

Entertainment One

Nothing unscripted about Whizz Kid acquisition

Acquisition

Media

eOne's bolt on acquisition of Whizz Kid in the UK further builds on its expanding capabilities in the non-scripted television production segment. The £6.9m consideration paid for a 70% interest will be part funded utilising some of the excess proceeds of the recent placing and shares.

Year end	Revenue (£m)	EBITDA (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/16	802.7	129.1	104.1	19.4	1.2	14.3	0.4
03/17	1082.7	160.2	129.9	20.0	1.3	13.9	0.5
03/18e	1076.1	175.1	145.7	22.1	1.4	12.5	0.5
03/19e	1172.1	196.6	160.6	24.5	1.5	11.3	0.5

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

Whizz kid: Non-scripted television production

eOne has acquired a 70% stake in Whizz Kid Entertainment, a UK-based production company specialising in non-scripted television formats such as Ex on the Beach (9 series - MTV US) and Lip Sync Battle UK (Channel 5). Founded in 2006, Whizz Kid reported revenues of £14.2m for the year to March 2017 and EBITDA of £1.6m. Of the £6.9m acquisition price, eOne will pay £5m in cash, drawing on the recent fund raising, and the balance via the issuance of c 638k eOne shares. The deal is expected to complete by 12 April. A put and call arrangement has been put in place for the company to acquire the remaining 30% after a five-year period. The founding partners of Whizz Kid will continue to lead the division.

On strategy: Expands UK capabilities

eOne has been expanding its capabilities in non-scripted programming over the last few years with the acquisitions of Paperny Entertainment Group and Force Four in 2014 followed by Renegade 83 in 2016. The acquisition of Whizz Kid provides eOne with a stronger footing in the UK, an important creative hub for non-scripted entertainment. Along with the production capabilities acquired, eOne has also entered into a distribution agreement with Whizz Kid. In our view, the 6.2x FY17 EBITDA multiple looks reasonable and the deal is in line with eOne's strategy to build its production and distribution capabilities across a range of content genres.

Valuation: Sticking to script

At the earnings level, we do not expect a material change to forecasts which we will update at the time of the FY18 results in May. While the acquisition is relatively small in the wider context of the group, eOne continues to diligently execute its buy-and-build strategy to create a leading diversified content business. The recent trading update provides comfort regarding FY18 results and the pipeline for the year ahead. On 8.4x FY19e (to March) EV/EBITDA, we believe the shares offer good value compared to peers which trade at a c 25% premium.

9 April 2018

Price 277p
Market cap £1,274m

Net debt (£m) at 30 September 2017	313
Shares in issue	460m
Free float	90%
Code	ETO
Primary exchange	LSE (FTSE 250)
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(4.4)	(15.9)	16.5
Rel (local)	(4.6)	(9.7)	17.5
52-week high/low	329.4p	216.0p	

Business description

Entertainment One is a leading international entertainment company that sources, selects and sells films and television content. Its library contains over 40,000 film and TV titles, 4,500 half-hours of TV programming and 45,000 music tracks.

Next events

FY18 results	May 2018
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Exhibit 1: Financial summary

