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FINAL TRANSCRIPT

DHX Media Ltd.

First Quarter Results Conference Call

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PRESENTATION

Operator

Good morning. My name is Chris (phon), and I will be your conference Operator today. At this time, I would like to welcome everyone to the DHX Media First Quarter Results Conference Call.

All lines are placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. If you'd like to ask a question during this time simply press *, then the number 1 on your telephone keypad. If you'd like to withdraw your question, press the # key. Thank you.

I would now like to turn the call over to Nancy Chan-Palmateer, Director, Investor Relations. You may begin your conference.

Nancy Chan-Palmateer — Director, Investor Relations, DHX Media Ltd.

Thank you, Operator, and thank you, everyone, for dialling in this morning. On the call with us today are Michael Donovan, our Executive Chairman; Dana Landry, our Chief Executive Officer; Keith Abriel, our Chief Financial Officer; and David Regan, our Executive Vice President of Strategy and Corporate Development.

Before we proceed, we have some standard cautionary statements. The matters discussed on this call include forward-looking statements under applicable securities law with respect to DHX, including, but not limited to, statements regarding the effect of IAS 38 on revenues; the expensing of investment in film, gross margins, and quarterly pacing; the growth and performance of WildBrain

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and Teletubbies; the timing of production schedules and deliveries; the Company's penetration in China; the markets and industries in which the Company operates, including demand from new digital customers, platforms, and territories; the business strategies and operational activities of DHX and its subsidiaries; and the growth and financial and operating performance of DHX, its subsidiaries, and investments, including fiscal 2017 revenue outlook for the Company.

Such statements are based on information currently available and are subject to a number of risks and uncertainties. Actual results or events in the future could differ materially and adversely from those described in forward-looking statements as a result of various important factors, including the risk factors set out in the Company's MD&A and the Company's Annual Information Form, which also form part of the Company's annual report on Form 40-F.

For the question-and-answer session that will follow, we ask that each analyst keep to one question with one follow-up so that everyone has a chance to ask a question. If you would like to ask an additional question, please rejoin the queue.

Before we hear from Michael, our CFO, Keith Abriel, will remind listeners of some changes to our reporting that came into effect this quarter.

Keith Abriel — Chief Financial Officer, DHX Media Ltd.

Thank you, Nancy. First, for financial reporting purposes and to more accurately align with the accepted industry trades categories, we have renamed our Merchandising and Licensing businesses under the new category of Consumer Products.

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As of Q1 2017, our Merchandising and Licensing-owned business, DHX Brands, and Merchandising and Licensing-represented business, CPLG, will be referred to as Consumer Products-owned and Consumer Products-represented, respectively. Please note that this change will only be for financial reporting purposes. The trade-facing names, DHX Brands and CPLG, will remain unchanged.

Secondly, on November 8, 2016, the Company announced the adoption of an amendment to

International Accounting Standard 38, or IAS 38. As a result of the adoption of the amendment, the Company will now group proprietary production; distribution, including WildBrain; Consumer Products-owned, and new media and other into a single proprietary content gross margin for the purpose of providing analysis of gross margins. This change is only for financial reporting purposes and does not affect any trade-facing names.

Finally, for our full revised guidance and quarterly pacings, management directs listeners to its corporate update press release of November 8, 2016.

And with that, I'll turn the call over to Michael Donovan.

Michael Donovan — Executive Chairman, DHX Media Ltd.

Thank you, Keith, and thanks, everyone, for joining us on the call this morning.

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Last quarter, Dana spoke about the emerging opportunity that we believe exists in AVOD, or advertising-supported video on demand. One of the growth areas we're most excited about is WildBrain, our AVOD multi-platform Kids' Network.

The global media company, Carat, estimates that the worldwide advertising market for 2016 is roughly US 538 billion. Today, YouTube generates approximately 9 billion in gross revenues from advertising across all categories and genres.

There is wide agreement in the industry that a larger share of that 538 billion will be directed to digital platforms like YouTube, so the 9 billion number is very likely to grow. Based on annual revenue last year, WildBrain currently has 0.16 of 1 percent of that 9 billion revenue pie on YouTube. So there is significant upside potential, assuming we capture the same 0.16 of 1 percent of a much larger pie.

As YouTube and other platforms, such as Amazon, Facebook, Alibaba, capture more of the global advertising market, WildBrain is similarly poised to benefit from that growth. Historically a large part of building children's brands has been through the delivery of content and advertising on traditional broadcast linear TV. There is, however, a new frontier emerging through AVOD, especially on YouTube, and WildBrain is in the vanguard of this trend.

Numerous studies have shown that a migration to mobile is underway from linear, as more and more children's content is consumed on YouTube via smartphones, tablets, et cetera. AVOD is

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becoming a significant part of how the on-demand generation of kids is viewing content, and brand owners are looking for ways to reach these audiences.

WildBrain operates one of the largest kids' networks on YouTube and continues to exceed our expectations. We believe this is a fertile ground for content delivery and brand building, and Dana will provide more colour on our plans to accelerate the growth in our WildBrain business. But I want to say that I personally am extremely excited about the potential of this new frontier for the delivery of children's content into families.

I'll turn the call over to Dana.

Dana Landry — Chief Executive Officer, DHX Media Ltd.

