Corus Entertainment

Moderator: John Cassaday
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4:30 pm CT

Operator: Ladies and gentleman thank you for standing by, welcome to the Corus Entertainment Q1 Analyst and Investor Call. During the presentation all participants will be in a listen only mode, after we'll conduct a question and answer session. At that time if you have a question please press the one followed by the four on your telephone. If at any time during the conference you need to reach an operator, please press star zero. As a reminder this conference is being recording Tuesday January 14, 2014. I would now like to turn the conference over to John Cassaday President and Chief Executive Officer of Corus Entertainment, Inc., please go ahead sir.

John Cassaday: Thank you Operator, good afternoon everyone I'm John Cassaday and welcome to Corus Entertainments Fiscal 2014 First Quarter Report and Analyst Call, would like to thank you all for joining us today. Before we read the cautionary statement, we would like to remind everyone that there are a series of PowerPoint slides that accompany this call and the slides can be found on our website at www corusent.com in the investor relation sector - section.

So we'll now run through that safe standard cautionary statement, this discussion contains forward looking statements which may involve risks and uncertainties. Additional information concerning factors that could cause actual results to materially differ from those in the forward looking statements is contained in the company's filings with the Canadian Securities Administrators on CDAR.

Now we would like to introduce you to the Corus Entertainment team joining us on the call today, we have Tom Peddie, Executive Vice President and Chief Financial Officer, and Doug Murphy, Executive Vice President and Chief Operating Officer, turning to slide three of the PowerPoint presentation and our operating results for the first quarter of fiscal 2014. With the inclusion of 100% of Teletoon Canada, Inc consolidated revenues were $226,000,000.00 up 8% from last year and consolidated segment profit was 92.3 million dollars up 9% from prior year.

With the adoption of IFRS 11 joint arrangements our operating results for fiscal 2013 have been restated to eliminate the segment profit related to our 50% economic interest in Teletoon. Instead our 50% share of Teletoon's net income is now recorded in fiscal 2013 under other income on the statements of income and comprehensive income. This restatement did not change our reported net income for the prior year.

Turning to slide four we are pleased to report that we continue to generate strong free cash flow and by focusing on disciplined cost controls, we maintained excellent segment profit margins in a slow economic environment. That income attributable to shareholders for the first quarter was 150.9 million dollars, compared to 52.2 million dollars last year. The current year includes a non-cash gain of 127.9 million related to the re-measurement to fair value of the company's 50% interest in Teletoon which was held prior to consolidation on September 1, 2013.

It also includes various charges related to the Teletoon acquisition and impairment charges on certain equity investments removing the impact of these items results in an adjusted basics earn - basic earnings per share attributable to shareholders of 65 cents compared to 63 cents per share in the prior year. Overall our consolidated revenue was reflected solid add growth in our women and family portfolio, and ongoing subscriber gains from our newest offering ABC Spark which will offset by softness in radio and our kid services, as well as tough year over year comparables in our Nelvana business.

Turning to slide five, radio had a - issues on certain stations resulted in revenue and segment profit declines of 8 and 16% respectively from the prior year. Year over year comps were also impacted by lower hockey broadcast right fees in the prior year as a result of the NHL lockout. Some bright spots in the quarter included gains and certain markets such as the Calgary cluster which saw growth as a result of continued ratings strength and good audience composition.

Radio also saw ad spend increases in certain categories including credit cards and federal government spending which was very encouraging to us. The division continues to do a great job controlling their cost, delivering excellent margins of 33% in the quarter. Moving to our television business total revenues and segment profit grew 13 and 17% respectively. The consolidation of 100% of Teletoon in fiscal 2014 and restatement of the prior year results to remove Teletoon from revenue and segment profit contribute significantly to these year or year increases.

On the advertising front our specialty ad revenues were up 35 % year over year, in addition to the impact of the Teletoon changes mentioned earlier we say solid ad growth on W Network, the Oprah Winfrey Network, and ABC Spark while our kids business based some advertising softness in the quarter. We are however expecting to see an upswing in our kids business in Q2. In Q1 YTV generated solid audiences bolstered by strong programming lineup of hits that included YTV's new number one live action series Sam and Cat. And ten poll shows like SpongeBob SquarePants continued to perform very well.

