CNW
A PR NEWSWIRE COMPANY

FINAL TRANSCRIPT

DHX Media Ltd.

Fiscal 2018 Second Quarter Webcast

Event Date/Time: February 13, 2018 — 8:00 a.m. E.T.

Length: 50 minutes

CORPORATE PARTICIPANTS

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

Michael Donovan
DHX Media Ltd. — Executive Chairman

Dana Landry
DHX Media Ltd. — Chief Executive Officer

Keith Abriel
DHX Media Ltd. — Chief Financial Officer

David Regan
DHX Media Ltd. — Executive Vice President of Strategy and Corporate Development

CONFERENCE CALL PARTICIPANTS

Aravinda Galappatthige
Canaccord — Analyst

Rob Goff
Echelon — Analyst

Bentley Cross
TD — Analyst

Drew McReynolds
RBC — Analyst

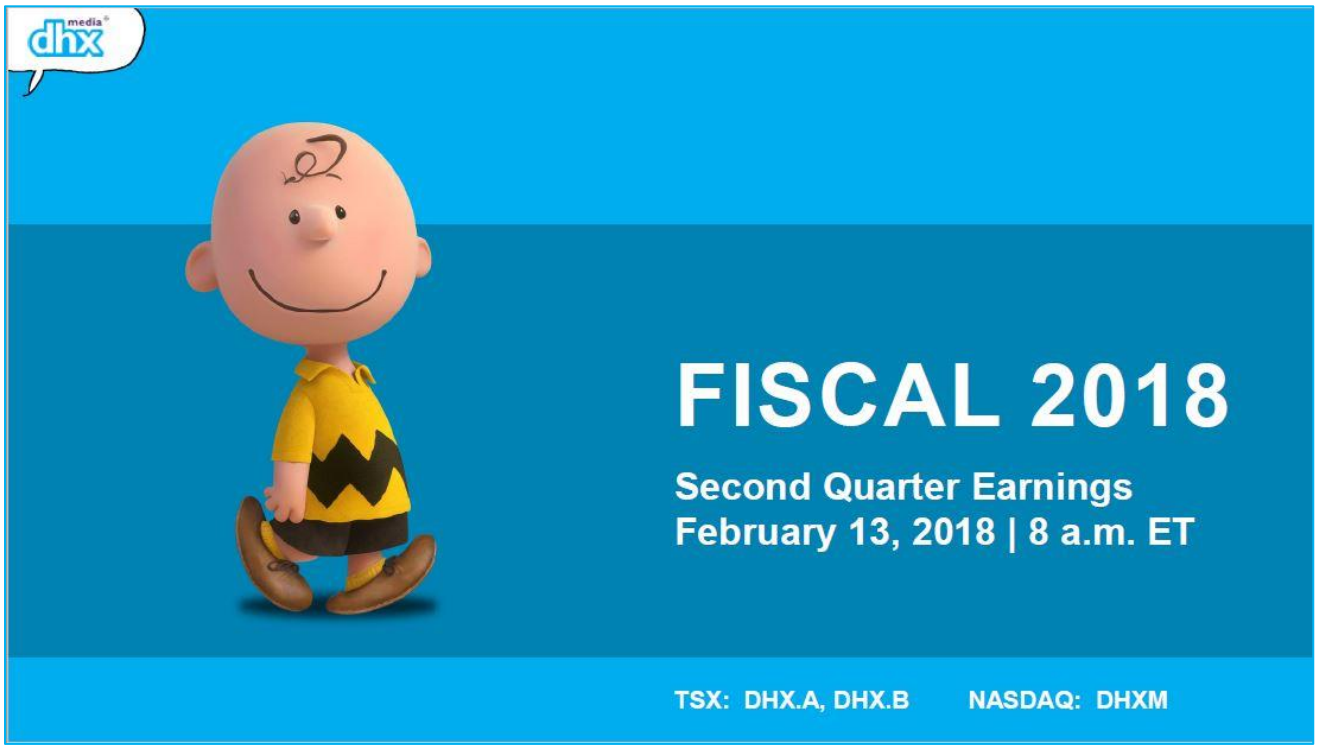
Jeff Fan
Scotiabank — Analyst

Tim Casey
BMO — Analyst

Deepak Kaushal
GMP — Analyst

Eric Wold
B. Riley — Analyst

Adam Shine
National Bank — Analyst



PRESENTATION

Operator

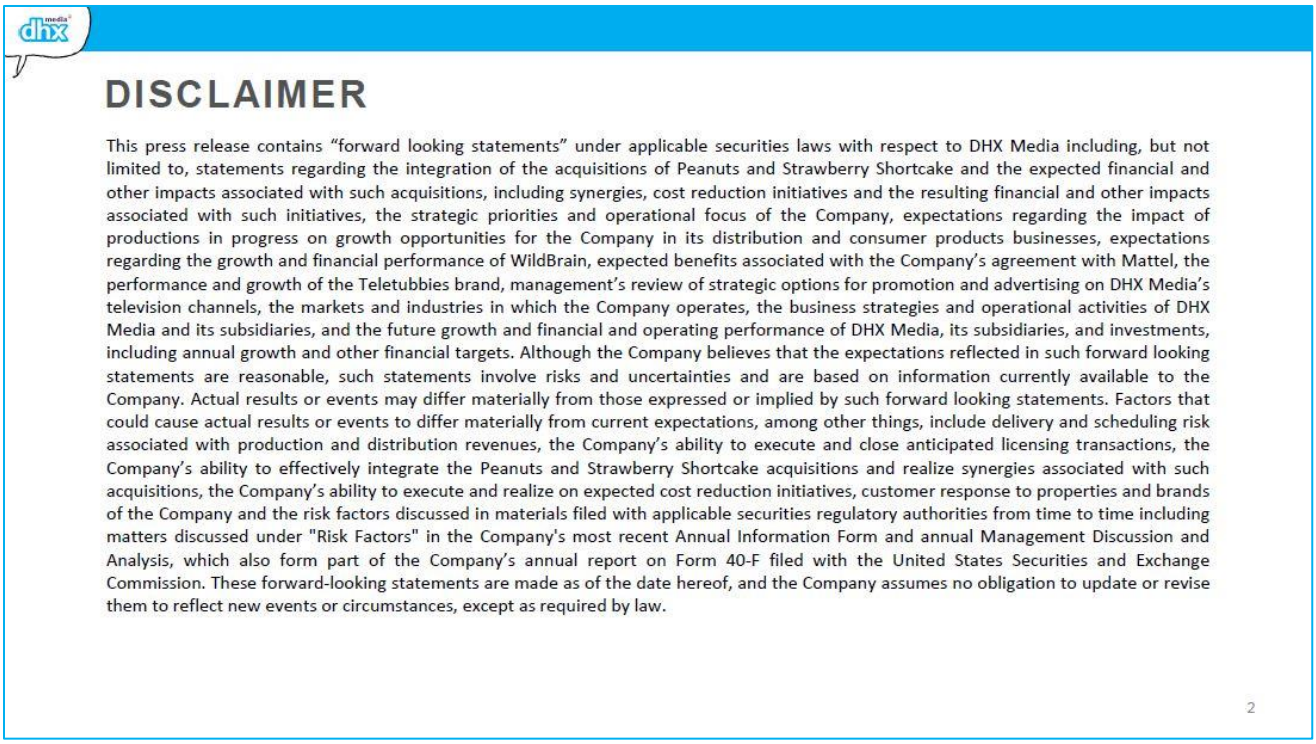
Good morning, ladies and gentlemen, and welcome to the DHX Media Fiscal 2018 Second Quarter Webcast. All lines have been placed on mute to prevent any background noise.