Thank you, Michael, and thanks, everyone, for joining us on the call. While the first quarter was off to a slower start than we were hoping for, we have reaffirmed our expectation to deliver growth for the rest of the year, in line with our recently increased annual revenue outlook on the back of continued strong global demand for our shows.

Shortly Keith with provide more detail with respect to our Q1 results, but it is important to keep the full year in view.

Overall, we continue to see a strong upward trend for the balance of the year. Last week management not only reaffirmed our full year outlook, but increased our top-line guidance by $3.5 million at the midpoint of our targeted range to reflect the anticipated growth at WildBrain.

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This reflects our optimism for the years ahead, and in a moment I will touch on a few of these areas that will provide us growth, but first I wanted to speak about a question that we've got asked a lot lately about the magnitude of our returns of the capital that we've been allocating towards our productions, and how have we done based on these decisions that we've taken.

Accordingly, we've done some recent work to quantify what we've known in our guts all along to be good returns. First, I'm going to look at five different categories, and what we'll do is we'll have Nancy and David and the team obviously include this on our website afterwards for our investor deck.

But first I want to look at the one specific acquisition that we did—our largest acquisition—which was the Cookie Jar library acquisition. I'm really happy to report to date that so far the returns on that acquisition based on the fair value of roughly $60 million that was applied to that library when we acquired it is 70 percent to date. And we have—we returned the entire investment in terms of dollars-for-dollars within two-and-a-half years, and obviously lots of projections for multiple dollars going forward. So that's the first big category.

The second one, we looked at a title that was sort of 10 years old, what we would categorize as one of our A titles, and we're very pleased to report that that title in and of itself has generated so far in total more than $22 for every $1 invested, and also broke even within two-and-a-half years.

The third category that we looked at was title Bs—a B title—something that was a little bit less than the A title. And what we've determined there is that the range of return is averaged between

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$2 to $5, depending on the title of course, and in the worst-case scenario the breakeven for that invested capital was four years.

We also did a little bit of work on two other reboot categories, so these are shows that we had acquired and now have had in the library a little while and have rebooted. So one of them is obviously Inspector Gadget, which was done in 2013; it was also acquired as part of the Cookie Jar library. And happy to report on that one that our return to date is 49 percent of every $1 invested. And again, the return breakeven was a little less than two-and-a-half years.

And the last one is the most current reboot—our Teletubbies reboot—which we started in late 2014. And we are almost 100 percent recouped as far as our individual—our first investment, which was additionally around when you added the purchase price somewhere in the 40 million to $50 million range. And so we're almost fully recouped on that one, and so therefore it's a 30- plus percent return to date, with obviously lots of upside going forward and a big year expected for 2017.

So those are just some highlights with respect to some of the returns on our content. But I wanted to get back to some of the other areas of growth that we're really excited about.

So as a kids and family content company, DHX's mission is to create and leverage children's content that inspires, entertains, and connects the global on-demand generation.

We are guided by three key strategic imperatives to drive our business forward and to help us fulfil this mission. First, we produce engaging high-quality content for kids and families. In Q1 we delivered 35 half-hours of proprietary content. We also we're in production on a number of series,

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including Teletubbies season 2, Degrassi season 16, Cloudy with a Chance of Meatballs season 1, Inspector Gadget season 2, The Deep season 2, and many more.

Secondly, we distribute our content worldwide to pursue growth across all media and platforms. Yesterday alongside of earnings we announced five more nonexclusive VOD deals in China for more than 2,400 half-hours of our content across 19 series, including classic Teletubbies, Caillou, and the new Inspector Gadget.

Our shows are now available on arguably all of the major digital services in China ranging across 13 VOD platforms in the country for more than 6,100 half-hours of DHX content. Further, management has made several trips to China over the last year, and we are well-positioned with our integrated business model to leverage our core competencies in production, distribution, and particularly in Consumer Products to capitalize on the tremendous growth prospects developing in the country. We’re looking forward to making more exciting announcements about China in the coming quarters.

Another way we are executing against our key imperatives is through strategic partnerships, such as the one we struck with Mattel last December. This deal is now bearing fruit. Last month we announced numerous European distribution deals for Bob the Builder, Fireman Sam, and Little People, underscoring the global appetite for these brands.

In addition, new seasons of these shows have also been green-lit, making an exciting step in our partnership—marking, I should say—an exciting step in our partnership to refresh these global

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brands and drive growth for DHX Media through partnership and participation across multiple revenue streams.

We also continue to leverage our production capabilities as the key supplier of exclusive and original series to the subscription video on-demand market—or SVOD market—in North America and Europe. Following the rapid growth of the SVOD market over the past few years, we are seeing clear leaders emerge.

This is generating intense competition for content between the three biggest platforms: Netflix, Amazon, and Hulu. Since 2012, these top-three streaming services have more than tripled their aggregate content spend to over $10 billion in 2016. For many SVOD platforms, children's content is a glue that keeps subscribers subscribing and signed in and tuned in to these services.

Accordingly, major SVODs are stocking up on kids' content. Some 17 percent of Netflix's offering is kids' content, and Amazon is even higher at 25 percent, while Hulu is at 4 percent, but growing. Netflix has stated that about half of its US subscribers regularly watch kids' content, and the platform plans to launch 35 original children's shows this year as part of their $6 billion investment content budget.