On the subscriber front ABC Sparks impressive ongoing gains in addition to the Teletoon's changes mentioned earlier resulted in a 14% increase in subscriber growth for the quarter. Merchandising, distribution and other revenues were down 33% in the quarter as year over year comps continue to be challenging as expected, due to the revenue declines we're experiencing from BeyBlade. Finally we were very pleased with television's impressive segment profit margins which were 46% for the quarter up modestly from last year.

Moving to slide 6 we are excited about our outlook for the year. On December 20th, we received CRTC approval for our purchase of Historia, Series +, and the remaining 50% interest in Teletoon, we closed these transactions on January 1, 2014. We expect to receive a favorable decision on our applications for the acquisition of the two - radio stations CKQB-FM and CJOY-FM sometime in early 2014, likely by the end of this month.

The recent consolidation of our ownership in ABC Spark and Teletoon Canada and our entry into the Quebec market with our French language Teletoon services and the newly acquired Historia and Series + channels represents a significant growth opportunity for Corus. We have already begun the integration process for our new services to leverage the synergies across our business and drive immediate financial benefit for our shareholders from these acquisitions.

As part of the integration process we have established a Montreal based headquarters. Corus media, which will be home to our French language services and our animation software company Toon Boom. We will elaborate further on our integration plans at our upcoming investor day. Moving to our radio business, while several markets including Toronto continue to be affected by soft advertising conditions and in some cases ratings issues, radio has implemented a number of new programming strategies to address these challenges.

To counter the softness in national advertising sales, radio has adopted an aggressive local selling strategy, which is expected to drive new business sales in the latter half of the fiscal. We are also very excited about the opportunity to expand our radio operations into the audio radio market with addition of the two new stations mentioned previously, this of course is pending regulatory approval and will enable us to bring the full strength of our radio experience to this key large market.

Turning to slide seven and our television business the second quarter got off to a good start as a result of successful holiday campaigns on W Network and YTV. Audiences turned to W Network for back to back film marathons every evening as part of the networks holiday schedule. The campaign was so successful that W Network ranked number one across all specially television services for women 25 to 54 throughout the month of December. YTV also generated impressive audiences.

With the lineup of seasonal classics and specials YT was the official holiday station of choice for kids and their families ranking number one with kids two to eleven and kids six to eleven and number on with women 18 to 49 across all specialty networks.

On the advertising fronts solid growth is expected in the second quarter from our services driven in part by new accounts and business secured in new categories in addition to our existing advertisers on YTV and Teletoon. In our family portfolio we anticipate ABC Spark schedule of returning hits including Baby Daddy, Twisted, and the Foster's to fuel further growth for this popular network targeted to the growing millennial audience.

Turning to our paid TV business our strategy for aggressively managing our premium television assets is paying off and Movie Central is expected to track ahead of last years' subscriber numbers in Q2 in response to a strong sleet of programming and the introduction of a number of attractive promotional activities and offerings. Among the programming highlights Movie Central is launching new seasons of HBO's critically acclaimed series Girls and Showtime's Shameless as well as the new HBO series True Detective starting Woody Harrelson and Matthew McConaughey.

The introduction of a new offering Encore On Demand which features a robust catalog of over 150 titles per month and the rollout of a free On Demand preview for non-subscribers are also expected to contribute to solid subscriber gains and drive growth in the quarter. On the content side while tough year over year comps will continue to impact business in this quarter, Nelvana is making good progress on its portfolio of merchandise driven shows in the preschool and boys action (unintelligible). Preschool brand Mike the Knight (unintelligible) licensing programming is heading into it - program rather is heading into a second year with partners Hit and Fisher Price.

We have seen solid results for the brand in key overseas territory such as the United Kingdom, France, and Italy. Nelvana's new boys Action brands including Mysticons and Chub City are being strategically developed with global master toy and broadcast partners. In the digital space Nelvana is making excellent progress licensing its library of popular children's titles to OTT providers around the world. In the first half of this year Nelvana completed significant renewals with Netflix and Load Film in key global territories.

