Corus Entertainment Inc.

Q1 2023 Analyst and Investor Conference Call

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PRESENTATION

Operator

Good morning. My name is Marjorie, and I'll be your conference Operator today. At this time, I'd like to welcome everyone to the Corus Entertainment Q1 2023 Analyst and Investor Conference Call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. If you'd like to ask a question during this time, simply press *, then the number 1 on your telephone keypad. If you'd like to withdraw your question, please press the # key, and thank you very much.

As a reminder, this call is being recorded.

I will now turn the call over to Mr. Doug Murphy, President and CEO of Corus Entertainment. Mr. Murphy, you may begin your conference.

Doug Murphy — President and Chief Executive Officer, Corus Entertainment Inc.

Thank you, Operator, and good morning, everyone, and happy new year. Welcome to Corus Entertainment's fiscal 2023 first quarter earnings call. I'm Doug Murphy, and joining me this morning is John Gossling, Executive Vice President and Chief Financial Officer.

Before I read the cautionary statement, I'd like to remind everyone that we have slides to accompany today's call. You can find them on our website at www.corusent.com under the Investor Relations-Events and Presentations section.

Now let's move to the standard cautionary statement found on Slide 2. We note that forward-looking statements may be made during this call. Actual results could differ materially from forecast projections or conclusions in these statements.

We'd like to remind those on the call today, in addition to disclosing results in accordance with IFRS, Corus also provides supplementary non-IFRS or non-GAAP measures as a method of evaluating the Company's performance and to provide a better understanding of how management views the Company's performance today. We'll be referring to certain non-GAAP measures in our remarks.

Additional information on these non-GAAP financial measures, the Company's reported results, and factors and assumptions related to forward-looking information can be found in Corus' first quarter 2023 report to shareholders and the 2022 annual report, which can be found on SEDAR or in the Investor Relations-Financial Reports section of our website.

I will start on Slide 3 with an update on the impact of the current macroeconomic environment on our business. I will then briefly review the progress we are making advancing our strategic plan and its priorities. I will also discuss our cost structure and go-forward actions that will address recent increases.

To begin, I will reiterate my comments from last quarter. We are in an advertising recession. This is clearly visible in our revenue results for the quarter and evident across the entire media sector, as reported by all of our peers recently. The decrease in advertising revenue is the logical result of companies trying to manage their profitability, as they contend with inflation-induced cost increases and the impact of supply disruptions on their businesses. One of the first choices companies make is to reduce costs and cut discretionary spending such as advertising.

Again, to repeat, we do not know the depth nor the duration of this economic contraction. Based on our prior experience, in the early stages of a recession, the broader media industry experiences abrupt declines in advertising revenues, followed by an equally quick recovery once the economy recovers. The declines in advertising revenue this quarter are ongoing evidence of the crosscurrents and riptides that we are experiencing in today’s advertising marketplace. These remain mostly pandemic and supply chain related.

Let me cite a few examples. With restaurants and out-of-home dining now fully open, consumers’ love affair with food delivery to their home and the related expensive service charges and delivery fees has ended. Accordingly, the direct-to-consumer food delivery category advertising spending is down.

You’ve all seen the stories about this year’s cold and flu season, not to mention the empty medication aisles in grocery stores and pharmacies. That category’s advertising spending is down, given depleted inventories.

Supply chains issues persist in the automotive category, with many cars arriving, but they’re presold. Presold inventory does not need to be advertised.

Other categories with reductions in advertising spending include household goods, appliances, electronics, and toys, again, impacted by pandemic-related disruptions

Now within categories, there is also much variability as each advertiser adapts to the macroeconomic conditions in their own way, based on their business strategies, adjusting their spending for their own unique challenges and opportunities. For example, there are new growth categories such as gaming, a welcomed new arrival to the advertising marketplace.

Within the packaged goods sector, while some clients ebb, other clients flow, investing to increase their brand’s impressions and presence, to take advantage of their competitors’ void.

Our talented sales team is there to serve the needs of our advertisers, whatever they may be. Corus delivers strong, differentiated brands that can be bought across an expanding linear and digital multi-platform offering, with improved targeting, automation, and a suite of customizable advertising options, providing a 360-degree solution that is highly attractive to advertisers and agencies alike.

Visibility is still a bit limited, and advertising revenue softness in television will likely persist. However, right now, we expect to see sequential improvement in the rate of decline in television advertising revenue in the quarters ahead, as these crosscurrents and riptides do appear to be stabilizing.

With this backdrop in mind, let me now take a moment to talk about our strategic plan and its priorities. Our long-term strategic plan remains unchanged. We are focused on transforming how we sell media. We are putting more content in more places, and we're investing in our owned content business. Recent highlights demonstrate the progress we are making advancing our strategic priorities in the face of these advertising headwinds.

Let me cite these. We have improved the value proposition of STACKTV by adding our English language suite of Disney channels.

We've expanded our streaming portfolio to broaden the scale of our advertising offerings with the launch of Pluto TV.

We launched TELETOON+, a new premium kids and family SVOD streaming service available on Amazon Prime Video and Bell Fibe TV.

We've expanded our authenticated content offering on the Global TV App as well as on STACKTV, both now including more back seasons of big network franchises such as NCIS and FBI, full in-season stacking for Saturday Night Live, and a winning slate of Peacock Originals that include The Resort, Vampire Academy, and a new season of the top audience driver, Bel-Air, launching in March.

These purposeful moves demonstrate how we are innovating in this challenging market to grow our total video audience delivery, by adding new premium digital video impressions in addition to those large audiences delivered by our traditional TV channels platform.

