

Entertainment One

Trading update

Good year all round

Entertainment One's (eOne) year-end trading update indicates financial performance in line with expectations, with the groundwork in place for good progress across both Family & Brands and Film, Television & Music. The benefits of the transition towards production in film are clear, with better margin potential, a reduced risk profile and stronger free cash flow. Our EBITDA and EPS forecasts are unchanged and we have introduced numbers for FY21e, showing continuing progress. The intense competition between new and competing SVOD providers is driving a very healthy appetite for high-quality entertainment content.

Year end	Revenue (£m)	EBITDA (£m)	PBT (£m)	EPS (p)	DPS (p)	P/E (x)	Yield (%)
03/17	1,083	160.2	129.9	20.0	1.3	22.2	0.3
03/18	1,045	177.3	144.4	21.9	1.4	20.3	0.3
03/19e	1,070	195.0	159.5	24.5	1.5	18.1	0.3
03/20e	1,195	215.0	183.0	27.9	1.6	15.9	0.4
03/21e	1,300	236.0	200.5	30.5	1.8	14.6	0.4

Note: *PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

Good progress across segments

We are encouraged by the broad spread of contribution towards growth indicated in the update. *Peppa Pig* helped Family & Brands increase FY19 revenues by over 25%, on (indicated) maintained margin. It is rapidly gaining traction in China, where the film trailer going viral has further boosted awareness. 117 new episodes are in production, bringing the total to 381, and there is a steady programme to drive other opportunities for revenue generation. *PJ Masks* looks to be following a similar trajectory and has the potential to reach the same scale. The transition to focus on production in Film, Television & Music is now broadly complete, significantly de-risking the business. The momentum in the segment seems to be greater currently in TV than film, which chimes with the market competition between traditional broadcasters, cable networks and digital platforms. Again, this will favour margins and reduce risks. The agreement with Universal Pictures Home Entertainment effectively outsources home entertainment to one provider, making it easier to manage and swapping out fixed cost for performance-based variable cost.

Earnings forecasts unchanged, new FY21e

The trading update indicates results in line with management expectations. We have slightly lowered our revenue numbers, but maintained our EBITDA and EPS numbers supported by better margins. We have also set out our initial thoughts for FY21e, which show 9% uplift in revenue and 10% in EBITDA over the prior year.

Valuation: Well underpinned

Peer share prices have underperformed over recent weeks, reflecting stock-specific issues, bringing back our implied sum-of-the-parts valuation to 440p (vs 495p before), around the current price. eOne's business model is increasingly robust and the industry context provides a strong backdrop. The library valuation of \$2.0bn (end-March 2018) stands at around 75% of the current market valuation.

Media

4 April 2019

Price 444.4p
Market cap £2,059m

Net debt (£m) at 30 September 2018 433
Shares in issue 463.4m
Free float 95.4%
Code ETO
Primary exchange LSE (FTSE 250)
Secondary exchange N/A

Share price performance



%	1m	3m	12m
Abs	3.7	23.2	56.4
Rel (local)	1.4	13.2	52.2
52-week high/low	447.6p	268p	

Business description

Entertainment One is a global independent studio that specialises in the development, acquisition, production, financing, distribution and sales of entertainment content. Its rights library, valued at US\$2.0bn, is exploited across all media formats, and includes more than 80,000 hours of film and television content and approximately 40,000 music tracks.

Next events

Prelims 21 May 2019

Analysts

Fiona Orford-Williams +44 (0)20 3077 5739
Russell Pointon +44 (0)20 3077 5700

media@edisongroup.com

[Edison profile page](#)

Entertainment One
Entertainment One is a research client of Edison Investment Research Limited

Content with content

The prelims are scheduled for 21 May and at that point we will revisit our forecasts in more detail. The trading update indicates performance in line with management expectations, so at this stage we would not envision making significant adjustments. We have, however, revised down our FY19 and FY20 forecast revenue numbers in the context of the trading comments (by 6% and 4% respectively), while assuming slightly better margins and therefore leaving our EBITDA numbers unchanged. For FY21e, we have assumed similar patterns in business development to those built into our FY20e numbers, with increasing investment in own content that will underpin future years' growth. These provisional numbers show 9% top-line progress and a slight improvement in margin, lifting EBITDA growth to 10%.

Highlights from the statement include the following:

- Net debt at approximately 1.8x EBITDA. This is in line with our model.

Family & Brands:

- Reported revenue up over 25%, underlying EBITDA up by around the same amount.

Within Family & Brands:

- *Peppa Pig* contributed 57% of segmental revenue, *PJ Masks* 37%.
- China revenues up over 50% as *Peppa Pig* SVOD sales build and licensing/merchandising revenues start to come in.
- *Ricky Zoom* to launch in China in spring/summer 2019, with global broadcast launch in autumn/winter 2019 and toy launch with TOMY expected in spring/summer 2020.

