

WildBrain Ltd.

Fiscal 2023 Q1 Earnings Call

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PRESENTATION

Operator

Hello, and welcome to WildBrain's Fiscal 2023 Q1 Earnings Call.

Today's conference is being recorded.

I'd now like to turn the call over to Kathleen Persaud, Vice President, Investor Relations at WildBrain. You may begin the conference.

Kathleen Persaud — Vice President, Investor Relations, WildBrain Ltd.

Thank you, Keith.

Thank you, everyone, for joining us today for WildBrain's First Quarter 2023 Earnings Call. Joining me 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.

Before we begin, please note 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, and the business strategies and operational activities of the Company, the market industries in which the Company operates, and the future 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 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, which are available on the Investor Relations section of our website at wildbrain.com.

Please note that all currency numbers are in Canadian dollars, unless otherwise stated. After our remarks, we will open the call for questions.

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

Eric Ellenbogen — Chief Executive Officer, WildBrain Ltd.

Thank you, Kathleen, and thanks, everyone, for joining us this morning.

Fiscal 2023 is off to a strong start with solid revenue growth, which has been driven by content production and distribution. Previously, I detailed our strategy of unlocking IP through the sequential production of premium kids' content, and then exploiting that content across the entire distribution and consumer products value chain. The layering of those productions, one after another, is leading to the growth, sustainability and quality of our earnings. This quarter, in particular, reflects the success of that strategy with robust revenue growth in content.

As part of our strategy, and over the past three years, we've made myriad investments in the business to support sustainable growth. And those investments, the bulk of which are now complete, are concentrated in areas where we expect to see meaningful returns over time, namely creative talent in our production business and our consumer products business with its recent expansion across APAC. These areas will drive our business for many years to come, so I'd like to take a few minutes to talk about these focused investments.

First, our investment in creative. In our industry, it all comes down to IP and creative talent. Not only do we have a deep vault of IP, but over the past three years, we've invested in creative talent to ignite key properties with the very best-in-class of content production. Through our strong IP, exciting projects and by making WildBrain a great place to work, we've succeeded in attracting top-tier animation artists, creators, writers, showrunners, directors, and producers.

Those teams have produced some of today's most popular shows for kids and families, such as *The Snoopy Show*, *Snoopy in Space*, *Caillou*, *Malory Towers*, *Chip and Potato*, and *Go Dog Go*, to name just a few. Premiering on Netflix before Christmas are two more great shows, *Sonic Prime* and the reimagined *Teletubbies*, both of which are easily anticipated by fans, judging by the high levels of social media engagement that we've been seeing for many months. Looking towards the latter part of the year, we have a very full pipeline of content and development and production with new shows like *Yo Gabba Gabba* and many others.

I should add the most topical and significant of these was our announcement just last week of a first-look deal with one of the most accomplished animation producers in Hollywood, Bonnie Arnold.

Bonnie was a colleague of mine at DreamWorks and is the Oscar-nominated producer behind such smash hits as *Toy Story* from Disney and the DreamWorks *How to Train Your Dragon* franchise, which has grossed more than US \$1.6 billion worldwide.

Bonnie is going to spearhead numerous long-term projects for us, including episodic series, TV specials, and features. Among our initial projects, Bonnie is developing *Which Way to Anywhere*, which is the latest best-selling novel from Cressida Cowell, who was the very same author of *How to Train Your Dragon*. We're thrilled to have such an incredible talent at our studio like Bonnie, whose track record of global success speaks for itself.

While this quarter was very strong for content revenue, I just want to remind shareholders that we're not chasing quarterly results. There will always be variability in revenue from quarter-to-quarter, given the schedule of projects that roll off production lines at our studio. Ours is a long-term play and we're confident that we have the pipeline in place for sustained growth with content production as the engine of our 360-degree business, driving distribution and consumer products.

My second investment focus is consumer products and APAC. Another significant concentration of investment over the past three years was in our consumer products licencing business. Our dedicated and wholly owned licencing agency WildBrain CPLG is a unique differentiator in our business. We are the only independent media company with such global capabilities in-house that provide a vital link to complete the integrated 360-degree circle of IP, spanning production, distribution, and consumer products. This gives us a tremendous competitive advantage, and not only for growing our own

franchises, such as Teletubbies and Strawberry Shortcake, but also to attract top third-party IP owners looking for global turnkey licencing solutions.