Right now, Netflix offers about 350 of original kids' content hours, which is almost on par with the leading genre, adult drama, and almost triple the next closest genre, being comedy. Children programming is clearly a key pillar in Netflix's content strategy and highlights the stickiness of kids' content in retaining and attracting subscribers.

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Of note, Amazon has also been investing heavily in content, and has committed to nearly doubling their investment on originals in the second half of 2016 as compared to the second half 2015. Much of that investment is expected to be in the kids' category.

Both Netflix and Amazon are also aggressively expanding into new territories around the world. As these SVODs roll out internationally and look to differentiate their offerings to compete for subscribers, demand for exclusive rights—either territorial or worldwide—is increasing. This has created a highly competitive environment that has had a positive effect on the value of our deals.

DHX Media has benefitted from the rising demand for exclusivity with series such as Degrassi: Next Class, Inspector Gadget, and The Deep on Netflix; Looped and the new Teletubbies on Amazon; and Dr. Dimensionpants on Hulu. With more deals in the pipeline, we anticipate continued strong demand and positive impact on pricing as these streaming giants execute their international rollout.

Also in the distribution vein, our owned-TV channels are an integral piece of our content cycle, allowing us to green-light and broadcast our own shows in Canada. This feeds our library with content we can license around the world.

Management was pleased that the additional revenue generator was added to the business line recently in the form of the approval from the CRTC to allow broadcast advertising effective immediately on Family Channel. We see this as a logical extension of the CRTC's Let's Talk TV decision from last year when genre protection was eliminated. It ensures that pay and specialty channels will

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now be on a level playing field. We look forward to providing additional information on this in the coming quarters.

Our third strategic imperative is that we leverage our content to develop global brands and significant Consumer Product upside. In this regard, DHX Brands and the CPLG team attended Brand Licensing Europe, or BLE, in London again this October, this past October. This show was the largest-ever, with more than 7,500 attendees and more than 250 exhibitors, and our team had more than 250 meetings over three days.

Of particular interest to licensees at this year's show was the fact that CPLG, our Consumer Products-represented business, was recently appointed to represent the BBC Worldwide in Europe, the Middle East, and Africa, excluding the UK. This new mandate from BBC Worldwide is an enormous vote of confidence that CPLG is being entrusted with flagship BBC brands, such as Doctor Who and Top Gear.

Because we have boots on the ground in this area in multiple cities throughout Europe and the rest of the world, and while CPLG is having great success with global brands such as Despicable Me, Sesame Street, Pink Panther, and Felix the Cat, our leading position is giving us operating leverage to go wider and deeper with our own brands.

On the DHX Brand side, Teletubbies toys remain the number one new preschool property by sales in the UK, and they are in the top five across all preschool properties. The 8-inch Po plush doll is doing extremely well, firmly in the overall top 20 best-selling toys. We now anticipate a strong

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Christmas sales for all of the Teletubbies SKUs within the UK, with particular interest being placed on the jumping Po doll as one of the eight must-have toys this year, which has been designated by the UK Toy Retailers Association. As we ramp up to the US toy launch in 2017, Teletubbies continues to gain momentum.

Finally, I'd like to talk about WildBrain, which has seen another standout quarter, up 68 percent to nearly 6 million in revenues as compared to Q1 of last year. This continues the strong growth trends that we are experiencing in the AdVOD business, as reflected in the three-year compounded annual CAGR—annual growth rate—of 66 percent generated by WildBrain as at the year-end. I'd like to take a few minutes now to elaborate on how we plan to grow and take advantage of this momentum.

As a reminder, WildBrain's core business is quite simple: we connect the owners of children's content with online advertisers, and we do that primarily on the YouTube network today. WildBrain has become a clear leader in the children's AdVOD space. There is tremendous room not only for organic growth on our WildBrain business, but opportunity to expand our leadership position and capture more market share.

We are executing a three-pronged approach to do this. First, we continue to produce new original made for YouTube-type content, children's content, such as animated and live-action shorts; toy play and unboxing videos; book readings; preschool counting and alphabet videos; and nursery rhymes.

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Secondly, we are partnering with third-party brands and content owners to manage their children's channels and leverage the network effect of being part of our larger WildBrain platform to grow our online audiences and obviously revenues.

Thirdly, we are pursuing the acquisitions of third-party independent channels that feature children's content to add to our WildBrain universe that can accelerate our market expansion. Our WildBrain team has developed considerable expertise, and we believe there's a huge opportunity to grab more market share, as the AdVOD market is still in its emerging growth phase. We look forward to sharing more exciting news on WildBrain growth in the future.

With that, I'll turn the call over to Keith.

Keith Abriel — Chief Financial Officer, DHX Media Ltd.

Thank you, Dana, and thanks to everyone for dialling in this morning. Let's discuss some of the high-level results for the first quarter of fiscal 2017.

Revenues for Q1 2017 were 53.8 million, down 16 percent from 63.9 million for Q1 2016. In absolute dollars the decrease in Q1 2017 was due largely to expected declines in DHX Television and Consumer Products-represented revenues, as well as declines in proprietary production; distribution; producer and service fees; and Consumer Products-owned that are largely attributable to a combination of expected seasonal fluctuations and the timing of certain deliverables.

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Proprietary production revenues for Q1 2017 were 3.5 million, down 15 percent compared to 4.1 million for Q1 2016. The Company added 35 proprietary half-hours to the library and 27 half-hours of third-party produced titles where we hold distribution rights.

