent, although, obviously, Sonic Prime is doing really well there, it feels like there is a lot of greenfields for your phone to keep ringing. So, how are you thinking about the landscape? As the second part of that question, there's obviously this tack-on CP opportunity which all of these guys clearly need to make some money given how much they're spending. So, how do we think about the CP upside opportunity relative to the guidance you're—relative to your guidance depending on sort of how integral you've become to the ecosystem's monetization push?

Eric Ellenbogen — CEO, WildBrain Ltd.

Good morning, and thank you, Dan. So, first, about the landscape, and, again, widely reported, a lot of analysts taking a look at this. I think these are course corrections as each of the services refines and defines their identity and place in the competitive marketplace. What we aren't seeing is any erosion in spending. I saw a number yesterday, actually which I thought was surprising in a good way, the level of what Amazon is spending. I think the number was something on the order of $15 billion in content commitments. The great part for us and Netflix is a prime example, is branded content counts. To the best of my knowledge, I have not seen any announcements of shows that they've taken down or cut back, that are global brands. I think it's the reason that that relationship thrives and grows. I think the other services are sort of in the same place. As to the AVOD piece, it's only what I've read that Netflix is not intending to put advertising against kids content.

That isn't of course the case in the other AVOD networks, where we broadly distribute our content and our sort of always on strategy, with a lot of this and Strawberry Shortcake is out there on a myriad of networks, Teletubbies as well, and the way we go about ubiquity, with our content, which to your point is the consumer products driver. What I would just say in general is that it's the layering of each of these new content launches.

So, as you see these announcements, and I think you picked up on this, what we're talking about is results that come in '23, '24, '25 and beyond. Peanuts is just a fabulous example of that because we probably have the most new content associated with that franchise. We're seeing the results globally. You're seeing it come through in double-digit growth in consumer products. It just takes time, and getting that traction. And again the distribution, that's the great part about these platforms, as most of them are global and those that aren't are definitely making plans to do so.

So, I would say that's kind of the way we look at it. It's just about those brands. And the vault is deep. And not mentioned in addition to Teletubbies, Yo Gabba Gabba!. We're also super excited about Sonic Prime, which I mentioned in my talk. I think that's just a monster property and has incredible global popularity. As I noted, we are full partners in that business. So, lots and lots of exciting developments here, and yes, the landscape has changed, but I have to say, we have not, are yet to see the effect of that where branded content is concerned. I really don't see a change. Pretty confident.

Dan Kurnos — Analyst, The Benchmark Company

To your point on Netflix, Eric, I believe they also at one point said they'd never have an AVOD product either. So, I'm not sure I'd exactly believe a lot of what they put in print around maybe monetizing kids content with advertising. But no, I mean I think quite the opposite. I think you're sort of in an efficient cost production outlet for many of these guys looking for branded kids content. So, I'd be surprised if there aren't more partnership or licensing deals in your future or near future.

Aaron, maybe just on the guidance, and Eric, you can obviously feel free to chime in, too. I guess last time that we spoke, I just want to get a sense of obviously everybody's paying attention to what's going on in the macro and obviously there's the sort of war between inflation and then the jobs market not pointing to a recession. But CPE could be impacted by macro. So, just am curious how much conservatism you think is sort of baked into your guide just around sort of uncertainty maybe offset by the increased visibility you have with—as you put out pointed out your accounts receivable and obviously, a lot of these licensing deals that you have in the pipeline?

Eric Ellenbogen — CEO, WildBrain Ltd.

Sure, I'll take part of this and then Aaron can pick up on it, but just going back to the advertising note. I'm a product of Saturday morning TV and I did not suffer any trauma as a result of all the cereal advertising I saw. Look, I think, and as far as the macro environment, we've taken great caution in reflecting that, and where we're thinking going, where we're going on the guidance and very conservative about what's going on in the advertising space, etc.

So, I think we've been very, very cautious and obviously can see what's going on there. But I have to say, we're pretty agnostic about the macro environment. I know as an example, when we came through the COVID period, we did extremely well with consumer products. We're deep in production delivery, on so many of these franchises. So, these things are, so many of them are kind of set in stone right now, as we roll up franchises, but I'll let Aaron speak to any other aspects of that.

Aaron Ames — CFO, WildBrain Ltd.

Yes, hi Dan. So, what I would just add to what Eric said, is we've been adding and signing contracts and building our book of business in our pipeline with quality partners. That's what gives us the confidence and visibility in our growth trajectory for our earnings from '23 and in future years, because we've continued to layer on more and more deals which builds that pipeline. As Eric said, it's all about the branded content of which we have a tremendous amount of, and because we did see also in that COVID time that people tend towards branded content, and growth will continue to scale as those new franchises and deals continue to flow through our financial statements. So, that's why we're confident.

Dan Kurnos — Analyst, The Benchmark Company

Got it. If I may sneak in just one last one. Your EBITDA guidance is pretty much in line with, I think where we were sort of in that range. So, I just want to get a sense from you I guess, Eric, or maybe Aaron to just how much of that is a choice at this point, again, growth mode, right? So how much of that is you guys making some incremental investment decisions versus obviously you guys are clearly getting premiums. I think we've all heard what the crazy CPMs are being asked for out there. So, how much of that you could pass through versus how much of that is a choice at this point?

Eric Ellenbogen — CEO, WildBrain Ltd.

Aaron, go ahead.

Aaron Ames — CFO, WildBrain Ltd.

Well, our guidance is based on our latest projections and our current pipeline. So our plans are baked into our guidance at this point. And we're planning to continue to invest in IP and build that IP and continue to grow our business in production and distribution and in consumer products going forward. And that's baked into our—our plans are baked into our guidance.

Dan Kurnos — Analyst, The Benchmark Company

Okay, I'll follow-up a little bit more offline. Thank you for all the colour, I appreciate it. Thanks for bearing with me, and it's going to be very exciting or interesting 12, 18 months here.

Operator

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

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

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

Operator

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