Film, Television & Music:

- Greater emphasis on TV, with over 1,000 half-hours of produced/acquired content delivered in FY19, up over 20% on prior year.
- Greater selectivity in Film, leading to a 44% improvement in average box office revenue per release on broadly flat total box office revenues.
- Music revenues up 25%, underlying EBITDA growth of over 20%. The market transition to streaming has provided a strong tailwind.

Keeping up *Peppa's* momentum

There is no sign of the market wearying with *Peppa Pig* and the number of live licensing and merchandising contracts continues to increase – up to 1,600 globally (FY18: 1,500). The objective is to increase the number of touchpoints between the property and its audience, whether that be by watching episodes, buying licensed merchandise, playing branded games or experiential. Merlin Entertainments has opened indoor play centres in Shanghai and Dallas, with plans for four more, which allow children to play in scaled-up replica room sets and interact with costumed staff. This obviously can be rolled out at a far lower capital cost than theme parks. eOne would typically receive a fee plus percentage of door and merchandise sales. Master toy partner, Alpha, has launched the first tranche of product in China and will then look to increase the range.

There is obviously the potential for *PJ Masks* to follow a similar roll-out. It has already climbed to the top three pre-school properties in the US and the top four in the UK, with season three set to air on Disney in North America this month and then in other territories through the calendar year. Season four has been green-lit.

Film, TV & Music content to the fore

The emphasis on owned content puts eOne in greater control of its financial outcomes, particularly in film. With film increasingly following the TV model, pre-selling titles into the market, then accessing production finance and available tax breaks, the free cash flow characteristics are particularly improved. This aspect is also buoyed by the shift from distribution to production as promotion and advertising costs are borne by the distributor and these can be substantial.

The appointment of Universal Pictures for Australia and WW Entertainment in Benelux as sub-distributors, as well as Universal Pictures Home Entertainment to handle all the home entertainment elements (including digital), underlines the management intention to focus down on a smaller and more profitable film operation. Film releases in FY20/21 are set to include *Scary Stories to Tell in the Dark* and *Queen and Slim*, and *Sovereign*, starring Mahershala Ali.

In TV, *The Rookie* performed very strongly on ABC and has been recommissioned, while *Grey's Anatomy* is now the longest-running US medical drama. New commissions for FY20e include *Run* (Vicky Jones and Phoebe Waller-Bridge) for HBO and a pilot of *Deputy*, to star Stephen Dorff.

Valuation

As previously, we have separated out the Film & TV and Family & Brands valuations for our peer-based SOTP valuation. This shows a valuation of £4.40 based on FY20e, around the current market price and a decrease of 11% from our £4.95 indication at the time of our [last note](#) in November. This reflects a couple of factors:

- Falls in the share prices of comparators, reducing the applied FY20e multiple. When this exercise was carried out in November, Family stocks were on 14.9x FY20e EV/EBITDA (now 12.6x), while Film & TV multiples have reduced from 12.1x to 11.4x.
- A shift in forecast mix as EBITDA margins in Film & TV move ahead.

Exhibit 1: Peer multiple SOTP valuation

£m	2019e	2020e
Film & TV - EBITDA	103	115
Family & Brands - EBITDA	104	114
Group costs and depreciation	(17)	(19)
Applied multiples:		
Film & TV multiple	12.8	11.4
Family & Brands multiple	13.3	12.6
Average	12.9	12.0
Implied EV:		
Film & TV	1,281	1,219
Family & Brands	1,385	1,425
Group costs	(218)	(219)
Total EV	2,448	2,424
Minorities	(171)	(170)
Net debt	346	278
Group equity value	1,931	1,976
Shares in issue	463.9	469.4
Implied value per share (£)	4.23	4.40
Implied value if production finance is treated as debt (£)	3.98	4.15
Source: Edison Investment Research		