Total distribution revenues were up 5 percent to 14.7 million from 14 million for Q1 2016, driven by strong growth in WildBrain. Management is very pleased to report that revenues for WildBrain were 5.9 million for Q1 2017, reflecting 68 percent growth versus Q1 2016 revenues of 3.5 million.

Revenues for Consumer Products-owned—formally M&L owned—were 3.7 million in Q1, down 22 percent as compared to 4.7 million for Q1 2016. Management expects Consumer Products-owned revenues for Teletubbies to begin to ramp up in late fiscal ’17.

Producer and service fee revenues for Q1 2017 were 10.4 million, a decrease of 27 percent versus the 14.3 million for Q1 2016. Management expects progress to accelerate for the remainder of fiscal 2017 on a number of key production service projects.

Television revenues for Q1 ’17 were down 18 percent to 15.4 million from 18.8 million in Q1 2016.

Consumer Products-represented revenues—that’s formally M&L represented, or CPLG—for Q1 were down as expected 0.8 million to 5.9 million compared to 6.7 million for the same period last year.

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Revenues across all of the preceding business units were in line with the Company's revised quarterly pacings provided in its corporate update release of November 8, 2016.

Gross margin for Q1 2017 was 31.2 million, a decrease in absolute dollars of 3.4 million, or 10 percent compared to 34.6 million for Q1 2016. The overall gross margin for Q1 2017 at 58 percent of revenue was near the midpoint of management's revised guidance, impacted by stronger-than-expected revenue growth for WildBrain, seasonally low deliveries for proprietary production, and lower-than-expected live tour gross margins.

Gross margins are expected to fluctuate from period to period, mainly as a result of the timing of deliveries, seasonality, and product mix.

Turning to operating expenses. SG&A costs for Q1 2017 increased 2 percent to 17.6 million compared to 17.3 million for Q1 '16. Also of note, SG&A includes 1.29 million in noncash share-based compensation, and when adjusted, cash SG&A at 16.5 million was at the low end of management's quarterly SG&A expectations, benefitted somewhat by weakness in the GBP versus the Canadian dollar.

Management intends to continue to add resources throughout the year as it continues to ramp up its WildBrain business, and to drive growth in the Consumer Products-owned business.

For Q1 2017, adjusted EBITDA was 14.8 million, down 3.5 million, or 19 percent over 18.4 million for Q1 '16. Net income for Q1 was 1.4 million compared to 7.5 million for Q1 2016 for a decrease of 6.15 million.

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The net income for Q1 ’17 was materially impacted by foreign exchange loss of 1.03 million versus a foreign exchange gain of 4.10 million for Q1 2016. The foreign exchange loss for Q1 ’17 was primarily driven by the impact of exchange rate fluctuations on foreign currency-denominated receivables and payables, a significant portion of which were comprised of intercompany balances.

Turning to cash flows. Cash flows from operations for the period were a negative 5.0 million for Q1 2017 versus a negative 12.3 million for Q1 2016, an improvement of 7.3 million. Similarly, cash flows from adjusted operating activities were an outflow of 2.4 million for Q1 ’17 versus an outflow of 13.7 million for Q1 ’16, an improvement of 11.3 million.

Cash flows for Q1 ’17 were directly impacted by the following key points of note. First, an aggressive proprietary production slate at a time when demand for content is robust, noting productions in progress at September 30, 2016, were at an unprecedented 35 million, up from 25.1 million for June 30, 2016.

Second, the seasonal acquisition of additional third-party content for DHX Television in advance of the fall 2016 season; the net impact was a cash outflow of approximately 6 million for Q1 2017, which is expected to partially reverse during the remainder of the year.

And third and finally, the Company used cash of 2.9 million to satisfy the DHX Television's tangible benefit obligation, representing the full amount of its expected annual expenditure for fiscal 2017.

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For further specifics on the Q1 2017 results, as well as additional information on management's fiscal 2017 outlook and various other information, including a reconciliation of GAAP and non GAAP financial measures, I would refer you to the Company's fiscal 2016—sorry, the Company's Q1 MD&A and financial statements, which were posted on SEDAR and EDGAR last evening.

With that, I'll turn it back to Dana.

Dana Landry

Thank you, Keith. To summarize, we continue to see strong global demand for our content, and are very excited about the new opportunities unfolding, particularly with WildBrain in China. We look forward to sharing more news in the coming months.

With that, I'll turn the call over to the Operator for questions from analysts.

Q&A

Operator

At this time, I would like to remind everyone in order to ask a question, press *, then the number 1 on your telephone keypad.

Your first question comes from the line of Aravinda Galappatthige of Canaccord. Your line is open.

Aravinda Galappatthige — Canaccord

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Good morning. Thanks for taking my questions. I wanted to start with sort of the guidance, in particular the revised guidance that you had offered up last week. If you look at sort of the cadence through the year, I know that historically the quarters have been lumpy, but if you look at the guidance sort of quarterly pacings you're looking at a very significant skew into Q4. So if you look at the revisions last week, Q1, Q2, and Q3 were lower, then Q4 raised. Why is there such a huge skew maybe perhaps unprecedented from when you go from Q1 to Q4? Is that partly at least to do with sort of your expectations around Teletubbies and the M&L flows that you expect in that quarter?