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

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

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

Thank you, Operator. And thank you, everyone, for joining us today. Speaking on the call with us today are Michael Donovan, our Executive Chairman; Dana Landry, our Chief Executive Officer; and Keith Abriel, our Chief Financial Officer. Also with us on the call and available during the question-and-answer session is David Regan, our Executive Vice President of Strategy and Corporate Development.



DISCLAIMER

This press release contains "forward looking statements" under applicable securities laws with respect to DHX Media including, but not limited to, statements regarding the integration of the acquisitions of Peanuts and Strawberry Shortcake and the expected financial and other impacts associated with such acquisitions, including synergies, cost reduction initiatives and the resulting financial and other impacts associated with such initiatives, the strategic priorities and operational focus of the Company, expectations regarding the impact of productions in progress on growth opportunities for the Company in its distribution and consumer products businesses, expectations regarding the growth and financial performance of WildBrain, expected benefits associated with the Company's agreement with Mattel, the performance and growth of the Teletubbies brand, management's review of strategic options for promotion and advertising on DHX Media's television channels, the markets and industries in which the Company operates, the business strategies and operational activities of DHX Media and its subsidiaries, and the future growth and financial and operating performance of DHX Media, its subsidiaries, and investments, including annual growth and other financial targets. Although the Company believes that the expectations reflected in such forward looking statements are reasonable, such statements involve risks and uncertainties and are based on information currently available to the Company. Actual results or events may differ materially from those expressed or implied by such forward looking statements. Factors that could cause actual results or events to differ materially from current expectations, among other things, include delivery and scheduling risk associated with production and distribution revenues, the Company's ability to execute and close anticipated licensing transactions, the Company's ability to effectively integrate the Peanuts and Strawberry Shortcake acquisitions and realize synergies associated with such acquisitions, the Company's ability to execute and realize on expected cost reduction initiatives, customer response to properties and brands of the Company and the risk factors discussed in materials filed with applicable securities regulatory authorities from time to time including matters discussed under "Risk Factors" in the Company's most recent Annual Information Form and annual Management Discussion and Analysis, which also form part of the Company's annual report on Form 40-F filed with the United States Securities and Exchange Commission. These forward-looking statements are made as of the date hereof, and the Company assumes no obligation to update or revise them to reflect new events or circumstances, except as required by law.

2

Turning to Slide 2 now, we have some standard cautionary statements. The matters discussed on this call include forward-looking statements under applicable securities laws with respect to DHX Media, including but not limited to, statements regarding the Peanuts and Strawberry

Shortcake acquisitions, including the integration of those businesses and the expected synergies and other financial and operational benefits; cost-reduction initiatives and associated financial impacts of such initiatives; expected returns on investment made by the Company; the markets and industries in which the Company operates; the business strategies and operational activities of the Company; and the future growth and financial and operating performance of the Company.

Such statements are based on information currently available and are subject to a number of risks and uncertainties. Actual information currently available—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.

For the question-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.

Turning to Slide 3, I will now hand the call over to our Executive Chairman, Michael Donovan.

Michael Donovan — Executive Chairman, DHX Media Ltd.

Thank you, Nancy, and welcome. I'm happy to report that the Company has extended the growth trends reported last quarter.

This quarter's strong showing points to organic revenue growth in our core business, especially from distribution of our library. Coupled with steady cash flows from Peanuts, DHX's growth and scale have resulted in strong revenue and positive free cash flow for the quarter.

We know that investors are waiting on the results of our strategic review. That process is ongoing and robust.

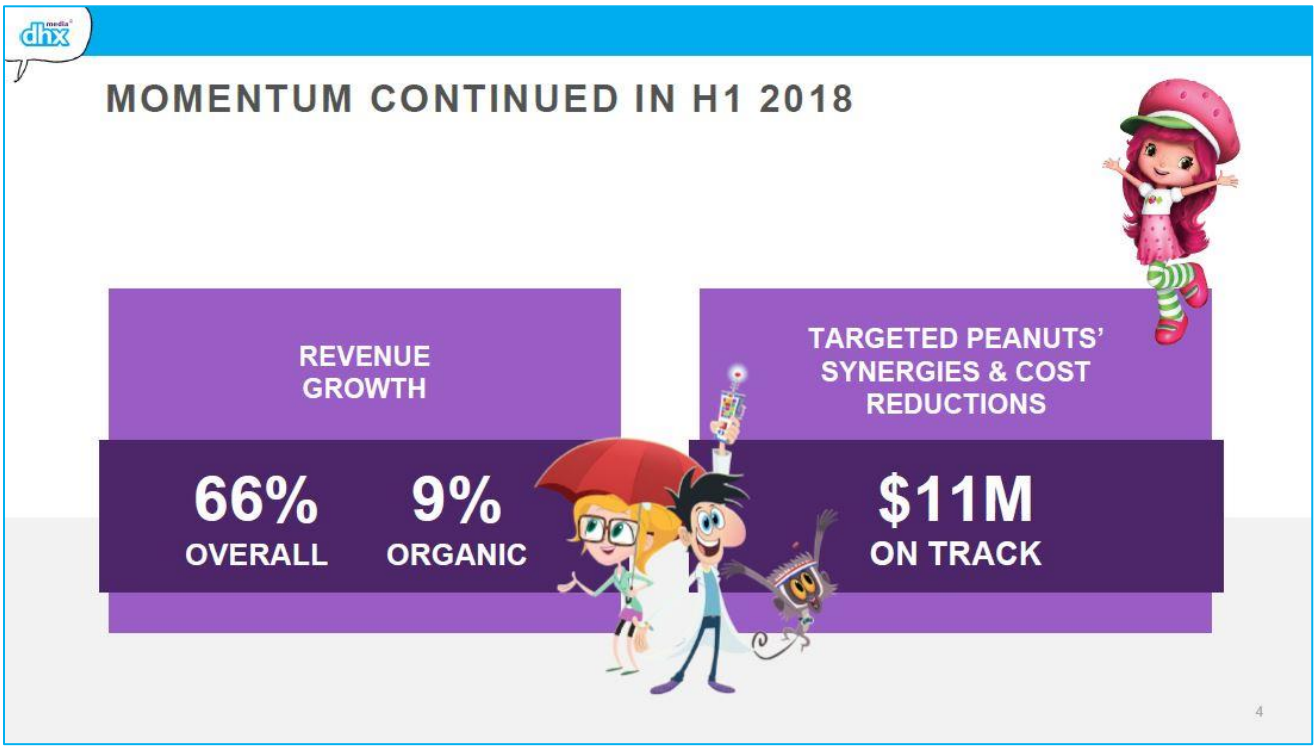
The strong results reported in the last two quarters confirm the underlying value of our IP. The work of the Special Committee validates our strategy of focusing on unlocking further value in our core IP assets. And I'd like to assure the investors —our investors — that the Special Committee is continuing its work, which is progressing well, and we'll be updating investors when we have news to report.