Further, we are growing our slate of content that we will sell into the international marketplace, that diversifies our business from the Canadian economy. This successful implementation of our strategic plan is building a more resilient business for the long term.

Moving to Slide 4 and the key financial highlights for the quarter. Our consolidated revenue of $431 million was down 7 percent for the quarter, resulting from lower advertising revenues.

Total consolidated segment profit was $132 million for the quarter with free cash flow of $21 million.

These revenue declines, combined with the higher amortization of program rights, resulted in leverage of 3.38 net debt-to-segment profit at the end of the quarter. More detail to follow on this.

Over to Slide 5. Canadians have more ways than ever to consume video content, whether through their traditional set-top box, where two-thirds of Canadians enjoy their channel subscription, or through streaming and other nonlinear on-demand services. Overall, multi-platform audiences in Canada are growing. Corus is well positioned to benefit from the large and expanding total video addressable market, leveraging our fan-favorite linear channels to pursue opportunities in premium digital video.

Equity capital markets are no longer rewarding growth at all cost, direct-to-consumer streaming ventures. As a result, the entire media and entertainment industry now is acutely focused on optimizing their programming investments and audiences across both traditional linear and on-demand streaming platforms, as most direct-to-consumer streaming platforms struggle to generate positive cash flow and earnings.

In contrast to this, at Corus, we have taken a different approach by building a capital-light, partner-led, direct-to-consumer strategy. We are leveraging our asset base and existing channels platform to pursue premium digital video, without making bet-the-company type investments in either the production of the content, or in the technology platform stack, or both.

To be crystal clear, when I say leveraging our asset base, I refer to optimizing our linear channels business, while simultaneously pursuing streaming opportunities in this growing digital video marketplace. Our strong, innovative, and long-standing partnerships with all the US studio majors has been the key that has now unlocked these new digital on-demand premium video opportunities.

Moving to Slide 6. On December 1st, Corus and Paramount Global celebrated the launch of Pluto TV in Canada. With over 117 channels and more than 20,000 hours of free content, this represents the most robust content offering on launch of any international market. Our early results from Pluto TV are encouraging, with the app ranking among the top two free apps on Canada's Google Play Store, Amazon Appstore, and Apple TV.

Our Corus channels, including content from across our family of brands, as well as our 24-7 Global news feeds, are performing very well, as expected, given their strong local appeal. We want to recognize the extraordinary efforts from the Corus team and our partners at Paramount Global in making this highly anticipated launch a reality.

Over to Slide 7. We are encouraged by the early results from our 3 Cheers for the EARS marketing campaigns celebrating the arrival of the suite of Disney channels on STACKTV. This marketing push harnesses the power of the Disney brand to drive awareness and subscriber acquisition to the platform. Although it is early days, we are seeing promising traction in our trial subscription numbers.

We are confident that these powerful channel additions and other improved value proposition initiatives, such as the addition of more back seasons of popular content, will further the momentum of STACKTV in the quarters ahead.

Moving to Slide 8. As operators of streaming platforms look to optimize spending on production investments, they are seeking other sources of content supply, which is a perfect setup for our owned content ambitions. Our growing slate of content in production and for sale will benefit from this demand in the international marketplace.

While we saw modest declines in our distribution, production and other revenues in Q1, Nelvana and Corus Studios did grow. We expect strong growth in our content business in the coming quarters when compared to the same quarters last year.

Over to Slide 9. It is clear that as advertising revenues decline, we are also experiencing an increase in programming costs, not an ideal combination. At Corus, we have been steadfast in our strong conviction that our US studio partners needed us as much as we needed them. This has been proven out, as we have successfully renewed, extended, and broadened the rights acquired through our content supply agreements well into the next regulatory regime.

These investments ensure the long-term viability of our traditional channels business and now provide us with an opportunity to grow our streaming portfolio in addition to our large television audience delivery, with new premium digital video impressions. These are smart programming decisions that require increased programming investments.

The other increases in programming costs are required as part of our regulatory obligations. These result from the dated, regressive spending requirement calculated as 30 percent of prior year's regulated revenue, along with the many other restrictions that limit our ability to compete.

Unfortunately, our broadcast regulator decided, the summer before last, that Corus would be required to make up the approximately $50 million in Canadian production expenditures that we could not spend given the COVID-19-related production shutdowns in 2020. This unexpected decision made us spend more on Canadian programming in this challenging economic environment.

Now, while we're excited about our successful programming investments with our US studios that ensure the long-term resiliency of our business, the dated, off-strategy regulatory spending requirements is currently affecting our financial performance. The only good comment I would make is that these will pass, and we expect reduced Canadian programming expenditures on a run rate basis of $20 million in the years ahead.

Every company in every industry these days must address the changing labour market, as well as the additional costs from the post-pandemic return to normalized business operations. Companies must adjust to new workforce dynamics, whether or not that's disruptions from early retirement or an unwavering demand for remote work flexibility requested on behalf of workers, especially younger ones.

At Corus, we are making necessary investments to accommodate the needs of our people. In addition, given the investments we've made in acquiring content for our channels and on-demand streaming platforms, a companion marketing investment is required to promote these new offerings to our audiences. So that's important context. The CPE catch-up cost will pass. The incremental US programming investments will generate margin-accretive new digital revenues. We will always invest in our people, and we must market our products.

Importantly, and in light of our revenue weakness, we are conducting an enterprise-wide cost review that is looking at all expenses and operations. We will streamline our operating model and asset base over the coming quarters and identify meaningful cost savings on a run-rate basis.

With that, I will now turn it over to John to discuss our Q1 results. John?

John Gossling — Executive Vice President and Chief Financial Officer, Corus Entertainment Inc.