Dana Landry

Yeah. Thanks, Aravinda. Thanks for that question. Yeah. Exactly. Well, there's two things that are certainly feeding into that. One is now that we've had another full month or so in looking at the proprietary pipeline and the capacity level within the Company, the way that the deliveries are rolling out because as you remember this is a—in our business the revenue recognition is all or nothing, and so it's all based on deliveries. And so a lot of that is skewing towards the fourth quarter.

Distribution also this year is unusually back loaded towards the fourth quarter. A lot of it has to do with windows opening up as well and when the expectation of being able to book those individual deliveries. A lot of that is contracted and in place, which is why we're confident in our guidance, number one.

And then lastly on, yes, you're right, on the Teletubbies consumer product side this is our first Christmas. We are expecting a good one. What inevitably happens, though, at Christmastime is

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essentially we have to report really pretty soon after in February for Christmas. And then also in May a lot of the reports are done sort of semiannually every six months. So a lot of those we won't be receiving until May and June.

So the expectation for overages right now is too difficult for us in our first Christmas season to be forecasting that to hit in Q3. So we will expect it to generally roll out in Q4. So you're right. And it is a little bit unprecedented to have everything sort of lining up that way, but that is indeed the case.

Aravinda Galappatthige

So just to follow up on that, like I certainly understand the M&L owned part, but on the distribution side what you're saying is that sort of the high expectations that you have towards the back-end is to at least a great extent it's contracted, right? I mean there's—I'm trying to get a sense of the risk—

Dana Landry

Yeah. Exactly. As always, we have sort of three areas that we pursue in our distribution. We've got new deals, and those are things that are brand-new happening. We've got ones that have been in the pipeline for quite some time that either are contracted or near contracted.

And then we have a third bucket, which are things that are sort of rolling over, things that expire and licences open up again, and then some anticipation as to our probabilities of pulling some

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of those through within that last—that back end. So the combination of those three are giving us the confidence to guide that way.

Aravinda Galappatthige

Okay. And just lastly before I go on the free cash flow, you indicated on the last call that you're looking at 30 percent or higher in terms of EBITDA to free cash flow conversion. Is that still sort of generally the expectation that you have before you?

Dana Landry

Yeah. Absolutely. And I think that this—if you have a chance to go back and listen to the elements and read the MD&A that Keith said, there's sort of two or three individual, I would call, first quarter lumpiness is the right way, unevenness.

Like for instance, our entire intangible benefit was spent in the first quarter versus probably everybody projected that they'd be evenly split throughout the year. And some of the TV stuff, again, because of the fall season was uploaded first end. So the amortization in the back-half will be quite a bit lighter.

So there's a considerable amount of I would say maybe 2 million to 5 million at least of cash flow there that would have been, if you want to call it, normalized out if you're looking at from a year-by-year basis. So we're right on track with our expectations is the summary.

Aravinda Galappatthige

Okay. Great. Thanks. I'll pass the line.

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Dana Landry

Thank you.

Operator

Your next question comes from Adam Shine of National Bank. Your line is open.

Adam Shine — National Bank

Thanks a lot. Good morning. Maybe just as a follow-up to Aravinda's question, one item you didn't necessary mention, but I imagine it's slow but ramping, is the advertising introduction on the channels, particularly Family Channel.

Dana Landry

Yeah.

Adam Shine

I know, Dana, you telegraphed this in terms of more on this in coming quarters, but maybe you can just speak to that, some of the thoughts—

Dana Landry

Yeah. Yeah. Excellent question, Adam. Yeah. I mean, I think the great news of the announcement of a couple weeks ago was that we finally had our application approved. Unfortunately, the timing of being approved basically in November heading into the Christmas season, most of the ads have already been sold. And what we're sort of running from behind to try to

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pick up the leftover residuals of people that are topping up on various movie programs, et cetera. Ideally, we would have had that in the late summer, early fall.

So we've a little bit missed an opportunity this year. But having said that, we now have it going forward, and we obviously have some aggressive plans to go and capture some of that. But having been faced with that unfortunate timing, we thought it was unwise to be too aggressive in our first year of projections related to ad revenue.

Obviously we're hoping that we'll hit at least to the mid or if not to the high end of where we're guiding. But we thought it was unwise to guide above that right now. Maybe in a quarter or two we'll have more clarity, and we can give an update there.

Adam Shine

Thanks for that. Maybe just as a follow-up for you or for Keith, frankly. In terms of costs in TV, they were a bit lower in terms of timing of spend on third-party content. Any additional colour as to how things might skew? Is there going to be a greater skew out to the back-half? Or a bit of an up and down there as the quarters evolve.

Dana Landry

Are you talking on the proprietary side or on the actual programming side? I'm sorry.

Adam Shine

Programming purchases, third party programming purchases I think it was referenced as lower in the quarter.

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Keith Abriel

Yeah. So where we were, Adam, on that on third-party content purchases, they were high in the first quarter as we ramped up for the new season. They'll come down.

If you looked it—and I articulated this—if you took all the balances related, it accounted for basically cash outflow exceeded amortization by about roughly $6 million this quarter. That will reverse. We're anticipating that number to be within 2 million to $3 million of zero either way for the year, so it will normalize as the year goes on.

Dana Landry

And just roughly, our year-end amortization is roughly about 25 million, is that right?

Keith Abriel

Yeah. It's … Yeah. Yeah.

Adam Shine

Great. Okay. Thanks a lot.