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 today.

Turning to Slide 4 now, please.

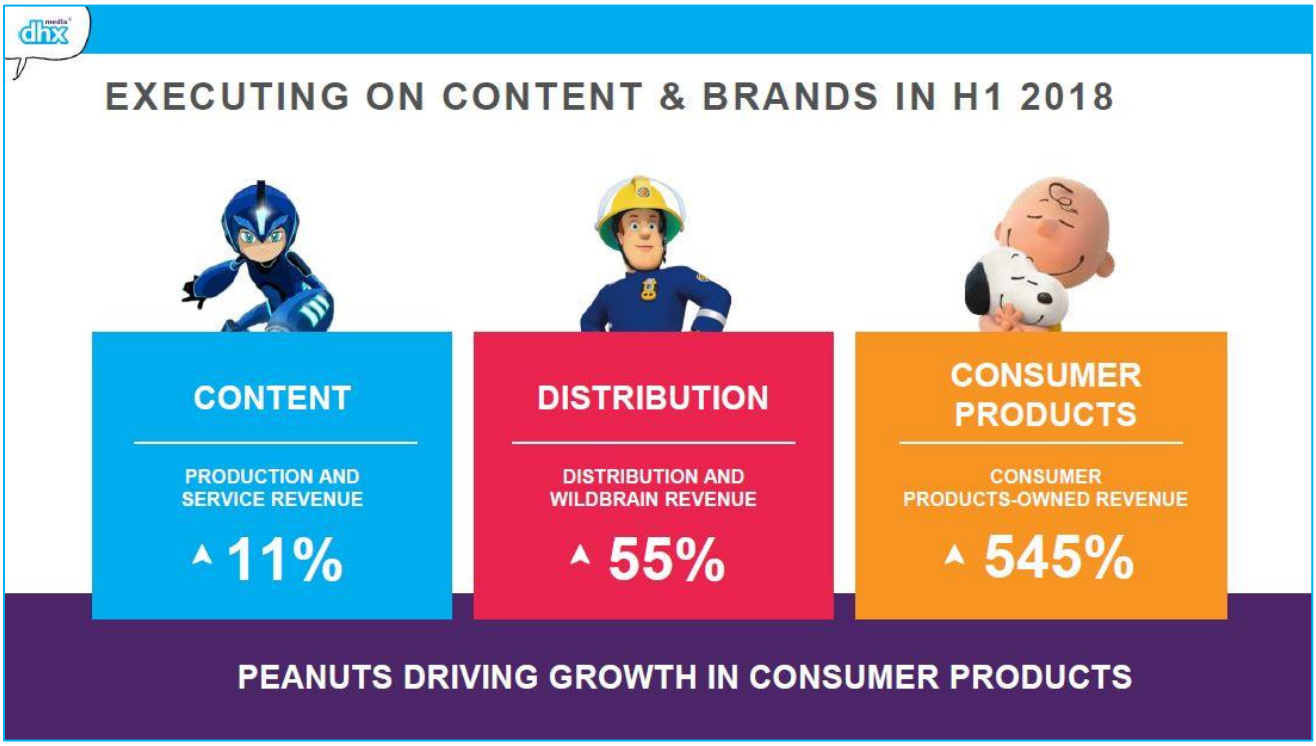


Management is encouraged with the continued growth of the business in Q2, contributing to a solid first half of fiscal 2018.

We continue to see the benefits of the Peanuts and Strawberry Shortcake acquisition, and we continue to deliver organic revenue growth in our core businesses. Revenues in the quarters were up 55% compared to Q2 last year, and for the first six months of fiscal 2018 revenues rose 66% compared to 2017. 9% of this growth in the first half was organic, highlighting the returns being realized on our investments in content and the value of our library and brands.

We also remain on plan to achieve $11 million in targeted annualized synergies from Peanuts and through company-wide cost reductions by the end of fiscal 2019. As noted last quarter, we expect to realize 5 million to 6 million of these savings in fiscal 2018.

Turning to Slide 5 now, please.



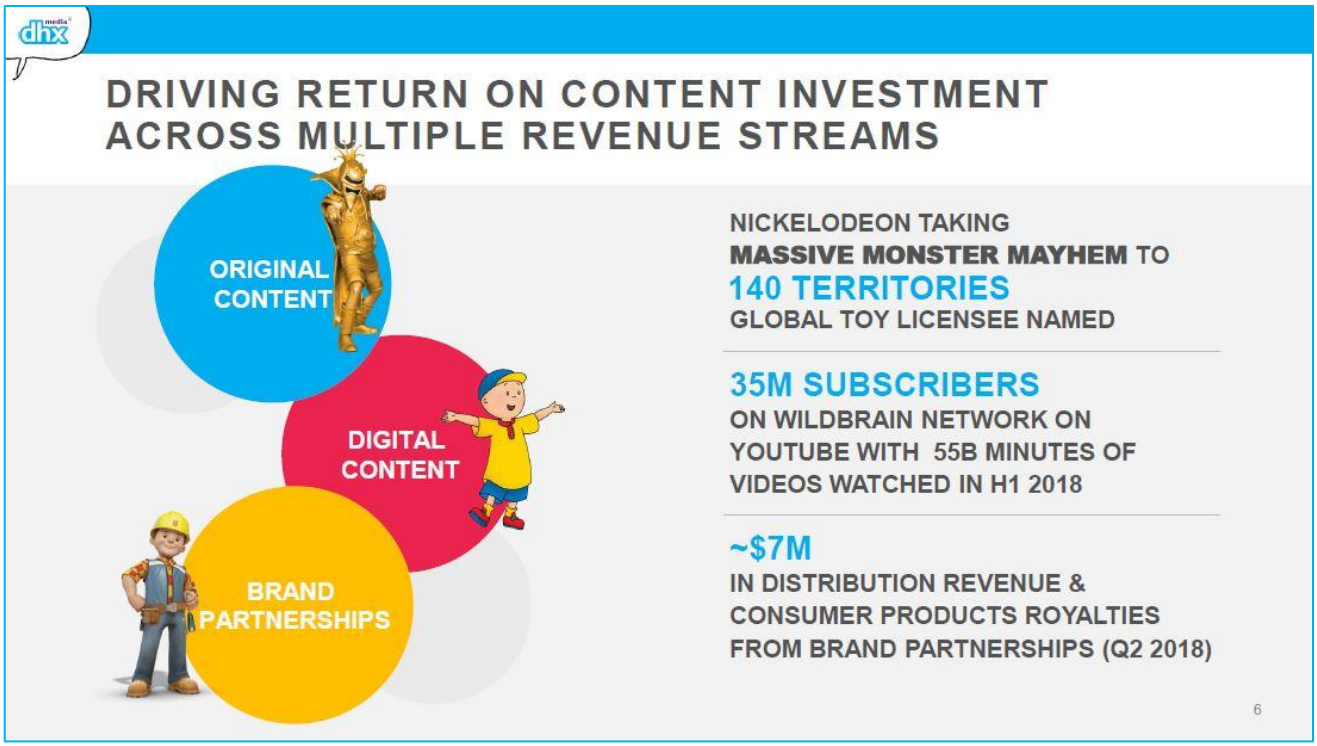
Our key priorities remain unchanged as we continue to execute against three core businesses. First, is producing world-leading kids and family content, a business segment that was up 11% in the first six months of fiscal 2018.

