Transcript

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Entertainment One Investor & Analyst Call — Thursday, 26 April 2018

Joe Sparacio: Thank you, everybody, for joining us today. We know that it's a chunk of time out of your busy schedules, so we'll try to make this as efficient as possible. The purpose of the call is to bring you through the changes in the reporting for the company's film, television and digital business, which will be implemented next year as we report our operating results.

As many of you are aware, right now, we report film and TV as separate segments. But due to operational changes and changes in the business environment, we have combined the film, television and digital segments into one. So to facilitate the discussion, we've sent around a presentation and what I'd like you to do is just turn to page one. I'm not going to read the slides verbatim, but the concepts I'll go through.

So as many of you are aware, we've combined the film and television group together, as we see the business environment, especially in the creative community, where there's a lot of overlap between talent on the film and TV side now moving across divisions, if you will, whereas a number of years ago, they were individual silos. And on the customer side of the equation, once you get past the theatrical marketplace, which is unique, you're really selling to the same buyers, whether it be a network or Netflix or an Amazon, etc.

As you're aware, by combining the businesses, we believe we'll operate much more efficiently and an outgrowth of that will be savings that we hope to achieve. AS we've indicated, we believe the full run rate of those savings will be achieved by fiscal 20. The Family division, which has very unique characteristics, which is somewhat dissimilar to family in TV, will remain as its own separate segment, so we'll continue to get out the information on that on, and on a standalone basis.

If you turn to slide two, it just brings you through the migration and what the activities have been over the last year or so. As you're aware, last April, we combined our global sales force which had previously been divided into film and TV. We combined it into one. Again, going to the point I mentioned earlier, once you get past theatrical, you are basically selling to the same people.

In October, we combined the operations of the film and television group into one, anticipated savings on a full run rate basis, our target is about £8 million by fiscal 20. And then in February, we completed the acquisition of the Mark Gordon Company, the remaining 49% that we did not own previously. That operation, the way I look at it, was a significant financial transaction for the company because we were able to buy into a terrific business.

Strategically, Mark Gordon agreed to join the company as our Chief Creative Officer. And then in terms of streamlining and cost saving, there's about seven, ten million US in savings that we believe we'll be able to achieve by fiscal 20. So I think no matter which way you looked at that transaction, it was a very positive transaction for the company.

Moving to page three, it gives you a little bit of background on the leaders of the FTD group which is what we call them. Steve Bertram, who previously was our President of Film is now President of Film, Television and Digital, and his focus will be on more of the commercial and business aspects of the business. And Mark Gordon is the Chief

Content Officer, and his focus will be securing the best creative content that we possibly can, and Mark's certainly got a great track record in that regard. So these two gentlemen are co-leads for the group.

If you move to the next slide, and this is where we really get into the reporting aspects of life, the categories that we will report against will be theatrical, transactional, broadcast, production and then music will be in this division but as its own bucket.

Many of the categories are consistent with what we've previously disclosed for our film segment. So we've dovetailed off of that reporting. And we've layered in a definition of each of the categories and what they mean. So theatrical is the cinemas and the revenue we generate at the movie theatres. Transactional would be VOD downloads and any sales of DVDs, etc. which, as you know, we've outsourced that part of the business to Fox and Sony, for the most part.

Broadcast and licencing is a big chunk of the business and that's where we're selling to networks, we are selling to cable, we are selling to SVOD services, AVOD services, etc. So this is a big chunk of the business and this is where we are licencing rights for them to utilise our content.

Production and other captures our Sierra film licencing business. As many of you know, Sierra I think operate in about 150 markets where they sell rights for third-party content to exhibitors or consumers in those various markets and they earn a fee for doing that service. So it's really a sales business.

The other part of production and other is where eOne actually performs production services on behalf of a third party. So an example of that might be where Mark Gordon is producing Grey's Anatomy for ABC. ABC owns the underlying IP but they pay Mark a producer's fee, and then, though the Mark Gordon Company, we get a piece of the back end participation for any ancillary sales after the initial broadcast. So that's where you'll see those revenues come flowing through.

And then the music group, for now, will be captured in just one bucket. The majority of it is the subscription services such as Apple Music and Spotify, etc. as well as the sale of the downloads. And we have a pretty nice business in terms of sale of vinyl, if you can believe that. So music, for the time being, will be captured in one bucket.

Obviously, intra-segment sales between the three will be eliminated. Previously, some of those pieces had been done in consolidation. And then we will also disclose divisional underlying EBITDA, as we have in the past, and then investment in content production and acquisition.

The one caveat that I'll make on this point, and I think it will help to facilitate your analysis of the operating results is we will provide a breakdown of that content into TV and film, so that'll help you hopefully in your modelling. At least, that's the plan right now.