Dana Landry

Yeah.

Operator

Your next question comes from Rob Goff of Echelon. Your line is open.

Rob Goff — Echelon

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Thank you very much for taking my question. It would be on China. I believe last quarter you said that you'd gone from something like 1 million revenues in '15 to 5 million in '16, and that you were targeting plus 50 percent this year, but then you said you could drastically overachieve. Can you sort of talk to the two parameters there?

Dana Landry

Yeah. I mean yeah, we're going to achieve our growth targets for sure. We probably have more or less hit that now, so there is upside potential.

The tricky bit that we've realized there is that it's definitely a different environment, and the speed at which deals are done sometimes can—there's a big wait and then all of a sudden many get done and then you wait six months. So it's difficult to project much further beyond that.

We do have some new recent trips and things coming up, and so in a quarter or so we may be coming back and upping that, but right now we're looking good to achieve or exceed that at the moment.

Rob Goff

Thank you. And I've got a follow-up on an earlier question on the distribution and the heavy weighting of that Q4. You did talk to the three buckets, new pipeline and rollover. Could you perhaps go a little bit deeper in terms of how much of that Q4 would be new…pipeline versus rollover?

Dana Landry

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Yeah. So that's a good question. I think generally in the past, sort of I think two years ago our ratio more or less between sort of what I'll call library sales and sort of current slate at that point in time was about 70 percent library, 30 percent current slate, and let's say that was for 2015 fiscal.

For 2016 fiscal that sort of switched to probably 60/40 or 55/45, again, library being slightly ahead. Now I think for '17 we're projecting that mix to be sort of balanced sort of 50/50. And that, I think, has to do with it's not that we're necessarily selling any less on the library side—I'd say it's a pretty consistent number—but we are getting average sale price increases from individual original commissioning broadcasters, so whether that's a Netflix or whomever, quite frankly, and driven by the competition that we're still seeing. And as a result of that that is affecting it.

Also you will know that having followed the Company for a while, Rob, that the nature of how we produce is obviously we green-light a show, and then it goes into production for a couple of years prior to actually delivering it. And so while we're busily producing the content we're obviously busily gathering up and garnering distribution sales as well.

And the challenge is, of course, if you don't deliver the episode you can't also deliver the distribution, so it has a bit of a double-whammy effect in terms of quarterly unevenness.

So all of those things are what gives us the confidence on the back-end.

Rob Goff

Okay. Thank you very much.

Dana Landry

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Thank you, Rob.

Operator

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

Drew McReynolds — RBC

Yeah. Thanks very much. Good morning. Just I wanted to follow up just in terms of, again, the pacing here in fiscal 2017. You know you kind of walked through the distribution side of things and talked about what's contract and rolling over, et cetera, so that's great. Just on the production side, we have seen a slight reduction in production guidance between the September guidance and November. What kind of visibility do you have on that production slate for '17? Is that normally what you think you'll be delivered—gets delivered on time? Can you just speak to that?

Dana Landry

Yeah. So I mean, again, going back to the point, and most of the time when we start our fiscal year we probably have somewhere between 50 to 70 percent visibility on what that proprietary production line will be with the one exception of being sort of either a second season of a particular season and/or live-action stuff.

And so when we were going through the slate again as we were preparing the Q1 results and obviously looking at accounting for the changes related to the new policy, we took look and we thought that it would be more prudent to sort of bring that down a little bit and sort of reapply some of the capacity into the back-end towards the service. And I think it's a combination of timing on

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schedules, deliveries of our core customers, but also in terms of our own pacing of our slate. And it seems to be getting into a more natural balance that's sort of 50/50.

As we go forward and cash flow improves upon from the distribution side and the Consumer Product side and we have a little more free cash flow related to those that we can sort of count on, we may go back to a more aggressive approach of sort of 75 percent proprietary—sorry, 25 percent service, but for right now it seems to be settling in at a pretty even and comfortable balance.

Drew McReynolds

Okay. Thanks, Dana. And just one follow-up on the SVOD business; selling into the likes of a Netflix, Amazon, can you just give us an update? We know they're all spending more on content. Can you give us an update on just what the trend is towards them wanting to produce this content for themselves and retain kind of the global IP rights versus buying your content? Or alternatively you're selling your proprietary content into them. Can you just talk to what the trend is there, if you are seeing any change?

Dana Landry

Yeah. Sure. I mean I think that the trend is it's sort of unfolding as we expected is that the big guys are obviously looking for more exclusivity. And that's either in the form of exclusive for a territory or two and/or more global rights, to your point.

The good news is that they're willing to pay out for that and they're competing at a pretty aggressive pace, number one; and obviously we're benefitting from that as we look to roll out

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individual new shows. It also is giving us a new avenue for green-lighting our shows because you will recall, having been in this space for quite some time, one of the changes that came out of Talk TV was us to be able to access a lot of the subsidy system in Canada from a green-light from a digital, so that actually has unlocked a pretty significant upside in terms of, let's call it, customers and putative customers.

But on the other side what's evolving is that the big companies like us, the large independents, are also becoming called upon more frequently. And in fact, we're not only selling into those original new shows and have more in the works, but also looking to us to actually perhaps service produce some of the shows that they've green-lit on other studios and asked for us to get involved.