In addition Nelvana content is now available on leading international platforms including Hulu, LeapFrog, iTunes, Amazon, You Tube, and Canal Play. For Canadian audiences we continue to work closely with our domestic distribution partners on offerings that provide consumers with a more extensive range of On Demand content available in multiple formats and on various devices. Our digital initiatives remain a critical component of our television division's growth strategy moving forward.

We're excited about what lies ahead for the company, the recent acquisition of Teletoon, Series +, and Historia combined with strong growth on several of our newer brands such ABC Spark, the Oprah Winfrey Network, and W movies and the ongoing ratings performance of our core brands provides a very strong foundation for future growth. With our recent acquisitions we will benefit significantly from an increase in our free cash flow and as a result we were pleased to announce today a 6.9% increase in our dividend which brings the dividend for our Class B sharers (sic) up to a dollar nine per share on an annual basis reinforcing our commitment to return cash to our shareholders.

In conclusion with our new accretive acquisitions and disciplined commitment to providing shareholder value through strong earnings, dividend increases, and free cash flow growth, we are well positioned to deliver solid growth in fiscal 2014. As part of this call we would also like to confirm the date of our Annual Investor Day which will be held at 9:00 am on Wednesday January 29, 2014. We look forward to your attendance either here at Corus Key or on a web - on the web. We hope you have found these comments helpful and will now take any questions that you may have, so Operator we'll turn the call back over to you.

Operator: Thank you, ladies and gentleman if you'd like to register a question please press the one followed by the four on your telephone. You will hear a three tone prompt to acknowledge your request. If your question has been answered and you would like to withdraw your registration please press the one followed by the three. And if you're using a speakerphone please lift your handset before entering your request. As a reminder that is the one followed by the four to register a question, one moment please for the first question. And our first question comes from the line of (Vince Valentini) with TD Securities, please proceed.

(Vince Valentini): (Unintelligible).

John Cassaday: Good afternoon sir.

(Vince Valentini): Hi John, thanks for taking the question. Can you just clarify for us the organic growth in the TV segment across the three categories I guess the subscription, advertising, and then total revenue.

Doug Murphy: Sure just a second, (Doug) here (Vince), the - in revenues we were down in television around 5 or 6% principal in account of the BeyBlade year over year tough comparables which we spoke to you on the last quarter. Radio I think we specified that we were down by 6% of revenues for the question versus the prior year.

(Vince Valentini): And sorry, it's difficult with the Teletoon change, but TV advertising revenues and TV subscription revenues if you back up merchandising can we get those by any chance?

Doug Murphy: They were both about flat, we were down about 1% on the ad side and we were down about 1% on the sub side.

(Vince Valentini): Sure.

Doug Murphy: So we look at it as flat, and of course yes obviously our focus is very much on the future. I mean as I was saying to our management team you know we beat the Washington Capitals, they didn't have (unintelligible), but we still beat the Washington Capitals, so I mean our numbers we feel are very good, we were able to add significant growth through acquisition which are immediately accretive and you know we think that our numbers are really quite excellent and we're proud to have been able to grow the company through a combination of solid performance in our core business and some very, very complimentary strategic assets that we've acquired.

(Vince Valentini): Okay, and just one other one, the merchandising business I think you said due to comparisons are still a bit challenged, but as we're starting to cycle through some of the challenging conflict with this minus 33% number in the first quarter probably be the low point for the year and certainly by the back half of the year we should start to see some easier year over year comparisons?

John Cassaday: It's really two components to that the merch (sic) side we're pretty much through the end of the BeyBlade piece. The production distribution side is going to be bumpy because of the timing of some of these deals that we do with various OTT players, so from one quarter to the next they can vary quite significantly and last year we had quite a bit of success in selling content to the Canadian distribution undertakings and the timing was kind of variable.

So there will be continued lumpiness on that particular line, but I think (Doug) you may have additional comment, but I think basically on the merch (sic) line we've got to the point now where we're not going to be seeing these kind of dramatic year over year drops with the platform session being Q2 as typically the...