Exhibit 2: Financial summary

	£m	2017	2018	2019e	2020e	2021e
Year end 31 March		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		1,082.7	1,044.5	1,070.0	1,195.0	1,300.0
Cost of Sales		(822.9)	(793.8)	(813.2)	(908.2)	(988.0)
Gross Profit		259.8	250.7	256.8	286.8	312.0
EBITDA		160.2	177.3	195.0	215.0	236.0
Operating Profit (before amort. and except.)		155.3	173.7	190.5	210.0	230.5
Amortisation of intangibles		(41.9)	(39.6)	(37.0)	(37.0)	(37.0)
Exceptional items		(40.8)	(7.1)	(7.0)	0.0	0.0
Share based payment charge		(5.0)	(12.6)	(13.5)	(14.0)	(14.0)
JV tax, finance costs, dep'n		0.0	0.0	0.0	0.0	0.0
Operating Profit		67.6	114.4	133.0	159.0	179.5
Net Interest		(25.4)	(29.3)	(31.0)	(27.0)	(30.0)
Exceptional finance items		(6.3)	(7.5)	0.0	0.0	0.0
Profit Before Tax (norm)		129.9	144.4	159.5	183.0	200.5
Profit Before Tax (FRS 3)		35.9	77.6	102.0	132.0	149.5
Tax (reported)		(12.3)	0.6	(23.5)	(30.4)	(34.4)
Tax (adjustment for normalised earnings)		(14.8)	(28.5)	(7.6)	(5.3)	(4.7)
Profit After Tax (before non-controlling interests) (norm)		102.8	116.5	128.4	147.3	161.4
Profit After Tax (before non-controlling interests) (FRS3)		23.6	78.2	78.5	101.6	115.1
Non-controlling interests		(11.9)	(13.7)	(10.5)	(11.5)	(11.5)
Average Number of Shares Outstanding (m)		432.7	447.6	480.9	486.3	491.5
EPS - normalised (p)		20.0	21.9	24.5	27.9	30.5
EPS - FRS 3 (p)		2.7	14.8	14.7	19.2	21.8
Dividend per share (p)		1.3	1.4	1.5	1.6	1.8
Gross Margin (%)		24.0	24.0	24.0	24.0	24.0
EBITDA Margin (%)		14.8	17.0	18.2	18.0	18.2
Operating Margin (before GW and except) (%)		14.3	16.6	17.8	17.6	17.7
BALANCE SHEET						
Non-current Assets		972.7	936.9	942.5	969.3	955.3
Intangible Assets (incl Investment in programmes)		870.6	805.4	821.0	859.3	857.3
Tangible Assets		72.8	104.3	104.8	104.8	104.3
Deferred tax/Investments		29.3	27.2	16.7	5.2	(6.3)
Current Assets		928.3	899.1	914.1	920.6	961.6
Stocks		48.6	39.6	39.6	39.6	39.6
Investment in content rights		269.8	253.4	252.6	244.1	244.1
Debtors		476.5	486.9	546.9	586.9	626.9
Cash		133.4	119.2	75.0	50.0	51.0
Current Liabilities		(679.4)	(691.5)	(696.8)	(706.8)	(716.8)
Creditors		(574.6)	(514.7)	(520.0)	(530.0)	(540.0)
Short term borrowings		(104.8)	(176.8)	(176.8)	(176.8)	(176.8)
Long Term Liabilities		(464.6)	(438.7)	(396.4)	(331.4)	(247.0)
Long term borrowings		(368.3)	(375.6)	(333.3)	(268.3)	(183.9)
Other long term liabilities		(96.3)	(63.1)	(63.1)	(63.1)	(63.1)
Net Assets		757.0	705.8	763.3	851.7	953.0
CASH FLOW						
Operating Cash Flow		425.3	470.9	574.7	698.1	781.0
Net Interest		(24.3)	(26.2)	(31.0)	(27.0)	(30.0)
Tax		(18.4)	(32.5)	(28.1)	(30.4)	(34.4)
Capex		(3.5)	(3.2)	(5.0)	(5.0)	(4.0)
Acquisitions/disposals		(9.6)	(118.5)	(5.0)	0.0	0.0
Investment in content rights and TV programmes		(373.6)	(437.4)	(483.5)	(580.0)	(610.0)
Proceeds on issue of shares		(19.2)	52.0	0.0	0.0	0.0
Dividends		(8.3)	(13.0)	(14.3)	(15.7)	(17.3)
Net Cash Flow		(31.7)	(107.9)	7.8	40.1	85.3
Opening net debt/(cash)		299.7	339.7	433.2	435.2	395.1
Movements in exchangeable notes		0.0	14.5	0.0	0.0	0.0
Other including forex		(8.3)	(0.1)	(9.7)	0.0	0.0
Closing IFRS debt/(cash)		339.7	433.2	435.2	395.1	309.8
ANALYSIS OF NET DEBT						
Production finance		152.3	118.7	89.6	116.9	101.3
Net debt		187.4	314.5	345.6	278.2	208.5