And so there's some interesting sort of evolution in terms of the relationship that's happening there as well. In fact, we're having one conversation right now with one of the major SVODs that green-lit an original, a fairly classic piece of IP, and they're looking to us to service produce it, and also then distribute it throughout the globe. So it's an interesting evolution of the relationship. It's something that we planned on and built the Company. This is why we built the platform that has all facets of the equation: production, distribution, and obviously Consumer Products to really take advantage of that. And that's really what's happening.

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As far as the smaller individual producers, I expect there will be some pressure points on them going forward because they don't have that scale to be able to offer incremental pieces to those relationships. But for us it certainly has strength and growing and building.

Drew McReynolds

And, Dana, sorry, just one follow-up on exactly that.

Dana Landry

Sure, Drew.

Drew McReynolds

Just in terms of the exclusivity side of it, are the economics materially different one way or another for you on that? And is that exclusivity on the property? Or is just exclusivity on kind of the broadcast? Or—

Dana Landry

Yeah.

Drew McReynolds

—on-demand?

Dana Landry

Good question. Yeah. So I mean the upside is quite significant. It can be as much as double what others are offering; certainly 50 percent more in some cases. For us, we always have to trade that off in terms of obviously balance in terms of our customer age (phon), but also which individual

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platforms. In some countries like The Deep in some in the UK, the CBeebies platform is, at the moment at least, a view that it is a better platforms to launch CP-related properties. So those decisions come into it.

And I lost the last part of your question. The last part was … Remind me?

Drew McReynolds

Yeah. Just when you're selling kind of exclusively into a Netflix with a particular program, are you able to kind of retain any rights associated with that?

Dana Landry

Yeah. Okay. Right. Yeah. Rights, the rights question, yeah, absolutely. So effectively what happens always is there's—we're selling them exclusivity within a period. And that usually is anywhere from one to two years, depending on the territory. But there's always what's called a holdback, and then those rights come back to us to sell in the linear territory.

So for instance in say Inspector Gadget as an example, the exclusive that we did in the US, I believe the holdback was about 18 months on that one where they had exclusivity within the 18 months, but then we were able to then immediately to start to license it into other platforms.

So it isn't that they're taking exclusive rights on all of the content, and at the end of the day all of that IP comes back to us, which is obviously the beautiful part of our model.

Michael Donovan

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That's great. Yeah. If I can add—this is Michael Donovan—that just to be very clear, we never sell all the rights ever. We're not in the business of selling the rights to SVOD or anyone. We always retains the rights. We sometimes give exclusive windows in certain territories. That's it.

Drew McReynolds

Thanks, Michael.

Operator

Your next question is from Ben Mogil of Stifel. Your line is open.

Kevin Lee — Stifel

Thank you. Good morning. This is actually Kevin Lee for Ben. In terms of the move towards adding commercials on the Family Channel, leaving aside the regulatory change, can you talk about that decision in terms of the competition, largely Netflix, which one would think makes that service a more attractive option for kids' and parents' mind because of the lack of commercials, but also at a time when the US networks, notably call it Nickelodeon, are reducing their ad loads? Thank you.

Dana Landry

Yeah. So it's a good question, Kevin, and thanks for joining. I think that was our first question from the Stifel gang, so thank you for that. I mean it's always a balance for us. You're absolutely right.

Part of the attraction on the Family Channel is that it has been to this point a paid sort of specialty service ad-free. We probably—you'll see us being definitely very disciplined and discerning as to where we add those ads. Certainly it'll likely be later in the evenings, and we'll also then focus

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on key sponsorships as well, so not as to sort of water down the brand. And I believe that was your question.

If there's a follow-up, happy to take it.

Kevin Lee

That's good. Thank you very much.

Dana Landry

Thank you, Kevin.

Operator

Your next question is from Deepak Kaushal of GMP Securities. Your line is open.

Deepak Kaushal — GMP Securities

Hey, guys. Thanks for taking my question. It's just a quick follow-up on the Family Channel question on advertising. Generally in the past we've seen kind of an inverse relationship between wholesale rate subscriber revenue versus advertising revenue. On your existing contracts with the BDUs, do you guys have a sliding scale there? Or are you able to double dip and add ad revenue within the existing contract period?

Dana Landry

There is no sliding scale. Double dip is a—it's probably a pretty aggressive view of that. I would say that, again, and I would go back to the earlier question I just said is we're going to add it in a very sort of respectful way. We think that we'll be able to still have the attractiveness of the Family

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Channel for the vast majority of the time to being ad-free, particularly when it comes to the earlier hours, and we'll seek to explore opportunities related to that.

So we will have incremental revenues for sure, I think, is the way I would put it from subscriber projections. I'd also remind the listeners that the average life of all those contracts are two-and-a-half to three years in length, so we've got those locked up for some time, and obviously we'll be trying different arrangements on and we'll be obviously sensitive to all sides.

Deepak Kaushal

Got it. And I just wanted to know if you guys could elaborate on the M&A strategy with respect to WildBrain and the AVOD business? What are you guys looking for? What do you hope to get? My sense was if you don't have a big content library like your own, the AVOD business has not been quite profitable. So what are you looking to acquire here?

Dana Landry

Yeah. Excellent question. So I mean I think there's a couple of things. One is just understanding the core principle of the network effect in—and I don't know how well this is understood, but I'll take the moment to sort of position it, and I'll ask Michael to add as well—is we found ourselves on—as Michael used—the vanguard of between sort of the tech space, which we've never been in before, as an early adopter in the AdVOD space and obviously a leader, and back to our core, which is sort of content ownership and management and scale of a large library.