Doug Murphy: Q2, sorry, yes Q2.

John Cassaday: Yes this quarter right now is the last one.

Doug Murphy: Yes we'll have one more big tough comp which will be the quarter end currently and then after that we should have put this behind us.

(Vince Valentini): Okay guys, thanks.

John Cassaday: Thank you.

Operator: Our next question comes from the line of (Aravind Ganapathy) with Canaccord and Genuity, please proceed.

(Aravind Ganapathy): Good afternoon, thanks for taking my questions. Let me just start with a maintenance question given sort of the time lag between your - the announcement of your acquisitions and sort of closing is there still an updated revenue and EBITDA sort of number that you can give us with respect to the combined assets that have - that came in on Jan 1st?

Tom Peddie: (Aravind) it's Tom, as build on the press release that we issued when we announced that we had the CRTC approval. As you know we acquired those assets based upon EBITDA for year ending August 2012 and as we reported that multiple you know was in excess of ten times, but with the improved profitability in fiscal 2013 our multiple number dropped. I think the other thing that I would say is that when you look at the notes that we provided in our financial statements specifically note 15, you can see what some of the growth is on Teletoon.

You know we provided the 100% revenue number of I think it was 31 million versus the 16 of last year and some of the EBITDA. So I think the businesses are doing well and as (John) said we're excited about the opportunities for Historia and Series +, so we're hoping to hit the pavement running. And also as John said we'll give a little better guidance on what the outlook is for those channels once we're (unintelligible).

(Aravind Ganapathy): Thanks for that, and just switching gears to the kids side of the business - the kids television side of the business we saw sort of you know suddenly good signs of recovery there in the second half of last year and some softness again in Q1. Can you just maybe talk to the trajectory of recovery, I know you've indicated that Q2 is strong again. Sort of help us with the outlook, what's really happening with ratings and ad revenues there as we sort of come off this slump that we saw maybe a couple of years ago.

John Cassaday: Ratings started off the year a little bit soft, however our competitive position improved. So if you understand specifically what I'm saying there is our relative position is compared to family channel improved quite nicely, but our overall ratings were soft. We did continue to - we bounced back nicely in December with all of our seasonal programming and our pacing in Q2 for kids is really, really excellent and continues to look really solid for Q3. Part of our success is due to a real focused effort on new business development and secondarily to really nice growth in the entertainment category, but happily we're also seeing some growth in the toy category in Q2. So net, net if this is sustainable, we hope it is that'll give us a really good shot in the arm.

(Aravind Ganapathy): Great, John and just the last one for me with respect to pay, we've seen a couple of quarters of sequential declines. As we look to the rest of 14 should we be expecting you to put a think, sort of more expansively in terms of marketing and promotions, perhaps some discounting in terms of pricing to kind of get that number up and sort of get the most of your upcoming slate?

John Cassaday: Yes there are extensive promotional programs in place with all three of our major distribution partners in Western Canada and they include everything from you know one month free to 50%, so the promotional offerings that we have are quite extensive. As I indicated in our opening remarks we expect that we will see a nice uptick in our Q2 subscriber levels on the strength of this particular promotional activity that we have in place. So after as you say a couple of quarters of some erosion company offer extensive promotional activity last year we expect to recover that nicely into Q3 - Q2 and Q3.

(Aravind Ganapathy): Okay, great thanks I'll leave at that.

John Cassaday: Thanks (Aravind).

Operator: Our next question comes from the line of (Paul Steep) with Scotia Capital, please proceed.

(Paul Steep): Great thanks. Mixed talk just a little bit about the - you highlight in the notes and package and rate changes on the TV side. How widespread were the changes with the very speedy partners or was it sort of isolated one or two channels?

John Cassaday: I'd say there more isolated than not, but we had some packaging changes on Tele Latino, on Tree House and on CMT that effected our numbers. But by in large we're not seeing any massive movement towards unbundling or pick and pay or A la carte - call it whatever you want. They were - I would describe at this particular point in time isolated examples largely limited to those three services.