Thanks, Doug. Good snowy morning, everyone. I will start on Slide 10.

The challenging macroeconomic environment that emerged last summer certainly persisted into fall, impacting television advertising demand in our first quarter and contributing to lower consolidated revenue of $431 million, and that's a 7 percent decrease from the prior year.

As a reminder, in Q1 of the prior year, the pre-Omicron recovery was well underway, with strong consolidated revenue growth of 10 percent, and that was bolstered by TV advertising revenue growth of 16 percent.

Consolidated segment profit was $132 million for the quarter, reflecting the lower TV advertising revenue, coupled with increased programming costs and marketing investments in STACKTV, as Doug has just mentioned. Consolidated segment profit margins were 31 percent for the quarter.

Consolidated net income attributable to shareholders for the quarter was $0.16 per share. We delivered free cash flow of $21 million in the quarter and as a reminder, last year, our free cash flow in Q1 benefitted from a nonrecurring $43.5 million distribution from a venture investment.

Net debt-to-segment profit was 3.38 times at November 30, 2022, compared to 3.02 times at August 31st of last year, reflecting the impact of the lower segment profit and slightly higher debt balances.

Now let's turn to our TV results for the first quarter as detailed on Slide 11.

Overall, TV segment revenues were $402 million for the quarter, and that's down 8 percent. This was mainly driven by lower TV advertising revenue, which declined 11 percent in Q1, and that compared with strong growth of 16 percent in the prior year, as I mentioned.

Subscriber revenue was consistent with last year, with streaming subscriber growth from expanded distribution of streaming services acting to offset declines within the traditional distribution system.

As a reminder, in Q2 of fiscal 2022, we did benefit from approximately $6 million of retroactive adjustments from the renewal of distribution agreements, and that's going to set up a difficult comparable for us in the coming Q2.

Distribution, production, and other revenue was 3 percent lower for the quarter, and that was driven by the timing of content licensing sales and lower publishing revenues, but partially offset by the addition of Aircraft Pictures last February and modest increases from Nelvana and Corus Studios.

We do expect significant growth from our content business in the coming quarters, supported by a robust international sales pipeline. We remain encouraged by our progress in creating incremental new platform revenue, increased adoption of optimized advertising, and prospects for our slate of original content to position us for longer-term growth opportunities.

Direct cost of sales was up 8 percent for the quarter, and that's driven mainly by the 7 percent increase in amortization of program rights, which resulted from the investments in US studio output deals and an increase in original programming deliveries.

On a full year basis, we anticipate that programming costs will grow modestly, with approximately one-third of this driven by the CRTC's catch-up decision.

TV G&A expenses were up 5 percent from the prior-year quarter. And in the current quarter, G&A mainly reflects an increase in marketing investments to promote our fall programming and STACKTV, higher development costs in our content business, and other costs related to growth areas.

Overall, TV segment profit was down significantly in the first quarter, primarily as a result of the contraction in advertising demand, higher amortization of program rights and film investments, and G&A expense increases. TV segment profit margins were 33 percent in the current-year quarter compared to 41 percent in the prior-year comparable period.

As detailed on Slide 12, despite the contraction in advertising demand, we are encouraged by the growth in our new platform and optimized advertising revenues. New platform revenue was $40 million or 10 percent of total TV advertising and subscriber revenues in the first quarter, and that was up 13 percent or $4 million from the prior-year quarter.

The continued growth reflects the disciplined execution of our strategic plan as we deploy our expanded content rights in new places and connect with audiences in new ways to drive additional sources of revenue. As a reminder, this metric demonstrates some seasonality from quarter to quarter, due to the higher linear advertising revenue mix in Q1 and Q3 compared to the lower demand quarters of Q2 and Q4.

Optimized advertising revenue was also up significantly in Q1, representing a new milestone of 55 percent or $138 million of total Television advertising revenue in the quarter. This is an increase of 31 percent or $33 million from the prior-year quarter, as more advertisers explore the benefits of our targeted and automated advertising solutions.

Now let’s turn to our Radio results on Slide 13. Radio is certainly benefitting from resiliency in key advertising categories, including entertainment, travel, restaurant, and retail, offset by continued softness in automotive.

Radio segment revenue increased 2 percent for the quarter as a result of stronger local revenues, but partially offset by the impact of broader macroeconomic conditions on national sales.

Radio segment profit increased 5 percent in the quarter, benefitting from the revenue growth, and Radio segment profit margin was 20 percent in Q1. That's consistent with last year.

Right. Over to Slide 14. Since introducing our new capital allocation policy in September of 2018, we have demonstrated our commitment to reducing bank debt, and we also termed out our bank debt with the issuance of two long-term, high-yield notes. In just over four years, we've repaid over $700 million of bank debt which, combined with the funding of our dividend and share repurchases, has contributed to a total shareholder yield of $958 million.

At the end of Q1, our net debt-to-segment profit increased to 3.38 times, compared to 3.02 times in prior fiscal year, driven by the impact of lower advertising demand on our segment profit and lower free cash flow for the quarter. We exited the first quarter with $81 million of cash and cash equivalents and $214 million available to be drawn under our revolving credit facility.

Our financial priorities remain unchanged. Importantly, we remain committed to increasing our financial flexibility over the longer term. In this low-visibility environment, however, we believe it is prudent to conserve cash out of an abundance of caution.

As Doug noted, we have and continue to take serious cost-reduction measures but, given continuing uncertainty in the advertising environment and the macro conditions, the Company has decided to take additional prudent measures. We will not renew our share buyback program when it expires next week. And consistent with this approach, the board has decided to defer its decision on the declaration of the dividend at this time. The outside date for this decision is March 15th, by which point the Company expects to have more clarity on advertising market conditions and Q2 results.