Indeed, WildBrain CPLG takes a global view and strategy while executing at a very local level, with 20 offices, serving some 90 countries, especially with our recent expansion into the Asia Pacific region. We have truly global reach, and through our boots-on-the-ground territory expertise, we can create and execute bespoke solutions for our partners across entertainment, lifestyle, and sports.

Our experienced licencing team is a huge competitive asset, and we're a trusted partner worldwide for high-quality clients and brands such as Sega's Sonic the Hedgehog, Hasbro's My Little Pony and PJ Masks, MGM's Pink Panther and the Addams Family, Paramount Global's PAW Patrol and SpongeBob, and Sony's Ghostbusters and Karate Kid. I should add as well, Dr. Seuss, Sesame Street, Emoji, Spin Master, and many more.

Over the last three years, WildBrain CPLG has also expanded its exclusive agency routes for the Peanuts brand across all territories. Through our investments in this business, CPLG's representation of Peanuts now extends across the entire Asia Pacific region, including Greater China, as well as all of EMEA and India. Global annual merchandiser's sales for Peanuts now exceeds US \$2.5 billion of retail. As we continue to roll out our new Peanuts content on Apple TV Plus, as well as on additional platforms in China, we believe there's plenty of runway to continue to grow the brand.

We built out WildBrain CPLG into a major player on the global licencing stage, and laid the foundation for growth in Asia Pacific where we look forward to announcing deals for our own and partner brands over time. Our 360-degree of business launching franchise brands is built on the tenet of

delivering content to kids and families wherever, whenever and however they are watching. If content is the engine of our 360-degree business, then audience engagement is that engine's fuel. Under our always-on approach, that engine is perpetually running, fuelled by continuous audience engagement on platforms around the world. Nowhere is this more true than our own YouTube AVOD network, WildBrain Spark.

In today's digital world, it is essential for kids' brands to be on YouTube. Even with all of the emerging new outlets, YouTube is and remains the most important and popular platform for brand relevance. While results of WildBrain Spark were affected this quarter by the global downturn in advertising that's impacting even the largest companies, Google, Microsoft, Meta, it's really important to recognize that the true value of Spark lies in its audience engagement and the insights that we capture from that engagement. In turn, this converts to discovery of new content and the sustained popularity of our proprietary and partner IP and, ultimately, it drives the much larger opportunity in consumer products.

Accordingly, we continue to see high engagement rates, indeed, very high engagement rates among kids on Spark, particularly for our own brands. As I've mentioned before, and it's worth noting again that we believe Spark is in an elite class of kids content providers on YouTube, having crossed the threshold of 1 trillion minutes of watch time since 2016. We have enormous learnings from this audience engagement, which we leverage to understand on viewing trends and audience appetites, and to identify, enhance, and monetize the most popular brands in our portfolio.

Take one example, Caillou has garnered over 75 billion minutes of watch time. And Teletubbies, another example has captured over 38 billion minutes. In addition to streaming the classic Caillou and Teletubbies series on WildBrain Spark, we've also released new short-form content for both plans. With Caillou, this rollout of new content has been robust during the past three years, while Teletubbies is just ramping up. Nonetheless, delivering these brands to audiences worldwide on WildBrain Spark is driving deep engagement and the insights that we glean from that engagement on YouTube has served as a springboard for reactivating the brands and leveraging both new and classic content off YouTube across multiple platforms, including all the SVODs, AVODs, FAST and linear channels.

For our own brands, and also for partner brands, Spark is an incredibly powerful launchpad for reaching audiences where they're most engaged. We create incredibly compelling content and then expand that brand awareness through YouTube and distribution deals with SVODs and other platforms, all of which surge to drive from a products growth, which completes the IP circle.

At the risk of boasting, simply no other independent entertainment company has this breadth of capabilities in-house. We are uniquely positioned to unlock the power of our brands and to provide a turnkey solution to partner brands for producing content, reaching audiences on YouTube and other global platforms, and then completing the play with consumer products on a global scale. This is exactly what we've been building over the last three years, and I couldn't be more proud of what we've accomplished.

With that, I'll turn the call over to Aaron to review our results in detail.

Aaron Ames — Chief Financial Officer, WildBrain Ltd.

Thanks, Eric.

First quarter of 2023's results reflected strong top line growth with a 12 percent increase in revenue over the prior year. EBITDA was \$19.9 million, which is consistent with the prior year, and gross margins were down about 200 basis points with the step-up in live action production. We recorded a net loss of \$7.6 million compared to a net loss of \$21.4 million in the year-ago period, primarily due to a non-cash foreign exchange loss of \$12.5 million in the current quarter from revaluing U.S. dollar debt into Canadian dollars.