Second, is the distribution of that content worldwide through traditional linear television, streaming platforms such as Netflix and Hulu, and our WildBrain adVOD network. The combined

revenue for our distribution business grew 55% overall, and 39% organically in the first half of fiscal 2018.

And the third priority is consumer products, which is up 545% as a result of the Peanuts acquisition in the first half. The Peanuts acquisition is working, and there is plenty of runway to extend the brand.

Turning to Slide 6 now.



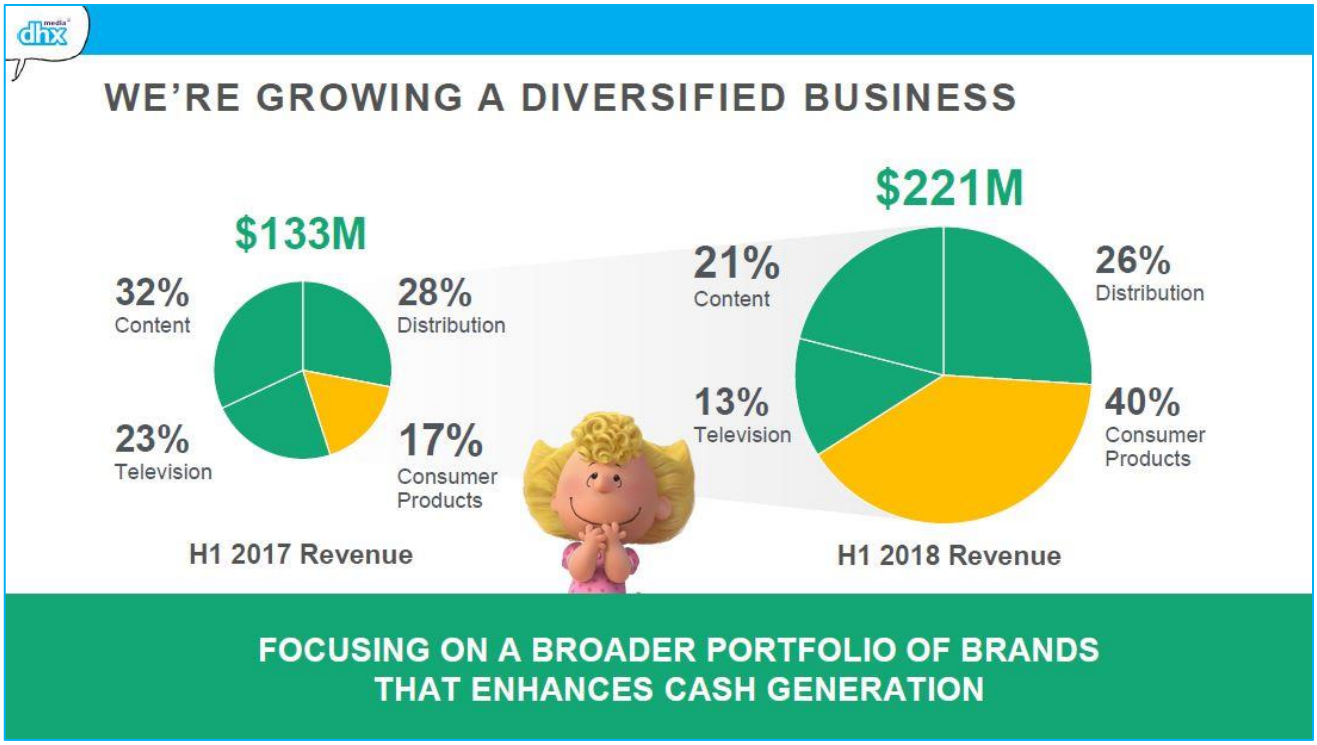
Content remains a key driver for our business. Through original, ground-floor development of IP, we are able to drive significant revenues across all streams.

One current example is our original series, Massive Monster Mayhem. Following a successful launch in the US last fall, the series has now been picked up by Nickelodeon in 140 territories worldwide. This news has triggered leading toy manufacturer, Alpha Group, to come on board as the brand's global toy licensee. We're confident this brand has future potential.

We are also accelerating monetization of digital content through WildBrain. In just the first six months of 2018, WildBrain has doubled its watch times, reporting 55 billion minutes across its network, which is the same number reported for the entirety of 2017. This has resulted in an increase of 86% in revenues for WildBrain for the first half of 2018.

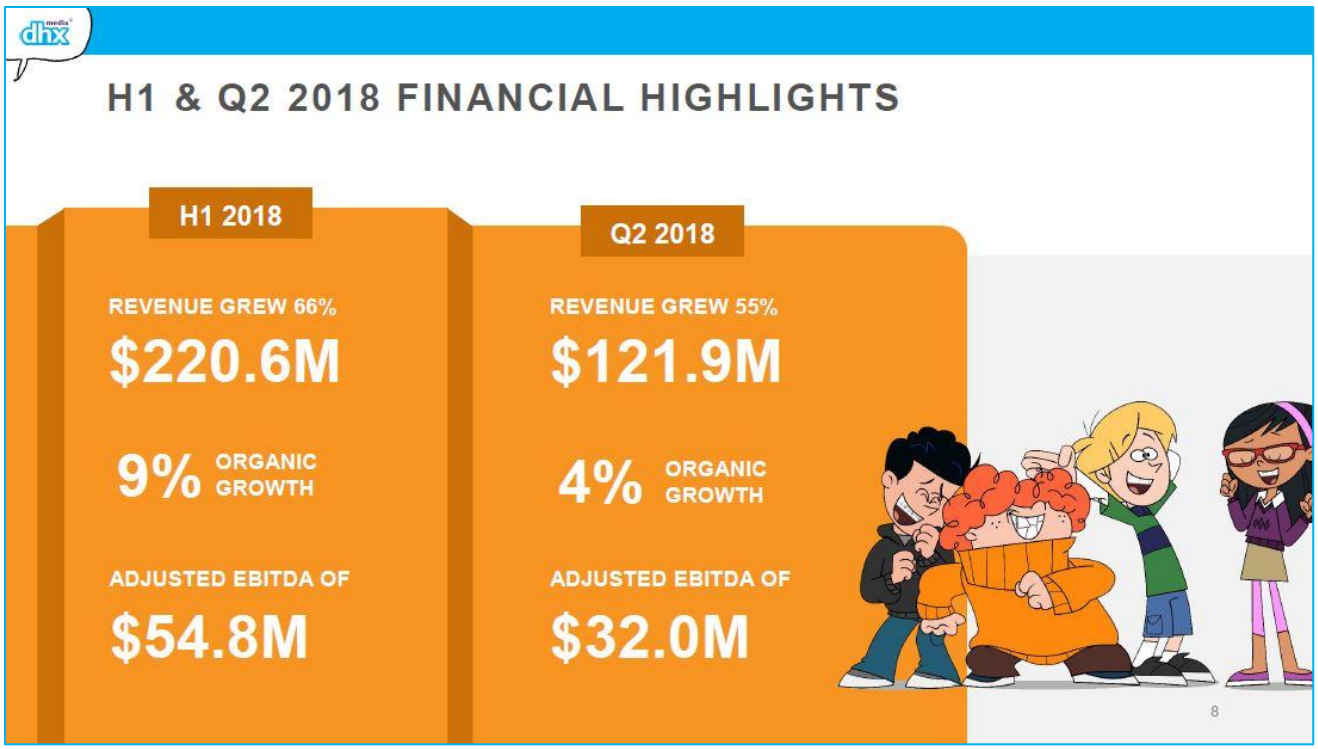
Strategic partnerships are driving incremental revenues across multiple streams. Partnerships on brands like Bob the Builder and Fireman Sam helped us realize approximately $7 million in distribution and consumer products royalties in Q2. We anticipate reporting further such returns going forward.