(Paul Steep): Okay, great that helps. And then maybe, I guess Doug or you John, what - how should we think about program cost inflation in what the trend sort of looks like in the 14 and 15, anything to think about above and beyond or are we pretty much tracking where we're been the last couple of years?

Doug Murphy: I would say we're pretty much tracking where we've been in the last couple of years, (Paul) we're - you know our commitment is to grow our program and cost is to grow below our revenue line, we're very disciplined about investments and programming to ensure adequate ROY continues to be a conversation we have every time I look at you know whether that's an Oprah deal, pay package, or an individual series strip we build to a lot of research to value that piece of content and put estimates together we tend to held accountable to delivering again. So we don't think that the pictures going to change materially from the last couple of years so that's probably a fair assumption to use going forward.

Tom Peddie: (Paul) it's Tom, I'd also add the comment that we were quite pleased that we got the group based licensing on Teletoon. That's very important to us from the ability to control our cost as Doug said, but also gives us the ability to put programming on the air that the consumer wants to watch and will therefore drive ad rates for us, so that was a big win for us.

(Paul Steep): Great, and I guess the last one actually is again likely for you Tom. On the radio side margins you know while the year over year comp was tough that beat our numbers a little bit certainly in the quarter. How should we think about the margin profile over the next couple - I don't want to get ahead of you on the guidance just in terms of are we at more or less a sustainable level in terms of the investment and what the margins are going to drive out using this quarter?

Tom Peddie: Radio did a fabulous job the last two years on maintaining a margin, you know we're totally committed to delivering 30% margins, you know we're at 33% this quarter as you say it's slightly down from last year. You'll see our margin you know drop in Q2, as you know we allocate our fixed cost basically on a four quarter basis and revenue's down in Q2 so the margins will be down. You know historically we're in the low 20's in the second quarter, but we're still committed to delivering a 30% margins for the year.

(Paul Steep): Great, okay, thanks guys.

Tom Peddie: Thanks (Paul).

Operator: Our next question comes from the line of (David McFadgen) with Coremark Securities, please proceed.

(David McFadgen): Yes a couple of questions, can you talk about the radio revenue dynamic West versus East from the East of doing poorer than the West. Can you give us an update there?

John Cassaday: Quickly Vancouver and (unintelligible) relatively the same profile, Calgary very strong so it's a combination of stronger economic environment in Alberta and a better rating performance.

(David McFadgen): Okay, and then can you give us an update on the Oprah Winfrey Network in the U.S., that network's doing quite well in the ratings front, I was just wondering how that's translating to you in Canada for growth?

Doug Murphy: Sure (David) it's Doug here. There was a recent expose in one of the trades in the U.S. with got Jazz Log talking to Oprah herself about the long term viability and enthusiasm Discovery has for the network, we share that level of enthusiasm. Last year was a huge year for us collectively in North America with I think a year over year gross rate of 30% in ratings, we're now able to monetize that in a health manner.

We're seeing you know continued growth off that network although not the same level as we had last year obviously, but still growth in and of itself. And so our view is that OWN is back on the kind of trajectory that we expected from the get go and that is a very attractive compliment to W and W Movies in our women's portfolio, so I expect more good things to come from the OWN Network.

(David McFadgen): Okay, and then just a clarification on the Movie Central side you said you expect it to improve in Q2. Do you expect it to be up year over year in Q2 or just an...

Tom Peddie: Yes.

(David McFadgen): ...improvement sequentially?

Tom Peddie: Yes.

(David McFadgen): (Unintelligible).

Tom Peddie: Yes, yes.

Doug Murphy: Part - (David) it's Doug here, part of what you know we - we're coming off - purposely we're coming off of a lot of promotion in this quarter of Q1 so we plan for a down scope because you can't just be on pronto all the time, so we're you know we're kind of reloading against a number of strategic campaigns both in terms of kind of value propositions, communication and also some promotional pricing offers. We currently have a six week free SVOD campaign out there where anybody can access some of the quality content from Movie Central online free of charge.

We'll then use that to market and do an acquisition campaign against that same subset. We spoke to you in the past of our we're working more closely and more strategically where there'll be to use to affect targeted campaigns and such as that. And so we had direct a little bit in the last couple of quarters just to kind of comeback enforce and now we're market enforce and we're expecting quite significant growth in the coming - in the quarter we're in currently both relative to Q1 now and also relative to last year.