To be clear, we are not reducing, eliminating, or temporarily suspending the dividend at this time. We will take this opportunity to consider the alignment of dividend declaration and payment dates.

We completely understand the importance of our dividend to our shareholders and remain committed to our long-term dividend philosophy.

Our foremost priority is to navigate this difficult environment, as we have successfully done many times before, while carefully managing our expenses and our cash. We are confident in our long-term plan to position Corus for the future by investing in the business, de-levering, and providing attractive returns for our shareholders

And with that, I'll turn it back to Doug.

Doug Murphy

Thank you, John. Over to Slide 15. I want to take a moment to touch on an important journey we embarked upon one year ago. For more than two decades, Corus has supported a broad range of what is now referred to as ESG initiatives. This year, we are taking the next step in making it a priority to embed sustainability into all areas of our organization.

Our commitment to being a more sustainable company is outlined in our inaugural 2022 Sustainability Report. Our ESG goals, that reflect people, planet, and responsibility, will be an integral part of how we deliver against our strategic plan and financial priorities, build resiliency, and demonstrate our ongoing efforts to make Corus a great place to work. The full report is available on www.corusent.com under the Sustainability section.

Moving on to Slide 16. There has been significant change at the CRTC recently. We'd like to thank the outgoing chair, Ian Scott, for his efforts and welcome the new chair, Vicky Eatrides. The new chair takes the helm at perhaps the most poignant moment of change in the history of the Canadian broadcasting sector.

This important sector, which brings the Canadian voice, and contributes to the Canadian creative and cultural industry while providing necessary information and news across the country, yet it continues to be completely disadvantaged by decades-old laws and policies. At the same time, foreign players are allowed to enter the Canadian market unfettered by any obligations or restrictions. We encourage the CRTC to move with purpose and act quickly. It is long past time for more modern, equitable broadcasting regulations in this country.

And now to briefly highlight today's key messages.

While we are firmly of the view that we are in an advertising recession, our expectations are that we will see sequential improvement in the rate of our advertising revenue declines as we progress through the coming quarters.

We are conducting an enterprise-wide cost review that is looking at all expenses and operations, with a review to streamline our operating model.

In addition to our CPE catch-up burden, that will pass, and when it does, we expect to see approximately $20 million of recurring cost savings.

The immediate-term challenges will not deter us from our purposeful execution of the strategic plan, as we grow our total video audience delivery by adding new premium digital video impressions, in addition to those large audiences delivered by our traditional TV channels platform.

Our owned content business will reap the rewards of our increased investments in our content slate, with growth in episodic deliveries expected from Nelvana, Corus Studios, and Aircraft Pictures in the coming quarters.

It's a new year, and we want to take a minute to congratulate our team for their tireless efforts to provide news and entertainment programming for Canadians each and every day. The Corus team produces and distributes great content for radio, television, our streaming portfolio, and our international buyers, working in ways that we never thought possible not too long ago. Our commitment to our employees is to provide flexibility with working conditions that support the well-being of our people as a priority, which remains paramount to our future success.

Thank you, and over to you, Operator.

Q&A

Operator

Thank you, Mr. Murphy.

We'll take our first question from Vince Valentini from TD Securities. Please go ahead.

Vince Valentini — TD Securities

Yeah. Thanks very much. A couple things. First, John, the CPE catch-up, you said, is about a third of the modest year-over-year increase in program costs for 2023. I'm just trying to clarify what the pacing is here. For it to be a third, that would suggest a pretty big increase in what you have to catch up in this fiscal year versus fiscal 2022. I thought you were already at a $15 million to $20 million of catch-up costs that was incurred last fiscal year. So maybe, can you just clarify the $50 million, how it's spread over these three years?

John Gossling

Sure. We were just under 20 last—it's a good point, Vince. And just to be clear, in Q1, there really wasn't a year-over-year impact on Canadian. It tends to hit us more in the back half of the year, and a little bit as well, you can expect in Q2. So, in big numbers, the 50 rolls through as 20, 20, 10 or so—and that's 2022, 2023, and 2024.

So this year, you're not going to say to me, well, you said there's going to be an increase, and it's really a few million dollars, and it's subject to sort of what's our ability to really measure the exact delivery dates and amortization impact of it. But yeah, it's a few million dollars increase this year, is the current view of it.

Vince Valentini

Okay. I'll bounce back and forth. Doug, one for you on the advertising outlook and your comment that—I assume you don't have much visibility into Q3 and Q4 yet. So, I assume your comment that things are getting a little bit better in—means that your Q2 advertising revenue decline looks better than Q1.

Normally, you say you can't make those kinds of predictions because so much comes in last minute. So what's giving you that confidence? Do you actually have confirmed bookings throughout January and February that give you confidence you'll be down less than 11 percent this quarter?

Doug Murphy

Yeah. We're feeling better about the trending of the business. We do expect the decline level to be better in this quarter than it was in last quarter. And we're comping on, I think, of December of last year, which I think is helpful.

But the general comment I make on it is the pandemic—most of our advertising, kind of riptides and the crosscurrents are—still looks like primarily pandemic-related. So there are disruptions that our advertising category partners are having in their businesses.

And I cited a few. There's others. Like, I mean, there's pet food shortages, and there's many businesses that are having trouble packaging their products because they can't get labour, and that's limiting their inventory availabilities. We did a—we asked our sales team to come back with some anecdotes, so we'd have some colour for this call.

And so we expect those, and we're seeing that in terms of the dollars that are coming on the books. We're seeing a general improvement. And that's why we're saying sequential improvement in the rate of decline.