Turning to Slide 7 now, please.



A portfolio approach and scale is also key to our business. With the acquisition of Peanuts, we have diversified and scaled up our high-margin consumer products business. Peanuts is a top-10 character brand in global retail sales. It has enduring global appeal across consumer products and content.

Turning to Slide 8 now, I'll turn the call to Keith for an overview of the numbers.



Keith Abriel — Chief Financial Officer, DHX Media Ltd.

Thank you, Dana. Management is pleased with the quarter. I'd like now to touch on some key metrics and highlights for the quarter.

Revenues in Q2 2018 were $121.9 million, up 55% from $78.9 million for Q2 2017. For the quarter, 68% of revenue was organic and 32% was acquisitive. The organic revenue was largely driven by the continued strong performance of WildBrain.

Other highlights for the quarter included consumer products-owned revenues were up 412% compared to Q2 2017 as a result of the Peanuts acquisition. WildBrain revenue increased 87% compared to Q2 2017, and traditional distribution revenue increased 28% compared to Q2 2017.

Now turning to gross margin. Total gross margin for Q2 2018 was $53.9 million, an increase in absolute dollars of $11.9 million compared to $42 million for Q2 2017. Overall gross margin at 44% of revenue was on plan, and as expected, compared to 53% of revenue for Q2 2017.

Gross margin for the quarter was impacted by, amongst other things, the acquisition of Peanuts, which carries a lower percentage gross margin as a result of the talent fees paid to the estate of Charles M. Schulz; growth in WildBrain, which is being driven increasingly by third-party brands; and the blend of production service work being completed at our animation studios.

Adjusted EBITDA is tracking within range at $32 million, up $8 million or 34% over Q2 2017.

Net income was $7.4 million for the quarter, or $0.06 basic and $0.05 diluted earnings per share compared to net income of $5.8 million, or $0.04 basic and diluted earnings per share for Q2 2017.

Free cash flow for Q2 was $5.8 million, and for the first half of fiscal 2018 was a use of cash of $26.6 million, which was impacted by, amongst other things, three items which were accrued and included in payables at June 30, 2017. First, a payment of $13.5 million in early redemption penalties related to the repayment of our senior unsecured notes on July 11, 2017; second, payments of $10.9 million in debt issue and acquisition costs related to the Peanuts and Strawberry Shortcake transaction; and third, payments of $16.4 million related to our strategic partnerships.

We continue to track within our full range of EBITDA and free cash flow. We'll use this cash to de-lever while continuing to build the business for the long-term.

For specifics on our fiscal 2018 Q2 results and various other information, including a reconciliation of GAAP and non-GAAP financial measures, I refer you to the Company's fiscal 2018 Q2 MD&A, which was posted on SEDAR and EDGAR this morning.

Turning to Slide 9 now, I'll hand it back to Dana.

Dana Landry

Thank you, Keith. To sum up, management is encouraged by the strong first half of fiscal 2018 and continuing strength of the global market for kids and content brands.

With that, we'll take some questions, Operator.

Q&A

Operator

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

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

Aravinda Galappatthige — Canaccord

Good morning. Thanks for taking my question. I just wanted to focus on the distribution side. Good numbers in Q2. In addition to some of the flagship SVOD platforms you've talked about in the past, obviously Netflix, Amazon, etc., can you talk about the traction you're getting with some of the newer entrants? There's a fair bit of—obviously YouTube Red is there now, and there's a fair bit of discussion around Facebook and Apple sort of jumping in with sizeable programming budgets. Are you able to discuss whether you're in discussions with them? Are there any sort of ongoing projects that are being contemplated? Just some additional colour there, please?

Dana Landry

Yeah. Thanks, Aravinda. Thanks for that question. So the results so far are basically from our existing sort of clientele. That would be traditional linear television, plus the SVOD services that we've been selling to for awhile. That's Netflix, Hulu, Amazon.

The future is, of course, the services you mentioned. And on all of them we have conversations ongoing, and we expect further traction in the quarters to come.

Aravinda Galappatthige

Thanks. And just connected to the distribution side on WildBrain, again good numbers there, but are you able to discuss where you—are you sort of at—where are you at in terms of profitability? Are you ramping up investments there? Or are you sort of starting to see more meaningful margins?

Dana Landry

Yes. Thanks for that. We are seeing more meaningful margins, as we have now sort of covered off the fixed costs of that business. Although it's important to note that over the last year we've done a couple of smaller tuck-in acquisitions, and so our view on cash flows related to WildBrain are to recycle those to drive growth because we're seeing no end in the growth, no end in sight for that growth. So lots of opportunities and we're recycling.

Aravinda Galappatthige

Okay. Thanks, Dana. I'll get back in line.

Dana Landry

Thank you.

Operator

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

Rob Goff — Echelon

Thank you very much, and good morning. A follow-up question on the SVODs. We're hearing so much about their focus on proprietary content as a way of acquiring new subscribers. Can you talk to how that is impacting both your production decisions and your distribution sales? And are both considerations independent? Or is there any linkage across?

Dana Landry

So thanks, Rob, for that, and good morning. So we're sort of a perfect partner for the SVODs because we obviously have access to the studios and the talent. And so we've been able to sort of leverage that relationship across multiple streams right down to our production services and also through distribution. So we're not seeing really them as a competitor, so to speak, but really much as a partner and a collaborator.

And the second part, I wasn't quite sure what you meant by independent of those two things. Could you clarify?

Rob Goff

Are you able to lever the strength of your library to gain better production terms? Or vice versa, are you able to leverage your production to get better library terms?

Dana Landry

Right. Okay. Yes. Thanks for that clarity. So we are able to leverage our library, number one. But we're also able to hold back the rights that we need to hold back, for instance on AdVOD, because of our scale. And so some instances we're doing exclusive deals within certain territories, some we're doing a regional content, but we're still doing a fair number of some nonexclusive deals, I should say.

Does that clarify?

Rob Goff

Yeah. Thank you.

Dana Landry

Thank you.

Operator

Our next question comes from the line of Bentley Cross with TD. Your line is open.

Bentley Cross — TD

Good morning, gentlemen.

Dana Landry

Morning, Bentley.

Keith Abriel

Morning, Bentley.

Bentley Cross

First I want to ask just on the margin front, I don't know if there's some degree of seasonality or what, but maybe you could just walk me through because when I calculate the year-to-date margins on the core business, if I put a 25% margin on Peanuts and Strawberry, which was roughly indicative of what you guys had presented before, it suggested the core business is down. And the messaging I'm getting from you is that's not the case. So maybe there's just some seasonality here? Or if you could just walk me through it, it would be helpful.

