

Entertainment One

Trading update

Library value up 13% and H118 trading on track

Operating performance across all Entertainment One (eOne) divisions is in line with management's full year expectations, with the H1/H2 weighting expected to be broadly in line with last year. As the group's business grows, so does its library valuation, which has increased by 13% y-o-y to \$1.7bn, underpinning c 80% of the current EV.

| 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 | 13.3 | 0.5 |
| 03/17 | 1,082.7 | 160.2 | 129.9 | 20.0 | 1.3 | 12.9 | 0.5 |
| 03/18e | 1,180.2 | 175.0 | 146.0 | 22.0 | 1.4 | 11.7 | 0.5 |
| 03/19e | 1,280.1 | 199.9 | 167.4 | 24.7 | 1.5 | 10.4 | 0.6 |

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

Full year outlook reiterated

Operating performance is on track to meet full year expectations with the H1/H2 weighting of performance similar to last year. Management has also reiterated its expectation of a net debt to EBITDA ratio of c 1.2x at the end of the year.

All divisions on track

In **Family**, *Peppa Pig* is seeing growing momentum in newer territories. Initial retail revenues in China are ahead of expectations and more mature markets have benefited from the release of *Peppa's* first cinematic film last year. The roll-out of *PJ Masks*, which started in the US last year, has progressed well in Europe and Australia where retail revenues are also tracking strongly and Asia will be added in H218 with China to follow. In **eOne Television**, management now expects c 900 half-hours to be delivered across the year versus guidance of 1,000, with the mix moving more towards scripted content. **MGC** is performing well. Four of the five heritage shows have been renewed, as well as *Designated Survivor* under the new production/distribution arrangement with eOne. In H218 MGC is also expected to release its first film productions including *Molly's Game*, which is also being distributed by eOne outside the US. In **Film**, the H1 slate was smaller and lower profile than last year's which included the *The BFG*; however, the H2 slate looks solid, including Spielberg's *The Post*, *Paddington 2* and *Molly's Game*.

Library valuation increases to \$1.7bn (£1.3bn)

eOne has also reported a 13% increase in the value of its library, attributed to the success of *PJ Masks* and *Designated Survivor*. With c 80% of the market valuation underpinned by the library, this leaves little in the rating for the value of eOne's extensive production and sales network. Compared to peers, the shares also offer value; on a 2018e EV/EBITDA of 7.9x, it trades at a substantial discount to peers Lionsgate (14.9x) and DHX (10.8x). Approximately 70% of EBITDA is now from the higher-growth and higher-margin divisions; we believe that eOne's strategy, which leans more towards produced rather than acquired content, is playing out and expect this discount to close.

Media

27 September 2017

Price 258p
Market cap £1,111m

Net debt (£m) at March 2017 187.4
 Production finance (£m) at 31 March 2017 152.3

Shares in issue 430.5m

Free float 68%

Code ETO

Primary exchange LSE (FTSE 250)

Secondary exchange N/A

Share price performance



% 1m 3m 12m

Abs 8.3 17.2 21.9

Rel (local) 9.6 18.8 14.5

52-week high/low 260.50p 210.00p

Business description

Entertainment One is an international entertainment company. Through its strategic partnerships and global distribution network, it produces, develops and acquires film, television, music and family content for distribution around the world. It is headquartered in Canada and has more than 1,300 employees. Approximately 55% of revenues are derived from North America, 30% from Europe and the balance from RoW.