Source: Company accounts, Edison Investment Research

Edison is an investment research and advisory company, with offices in North America, Europe, the Middle East and AsiaPac. The heart of Edison is our world-renowned equity research platform and deep multi-sector expertise. At Edison Investment Research, our research is widely read by international investors, advisers and stakeholders. Edison Advisors leverages our core research platform to provide differentiated services including investor relations and strategic consulting. Edison is authorised and regulated by the [Financial Conduct Authority](#). Edison Investment Research (NZ) Limited (Edison NZ) is the New Zealand subsidiary of Edison. Edison NZ is registered on the New Zealand Financial Service Providers Register (FSP number 247505) and is registered to provide wholesale and/or generic financial adviser services only. Edison Investment Research Inc (Edison US) is the US subsidiary of Edison and is regulated by the Securities and Exchange Commission. Edison Investment Research Limited (Edison Aus) [46085869] is the Australian subsidiary of Edison. Edison Germany is a branch entity of Edison Investment Research Limited [4794244]. www.edisongroup.com

DISCLAIMER

Copyright 2019 Edison Investment Research Limited. All rights reserved. This report has been commissioned by Entertainment One and prepared and issued by Edison for publication globally. All information used in the publication of this report has been compiled from publicly available sources that are believed to be reliable, however we do not guarantee the accuracy or completeness of this report. Opinions contained in this report represent those of the research department of Edison at the time of publication. The securities described in the Investment Research may not be eligible for sale in all jurisdictions or to certain categories of investors. This research is issued in Australia by Edison Investment Research Pty Ltd (Corporate Authorised Representative (1252501) of Myonlineadvisers Pty Ltd (AFSL: 427484)) and any access to it, is intended only for "wholesale clients" within the meaning of the Corporations Act 2001 of Australia. The Investment Research is distributed in the United States by Edison US to major US institutional investors only. Edison US is registered as an investment adviser with the Securities and Exchange Commission. Edison US relies upon the "publishers' exclusion" from the definition of investment adviser under Section 202(a)(11) of the Investment Advisers Act of 1940 and corresponding state securities laws. As such, Edison does not offer or provide personalised advice. We publish information about companies in which we believe our readers may be interested and this information reflects our sincere opinions. The information that we provide or that is derived from our website is not intended to be, and should not be construed in any manner whatsoever as, personalised advice. Also, our website and the information provided by us should not be construed by any subscriber or prospective subscriber as Edison's solicitation to effect, or attempt to effect, any transaction in a security. The research in this document is intended for New Zealand resident professional financial advisers or brokers (for use in their roles as financial advisers or brokers) and habitual investors who are "wholesale clients" for the purpose of the Financial Advisers Act 2008 (FAA) (as described in sections 5(c) (1)(a), (b) and (c) of the FAA). This is not a solicitation or inducement to buy, sell, subscribe, or underwrite any securities mentioned or in the topic of this document. This document is provided for information purposes only and should not be construed as an offer or solicitation for investment in any securities mentioned or in the topic of this document. A marketing communication under FCA Rules, this document has not been prepared in accordance with the legal requirements designed to promote the independence of investment research and is not subject to any prohibition on dealing ahead of the dissemination of investment research. Edison has a restrictive policy relating to personal dealing. Edison Group does not conduct any investment business and, accordingly, does not itself hold any positions in the securities mentioned in this report. However, the respective directors, officers, employees and contractors of Edison may have a position in any or related securities mentioned in this report. Edison or its affiliates may perform services or solicit business from any of the companies mentioned in this report. The value of securities mentioned in this report can fall as well as rise and are subject to large and sudden swings. In addition it may be difficult or not possible to buy, sell or obtain accurate information about the value of securities mentioned in this report. Past performance is not necessarily a guide to future performance. Forward-looking information or statements in this report contain information that is based on assumptions, forecasts of future results, estimates of amounts not yet determinable, and therefore involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of their subject matter to be materially different from current expectations. For the purpose of the FAA, the content of this report is of a general nature, is intended as a source of general information only and is not intended to constitute a recommendation or opinion in relation to acquiring or disposing (including refraining from acquiring or disposing) of securities. The distribution of this document is not a "personalised service" and, to the extent that it contains any financial advice, is intended only as a "class service" provided by Edison within the meaning of the FAA (ie without taking into account the particular financial situation or goals of any person). As such, it should not be relied upon in making an investment decision. To the maximum extent permitted by law, Edison, its affiliates and contractors, and their respective directors, officers and employees will not be liable for any loss or damage arising as a result of reliance being placed on any of the information contained in this report and do not guarantee the returns on investments in the products discussed in this publication. FTSE International Limited ("FTSE") © FTSE 2019. "FTSE®" is a trade mark of the London Stock Exchange Group companies and is used by FTSE International Limited under license. All rights in the FTSE indices and/or FTSE ratings vest in FTSE and/or its licensors. Neither FTSE nor its licensors accept any liability for any errors or omissions in the FTSE indices and/or FTSE ratings or underlying data. No further distribution of FTSE Data is permitted without FTSE's express written consent.