Keith Abriel

Yeah. So margins obviously year over year are down from roughly low 50s to around 43 or 44%. Obviously, the Peanuts transaction has impacted that because that comes in at a lower margin because of the fees paid to Schulz.

Our production service margins are off a little bit, primarily because we're doing a lot of work on our partnership projects, and WildBrain margins have come off slightly on a percentage basis because of third-party brands, so.

Bentley Cross

Okay. So—

Keith Abriel

But—

Bentley Cross

Wrapping that all together, Keith, does that suggest that margins for the core business or EBITDA for the core business is actually down year to date?

Keith Abriel

No. We're tracking to guidance.

Dana Landry

And I think, sorry, I would just add here that there is the seasonality point that you made, particularly on the Peanuts business, given that there's a fair bit that comes in what would be our Q3 related to the Christmas season.

Bentley Cross

Okay. All right. That's helpful. Thanks, guys.

Operator

And again, if you'd like to ask a question, press *, then the number 1 on your telephone keypad.

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

Drew McReynolds — RBC

Thanks very much. Good morning. Just a follow-up to the last question. Maybe just put it another way, in terms of the adjusted EBITDA growth from the core business you're guiding 10 to 15% for the full year, can you tell us, Keith, just what that was for the first half, if it's relevant at all?

Keith Abriel

No, it's tough. We manage the business as a consolidated unit, so we don't split it out. But the—as you can see, look at the distribution side of the business, look at the parts of the business that are bellwethers for the health of the business and you'll see that those top-line revenues are growing.

Drew McReynolds

Okay. Okay. And maybe one for you Dana. Just on the WildBrain, obviously a notable uptick in revenue performance. Is that all traffic driven in monetization? Or are there other kind of things that are underneath the hood that you'd want to flag or point out?

Dana Landry

Well, yes, actually I mean that's our—a little bit of this is our secret sauce, so I'll sort of speak high level. There's sort of three things, factors that are driving that. One is consumption is up materially within that platform; number two, we're getting better at monetizing within the platform; and number three, we're attracting some very high-profile brands, which are adding to the leverage.

And so we view this very much as a sort of a virtuous circle that feeds upon itself. And each quarter we're seeing some tremendous traction there.

Drew McReynolds

Okay. Thank you. I'll hop back in line.

Operator

Our next question comes from the line of Jeff Fan of Scotiabank. Your line is open.

Jeff Fan — Scotiabank

Thanks. Good morning. Maybe another way of getting at this, I think what everyone is trying to get to is the core business, but maybe we can just look forward. Your guidance is $125 million to $155 million on adjusted EBITDA. You've done roughly, I guess, $32 million in Q2 and $23 million in the first quarter. It does imply a pretty significant ramp and especially with respect to the mid to high end of that range. Wondering if you could just help us maybe walk through what some of the factors that you expect to see in the second half that would get us to maybe the bottom versus the middle versus the high end of the ranges so that we can assess what's more likely, given the wide range on the guidance?

Keith Abriel

Yeah. Sure. So if you go back historically, you'll see that Q3 is typically a very strong quarter for us, as is Q4. Normally that's where it comes. If you go back a couple of years through the business,

you will see that seasonality is part of our business. Q1 is traditionally light, Q2 tends to be a little stronger, and Q3 and Q4 tend to be our stronger quarters during the year.

Jeff Fan

Okay. Thank you.

Operator

And our next question comes from the line of Tim Casey with BMO. Your line is open.

Tim Casey — BMO

Thanks. I was wondering, can you talk a little bit about how you're thinking – regarding what I'll the call the new Peanuts – is evolving? When you are going to start working to reposition the brand and producing new IP? How is your thought process evolving now that you've had the asset for another quarter? And just one sub-question, are you able to quantify the talent fees that you paid to Schulz? Or provide some colour on how they're calculated so we could just get a little more colour there? Thanks.

Dana Landry

Okay. So thanks for that, Tim. So the second one I'll defer to Keith on. But, so what I would say on the thought process for Peanuts, everything is sort of as we expected, except slightly better. And I think one of the things that we really have noticed is that because we're a content company and that our strategy with respect to Peanuts is to obviously make new content alongside and

collaborating with the Schulz Family and our current partners, there's been a new—that's been a shot in the arm for the brand across all licensees. And we've had inbound licensees that have for many years coveted coming after the brand, which now that there's a thought of new content are coming to bear.

The other thing that I would just point to which puts pay to that is last month, for instance, we had our highest number of approvals within our approvals group at 15,000 for the month, which is roughly about 500 per day, which is up materially from the month before. So we're not only seeing that in terms of excitement, we're seeing it in actual business as well.

Keith, can you—

Keith Abriel

Yeah. Sorry. And yeah, the talent fees are disclosed in Note 4.2 of the financial statements; Page 3 of the notes you'll see the number.

Tim Casey

Thank you.

Operator

Our next question comes from the line of Deepak Kaushal with GMP. Your line is open.

Deepak Kaushal — GMP

Hi, guys. Good morning. Thanks for taking my questions.

Dana Landry

Good morning.

Deepak Kaushal

Dana, I wanted to ask you about your views on the advertising environment in general; two parts to the question, please. First, on the WildBrain side and the online platforms for AVOD, we read sometimes in the mainstream press of some major brands threatening to pull or being wary of the online environment. What are you seeing in general in the advertising for online and in particular for your WildBrain properties and kids content? And then I've got a follow-up on the linear side. Thanks.

Dana Landry

Sure. So, excellent question. Thank you. Yeah. There's been a lot reported on this obviously, Deepak, over the last quarter or so. So, what's really important to note is that the content that's been affected in the Google system, YouTube system, has been ones that are certainly not core kids' content. And so because our content typically skews younger we've actually seen, touch wood, an increase over the last—through the turmoil because what we're finding is advertisers are going towards that safe place. And what our portfolio offers is that safe, secure environment. And so, since we've been such a successful, loyal, good partner for Google and YouTube, we've been the beneficiary of actually considerable uptick as a result of others pulling aside.

Deepak Kaushal

And just to clarify, is the uptick in terms of volumes? Or are you also seeing a pricing uptick?

Dana Landry

Both. Because what tends to happen within the YouTube universe is that the consumption doesn't go away. So if one channel gets turned off, it just gets spread amongst the other channels.

Deepak Kaushal

Got it.

Dana Landry

And what ends up happening is as your views increase, your ability to monetize those views increase. So you have a—it's a two-pronged positive effect.

Deepak Kaushal

Got it. And then on the linear side, I know that you've, I believe—correct me if I'm wrong—that you had approval on changes of your licensing with the CRTC to allow you to do advertising over your linear channels. Any thoughts or progress on that side of the business and if that's something we should think about in terms of forecasting at some point in the future?

Dana Landry

Yeah. So that's been slow off the start. I think we're even down from the previous year by about 3 or 4% for the quarter. We're having a hard time getting to scale with three or four channels.

Having said that, we do have a new plan in place, and we're optimistic that we'll see some progress on this in the coming quarters.