Turning to page five, so just a schematic of how the pieces might fall together. So let's just focus on the film side of the equation which is on the right hand side of the page. Theatrical is unto itself and pretty self-explanatory.

Transactional is home entertainment which captures VOD as well as physical. And you'll see, there is a line from television moving over into transactional because we do a little bit of business on the transactional side in television as well.

As you can see, the biggest chunk of revenue is broadcast and licencing, and that's where we're selling into the networks, SVOD, AVOD, etc. And that's big chunks, both on the film side, and then if you look at the left, the biggest chunk of what's been generated out of eOne television and the Mark Gordon Company.

And then production and other, both pieces, both groups are contributing to that in various shapes and forms. But obviously, the biggest chunk is broadcast and licencing. To put numbers to the graph, I'd refer you to page six. And as you can see, broadcast and licencing is the biggest chunk of revenue being generated in the new reporting structure.

Total for the group, and this is based on fiscal 17 results, was roughly £1 billion for the year. The way I envision us reporting this is we'll report fiscal 18 in our traditional segments, and most likely provide information either in the financial release, in the footnotes for the statements, or both, as well as our presentation, we'll provide a bridge going from the traditional approach and how we've reported, to the combined approach and what that will look like for fiscal 18. So this sheet on page six, we will recreate that to reflect fiscal 18 actuals. And then, as we move through fiscal 19, we will begin reporting against the two segments, Family and the FTD group.

So page seven is a summary. And really, the change in the reporting is really an outgrowth in the change in the industry and is really aligned with the way we are looking at and operating our business today. As I've mentioned to many of you, even on a capital allocation basis, it's not whether we're doing a film project or a TV project; it's what projects are the best projects for the company, and that's where we're going to devote the capital. So to look at them as separate silos just isn't appropriate any longer. And at the end of all of this, we believe we will generate nice cost savings for the company, moving forward.

So Patrick, I don't know if you have anything additional to add, but that's basically the presentation. I thank you folks for joining us today. And Pat, if there's anything you want to add, please do so. Other than that, we'll open it up for questions.

Patrick Yau: No, nothing more from me, Joe. So let's go to Q and A, please.

Operator: Thank you. Ladies and gentlemen, if you would like to ask a question, please press star followed by one on your telephone keypad now. If you change your mind, please press star followed by two. And when preparing to ask your question, please ensure your phone is unmuted locally. As a reminder, that's star followed by one to ask a question. Our first question today comes from Marcus Diebel from JP Morgan. Please go ahead, Marcus.

Marcus Diebel: Yes, hi everyone, it's Marcus. Two more small follow-ups. Under the old reporting, you kept giving us the numbers on half an hour's content produced and some other KPIs. I assume that will still be the case. That's the first question. And secondly, on Family, is there also a bit more disclosure in that division then? Is there a thought that you might give us maybe a bit more information by region, or at least by product type within Family? That would be quite helpful. Thank you.

Joe Sparacio: Yes, I think in terms of the KPIs, I would envision that we would continue to give that information because it will still be appropriate for the company. Now, as the environment changes, we may discuss with you perhaps different measures that you may want to look at. But at least for the time being, we would envision keeping the KPIs fairly consistent with what you're used to.

As it relates to the Family division, we always review the disclosures that we're making. And if we believe that it will be helpful to the markets, whether it's additional granularity on regions or product types, we will certainly consider that as we move forward.

Right now, we do provide some information along those lines, especially as it relates to Peppa Pig and PJ Masks. We'll just have to think through whether there are additional points we think might be appropriate, especially as we move through the growth cycle in China.

Marcus Diebel: Yes, perfect. Thank you.

Joe Sparacio: Okay.

Operator: Our next question today comes from Steve Liechti from Investec. Steve, please go ahead.

Steve Liechti: Afternoon guys. Thanks for taking a question. One, first of all, you might not want to give this now, but could you just remind us, in terms of your cost savings, how we should think about the run rate into fiscal 18 and then 19? And just to be clear, you're saying that the cost savings effectively should be 100% into fiscal 20. Could you just give me some help there, first of all?

Joe Sparacio: Yes. So we'll perhaps give a bit more background on this when we do our year end call. But you are correct. We anticipate the full run rate impact to be in fiscal 20. Obviously, there will be a chunk of that that we will realise in fiscal 19. We will give more clarity on that number and what we estimate as part of our year end results call.

I think, Steve, as we've talked, one of the things that needs to work its way through is the integration of a lot of the back office, etc. so that may take some time. So that's why the number may fluctuate a little bit, in terms of timing. But we'll give a bit more clarity on that at year end.