The risk on the horizon, I think, is less the sort of adjusting pandemic outlook and is more the macro outlook, recession. And that's the concern that we have. And so that's why we're still cautious, and it's still—the visibility is somewhat limited. But we're comfortable declaring that we expect sequential improvements in the rate of decline of Television advertising.

Vince Valentini

Okay. And I wanted to ask—somebody else asked about it, but I'll leave it. I'll go back to John, just on the debt covenants. Do you mind reminding people, given the increase in leverage that you incurred this quarter, what the covenants are on your bonds and/or credit facilities?

John Gossling

Yeah. Yeah. The credit facility is the one that's, I'd say, the most restrictive. So, the leverage measurement under the bank credit facility is a little different than what we report. It doesn't include net debt; it's gross debt, and there's some adjustments for minority interests.

So I've said in the past that, if you look at the reported leverage of 3.38, we would be typically, for bank measurement purposes, about a quarter to a third of a turn higher than that. And the covenant, I think, is pretty well known as 4.25. So, we've still got lots of room there. And obviously, with the way leverage has gone up pretty rapidly, we're watching that carefully.

Vince Valentini

Great. And last, I'll bounce back to Doug and then pass the line. You mentioned—you talked about streamlining costs, but you also said streamline the asset base in your prepared remarks. Just wondering if you can flesh out what that might mean a bit more?

And specifically, is there any consideration to think about Radio, now that we have these new sort of halfway movements in ownership rules to allow three FM stations versus two?

Doug Murphy

Thanks, Vince. We're looking, effectively, at what streamlining means for our business, and that's cost and that's assets. It's clear, I think, to everybody that we've made demonstrable strides in our video business with the significant addition of our streaming portfolio in these last number of years. We now have a path to actually increase total audience delivery and provide advertisers premium digital video impressions that they desperately seek. Agencies have been asking us this for years, and now we're at the table and delivering that.

Radio is a good business. It's complementary on a local basis, contributes lots of free cash flow. It connects us to local communities, and we've synergized like crazy with the Television and Radio teams. The slight easing of common ownership restrictions is part of the decision. It doesn't really go far enough to address the current realities of the radio marketplace.

But as ever, everybody knows my phone number. And if we have an inbound to consider any asset that we think we can get a good value for, we'd consider a conversation.

Vince Valentini

Thank you.

Doug Murphy

Thank you.

Operator

Thank you. We'll take our next question from Maher Yaghi from Scotiabank. Please go ahead.

Maher Yaghi — Scotiabank

Yes. Thank you. Good morning, and I will take on the question on the dividend that Vince left off. So you talked about deferring the decision on the March dividend, but when you look at—when I look at your dividend yield and I compare it to other players in the marketplace, other comps, it stands out and it's quite high.

I mean, clearly, currently, the stock is not reflecting the dividend that you pay, and investors are not willing to value the Company based on the dividend. So from a cash management perspective and prudency, why not look at potentially reviewing the dividend level here, especially as visibility on advertising revenues is still low?

And I have a follow-up question on that, please.

John Gossling

Sure, Maher, it's John. I think, in a way, you've answered your question already. So look, it's always subject to the board's decision, and we understand all of those factors that you just cited, but there's not going to be a decision at this point. There's not really much more we can say about it. But yes, we get the—we get that where the yield is right now, and we're obviously looking carefully at our results and our cash flow and our leverage.

Maher Yaghi

Okay. That's clear enough. So in terms of the Pluto TV, can you talk a little bit about—I mean, I've looked, I've been using it. It's quite—the content is significant on it. I was just wondering how the advertising revenue model is behaving right now in terms of seeing new revenue coming in.

And are you seeing, actually, new money being spent on Pluto, coming on Pluto TV from your advertisers? Or is there a realignment of budgets from other broadcasting operations to Pluto TV? Just trying to figure out if it's new money coming in or just realignment that is taking place.

Doug Murphy

Good question. I think the answer, Maher, is a little bit of both. So first off, we're very happy with the early returns on Pluto. It's the number one or number two most downloaded app on the three biggest platforms in the country. That's a great start.

I'm sure you've seen the Megaphone advertising campaign that we have had in market and will continue to have in market, which is certainly driving awareness. Free is a good word in a tough economic environment, and Canadians are rising to the fact that there's a lot of high-quality gold library and catalog content there that many folks haven't seen for years, and I think it's really quite impressive, the uptake.

So we are very happy with the early returns, and we will endeavour to provide more detail as the quarters roll out. But you'll see that result, I think, affect our new platform revenue metric in the coming quarters, and that will certainly have a slope change.

In terms of where the money's coming from, there's a couple of different answers to your question.

We've been asked for better digital video audiences by agencies for years. The only option they had, up until a couple years ago, was user-generated content on YouTube or on Facebook's—now Meta—Instagram, Pinterest. And advertisers flocked to that because that was the only game in town because digital provided the targeting and the automation, and the benefits of user-generated content was not as attractive as the automation and targeting.

We’ve kind of flipped the script now. The whole world has woken up in the last 18 months to this notion of free ad support of streaming television or AVOD, generally speaking. And what I believe is happening is within the media mix, within the digital media mix, you’re going to—we are seeing dollars shifting out of social media into premium video. So whether or not that’s our Pluto product, or our Global TV app product, or our STACKTV dynamic ad insertion, or it’s the new Disney+ ad layer, or the discovery+ ad layer, I think there’s going to be more of that money coming out of other platforms, that are less attractive to advertisers, that have higher brand environmental risk, because we can now provide, basically, long-form premium television content on digital platforms. So that’s a big note.