Deepak Kaushal

And is that something typically that comes with renewals when you discuss changes like that? Or can you do those kind of on the spot?

Dana Landry

We have the right—the ability to do that now. It really is a strategy as to how you go about that. And so that includes sponsorships; it includes working with our partners; it includes obviously all sorts of things, the programming schedule, the time slots in the evening. There's many, many factors that go into that, and that we're working on a comprehensive plan to update the shareholders and show progress on that in the coming quarters.

Deepak Kaushal

Great. Thank you very much. Looking forward to that. Appreciate you taking my questions.

Dana Landry

Thank you.

Operator

Our next question comes from the line of Eric Wold with B. Riley. Your line is now open.

Eric Wold — B. Riley

Thank you. Good morning. Two questions; I guess one, you've spoken about acquisitions at WildBrain as being a driver of growth. You talked about kind of what level of content is available out

there, kind of what types of content you're looking at acquiring at what multiples you're currently seeing out there for acquisitions.

And then two, I know the Strategic Review remains ongoing, but thinking at a high-level around the TV, DHX Television division, is there a way to structure something on that where maybe it's still not fully owned by DHX, but you still retain the benefits that you've had on the production side from that? Thank you.

Dana Landry

Okay. Thanks for your questions, Eric. So maybe what I'll do is I'll put the Strategic Review question to you, Michael. But, David, maybe I could get you to—David Regan, our head of Corporate Development and Strategy, to turn over about the acquisitions vis-à-vis WildBrain.

David Regan — Executive Vice President of Strategy and Corporate Development, DHX Media Ltd.

Yeah. Thanks, Eric, for that. We've actually been doing some analysis recently to look at the two tuck-in acquisitions that Dana referenced. And they have both exceeded in terms of revenue, pricing and watch time. And I would go back and confirm that part of the prior question where we talked about the effect of the advertising pullback on YouTube has been an effective cull of some of the smaller channels that showed a pronounced lift for our network as a result of that.

So those are acquisitions that are exceeding expectations right now, and we'd look forward to doing more of those and are working on more of those.

Michael Donovan

Yes. And, Eric, with respect to your suggestion vis-à-vis the TV channels, the committee, the Special Committee has really been exploring every option. There are no sacred cows. And definitely various options with respect to the TV channels are being considered.

Any more questions?

Operator

And our next question comes from the line of Adam Shine with National Bank. Your line is open.

Adam Shine — National Bank

Thanks a lot. Maybe start with one for you, Dana and Keith. Just on the consumer products revenues, you highlight 16% organic growth, mostly acquisitive, otherwise in the context of Peanuts and the Strawberry Shortcake. But when I take that out, it's actually down in terms of the revenues, partly because there's not a repetition of the live tours. Take the live tours out from a year ago, you then jump higher. So, a couple questions around consumer products. One, a relatively seasonally important period for consumer products your Q2; curious what exactly you're seeing ex some of the M&A contribution? And then perhaps more specifically for Keith, how you're deriving that 16% organic number? Because I'm not sure you get there. And then I'll follow up with one for Michael later. Thanks.

Dana Landry

Okay. So thanks for that. And one thing I would just—so make a comment on you mentioned live tours. Obviously, the live tours are seasonal, and those tend to not occur in the first two quarters, although last year we did have a bit of an anomaly. There was revenue within the comparative quarter. And we've got a lot of plans on the live side of the business.

In terms of what we're seeing in terms of trends, obviously there's been much chatter about retail, et cetera. It's really important to point out that Peanuts is very, very diversified. Many of these licensees and partnerships are many, many years in the making. And so we're still seeing positive momentum on the Peanuts licensing side of the business.

So hopefully that clarifies in terms of the consumer product side. And, Keith, I don't know if you want to—

Keith Abriel

Yeah. On the revenue side, Adam, that's 16% of the total consumer products revenue for the quarter is the organic portion of the revenue. And any more questions on that, you can give me a shout afterwards, and I'll walk you through it.

Adam Shine

Yeah. Okay. I'll have to dig in with you.

Keith Abriel

Yup.

Adam Shine

Let's turn to Michael. Michael, I guess when the guidance was originally given for F '18, you were very bullish. You kind of characterized it as conservative. Jeff asked his question in the context of how do we step up from H1 to get towards the numbers, and obviously there's a seasonality effect in the context of the second half. Do you—if we go back to your original comments from September, how are you seeing the business? How are you seeing the momentum heading into the second half? Are there areas of perhaps growth that are indeed tracking perhaps better than expected as a look ahead into the next six months? Thanks.

Michael Donovan

Yes. Thank you for that question. I've been in this business for a very long time. And this is the best environment ever literally in 37 years because streaming is massively monetizing content. And as the delivery mechanisms become and proliferate, and new entrants with large bank accounts realize the importance of content, our unique library is positioned to increasingly leverage that.

And I think someone earlier in the call asked a question, what are the new players? Well, that's the headline here. New players are stepping in. The old players are stepping up. The new players are stepping in, and we have a fixed set of offerings, and also some pretty exciting new shows that are coming down the pike. So that is the basis of our optimism.

In the past, we haven't always executed perfectly. I look forward to executing much better going forward, and I believe that's where this team will take us and take this company.

Adam Shine

And notwithstanding, obviously, as you just alluded to, Michael, some of the execution that you guys spoke of to close out last fiscal in the context of the acquisition distractions, but I guess similarly no distractions as you plough ahead with the Strategic Review and continue to execute on the core business, correct?

Michael Donovan

Well, exactly. And the Strategic Review process has actually been an extraordinarily positive one inside this company, in my opinion, for the board, but also for management as well in terms of taking a very sharp focus to getting a sharp pencil to every single line of business in order to figure out how to optimize this tremendously positive environment with our assets.

And the most important thing that we've—and our intention is to report when we report, but nevertheless what I can say is that the more that we look, the more we realize how much of a differentiator our very large, unique one-of-a-kind library is. It's the largest independent library outside the studios in the world in family and children. And animation lives forever and gets more valuable over time. That is our differentiator.

And our focus is narrowing in on how to truly produce revenue and EBITDA that drives value for our shareholders leveraging our library. That's our focus.

Adam Shine

Great. Thank you very much.

Michael Donovan

Thank you.

Operator

Our next question comes from the line of Aravinda Galappatthige with Canaccord. Your line is open.

Aravinda Galappatthige

Thanks. I just want to follow up perhaps with Keith on the working capital on reserve. For the first half of the year, including the interim production movements, you're looking at about $42.7 million working capital use. And you broke down a couple of items, the early redemption cost of $13.5 million and the debt issuance and the acquisition cost of $10.9 million, so those two together, about $24 million. I suspect that the strategic partnership component is not in the working capital? Am I wrong there?

Keith Abriel

Some of that actually was in the working capital, Aravinda. We had—in the MD&A I quote a number. We had a fair amount of that accrued at June 30th. So it actually does impact the working capital. It's normal course business, but it was a large number that was in the working capital number at June.

Aravinda Galappatthige

Okay. Was the $16.4 million related predominantly to the Mattel partnership? Or there—

Keith Abriel

Yeah. It was our partnership projects and funding our portion of the production.

