

Entertainment One

Strong second half performance

Trading update

Media

A strong performance from Television and Family and continued recovery at the Box Office in Film put eOne on track to deliver strong growth in reported revenues and underlying EBITDA in FY17, as expected. The divisional mix may be weighted more towards Television than we had forecast but overall, we do not make any changes to our estimates.

Year end	Revenue (£m)	EBITDA (£m)	PBT* (£m)	EPS* (p)	DPS (p)	P/E (x)	Yield (%)
03/15	785.8	107.3	88.8	20.8	1.1	11.0	0.5
03/16	802.7	129.1	104.1	19.4	1.2	11.8	0.5
03/17e	1,003.1	157.0	126.7	20.0	1.3	11.5	0.6
03/18e	1,093.9	178.0	149.4	23.7	1.4	9.7	0.6

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

FY17 performance in line

eOne's trading update points to strong growth in reported revenues and underlying EBITDA, underpinned by an excellent half for Television, strong growth in Family and an improved second half performance in Film, as expected. Net debt is expected to be 1.2-1.3x EBITDA, slightly higher than previously guided (1.1-1.2x).

Television and Family very strong, Film recovers

Television revenues have almost doubled (we forecast a 54% increase) with scripted productions strong at eOne Television and The Mark Gordon Company (MGC) also generating a significant increase in revenues following the success of *Designated Survivor*. In Family, revenues and EBITDA have increased by at least 25% (in line with our forecast), buoyed by the performance of *Peppa Pig*, particularly in the US, as well as a strong performance by *PJ Masks*, where momentum remains strong. The H117 Box Office recovery in eOne's Film business continued into H217 with titles including *The Girl on a Train*, *Arrival* and *La La Land*. As expected, EBITDA margins in Film, which were affected in H117 by up-front costs associated with a film's initial release, recovered in H217 putting Film EBITDA on track to match FY16. Going into FY18 the pipeline looks solid (Spielberg's *The Post*, Sorkin's *Molly's Game*) in Film but also at MGC which has four high profile films in production. While the business mix looks likely to have a stronger weighting towards Television than we have forecast, overall we do not anticipate any material changes to our EBITDA forecasts.

Valuation: Better structure and performance

eOne has made considerable progress in delivering on its strategy to become a more balanced content group. While Film may remain the more volatile element, the stronger FY17 Box Office performance should help it offset some of the headwinds faced in the home entertainment market. Meanwhile, the investments made into Television and Family should underpin a more consistent growth profile. The FY18 EV/EBITDA of 8.3x (adjusted for minorities) is at a 33% discount to its closest US peer (Lionsgate) and we see considerable scope for this ratings gap to narrow.

31 March 2017

Price **229.4p**
Market cap **£977m**

Net debt (£m) September 2016	263
Production finance (£m) September 2016	138
Shares in issue	425.9m
Free float	68%
Code	ETO
Primary exchange	LSE (FTSE 250)
Secondary exchange	N/A

Share price performance



%	1m	3m	12m
Abs	(3.0)	0.8	50.9
Rel (local)	(4.4)	(3.0)	26.3
52-week high/low	255.0p	143.0p	

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

FY17 results	23 May
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**Entertainment One is a
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Exhibit 1: Financial summary