Free cash flow was negative \$8.9 million in Q1 2023 compared with negative free cash flow of \$19.9 million in Q1 2022. Free cash flow for Q1 2023 reflects a significant growth in accounts receivable associated with larger deals and additional SG&A for growth initiatives and working capital timing.

Subsequent to the quarter, we increased our revolving credit facility from US\$30 million to US\$40 million for working capital purposes. Our leverage at the end of the quarter was 4.2x. The leverage may fluctuate from quarter-to-quarter, but overall, we expect it to continue to glide down over time through EBITDA growth and free cash flow generation. We reaffirm our guidance for Fiscal 2023, expecting revenue of approximately \$525 million to \$575 million, and we expect Adjusted EBITDA of approximately \$95 million to \$105 million.

As Eric mentioned, over the last three years, we've made investments to support our future growth, including investing in creative talent, consumer products, and our expansion into Asia Pacific. These investments provide a platform from which we are leveraging significant profitable growth. We

expect going forward that these investments will be at a less aggressive pace and that SG&A will moderate over the balance of the year as we start harvesting returns on these investments.

I'll now hand the call back to Eric.

Eric Ellenbogen — Chief Executive Officer, WildBrain Ltd.

Thanks, Aaron.

At WildBrain, we are a standout in the media and entertainment industry. We're the owner of a deep vault of IP. We're a powerhouse of creative talent, a leading global player in consumer products licencing, and curators of deep audience engagement. I can think of no other independent media company that comes close at leveraging our capabilities to provide both premium originals or SVODs and digital-first content to reach kids, wherever they are, and has led to a solid start for Fiscal '23. We're lining up a creative pipeline with meaningful consumer products upside and building a book of business for years to come.

We're really excited and energized by the opportunities ahead.

With that, I'll turn it over to the Operator and open up for questions.

Q & A

Operator

Thank you. Your first question comes from Sid Dilawari with Cormark Securities. Please go ahead.

Sid Dilawari — Analyst, Cormark Securities

Hi, guys. Thanks for taking my question.

I guess the first one, I just wanted to dive a little bit deeper into WildBrain Spark. Although acknowledging the overall macroeconomic headwinds, I would have expected digital and programmatic to be a bit more resilient. Can you maybe talk about some of the verticals where you saw the aggressive pullback in ad spend during the quarter? Then just your outlook for the rest of the year for WildBrain Spark?

Eric Ellenbogen — Chief Executive Officer, WildBrain Ltd.

Sure. Thanks for your question, Sid.

It's macro. You look across any of the ad-supported platforms, which YouTube is the greatest, and there's been significant pullback. I think kids often come first. We've obviously seen the vicissitudes of this market according to the economy, and as dollars move from linear to digital, as YouTube algorithms are adjusted and such.

But what I think is worth pointing out is that what hasn't changed is the level of audience engagement. I've often said we will get paid for those eyeballs and that engagement, and that comes through ad sales as the market moves up and down. It comes through consumer products, importantly, and building great loyalty. It is discovery and an on-ramp for new content, driving that across the entire distribution chain. If you're not on YouTube, you're not in the kids' business. As I pointed out in my script today, that's unchanged. That has not changed at all.

We're seeing the engagement. We're pushing out a lot of new content. *Teletubbies* is a very good example where we have a show going up on Netflix, and we have new episodes that we're unrolling on the YouTube Spark network. *Caillou* is another great example with the insights and analysis that we have from that platform. We were able to place new content production on Peacock while we continue to have episodes running on WildBrain Spark. It is quite a virtuous circle. That's really the name of that game.

I should mention one of the investment areas that I didn't necessarily cover was our technology and insights group at WildBrain Spark, and we're now sitting with six years of incredible proprietary data around those views. With that information, we're able to glean all kinds of insights that are useful in content selection and placement.

I don't know if that answers your question fully, but that's kind of what we're seeing in that division.

Sid Dilawari — Analyst, Cormark Securities

Yes. No, that's helpful. Just on the outlook for the rest of the year, do you think this is to continue for the rest of the year? I know, again, it's macroeconomic, but just from a programmatic perspective, do you expect this to slow down a little bit in the next few quarters? Or do you expect this sort of decline to continue in the next few quarters?

Eric Ellenbogen — Chief Executive Officer, WildBrain Ltd.

Look, on the ad sales side, I will borrow yours or anybody's crystal ball on what that looks like. The good news is, if history is a lesson here as the economy begins to roll back, ads come right back on. As quickly as they will limit spending and move from one platform to another, they'll come back into the market.