Next events

H118 results November 2017

Analysts

Bridie Barrett +44 (0)20 3077 5700

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

media@edisongroup.com

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Entertainment

One Entertainment One is a

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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 | 1,180.2 | 1,280.1 |
| Cost of Sales | | (578.0) | (610.1) | (822.9) | (896.9) | (972.9) |
| Gross Profit | | 207.8 | 192.6 | 259.8 | 283.2 | 307.2 |
| EBITDA | | 107.3 | 129.1 | 160.2 | 175.0 | 199.9 |
| Operating Profit | | 103.6 | 124.7 | 155.3 | 169.5 | 193.4 |
| Amortisation of intangibles | | (22.2) | (27.4) | (41.9) | (40.0) | (40.0) |
| Exceptional items | | (17.9) | (16.6) | (47.1) | 0.0 | 0.0 |
| 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 | 124.5 | 148.4 |
| Net Interest | | (14.8) | (20.6) | (25.4) | (23.5) | (26.0) |
| Exceptional finance items | | (1.4) | (6.5) | 1.3 | 0.0 | 0.0 |
| Profit Before Tax (norm) | | 88.8 | 104.1 | 129.9 | 146.0 | 167.4 |
| Profit Before Tax (FRS 3) | | 44.0 | 47.9 | 37.2 | 101.0 | 122.4 |
| Tax (reported) | | (2.7) | (7.7) | (12.3) | (22.2) | (28.2) |
| Tax (adjustment for normalised earnings) | | (16.8) | (16.8) | (16.1) | (9.9) | (10.4) |
| Profit After Tax (before non-controlling interests) (norm) | | 69.3 | 79.6 | 101.5 | 113.8 | 128.9 |
| Profit After Tax (before non-controlling interests) (FRS3) | | 41.2 | 40.2 | 24.9 | 78.7 | 94.3 |
| Non-controlling interests | | 0.0 | (3.7) | (11.9) | (17.5) | (19.9) |
| Average Number of Shares, Diluted (m) | | 332.9 | 379.8 | 433.4 | 437.5 | 442.0 |
| EPS - normalised (p) | | 20.8 | 19.4 | 20.0 | 22.0 | 24.7 |
| EPS - FRS 3 (p) | | 12.7 | 9.8 | 3.0 | 14.4 | 17.4 |
| 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 | 14.8 | 15.6 |
| Operating Margin (before GW and except) (%) | | 13.2 | 15.5 | 14.3 | 14.4 | 15.1 |
| BALANCE SHEET | | | | | 10% | 12% |
| Non-current Assets | | 538.4 | 890.7 | 972.7 | 956.9 | 927.8 |
| Intangible Assets (incl Investment in programmes) | | 473.9 | 808.2 | 870.6 | 857.3 | 834.7 |
| Tangible Assets | | 6.1 | 60.1 | 72.8 | 78.3 | 81.8 |
| Deferred tax/Investments | | 58.4 | 22.4 | 29.3 | 21.3 | 11.3 |
| Current Assets | | 634.3 | 752.0 | 928.3 | 942.8 | 1,015.6 |
| Stocks | | 52.0 | 51.1 | 48.6 | 48.6 | 48.6 |
| Investment in content rights | | 221.1 | 241.3 | 269.8 | 287.8 | 291.0 |
| Debtors | | 289.9 | 351.3 | 476.5 | 531.4 | 600.9 |
| Cash | | 71.3 | 108.3 | 133.4 | 75.0 | 75.0 |
| Current Liabilities | | (488.3) | (568.7) | (679.4) | (673.9) | (682.1) |
| Creditors | | (398.7) | (470.7) | (574.6) | (569.1) | (577.3) |
| Short term borrowings | | (89.6) | (98.0) | (104.8) | (104.8) | (104.8) |
| Long Term Liabilities | | (319.6) | (413.6) | (464.6) | (456.4) | (437.1) |
| Long term borrowings | | (295.9) | (309.1) | (368.3) | (360.1) | (340.8) |
| Other long term liabilities | | (23.7) | (104.5) | (96.3) | (96.3) | (96.3) |
| Net Assets | | 364.8 | 660.4 | 757.0 | 769.3 | 824.2 |
| CASH FLOW | | | | | | |
| Operating Cash Flow | | 271.9 | 320.1 | 438.4 | 534.0 | 660.1 |
| Net Interest | | (13.4) | (31.0) | (25.0) | (23.5) | (26.0) |
| Tax | | (10.8) | (17.7) | (18.4) | (26.7) | (33.8) |
| Capex | | (4.8) | (8.6) | (3.8) | (11.0) | (10.0) |
| Acquisitions/disposals | | (104.3) | (226.0) | (7.5) | (10.0) | (10.0) |
| Investment in content rights and TV programmes | | (280.8) | (218.5) | (408.1) | (503.0) | (550.0) |
| Proceeds on issue of shares | | 0.0 | 194.6 | 0.0 | 0.0 | 0.0 |
| Dividends | | (2.9) | (4.0) | (8.3) | (10.0) | (11.0) |
| Net Cash Flow | | (145.1) | 8.9 | (32.7) | (50.1) | 19.4 |
| Opening net debt/(cash) | | 165.1 | 314.2 | 299.0 | 339.7 | 390.0 |
| 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 | 390.0 | 370.6 |
| Analysis Of Net Debt | | | | | | |
| Production finance | | 89.3 | 118.0 | 152.3 | 185.6 | 210.0 |
| Net debt | | 224.9 | 181.0 | 187.4 | 204.4 | 160.6 |
| Gearing | | 2.1 | 1.4 | 1.2 | 1.2 | 0.8 |

Source: Entertainment One (historics), Edison Investment Research (forecasts)

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