Aravinda Galappatthige

Okay. So the Mattel partnership is now going through. Is that kind of broken up between proprietary and producing service fees? Or like where are the revenues there?

Keith Abriel

The revenues are included in production service. And I always put a little asterisk beside that because there are certain proprietary elements to that.

Aravinda Galappatthige

Okay. Okay. So from that perspective, if we take it from there and look at sort of your guidance for free cash flow, I think you've talked about after the net investment in program—in film and TV, I think you get about a number of $30 million to $40 million. And then within that, you've identified that $20 million to $25 million in these transaction payments that you're going to have to make, which kind of gives you a range of $5 million to $15 million. Is that—like when you look at a clean free cash flow number for the year as we look ahead, is that still what you expect to achieve?

Keith Abriel

Yeah. We're actually—we're right on plan for our free cash flow guidance. As we've said, not only is EBITDA in this company traditionally weighted to the second half of the year, because of

the natural production cycles of the business, the free cash flow is even more so weighted to the second half of the year. So we're on plan for our free cash flow.

Aravinda Galappatthige

Okay. Great. Thank you.

Operator

And our next question comes from the line of Jeff Fan with Scotiabank. Your line is open.

Jeff Fan

Thank you. Just a couple of follow-ups. Regarding your TV business, it looks like your revenue was down about 8%. A large part of that now is coming from subscriber revenues coming down. Wondering if you can just help us gauge what is the components that drive that? Is it still fees per subscriber? Or are you actually seeing the actual lower number of subscribers for the quarter? And how do you expect to see this trend going forward?

And then the second follow-up is just regarding WildBrain. You've mentioned that the percentage of your third-party content has ramped up, and that's the reason why margins are slightly down. Wondering if you can help us think about what the mix of proprietary versus third-party content will look like going forward for WildBrain?

Dana Landry

Okay. I think I have all your questions here, Jeff. Let me just work through them here. So, on a high level, I'll speak to the TV revenues and then if, Keith, if you need to clarify or correct me, please do.

So, it's around half of it, and half of the down is related to the advertising that we spoke about earlier. The other half, about 4%, is sub loss plus some small deals that have in terms of waterfalls have come down slightly from the previous years. So it's probably around 2 or three 3 and 1 or 2%: 2 or 3% on the sub loss and 1 or 2% on the per fee sub. But that is sort of now baselined going forward to the back half. We do expect that our sub loss would be tracking in line with the industry, 2 to 3% is what we would say in terms of—so I think that covers the first one.

The second one, traditionally we haven't broken out exactly what the mix I don't believe, Keith, in terms of the organic side versus the third-party side is, but it's probably closer to 50/50 now. And I would expect that that probably will settle in in the 60/40 sort of proprietary—sorry, third party to proprietary maybe as high as two-thirds/one-third. So that would be proprietary to third-party, third-party being slightly higher.

Jeff Fan

Great. And maybe just a very quick one on YouTube, I guess Google recently talked about stricter requirements for rev share. In light of that, how does that impact, if at all, the rev share arrangements that you have with Google?

Dana Landry

No impact on us.

Jeff Fan

Okay. Thanks.

Operator

Our next question comes from the line of Bentley Cross with TD. Your line is open.

Bentley Cross

I just want to follow on from Michael's comments earlier. Michael, you mentioned that it's kind of the best environment you've ever seen. Is that just from the size-of-the-cheque perspective? Or are you still seeing the ability to sell the complete library like you were a few years ago?

Michael Donovan

Well, the answer is both. Cheque—with more players entering the space, there's more demand for—I mean, and the product is expanding—but in our space, the children's space, particularly preschool, the value equation is primarily what the recognized brand, the brands that parents recognize. So that's more money torqueing against a relatively fixed size, the result of which is larger cheques. Also, just more cheques. The whole business is producing much bigger cheques than it used to, certainly than ten years ago, and even since last year every year it's up. It's just a function of more and more parties entering, bidding up, and paying more for product. And we have our library greatly amortized.

But there—and there was a question earlier that there's a drift towards more exclusive, more wholly-owned, more original production. That is much less so in the children's space. We are seeing more than we did before, which was none before a year ago, two years ago. And now we're seeing a little bit more; not materially, though, in our space and not materially affecting us. So we're able to get higher prices for our library, higher prices for our new products, and keep pretty much as many of the rights—not quite as many; it's different—but net-net much better. Now how do we leverage that into reassert our growth forward, given that environment? That's the challenge that this company has confronted over the last six months, having spent a great deal of time distracted by acquisitions. The new focus is that, how to realize the opportunity with our large library.

Bentley Cross

Thank you, Michael. And then just one follow-up just related to a specific property. It's kind of taken a back seat lately, but just wondering if you could give us a holiday update for Teletubbies.

Michael Donovan

Yes. I'll encourage Dana to add to this. We're essentially retooling. It's continuing to work in certain territories very well, that is particularly—and I think we mentioned this earlier—the UK and Germany, where we have other territories that we are in the process of rolling it out to. And the key, though, is to reimagine it for the United States. And that's a very high priority in the Company.

Dana?

Dana Landry

Yeah. The only other one I would add to that is China. We see some big potential in China as well for the Teletubbies.

Michael Donovan

Yeah. That's right. Yes. That's material.

Bentley Cross

Thank you, guys.

Operator

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

Drew McReynolds

Thanks very much. Just two additional for me. Maybe, Michael, back to just a strong environment out there, can you just comment specifically on the demand from your traditional television broadcasters, just given a lot of obviously some pressure on the traditional TV ecosystem there? And second question, just on the balance sheet target for fiscal 2019, just reassuring that from your perspective you're on track to achieve that? Thank you.

Michael Donovan

Yes. So with respect to your first question, yes, the general—I mean, that's one of the fundamental issues of the linear world. For years, broadcasters were able to dictate prices. But now

there's real competition, and more and more and bigger and bigger bank accounts. So linears had to step up, which linear has done a very good job of doing.

It's complicated in the children's space because it's different, but because where libraries are so important and the traditional, and recognized old brands are important fully amortized, so it's—but nonetheless, you're right, that's the general trend in linear to increase prices as well and rather dramatically.

For me, as someone who's been around, it's tremendously satisfying to see this. And I'm glad that I stayed around to see it because the essence of the business for years was how to survive as a price taker. And that has definitely shifted—a few years ago it shifted—but it continues to shift. And now we have a different, more interesting challenge, which is how to now optimize that, given our library and given where we fit in the ecosystem to produce the maximum benefit for our shareholders and create a plan consistent with that. And that's what we've been doing for the last six months as our primary focus.

And so there was a second question that which I now forget. Oh yes, on the subject of our debt-restructuring targets, that was it?

Drew McReynolds

Yeah. Just on—yeah. That's right, Michael, just on the kind of balance sheet targets.

Michael Donovan

Yes. We are—I'm 100 percent convinced that those targets are achievable and we're—and by the way, that's also a high priority to deliver on those targets. So we can reiterate those with confidence.

Keith or Dana, do you have anything to add? No? Okay.

Drew McReynolds

Thank you.

Operator

And that's all for questions. I'll turn the call back over to our presenters.

Nancy Chan-Palmateer

Thank you very much. And we look forward to reporting on next quarter. Have a good day.

Dana Landry

Thank you, all.

Operator

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

*****