Hard for me really to say about that. Where we're really, really focused is on growing these brands which the platform is serving fairly well and converting that engagement to consumer products. Again, we look at the aggregation of value across the entire margin chain, and since we, by and large, fully own these brands, or whether with partner brands have incredibly good deals, that monetization that takes place in consumer products, I look at as part of the content P&L. It is the full brand P&L that we look at. It's all those sources of revenue that are aggregated across the entire value chain at WildBrain.

The other point that I was making is we have all the links in the chain, and hence the ability to monetize at every point of content life cycle, as well as every source of revenue conceivable. So, hard for me to say short-term forecast on what that looks like, specifically. But I'm incredibly cheered by the growth that we've had in consumer products quarter-over-quarter, and no doubt it's about being on everywhere.

Sid Dilawari — Analyst, Cormark Securities

Okay. That's very helpful. Thanks.

Maybe just one for Aaron. Just on the content production and distribution business, revenue growth was 40 percent. Maybe some of it was timing and some of it was organic—obviously, organically driven. How should we think about seasonality for this line item for the rest of the year?

Aaron Ames — Chief Financial Officer, WildBrain Ltd.

Yes. We are seeing continued growth, but we're not managing the business on a quarter-to-quarter basis. We've issued our guidance, and in general, it's broad based, so we see going forward growth in consumer products as well as some continued growth in our content which is based on a well-known IP, which is resonating well in the market. We're affirming and we've reaffirmed our guidance as well.

Sid Dilawari — Analyst, Cormark Securities

Okay. I'll pass the line.

Operator

We'll take our next question from Dan Kurnos with Benchmark. Please go ahead.

Dan Kurnos — Analyst, The Benchmark Company

Great. Thanks. Good morning.

Eric, let me ask maybe the Spark question in a much different fashion because, yes, we've clearly seen everyone else's results. YouTube is, obviously, under pressure at the moment. I think the bigger

question, Eric, is maybe because we've talked about this before and you continue to highlight it more as a data mining operation, not to say that we're not pleased that you could get revenue from it. But just in terms of what we're seeing in the broader marketplace, if I can maybe kind of expand the thought process to we're seeing a lot deeper integrations now between the producers of not just the content, but also some of the CP guys, you're seeing retailers get deeper integration too with SSPs.

As you think about WildBrain's place in the ecosystem and sort of the data that you've been able to collect through YouTube, how do we think about your ability to expand that onto other platforms? Not to diminish YouTube, Eric, but the kind of think if TikTok goes to shopping and as we get more spin-up of FAST and AVOD, is there a way for a WildBrain to continue gathering incremental data points and become sort of a linchpin within that ecosystem as we get these more integrated partnerships?

Eric Ellenbogen — Chief Executive Officer, WildBrain Ltd.

Good morning, Dan. Thank you.

That's a really interesting question, and so, here's how I think about it, and I want to just come back to the first thing that you said in your question, which is looking at this as a data and insight light, which it is. But it's a lot more than that. It's the engagement, and it is the ability to launch new content and franchises, which is the way we've been going with Strawberry Shortcake as an example. It is the reinvigorating of previously produced content as we did with Teletubbies, and then we pivoted to create a new series for Netflix with the awareness that has been built and maintained for years now on our YouTube Spark network.

The data and insights group that we have built, originating at Spark, now serves the entire organization. So, that doesn't sit exclusively within the Spark organization; that gives us all kinds of information upon which to make our decisions in each of the business units. It serves Spark. It serves consumer products. It serves production, research, when we look at potential acquisitions of new IP. It is really multifaceted. But it's the engagement piece that is critical.

When you talk about TikTok and Instagram and some of these other platforms, we've been building out presence. Teletubbies is a really good example. We have, I don't know, something north of 0.5 million subs in social media, young adults who are following this franchise. We are definitely taking those insights and what works, and we see immediately, given the number of likes and the number of subscriptions, whether we're hitting home with the content that we are creating.

The answer to your question is, yes, and we get varying levels of data from our AVOD partners. That, incidentally, has helped us drive some really interesting content distribution deals—is by gathering up the data and then going to an SVOD and saying, "Look, we want to show you globally the views that we're getting, and we can take a look at this even region by region and know where our strengths are." That's incredibly appealing. I don't know anybody else who's doing that, honestly. It puts us in a pretty privileged class as we do that.

As we distribute to more and more platforms, and as they also spring up regionally, for sure, we have a very local approach to those things. I can see this as being a great utility. I don't know if that answers your question, but it's really an engagement story, as well as a data and insight story.