And the second comment I would make is that I do think that money that might have been earmarked for other parts of the media mix beyond digital—now there’s your print, outdoor, radio, television, et cetera—is coming into Pluto because it’s the biggest game in town and in fast channels in Canada and will be for the foreseeable future.

Maher Yaghi

Great. Thank you for this. And just my final question on subscription revenue, your second biggest revenue stream. It’s been holding steady quite well. Can you maybe provide us maybe, just how you see that trending over the next couple of quarters, year on year, on that line, please?

John Gossling

Yeah. So, Maher, I mentioned in my remarks, we did have several renewals in Q2 last year to the tune of about $6 million. So that’s going to affect the comp in Q2. So don’t be surprised by a slightly negative year-over-year number in Q2.

But I think, for the rest of the year, I think flat to up. I mean, it depends a lot on the conversion of the trial subs we're seeing right now into paying subs on STACK. But I think you can assume relatively flat for the back half.

Maher Yaghi

Thank you. And thanks for all the support. Thank you.

Doug Murphy

Thank you.

Operator

Thank you. And we'll go to our next question from Scott Fletcher from CIBC. Please go ahead.

Scott Fletcher — CIBC

Good morning. Something of a follow-up to Maher's last question. But I'm wondering if, on the subscriber line, if you could maybe give us an update on the—if there's been a change in the rate of change of the decline on the linear side? Because you'd seen some sort of modest growth in the last year on the subscriber line, and it sounds like with the digital sort of offsetting the decline, has there been any acceleration in the decline on the linear side?

John Gossling

No. Scott, it's John. Actually, the opposite. I'd say that the digital side has slowed down a little bit as the subs through the back half of last year, the growth has slowed down. So actually, on the linear side, any decline we were seeing has slowed down the last couple quarters.

Scott Fletcher

And is there anything—do you have any context as to why that might be the case from what you're hearing from any of your partners?

Doug Murphy

I'll take that. I think subscription fatigue, Scott, is one. I think people are—listen, people are tightening their belts right now. I was just reading an article this week about all the bank CEOs that are now saying that a good portion of Canadians are going to have challenges when they have to renew their mortgages. And they're seeing that—we have a five-year average mortgage here in Canada, and two or three years into your new mortgage, you bought your house during the pandemic, and now, oh, my goodness, now I got to pay a lot more in interest.

And I think people are really realizing that the cable channels package is enormous value. I mean, that's why it's been so successful for decades and decades. And so I think that's a big part of it, that the value offered from the traditional cable linear feed—but also increasing now, and this is important to note—there is just as much on-demand product on your package there as you're going to get on a streaming service.

So if you're in a situation where you're looking to save money, and you kind of—you're paying $14.99 a month for two or three different subscriptions, the cable package, with its value proposition, I think is pretty strong. So that's, I think, a behavioural reality, in my opinion.

Scott Fletcher

Okay. Thanks. That's helpful. And then I just wanted to ask on the investment that you're making in sort of the additional rights payments and the marketing there, what's the timeline that you look at to determine whether you've sort of seen the ROI that you're looking for in that?

Because this is like you said, the timing is unfortunate with the declines in the ad market, coupled with the increased investment, so when you—what kind of timeline do you give yourself to realize whether that investment was worth continuing?

Doug Murphy

Yeah. No. Listen, so there's a couple things on that, and that's a good question. The reality is that many—over the years, I've heard countless times, I can't tell you how many times—geez, you know what, you guys, you're a giant Jenga stack because one of these days, all the content you're going to get from the US suppliers is going to go on their own platforms, and you have nothing to put on your air.

Well, that's not—that's frankly just not true. And I've said, time and again, that the US studio majors need us as much as we need them. They have a very defined strategy now. Everybody's kind of adopted to the fact that streaming is not a one-trick pony. You need to invest in making more hit content. You need to protect your owned and operated linear channels businesses the world over, whether or not you're Paramount Global, Walt Disney Company, Discovery Warner. You need to build your own streaming platform that's differentiated but not too differentiated from your linear offerings. And then you need to have a robust content licensing business to guys like Corus because we pay the bills.

And so when we—and we have, as I said, a long-standing, deep relationship with our key content suppliers. And so the way I think about it is, number one, ensuring the long-term resiliency of our traditional linear channels business, but also broadening our ability to pursue audiences on digital platforms beyond the traditional linear service.

So when I do the math in my head, in one part, it's about resiliency and sustainability of the core business or the traditional business. The other part is about investing the necessary dollars to pursue the growth opportunity. And that's whatever slide that is in our deck that shows the total addressable video advertising market in Canada. It's a growing market. We are in a growing market, full stop.

So for me, the timeline is really deal sort of specific and is really a partner conversation as to what their objectives are. You're likely aware that when we did our big—for example, when we did our big renewal with Discovery, we are their marketing partner on discovery+ in Canada. And that created value for them. And accordingly, we were able to talk of a longer term as a result.

We don't provide the details on terms. And as I say, no specific deal is the same. But the math is—on our end, we're very specific and disciplined about ROI calculations. And I can say with confidence that those investments in these new digital platforms are definitely accretive, and every incremental digital dollar is dropping contribution margin.

Scott Fletcher

Okay. That's really helpful colour. Thanks, Doug. I'll pass the line, there.

Doug Murphy

Thanks, Scott.

Operator

Thank you. We'll go to our next question from Aravinda Galappatthige from Canaccord Genuity. Please go ahead.

Aravinda Galappatthige — Canaccord Genuity

Good morning. Thanks for taking my questions. I just wanted to go back to sort of your cost reduction initiatives. Maybe you can give us a little bit of colour around sort of the magnitude you're looking at? Do you think it would be likely that, maybe with the Q2 call, you might be able to sort of put a dollar amount around it at that point? I just wanted some additional colour on that. Thanks.