(David McFadgen): Okay, and then just lastly a question for Tom, can you give us an idea of what the CAPEX will be for 2014?

Tom Peddie: Sure, we'll be in the probably the 15 to 20,000,000 range. You know that's trend that we've been on for the last couple of years, we don't see any significant capital expenditures required with respect to the acquisitions, so that will be the range we'll be in.

(David McFadgen): Okay, alright, thank you.

John Cassaday: Thanks (David).

Operator: And ladies and gentleman just as a reminder it is the one followed by the four to register a question that is the one followed by the four on your keypad. Our next question comes from the line of (Karen Posner) with RBC Capital Markets, please proceed.

(Haran Posner): Yes, thanks very much, good afternoon. Maybe with respect to the acquisitions that you closed in legend that you'll provide a lot more detail at the Investor Day, just curious I think John or Tom you alluded to some benefits from a group licensing on Teletoon. Was there anything else on the CRTC decision that you sort of think is worth highlighting and then also as a follow-up just wondering will you be providing sort of targeted synergy levels at the end of Investor Day?

John Cassaday: To address the last question first yes we will be providing detailed synergy estimates at Investor Day. We want to make sure that we give you a good appreciation for what we think the outlook is for those services and how complimentary they are to our existing business. I guess the summary comment that I would make about the CRTC decision is that we got essentially what we asked for there were no honors conditions that would have made it more challenging than it needed to be to integrate these services successfully.

So when Tom referred to group based licensing as an example Corus here over the last number of years had the case that we should be able to allocate our program expenditures strategically in the same way we do other capital that we outlay, and the Commission agreed with us and allowed group based licensing to be put in place for the system and what we were able to do with Teletoon is get that immediately integrated into that so that allows us to spend dollars broadly as opposed to spend money on you know individual services simply because of regulations.

So I guess the summary comment that I would make is that we were very, very satisfied and can live with all of the conditions that were imposed on us as it relates to how we operate and program the services.

(Haran Posner): I appreciate that John, maybe just on the radio front I was wondering if you would comment on I guess where you are facing in Q2 today in terms of advertising?

John Cassaday: The month of December was pretty much consistent with what we experienced in the first quarter and the pacing has improved quite significantly in January. We're still running behind year ago, but the gap has narrowed substantially and I think Q2 as Tom indicated is going to be another challenging quarter for radio. But we're quite confident that going into the back half we will see a nice improvement in our radio performance and that's not just a wishful thinking I think we're seeing some strengthening of our ratings and we've also put in place some significant business building activities both at the national level and at the local which we think will help us monetize the ratings that we do have.

(Haran Posner): Thanks there John, maybe just the last one for me. Correct me if I'm wrong but I believe during the quarter you and NBC decided to discontinue KidsCo, I just wondering what was the rational there and how do you think about the international content business going forward?

Doug Murphy: Alright it's Doug here I'll fill that one, yes it was a decision that we as partners came to after being in the business now for now five years, and the kind of the realization was that in the international marketplace as a - you know a kind of eight or ninth mover and if you would with competitions such as Cartoon Network, Nick, Disney Plus and Inidigitis Channels and various regions that we felt that having a linear service with a library offering was not enough compelling value in the world we live in to drive growth in the linear mode.

That does not - and I'll underscore that does not suggest that we don't believe there is massive growth opportunities for our content business internationally. That does not mean we won't explore other linear services and partnership with other partners who with Corus could bring to the table you know first window new content to help drive the value proposition. But in the cold light of day we felt that KidsCo as it would currently constituted was best to be shuttered and to reload for new opportunities globally which there are many.

(Haran Posner): Thanks for that Doug.

Operator: And it appears we have no further questions at this time.

John Cassaday: Okay, well thank you everyone we'll look forward to seeing you on the 29th here at Corus Key. Thanks by for now.

Operator: Ladies and gentleman that does conclude the conference call for today. We thank you for your participation and ask that you please disconnect your lines.

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