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And what that means is that the algorithm in this case is our friend. And we have an advantage, a lead, where our average CPM or revenue that we're earning per 1,000 is probably 50 percent to 75 percent higher than the normal.

And if you have an individual channel, I mean it's not unlike actually the leverage that we applied a decade ago when we rolled out the content library. When you have an individual channel within YouTube you don't have WildBrain as an overall virtual network, that sort of enterprise brand that you can leverage off of within YouTube. You're getting just the regular run of the mill rack rates, and so your average CPM is probably down in the 3, maybe 4, and if you're really good a $5 per 1,000. And ours is in the 8, growing 9, 10, hopefully at some point in time.

So there's a huge instant effect, and just coming into the network our ability to charge instantly an increase per 1,000, and moreover to draw leverage from our own individual channels, and so growing not only in terms of the average CPM, but also in terms of the number of views. So this is a beautiful virtuous circle that we have because of our leadership position is the more channels that we add the stronger we get, the more views that we get. The more views that we get, the more money that we get, there's more ability to attract individual channels.

And so we're in a really unique position here to go and roll up this space at very attractive prices akin to where we rolled up the content world starting, again, a decade or so ago back to the days when we did deals in the 4, 5, 6 times. And the fact of the original WildBrain, ironically, our payback was less than two years.

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So we're going to aggressively go after this market. Got a number of deals in the pipeline—nothing is done yet, of course—but we have several. And we're quite optimistic that we'll be announcing some very soon.

Deepak Kaushal

Okay. Great. So it's more building your distribution network rather than taking up unknown brands or new brands?

Dana Landry

Exactly right. I mean obviously we'll be doing a little bit of both, but we think that the YouTube network will create stars and brands will come out of that. There's already evidence for things like Marsha and the Bear and a couple of other brands that have developed into global successes from YouTube. And obviously we'll be like a hawk scouring for all of those and going after them aggressively.

And what's great is we have all—we've got the lift not only from our own research, but we're also getting introductions from even the YouTube guys because people—obviously it's in their interest too because if they're able to sell the ads at a higher rate it's a mutually beneficial win for them because they're getting their sort of—is it 45 percent, Keith? Forty-five percent of the revenue share. So this is a really unique moment in time which we find ourselves in.

Michael, I don't know if you have anything further to add there.

Michael Donovan

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That's exactly what we're seeing. It's a kind of network effect that the more members we add to our network the value of each member rises proportionately. And that's what's so exciting, one of the things, many things, but that's one of the things that's so truly exciting about what's going on in mobile and AdVODs.

We see it is as the new new, and we're in leadership there. Sorry.

Deepak Kaushal

Okay. No, that's great. That's great. That's very helpful. I don't want to take up too much time. I'd do have one last housekeeping question. There were terms that you cited, Dana, in the call on capital on your titles. Are those the returns on the capital that you put at risk? Or are they returns on the total capital put into each brand, including government subsidies?

Dana Landry

So we'll clarify. It's a bit of a mix. For titles that are from the scratch original organic titles that's a net investment number. For ones that are acquired, like the Cookie Jar library and then the incremental assets that we—or capital that we put to work, those are sort of actual dollars because obviously we had to put out the capital required, then obviously reboot the brands as well.

So it's a combination, but we'll be very clear when we put it up—

Deepak Kaushal

Okay. Thanks. Appreciate that. Okay.

Operator

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The final question comes from Bentley Cross of TD Securities. Your line is open.

Bentley Cross — TD Securities

Just to clarify on that last question, Dana. For something like Teletubbies, so that 30 percent you mentioned would include both the purchase price of Ragdoll plus the content investment to date?

Dana Landry

Yes. Exactly. Yeah.

Bentley Cross

Okay. And one last question for me. Just the pricing per half-hour was way down this quarter. Is that to do with the weird dynamic going on with Teletubbies? Because that played out last year, I think, as well.

Dana Landry

Yeah. We can give—there's nothing specific, so it has to be the product mix, and yes, the lighter-delivery quarter probably is—

Keith Abriel

That's what it is. Yes. That's a bad metric to use because shows that we sell to ourselves that we're producing for Family Channel have very little revenue attached to them. And the Teletubbies dynamic—to your point, Bentley—does skew it as well. You'll never hear me quote that metric because I'm not a fan of it.

Dana Landry

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Well, I think going forward, too, I think the—some of the grouping of the content section between—so how we sort of look at it, Bentley, just for the information of you and the other listeners, is that we sort of look at the proprietary production revenue and sort of the initial distribution wave fall in one anyway, and then it's just a classification.

Now that as we're going forward and sort of guiding on margins and grouping those as one category, we'll probably look towards grouping those in a more significant way going forward.

Bentley Cross

Okay. Thanks a lot, guys. I appreciate all the colour.

Keith Abriel

Thanks.

Dana Landry

Thanks, Bentley.

Operator

That was our final question. I now return the call to our presenters.

Nancy Chan-Palmateer

Thank you very much today for joining us, and we look forward to updating you next quarter. Thank you.

Dana Landry

Thanks, everyone.

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Michael Donovan

Bye for now.

Operator

This concludes today’s conference call. You may now disconnect.

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