	£m	2014	2015	2016	2017e	2018e
Year end 31 March		IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS						
Revenue		823.0	785.8	802.7	1,003.1	1,093.9
Cost of Sales		(642.3)	(578.0)	(610.1)	(762.4)	(831.4)
Gross Profit		180.7	207.8	192.6	240.8	262.5
EBITDA		92.8	107.3	129.1	157.0	178.0
Operating Profit		90.2	103.6	124.7	151.7	172.2
Amortisation of intangibles		(36.0)	(22.2)	(27.4)	(33.0)	(30.0)
Exceptional items		(22.1)	(17.9)	(16.6)	(7.5)	0.0
Share based payment charge		(2.7)	(3.4)	(5.7)	(4.0)	(4.0)
JV tax, finance costs, dep'n		0.0	0.1	(1.6)	0.0	0.0
Operating Profit		29.4	60.2	73.4	107.2	138.2
Net Interest		(11.8)	(14.8)	(20.6)	(25.0)	(22.9)
Exceptional finance items		3.9	(1.4)	(6.5)	0.0	0.0
Profit Before Tax (norm)		78.4	88.8	104.1	126.7	149.4
Profit Before Tax (FRS 3)		21.5	44.0	47.9	82.2	115.4
Tax (reported)		(1.5)	(2.7)	(7.7)	(16.4)	(23.1)
Tax (adjustment for normalised earnings)		(18.4)	(16.8)	(16.2)	(12.2)	(10.5)
Profit After Tax (before non-controlling interests) (norm)		58.5	69.3	80.2	98.1	115.8
Profit After Tax (before non-controlling interests) (FRS3)		20.0	41.2	40.2	65.8	92.3
Non-controlling interests		0.0	0.0	(4.2)	(12.6)	(14.0)
Average number of shares outstanding (m)		318.7	332.9	379.1	427.3	429.4
EPS - normalised (p)		18.4	20.8	19.4	20.0	23.7
EPS - FRS 3 (p)		5.5	12.7	9.8	12.6	18.5
Dividend per share (p)		1.0	1.1	1.2	1.3	1.4
Gross Margin (%)		22.0	26.4	24.0	24.0	24.0
EBITDA Margin (%)		11.3	13.7	16.1	15.7	16.3
Operating Margin (before GW and except) (%)		11.0	13.2	15.5	15.1	15.7
BALANCE SHEET						
Non-current Assets		366.0	538.4	890.7	927.8	915.5
Intangible Assets (incl Investment in programmes)		343.1	473.9	808.2	846.4	835.5
Tangible Assets		5.5	6.1	60.1	64.8	70.0
Deferred tax/Investments		17.4	58.4	22.4	16.6	10.1
Current Assets		559.9	634.3	752.0	770.4	842.1
Stocks		47.2	52.0	51.1	51.1	51.1
Investment in content rights		230.1	221.1	241.3	267.9	282.3
Debtors		243.7	289.9	351.3	401.4	458.7
Cash		38.9	71.3	108.3	50.0	50.0
Current Liabilities		(449.2)	(488.3)	(568.7)	(565.1)	(561.0)
Creditors		(401.1)	(398.7)	(470.7)	(467.1)	(463.0)
Short term borrowings		(48.1)	(89.6)	(98.0)	(98.0)	(98.0)
Long Term Liabilities		(168.6)	(319.6)	(413.6)	(415.6)	(396.8)
Long term borrowings		(155.9)	(295.9)	(309.1)	(311.1)	(292.3)
Other long term liabilities		(12.7)	(23.7)	(104.5)	(104.5)	(104.5)
Net Assets		308.1	364.8	660.4	717.6	799.9
CASH FLOW						
Operating Cash Flow		264.2	271.9	320.3	480.3	586.4
Net Interest		(10.7)	(13.4)	(31.0)	(25.0)	(22.9)
Tax		(5.9)	(10.8)	(17.7)	(20.0)	(27.7)
Capex		(4.2)	(4.8)	(8.6)	(10.0)	(11.0)
Acquisitions/disposals		(6.1)	(104.3)	(226.0)	(5.2)	0.0
Investment in content rights and TV programmes		(281.4)	(280.8)	(218.5)	(475.0)	(500.0)
Proceeds on issue of shares		0.0	0.0	194.6	0.0	0.0
Dividends		0.0	(2.9)	(4.0)	(5.3)	(6.0)
Net Cash Flow		(44.1)	(145.1)	9.1	(60.3)	18.8
Opening net debt/(cash)		144.5	165.1	314.2	298.8	359.1
Movements in exchangeable notes		0.0	0.0	0.0	0.0	0.0
Other including forex		23.5	(4.0)	6.3	0.0	0.0
Closing IFRS debt/(cash)		165.1	314.2	298.8	359.1	340.3
ANALYSIS OF NET DEBT						
Production finance		54.0	89.3	118.0	189.8	215.2
Net debt		111.1	224.9	180.8	169.3	125.1

Source: Historic – Entertainment One, Forecast – Edison Investment Research

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