John Gossling

Well, we have the specific dollar number we can talk to is once we pass the bowling ball, which is the CPE catch-up spend, that's a $20 million tailwind.

Other than that, Aravinda, I'm not going to give a target or a number, other than to say that we're always looking at our cost structure. And we have an enterprise-wide challenge now to our leaders to find efficiencies to streamline our business, to focus on the important parts of the business, and we're confident that will yield substantial results in the quarters ahead.

Aravinda Galappatthige

Okay. Thanks. And then maybe a little bit around sort of the momentum that you expect on the STACKTV front? I know there's sort of the tailwinds and headwinds. Obviously, you're continuing to add content to it, including Disney, and you continue to invest in the marketing and promotions. I know you're kind of moving beyond Amazon right now to Rogers and the other distribution platforms. Any kind of indication as to the prospect of a sort of an acceleration, recognizing, to your own comments, that there's macro headwinds as well?

Doug Murphy

Yeah. Thank you. A couple comments. Back to Scott's earlier question about partners, and this is a good example I'll just share, and I'll use this story as a way to answer your question on the back end. So when we first launched STACKTV, that was before Disney launched Disney+. And at the time, the direction from the then-CEO and now the new CEO, as it turns out, was to restrict all those rights in all foreign markets as they sussed out what they were doing with their Disney+ direct-to-streaming product. And so Disney chose not to provide us with the ability to launch the Disney channels on STACK.

Three or a handful of years later, when it was time for us to get back to the table and talk about our overall business relationship, and they saw the runaway success of STACKTV, lo and behold, they wanted Disney to participate because they realized that we're reaching different audiences. We're reaching cord-nevers, new Canadians, digital natives, et cetera, and that the reaggregation of the channels business on the streaming platform was a pretty smart idea and, frankly speaking, a Canada first in terms of the globe. And so we were able to get Disney added to the STACKTV product as of a couple months ago.

That's going to be, in our opinion, a meaningful value proposition addition. And we're early on in our big campaign, 3 Cheers for the EARS out in the market now. But in the last three weeks since it's launched, we've seen a noticeable kind of trend change in the subscriber trials, so that's going in the right direction.

We also have added a significant amount of new content on the on-demand, whether or not that's a really promising new slate of Peacock deliverables coming this year, including season two of the big hit Bel-Air with Will Smith, or a number of the CBS network shows that we now have modern library stacks, whether that's NCIS, FBI. You can go back to season one and watch them all—at least last three or four years, I should say, modern library, not total library. That's re-adding to the value proposition.

And we do believe that the growth within Amazon Prime Video will increase. We have had a significant series of massive, high top-level meetings with the Amazon brass to talk about how to grow that business in Canada. They're very, very excited about our business partnership. And as you know, we're launching in new platforms as well, and we'll continue to do that.

The other thing that I wanted to make mention of is, in addition to just the subscriber growth, kudos to our advanced advertising team. The dynamic ad insertion revenue uptake on Amazon STACKTV has been especially noticeable for us. I'm not going to give you a number, but it's been a real source of growth in digital. And the advertisers' uptake is very promising.

So that's been a business that took us a little while to get turned on. We had to work with Amazon on their tech roadmap to enable that ability to give DAI to our advertisers. But now that we've launched it, we're seeing great uptake. So there's both the subscription growth, which we expect, and there's also the incremental growth on those audiences that watch on-demand.

More than half of total hours viewed remain on the live stream, which I think is a testament to the resiliency of the channels experience. But now we're able to monetize, much more efficiently, the on-demand inventory. So that's new inventory, new impressions, and thus new revenues. So a couple comments there for STACK for you.

Aravinda Galappatthige

Thank you, Doug. I'll pass the line.

Operator

Thank you. And we'll take our next question from Adam Shine from National Bank Financial. Please go ahead.

Adam Shine — National Bank Financial

Thanks a lot. Good morning. I want to go back to the dividend question and just highlight maybe a few things and then probe you a little bit further. If I look out, for example, to let's say F'24, presumably, as you were alluding to, Doug, things will get a bit easier, if not, frankly, better. So EBITDA resuscitates. Your CanCon catch-up gets halved to the $10 million mark. And then, of course, given the revenue pressure in TV this year, your CanCon burden in '24 goes down.

So taking all of that into consideration, I would assume that leverage gets reduced, gets below 3 times, probably next year. Not sure if it gets automatically to your target of 2.5, but certainly much lower than the current level.

So notwithstanding the notion that no one knows what sort of landing we might have and the extent, magnitude, and duration of any recession, what am I missing here in terms of—I know it's a board decision on the dividend, not entirely surprised by the deferred declaration of the March dividend. But nonetheless, is there a missing piece of the puzzle here to get you guys particularly worried? Is there an imperiling, somehow, of the return to EBITDA and free cash flow profile? Because I'm saying all of this, and that's even before we see any cost-cutting benefits accrue to you guys.

Doug Murphy

Couple things there and thanks for the question. First of all, there's a little bit of housekeeping here. Our current dividend schedule does create a two-month gap between the declaration and the payment of our dividends, and that's something we probably should have addressed a number of years ago. We didn't, so that's, I think, an opportunity.

And the second thing is, and again, I mean, as I cited earlier, we believe that we're going to see sequential improvement in advertising, at least of the riptides and the crosscurrents that have resulted from the kind of ending, God willing, of the pandemic. We're not factoring in any macro recession at this point in time.