	£m	2015	2016	2017	2018e	2019e
Year end 31 March		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		785.8	802.7	1,082.7	1,076.1	1,172.1
Cost of Sales		(578.0)	(610.1)	(822.9)	(817.9)	(890.8)
Gross Profit		207.8	192.6	259.8	258.3	281.3
EBITDA		107.3	129.1	160.2	175.1	196.6
Operating Profit		103.6	124.7	155.3	169.6	190.1
Amortisation of intangibles		(22.2)	(27.4)	(41.9)	(40.0)	(40.0)
Exceptional items		(17.9)	(16.6)	(47.1)	(3.3)	(2.5)
Share based payment charge		(3.4)	(5.7)	(5.0)	(5.0)	(5.0)
JV tax, finance costs, dep'n		0.1	(1.6)	0.0	0.0	0.0
Operating Profit		60.2	73.4	61.3	121.3	142.6
Net Interest		(14.8)	(20.6)	(25.4)	(23.9)	(29.5)
Exceptional finance items		(1.4)	(6.5)	1.3	(11.8)	0.0
Profit Before Tax (norm)		88.8	104.1	129.9	145.7	160.6
Profit Before Tax (FRS 3)		44.0	47.9	37.2	85.6	113.1
Tax (reported)		(2.7)	(7.7)	(12.3)	(18.8)	(26.0)
Tax (adjustment for normalised earnings)		(16.8)	(16.8)	(16.1)	(13.2)	(10.9)
Profit After Tax (before non-controlling interests) (norm)		69.3	79.6	101.5	113.7	123.7
Profit After Tax (before non-controlling interests) (FRS3)		41.2	40.2	24.9	66.8	87.1
Non-controlling interests		0.0	(3.7)	(11.9)	(16.5)	(9.4)
Average Number of Shares, Diluted (m)		332.9	379.8	433.4	440.0	466.4
EPS - normalised (p)		20.8	19.4	20.0	22.1	24.5
EPS - FRS 3 (p)		12.7	9.8	3.0	11.6	16.8
Dividend per share (p)		1.1	1.2	1.3	1.4	1.5
Gross Margin (%)		26.4	24.0	24.0	24.0	24.0
EBITDA Margin (%)		13.7	16.1	14.8	16.3	16.8
Operating Margin (before GW and except) (%)		13.2	15.5	14.3	15.8	16.2
BALANCE SHEET					10%	11%
Non-current Assets		538.4	890.7	972.7	1,094.3	1,082.5
Intangible Assets (incl Investment in programmes)		473.9	808.2	870.6	993.7	978.4
Tangible Assets		6.1	60.1	72.8	78.3	81.8
Deferred tax/Investments		58.4	22.4	29.3	22.3	22.3
Current Assets		634.3	752.0	928.3	917.8	989.0
Stocks		52.0	51.1	48.6	48.6	48.6
Investment in content rights		221.1	241.3	269.8	297.8	302.4
Debtors		289.9	351.3	476.5	496.4	563.0
Cash		71.3	108.3	133.4	75.0	75.0
Current Liabilities		(488.3)	(568.7)	(679.4)	(637.8)	(636.2)
Creditors		(398.7)	(470.7)	(574.6)	(533.0)	(531.4)
Short term borrowings		(89.6)	(98.0)	(104.8)	(104.8)	(104.8)
Long Term Liabilities		(319.6)	(413.6)	(464.6)	(550.4)	(540.4)
Long term borrowings		(295.9)	(309.1)	(368.3)	(454.1)	(444.1)
Other long term liabilities		(23.7)	(104.5)	(96.3)	(96.3)	(96.3)
Net Assets		364.8	660.4	757.0	823.8	894.9
CASH FLOW						
Operating Cash Flow		271.9	320.1	438.4	477.2	621.8
Net Interest		(13.4)	(31.0)	(25.0)	(23.9)	(29.5)
Tax		(10.8)	(17.7)	(18.4)	(22.6)	(31.2)
Capex		(4.8)	(8.6)	(3.8)	(11.0)	(10.0)
Acquisitions/disposals		(104.3)	(226.0)	(7.5)	(134.0)	0.0
Investment in content rights and TV programmes		(280.8)	(218.5)	(408.1)	(473.0)	(530.0)
Proceeds on issue of shares		0.0	194.6	0.0	53.2	0.0
Dividends		(2.9)	(4.0)	(8.3)	(10.0)	(11.0)
Net Cash Flow		(145.1)	8.9	(32.7)	(144.1)	10.0
Opening net debt/(cash)		165.1	314.2	299.0	339.7	484.0
Movements in exchangeable notes		0.0	0.0	0.0	0.0	0.0
Other including forex		(4.0)	6.3	(8.0)	(0.1)	0.0
Closing IFRS debt/(cash)		314.2	299.0	339.7	484.0	473.9
ANALYSIS OF NET DEBT						
Production finance		89.3	118.0	152.3	183.8	204.3
Net debt		224.9	181.0	187.4	300.2	269.7

Source: Historics – eOne, Forecasts - Edison

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