

# Entertainment One

Trading update

On track for full year

eOne's FY18 trading update puts the group on track to deliver to expectations with continued excellent momentum in Family, a solid performance from Television and a better second half in Film.

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	14.7	0.4
03/17	1,082.7	160.2	129.9	20.0	1.3	14.3	0.5
03/18e	1,076.1	175.1	145.7	22.1	1.4	12.9	0.5
03/19e	1,172.1	196.6	160.6	24.5	1.5	11.6	0.5

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

## FY18 in line with expectations

The Family division's strong momentum continued into H2 with FY revenues and EBITDA expected to increase by approximately 50%, helped by continued strong performance of *Peppa Pig* in both established and developing markets, along with the global consumer roll-out of *PJ Masks*, which is tracking ahead of plan. In Television, eOne Television will produce about 850 half-hours of content for the full year – a little light compared to the initial plan, but still expected to deliver growth overall, as will MGC, where delivery of Season 2 of *Designated Survivor* was the principal contributor. As expected, a smaller volume of films (145 vs 172 in FY17) and a smaller Box Office mean Film revenues will decrease in the full year despite a better second half, mitigated to an extent at the EBITDA level by cost savings realised from reshaping the division.

## Promising FY19 outlook

In Family, the closure of Toys R Us may have some impact in the short term in the US and the UK; however, outside these stores the brands performed well in Q417 and we believe eOne's largest family brands – *Peppa Pig* and *PJ Masks* – have significant room for growth in major markets including the US, Japan and China. Following the acquisition of the remaining 49% of MGC in January this year, Television and Film operate under the same operational and management structure. The line-up for the year ahead looks promising, with a stronger distribution and production pipeline in Film, and a number of MGC's new television projects in production for delivery during FY19.

## Valuation: Mini-major

Continued momentum in Family, a relatively promising pipeline in Television and Film, and the potential for additional cost savings from FY20 following the full integration of MGC provide us with comfort regarding our FY19 forecasts. The shares have fallen 12% from their January peak and trade on an 8.6x FY19 (March) EV/EBITDA and 11.6x PE, a 25% discount to DHX Media and Lionsgate, its closest peers. As one of the few 'mini-majors', we see scope for the discount to peers to narrow, realising upside to our SOTP valuation of 380p per share.

Media

4 April 2018

**Price** 285p  
**Market cap** £1,311m

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	(3.2)	(12.6)	18.6
Rel (local)	(2.7)	(5.0)	21.4
52-week high/low		329.4p	216.0p

### 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. Its headquarters are in Canada and it 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

FY18 results	22 May 2018
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### Analysts

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**Exhibit 1: Financial summary**

£m	2015	2016	2017	2018e	2019e
Year end 31 March	IFRS	IFRS	IFRS	IFRS	IFRS
<b>PROFIT &amp; LOSS</b>					
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
<b>BALANCE SHEET</b>					
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
<b>CASH FLOW</b>					
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

Source: eOne accounts, Edison Investment Research

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