Dan Kurnos — Analyst, The Benchmark Company

Well, I mean, it's directionally kind of where it was going, Eric, and maybe this is way over my skis on this one. But the fact that you've built a rather large library of short form now, creative is not like advertising, although advertising is a form creative, right? But to the effect that you can sort of have more fluidity in addressing all of these developing streaming channels and essentially, almost try to capture some of the media entertainment budgets out there. You guys can act not just as a content producer for larger shows, but even as a lead-in or an engagement driver or kind of teaser for some of the broader guys by absorbing some of these data insights. That's kind of where I was trying to get at and see if you have kind of reached that level of critical mass and solidity yet?

Eric Ellenbogen — Chief Executive Officer, WildBrain Ltd.

That's very good. I can also ask Josh to pitch in on this.

We have companies coming to us all the time now, more than ever before, to do exactly what you're talking about, and it is to use our platform to drive awareness and discovery of their content, which is playing off on other platforms. If you go on any of the SVODs and a dizzying number of titles come up, and only to an extent is the discovery and programming guide engine useful. It's like, how do you find out about stuff? And this is the way, this is the on-ramp.

Josh, I don't know if you have anything to add to that, but we're seeing that a lot right now.

Josh Scherba — President, WildBrain Ltd.

Yes, for sure. I would say we're having more conversations in that area than ever before. I mean, really brand owners and SVOD platforms, they have a challenge in front of them. That challenge is

making sure that they're actually building affinity and love for kids' IP in an increasingly fragmented world. The idea of an SVOD service dropping, whatever, six or seven episodes, and then nine months later dropping another six or seven episodes, well, kids forget what they're into; and really having an always-on approach and having a consistent flow of content on YouTube makes the difference in terms of building that affinity over time.

We've built up great expertise in terms of producing content that's really specific for the YouTube platform, that's complementary overall to these brands, and continues to drive engagement. So, really it's an interesting moment to continue to be having these conversations in different ways with brand owners.

Dan Kurnos — Analyst, The Benchmark Company

Got it. That's super helpful. I'll squeeze one last one in and pass it along, but Eric, my crystal ball is broken, so I don't know, maybe yours work better. As we look at kind of CP, we're entering, at least domestically anyway, and Europe's got its own issues with energy prices a lot harder hit. But we're entering sort of the weirdest recession where consumers supposedly have no money but are yet spending thousands of dollars on travel and entertainment. I guess, how do you think about sort of demand for CP, both in the holiday period, and then given that we do have massive pushes in need for monetization from all of the SVOD players. They kind of have to successfully have CP expansion. So, just love to get your higher-level thoughts if you have them.

Eric Ellenbogen — Chief Executive Officer, WildBrain Ltd.

Yes. Let me put a little bit of super glue on my broken crystal ball and just say this much. By the way, there was one other thought I had to your last question, Dan, which our listeners may not know. That is we have a specialized short-form production unit nested at Spark.

To Josh's point, it's about producing content that is specifically tailored to that platform, which is very different, by the way, than what we would do for an SVOD service. So, the short-form content production is something that we've been practicing at for some time now, and I think have developed a really one-of-a-kind expertise and how to do that.

But going to the retail market question, I have absolutely no idea. Look, here's what we do know, and I think we can just borrow a page slightly from the pandemic where retailers favoured classic brands, well-known content, and that's what we've got. We did incredibly well in the Peanuts business during the pandemic, because it was a comfort brand, but also one where retailers really knew and understood quantities and velocity and brand affinity and so forth. So, that's kind of what I'm thinking.

We have not gotten any specific indications from the retail markets about any pullbacks, but I don't think we or anybody else is really going to know the full story until we get through calendar Q4. But there haven't been—at least, we aren't feeling any adverse effects. Our CP sales are up. Again, a lot of it has to do with price points and durables, and most of our consumer products merchandise is very affordable stuff. Q4 is a very important quarter for us, no doubt.

Dan Kurnos — Analyst, The Benchmark Company

Got it. Thanks for bearing with me and for all the colour.

Eric Ellenbogen — Chief Executive Officer, WildBrain Ltd.

Thank you, Dan.

Operator

There are no further questions on the phone lines at this time, so I will turn the call back to Kathleen Persaud.

Kathleen Persaud — Vice President, Investor Relations, WildBrain Ltd.

Thank you, everyone, for joining us today, and we look forward to updating you in the new year.

Operator

Ladies and gentlemen, this concludes today's conference. Thank you all for your participation.