And so I'm interested in seeing this quarter's earnings coming out from the Canadian companies and the banks, in particular. And so it's really out of abundance of caution at this point in time that we want to track our company's results and also carefully stay attuned to the realities of the Canadian economy. It seems to be holding up relatively well with a great jobs print recently, but I've got a number of concerns out there, as I mentioned earlier, on the Canadian housing market and household spending.

And we are—as you've seen in the pandemic-related effect on our advertising revenues, we're the first to feel the pinch. So in the event there is a recession in Canada, we'll be the first to feel that pinch too. So we're just being—out of abundance of caution, we're just taking this opportunity to watch the business carefully and be smart stewards of capital.

Adam Shine

No. Fair enough. Thanks for that, Doug. One more question. Just the context of all the messaging out there in regards to peak content, at least the—

Doug Murphy

Mm-hmm.

Adam Shine

—production out there having sort of probably hit that peak, maybe at some point last year. Can you talk at all to implications in regards to output from Nelvana and the Corus Studios? As well as any context around usual or above-average US series cancellations in terms of fall schedule moving into, eventually, winter/spring?

Doug Murphy

Yeah. There's nothing out of the ordinary now in terms of the US network schedules delivery. So there's nothing there that would cause us concern. The peak content note is the correct one, and I alluded to that in my comments.

The days of runaway spending, long-duration growth stories are not being valued by equity markets anymore. You know this is as well as anybody else on the call. And everybody's trying to sort out how to make their streaming businesses profitable. And the fact of the matter is everybody's losing money out there. And these are all the big majors, Netflix being the exception.

So in our instance, as I said, we've been smart about how we've so chosen to participate in the streaming marketplace through a capital-light, partner-led strategy, which we'll continue to pursue. And I'm sure we'll find other avenues towards that total addressable video audience market in Canada. But at this point in time, our content supply is very, very good, locked in for a number of years, as I note, well into the next regulatory regime, no disruptions in sight. So we're feeling good about that.

Adam Shine

Okay. Super. Thanks a lot for that.

Doug Murphy

Thank you.

Operator

Thank you. And as a reminder, ladies and gentlemen, that is *, 1 for a question.

While we assemble that queue, we'll go ahead and take our next question from Drew McReynolds from RBC. Please go ahead.

Drew McReynolds — RBC

Yeah. Thanks very much. Adam just took one of my two questions. So the other one here, I guess starting with you, Doug, on the ad cycle. I think most analysts on this call have been through a bunch of ad cycles here in Canada, but you're closer to this than we are. In the colour you gave, just in terms of anecdotes, was extremely helpful, so appreciate that.

When you think of the macro recessionary impacts—I guess the two questions—I'd love to get your thought on, to the extent you have a view, is when you look at these categories going into recession, the baseline going into recession's obviously, arguably, very different than what it has been in prior cycles, just given what the pandemic has done. Do you think that leads to either better or worse kind of outcomes here in a recession?

And then the second one would be this time around; you've got a pretty good kind of digital presence. Your premium inventory is growing there. And I think, to Maher's question on just some of that migration that you're seeing underneath the hood, do you think the digital side of things here holds up relatively better to what we've historically seen on the traditional or linear side? Thank you.

Doug Murphy

Good question. Yeah. I'm trying to find a way into your answer on the first question, is like, what does a recession look, in the midst of the kind of pandemic recovery on a category-by-category basis. So, a couple thoughts.

I mean, ultimately, the automotive supply chain issue's going to be resolved. And so then, I read somewhere that the average age of an auto is still at record highs in North America. And so you would expect to see advertising come back from that category, and that's an important category.

Notwithstanding all the travel situations over Christmas and lost baggage, et cetera, you would think that the demand would begin to subside to some degree. Maybe, it's now there because of those issues, and you get more marketing from airlines and accommodations and travel advisory, direct-to-consumer players, which has been pandemic-related.

If there's a recession, obviously, food at home, beverage at home would be a priority over dining out, and food away from home and those categories might respond accordingly.

So I really can't give you a defined answer, other than to say these categories move around a lot and, inside the categories, they move around a lot. And what we try to do is to sort of inoculate the economic realities with providing advertising solutions that are so effective that we get more share of dollars on our platforms.

And that's, I think, a key piece of trying to recession-proof our business. We'll never recession-proof it but, in concept, what we're trying to do now is provide a cross-platform solution so that when you buy your common audience segment or your custom audience segment with Corus, you're buying on digital and you're buying on linear, and so you're getting your audience delivery on both platforms.

And that's the end state for us, is to be able to provide a cross-platform audience delivery solution. And increasingly, we're getting closer and closer to that, both on account of our investments in Cynch and common segments and automation and data science and all that sort of stuff, but also because we're rapidly replacing—whatever modest declines we're having in television audiences on the linear side, we're replacing and then some on the digital video impression side.

So yeah. We think of it more that way, Drew, is it's really about continuing to provide at a very attractive environment for advertisers so that, whatever the economic macro backdrop is, that we're giving them what they're looking for, targeting automation, a premium video environment, and results.

Drew McReynolds

Yeah. Yeah. No. Understood. Thanks for that, Doug. That's great.

Doug Murphy

Okay. Thanks, Drew.

Operator

And we have no further questions. Mr. Murphy, I'll turn the call back over to you.

Doug Murphy

Great. Thank you, Operator, and thank you, everybody, for your time this morning. Happy New Year once again. As ever, we're available for follow-up conversations and questions, if any. In the meantime, drive carefully out there—it's still snowing—and have a great weekend. Take care, now. Bye-bye.

Operator

Thank you. And ladies and gentlemen, that does conclude today’s conference. We appreciate your participation and have a wonderful day.