Steve Liechti: Great, thanks. And then, I guess, would you be able to give us a fiscal 16 breakdown on your new basis as well? Or are you really saying, well, you'll have 17 and 18 to work on? I'm really trying to get the relative growth rates between those different buckets from the numbers we see now.

Joe Sparacio: Yes. Let me talk to the staff internally. We can certainly put that together. I just need to talk through how we disseminate that information. Let us take that away.

Steve Liechti: Yes, sure. And any like for like as well because obviously there's going to be currency things and acquisitions jumping around between those different bits.

Joe Sparacio: Yes.

Steve Liechti: So it'd be useful to see the run rate there. And obviously, we'll be asking you that at fiscal 18 anyway, but it'd be useful to have that flow through, I guess, for modelling and stuff.

Joe Sparacio: Yes, let us think through that. At a high level, I think we will need to work with you folks in terms of the modelling. One of the ways to think about it is TV has generally been in the, let's call it, 13%, 14% range on an EBITDA margin basis, film has been a little less than ten, so when you blend it out, you're probably landing, when you weight it, in the 11% range, something like that, based on current numbers.

So what we'll have to do is, as we move forward, make sure that the rule of thumbs that we give you folks make sense. And I think that's why I indicated earlier that we envision breaking down the capital spend between TV and film to help you folks gauge the approximate weighting.

Steve Liechti: Okay, thank you. And then last question. The interdivisional eliminations, is that Sierra?

Joe Sparacio: No, a big chunk of that is distribution activities, let's say, that might be performed within the TV group on behalf of the film group or the music group, believe it or not. So there are some revenues that are in there, and some costs, that need to just be eliminated within the group. And it doesn't have an impact on EBITDA. It's simply a reclass between revenues and cost of sales.

Steve Liechti: Got it, okay. Thank you.

Operator: Our next question today comes from Johnathan Barrett from N+1 Singer. Please go ahead, Jonathan.

Johnathan Barrett: Good afternoon, chaps. I've got a couple of questions. The first one is just on the value of the combined film and TV packages you're selling. Could you just give us some insight into the scale of that, please?

Joe Sparacio: I'm sorry, Jonathan, you broke up at the end there.

Johnathan Barrett: Oh, sorry. Let me go again. So could you give us a value figure for the total combined film and TV package sales? So i.e. where you're actually selling that in one package, both types of content. Could you just give us a sense of scale? I know it used to be approximate. I just wanted to get a sense of how big that was.

Joe Sparacio: Yes. You know what? Unfortunately, we haven't disclosed anything like that and I'm not sure that you could draw any bid conclusions, because they vary in shapes and sizes.

Johnathan Barrett: Yes.

Joe Sparacio: We do one-off deals, we do deals that capture ten properties, we do deals that capture many more. So there are different shapes and forms. And to even attempt to disclose or give an indication of an average value of a deal, that…

Johnathan Barrett: No, not average, sorry. I wasn't after the average value. I meant the total value. Just to see, just so we would know roughly, what rough proportion it is of the overall business.

Joe Sparacio: Again, we haven't disclosed that.

Johnathan Barrett: Right.

Joe Sparacio: And it's within the broadcast and licencing bucket. And that's really where we're capturing all of that stuff. We'll have to evaluate whether there's value in breaking it down even further.

Johnathan Barrett: Okay. Thank you. And then just my second question is on profitability. Obviously, you're giving us the revenue mixes. How will you disclose profitability if you've got a range of different products in there? Because you've obviously got music coming in, for instance, and you've got certain segments which will be more profitable than others. Is there something that you would give us on that or are you going to stick with one EBITDA number?

Joe Sparacio: No. Yes, I think we will disclose the EBITDA for the group. However, what I would envision is that if there are events within a bucket here that create an anomaly in terms of margins, either positive or negative, we will certainly give you colour around that.

And the example that I'll give you, Jonathan, is when we mention that we expected the margin in family to be lower in fiscal 18 as compared to 17. And the reason for that was we had anticipated PJ being more of the total, and PJ has a slightly lower margin associated with it, as well as an investment in infrastructure and overhead.

So if there are events within a category that have triggered an anomaly in margin or are noteworthy, that's something that we will isolate within the writeup of the particular segment. So if theatrical was significantly off-par and that had a big impact on us, we will certainly highlight that fact and what we thought the impact was.

Johnathan Barrett: Okay, great. All right, thanks very much.

Joe Sparacio: Okay.

Operator: As a reminder, ladies and gentlemen, that's star followed by one to ask any further questions. We currently have no further questions on the phone lines, so I'll hand back to you, Joe.

Joe Sparacio: Okay. Well, thank you everyone for joining us today. As I mentioned earlier, we will certainly work with you to make sure that the change in reporting is fully understood. And I hope that this doesn't cause a big inconvenience for you folks. So thank you very much for joining us today.